Counter-Restitution For Monetary Remedies in Equity\(^1\)

I. Introduction

Within the legal community in North Texas, the tale of one litigator’s speech to a statewide AMA convention is often repeated with the understatement that made Texas famous. Purportedly, the lawyer’s keynote speech began by reminding the audience that in the 18\(^{th}\) Century, lawyers were drafting the Declaration of Independence and American 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 ABA 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. Variously known as restitution, unjust enrichment or disgorgement they will generally be 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” (Kull\(^2\)) or “more complete relief” (Story\(^3\)) for claims such as the misappropriation of intangible property because many states still do not recognize a claim for conversion of intangible property.\(^4\) For some causes in action equitable remedies may therefore provide the only real choice as opposed to the best choice relating to intangible assets like domain names\(^5\), negative information (i.e., information on unsuccessful or failed experiments),\(^6\) computer files\(^7\), confidential information\(^8\) and such

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\(^3\) Joseph Story, Equity Jurisprudence 437 Vol. II (“We have gone over the principal grounds upon which Courts of Equity grant relief in matters of accident, mistake and fraud...The relief is more complete, adequate, and perfect, inasmuch as it adapts itself to the special circumstances of each 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.”)


\(^5\) See Kremen v. Network Solutions, Inc., 337 F.3d 1024, 1029-30 (9th Cir. 2003).

\(^6\) See Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 709-10 (9th Cir. 2003) (“According to Hogge, "the burn rate," or development cost, on PPTCs was $3 million per year. According to credible evidence from the industry, Bourns saved at least three years of development by its torts. As the district court found, this unjust enrichment is fairly recoverable by Raychem.”).
exotics as DNA patterns or virtual assets.\textsuperscript{9} 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 enforce federal agency mandates.\textsuperscript{10}

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,\textsuperscript{11} offsetting credit for revenue apportionment and the defendant’s beneficial expenses, is an essential consideration to measure the defendant’s unjust enrichment.\textsuperscript{12} The Restatement First of Restitution and Restatement Third of Restitution and Unjust Enrichment (“the Restatements”) 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 makes a clear statement 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. Supreme Court opinions handed down in the development of patent and copyright law in the 19\textsuperscript{th} Century show that counter-restitution should be considered from the construct of deeming the defendant a trustee, a ‘quasi-trustee.’ Similarly, the quasi-trustee standard applied trust law’s indemnity standard to measure of counter-restitution. This article will show that while the Restatements do not generally ignore the influence of trust law, they generally appear reluctant to apply the indemnity standard in the analysis and measure of unjust enrichment and counter-restitution.

\textsuperscript{7} Computer Fraud and Abuse Act, 18 U.S.C. § 1030(g) (2006).
\textsuperscript{9} E.g. prizes, distinctions or assets found in on-line games or artificial environments. Generally, see Andrea Vanina Arias, Life, Liberty, and the Pursuit of Swords and Armor: Regulating the Theft of Virtual Goods, 57 Emory L.J. 1301 (2008)
\textsuperscript{10} Restatement (Third) of Restitution and Unjust Enrichment § 4 General Principles (Tentative Draft No. 7, March 12, 2010) c. Persistent errors
\textsuperscript{11} While counter-restitution is also a significant issue in relation to rescission and specific restitution, these facets of the topic are not addressed directly in the article.
\textsuperscript{12} The issue of establishing apportionment is sufficiently important to warrant consideration is a separate article and will not be included in this analysis. See sections 42 of the Third Restatement, Garretson v. Clark, 111 U.S. 120, 121 (1884); Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 615-16 (1912); and Sheldon III, 309 U.S. 390, 399 (1940) and Caprice L. Roberts, The Case for Restitution and Unjust Enrichment Remedies in Patent Law, 14 Lewis & Clark L. Rev. 653 (2010).
In Section IX the article analyzes gross disgorgement remedies (monetary remedies without allowance for counter-restitution) awarded in federal agency cases, especially claims by the FTC and FDA, that effectively challenge 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.\textsuperscript{13} Seemingly, many of the agency opinions conflict with the Restatements and the Supreme Court with impugnity. 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. Under Grupo, Great West, Sereboff and Cavanagh\textsuperscript{14}, no federal court has the jurisdiction to make such awards.

II. Anti-netting Doctrine as a Genetic Marker For Monetary Remedies in Equity

The anti-netting doctrine in measuring 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. Second, it is generally applied without any acknowledgement of its origin or rationale. Third, it exemplifies the influence of trust law on the law of restitution and shows how remedies in equity can be measured more appropriately once the rationale is determined.

It is otherwise unknown in the measure of corporate damages to be able to pick and 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 $500,000,000 in claims made to enforce the pricing differential between old oil and new oil.\textsuperscript{15}

\textsuperscript{13}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...See, e.g., 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."))


This obscure doctrine has been applied in opinions relating to fiduciary claims, patents, copyrights, trademarks, trade secrets, and federal agency claims. 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. So far, the doctrine has been applied to segregate the defendant's losses as distinguished by year, individual retail outlet, and separate or experimental product lines.

Most explanations for this doctrine fail to explain why the rule should apply only to claims in equity: "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." 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.

Only one such case actually cited § 213 of the Restatement of Trusts which offers the missing explanation: the doctrine comes from claims against an agent for unauthorized investments. The principal is entitled to the greater of the principle invested or

16King v. Talbot, 40 N.Y. 76, 91 (1869)
18Sheldon II, 106 F.2d 4555.
21SEC v. Commonwealth Chem. Secs., Inc., 574 F.2d 90, 102 (2d Cir. 1978). But see the discussion in the SEC manual in note 169
22Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448, 458 (1936)
24Sheldon II, 106 F.2d 45, 5455 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940); Burger King Corp. v. Mason, 855 F.2d 779, 78182 (11th Cir. 1988).
27See, e.g., Crosby Steam Gage & Valve Co. v. Consol. Safety Valve Co., 141 U.S. 441, 451 (1891); Duplate Corp., 298 U.S. at 458 But see Sutton, 795 F.2d at 1062; Burger King Corp., 855 F.2d at 781-82. See also Restatement (Third) of Unfair Competition § 37 cmt. d.
28SEC v. Commonwealth Chem. Secs., Inc., 574 F.2d 90, 102 (2d Cir. 1978)
29See 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
the investment's market value for each individual investment, not for the group of investments as a whole. An authority on trust law, Professor explains:

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.

On the basis of 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.

Despite the common heritage of monetary remedies in fiduciary, IP and federal agency law, little notice 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. At a minimum, a greater appreciation of commonality would improve our understanding of the underlying rationale.

III. Monetary Remedies In 19th Century IP Case Opinions

distinct breach of trust; but if the breaches of trust are not separate and distinct, the trustee is accountable only for the net gain or chargeable only with the net loss resulting therefrom.

30See 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...”)


33Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. f. Liability for both profits and losses. (Tentative Draft No. 5, 2007) A defendant who has made a profitable investment of funds acquired in breach of duty may not set off losses from other unauthorized investments, where the separate transactions may be distinguished. ...See Restatement of Restitution § 202 (including many Illustrations to the same effect); Bogert, Law of Trusts § 865 (rev. 2d ed. 1995); 5 Scott, Law of Trusts § 508 (Fratcher 4th ed. 1989).

Congress passed only a handful of significant statutes in the 19th century regarding patents, copyrights and design patents, and none specified how the defendant's unjust enrichment should be measured. Congress enacted statutory jurisdiction for injunctive relief and relied on the traditional operation of an accounting in equity for monetary remedies. In the 20th century, Congress passed additional statutes that provided further clarification but not the actual measure of revenues and expenses. What few statutory provisions peripherally touched on measurement issues largely codified the existing practice in the 19th century. However, Congress overruled the common law in 1946 by withdrawing unjust enrichment as a remedy for violations of utility patents and Congress reversed the Garretson opinion in 1887 as that opinion related to design patents. Therefore the measure of unjust enrichment for claims regarding patents, copyrights, trademarks and trade secrets was derived almost exclusively from traditional principles for accounting in equity.

IV. Semantics

“The terminology of restitution is abstruse and confusing and is no matter for amateurs.”

35 Root v. Lake Shore & M.S. Ry. Co., 105 U.S. 189, 193 (1881) (“This act [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.”). See also Stevens v. Gladding, 58 U.S. 447, 454 (1855)
36 Sheldon III, 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)).”) and George E. Palmer, The Law of Restitution § 2.7, at 87-88 (1978) (“Decisions of the United States Supreme Court in the nineteenth 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. 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, where there was an independent basis for an injunction.”).

38 Nike Inc. v. WalMart Stores, Inc., 138 F.3d 1437, 1441 (Fed. Cir. 1998) and Garretson v. Clark, 111 U.S. 120, 121 (1884)
39 See Restatement of the Law, Third, Restitution and Unjust Enrichment (Tentative Draft No. 4, April 8, 2005) § 42 Interference with Intellectual Property and Similar Rights. See also 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 copyright cases, on the same equitable principles, even before the patent and copyright laws specifically authorized this relief. When, by amendment, these laws did so authorize the recovery of profits, there was no change in the principle upon which such relief had theretofore been granted by courts of equity.”)
40 1 Dan Dobbs, Law of Remedies, Practitioner Treatise Series, (Second Edition) § 4.1(2)
There is broad agreement by authors on articles on restitution that this discipline is not well understood by practitioners or jurists as the number of ‘professionals’ is very limited.\(^{41}\) Professor Andrew Kull suggests that part of the confusion may lie with some of the key terms. ‘Restitution’ may have been a poor choice for the First Restatement as it is commonly associated with compensating damages.\(^{42}\) The authors of the First Restatement tried to introduce the term ‘restitution’ with a revised meaning but the flexibility of the term led to substantial confusion.\(^{43}\) 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 Restatement Third offer another synonym, disgorgement. It should be understood that by equating disgorgement to an accounting in equity\(^{44}\) 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.\(^{45}\) 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


\(^{42}\)Restatement (Third) of Restitution & Unjust Enrichment §1 cmt. h (Discussion Draft 2000) ("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."); see also Kull, Rationalizing Restitution, supra note 41, at 1191-92 ("For many lawyers the immediate connotation of the word "restitution" will be something else entirely: criminal sanctions requiring wrongdoers to make restitution to their victims, a topic having almost nothing to do with the subject at hand. 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 of law was singularly ill-chosen.").

\(^{43}\)Restatement (Third) of Restitution and Unjust Enrichment § 4 General Principles (Tentative Draft No. 7, March 12, 2010) c. Persistent errors. 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." Most remedies (including damages) can be brought within this heading if there is some reason to do so. See § 1, Comment e. Second is the attenuated association of ideas that runs from "restitution" through "unjust enrichment" to "equity." If the terms "restitution" and "equity" are both employed loosely enough, it becomes possible to describe a claim or remedy as "equitable" by calling it "restitutionary."

\(^{44}\)See Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. a (Tentative Draft No. 5, 2007) ("The subject of the present Section is the measurement of unjust enrichment when a recipient is liable for benefits wrongfully obtained. If the recipient is a conscious wrongdoer so that the object of the remedy is to foreclose the possibility that the wrong to the claimant might be a profitable course of action the resulting liability in restitution is frequently called "disgorgement." The same idea is expressed in other cases by calling the remedy an "accounting" or an "accounting for profits." Whether or not these terms are employed, the remedial issues in all cases of conscious wrongdoing are the same. They concern the identification and measurement of those gains to the recipient that should be regarded as unjust enrichment, in that they are properly attributable to the recipient's interference with the claimant's legally protected rights."). See SEC v. Cavanagh, 445 F.3d 105, 117 (2d Cir. 2006)

\(^{45}\)See Section IX
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 because the defendant’s unjust acts were held as contempt.

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 exploited 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) assert that since the goal is to measure the defendant’s profits, such a measure should be sure to deduct allocated overhead and other fixed costs from the defendant’s revenues to conform with the normal accounting definition of profit. Supporters of the incremental income approach (principally, the Fifth, Seventh, and Eleventh Circuits) advocate excluding fixed costs in the measure of counter-restitution to ensure that the defendant is denied any incentive to pursue her unjust actions (financial incentives are deemed significant if the defendant’s activities are allowed to absorb fixed costs.)

The 1872 Supreme Court opinion in Mowry 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.

This phrase has been widely repeated and cited. The focus on the defendant's advantage, as distinguished from profit, reflects two influences. First, there exists case law for claims against a

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46 Sammons v. Colonial Press, Inc., 126 F.2d 341, 348 (1st Cir. 1942); Hamil Am., Inc. v. GFI, Inc. (Hamil II), 193 F.3d 92, 106 (2d Cir. 1999) and Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 515 (9th Cir. 1985).
47 Maltina Corp. v. Caw Bottling Co., 613 F.2d 582, 585 (5th Cir. 1980); Taylor v. Meirick, 712 F.2d 1112, 1120 (7th Cir. 1983); Abbott Labs. v. Unlimited Beverages, Inc., 218 F.3d 1238, 1242 (11th Cir. 2000).
trustee that addressed enrichment as "the fruit of the advantage" before the Supreme Court used the phrase in 1872.\(^{51}\) It seems unlikely that Justice Strong’s opinion in Mowrey borrowed the term from a Delaware fraud case\(^{52}\) or a Mississippi fiduciary case;\(^{53}\) it seems more likely that the three cases borrowed the term from a common source, not presently known.

The second influence is from claims for negative enrichment, which are recognized by American courts as distinguished from British courts which do not recognize such claims even today.\(^{54}\) The Supreme Court faced a series of cases in which liability for patent infringement against the defendant whose operations were unprofitable. The Court held that the defendant was 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 defined as an improvement in the Defendant’s profits, or savings, not the profits themselves.\(^{55}\)

Courts and legislators share the goal of denying any economic incentive to infringe to deter wrongdoers.\(^{56}\) For example, Congress has explicitly stated that the goal of the

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\(^{51}\) Miller v. Baynard, 7 Del. 559, 567–68 (1863); Winn v. Dillon, 27 Miss. 494, 497 (1854)

\(^{52}\) Miller, 7 Del. at 567-68.

\(^{53}\) Winn, 27 Miss. at 497.

\(^{54}\) 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 generally Edelman, supra note 151, at 74-76 (2002) (discussing disgorgement damages when no profit is made, but expense is saved). See also Attorney General v. Blake, [2001] 1 AC (HL) 286 ( Lord Nicholls states that the concept of expense saved does "not fall within the concept of an account of profits as ordinarily understood.")

\(^{55}\) Mfg. Co. v. Cowing, 105 U.S. 253, 255 (1882); 1 Dobbs, supra note 40, § 4.5(2), at 632 n.6 ("If the defendant has realized savings or will more likely than not realize savings in the future, 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. So this is a consequential restitution measure.").

Lanham Act is to deny that incentive.\textsuperscript{57} Supporters of the incremental cost approach assert that targeting the disgorgement of advantage denies all incentives including absorption of overhead.\textsuperscript{58}

Advocates of the full absorption approach focus instead on disgorging ‘profit’ which they measure in a literal accounting sense.\textsuperscript{59} Their approach argues that fixed overhead must be deducted from operating income to conform to normal accounting practice.\textsuperscript{60} Critics of full absorption, including the author, respond that there is no basis for interjecting modern accounting practices into a traditional remedy. Most importantly, the term ‘advantage’ is limited to the marginal benefit profit in excess of the defendant’s ‘but-for’ position: the change in profits not the absolute level of profit.\textsuperscript{61} Second, measuring profit for disgorgement has always been apart from normal management accounting as it makes adjustments for the services of the defendant, infringing expenses and public policy concerns.

The current draft of 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. 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.\textsuperscript{62}

Section 42 concludes that the disgorgement of the defendant’s income without a credit for allocated overhead would be punitive and must be avoided.\textsuperscript{63} To an outsider to the Third

\textsuperscript{57}Maier Brewing Co., 390 F.2d at 122

\textsuperscript{58}Third Restatement Id. § 51 cmt. e ("The object of the disgorgement remedy - to remove the possibility of profit from conscious wrongdoing - is one of the cornerstones of the law of restitution and unjust enrichment.").

\textsuperscript{59}Restatement (Third) of Restitution and Unjust Enrichment § 42 cmt. e(4) (Tentative Draft No. 5, March 12, 2007) ("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. There are instances of wrongdoing in which the law of restitution imposes such a sanction.")

\textsuperscript{60}Restatement (Third) of Restitution and Unjust Enrichment § 51 illus. 16 (Tentative Draft No. 5, 2007).

\textsuperscript{61}See note 55 and accompanying text on ‘but-for’ doctrine.

\textsuperscript{62}Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. e(3) Deductions and credits. (Tentative Draft No. 5, 2007)

\textsuperscript{63}Compare Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. e(3) Deductions and credits. (Tentative Draft No. 5, 2007) with Restatement (Third) of Restitution and Unjust Enrichment § 42 cmt. I Punitive
Restatement, the contradiction in principles is may be further confused by the range of terms used to describe the object of the measurement process.

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. 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.64

The Third Restatement acknowledges a connection between the law of trusts and the law of restitution and unjust enrichment. In particular, the Third Restatement affirms 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.”65

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. Root analyzed this similarity in regard to the issue of jurisdiction for a patent claim.66 The specific issue concerned whether a patent owner could seek monetary relief in equity after the patent expired.67 The court held that while the defendant's position was similar to that of a defendant trustee, there was no accounting (Tentative Draft No. 5, March 12, 2007) i. Punitive accounting which is representative of the full absorption approach.

64Christensen v. Nat'l Brake, 10 F.2d 856, 862 (E.D. Wis. 1924) (“So, it 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, had he been a rightful trustee, would have been unhesitatingly given him because the law demands that he incur them as a matter of duty. And as indicated, the doctrine of account as upon a trust certainly cannot be introduced merely to punish the wrongdoer by treating as gains actual disbursements which, had the trust been lawfully created, would be recognized.”).

65Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. e.4 (Tentative Draft No. 5, 2007); see also Restatement (Third) of Restitution and Unjust Enrichment § 52 cmt. e.1 (Tentative Draft No. 5, 2007). Restatement of the Law, Third, Restitution and Unjust Enrichment (Discussion Draft, March 31, 2000) § 3 c No Profit from Conscious Wrongdoing c.


67Id.
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 that the plaintiff’s remedy should be measured as if the defendant were a self-dealing trustee. This principle is has been frequently repeated by key opinions in the nineteenth and twentieth centuries, including Sheldon.

While the claim of a trustee in default for compensation for services is problematic, the claim for indemnity 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, even if the expense was not properly incurred, 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.

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

68Id. ("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.").


70See Packet Co. v. Sickles, 86 U.S. (19 Wall.) 611, 61718 (1873); Hamilton Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 259 (1916); L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co., 277 U.S. 97, 100 (1928); Sheldon Ill, 309 U.S. 390, 399 (1940); and 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."). See also Joel Eichengrun, Remedy of Accounting, 60 Ind. L.J. 463, 484 (1985)

71Restatement (Second) of Trusts § 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 committed by him, the amount of his liability can be set off against the amount to which he would otherwise be entitled as indemnity; and the amount to which he would otherwise be entitled by way of indemnity is reduced to the extent of his liability for such breach of trust, and will be altogether denied if the amount of such liability equals or exceeds the amount of indemnity to which he would be so entitled, unless he makes good the loss resulting from his breach of trust.") and Id. § 244 cmt. c ("To the extent to which the trustee is entitled to indemnity, he has a security interest in the trust property.").

72Id. § 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 to allow him such indemnity.").

73Restatement of Restitution § 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). In such a case the owner cannot compel the transferee to surrender the property to him without reimbursing him for such expenditures.").
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.

Rounds cautions, however, that under the Uniform Trust Code, 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.

The Restatement (Second) of Agency 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. The Restatement provision is divided. The case that cited the provision favorably denied some but not all of the disloyal agent’s expenses. A subsequent case that rejected the provision, however, supported its opposition by citing a Federal Circuit opinion. Neither the Federal Circuit opinion nor a separate opinion from the Fourth Circuit specifically address the Restatement provision but both cases affirm counter-restitution for a disloyal agent. But we think that save in exceptional cases such a rule is harsh; it imposes a naked penalty, based more on retribution than on the equities of the situation. This is the reasoning of a number of cases which declare that the net


75 Raymond Farmers Elevator Co. v. Am. Surety Co., 290 N.W. 221, 225 (Minn. 1940) (agreeing with Restatement of Agency in disallowing truck operating costs but allowing the cost of grain in grain sale revenue).

76 Restatement (Second) of Agency § 403 cmt. c (1958).

77 See Raymond Farmers Elevator Co. v. Am. Surety Co., 290 N.W. 221, 225 (Minn. 1940).

78 Burg v. Miniature Precision Components, Inc., 330 N.W.2d 119 (Wis. 1983); but see Restatement (Second) of Agency § 403 cmt. c (1958).

79 The case opinions that have addressed this obscure provision are divided. The case that cited the provision favorably denied some but not all of the disloyal agent’s expenses. A subsequent case that rejected the provision, however, supported its opposition by citing a Federal Circuit opinion. Neither the Federal Circuit opinion nor a separate opinion from the Fourth Circuit specifically address the Restatement provision but both cases affirm counter-restitution for a disloyal agent. But we think that save in exceptional cases such a rule is harsh; it imposes a naked penalty, based more on retribution than on the equities of the situation. 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.\textsuperscript{79}) The Federal Circuit opinion related to the secret profit of a real estate agent and the Fourth Circuit opinion to a federal government employee that made a profit smuggling goods into India under cover of his position at AID.\textsuperscript{80}

Inexplicably, section 403 of the Restatement of Agency was recently cited by the Restatement (Third) of Restitution and Unjust Enrichment without mention of section 439 which contradicts section 403 \textsuperscript{81}

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.\textsuperscript{82}

Acknowledging the analogy of quasi-trustee for the defendant for unjust enrichment inevitably leads to the conclusion that the defendant 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 Rounds agrees:

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.\textsuperscript{83}

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” 84

This article advocates recognition of a rule of counter-restitution that requires the court to provide a defendant with the opportunity to prove that the amount of unjust enrichment initially established by the plaintiff should be reduced or ‘setoff’ 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 commitment of a court in equity to render total equity. Counter-restitution is a manifestation of a 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. 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 re-exchange 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. 85

At times the principle of ‘total equity’ is also supported by (1) the maxim that to get equity you must do equity 86; (2) the belief that to deny counter-restitution can result in the unjust enrichment of the plaintiff; 87 and (3) the belief that to deny counter-restitution would punish

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85 Palmer, supra note 35, § 3.12, at 303. See also Packet Co. v. Sickles, 86 U.S. (19 Wall.) 611, 61718 (1873) (“It converts the infringer into a trustee for the patentee as regarding the profits made; the adjustment of these profits is subject to all the equitable considerations which are necessary to do complete justice between the parties, many of which would be inappropriate in a jury trial.”). See note 3 for Story’s description of restitution.
87 Dan B. Dobbs, Handbook on the Law of Remedies §4.3 at 254 (West 1973) and Restatement (First) of Restitution § 177 (1937)( “Where the right to restitution is dependent upon restoration by the person seeking restitution, he cannot enforce a constructive trust without making restoration.”)
the defendant. However, the possibility exists that ‘total equity’ doesn’t apply to all defendants, that not all defendants are entitled to even prove their claim to counter-restitution. Is this opportunity to be regularly denied, as a matter of law, from pre-defined subgroups or a certain type of defendant because of the extreme nature of her acts?

The process of measuring unjust enrichment is often described as a two-step process: (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. 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. In about 60% of a group of IP cases in which the defendant defaulted on this burden, the court awarded the defendant’s revenues. 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.

Of course, when the defendant fails her burden of proof and the court awards the defendant's revenues, the revenues are awarded by default, not as a matter of law. Such awards should be distinguished as disgorgement by default to acknowledge their limited precedential value. Unfortunately, some opinions fail to acknowledge this distinction and cite

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88 Tilghman v. Proctor, 125 U.S. 136; Sheldon v. MetroGoldwyn Pictures Corp., 309 U.S. 390, 400 (1940); Christensen v. National Brake & Electric Co, 10 F.2d 856, 862 (1926) (noting that equity is loath to fashion a remedy that is "punitive");
89 See Restatement (Third) of Restitution and Unjust Enrichment § 4 General Principles (Tentative Draft No. 7, March 12, 2010) and FTC v. Verity Int’l, Ltd., 443 F.3d 48 (2d Cir. 2006)
91 For an informal study, 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, 62 (2007) ("Out of approximately 116 opinions, the court held the defendant in default and ordered her to disgorge her revenues in 73 opinions. In the remaining 43 opinions, the court acknowledged the default rule but approved an alternative estimate or rule of thumb to establish the defendant’s benefit, generally measured by an estimate of the defendant’s gross profit.").
such cases erroneously as examples of gross disgorgement.\textsuperscript{93} Frequently, disgorgement remedies awarded pursuant to a finding of contempt are similarly not distinguished.\textsuperscript{94}

The position of the Third Restatement on the right to prove counter-restitution is both mixed and un-clear. 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;\textsuperscript{95}

Denying counter-restitution is punitive\textsuperscript{96}

Certain groups of cases do not warrant counter-restitution, including but not limited to intentional fraud\textsuperscript{97}; conversion of personal property and trespass to minerals.\textsuperscript{98}

\textsuperscript{93} Compare Blavin in SEC v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1115(9th Cir. Cal. 2006) (“See also SEC v. Blavin, 760 F.2d 706, 713 (6th Cir. 1985) (holding that the court possesses the equitable power to grant disgorgement of "a sum of money equal to all the illegal payments [ ] received") with SEC v. Great Lakes Equities Co., 775 F. Supp. 211, 214 (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.").

\textsuperscript{94} Compare the citation in FTC v. Bronson Partners, LLC, 674 F. Supp. 2d 373, 2009 U.S. Dist. LEXIS 112885 (D. Conn. 2009) ("The formula for calculating redress for consumer injury is straightforward: "(1) calculate the gross receipts received from all consumers subjected to the contumacious acts of the defendants, (2) offset gross receipts to the extent the defendants prove that consumers either received refunds or were satisfied with their purchases, [and] (3) order the liable defendants to pay the resulting amount. . . ." Kuykendall, 371 F.3d 745, 767 (10th Cir. 2004).") to the holding in Kuykendall, 371 F.3d 745, 767 (10th Cir. 2004) ("Accordingly, when the FTC has proven a pattern or practice of contemptuous conduct at the liability stage by clear and convincing evidence, a presumption arises that allows the district court to use all revenue attributable to the contemptuous conduct—the gross receipts from consumers—as a baseline for assessing sanctions. The defendants may then put forth evidence showing offset is required because certain consumers received refunds or were satisfied with their purchases.")

\textsuperscript{95} Restatement (First) of Restitution, § 158 cmt. b ("A person who discharges a lien or a tax upon property necessarily increases its net value to the owner, and ordinarily any person against whom restitution of property is sought would be entitled to credit for payments so made. Thus, in 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).

\textsuperscript{96} Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. e.3 (Tentative Draft No. 5, 2007) ("Denial of an otherwise appropriate deduction, by making the defendant liable in excess of net profit, results in a punitive sanction that the law of restitution normally attempts to avoid. . . . 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."). See also note 59.

\textsuperscript{97} Restatement of the Law (Third) Restitution and Unjust Enrichment § 13 cmt. i (Tentative Draft No. 1, April 6, 2001). ("The plaintiff's restitutionary obligation is commonly expressed through the judicial formula that a party
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 punitive remedy. Comment e 3 of section 51 notwithstanding, punitive remedies in equity are not just ‘to be avoided’ but are outside of the jurisdiction of a court in equity. 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.

98 See Section VIII for an analysis of gross disgorgement awarded for conversion of personal property, trespass to minerals and intentional fraud.
99 See note 96.
100 Mertens v. Hewitt Assocs., 508 U.S. 248, 270 (1993) (“As this Court has long recognized, courts of equity would not - absent some express statutory authorization - enforce penalties or award punitive damages. As Justice Kennedy has observed, this 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, 481 U.S. at 422 (“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 courts of equity.” (citing Curtis v. Loether, 415 U.S. 189, 197 (1974); Ross v. Bernhard, 396 U.S. 531, 536 (1970)); Sheldon v. MetroGoldwyn Pictures Corp., 309 U.S. 390, 400 (1940) ("Petitioners stress the point that respondents have been found guilty of deliberate plagiarism, but we 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. That would be not to do equity but to inflict an unauthorized penalty."); Tilghman v. Proctor, 125 U.S. 136 ; SEC v. Cavanagh, 445 F.3d 105, 117 (2d Cir. 2006) citing SEC v. Tex. Gulf Sulphur Co., 446 F.2d 1301, 1308 (2d Cir. 1971) (“Because the remedy is remedial rather than punitive, the court may not order disgorgement above this amount."); In re Estate of Corriea, 719 A.2d 1234, 1239 (D.C. 1998); SEC v. First City Fin. Corp., 890 F.2d 1215, 1230 (D.C. Cir. 1989); and Coastal Oil & Gas Corp. v. Fed. Energy Regulatory Comm’n, 782 F.2d 1249, 1253 (5th Cir. 1986). See also Loring and Rounds, A Trustee’s Handbook, section 7.2.2.3 citing Richard Francis, Maxims of Equity 44, (London, Bernard Lintot 1728) (“The courts of equity had no power to award punitive damages “Equity suffers not Advantage to be take of a Penalty or Forfeiture.”)

101 Restatement First. § 158 cmt. b; Id. § 177 ("Where the right to restitution is dependent upon restoration by the person seeking restitution, he cannot enforce a constructive trust without making restoration."); Sanguinetti v. Strecker, 577 P.2d 404, 410 (Nev. 1978) ("Even 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 Section 51 (e), the Third Restatement advocates three rationale: the benefit standard, the priority to avoid an unfair or punitive remedy, and the doctrine of the officious claimant. 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.\(^\text{102}\)

As an explanation for rejecting liability in some cases or for the rationale underlying the benefit standard, the officious claimant doctrine provides rationale for the defendant’s to bear the burden of proof to show that its expenses or expenditures actually benefitted the plaintiff. However the language in Sections 3 and 51 of the Third Restatement may be interpreted 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 and most IP claims. Under the EAS, the plaintiff that provides emergency assistance which proves of benefit to the defendant is only entitled to reimbursement for proven marginal operating costs.\(^\text{103}\) Alternatively, in Sheldon it was established that 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 as an attempt to cover up its mis-appropriation of the plaintiff’s script. Judge Hand, in an opinion that is cited frequently and approvingly in the Restatements,\(^\text{104}\) held that counter-restitution for MGM must include lavish salaries and bonuses for MGM’s key executives (Goldwyn and Thalberg) 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. To reconcile these

\(^{102}\) Restatement of the Law, Third, Restitution and Unjust Enrichment (Discussion Draft, March 31, 2000) § 3 c No Profit from Conscious Wrongdoing ("The conscious wrongdoer is the mirror image of the officious restitution claimant. Instead of negotiating beforehand for compensation, the officious claimant confers a benefit, then sues the recipient to recover the value of what was given. The law deters this form of misbehavior by denying a claim in restitution. See § 2, Comment e. Here, instead of negotiating beforehand for a license, the conscious wrongdoer takes what he wants, proposing to litigate -- if detected -- about the value of what was taken. The law deters this form of misbehavior by imposing liability for full disgorgement. The two forms of misbehavior are fundamentally the same, since each is an attempt to avoid the ordinary necessity of conducting exchange transactions on the basis of contract.")

\(^{103}\) See Peninsular & Oriental Steam Navigation Co. v. Overseas Oil Carriers, Inc., 553 F.2d 830, 835 (2d Cir. 1977) and United States v. Consol. Edison Co. of N.Y., 580 F.2d 1122, 1127 (2d Cir. 1978).

\(^{104}\) Sheldon II, 106 F.2d 45 (2d Cir. 1939)
doctrines for measuring counter-restitution, one would be compelled to conclude that the Second Circuit endorses 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 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. Conditional Counter-Restitution

Counter-restitution and indemnity are conditioned on the defendant’s evidencing sufficient support for the offsets such that any expenses or expenditures claimed by the defendant must not be ‘infringing expenses’ or otherwise violate the Court’s interpretation of public policy limits. Thus the Supreme Court rejected the defendant’s proposed counter-restitution in Callaghan because the defendant was seeking credit for the labor expense of copying the plaintiff’s protected material. Infringing expenses are frequently, but not necessarily, the services of the defendant. The Supreme Court also rejected counter-restitution for the costs of rendering standing timber into lumber in the case of Wooden-Ware as the Court asserted that it would be against public policy to otherwise encourage willful trespass of federal timberlands to gain timber for lumber. Given the breadth for public policy issues, especially in a court in 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 and/or her immediate associates as infringing especially as those services have a causal connection to the underlying unjust acts. 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

105 For a survey of rulings on infringing expenses in IP cases, see Roach, supra note 91, at 67-73.
106 Callaghan v. Myers, 128 U.S. 617, 664 (1888) (Rejecting counter-restitution for the salaries of the two owners as infringing expenses.)
107 See City of Elizabeth v. Am. Nicholson Pavement Co., 97 U.S. (7 Otto) 126, 139 (1877) (“.. the 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))
108 Wooden-Ware Co. v. United States, 106 U.S. 432, 434 (1882) (citing Livingstone v. Raywards Coal Co., 5 App. Cas. 25 (1880)).
109 Restatement (Third) of Unfair Competition § 37 cmt. g (1995)
found in both IP cases and fiduciary cases. It is significant that the modern standard is frequently applied to issue of fees, if any, for lawyers that have committed disloyal acts. Counter-restitution for such a critical fiduciary agent should be the most difficult standard for compensation 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 the client, any other threatened or actual harm to the client, and the adequacy of other remedies.

That opinion cites case opinions relating to the law of 18 states for support of the policy that holds against automatic forfeiture of all of the fees in question.

There are also two overlapping groups of cases that hold that the willfulness of the defendant justify 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. The Second Circuit was recently faced with a dilemma in Hammill in the appeal of a district court 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 have shown in a prior article, Judge Martin made a strong argument, compatible with the rationale of the Third Restatement’s position in section 51 e, for reversing that portion of the Sheldon opinion.

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

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111 Boston Children's Heart Found., Inc. v. NadalGinard, 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)
113 Id. At 241-243.
116 See note 63.
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.\(^\text{117}\)

The gist of the compromise is simple: if 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’s just another form of equitable discretion. The Restatement (Third) of Restitution and Unjust Enrichment, however, supports the Hamil opinion, inexplicably concluding that the Second Circuit "reviewed the extensive authorities permitting deductions from profits on account of allocable overhead."\(^\text{118}\)

The second line of cases follows from a research error in Sheldon.\(^\text{119}\) 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.\(^\text{120}\) 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.)\(^\text{121}\) Judge Hand juxtaposed the payments for taxes and other liens, i.e.

\(^{117}\) Hamil Am., Inc. v. GFI, Inc., 193 F.3d 92, 106-7 (2d Cir. N.Y. 1999)

\(^{118}\) Restatement (Third) of Restitution and Unjust Enrichment § 42 (2005).

\(^{119}\) 106 F.2d 45 (2d Cir. 1939), aff’d, Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390 (1940). Note that the Second Circuit’s opinion was affirmed by the Supreme Court but the Supreme expressed no opinion on specific issues relating to offsetting expenses which were dismissed as questions of fact. See F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 234 (1962).

\(^{120}\) See note 95

\(^{121}\) Restatement (First) of Restitution 158 d. Improvements and additions. (“The conscious wrongdoer is ordinarily not allowed compensation for an improvement or addition to the subject matter. This is consistent with the rule of damages in actions for conversion in which case the conscious wrongdoer is required to pay for the full value of the chattel as improved by him before demand for its return (see Comment d on § 151). Ordinarily, it would be unjust to require the owner on regaining his property to pay for improvements which he might not have desired.”)
expenses, for capital improvements and advised that trustee expenses could not be reimbursed. 122

Judge Hand’s dicta had no impact on his opinion because he allowed practically all counter-restitution that MGM could devise. The dicta did cause some trouble for subsequent cases. 123 Where the First Restatement stated that capital improvements by willful defendants were not entitled to counter-restitution, the plaintiff in Kamar quoted the Second Circuit opinion in Sheldon for the proposition that a court may automatically deny a willful infringer any deduction of overhead expenses. 124 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. 125 However the Ninth Circuit in Frank Music, citing Kamar, 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.” 126 This dicta had little effect on the Ninth Circuit but the Eighth Circuit adopted the theory in 1992 with an insubstantial citation to Frank Music. 127

While the common law remedy of an accounting in equity requires proof of willfulness to warrant the award of the defendant’s profits 128 there is no legal doctrine to justify the notion that any particular offset credit depends on the defendant’s willfulness. 129

122 Sheldon, 106 F.2d at 51. (“Indeed a constructive trustee, who consciously misappropriates the property of another, is often refused allowance even of his actual expenses (Restatement of Restitution § 158(d)) and although this harsh rule, which would charge the defendants with the whole gross receipts, has been softened, a plagiarist may not charge for his labor in exploiting what he has taken. A fortiori he should not be allowed for the currency which his reputation may have given to the combined product.”)

123 E.g. Warren v. Century Bankcorporation, Inc., 741 P.2d 846, 852 (Okla. 1987) (“A constructive trustee who consciously misappropriates the property of another is often refused allowance even of his actual expenses.”).

124 Kamar, 752 F.2d at 1331

125 Id.

126 Frank Music, 772 F.2d at 515.

127 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.”) See also Harper House, Inc. v. Thomas Nelson, Inc., 1987 U.S. Dist. LEXIS 14132, at 25 (C.D. Cal. Aug. 27, 1987) (holding that defendant’s willfulness precluded the deduction of allocation overhead but that the defendant waived its right to appeal that ruling); Mfrs. Tech., Inc. v. Cam’s, Inc., 728 F. Supp. 75, 84 (D. Conn. 1989) (Without referring to the opinions in the Second or Ninth Circuits, the court rejected allocated portions of overhead due to the willfulness of the defendant’s infringement).

128 Palmer, supra note 35, § 2.12 (innocent trademark infringer usually not held accountable for profits); Restatement (Third) of Unfair Competition § 37 (2005); Restatement (Third) of Unfair Competition § 45 (2005); Restatement (Third) of Restitution and Unjust Enrichment § 51 (Tentative Draft No. 4, 2005).

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 therefore overtly punitive.

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. Neither of these doctrines apply to the misappropriation of intellectual or other forms of intangible property because even today many jurisdictions hold that such intangibles cannot be converted.

The gross disgorgement cases relating to trespass to precious minerals or resources is an amalgam of rationales but generally holds that the 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. 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. The origin of this widely practiced exception to counter-restitution has varied rationales: denying counter-restitution as outside public policy; awarding the financial equivalent of specific restitution (similar to converted personal property); and even one set of cases in which the English judge admitted

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130 See Restatement (Third) of Restitution & Unjust Enrichment § 40 (Tentative Draft No. 4, 2005)
131 See note 4
132 For the majority rule for conversion of personal property and trespass to minerals, see Restatement (Third) of Restitution & Unjust Enrichment § 40 (Tentative Draft No. 4, 2005)
133 Id. See also 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.
134 Wooden-Ware Co. v. United States, 106 U.S. 432, 434 (1882)
wanting to punish the defendant.¹³⁶

Fraud

In stark contrast to Palmer¹³⁷ and Dobbs,¹³⁸ the Third Restatement maintains that defendants in willful fraud claims should be denied counter-restitution for direct costs.¹³⁹ Illustration 23 of Section 51 of the Third Restatement advises that "The 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."¹⁴⁰ The illustration is an example of a disloyal real estate agent who makes a secret profit from the plaintiff and 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.¹⁴¹ 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. Furthermore, there appears to be

¹³⁶ Modern British authorities state that the more appropriate precedent is actually Martin v. Porter, (1839) 151 Eng. Rep. 149 (Ex. Ct.) and is regarded as a punitive measure; see also James Edelman, Gain-Based Damages 136-41 (Hart Publishing 2002) (discussing the English authorities in this area).
¹³⁷ Palmer, supra 35 3.11, p. 294 Fraud and Misrepresentation, Restoration by the Plaintiff ("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. This will be true whether his right to restitution is based on fraud, innocent misrepresentation, breach of contract, mistake or any other ground.")
¹³⁸ See Dobbs, Law of Remedies, Practitioner Treatise Series, Volume 2, § 9.3 Restitutionary Remedies for Deception: Rescission, Constructive Trusts and Other Remedies (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) and § 9.3 (4) ("However, the plaintiff must account to the defendant only for actual benefits received when the transaction is avoided. The plaintiff owes nothing for expenditures made by the defendant unless those expenditures result in an unearned benefit to the plaintiff. The plaintiff owes nothing for the defendant’s expenditures that do not improve the property taken back by the plaintiff; and he owes nothing for improvements on the property which he does not want.")
¹³⁹ See note 96 on section 13.
¹⁴⁰ Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. e(4) (Tentative Draft No. 5, 2007).
¹⁴¹ The case of Ward v. Taggert 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. 336 P.2d 534, 539 (Cal. 1959). The case of Ellison v. Alley merely held that a disloyal real estate agent had to disgorge his fee. 842 S.W.2d 605, 607-08 (Tenn. 1992) ("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 the Ellison property."). The Lestoque v. M.R Mansfield Realty case found liability only for breach of fiduciary duty and not for fraud. 536 P.2d 1146, 1148-50 (Colo. Ct App. 1975) (in a case for breach of fiduciary duty by a real estate agent, 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).
a large number of cases to the contrary.\textsuperscript{142} Section 403 of the Restatement of Agency is also offered for support but it has already been shown that section has received little support and is over-ruled by the specificity of Section 439.\textsuperscript{143}

Generally, the holding on counter-restitution in fraud cases depends on two issues: whether the operating expenses relate to a transaction or an operating business and the extent of the defendant’s activities that are spent on maintaining the fraud (as opposed to generating the revenues subject to disgorgement).

Transaction and other expenses incurred to induce the fraud are regularly excluded and capital improvements can be excluded as explained in section 158 (d) of the First Restatement. 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 23 in section 51 of the Third Restatements overstates the practice by asserting that an unfaithful agent has no claim to beneficial, out-of-pocket expenses. There is a substantial group of cases that allow incidental expenses as counter-restitution\textsuperscript{144} and most cases related to claims by the SEC and CFTC described below.

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 involving simple market transactions, as distinct from those involving operation of an ongoing business.\textsuperscript{145}

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 and/or expenditures. On the other hand, if the plaintiff is seeking the defendant’s profit or gain on sale from a specific asset, it is

\textsuperscript{142} See notes 80,81,83,84,86 and 149 and accompanying text.
\textsuperscript{143} See notes 79 to 85 and accompanying text.
\textsuperscript{144} E.g. SEC v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1114-15 (9th Cir. 2006) (certain "necessary" business expenses, such as commissions, telephone charges, and underwriting expenses, are deductible regardless of the defendant’s scheme); SEC 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. In essence, "a court may consider as an offset the expenses incurred by defendant in garnering such unjust enrichment.").
\textsuperscript{145} 1 Dobbs, supra note 40, § 9.3(4), at 601.
unlikely but possible that a court will approve the offset of many attributable 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 24 in section 51 and the breach of fiduciary duty illustrations 7 and 8 in section 43 relate to business operation resulting from fraud and constructive fraud yet the Third Restatement expresses no reservations about operating expenses rather only some weighing of whether the fraud-feasor in illustration 24 warrants counter-restitution for his personal services.

Illustration 24 in section 51 of the Third Restatement is based on the fraud case of Conaston in which a Pennsylvania court allowed offsetting credit for business operating expenses and salary compensation for the fraud-feasor. The Third Restatement attempts to distinguish the holding in Conaston from its rule against counter-restitution for fraud-feasors on the basis of avoiding an injustice which is another term for equitable discretion. Dobbs provides a more constrained and defined rationale by explaining the holding as the result of the court’s determination that the husband’s services warranted compensation because he benefitted the value of the plaintiff’s business and, implicitly, because the defendant’s activities were almost entirely devoted to generating revenue for the business as opposed to furthering the fraud on the plaintiff.

IX. FTC Claims for Gross Disgorgement

"'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."

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 mis-use of key terms and the sympathy of many courts

146 See illustration 24 in Section 51 e
147 1 Dobbs, supra note 40, § 9.3(4), at 602 n.42 (citing Palmer, supra note 83, § 3.12, at 304). ("The defendant’s efforts are properly ignored if they yielded no actual benefit to the plaintiff, which may have been the case in Edwards v. Hauff, 140 Ariz. 373, 682 P.2d 1 (App. 1984). 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.")
148 Doug Rendleman, supra note 41.
that appear to be solicitous of the agencies’ mandates, some district courts are awarding non-traditional remedies that are entirely outside of the courts’ jurisdiction. Equally important is many courts’ mistaken holding that the remedy of consumer redress is a reasonable measure of an remedy in equity. As most of the opinions have been affirmed in some Federal Circuit courts, this situation may continue to grow without reversal by the Supreme Court or Congress.

Almost 90 years after Root, the Supreme Court expanded the doctrine of implied jurisdiction to statutes for federal agencies. In Porter v. Warner Holding Co., the Supreme Court held that the full range of remedies in equity is implicit in Congress’ grant of injunctive relief to federal agencies. Sixteen years later, the full range of remedies in equity were held to be implied in statutes without specific provision for injunctive relief except when the remedy would be contrary to the intent of Congress. The Porter and Mitchell cases were of small note but they were the foundation for the Second Circuit opinion in Texas Gulf Sulphur 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. Except for some claims of the SEC after 2000, the sole basis for the federal agencies to seek monetary remedies in equity was each agency’s barebones 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. In 2006, the Second Circuit implemented the limitation on remedies in equity by initiating a ‘Grupo analysis’ to confirm that the proposed remedy in equity was in general practice prior to 1789. The Supreme Court opinions of the 19th century may provide some reasonable approximations of those standards.

The Grupo opinion raised a minor issue that is sometimes raised in agency cases to attempt to expand the boundaries of an agency’s monetary remedies in equity. The

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149 Porter v. Warner Holding Co., 328 U.S. 395, 399400 (1946); 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)
151 SEC v. Texas Gulf Sulphur Co., 446 F.2d 1301, 1307-8 (2d Cir. 1971)
litigants in Grupo, Great-West and Sereboff were companies or individuals, not government agencies. Dicta in Grupo implies that the range of available remedies in equity is broader for government claims than private parties. However a comparison of the range of remedies provided in Stevens v. Gladding\textsuperscript{156} for individual plaintiffs does not immediately appear to be different from that in Mitchell\textsuperscript{157} nor sufficient to justify exempting federal agency claims from Grupo’s boundaries for remedies in equity. To date, the Second Circuit opinion in Cavanagh manifests that Circuit’s belief that SEC claims are not exempt.\textsuperscript{158}

This argument also overlooks the difference in jurisdiction between Grupo and most agency cases. The plaintiff’s jurisdiction was based on private individuals seeking injunctive relief yet the Grupo dicta relates to latitude provided to the government for a claim in equity. Generally, federal agency claims enjoy implied jurisdiction and seek ancillary remedies to injunctive relief. The Supreme Court’s opinion in Tull\textsuperscript{159} implies that ancillary remedies should be less significant than the injunctive relief. This implication would need to be reconciled with Porter\textsuperscript{160} and Mitchell\textsuperscript{161} which 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. 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

\textsuperscript{156} Stevens v. Gladding, 58 U.S. 447, 454 (1855)
\textsuperscript{157} Mitchell v. Robert DeMario Jewelry, Inc., 361 U.S. 288 (1960)
\textsuperscript{158} SEC v. Cavanagh, 445 F.3d 105, 117 (2d Cir. 2006)
\textsuperscript{159} Tull v. United States, 481 U.S. 412, 423 (1987) ("First, while a court in equity may award monetary restitution as an adjunct to injunctive relief, it may not enforce civil penalties. See Porter v. Warner Holding Co., supra, at 399. Second, the Government was aware when it filed suit that relief would be limited primarily to civil penalties, since petitioner had already sold most of the properties at issue. App. 110, 119. A potential penalty of $22 million hardly can be considered incidental to the modest equitable relief sought in this case."). See also Ehrlich v. United States, 252 F.2d 772, 778 (5th Cir. Ga. 1958) ("Restoration of the status quo in this case would not frustrate the laws of the United States or thwart public policy, because the national policy behind the Lanham Act has been asserted effectively through the successful criminal prosecution of Ehrlich. 8 He has been punished once, by public trial and conviction, imposition of a sentence and a fine. Here, to allow the government to keep the purchase price would amount to a second punishment when the wrongdoer has paid his debt to society. The forfeiture of the property to the government in this case distills an essence difficult to identify precisely but one that is offensive to Anglo-American law. It suggests strongly the odor of attainder or of forfeiture of goods and chattels by corruption of blood.")
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 disgorgement by default. So far, evidence of prosecutorial aggressiveness and even agency mis-conduct is rare but the agencies take great liberties with terminology and inapposite precedent.

Case opinions relating to claims by the more experienced agencies like the SEC and the CFTC 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 Sulphur as was its concern to avoid awarding a punitive remedy. Since Texas Gulf Sulphur, the SEC in particular has tried to resist additional

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161 SEC v. McCaskey, 2002 U.S. Dist. LEXIS 4915, at 24 n.10 (S.D.N.Y. 2002) citing The Securities Enforcement Manual, A.B.A. Business Law Section at 197 (1997) ("The SEC often takes a broad view as to what constitutes illicit profits. Thus, in negotiating a disgorgement remedy with the staff, counsel may find that the staff argues for a very broad loss causation concept, refuses to recognize the fairness of netting profits and losses from allegedly illegal transactions, and resists the deductibility of various expenses. 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 against losses.")

162 FTC v. Freecom Commc’ns, Inc., 401 F.3d 1192, 1203 (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.")


165 SEC v. Texas Gulf Sulphur Co., 446 F.2d 1301, 1307-8 (2d Cir. 1971)
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.\textsuperscript{166} 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 re-directed those resources into federal litigation for injunctive and other equitable remedies.\textsuperscript{167} 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 80 to 90 cases per year for the last ten years or more. The range of annual total awards of unjust enrichment has ranged from $300 million to $900 million per year. On the basis of a survey of cases from January 2007 to October 1, 2010, it was determined that more than ten FTC lawyers have filed more than ten cases during that period and that more than 20 have 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.\textsuperscript{168}

While the award per case is an impressive $4 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

\textsuperscript{166}SEC v. McCaskey, No. 98-CV-6153, 2002 U.S. Dist. LEXIS 4915, p*14 (S.D.N.Y. Mar. 26, 2002) (SEC represents to court that the concensus of opinion was to allow direct incidental expenses)

\textsuperscript{167}FTC, Office of the Gen. Counsel, A Brief Overview of the Federal Trade Commission’s Investigative and Law Enforcement Authority (2002), http://www.ftc.gov/ogc/brfovrvw.htm (last visited December 10, 2006) (“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.”).

\textsuperscript{168}Based on recent research conducted by author based on Pacer data. For prior research on FTC venue shopping 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, 117 (2007)
relief appears high. From anecdotal notes in FTC reports, it appears that defendants to FTC settlements and awards are financially unable to fund the monetary award and must seek reductions from the FTC and/or bankruptcy protection.169 Personal liability for the principals is frequently in dispute. The mass action aspects of FTC litigation discourages 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.170

_Stefanchik_ 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 proscribed methods for novices to achieve substantial wealth by buying and selling private mortgages. 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. (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' revenues for the program. 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.171

169 See Federal Trade Commission annual reports for 2009 and 2010
170 For an example of FTC misconduct see FTC 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. ”)
171 FTC v. Stefanchik, 559 F.3d 924, 931-32 (9th Cir. 2009) citing FTC v. Figgie Int’l, Inc., 994 F.2d 595, 606-07 (9th Cir. 1993) and FTC v. Febre, 128 F.3d 530, 536 (7th Cir. 1997). But see FTC v. Verity Int’l, Ltd., 443 F.3d 48 (2d Cir. 2006).
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 and minimal standards for causation, it’s understandable that inexperienced defense counsel or most 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. 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 complies and gross disgorgement is a form of equitable restitution. 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.

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 Figgie which related to a claim under an alternative section of the FTC Act for jurisdiction. Second, the Ninth Circuit believes that the FTC’s claims allow for what Justice Scalia might call ‘omnipotent authority’ to render justice as required. Third, the Ninth Circuit and other circuits have openly held that equitable remedies can be punitive.

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173 See note 177 for the appropriate standard.
175 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 discussed in Section VIII.
176 FTC v. Figgie Intern., Inc., 994 F.2d 595, 607-08 (9th Cir. 1993)
177 Grupo Mexicano De Desarrollo v. Alliance Bond Fund, Inc., 527 U.S. 308, 322 (1999). (“We do not question the proposition that equity is flexible; but in the federal system, at least, that flexibility is confined within the broad boundaries of traditional equitable relief. To accord a type of relief that has never been available before - and especially (as here) a type of relief that has been specifically disclaimed by longstanding judicial precedent - is to invoke a 'default rule,' post, at 342 (Ginsburg, J., dissenting), not of flexibility but of omnipotence. When there are indeed new conditions that might call for a wrenching departure from past practice, Congress is in a much better position than we both to perceive them and to design the appropriate remedy.”)
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 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 11 cases, including 3 cases outside of the Ninth Circuit.  

Since at least 1982, the FTC has asserted that the FTC’s 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 and 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 opinion in Tull which found that the EPA had over-stepped its jurisdiction in seeking penalties as an ancillary remedy to injunctive relief and Cavanagh 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. But Singer’s pronouncement has progressed and is now frequently repeated without any reference to traditional restrictions on the court’s jurisdiction to order remedies. The abbreviated sound bite from Singer has been cited or quoted in more than 25 FTC cases since 1982.  

178 FTC v. H. N. Singer, Inc., 668 F.2d 1107, 1113 (9th Cir. 1982).  
179 In contrast to the abundant cases to the contrary such as those listed in note 100.  
181 See note 159 and see CFTC v. Am. Metals Exch. Corp., 991 F.2d 71, 79 (3d Cir. 1993) (“On the other hand, an award of damages in the amount of investor losses may go beyond the scope of a Commodity Exchange Act enforcement proceeding. 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.”).  
183 See FTC v. Pantron I Corp., 33 F.3d 1088, 1102 (9th Cir. 1994) (“As we explained in F.T.C. v. H.N. Singer, Inc., 668 F.2d 1107 (9th Cir. 1982), the 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." Id. at 1113. This power includes the power to order restitution.”); FTC v. RCA Credit Servs., LLC, 2010 U.S. Dist. LEXIS 73461, p*37 (M.D. Fla. July 20, 2010) FTC v. Stefanchik, 559 F.3d at 931 (“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.”); FTC v. Network Servs. Depot, Inc., 617 F.3d 1127, 1135 2010 U.S. App. LEXIS 17080, (9th Cir. Nev. 2010) (“The FTC Act endows the district court with broad authority to "grant any
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 statutory scheme because “…it serves goals of the FDCA that are encompassed within the section the FDA charges Appellants violated.”\textsuperscript{185}

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) provides the FTC with authority for injunctive relief 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. Peter Ward points out that claims under Section 13(b) are easier to make because, otherwise, Section 19 would require the FTC to complete administrative proceedings before initiating civil litigation.\textsuperscript{186} Of course, the result has been for the FTC to prefer litigation under Section 13(b) than a combination of administrative law and litigation under Section 19. According to a FTC statement on its website, most of the FTC’s consumer protection enforcement activities are conducted in litigation rather than administrative proceedings.\textsuperscript{187}

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 ancillary relief necessary to accomplish complete justice,”\textsuperscript{184} including the power to compel the payment of restitution to injured consumers.”\textsuperscript{184}


\textsuperscript{185} United States v. Universal Mgmt. Servs., Inc., 191 F.3d 750, 763 (6th Cir. 1999).


\textsuperscript{187} See note 167
the Figgie was based on Section 19. The FTC is securing special remedies provided in 19 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 is 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 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.  

It would be impossible to definitively prove that the failure in court opinions to acknowledge the distinction between sections 13 and 19 had any definitive 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 (29 out of 53 cases), section 19 was not mentioned.

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Over time, the problem gets to be sheer numbers of similar cases with a similar mistake and the fact that a reader of the third generation of mistakes has no idea of the omission. This is just an example of the weak research that permits such outlier remedies.

Recently the Tenth Circuit over-ruled the award of sanctions against the FTC, finding that the FTC claims were colorable and did not warrant sanctions. As a 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. 191

The Tenth Circuit overlooked its own opinion, issued one year earlier in Callery that (“...though the issue is close, we must adhere to the Supreme Court's rather emphatic guidance and

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191 FTC v. Freecom Commc'ns, Inc., 401 F.3d 1192, 1203 (10th Cir. 2005) citing Federal Trade Comm'n v. Gem Merch. Corp., 87 F.3d 466, 468-69 (11th Cir. 1996); Federal Trade Comm'n v. Pantron I Corp., 33 F.3d 1088, 1102 (9th Cir. 1994). See also FTC v. Bronson Partners, LLC, 674 F. Supp. 2d 373,384 2009 U.S. Dist. LEXIS 112885 (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. See generally Verity, 443 F.3d at 67-68; FTC v. Seismic Entm't Prods., 441 F. Supp. 2d 349 (D.N.H. 2006). The formula for calculating redress for consumer injury is straightforward: "(1) calculate the gross receipts received from all consumers subjected to the contumacious acts of the defendants, (2) offset gross receipts to the extent the defendants prove that consumers either received refunds or were satisfied with their purchases, [and] (3) order the liable defendants to pay the resulting amount. . . ." Kuykendall, 371 F.3d 745, 767 (10th Cir. 2004).”); FTC v. Seismic Entm't Prods., 441 F. Supp. 2d 349, 53-54 (D.N.H. 2006) (“The appropriate measure for restitution is the benefit unjustly received by the defendants.” Freecom Commc'ns., Inc., 401 F.3d at 1206. That amount need not be reduced to the amount of a defendant's profits from the illegal activities. Febre, 128 F.3d 530 at 536.”); and FTC v. Atlantex Associates, 1987 U.S. Dist. LEXIS 10911,p*37 (S.D. Fla. Nov. 25, 1987) (“The purpose of consumer redress is to remedy the monetary injury to consumers.”)
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."

Despite an impressive list of precedents to the contrary, two Circuit opinions state that punitive remedies for FTC do not exceed a court’s authority under section 13 (b). To be sure, punitive remedies under section 13 aren’t in violation of section 19, they are in violation of Grupo and several other Supreme Court precedents. The Second Circuit opinion in Texas Gulf Sulphur, the foundation case for most federal agency claims under implied jurisdiction clearly acknowledged this limitation.

Section 4 of the Third Restatement provides some frank acknowledgments of the fact that terms like restitution, among others, are capable of and have been twisted and contorted to justify conclusions that a court in equity could not recognize. The mis-use 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 agencies or IP claims. Whether the remedy is labeled as restitution, disgorgement, consumer redress, refund, or reimbursement, the remedy awarded amounted to gross disgorgement. At most, the cases in this area recite that disgorgement or restitution is an equitable remedy and

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192 Callery v. United States Life Ins. Co., 392 F.3d 401, 409 (10th Cir. 2004)
193 See note 100.
194 TC v. Febre, 128 F.3d 530, 537 (7th Cir. Ill. 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 FTCA. They cite the Ninth Circuit's opinion in FTC v. Figgie Intern., Inc., 994 F.2d 595, 607-08 (9th Cir. 1993), cert. denied, 510 U.S. 1110, 127 L. Ed. 2d 373, 114 S. Ct. 1051 (1994), in support of this assertion. Figgie involved a different statutory provision, Section 19(b) of the FTCA, which expressly precluded an award of exemplary or punitive damages. 15 U.S.C. § 57b(b). In contrast, Section 13(b) has no such limitation. See 15 U.S.C. § 45. Febre and Ace's reliance on Figgie is misplaced.") See also FTC v. Gem Merchandising Corp., 87 F.3d 466, 470 (11th Cir. Ga. 1996)
195 SEC 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.")
198 FTC v. Medicor, L.L.C., 217 F. Supp. 2d 1048, 1058 (C.D. Cal. 2002). ("Plaintiff present the declaration of an accountant indicating that refunds, charge backs, and returns have been deducted to obtain the disgorgement amount. The amount represents Medicor's net sales. Section 13(b) of the FTC Act permits the Court to order disgorgement regardless of the amount of the defendant's profits. See FTC v. Febre, 128 F.3d 530, 537 (7th Cir. 1997). The full amount lost by consumers is an appropriate measure of damages. See id. at 536.")
201 United States v. Lane Labs-USA, Inc., 427 F.3d 219, 231 (3d Cir. 2005).
fail to look beneath the label.\textsuperscript{202} For example, the opinion in Febre is frequently cited to support gross disgorgement,\textsuperscript{203} yet the holding in Febre for the award of gross disgorgement is specifically justified on the defendants’ failure to present significant evidence of counter-restitution.\textsuperscript{204}

The Sixth Circuit opinion in Universal Management relies on profit disgorgement cases to justify gross disgorgement. Note how the Sixth Circuit avoids defining a punitive remedy and then evokes 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. Exch. Comm'n v. Commonwealth Chem. Sec., Inc., 574 F.2d 90, 102 (2d Cir. 1978). Simply because disgorgement

\textsuperscript{202} FTC v. Bronson Partners, LLC, 2006 U.S. Dist. LEXIS 3313 (D. Conn. 2006) ("In FTC v. Verity Int'l, Ltd., 443 F.3d 48 (2d Cir. 2006), cert. denied, 549 U.S. 1278, 127 S. Ct. 1868, 167 L. Ed. 2d 317 (2007) ("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. In light of Verity and the decisions of other circuits, I conclude that restitution is an available [*379] remedy under Section 13(b) of the FTC Act.

\textsuperscript{203} FTC v. Stefanchik, 559 F.3d 924, 931 (9th Cir. Wash. 2009) ("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."); FTC v. Seismic Entm't Prods., 441 F. Supp. 2d 349, 53-54 (D.N.H. 2006) ("The appropriate measure for restitution is the benefit unjustly received by the defendants."); Freecom Commun., Inc., 401 F.3d at 1206.. That amount need not be reduced to the amount of a defendant's profits from the illegal activities. Febre, 128 F.3d 530 at 536."); FTC v. Medicor, L.L.C., 217 F. Supp. 2d 1048, 1058 (D.C. Cal. 2002). ("Section 13(b) of the FTC Act permits the Court to order disgorgement regardless of the amount of the defendant's profits. See FTC v. Febre, 128 F.3d 530, 537 (7th Cir. 1997). The full amount lost by consumers is an appropriate measure of damages. See id. at 536."); FTC v. Bronson Partners, LLC, 674 F. Supp. 2d 373, 384 (D. Conn. 2009) ("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. See Febre, 128 F.3d at 536...");

\textsuperscript{204} FTC v. Five-Star Auto Club, Inc., 97 F. Supp. 2d 502, 534 (S.D.N.Y. 2000) ("The proper amount of relief is the full amount lost by consumers. FTC v. Febre, 128 F.3d 530, 535-36 (7th Cir. 1997)..."); FTC v. Davison Assocs., 431 F. Supp. 2d 548, 560 (W.D. Pa. 2006); FTC v. INC21.com Corp., 2010 U.S. Dist. LEXIS 89844, p* 88-89 (N.D. Cal. Sept. 21, 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. See Stefanchik, 559 F.3d at 931 (citing FTC v. Febre, 128 F.3d 530, 536 (7th Cir. 1997)). This is because equity may require a defendant to restore his victims to the status quo, even where the loss suffered by consumers exceeds the defendant's unjust enrichment. FTC v. Figgie Int'l, Inc., 994 F.2d 595, 606-07 (9th Cir. 1993).")
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) ("While 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 this to make the consumers whole rather than allow the illegal activities to stand uncorrected to the consumer’s detriment. 205

The opinion justifies oranges with apples as each of the three cases cited relate to disgorgement of profits not revenues. Furthermore, two of the cited cases state 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. 206

The FTC doesn’t limit its claims to fraud or misrepresentation. The FTC’s mandate is so broad and its causation standard so low207 that it can make claims for damaged consumers on what appears to be negligence, an unintentional tort. The remedies for these defendants is no different from the other FTC cases. Consider a recent Ninth Circuit opinion 208

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205United States v. Universal Mgmt. Servs., Inc., 191 F.3d 750, 763 (6th Cir. 1999)
206See Sec. 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. In SEC v. Manor Nursing Centers, Inc., 458 F.2d 1082 (2d Cir. 1972), the court held that the trial court erred in ordering restitution of income earned on ill-gotten profits. The court held that the defendant could be compelled only to disgorge profits and interest wrongfully obtained.”); Sec. 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 March 2, 1973, 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.”); and SEC 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, i.e. $11,700.00.”)
207See Robert Pitofsky, Beyond Nader: Consumer Protection and the Regulation of Advertising. 90 HARV. L. REV. 661, 676-77 (1977) ("issues 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").
relating to a failed company that tried to provide a service for delivering checks by e-mail. The system did not work well and, in hindsight, it proved to be a target-rich environment for third-party fraud. Third parties gained access to the system and sent unauthorized checks on accounts registered on the system. 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. The Ninth Circuit advises that neither deceptive intent nor knowledge of the harm from a third party’s acts are 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. 209

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." Qchex 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. Qchex argues that the figure is invalid in substantial injury to consumers. 1997 U.S. Dist. LEXIS 17114, [WL] at *12- *13. This conduct was enough to find Wholesale primarily liable—as opposed to liable as an accomplice—under the Act. Id."

209Id. at p *13 ("To be clear, none of this is to say that Qchex is liable under a theory of aiding and abetting. Qchex engaged in behavior that was, itself, injurious to consumers. Qchex’s business practices might have served to assist others in illicit or deceptive schemes, but the liability under the FTC Act that attaches to Qchex is not mediated by the actions of those third parties. Qchex caused harm through its own deeds—in this case creating and delivering unverified checks—and thus § 5 of the FTC Act easily extends to its conduct. ")
because Qchex's revenues were exceeded by developing, maintenance, and operating costs for the software and website.\footnote{Id at *23. (“It is unclear what facts could be uncovered at an evidentiary hearing that Qchex 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.”)}

The upshot of the Ninth Circuit’s holdings in Neovi is that defendants are being assessed gross 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.\footnote{See note 44.}

A case opinion in 2008 from the Eleventh Circuit that provides mixed indications of the ability of the federal circuit courts to resolve this problem by themselves. 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.\footnote{CFTC v. Wilshire Inv. Mgmt. Corp., 531 F.3d 1339, 2008 U.S. App. LEXIS 13456, 21 Fla. L. Weekly Fed. C 845 (11th Cir. Fla. 2008)} Next, it held that the district court’s order for restitution in the amount of customer losses was outside the equitable powers of the district court.\footnote{Id. Citing The Third Circuit has concluded that an award of restitution under § 13a-1 measured in the amount of customer losses is generally improper. CFTC v. Am. Metals Exch. Corp., 991 F.2d 71, 76-79 (3d Cir. 1993)}

The equitable remedy of restitution does not take into consideration the plaintiff’s losses, but only focuses on the defendant's unjust enrichment. Waldrop, 24 F.3d 152 at 158-59. 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.

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 district court in the Middle Division of Florida chose to interpret the Wilshire 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).\footnote{FTC v. RCA Credit Servs., LLC, 2010 U.S. Dist. LEXIS 73461, p* 39 (M.D. Fla. July 20, 2010)} It seems difficult to mis-understand the Eleventh Circuit’s intent although it would have been helpful if that opinion had reversed the parts of the Gem opinion that endorses punitive damages and awarded consumer redress.\footnote{FTC v. Gem Merch. Corp., 87 F.3d 466 (11th Cir. 1996)}
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.’

The ability of the FTC and FDA in particular to secure opinions and measures of disgorgement that are significantly outside the mainstream of unjust enrichment in equity is disquieting. This is especially true for opinions which 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 ignore the authoritative discussion available in the Restatements.

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 court opinions make almost no mention of the First or Third Restatement in FTC case opinions. Consider the following search results:

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.

For the agency sub-groups of 869 and 655 cases, the First or Third Restatements were cited in only one case in each sub-group. (By contrast, the First or Third Restatements were cited in a total of 966 federal cases in the last twenty years.)

Dan Dobbs’ authoritative treatise on remedies and Palmers treatise on restitution also had only one cite each for the Federal Trade Commission sub-group.

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216 FTC v. Home Assure, LLC, 2009 U.S. Dist. LEXIS 32055, n9 (M.D. Fla. Apr. 16, 2009) (“Additionally, an unmistakable (although imperfect) resemblance exists between (i) consumer redress in the amount of gross revenues and (ii) traditional money damages.”)

217 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. It is an inquiry, moreover, that we are accustomed to pursuing, and will always have to pursue, in other contexts. See, e.g., 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.") See also Sereboff v. Mid Atl. Med. Servs., Inc., 126 S. Ct. 1869, 1874 (2006); Grupo Mexicano de Desarrollo, S. A. v. Alliance Bond Fund, Inc., 527 U.S. 308, 318 (1999).

218 The data was the result of an informal and somewhat unsophisticated case search conducted on the LEXIS database. Agency sub-groups were identified by searching for all cases in which the agency was included as a named party.
This crude statistical contrast 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 controlling 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.\textsuperscript{219} 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\textsuperscript{220} and the FDA has already secured a number of huge settlements from pharmaceutical manufacturers by avoiding disgorgement claims based on the manufacturers alleged failure to follow FDA production standards.\textsuperscript{221}

**X. Bad Facts Make Bad Law\textsuperscript{222}**

The denial of counter-restitution in fraud and federal agency cases is sometimes justified by the defendants’ bad acts or their victims’ losses. The dangers to such exceptualism are that equity’s prohibition of punitive remedies would be weakened and that the agency case exceptions will expand beyond any clear boundaries.

Given the wide latitude inherent in equitable discretion, judges in equity occasionally have awarded remedies or measured remedies in a manner that resemble punitive remedies. The history of the law in equity cases with extreme defendants whose cases sometimes resulted in extreme remedies.\textsuperscript{223} Generally, these cases are sufficiently isolated that the case holdings do not alter the legal landscape. One possible exception relates to a loose group of what Professor Kull calls civil outlaws.\textsuperscript{224} His article explains that courts regularly take negative action\textsuperscript{225} or fail to take action such as to deny counter-restitution to plaintiffs with


\textsuperscript{221} Eric M. Blumberg, Restitution and Disgorgement Find Another Home at the Food and Drug Administration, 58 Food & Drug L.J. 169, 170 (2003).


\textsuperscript{224} Kull, Private Law, page 18 (“...the simpler formula is that restitution does punish, but it punishes negatively: not by imposing liability on disfavored parties, nor by enhancing the liability to which disfavored parties are subject, but by denying a restitutionary claim (or counterclaim) to which the disfavored party would otherwise be entitled. Naturally, any claimant whom a court finds unattractive will tend to find his legal recourse restricted, whatever the theory of his cause of action.”)

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unclean hands. The Blake opinion from the House of Lords is another exception as that opinion may alter remedies in equity for intentional breach of contract.  

Frank Snepp is frequently mentioned as an outlaw that experienced an extreme remedy and his case is often compared to the British Blake case. Snepp breached his fiduciary duty to his employer, the CIA, by writing a book of ‘memoirs’ about the CIA that revealed confidential CIA information (as opposed to information that jeopardized national security). The Supreme Court affirmed the district court’s order for all of Snepp’s book royalties to be deemed a constructive trust, reversing the court of appeals. Upon remand, the district judge allowed counter-restitution only for Snepp’s income taxes. Counter-restitution was not a significant topic in the House of Lords opinions although it appears Blake got no offsetting credit. It is difficult to read the case opinions of either Snepp or Blake without suspecting that the legal process in both their cases was ‘goal-seeking’ and motivated by fear of loss of national security in the case of Snepp and by the desire to punish or spite Blake in any way possible.

To borrow Professor Kull’s term, are there civil outlaws which should not be protected by a court in equity? In 1910, Justice Holmes held that “a man committing a fraud does not become an outlaw and caput lupinum... He may have no standing to rescind his transaction, but when it is rescinded by one who has the right to do so the courts will endeavor to do substantial justice so far as is consistent with adherence to law.” Modern British and American authorities agree that ‘wicked’ or willful defendants still should be eligible for counter-restitution except when the counter-restitution would violate public policy.

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226 See HM A-G v. Blake, [2000] E.M.L.R. 949 (H.L). Blake was a long-term double agent of the Soviet Union while in the employ of the British intelligence community. He was convicted of treason which was alleged to have resulted in the deaths of dozens of British operatives. He escaped from British prison to the Soviet Union and later wrote a book about his experiences. The British crown sued the book publisher to disgorge Blake’s royalties on the basis of Blake’s breach of his employment agreement which prohibited disclosure of state confidential information.


231 1 Dobbs, Law of Remedies, supra note 11, §4.1(3), at 565 ("If the wrong is bad enough, even a radical remedy that captures the defendant’s own property to protect the plaintiff’s rights may be acceptable."); HM A-G v. Blake, [2000] E.M.L.R. 949 (H.L.) In arguing the case before the House of Lords, the pro bono counsel for Blake warned that the House of Lords was being led into making bad law in order to render an intuitively just decision to punish a traitor. n224

232 See Andrew Kull, supra note 1


Denying counter-restitution as a matter of law is a substantially more extreme remedy than denying counter-restitution on the grounds of public policy on the basis of specific case facts. Remedies that award more than the defendant’s profit or advantage have been found to be punitive.\footnote{See notes 63 and 64.} Portions of sections 13 and 51 of The Third Draft appear to support altering the legal landscape and to deny fraud-feasors the right to counter-restitution\footnote{See notes 96 and 140 and accompanying text.} even though most traditional authorities conclude that fraud-feasors are generally entitled to counter-restitution.\footnote{See notes 142, 144 and 234 and accompanying text.} In contrast to the SEC and the CFTC,\footnote{See notes 143, 161, 162 and 164.} the FTC and FDA assert that a federal agency’s claim for unjust enrichment (based on fraud or not) carries the further right to deny the defendant the right to attempt to prove counter-restitution.

Agency cases are not limited to fraud or intentional torts. For example, the FTC does not limit its disgorgement claims to defendants that have committed intentional fraud. They have expanded their reach beyond fraud and intentional torts into mere negligence and aim to extend disgorgement to anti-trust actions.\footnote{See notes 220 and 221 and accompanying text.} The FTC measure of disgorgement may lead all claims based on the implied jurisdiction of the FTC authority to seek injunctive relief and therefore claim unjust enrichment. Thus the exception would expand beyond intentional fraud-feasors to whomever the FTC can sue for injunctive relief. The FDA applies such a remedy against pharmaceutical manufacturers than vary from the FDA’s manufacturing standards.

Until recently, most of the exceptions to the right to counter-restitution have been limited to conversion of personal property and trespass to minerals, much of which can be explained on the basis of property law and public policy concerns. Obviously the tradition of equitable discretion\footnote{Doug Rendleman, The Trial Judge's Equitable Discretion Following eBay v. MercExchange, 27 Rev. Litig. 63 (2007)} is relevant and can explain some of the out-lying cases. The proposed right to prove counter-restitution would not restrict a court’s discretion, it would allow the defendant to introduce evidence relating to counter-restitution before the court exercises its discretion. Undeterred, the FTC and FDA measure of unjust enrichment would be limited only by the agencies’ ability to file cases with bad facts.

\section{XI. Conclusions}

\footnote{Peter Birks, Restitution – The Future The Federation Press 1992 pages 128-132}
Courts in equity and the law of restitution and unjust enrichment have the potential to keep up 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’re now prepared to respond to any interloping doctor at our next bar convention!

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 federal agency and limited property cases, gross disgorgement as a matter of law is relatively rare and most of those cases can be explained on unique facts. Even when plaintiffs are entitled to gross disgorgement as a matter of fact or based on the defendant’s default, almost half of the cases provide for some form of counter-restitution.

Measuring counter-restitution on the basis of the benefit to the plaintiff is the standard for assessing indemnity for a trustee in default; it is the modern standard for considering the services of the defendant; and is the standard applied in a significant portion of cases relating to willful defendants. 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 allow for 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. The short answer is that the court only has jurisdiction to award remedies in equity not remedies that necessarily seem “fair” or “right.” The long answer is that when counter-restitution is not necessarily excluded, it is still subject to adjustment for expenses that offend public policy or that fail to benefit the plaintiff. The FTC also has other choices: it can pursue the claim under section 19 or it can seek the remedy of rescission. 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 (at least) of the Seventh Amendment. Furthermore, the FTC and FDA’s definition of reprehensible defendants is changing over time and growing beyond accepted standards for applicable causes of action or willful intent.

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242 See SEC v. World Gambling Corp., 555 F. Supp. 930, 934 (S.D.N.Y.), aff’d, 742 F.2d 1440 (2d Cir. 1983)

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This article does not suggest that perfectly clear definitions or simple statements of the law would prevent the current state of federal agency 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. 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.