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Article

COUNTING THE BEANS: UNJUST ENRICHMENT AND THE DEFENDANT'S OVERHEAD

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*484 I. Introduction

"It all depends on how you count the beans"[1]

Unjust enrichment in equity is a monetary remedy that is essential for the American data economy. It is the traditional remedy for claims of infringement of intellectual property and breach of fiduciary duty, and has emerged as a remedy for federal agency civil claims for securities, commodities, and consumer fraud.

The application of unjust enrichment in equity to intangible property is not limited to state claims on patents[2] and trade secrets, or federal claims on copyrights, trademarks, and false advertising; it can also be applied to claims for the ***485** misappropriation of a website,[3] confidential information,[4] and even the unauthorized viewing of data files whether on the internet or stored on a private computer or network.[5] It is the only remedy that can be imposed in cases relating to the misappropriation of "negative information," i.e., information on unsuccessful or failed experiments.[6] As the American economy completes its transition to a data economy, unjust enrichment in equity will increasingly become the principal remedy to protect economic interests.

"Counting the defendant's beans," or measuring the defendant's unjust enrichment, is therefore becoming an important strategic issue for the corporate litigator. This Article explores the legal foundation and history of measuring unjust enrichment in equity with particular focus on the issue of approving or denying offsetting credit for the defendant's fixed costs. While the issue seems narrow, it provides a full complement of paradoxes, and the analysis provides a useful perspective from which to review other offset issues.

The federal circuits are roughly split between supporters of the full-absorption approach who advocate offsetting allocations of attributable fixed costs (principally, the First, Second, and Ninth Circuits)[7] and advocates of the incremental income approach who exclude allocations of fixed costs (principally, the Fifth, Seventh, and Eleventh Circuits).[8] There is too much precedent on both sides to conclude that either position is exclusively or absolutely correct. On the other hand, few discussions on the measurement of unjust enrichment provide an adequate perspective on the breadth or range of unjust enrichment in equity and ***486** therefore fail to show how one position on measurement relates to the continuity of measures across the spectrum of substantive law. A position may not be right or wrong, but it may suffer in comparison with other positions on the spectrum.

The Second Circuit demonstrates this discontinuity and provides an example of the first paradox--it is better to take than to give. The Second Circuit holds that a defendant who benefits from the emergency assistance of a third party must reimburse the stranger only for his marginal costs,[9] but it also holds that in measuring the unjust enrichment of an intentional plagiarist or infringer of intellectual property, the defendant should be reimbursed for marginal costs plus a reasonable allocation of the fixed costs.[10] Why does the Second Circuit award the intentional infringer of intellectual property a greater reimbursement than the "good samaritan?" How does this schism reflect a court in equity's mandate to ensure justice and promote public policy?

Many current discussions also neglect the historical development of the remedy and therefore overlook not only the continuity of similar applications in other areas of the law but also the intent and meaning that originally shaped all applications. As an example of this neglect, the second paradox shows how the proponents of the full-absorption approach cannot reconcile the remedy's twin priorities of disgorging the defendant's unjust profit and denying the defendant any economic incentive to engage in the unjust activity.

The second paradox, the "National Brake Paradox," comes from Judge Geiger, a district judge in Wisconsin, who in 1926 asked a very important question that advocates for the full-absorption approach have not fully answered.[11] Consider the following hypothetical: Infringer A produces one unit each of two products, X and Y, which generate revenue of $2,000,000 and $1,000,000, and which require direct costs of $1,600,000 and $900,000, respectively. Fixed costs of $200,000 are also incurred over the relevant time period with or without the production of Y. Infringer A is found liable for intentional infringement of copyright or trademark rights for the sale of Y. The hypothetical is summarized below:

***487 Table 1. What is the Infringer's Unjust Enrichment in Equity?**

Column I	Column II	Column III
Product X	Product Y	Products X and Y
But For Y	Incremental	Actual Case

Revenue	2,000,000	1,000,000	3,000,000
Variable Costs	1,600,000	900,000	2,500,000
Fixed Costs	200,000	(a)	200,000
Profit	200,000	100,000 (a)	300,000

(a) The production of Product Y does not increase A's fixed costs of $200,000 which can be reasonably allocated at $100,000 for each product. Therefore, the infringer's profit after such an allocation would be $0 under the full absorption approach or $100,000 under the incremental income approach.

The full-absorption approach analyzes the issue only by considering the numbers in Column II. It allocates fixed costs attributable to the infringing activity to determine the profit from infringement. Assuming a reasonable allocation of $100,000, the full-absorption approach would conclude that the defendant realized no profit and was not unjustly enriched. The incremental income approach compares the defendant's results in Column I and Column III, concluding that the infringer realized $100,000 of enrichment, effectively denying the allocation of fixed cost. This difference captures the dispute.

The paradox is that advocates of the full-absorption approach also advocate the goal of denying any incentive to the infringer. Without producing product Y, Infringer A generates profit of $200,000, as shown in Column I, but if A also produces product Y, she generates profits of $300,000, as shown in Column III. Clearly, the action of producing the infringing product Y increases the defendant's net income or net worth by $100,000.[12] What is more important: for the defendant to disgorge her profit after allocations, or to deny her "but-for" profit? Alternatively, if A disgorges her allocated profit after allocations, has she been denied any incentive to infringe?

To resolve these paradoxes as well as some additional issues in the dispute between the incremental income and full-absorption approaches, this Article traces the American development of the measure of unjust enrichment in Parts IV and V. The close resemblance of a defendant in a claim for unjust enrichment to that of a trustee in default is examined to develop guidelines on offset credit. Comparisons are offered in Part VI between measures of unjust enrichment in claims for infringement of intellectual property and measures for other substantive claims that award unjust enrichment.

***488** On the basis of this review, the Second Circuit's position in favor of the full-absorption approach is analyzed in Part VII to show that the Sheldon[13] opinion actually offers little precedential value and should be limited to issues of apportionment, not allocated overhead. The related issue of excluding overhead allocations for willful defendants is shown in Part VIII to be unsupported by traditional standards in equity and largely based on dicta.

Finally, although there is significant case law to the contrary, the American history of the development of measuring unjust enrichment shows that all advantages to the defendant should be disgorged, whether or not the advantages would normally be included in any accounting definition of "profit." Accordingly, deducting allocations of the defendant's fixed costs in the measure of her benefit or advantage will allow her to retain a significant advantage or the possibility of advantage.

II. Relevance

a. The Willie Sutton Theory

"I rob banks because that's where the money is."[14]

The issue of whether overhead should be included in the measure of unjust enrichment is likely to be received with indifference and boredom. Unjust enrichment is usually likened to the "buggy-whip" of remedies--out-of-date and forgotten--and few accountants or lawyers are interested in overhead allocations. These perceptions may explain the degree of inconsistency and weak reasoning in judicial opinions.

There have been many cases in which the overhead issue has determined the amount of unjust enrichment, if any, that the defendant must disgorge to the plaintiff. Disputes over the measurement of unjust enrichment can involve more issues than just fixed costs, but disputes over fixed costs occur frequently and can have great impact on the plaintiff's monetary award.[15]

The Table below lists some of the cases in which the unjust enrichment varied significantly solely due to the two approaches:

***489 Table 2. Range of Unjust Enrichment Due to Allocated Overhead**

Case	Low Measure	High Measure
George Haiss Manufacturing Co. v. Link Belt Co.[16]	$-62,500	$70,000
Libman Co. v. Vining Indus.[17]	$-512,112	$1,108,850
Baldwin Cooke Co. v. Keith Clark, Inc.[18]	$19,000	$78,181
Reinforced Molding Corp. v. General Electric Co.[19]	$-11,528	$1,997
Bergstrom v. Sears, Roebuck & Co.[20]	$169,183	$725,163
Roulo v. Russ Berrie & Co.[21]	$38,601	$4,955,000
Macbeth-Evans Glass Co. v. L. E. Smith[22]	$-28,076	$150,944
Duro Co. (of Ohio) v. Duro Co. (of New Jersey)[23]	$-22,321	$7,300
Victory Fireworks & Specialty Co.[24]	$3,978	$15,526
Burger King Corp. v. Pilgrim's Pride Corp.[25]	$-1,108,714	$1,387.472
Data General Corp. v. Grumman Sys.[26]	28%	73%

Bergstrom v. Sears, Roebuck & Co. offers a clear example.[27] In six years, Sears sold 159,893 fireplace grates that infringed Bergstrom's patent, generating revenue of more than $10 million and operating profits of $725,163.[28] Sears ***490** introduced evidence that showed that if fixed overhead were offset against these operating profits on the basis of the product's sales as a percentage of Sears's total sales, its unjust enrichment would be reduced to $169,183.63.[29] Citing precedent from the Sixth Circuit, the district court compromised and allowed Sears to offset 60% of the proposed allocation base on the rationale of a literal interpretation of "profit": "[I]t would be unrealistic to ignore the costs of salaries, overhead and the like, as these expenditures 'are necessary for each component of production.'"[30]

Given the choice, a plaintiff may prefer to claim lost profits rather than unjust enrichment if the court allows overhead allocations in unjust enrichment but not in lost profits.[31] Even alternative allocation approaches for crediting fixed costs can generate substantial differences for the same form of remedy.[32]

B. Legal Relevance

So far, this Part supports the assertion that the issue of offsetting allocated overhead is financially relevant, and sometimes critically important to the size of monetary remedy, if any. This Article will also establish the legal significance of allocated overhead. Part VI shows that it is widely held that allocated overhead is a significant issue in measuring a plaintiff's lost profits for both contract and patent claims. Practically all courts now deny defendants' claims that plaintiffs' overhead should be offset against lost revenues to measure the plaintiffs' lost profits for those claims.

Some supporters of the incremental income approach cite the effect of the National Brake Paradox as a strong rationale for their approach.[33] What is surprising is that some of the most vocal opponents of the incremental income ***491** approach acknowledge the significance of the Paradox but offer no solution. The First Circuit's opinion in Sammons v. Colonial Press, Inc. endorsed the full-absorption approach but it candidly acknowledged the Paradox:

> It might be suggested, with some force, that the profits for which an infringer is accountable should be calculated without any deduction of a fractional part of the fixed general overhead expenses which presumably would have been borne by him even had he not participated in the infringement complained of. Manufacturers are frequently glad to make a contract at a price which yields no net profit on a strict cost accounting basis but which does yield sufficient profit to carry a portion of the inescapable overhead. In such a case it would be difficult to deny that the infringer has reaped a benefit in dollars and cents from the infringement, for which he ought to be accountable.[34]

In reversing a lower court's approval of the incremental income approach, the Second Circuit, originator and protector of the best known case opinion in support of the full-absorption approach, also expressed concern on the issue:
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."[35]

Comments in the Restatement (Third) of Restitution and Unjust Enrichment in relation to the conflict between the two approaches are contradictory and have only been presented as a draft for comments. There is some indication, however, that the defendant's retained benefit from allocated fixed costs is also a substantial issue to the Third Restatement:

> 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.[36]

*492 III. Semantics

"Profits, like sausages . . . are esteemed most by those who know least about what goes into them."[37]

The court in equity was created and developed in England as an alternative series of courts to fill the gaps and to right the failings in the common law courts. Judges sitting in equity were given substantial authority and discretion to supplement the common law courts through a mandate to seek justice and promote public policy.[38] The court's very purpose was to discount form and focus on substantive justice, naturally leading to one of the key maxims in equity: "[E]quity regards substance rather than form."[39] For this and other reasons,[40] the use of terms of art is less exact in cases in equity and are generally received in a less literal manner. Accordingly, legal theories or doctrines based on restricted or formal meanings of a specific term should be suspect.

Acknowledging these boundaries as well as the court's discretion that permeates all aspects of claims in equity, this Part aims to clarify some terms and reduce the degree to which reasonable definitions may vary.[41]

*493 A. Unjust Enrichment

This Article follows the Third Restatement, which states the terms "unjust enrichment" and "restitution" should be equivalent.[42] The remedy of unjust enrichment can vary significantly and covers a broad range of remedies, including specific restitution, quantum meruit, quasi-contract, and unjust enrichment. The source of the plaintiff's jurisdiction for her cause of action can determine which form of unjust enrichment is available to the plaintiff or how the enrichment is measured. A plaintiff whose claim is based on explicit statutory jurisdiction may face remedies limited or expanded by that statute as opposed to a plaintiff whose claim is founded in jurisdiction at law or jurisdiction in equity.[43]

Thus, an advocate for the full-absorption method might reasonably object to the earlier comparison of the measure of unjust enrichment under the emergency assistance standard, which is largely a claim at law, with the measure for infringement of a copyright or trademark, which is largely measured according to procedures for a court in equity.[44] Differences between measures of unjust enrichment between courts at law and courts in equity are not uncommon. The ***494** comparison is reasonable, however, because the issue is whether an allocation of fixed costs is a relevant part of a party's expenses and whether an allocation of fixed costs is a financial gain for either party. Traditionally, the emergency assistance standard is justified on the grounds that reimbursement needs to be strictly limited to avoid encouraging excessive officious intermeddling.[45] Given that significance, is it not at least as important to discourage the intentional misappropriation of intellectual property?

Of the six potential sources of jurisdiction for unjust enrichment,[46] only four sources are relevant to this Article: statutory jurisdiction, implied statutory jurisdiction, jurisdiction in equity, and ancillary jurisdiction in equity. Initially, the remedy of unjust enrichment in equity in nineteenth-century America was only awarded pursuant to jurisdiction in equity (e.g., in cases relating to trusts and fiduciaries) and ancillary jurisdiction in equity (e.g., in claims for unjust enrichment ancillary to a claim for injunctive relief).[47] Congress eventually passed statutes that provided statutory jurisdiction for injunctive relief (1819),[48] and later authorized the remedy of an accounting in equity for the defendant's profits for patent claims (1870),[49] for design patents (1887),[50] for trademarks (1905),[51] and for copyrights ***495** (1909).[52] Thereafter, claims for infringement enjoyed statutory jurisdiction, although the statutory language stated or implied that the remedy should be measured according to general standards in equity.[53] The Supreme Court held in 1944 that statutes for federal agencies implied jurisdiction for claims of unjust enrichment in equity[54] unless the letter or spirit of the statute precluded such a remedy.[55]

Of the four sources of jurisdiction, only implied statutory jurisdiction may require a distinct measure of unjust enrichment because the source of that jurisdiction, the Judiciary Act of 1789, is limited to the practices of courts in equity in the American colonies or England on or before 1789. More importantly, in the absence of a traditional remedy in equity, the district court in an implied statutory jurisdiction claim has no jurisdiction.[56]

Disgorgement is a relatively new term for the remedy of unjust enrichment as limited to conscious wrongdoers and fiduciaries.[57] Only recently have drafts of the Third Restatement offered any definition.[58] At present, the courts have difficulty in applying the term and fail to understand that it still relates only to the award of the defendant's profits. Some judicial opinions for federal agency claims mistake precedent for disgorgement of profits as precedent for disgorgement of revenues or proceeds.[59]

*496 B. Fixed Costs

The controversy surrounding overhead expenses as an offset is limited to fixed costs.[60] While variable-cost overhead should therefore be excluded from this issue, any fixed costs that are sometimes included in the defendant's costs of goods sold should also be included.[61] The important point to remember is that the nature of the defendant's costs, either fixed or variable, must be assessed in relation to the difference between no infringement and any infringement, i.e. the expense is variable if it is incurred as a result of any level of infringing activity. This definition of "fixed" is different from one used for contract or patent damages.[62]

There are some judicial opinions that support the incremental approach but distinguish fixed costs on a different basis. They focus on the variability of expenses over the relevant range of the plaintiff's production volume and exclude costs that are fixed over a limited range of the infringing production volume.[63] This distinction is incompatible with the "but-for" analysis normally required in causation analysis for unjust enrichment in equity.[64] The but-for analysis does not compare the defendant's profit between ten units and fifty units of infringement but only between no infringement and actual infringement.

Claims for unjust enrichment in equity generally define a fixed cost as one that remains constant with or without any level of unjust activity.[65] Thus, start-up ***497** expenses for an infringing activity or expenses that remain constant after the first unit of infringing activity would be considered variable expenses.[66] There have been at least two cases in which the defendant's entire operation infringed the patent or trademark of the plaintiff. The court in both cases approved offset credit for fixed costs and other expenses that would not normally be offset except when all of the defendant's operations infringe.[67]

For the plaintiff, careful deposition of the defendant may help to reveal fixed costs that might otherwise appear to be variable. It has been found that expenses that increased due to inflation or altered circumstance were actually fixed.[68] It could be especially revealing to establish when the expense was first incurred by the defendant, especially in relation to the date of the first infringement. On the other hand, the defendant should be free to claim that the fixed or variable nature of expenses can change over time due to changes in technology or other market forces. There is precedent in applications of the cost comparison standard analysis that the appropriate standard can change as technology changes.[69]

C. Attributable

The difference between the incremental and full-absorption approaches could be defined as a dispute over the definition of "attributable," as both sides agree that ***498** the defendant is entitled to offset all attributable expenses. The incremental approach asserts that an attributable expense must increase as a result of the infringing activity,[70] while the full-absorption approach counters that the expense items do not need to vary with the infringing activity; only the expense activity itself must assist in the production of the infringing good or service.

"Overhead" which does not assist in the production of the infringement should not be credited to the infringer; that which does, should be; it is a question of fact in all cases. It is clear that this publisher necessarily made use of its organization and facilities for the publication and promotion of the sale of such compositions as this and the overhead expenses required to maintain that organization did assist in the production of the infringement.[71] Other phrases include "direct relationship,"[72] "actually contributed to,"[73] and even "specifically contributed to."[74]

The actual application of this simple principle may not be so simple. In a case regarding copyright infringement of music, the Second Circuit's grasp of the assistance provided by overhead seems to slip as it attempts to compare allocating fixed costs according to the number of new records or according to the relative sales volume of each record.

The method which will best do that in this instance was, we think, the one used. The expense of this indirect overhead had to be borne by the appellant whether it published the infringing song or not. As the publication of the latter neither increased it nor deceased it, and the same may be said of each of the others, it was fair to treat it as of equal assistance to the publication of each, since in the aggregate they all required it, and to divide it accordingly. Surely this fixed overhead was not of more assistance to the publication of the infringing song because the sales of it were comparatively large. Nor was the part these expenses played in the publication of the appellant's other songs any less by reason of the smaller demand and consequently smaller sales of them.[75] ***499** This explanation and application of "attributable" seems to be based more on assumption than any understanding of how the overhead expenses relate to the infringing activity.

The Second Circuit has also introduced some changes to the definition and analysis of appropriate expenses that are eligible for allocation, possibly for the purpose of judicial economy. While the Hamil opinion[76] is scrutinized in greater detail later in the Article, it is important to note here the possibility of change for the notion of attributable fixed expenses. First, the Hamil opinion speaks in terms of appropriate expenses as those which are implicated by the infringing activity.[77] The working definition of that term remains unexplained. Second, the opinion suggests that if a defendant's infringement or unjust actions are willful, then any expenses to be allocated should be subject to rigorous scrutiny, as opposed to ordinary scrutiny.[78] Third, expenses are to be grouped into categories as "attributability" is to be determined by category without distinguishing individual items within the category.

D. Profit

A literal definition of "profit" lies at the heart of the rationale for the full-absorption approach. Opinions that support the full-absorption approach often employ the common sense explanation that standard business practice requires a business to deduct allocated fixed costs to measure profits.[79] This explanation is ***500** suspect for two reasons: (1) remedies in equity emphasize substance over form, rarely favoring a formal definition over what is substantively correct, and (2) it is common practice among courts to exclude certain expenses in the measure of unjust enrichment in equity that would normally be included in the normal business measure of profit.

Courts in equity used the term "profit" well before the development of generally accepted accounting principles. In the second half of the 19th century, the Supreme Court also began to refer to the defendant's advantage, specifically the "fruit of the advantage" rather than profit.[80] The Restatement of Restitution uses the term "benefit" to include any increase in revenues or interests, or decrease in expenses or liabilities.[81] The Eighth Circuit provides a good example in Levin:

> Always, however, the task is to see that the patentee recover every dollar of advantage realized by the infringer from the infringement and no more. No fast and hard rules should or can be stated to guide application of this general rule to the infinite variety of fact situations developed in different cases.[82]

The Restatement of Restitution and the March 2007 draft of the Restatement (Third) of Restitution and Unjust Enrichment make it clear that "benefit" includes the value of a transfer to the defendant as it increases the defendant's net worth by increasing its assets, decreasing its liabilities, or providing services of subjective value to the defendant. The latest draft of the Third Restatement divides benefit into two levels: profit and consequential gains.
The profit for which the wrongdoer is liable by the rule of § 51(3) is the net increase in the assets of the wrongdoer, to the extent that this increase is attributable to the underlying wrong. Profit results in some cases from the avoidance of an otherwise necessary expenditure. More commonly, the claimant seeks profits in the form of net income or appreciated property value.[83] ***501** The same section states that in relation to the unjust enrichment of conscious wrongdoers and defaulting fiduciaries: "Profit includes any form of secondary enrichment (§ 53) that is identifiable and measurable on the facts of the case and not unduly remote."[84] Section 53 of the new draft clarifies that the consequential gains can include a broad spectrum of consequences:

[T]he distinction drawn in this Section between consequential gains and other forms of secondary enrichment is not significant in the case of conscious wrongdoers, because a liability to disgorge profits extends equally to secondary enrichment in any form, whether characterized as interest, rent, proceeds, or consequential gains.[85]

The new draft of the Third Restatement is therefore in accord with Dobbs who offers the following list of ways that a benefit can be established:[86]
(a) The increased assets in the hands of the defendant from the receipt of property;[87]

(b) The market value of services or intangibles provided to the defendant, without regard to whether the defendant's assets were actually increased; that is, the amount which it would cost to obtain similar services, whether those services prove to be useful or not;[88]

(c) The use value of any benefits received, as measured by (i) market indicators such as rental value or interest or (ii) actual gains to the defendant from using the benefits, such as the gains identified in item (e) below;[89]

(d) The gains realized by the defendant upon sale or transfer of an asset received from the plaintiff; and[90]

***502** (e) Collateral or secondary profits earned by the defendant by use of an asset received from the plaintiff, or, what is much the same thing, the savings effected by the use of the asset.[91]

There is also growing support for the interpretation of benefit to include the increased goodwill gained by the defendant.[92] Therefore, it seems irrelevant to argue that fixed costs must be offset against the defendant's revenues because any calculation of profit must include all expenses.

The defendant's benefit is definitely a net concept but not necessarily all of the defendant's expenses are eligible for offset.[93] The following is an incomplete list of the categories of expenses that have been excluded in the measurement of a defendant's unjust enrichment:
(1) Infringing compensation. According to the Restatement of Trusts, the courts have discretion to deny some or all compensation for trustees in default of their duties. However, the modern trend allows for partial compensation, as opposed to no compensation. Initially, such unjust enrichment cases as Callaghan v. Myers denied all compensation to the individuals (and their partners) that committed the acts of infringement.[94] Following the trend for trustees in default, the practice currently ***503** appears to be allowing reasonable compensation for the principal individuals as long as the compensation is not a sub rosa distribution of profits.[95]

(2) Other Infringing expenses. Some of the expenses related to the infringing acts are denied as unreasonable.[96]

(3) Non-attributable fixed costs. Most advocates of the full-absorption method require that fixed costs attributable to the infringing activity be allocated and offset.[97] Note that there can be a very significant difference in how various jurisdictions define attributable or related.

(4) Income taxes. While the circuits have been split on the appropriateness of offsetting the defendant's revenues with

income taxes, the Federal Circuit recently handed down an opinion that denied the deductibility on the basis that the defendant can get a refund for such taxes on the amount of the defendant's unjust enrichment.[98] The March 2007 draft of the Third Restatement also argues against offsetting credit for income taxes.[99]

(5) Sub rosa distributions of profit. Profit sharing payments to employees, transfers to sibling subsidiaries, rent payments for buildings owned by common owners.[100]

(6) Miscellaneous. This category includes some types of settlement, legal expenses and reserves for uncollectible accounts.[101] ***504** In applying the remedy in equity, American courts first struggled with the attempts by some plaintiffs to claim the defendant's profits based on a pro forma basis to adjust for the fact that the defendant's operations were less efficient than the plaintiff's.[102] While courts accepted the exclusion of some of the defendant's actual expenses, especially compensation for the individual infringers and hidden distributions of profits to the owners, they insisted that the defendant's actual profits be awarded.[103]

As used in case law, profit is as likely to refer to the defendant's gain on selling stock or an individual asset as to a business operating profit. With securities fraud and other claims, the key issue is determining the appropriate holding period over which to measure the defendant's gain.[104] Potential offsetting expenses are not generally raised as the unjust activity often relates to an incidental investment as opposed to a business operation. However, transfer taxes and commissions are sometimes approved.[105] While the norm is to offset most legitimate business ***505** operating expenses to measure the business' profit, other expenses are likely to be found non-attributable or infringing for some transaction cases. As discussed in the next Part, these two fact pattern types may not be suitable precedent for each other.

V. The Origins of Unjust Enrichment: Defendant as Quasi-Trustee

The rule in suits in equity of ascertaining, by a reference to a master, the profits that the defendant has made by the use of the plaintiff's invention, stands on a different principle. 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.[106]

Most of the current applications of unjust enrichment in equity were initially litigated as ancillary claims to injunctive relief.[107] Overlooking this common origin results in missing the similarity of unjust enrichment across a wide spectrum of claims, whether distinguished by statutory authority or by federal and state case law. Some judicial opinions recognize the obvious comparability between copyright and trademark measures of unjust enrichment in equity and other opinions include trade secret opinions in that group.[108] However, most opinions miss the ready analogies to other substantive areas such as fiduciary law, fraud, and some claims by federal agencies.

Congress passed or revised only a handful of significant statutes in the 19th century regarding patents, copyrights and design patents, and none of these detailed how the defendant's unjust enrichment should be measured. Congress explicitly relied on the traditional operation of an accounting in equity.[109] In the 20th century, Congress passed additional statutes that provided further clarification except on 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-- again, as interpreted by the courts in both centuries. Only in two instances did Congress overrule the common law: the denial of unjust enrichment ***506** for patent holders in 1946[110] and a legislative reversal in 1887 of the Garretson opinion as that opinion related to design patents.[111] Therefore, there is no basis to conclude that the measure of unjust enrichment for claims regarding patents, design patents, copyrights, trademarks and trade secrets were related to anything but traditional law for accounting in equity.[112] The First Circuit confirms this view in 1942 and has been joined in dicta by other courts.
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.[113]

The case law of unjust enrichment in equity for the last thirty or forty years has been dominated by federal opinions, largely due to the prevalence of litigation relating to claims for the infringement of intellectual property rights. Prior to 1960, state case law provided the majority of related opinions.[114] In the early 19th ***507** century, equity opinions based unjust enrichment on the case law from American courts in equity and the English Chancery Court. As applied to patent claims, the remedy of unjust enrichment in equity has fairly simple origins. Congress granted non-exclusive jurisdiction to federal courts in equity to grant injunctions related to patent and copyright claims in 1819.[115] This jurisdiction was made exclusive with respect to patent claims in 1836.[116] In 1870, Congress granted federal courts jurisdiction at law and in equity to grant injunctions, and to award both damages and the defendant's unjust enrichment.[117]

Granting the plaintiff an accounting in equity of the defendant's profits for a patent claim initially came to the Supreme Court as an after-thought. In Stevens v. Gladdings, the Court was faced with the issue of whether a plaintiff is entitled to an accounting in equity even though the plaintiff originally pled only for injunctive and general relief in its patent claim.
The right to an account of profits is incident to the right to an injunction in copy and patent-right cases. And this court has held, in Watts et al. v. Waddle et al., 6 Pet. 389, that where the bill states a case proper for an account, one may be ordered under the prayer for general relief.[118] ***508** Until 1870, the remedy of an accounting in equity was awarded for patent infringement under what is now known as the "clean-up doctrine" (or doctrine of complete relief). The doctrine provided for additional relief incidental to a valid claim for injunctive relief. Until the Copyright Act of 1909, the same applied to such remedies for copyright claims.[119] Almost 90 years after Stevens v. Gladding, the Supreme Court expanded this doctrine 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.[120] Sixteen years later, the full range of remedies in equity were implied in statutes without specific provision for injunctive relief--except when the remedy would be contrary to the intent of Congress.[121]

Recently, the Supreme Court confirmed that remedies for claims based on implied jurisdiction in equity are limited to the standards for remedies in equity that were practiced in England or the American colonies around 1789.[122] The Supreme Court opinions of the 19th century may provide some reasonable approximations of those standards as remedies in equity have evolved since 1789.[123]

A. Quasi Trustee

The rules and procedures for establishing the defendant's unjust enrichment in equity are fairly unique among other monetary remedies. Proof of the plaintiff's damages is not required to award this monetary remedy.[124] Measuring unjust ***509** enrichment in equity is also unusual in that the plaintiff and defendant effectively share the burden of proof in establishing the net monetary remedy because it is fairly easy for the plaintiff to shift the burden to the defendant to disprove enrichment.[125]

The Supreme Court has examined the similarity between a trustee and a defendant to a patent claim in regard to the issue of jurisdiction.[126] The specific issue concerned whether a patent owner could seek monetary relief in equity after the patent expired.[127] The court held that while the defendant's position was similar to that of a defendant trustee, there was no fiduciary relationship.[128] In the absence of a legitimate claim for injunctive relief, the owner of an expired patent has no jurisdiction in equity.[129]

***510** A subsequent opinion from the Seventh Circuit provides a useful summary of injunctive relief and ancillary jurisdiction in equity.[130] The key concept appears to be that under most circumstances, the plaintiff's jurisdiction is discretionary with the court. Over the last twenty years, courts have challenged the nature of the injunctive relief claimed by some plaintiffs, including regulatory agencies, and denied jurisdiction in equity when the injunctive relief was deemed invalid or non-traditional.[131]

Therefore, the defendant is not a literal trustee, but the similarity is more than an analogy. Both the trustee and the defendant to a claim for an accounting in ***511** equity are subject to many of the principles detailed in the Restatement of Trusts or Restatement of Agency. Up to this point, there has been little discussion of these restatements in the case law. The March 2007 draft of the Restatement (Third) of Restitution and Unjust Enrichment, however, does address some of the similarities and distinctions between unjust enrichment in equity as applied to conscious wrongdoers and defaulting fiduciaries for the purposes of measuring unjust enrichment.[132]

B. Counter-Restitution

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 reexchange of benefits transferred on each side. Instead, the true basis of the requirement is to prevent the unjust enrichment of the plaintiff, who is himself seeking restitution based on the defendant's unjust enrichment.[133]

In some circumstances, the difference between a remedy under unjust enrichment at law or unjust enrichment in equity may be due to the court in equity's greater concern for total equity and therefore counter-restitution.[134]

***512** When a court in equity makes an award of unjust enrichment to a plaintiff, the award is generally offset by any applicable counter-restitution from the plaintiff to the defendant.[135] The most common form of counter-restitution is offsetting credit for the defendant's reasonable expenses related to the property-at-issue or to the revenues claimed by the plaintiff.

Similarly, a trustee is entitled to indemnity for his prudent expenses[136]?indemnity that acts as a lien against the trust assets.[137] Traces of the lien doctrine can be found in the Restatement of Restitution related to a defendant's reasonable expenses in unjust enrichment:

> A person is entitled to specific restitution of property from another or to the product of such property only on condition that he compensate the other for expenditures with reference to the subject matter which have inured to his benefit, to the extent that justice between the parties requires.[138]

Subject to the broad discretion provided a court in equity, the defendant's payment of taxes and reasonable maintenance costs are generally reimbursed.[139] Indeed, section 177 of the Restatement of Restitution provides that the plaintiff cannot obtain restitution of property without making counter-restitution (or "restoration") to the defendant.[140]

***513** There is a provision in the Restatement (Second) of Agency to the contrary that denies indemnity to disloyal agents.[141] This provision provides that a disloyal agent who profits improperly may not deduct the amount of any expenses incurred in acquiring the profit.[142] Most courts that have addressed the topic covered by this obscure provision have chosen to ignore it and instead have granted most or all of the agent's expenses[143] even though the provision was recently cited by the Restatement (Third) of Restitution and Unjust Enrichment.[144]

Two key issues in counter-restitution include the circumstances under which counter-restitution is appropriate and what type of expenses or expenditures by the defendant are not appropriate for offsetting credit for the defendant. The second issue will be considered in the next Part covering infringing expenses.

The table below provides some of the major issues that have proven to have a major influence on how unjust enrichment is measured.

Table 3. Counter-Restitution Distinguishing Issues

(1)	What type of property underlies the plaintiff's claim (real property, timber or minerals detachable from the land, personal property or intangible property)?
(2)	What is the source of jurisdiction of plaintiff's claim for unjust enrichment in equity (statutory, implied statutory, unjust enrichment in equity, ancillary unjust enrichment in equity, unjust enrichment at law and option unjust enrichment at law)?
(3)	Does the claim and/or remedy relate to a transaction or the defendant's business operation?

(4) Is the proposed expense an unsubstantiated assertion, an "infringing expenditure" or a reasonable expense incurred for the benefit of the plaintiff's interest?

Some of the variance in measures of unjust enrichment in equity is also attributable to the court's equitable discretion and mandate to consider public ***514** policy issues.[145] Since they are generally fact driven, these issues tend to defy categorization.

Property law has had a major influence on how unjust enrichment is measured. A claim in equity for the specific restitution or rescission of real property generally requires the plaintiff to reimburse the defendant for property taxes, necessary repairs, and mortgage payments.[146] However, improvements to the property are reimbursed depending on the financial ability of the plaintiff and property value benefit that resulted from the improvement,[147] the defendant's financial resources, and the defendant's willfulness in the ownership or retention of the property.[148]

The widespread remedy for willful or intentional trespass to timber or minerals detachable from the land is understood to be specific restitution.[149] The defendant may have removed the minerals from the ground or cut the timber into lumber but the plaintiff is entitled to specific restitution of the minerals or timber in their improved and more marketable state (similar to misappropriated personal property)[150] even without significant counter-restitution for the defendant. This is widely acknowledged as a drastic remedy?often incorporated into state statute?which was borrowed from nineteenth-century English coal cases that used the remedy to deal with mineral theft.[151] However, the Second Circuit recently described a 1776 timber case that contained a similar measure.[152] Some jurisdictions provide the plaintiff the in situ value of the minerals for willful ***515** trespass and most jurisdictions award a market royalty or stumpage value when the defendant can show that her acts were not willful or intentional.[153]

A similar exception to the norm of counter-restitution relates to stolen personal property.[154] Faced with a claim for specific restitution by the true owner, the innocent defendant that bought a stolen car will generally lose the car without compensation for any money expended to repair or improve the car.[155] If the plaintiff seeks specific restitution, she may also be entitled to recover the value of the defendant's use of the asset.[156] For example, a converted road-grader was ordered to be returned along with attributed monthly rent,[157] and an egg-washer was ordered returned in addition to imputed savings from the defendant's business use.[158]

Property law, however, does not have much impact on the measure of unjust enrichment relating to intangible assets.[159] The nature of the plaintiff's jurisdiction is injunctive relief, not specific restitution, with an accounting in equity as ancillary relief?no special factor intervenes.[160]

As mentioned previously, the measure of the unjust enrichment can vary by jurisdiction. One good example relates to improvements to real property. In his extensive article, McCorkle asserts that a claim at law is less likely to warrant counter-restitution for the defendant than a claim in equity for the defendant's wrongful improvements.[161] Similarly, claims by the SEC for disgorgement must be carefully examined to determine if the SEC's claim is based on a specific statute or is based in equity. As indicated in Cavanagh, the SEC statute provides a civil ***516** penalty of disgorgement of the defendant's gross proceeds while the SEC claim for disgorgement in equity must be founded in traditional equitable remedies.[162]

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 the cases in which the defendant defaulted on this burden, the court awarded the defendant's revenues.[163] Alternatively, the court may try to 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.[164] In cases where 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.[165] Unfortunately, some opinions fail to spot this distinction and cite such cases erroneously.[166]

***517** One of the trickier factors is whether the plaintiff's claim relates to a transaction (including a small number of similar transactions) or to the business operation by the defendant.[167] Dobbs provides a useful example of the difference:

> 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.[168]

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 unlikely 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.[169]

Few assertions or conclusions about unjust enrichment are entirely wrong, but few apply without exceptions.[170] It is useful to use the issues noted in Table 3 as a checklist to test a general statement for exceptions. Consider the following example taken from the March 2007 draft of the Restatement (Third) of Restitution and Unjust Enrichment: "The defendant will not be allowed a credit for the direct expenses of an attempt to defraud the claimant, even if these expenses produce ***518** some benefit to the claimant."[171] Illustration 23 is a case of the disloyal real estate agent who makes a secret profit from the plaintiff. The illustration concludes that the agent should disgorge the profit, the real estate commission and any reimbursed 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.[172] 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.

The exceptions to the Third Restatement's assertion can be exposed by testing with the factors described in Table 3. Some of these exceptions are summarized below:

Even for claims of defrauded real property, the defendant is entitled to counter-restitution for taxes and necessary repairs.[173]

Claims relating to intellectual property will generally relate to ancillary claims for accounting of the defendant's profits, which allows counter-restitution for substantiated, non-infringing business expenses.[174]

Claims based on implied statutory jurisdiction are limited to traditional remedies in equity. There is no evidence of a traditional remedy that requires the defendant to forfeit all business proceeds without offset or counter-restitution.[175]

In Ward v. Taggert, the expenses claimed by the defendant were denied not as a matter of law, but because they were held to be infringing or unsubstantiated. The defendant's claims for expenses were similarly denied in Lestigao v. M. R. Mansfield Realty for being unnecessary to the underlying transaction.[176]

***519** Fraud can relate to a transaction or to a business claim. For example, claims for corporate bribery are considered fraud and warrant the disgorgement of the defendant's net profits.[177] A claim of fraud could also relate to an individual securities or business transaction which would not normally consider the defendant's expenses.

The Third Restatement illustrates some circumstances under which the defendant might achieve counter-restitution even for the defendant's own services: "By contrast, even a conscious wrongdoer may be allowed a credit for the value of services if the transaction is profitable to the claimant and the alternative would be an unacceptable forfeiture."[178] Illustration 24 hypothesizes a case in which a husband and wife defraud the plaintiff into selling his business to them at an inadequate price. The husband and wife manage and build the acquired business into a larger and more valuable corporate entity. The Third Restatement supports a remedy which would rescind the initial sale, ordering the couple to disgorge the business, but it allows reasonable counter-restitution for their valuable managerial services. The Third Restatement justifies the counter-restitution as necessary to avoid an unacceptable forfeiture.[179] The illustration is taken from the well-known case of Brooks v. Conston.[180] Regarding that case, Professor Dobbs asserts:

> 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.[181] ***520** Professor Dobbs and the Restatement are both established authorities on remedies in equity but Dobbs' explanation offers the advantage of offering a clearer decision rule and it also comports well with the Restatement of Trusts, which also emphasizes the benefit to the plaintiff.[182]

C. Infringing Expenses

As a question of law, the only types of defendant expenditures that are necessarily suspect for counter-restitution are capital expenditures for permanent improvement to the plaintiff's real or personal property.[183] Similarly suspect and left to the discretion of the court is the defendant's own labor. Otherwise, common law provides few rules of thumb as to how courts should award counter-restitution because of the many combinations of case-specific facts and claims.

It is well settled that the defendant's expenses and expenditures can be rejected as infringing expenses. Thus, Restatement (Third) of Restitution and Unjust Enrichment's assertion about denying offset credit for a fraud perpetrator's direct expenses is correct by definition to the extent that the direct expenses are determined to be infringing. However, there is no widespread agreement about the definition of infringing expenses and the standard appears to be changing over time.

For example, consider compensation for the defendant when the defendant manages the business from which the plaintiff seeks operating profits as unjust enrichment, such as in Brooks v. Conston. The Restatement of Trusts provides that the court has the authority to deny the compensation of a defaulting trustee[184] although it is not necessary to do so in all cases. Historically, courts denied all compensation, as in Callaghan v. Myers.[185] The modern trend, however, seems to grant partial compensation for work product generated for breach of fiduciary duty[186] and infringement of intellectual property.[187]

***521** In United States v. Snepp, the district court denied Frank Snepp any compensation for his work in writing a book that violated the right of his employer, the Central Intelligence Agency, to approve the content of anything Snepp wrote about his experience at the CIA.[188] Dobbs sees this case as aberrational and rationalized by the court's concern that former government agents might willfully break their agreements with the government and breach their fiduciary duty to maintain the confidentiality of government information.[189] This is a good example of how public policy issues can sometimes trump measurement issues.[190]

As opposed to the tentative position of a defaulting trustee's claim for compensation, the trustee's indemnity is more assured. Even if the expense is improperly incurred, the trustee is entitled to indemnity for the benefit conferred on the estate. Otherwise the estate would be unjustly enriched. More explicitly, the Restatement (Second) of Trusts provides that the trustee's indemnity survives a breach of trust,[191] even if the expense was not properly incurred,[192] if those ***522** expenses benefit the trust. 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.[193]

Perhaps the two most important reasons underlying the denial of infringing expenses are that some claims for expenses are found to be disguised distributions of profits to the owner/manager of the defendant's business and because the plaintiff should not be required to subsidize the defendant's unjust actions.[194] One of the easiest examples is the defendant who purchased the plaintiff's product and paid to have the plaintiff's label "overlabelled" so that the product could be marketed as the defendant's.[195] The Southern District of New York denied the expense for removing a logo as well as the expense to remove a magazine's logo from a picture that the defendant re-touched and published without authorization.[196]

Just as the modern trend appears to allow reasonable compensation for the owner/manager--perhaps owing to the benefits provided by the defendant's activities--modern opinions tend to avoid the practice of denying broad categories of expenses and instead distinguish the individual items. Some expense items can be clearly interpreted as infringing or not. The most frequent reasons for denial include the benefit produced by the expense and the court's own discretion and sense of fairness.

D. Anti-Netting Rule

Relatively unknown in the measure of unjust enrichment is the doctrine that an accounting in equity cannot generally offset losses from one infringement with profits of another infringement. Separate infringements that produce negative results do not have to be accumulated in the measure of the defendant's profit or benefit. 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, commodity contracts, and actual commodities. In one case, the difference in unjust ***523** enrichment between one interpretation of the rule or the other meant a difference of more than $500,000,000.[197] The explanation for this doctrine seems incomplete:

> 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. Upon a statement of an account, a patentee is not looked upon as a "quasi-partner of the

infringers," under a duty to contribute to the cost of the infringing business as a whole. . . . He is the victim of a tort, free at his own election to adopt what will help and discard what will harm.[198]

Even though the courts have repeatedly restricted the defendant's ability to offset the losses of individual infringements with the profits of other infringements, none of these cases have cited any fundamental legal reasoning other than the fact than the plaintiff and defendant are not partners.[199] Even in early Supreme Court cases, the opinions offer no foundation principles to support the conclusion.[200]

***524** Some of the cases cited in section 213 of the Restatement (Third) of Trusts offer the missing explanation: the doctrine comes from claims against an agent for unauthorized investments.[201] The principal is entitled to the greater of the principle invested or the investment's market value for each individual investment, not for the group of investments as a whole.[202] Technically, the plaintiff is entitled to deem each infringing unit of production as a separate transaction.[203] So far, the doctrine has been applied to segregate the defendant's losses as distinguished by year,[204] individual retail outlets,[205] and separate or experimental product lines.[206]

It is useful to take a "back-bearing" on applications of the anti-netting doctrine. It is an obscure doctrine in measuring unjust enrichment, yet it has appeared as a measurement rule for fiduciary claims,[207] patents,[208] copyrights,[209] trademarks,[210] trade secrets,[211] and federal agency claims.[212] Only one of these cases ***525** actually cited § 213 of the Restatement of Trusts.[213] The doctrine therefore manifests the commonality of measuring unjust enrichment across a wide range of substantive law.

Understanding the contributions of trust law on measuring unjust enrichment in equity is important not only to provide a ground in the foundations of the remedy, but also to appreciate some of the limits to the measure. As was pointed out in Christensen v. National Brake, restrictions on the counter-restitution of fiduciaries should provide a limit on the restrictions on counter-restitution of a defendant in an accounting in equity such as for a patent claim, i.e., the defendant should be treated no worse than a trustee in default.[214] Thus, to deny a defendant a claim for reasonable counter restitution punishes the defendant and treats her worse than a trustee in breach who is entitled to reimbursement of expenses even in the event of fiduciary disloyalty.[215]

If the non-fiduciary defendant should be treated no worse than a trustee, a useful standard for offsets can be implied. All other factors being equal, the defendant/quasi-trustee should normally be reimbursed or allowed offset credit for reasonable expenses that benefit the plaintiff--expenses that produced the revenue claimed by the plaintiff. A trustee is normally allowed indemnity even where the trustee is in default or the trustee's expenses were not properly incurred. Compensation for the time and efforts of the individual defendant/quasi-trustee, however, remains within the court's discretion as it does for the trustee in default.

*526 V. The Origins of Unjust Enrichment: The Americanization of "Profit"

Joel Eichengrun provides an authoritative discussion of the development of the remedy of accounting.[216] He shows that accountings in equity began to appear in the late fifteenth century to provide property owners a hearing against property managers concerning the property's income and rents based on jurisdiction in equity for claims from principals against fiduciaries.[217] Eichengrun shows that over time an accounting in equity was also applied to ownership disputes over identifiable assets, the income from those assets, and, especially in the United States, to claims or issues deemed complex in mutual accounting.

The American courts, beginning in the nineteenth century, detached the accounting process from its fiduciary moorings and made it available whenever accounts were too difficult for a jury to understand. The name of the process became the name of the remedy, and a new remedy called "accounting" was created. The basis for relief today is different from that in the earlier English cases. An "accounting" is now granted whenever accounts are so complex that a jury cannot understand them.[218]

The Supreme Court, however, in Dairy Queen, Inc. v. Wood, states that cases litigated in a court in equity solely on the grounds of complexity should be rare after the changes introduced in Rule 53 of the Federal Rules of Civil Procedure.[219]

Just as the American courts broadened the availability of an accounting in equity beyond strict fiduciary issues, the American courts modified the focus of the accounting to a term broader than "net profit." Most current authorities on unjust enrichment agree that the object of an accounting in equity, the nature of the defendant's enrichment, is different from the normal accounting definition of profit. Accordingly, the First and Third Restatements, Dobbs and Palmer all expand their definitions beyond the traditional meaning of profit.[220]

The case law relating to the monetary remedy of unjust enrichment in equity involves two inter-related goals: disgorging the defendant's benefits and denying the defendant any economic incentive to infringe.[221] Generally, there is little conflict between these goals. This is fortunate because there is little guidance in case law or law journal articles about the relative priority of either goal. However, there are frequent reminders that either is subject to the court's discretion to invoke equitable considerations:

> ***527** The conclusion that the defendant's profit is properly attributable to the defendant's wrong depends equally on an implicit judgment that the claimant, rather than the wrongdoer, should in these circumstances obtain the benefit of the favorable market conditions, acumen, or luck, as the case may be. The conclusion draws further support from another implicit judgment, that there would be an incentive to embezzlement if the defendant were permitted to retain the profits realized in such a transaction.[222]

Equitable discretion may trump any attempts to adduce priorities between the goals. However, there is some indication the Third Restatement assigns some increased priority to the goal of denying any economic incentive to infringe with the new language of denying the possibility of a profit from infringement.[223] In addition, the March 2007 draft provides that offset credit should be denied to any allocations of fixed cost that allow the defendant to achieve an advantage from infringement, even after disgorging unjust enrichment.[224]

Since the 1872 Supreme Court Mowry opinion, American courts have 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.[225]

This phrase has been widely repeated and cited.[226] The Supreme Court highlighted the same concept in Sheldon v. Metro-Goldwyn Pictures Corp. in 1940.[227]

***528** The focus on the defendant's advantage as distinguished from profit evolved from two sources. First, there exists case law for claims against a trustee that addressed enrichment as "the fruit of the advantage" both before[228] and after[229] the Supreme Court used the phrase in 1872. It seems unlikely that Justice Strong's ***529** opinion in Mowrey copied the term from a Delaware fraud case[230] or a Mississippi fiduciary case;[231] it seems more likely that the three cases borrowed the term from a common source.

The second source or 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.[232] The Supreme Court faced a series of cases in which liability for patent infringement was found but the defendant's operations were also found to be 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. The fruit of the advantage was an improvement in the Defendant's profits, or savings, not the profits themselves.

If their general business was unprofitable, it was the less so in consequence of their use of the plaintiff's property. They gained, therefore, to the extent that they saved themselves from loss. In settling an account between a patentee and an infringer of the patent, the question is, not what profits the latter has made in his business, or from his manner of conducting it, but what advantage has he derived from his use of the patented invention.[233]

Denying the defendant any economic incentive to infringe is how courts in equity seek to deter wrongdoers.[234] Congress has explicitly stated such denial to be ***530** the goal of the Lanham Act.[235] The Third Restatement rephrases this test as aiming to preclude the possibility of profit from intentional-wrongdoing, an emphasis which has the effect of further broadening the reach of unjust enrichment, especially disgorgement.[236]

A. But For

No single opinion has been found that initiated or introduced the "but-for" analysis to an accounting in equity. A well regarded opinion on patent damages in 1854 assumes the need for such a perspective.[237] As the following quote from Tilghman v. Proctor demonstrates, it is also difficult to separate the concept of advantage from "but-for" analysis:

> The infringer is liable for actual, not for possible gains. The profits, therefore, which he must account for, are not those which he might reasonably have made, but those which he did make, by the use of the plaintiff's invention; or, in other words, the fruits of the advantage which he derived from the use of that invention, over what he would have ***531** had in using other means then open to the public and adequate to enable him to obtain an equally beneficial result. If there was no such advantage in his use of the plaintiff's invention, there can be no decree for profits, and the plaintiff's only remedy is by an action at law for damages.[238]

As the copyright and patent cases in the second half of the nineteenth century grew in sophistication and complexity, the key measurement issue evolved into whether all of the defendant's enrichment was equally unjust or whether a significant portion was owing to factors other than the alleged infringement.[239] To avoid a remedy that would otherwise be punitive, the courts applied but-for analysis to establish causation.[240] This could be deemed the opposite side of the same "advantage" coin.[241] The Third Restatement considers such an analysis an essential part of causation, reminding us of Judge Posner's chastising words to plaintiffs:

> Taylor could have made out a prima facie case for an award of infringer's profits by showing Meirick's gross revenues from the sale of the infringing maps. It was not enough to show Meirick's gross revenues from the sale of everything he sold, which is all, really, that Taylor did. If General Motors were to steal your copyright and put it in a sales brochure, you could not just put a copy of General Motors' corporate income tax return in the record and rest your case for an award of infringer's profits.[242]

The courts' understanding of the value of intellectual property evolved into one of value based on incremental productivity. The concept is best expressed by the Fifth Circuit: "The existence of a non-infringing alternative reduces the value of the patent and thus the damages from infringement."[243] Similarly, the Second ***532** Circuit has compared the defendant's unjust enrichment from infringement to its hypothetical profits based on the use of non-infringing alternatives.[244]

The differential cost and standard of comparison approaches are variations of the incremental income approach. The standard of comparison method focuses on the defendant's cost savings from the misappropriation and use of intellectual property in the defendant's manufacturing process. Such a but-for analysis has been found to be especially useful for trade secret claims in which the unjust enrichment was found to include savings from a production process, reduction in overhead, or savings in research and development.[245]

An interesting application of the cost-comparison standard method relates to how changes in technology in the middle of infringement can justify the adjustment of measuring the defendant's unjust enrichment. In 1911, the Seventh Circuit held that it was appropriate to divide the infringement period into two separate time frames when subsequent non-infringing alternatives proved practical during the infringement period.[246] In significant cases relating to the cost comparison standard, the appropriate non-infringing standard to compare to the defendant's actual results is frequently disputed.[247] In some of the early cases, the only available standard was hand labor.[248]

***533** Furthermore, the but-for analysis in the standard-of-comparison approach frequently discusses the nature of an appropriate hypothetical non-infringing standard with which to compare to the defendant's actual results. This form of but-for analysis may accommodate the theory of opportunity costs as long as the defendant can adequately defend the alternate standard for comparison. On the other hand, it appears that judges and juries can be skeptical of the defendant's claim that a non-infringing alternative would have been as economically effective as infringement. The plaintiff must bear the burden of proof for an appropriate standard, but objections or alternative standards from the defendant appear to suffer from an ex post effect: in hindsight, why didn't the defendant implement the non-infringing alternative?[249]

The potential applicability of the but-for analysis may be more limited in the context of copyrights and trademarks than patents and trade secrets. Applied literally in cases like Frank Music, the but-for analysis could lead to involuntary licensing at market rates.[250] Thus, MGM, the defendant to a claim of copyright infringement for the unlicensed reproduction of parts of the musical Kismet, could otherwise claim that the maximum benefit measurable for violating the copyright of a musical is the license fee saved from otherwise licensing an equivalent musical. According to this approach, the plaintiff could effectively be forced to compete with all similar musicals for payment, but only after the plaintiff has successfully established liability in court. Furthermore, such a legal doctrine would fail to remove the incentive to infringe. It might actually increase the incentive since it creates a no-lose situation of at most having to pay the price that she otherwise would have been paid by agreement.

***534** By analogy, the trustee that borrows money from the trust without authorization to invest in a successful venture could argue that the maximum benefit derived from the involuntary loan is the interest that the trustee would have paid a third-party lender. This possibility has been raised hypothetically, but like the copyright example, it seems unlikely to appeal to a skeptical judge or jury and has not been widely considered in opinions. The Third Restatement addresses this hypothetical differently in sections 51 and 52 as the latter section indicates that "the absence of but-for causation does not necessarily exonerate the wrongdoer."[251]

Professor Margolis acknowledges the National Brake Paradox and endeavors to support the full-absorption method on the basis of opportunity costs.[252] This theory has some economic foundation, especially in cases when the defendant faces a constraint on output, as suggested in dicta by the Sixth Circuit in Schnadig Corp. v. Gaines Manufacturing Co.[253] As the analysis in that opinion makes clear, the key issue in opportunity cost is whether the defendant enjoys additional capacity in the overhead represented by the fixed costs.[254] However, this concept may clash with the proper definition of fixed costs, which are the costs that remain fixed whether or not there is any infringement activity.[255]

In opposition, there are landmark opinions that held that enrichment is based on the defendant's actual profits as opposed to hypothetical profits,[256] and recent ERISA case law has rejected opportunity-cost arguments in ERISA claims as outside the norms of claims in equity.[257] Professor Edelman indicates that the British courts have rejected the notion of opportunity costs as too complex.[258]

*535 B. Apportionment

The but-for analysis also involves apportioning the defendant's enrichment, limiting the remedy to the portion of the defendant's enrichment caused by infringement alone. The Supreme Court, in Garretson v. Clark, attempted to reconcile this issue with the plaintiff's burden of proof and temporarily changed the direction of accounting in equity,[259] until it was effectively reversed by Westinghouse Electric & Manufacturing Co. v. Wagner Electric & Manufacturing Co.[260] Garretson imposed on the plaintiff the burden to prove its patent increased the defendant's profitability in cases where the plaintiff's patent is used to improve the defendant's production process or to replace only part of the defendant's existing product:

> When a patent is for an improvement, and not for an entirely new machine or contrivance, the patentee must show in what particulars his improvement has added to the usefulness of the machine or contrivance. He must separate its results distinctly from those of the other parts, so that the benefits derived from it may be distinctly seen and appreciated.[261] The plaintiff's added burden of proof is not impossible and is similar to the plaintiff's burden to prove the defendant's savings in the cost comparison standard.

According an overview of the legislative history of design patent law provided by the Federal Circuit in Nike, Inc. v. Wal-Mart Stores, Inc., however, Congress believed that Garretson precipitated a fifty percent decline in applications for design patents.[262] Congress quickly passed a separate statute to exempt design patents from the Garretson ruling. The House Report asserts, "'[I]t is expedient that the infringer's entire profit on the article should be recoverable,' for 'it is not apportionable,' and 'it is the design that sells the article.'"[263] It appears, however, that Congress's concern was limited to design patents because subsequent ***536** legislation relating to patents in 1897,[264] copyrights in 1909,[265] and trademarks in 1905,[266] provided no similar legislative reversal of Garretson. Subsequently, however, the Garretson opinion was largely reversed by Westinghouse.[267]

The Court's Westinghouse opinion was a commonsense application of equity and trust law. The court held that the plaintiff could be relieved of her burden of apportionment by establishing the "legal equivalent" by showing that the defendant's funds were so "inextricably commingled and confused" that it would be impossible to undertake the burden of proof:

> It presented a case where the court was called on to determine the liability of a trustee ex maleficio, who

> had confused his own gains with those which belonged to the plaintiff. One party or the other must suffer. The inseparable profit must be given to the patentee or infringer. The loss had to fall on the innocent or the guilty. In such an alternative the law places the loss on the wrongdoer.[268]

Effectively, the plaintiff can thus shift the burden of proof to the defendant, who is in charge of the accounting records and should be able to establish apportionment. Westinghouse's giant loophole was seen as a reversal of Garretson.[269]

However, there is a "clawback," or exception to the exception. The Westinghouse opinion recognized that it was possible for a defendant to bear her burden of proof by using outside proof, such as expert testimony to establish a maximum amount or percentage of profits for the contribution of the plaintiff's intellectual property. This exception is nothing new; it represents a traditional ***537** application of the equitable discretion of a court in equity to pursue fairness and justice and avoid windfall awards.[270]

The defendant is entitled to present expert testimony to establish her maximum possible use value of the infringing intellectual property.[271] This maximum contribution value would normally be well in excess of the maximum known market price. Whether by specific citation or by general reference, the Westinghouse exception has been applied in many subsequent cases for all types of intellectual property infringement.[272]

Such was the case in the trial court opinion relating to the litigation between Sheldon and MGM.[273] On appeal, the Second Circuit found MGM liable for intentional infringement of Sheldon's copyright for a play.[274] On remand, the trial judge awarded to Sheldon all of MGM's profit from the infringing movie but stated serious misgivings that such an award would be excessive and should be limited to 25% of that profit based on expert testimony as the maximum contribution possible for a script in the results of a movie.[275] Judge Hand's opinion for the Second Circuit stated that Westinghouse provided the trial judge authority to limit the monetary award and then proceeded to engage in his own analysis of the facts to arrive at Judge Hand's view of the maximum portion of MGM's enrichment from a script.[276] The Supreme Court's opinion affirmed Judge Hand but only addressed the issue of a trial court's authority to imitate an accounting in equity.[277]

***538** A court in equity's pursuit of unjust enrichment includes structuring monetary remedies that avoid unjustly enriching the plaintiff. Even for cases relating to disloyal fiduciaries--claims involving the highest level of concern for courts in equity--the disloyal trustee is entitled to indemnity for his reasonable expenses as distinguished from his compensation or capital expenditures, which are subject to the discretion of the court. While the nature of unjust enrichment in equity is largely defined to include most benefits or advantages to the defendant, it is limited by but-for causation and apportionment.

VI. Remedy Measurement in Related Areas of the Law

There are other bodies of substantive law that consider the issue of offsetting allocated fixed costs. Rather than provide an exhaustive survey of each body of law, this comparison is restricted to those areas that are related to unjust enrichment in equity in a procedural or conceptual sense. Overall, the comparison is presented not to argue that either the incremental or full-absorption approaches have a stronger position because of precedent in other areas like contract law or patent damages. Rather the comparison is important because of similar theory and goals that are implemented in a manner compatible with one approach or another.

A. Contract Breach Measures

Judge Posner is a leading proponent of the incremental income approach but his opinions are cryptic in justifying his well-known position. It appears that he supports his position on the basis of existing practice for breach of contract stating "[c]osts that would be incurred anyway should not be subtracted, because by definition they cannot be avoided by curtailing the profit-making activity. This principle is well established in the treatment of overhead costs in calculating damages for breach of contract."[278]

The goal of the remedy for the plaintiff's expectancy interest has been explained in two compatible ways:
Saved Costs: The purpose of the remedy is to convey to the plaintiff all lost revenues that it was reasonable for the plaintiff to expect but these revenues must be offset by the ***539** plaintiff's cost savings, the costs that the plaintiff would have otherwise

incurred from fulfilling the original contact.[279]

Plaintiff Restored: The purpose has also been described as providing the net remedy required to restore the plaintiff to the financial position that the plaintiff had reason to expect.[280]

There are also a number of cases that exclude fixed costs, but the opinions are not necessarily identified with one approach over the other.[281]

This Article previously discussed the semantic issues regarding "fixed costs." It is important to remember that fixed costs are defined differently for breach of contract than unjust enrichment in equity. For contract damages, fixed costs should include those costs that remain fixed over the range of production volume that includes the plaintiff's normal operations, with or without the additional volume represented by the breached contract. Again, a simple "but-for" comparison of the plaintiff's operations with and without the contract could avoid needless confusion on the point.

Normally, one would not be surprised to learn that the measurement for contract damages differs from measurement for unjust enrichment. Yet they share the similar goal of restoring the defendant (unjust enrichment)[282] or the plaintiff (contract damages)[283] to the "position he would have occupied had there been no ***540** infringement." To accomplish that goal in contract damages, practically all jurisdictions hold that it is necessary to allow the plaintiff to include as lost profits, any allocations of fixed costs that might otherwise be appropriate to measure his profits; that is, to calculate lost profits, the plaintiff only offsets his revenues with direct or marginal costs. It is also interesting that the Third and Ninth Circuits have opined that accounting practice should not control the measurement of the remedy for breach of contract, concluding that overhead should not be offset.[284]

In comparison, the goal of unjust enrichment is to deny the defendant any financial gain, to restore the defendant to the position he would have occupied had there been no infringement, or both. Supporters of the full-absorption method must assume that an allocated portion of overhead is not a financial gain to the defendant. Yet these same courts hold that in contract claims, lost profits for breach of contract and patent damages that allocation of fixed costs is a significant financial gain, and that it must be included in the remedy for the plaintiff. Alternatively, supporters of the full-absorption method hold that to require the damages plaintiff to deduct an allocation of fixed costs in measuring lost profits would place him in a worse position than he would have otherwise realized in the absence of the defendant's infringement. Whatever the exact comparability of the various remedies, the allocation of fixed costs must be significant, a financial gain consistent for all three remedies, or both.

The Restatement of Restitution and Unjust Enrichment avoided or overlooked any discussion of tortious interference as a cause of action that warrants the remedy of unjust enrichment, but the Restatement (Third) of Restitution and Unjust Enrichment has already included the claim as an appropriate cause of action for unjust enrichment.[285] Some of the few cases that combine the issues of tortious ***541** interference and unjust enrichment in equity appear to rely on the contract damages remedy for support for their conclusion that allocated overhead should not be offset, which may be because the cause of action included tortious interference with contract.[286] The Third Restatement notes no special issue within tortious interference to particularly warrant the exclusion of allocated fixed costs.

B. Patent Damages

The area of patent damages has two distinct similarities to contract damages: the goal is to restore the plaintiff to the position she would have achieved in the absence of infringement[287] and fixed costs need to evaluated over the range of the plaintiff's production that would include operations with or without the volume denied by the defendant's breach or infringement.

The Federal Circuit is a strong advocate of the incremental income approach for patent damages.[288] Even without considering the Federal Circuit's position as the senior federal court of appeals on patent issues, there is wide agreement on the application of the incremental income approach.[289] The Federal Circuit has also ***542** applied the incremental income approach when it applied Colorado law for a state claim in equity for patent infringement.[290]

C. Emergency Assistance Standard

The emergency assistance standard is a doctrine of unjust enrichment at law that is quasi-contractual, resembling a claim for quantum meruit. As a claim in quasi-contract, it provides a compromise remedy between no compensation for officious intermeddlers and full compensation in quantum meruit or even unjust enrichment at law:

> Although the law ordinarily frowns on the claims of a "mere volunteer," there is a class of cases where it is imperative that a duty be performed swiftly and efficiently for the protection of the public or an innocent third party, in which a "good Samaritan" who voluntarily intervenes to perform the duty may receive restitution for his services. This rule has become crystallized in the doctrine that performance of another's duty to a third person, if rendered by one qualified to provide such services with intent to charge for them, is a ground for recovery in quasi-contract. This principle is limited to cases where the services are immediately necessary to prevent injury or suffering.[291]

During a power blackout in New York City in the Summer of 1970, the Atomic Energy Commission (AEC) provided Con Edison with power until that utility could resolve its operating problems. When Con Edison ungratefully refused to compensate the AEC for the help, the AEC filed a claim that reached the Second Circuit:

> The basis for recovery in this case is that the AEC performed Con Edison's duty to acquire and maintain adequate supplies of electrical power under emergency conditions with the clear intent that it be reimbursed for its costs.[292]

Therefore, based on a claim in quasi-contract according to the emergency assistance standard, the Second Circuit held that the AEC was entitled to reimbursement of its variable costs but specifically excluded any fixed costs:
Because AEC's fixed operating and added factor costs would have been incurred to the same extent whether or not the power release to Con Edison had occurred and since there is no direct relationship between these costs and the power release, they should not have been included in the calculation. There is obviously a direct relationship, however, between the incremental cost of SWU production and the overhead costs at the three plants since the per SWU cost at each center was directly affected by the power release.[293] ***543** The Second Circuit blithely applied the incremental income approach without even mentioning the full-absorption approach. The full-absorption approach probably would reach a different result as it seems unlikely that all of the AEC's fixed costs and added factors would fail the Wilkie standard of attributable costs. Professor Kull, Reporter for the Third Restatement, is sharply critical of the Second Circuit's poor grasp of the fundamentals of unjust enrichment. He quotes the following statement from the opinion to demonstrate its uncertain grasp:

Finally under one of the Government's two quasi-contractual theories--that of unjust enrichment--it is hard to see what type of uncompensated-for benefit Con Edison has retained which it might disgorge: it has utilized the power furnished; that power is no more. Unjust enrichment in the ordinary sense does not appear to us to be a satisfactory rubric of analysis for the case.[294]

In an earlier case based on the emergency assistance standard, the Second Circuit held that a ship was entitled to reimbursement of its marginal costs for coming to the assistance of another ship in distress. The rescued ship was sailing from New York to Europe when a member of the crew became gravely ill and required immediate hospital attention. Rather than return to New York, the rescued ship asked the rescuer ship to alter its course and pick up the sailor on that ship's return to New York. The Second Circuit held that the rescuer ship was entitled only to the direct costs of sailing 232 miles out of its way to rescue the sick sailor and for the additional fuel necessary to increase the rescuer's rate of speed.[295]

It is difficult to understand the Second Circuit's sense of equity and public policy. Perhaps the next time that New York has a blackout, it will stay dark longer than otherwise necessary to give the lawyers enough time to negotiate an adequate written contract with Con Ed to detail all relevant issues, including payment.

D. Federal Agency Claims

In the past twenty or thirty years, the SEC, CFTC, Department of Energy, Department of Labor,[296] FTC, FDA and other federal agencies have been active in civil litigation in enforcing their regulatory franchise in courts in equity. Agencies like the FTC have acknowledged re-directing substantial portions of their ***544** administrative budgets toward such litigation.[297] Based on Mitchell v. DeMario,[298] federal agencies have correctly asserted that in the absence of explicit language to the contrary in the agency's enabling legislation, federal courts have jurisdiction to grant injunctive relief against defendants that are in violation of the agency's statutory authority. Echoing the doctrine first recognized in the Stevens v. Gladding,[299] federal courts also have jurisdiction to grant the full range of relief in equity that was traditionally awarded as a part of injunctive relief, including unjust enrichment in equity.[300] Agencies need not be statutorily empowered to assess unjust enrichment in administrative processes to claim unjust enrichment in civil litigation.

As a result of this implied jurisdiction, federal agencies have filed a growing number of claims for large amounts of unjust enrichment. For example, in 2003 the FTC filed about 90 claims and won in settlement and award approximately $900 million. The Federal Energy Regulatory Commission was so successful with this approach against violators of petroleum price controls in the seventies that Congress passed two different statutes to dispose of the billions collected in those actions.

Agency litigation is important because it has generated opinions that seemingly or actually hold that the equitable remedy of disgorgement can include, as a matter of law, the defendant's revenues or the proceeds received without any necessary consideration for the defendant's offset claims. Thus, the issue of offsetting credit for allocated fixed costs is generally ignored in this case law because many courts have denied offsetting credit for any general expenses and sometimes even the defendant's direct or variable expenses. The same courts that have frequently noted that the remedy of unjust enrichment in equity is based on net profits and that greater measures would be unacceptably punitive, are now ***545** measuring defendants' unjust enrichment in equity as the defendants' revenue or gross profit.[301]

Remedies for federal agencies are constrained by the district court's jurisdiction; implied statutory jurisdiction restricts a court to awarding only those remedies awarded by courts in equity on or before 1789 in the American colonies and/or England.[302] Then, as now, courts in equity rejected a monetary remedy based on forfeiture of the defendant's revenues.[303] The exceptions to this rule are rare, largely limited to claims for specific restitution of stolen assets and willful trespass to minerals and not applicable to implied jurisdiction in equity.

The Second Circuit, in a case of first impression, conducted a "Grupo analysis" to determine "whether the remedies available at chancery in 1789 included disgorgement, a question we have not previously considered."[304] Most importantly, the Second Circuit cut through the confusing terms and possible misunderstandings of labels to focus the issue on disgorgement of the defendant's profits,[305] which the Second Circuit holds to have been awarded by chancery courts in England and therefore included in the Judiciary Act of 1789.[306]

***546** Measuring unjust enrichment in an SEC case can be confusing because of the variety of fact patterns and causes of action. This is still an emerging area of the law, and the relative inexperience of the parties and the courts may be a significant factor as well. As a result, the case law can be based on inapposite precedent or precedent subject to special conditions not present in the cited opinions.

Consider a simple example. The Sixth Circuit handed down an uncontroversial opinion in Blavin that effectively awarded the disgorgement of the defendant's proceeds or revenues.[307] The issue of the defendant's expenses or offsetting credit was not raised in the opinions of the district court or court of appeals. Subsequently a district court within the sixth circuit stated that "[w]hen addressing the amount of money that a defendant must disgorge, the Sixth Circuit has held, by implication, that the entire amount of profits which were illicitly received must be disgorged." The district court qualified this statement in a footnote:

> Blavin does not explicitly hold that no deductions may be taken for expenses; the issue of expenses is never directly addressed. In Blavin, however, there is no deduction taken for expenses. Moreover, it is clear that it is within the district courts' equitable discretion to disallow expenses incurred in perpetration of the fraud even if there were Sixth Circuit authority for the proposition that expenses may be deducted from disgorgement.[308]

Within the context of the footnote, the district court's assertion is fairly harmless but Great Lakes Equities is cited for the proposition that expenses may not be offset against a defendant's revenues. Few such opinions acknowledge the major distinction between the assertion that "no deduction may be taken" and that the district court has the discretion to disallow expenses. Issues decided on the basis of discretion in equity are juxtaposed as holdings of law. Similarly, summaries like that of the Ninth Circuit that cite Blavin for "holding that the court possesses the equitable power to grant disgorgement of 'a sum of money equal to ***547** all the illegal payments received"'[309] are technically accurate but can cause great misunderstanding and confusion.

The issue of offsetting the defendant's revenues with allocations of fixed costs is not frequently reviewed in core opinions because most opinions still wrestle with the issue of offset credits for direct costs. Allocations of fixed costs have been approved in one CFTC case[310] and at least one SEC case.[311] Offsetting credit for overhead was denied on the basis of the incremental income approach in one case[312] and generally denied in two cases.[313] As a category, general business expenses have been denied directly[314] and denied by implication because the opinion denied all expenses[315] or approved only direct expenses.[316]

***548** The district court's jurisdiction is based on either specific statute[317] or implied statutory jurisdiction. At present, there is statutory authority for awarding some SEC claims with "tier 3 civil penalties," which specifically allows for the disgorgement of the defendant's gross proceeds.[318] In contrast, implied statutory jurisdiction, based on the SEC's right to claim full equitable relief, is limited to traditional remedies in equity.[319] Thus, the source of the SEC's jurisdiction can determine the measure of the defendant's unjust enrichment and statute, not traditional remedies in equity, allows for the award of the defendant's gross proceeds.

The Second Circuit's opinion in Cavanagh acknowledges the special position of the SEC as plaintiff but the Second Circuit still restricts disgorgement under implied statutory jurisdiction to Grupo's limits. The Supreme Court's Tull opinion that denies jurisdiction for an EPA claim based on a weak claim for injunctive relief should also be argued against any attempt to exempt federal agencies from Grupo. However, some courts expand jurisdiction, authority, or both, to the extent required when a government agency is the plaintiff.[320]

***549** The factors suggested above in Table 3 can be applied further to provide useful distinctions. The expenses asserted by the defendant can be legitimate (fully substantiated) business expenses, they can be held to be infringing expenses,[321] and they can be held to be unsubstantiated,[322] i.e., expenses for which the defendant has failed to satisfy her burden of proof. Equally distinct should be cases in which the issue of offsetting credit for the defendant's expenses was not even considered even though the defendant objected to the disgorgement measure on other grounds.[323] If the court rejects all expenses as either infringing or unsubstantiated, the effect may be to award the defendant's revenues or proceeds but that is only the net effect, not the holding as a matter of law.

For example, in SEC v. Benson, a CEO was liable for the following claims:

> The scheme involved (1) requiring Empire's outside sales representatives to pay back a portion of their commissions to Benson or his designee; (2) requiring certain salaried employees to submit expense claims for fictitious travel and entertainment expenses to Empire and to remit the proceeds to Benson or his designee; (3) misappropriating ***550** refunds on unused airlines tickets purchased by Empire's employees by causing Empire's travel agent to issue the refund checks to Benson's designee and (4) paying a sales representative fictitious unearned commissions for transmission to Benson.[324]

It is unlikely that any substantiated, attributable expenses in this case would be found non-infringing. Such a case offers little precedent for disgorgement of revenues as a matter of law. It is similarly regrettable that cases like Hughes,[325] in which the defendant failed to produce substantiated expenses, are cited for the assertion that disgorgement of proceeds is appropriate in an inopposite case in which the defendant may be able to substantiate the expenses.[326]

Second, practically all SEC cases allow some offsetting credit for the defendant's expenses, expenditures, or both. The defendant is allowed to offset the costs of the securities, as the SEC only claims the gain from sale. There are also cases in which the disgorgement claim by the SEC includes an allowance for some of the defendant's costs such as transfer taxes, commissions, or even the costs of an initial public offering.[327]

***551** The last relevant factor is the distinction between a claim against a transaction gain and a business profit, which is the most difficult factor to classify on the basis of sometime skimpy data provided in an opinion. A few cases attempt to distinguish between the two different types of defendants, including SEC v. Thomas James Associates, which approved the deduction of allocated overhead.[328] The Ninth Circuit's recent opinion offers a good example of examining whether any of the defendant's operation is a legitimate business.[329] The context of other opinions makes it clear that legitimate business expenses are unlikely to be produced in evidence, especially for cases against an individual's profits or the so-called "pump and dump" cases in which the business, if any, consists almost entirely of continuous fraud.[330] The opinions for these types of cases have no substantive relevance except that it is not unusual for courts to cite those cases for the proposition that gross proceeds is an appropriate measure of disgorgement for implied jurisdiction in equity.

For example, consider the following quote from a recent district court opinion:

> Disgorgement of gross proceeds from an offering is especially appropriate when defendants controlled the entities that received the ill-gotten gains, even if defendants personally received only a fraction of the total offering proceeds or were merely negligent. See First Pacific, 142 F.3d at 1191-1192, n.6 (affirming disgorgement of gross offering proceeds of $688,000 and rejecting claim that SEC had to trace to defendant officer all money disgorged because evidence showed defendant controlled entity); SEC v. Hughes, 124 F.3d 449, 455 (3d Cir. 1997) (affirming disgorgement order of $1.4 million against defendant whose conduct was negligent in violation of Section 17(a)(2) of Securities Act and only personally received $85,000); ***552** SEC v. Poirier, 140 F. Supp. 2d at 1048 (ordering disgorgement against individual of gross proceeds from stock sales deposited into company accounts controlled by individual).[331]

The three cases are not comparable to the facts underlying the opinion in SEC v. Global Express Capital Real Estate[332] and should offer no precedential value: First Pacific assessed the proceeds of the offering against the defendant as a proxy for the personal benefits that he received in the form of excessive compensation and personal expense accounts.[333] In Hughes, the defendant's expenses were unsubstantiated,[334] and the Poirer opinion never discussed the defendant's expenses.[335]

Inevitably, at least some of this confusion must arise from the fact that the SEC is a practiced plaintiff in these claims and many of the defendants are unsympathetic at best. Consider the following description of the SEC's litigation tactics from the ABA Business Law Section's Securities Enforcement Manual, which was quoted by the Southern District of New York:

> 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.[336]

SEC actions are so widespread that inconsistencies have arisen. The SEC told the D.C. District Court in 1998[337] and the Southern District of New York in 2002[338] that the overwhelming consensus of opinion is that disgorgement does not allow for offsetting expenses. It contradicted that assertion later in 2002 in the Southern District by saying that the consensus was to allow only direct incidental ***553** expenses.[339] However, it appears to have resumed its earlier position as repeated in the Fifth Circuit United Energy opinion in 2004.[340]

The underlying activity for SEC and CFTC claims are securities and commodity futures transactions, which sometimes involve an individual or a business operation. The underlying activity for the FTC and FDA, however, almost always involves some form of business operation. Citing SEC case opinions as precedent for FTC or FDA claims should be highly suspect, unless the underlying case is shown to be free of the non-comparable factors listed in Table 3. An example of an FTC claim using SEC case opinion as precedent in the Eleventh Circuit follows:

Accordingly, disgorgement, the purpose of which "is not to compensate the victims of fraud, but to deprive the wrongdoer of his ill-gotten gain" is appropriate. SEC v. Blatt, 583 F.2d at 1335; see, e.g., SEC v. First City Fin. Corp., 890 F.2d 1215, 1230 (D.C. Cir. 1989) (permitting disgorgement and observing that "disgorgement is an equitable remedy designed to deprive a wrongdoer of his unjust enrichment and to deter others from violating the securities laws"); CFTC v. Co Petro Mktg. Group, Inc., 680 F.2d 573, 583-84 (9th Cir. 1982) (permitting disgorgement and recognizing its deterrent effect). We conclude that section 13(b) permits a district court to order a defendant to disgorge illegally obtained funds.[341]

The First City Financial opinion related to a violation of the section 13(d) requirements pursuant to a takeover attempt of Ashland Oil.[342] The takeover attempt was a legitimate business operation until the defendant failed to make the section 13(d) filing when required.[343] The opinion never discussed the issue of offsetting expenses and the text of the opinion is hardly an endorsement of revenue disgorgement.[344]

Most of the cases pursued by the FTC and FDA relate to defendant business operations that sell products or provide services in a fraudulent manner. The agencies claim disgorgement as a remedy, but they really seek either full reimbursement for the consumers or some variation of rescission in which the consumers neither return the goods nor give the defendant credit for the value of the product. The agencies claim to be asserting disgorgement although they tend to juxtapose revenue and profit disgorgement to the confusion of some courts. The result is courts then order defendants to disgorge all revenues received or even all ***554** revenues paid by the consumer.[345] The net result is a remedy that provides no offsetting credit for any business expenses or costs of production.

At present, there is no firm holding or Grupo analysis that holds that absolute forfeiture of the defendant's revenues without any offsetting credit was awarded by the courts in equity in the colonial era.[346] On the other hand, the extensive Grupo-type analysis conducted by the Delaware Chancellor's Court in 1978 firmly holds that neither punitive nor forfeiture penalties were traditionally awarded before 1776.[347] In addition, there are no other known cases that preclude a court in equity's discretion to allow costs of production or other expenses as a matter of law (except as noted in the previous discussion of Table 3 above). Until such time as a specific opinion is written or found, the remedy of disgorgement without offset as a matter of law appears too extreme to outweigh the traditional concerns of a court in equity to avoid punitive awards or forfeitures.[348]

***555** Agency remedies are also inconsistent. The Second Circuit and the Southern District of New York have allowed the defendant in a CFTC action to offset direct and indirect costs, but denied such offsets in SEC actions. Similarly, the Third Circuit wrote eloquently in a CFTC case that disgorgement is largely meant to include profits, not proceeds,[349] and that to make an award of the defendant's revenues or of the customer's losses could be an inappropriately punitive remedy under implied jurisdiction.[350] Yet in a 2005 FDA opinion, the Third Circuit affirmed the disgorgement order for the defendant to return the customers purchase payments. The order was interpreted as 'restitution,' presumably specific restitution, of the customer's money, fiction contrary to general standard that the specific restitution of money must be identifiable or isolated in some account.[351]

Implied in the opinions of some of the federal agency cases is the court's conclusion that the defendant as stock-manipulator, swindler, price gouger, or corporate fraudfeasor deserves some special form of disgorgement, reserved for the worst. Such an implication of punitive intent, however well-meaning, is not supported in the traditional remedies in equity. It ignores the nature of the defendants in other cases in which the same courts have approved full counter-restitution, such as disloyal fiduciaries who enjoy indemnity for their expenses. Both the Second Circuit and Supreme Court opinions in Sheldon emphasized that the defendant deliberately and intentionally violated the plaintiffs copyright even though the Second Circuit awarded full-counter restitution including allocated fixed costs.[352] Frank Snepp, a former CIA agent, considered by many to threaten the ability of the CIA to protect confidential information, was even allowed counter-restitution for his income taxes for his breach of fiduciary duty.[353]

***556** In sum, overhead allocations are not yet a substantial issue in federal agency claims. To be fair, a substantial number of federal agency claims for fraudulent transactions will continue to warrant a measurement process that results in disgorgement of revenues or gross proceeds because the defendant's expenses are not appropriate, are not substantiated, or not claimed. The ability of the SEC and FTC 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 that hold or imply that reimbursement or disgorgement of revenues or gross proceeds is a remedy in equity that is appropriate, traditional, or both. The real danger, however, lies in the possibility that plaintiffs outside the arena of federal agency claims may succeed in convincing some courts that these aberrant or highly fact driven cases are appropriate precedent for other causes of action unrelated to federal agency claims.[354]

VII. The Second Circuit: An Uneven Commitment to Consistency?

A. Sheldon and Levin: the Faulty Baseline

The Supreme Court's affirmation of the Second Circuit opinion in Sheldon rightly held that the trial judge has the authority and discretion to apportion the defendant's unjust enrichment between infringing and non-infringing causes, even when the defendant's accounts are hopelessly intermingled.[355] However, the Supreme Court expressed no opinion about the issues of measurement of the defendant's benefit because they held those issues were questions of fact.[356] Subsequent Supreme Court opinions have similarly limited the affirmation to the apportionment issue.[357]

In the Sheldon trial, the defendant, Metro Goldwyn Pictures Corporation (MGM), presented the uncontroverted testimony of movie industry experts that even a great script cannot be expected to contribute more than 12% of the movie's ***557** revenue.[358] Based on this testimony, the trial judge asserted that the copyright infringement could not have contributed more than 25% of the movie's profits, but nevertheless awarded all of the profits to the plaintiff.[359] Judge Hand, writing for the Second Circuit, found that the trial court has the authority to limit the monetary award to such a portion on the basis of adequate evidence presented by the defendant.[360] Inexplicably, however, he limited the plaintiff's award to 20% of the movie's profits.[361]

First, it is useful to review the key facts of the Sheldon case. The plaintiff was the author of a play that MGM considered for a movie. The author and MGM negotiated a contract with a price of $30,000.[362] The contract was not executed purportedly because the censors rejected the play as inappropriate. Instead, MGM bought a different script about the same historical events for $3,500. MGM then proceeded to make a movie, a large portion of which was found to have been taken from the plaintiff's play.[363] The Supreme Court emphasized that MGM's liability was based on deliberate, willful behavior:

> They were not innocent offenders. From comparison and analysis, the Court of Appeals concluded that they had "deliberately lifted the play;" their "borrowing was a deliberate plagiarism." It is from that standpoint that we approach the questions now raised.[364]

MGM was held liable for the type of non-consensual behavior most abhorred by authorities on restitution/unjust enrichment; MGM had ample opportunity to contract for a license of the plaintiff's property but chose misappropriation over contract. According to modern definition, MGM's acts warranted the remedy of disgorgement.[365]

The second key fact is that the defendant stipulated that they could not identify the actual contribution of infringing script to the revenues or income of the ***558** movie. Instead, they offered expert testimony on the maximum contribution possible by a script like the plaintiff's. The Supreme Court's opinion in Westinghouse provided for this contingency and advised that a defendant whose profits are inextricably intertwined is free to introduce evidence about the maximum possible contribution to the defendant's profits from the plaintiff's intellectual property.[366]

Judge Hand's opinion provides a useful discussion of how that maximum should be determined in general terms, but his conclusion is disconnected and based on inconsistent sources of data. He starts by summarizing the expert testimony:

> The expert testimony was of two kinds, that of producers and that of exhibitors. The questions put to each were substantially the same: what was the proportion of the gross receipts properly apportionable to the play? Their answers were in percentages that ran between five and twelve (one of them is perhaps to be understood as saying that the play contributed nothing at all).[367]

While Judge Hand discusses some important factors to consider, he offers no explanation or description of how he somehow translated the expert testimony of 5 to 12% of revenue to a conclusion of 20% of the defendant's profit:

> We will not accept the expert's testimony at its face value; we must make an award which by no possibility shall be too small. It is not our best guess that must prevail, but a figure which will favor the plaintiffs in every reasonable chance of error. With this in mind we fix their share of the net profits at one fifth.[368]

According to the financial data disclosed in the lower court's opinion, 20% of the movie's profit roughly translates into about 6.5% of the movie's revenue.[369] Although his opinion is theoretically correct, it is difficult to understand how, based on the evidence presented by Judge Hand, that his conclusion of 6.5% has no possibility of being too small in view of a range of five to twelve percent especially when Judge Hand's conclusion is smaller than that of the trial judge.[370]

***559** The remainder of Judge Hand's opinion discusses issues relating to the measure of MGM's unjust enrichment, or more specifically, the amount to be apportioned.[371] His first error in logic is that since his apportionment is based on expert testimony, MGM's unjust enrichment should be measured in a manner consistent with the expert testimony and not necessarily according to normal legal practice for measuring unjust enrichment. Without consistent measurement, the expert testimony is not relevant and Judge Hand's opinion is the product of inconsistent data. Yet his discussion is how unjust enrichment should be measured according to the law, not expert practice. At best, Judge Hand's discussion of measuring unjust enrichment in equity is dicta.

Judge Hand begins his discussion of measuring unjust enrichment by establishing the legal principle that some verified expenses of the defendant can be denied offset credit.[372] He first supports this principle with citations to three cases that denied offset credit for infringing expenses.[373] Hand then tries to extend this point by asserting that a defendant, as constructive trustee, can in fact be denied any offset credit for his expenses.[374] This assertion is not supported by principles of unjust enrichment or principles of trusts and trustees.[375] Hand mischaracterizes First Restatement section 158(d):

> 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.[376] ***560** It is true that a trustee in breach of his duty may not necessarily be paid for his time or labor; that question lies with the discretion of state statutes, the court, or both.[377] It is also true that a constructive trustee can be denied some or most of her expenses due to procedural issues or other factors in some unique areas of the substantive law.[378] However, comments (b) and (c) of section 158 make it clear that a trustee is to be allowed reimbursement for expenses like real estate taxes or necessary maintenance.[379] Comment (d) of section 158 provides that a trustee's expenditures (i.e. capital expenditures) for unauthorized improvements to trust property may be denied.[380] Judge Hand confused reimbursement for expenses with reimbursement for capital expenditures.[381] Unfortunately, several significant opinions have quoted and repeated Judge Hand's research error.[382]

The defendant raised a reasonable objection to offset credit for percentage payments to the Louis B. Mayer Company, which had negotiated a contract to receive 10% of each movie's revenue.[383] Curiously, Judge Hand never acknowledges that the contractual payments to Mayer, Thalberg, or Rubin remain subject to a reasonability standard:

> The master refused to allow as a credit a certain part of the profits which had been paid to the Louis B. Mayer company, a partnership made up of three persons--Mayer, Thalberg and Rubin--all important officers of one or another of the defendants. When they entered the defendants' employ, they were able, because of their strong position in the industry, to exact an agreement for a share of all the profits of the Metro-Goldwyn Pictures Company. This was evidenced by a contract which was later superseded by a contract with Loew's Inc., whose profits were substituted for those of the Pictures Company. We do not see why payments made under these contracts should not be credited to the defendants. Even though we assume arguendo that the plaintiffs could recover them from the partners personally, in this suit they can reach only the defendants' profits. The payments were never profits of the defendants at all; the ***561** contracts effectively laid hold of them the moment they came into existence. Not to allow the credit would be in substance to introduce the partners as defendants into this suit, and yet to hold Loew's, Inc., liable for the recovery against them. We allow the credit.[384]

The key question isn't whether it was reasonable for MGM to pay Mayer and Thalberg a huge bonus in addition to huge salaries; the key question is why it is fair to require the plaintiff to pay their bonus, especially when they were the decision makers who committed--or at least approved--the infringement? Judge Hand approves the bonus on the basis that the MGM executives were not named defendants and that MGM was contractually obliged to pay the bonus.[385] Would it be reasonable for a trustee to charge her principal for an inflated bonus in the face of proven liability for disloyalty?

Then the opinion tackles the issue of offset credit for overhead or fixed costs. Hand states the rule is that all overhead that assists in the production of the infringing activity should receive at least some offset credit.[386] This is the central principle of the full-absorption approach:

> Next is a challenge to any allowance for "overhead" at all, on the theory that the defendants did not show that it had been increased by the production of the infringing picture. The correct rule upon this point is stated in Levin Bros. v. Davis Mfg. Co., and in substance it is this. 'Overhead' which does not assist in the production of the infringement should not be credited to the infringer; that which does, should be; it is a question of fact in all cases. In the case at bar the infringing picture was one of over forty made by the defendants, using the same supervising staff and organization, which had to be maintained if the business was to go on at all. Without them no picture could have been produced; they were as much a condition

> upon the production of the infringing picture as the scenery, or the plaintiffs' play itself. Levin Bros. v. Davis Mfg. Co. did not hold otherwise; nor did Haiss Mfg. Co. v. Link-Belt Co.[387]

Inexplicably, Judge Hand chose to defend this principle with two contradictory opinions: Levin[388] and Haiss Manufacturing.[389] In Levin, the Eighth ***562** Circuit affirmed a lower finding that fixed overhead should be excluded from offset credit, that only overhead that was caused to increase by the infringing activity should be offset.[390]

It is quite obvious that an inclusion, in all cases, of all overhead would be very unfair to the patentee. The profit on the patented articles is the difference between the cost of producing them and the price received for them. To put into this cost an overhead expense, in nowise caused thereby, would be an improper inclusion. It often happens that overhead expenses are applicable to and should be spread over the entire business but where a business is established and in operation and another line is taken on without increase of overhead expenses it is just to the patentee that the actual situation be applied and none of such overhead be charged as an expense of the added line except as it participated in manufacture or sale of the infringing article.[391]

The Second Circuit mistakenly reverses the Levin test from one that includes only those expenses that increase as a result of the additional activity[392] to a test that merely examines whether the overhead expense item contributed to the activity in question.[393] This reversal is the source of most of the difference between the incremental and absorption methods. At the same time, the Eighth Circuit's opinion emphasizes the need for flexibility and factual context attempting to avoid rigid doctrine and therefore cannot be read to say that the full-absorption approach would be wrong in all circumstances.[394] However, the Second Circuit's application of the Levin test has not been to promote flexibility in approach. In Haiss, the Third Circuit affirmed a holding that allowed some offset credit for fixed costs,[395] but stated that in principle, only variable overhead should be offset unless the evidence did not allow distinctions between the two types of costs.[396]

***563** Judge Hand's cited precedent provides little support for his endorsement of the full-absorption approach. The contradiction between Judge Hand's interpretation of Levin and the actual holding have been raised by plaintiffs and even by a dissenting district judge,[397] but the Second Circuit shows no interest in re-opening the analysis. As one district judge observed, the Southern District of New York is bound not by what the Eighth Circuit intended in Levin but only by Judge Hand's interpretation.[398]

The opinion's final shortcoming is in the application of the anti-netting rule.[399] The easiest application is to deny the offset of individual theater losses against other theater gains; the exhibition of the movie at separate theaters was held to constitute separate infringements.[400] Second, the opinion approved allocations for the cost of movie stars' inactivity between pictures. In those days, many actors and actresses were contracted to individual studios exclusively and their acting assignments could not be scheduled without downtime. Over the plaintiff's objections, the Second Circuit reasonably held that such costs were an integral cost of the movie lot system for hiring acting talent and provided the analogy of wastage or breakage in a glass factory.[401]

The opinion's third application of the principle, however, is contradicted by controlling precedent. The opinion approved offset credit for the cost of certain movies made by the studio that were deemed failures and were never distributed or shown to the public.[402] Judge Hand explained the offset credit as follows:

> The charge for wasted pictures and "continuities" was of this kind; owing to the imperfect forecast of what would prove a good" continuity", [sic] a number of false ***564** starts were inevitable; sometimes even a complete picture would also turn out to be valueless. The plaintiffs answer that they were not in partnership with the defendants, whose failures should not be charged to them. But the infringing picture owed its success in part to the fact that it was only one of a large number produced that year. Had defendants not had so large a capacity, the profits might never have been made at all; certainly they would not have been as large. Since therefore the plaintiffs profited by the fact that the defendants had developed this capacity, they must be content to take the breakage, so to say, which was its inevitable incident.[403]

The Restatement of Trusts makes it clear that losses and profits can only be offset if they relate to the same infringing act.[404] The failed movies were separate projects and were unrelated to the infringement of plaintiff's copyright. Even aside from the Restatement of Trusts, the unfairness of this offset is quickly revealed by the realization that for any movie concept brought into production by the defendants in the same year as the infringing movie, the defendant is required to share in the costs of losing projects but they get no share of the winners' profits. The plaintiff here is being treated worse than a partner.

Judge Hand cites to the Duplate[405] opinion and asserts that wasted films and continuities are a necessary result of making any movie and that the failures are like the waste produced in a glass factory (such as in Duplate).[406] A stronger comparison would be to the experimental valves in Crosby Valve, where the Supreme Court held that the losses from such failed experiments were not appropriate to offset against the profits of other successful valves.[407]

The one expense Judge Hand rejects for offset is the defendant's income tax payments.[408] He recognized the illogic of the distinction made in the Larson case, but considered the decision in Larson to be acceptable if the defendant is a willful bad actor.[409] The Larson case suggested that offset credit for defendant's income tax payments should be limited to non-willful defendants.[410] Judge Hand rejected this distinction, stating: "It does indeed seem somewhat arbitrary to distinguish [income tax payments] from other expenses necessary to the business; yet on the other hand the distinction illustrates that in dealing with a conscious wrong-doer, ***565** courts do not feel obliged for consistency's sake to take one extreme or the other."[411]

B. Hamil: Jurisprudence By Adjective

In drafting the opinion for the Second Circuit in Sheldon, Judge Hand may have been tolerant of inconsistent analysis and treatment, but more recently, the Second Circuit manifests intolerance for district courts that stray from Sheldon's dicta on measuring unjust enrichment. Thus when Judge Martin in the Southern District of New York questioned Sheldon's reasoning,[412] he was reversed by the Second Circuit in what might be interpreted as a victory of orthodoxy over investigation and analysis.[413]

Martin's first argument goes directly to correcting the mischaracterization of Levin in Sheldon to show that Levin justifies the incremental approach, not full absorption.[414] The Second Circuit never responded to this argument except to state that the approach in Sheldon has been applied consistently by the Second Circuit Court.[415]

Martin then shows that the defendant's ability to gain an allocated portion of fixed costs is a financial gain and should be denied to the defendant.[416] The Second Circuit responded to this constructive criticism by asserting that Sheldon can be seen as a two-step process:

> The first step is to determine what overhead expense categories (such as rent, business, entertainment, personnel and public relations) are actually implicated by the production of the infringing product.

***566** . . .

The second step is to arrive at a fair, accurate, and practical method of allocating the implicated overhead to the infringement.[417] The Hamil opinion does not bother to explain why overhead expenses need to be grouped by categories or how the notion of "implicated overhead" differs from attributable expenses.

While the Second Circuit's opinion spent two pages discussing and quoting Sheldon, essentially justifying Sheldon with Sheldon, it neither offered new justification for the notion that fixed costs warrant offset credit, nor did it reinforce Sheldon with any supporting citations. Instead, the opinion exaggerates Martin's opinion to state that willful infringers are not entitled to deduct overhead.[418] Martin's opinion does cite Jarvis,[419] but only in the same context as Levin: cases that have held that fixed costs do not warrant offset credit.[420] The Levin opinion is unrelated to willfulness and deductibility. The Restatement (Third) of Restitution and Unjust Enrichment, however, appears to support the Hamil opinion, inexplicably concluding that the Second Circuit "reviewed the extensive authorities permitting deductions from profits on account of allocable overhead."[421]

Perhaps in reaction to Martin's numerical example on the benefit to the defendant of fixed cost allocations or to forestall further challenges to Sheldon, the Second Circuit opinion then offers an approach that would allow a district court to deny offset credit without contesting Sheldon:

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 ***567** 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.[422]

So that Judge Martin wouldn't miss the hint, the court sharpens the point:

> The district court, applying the heightened scrutiny appropriate in cases of willful infringement, will have the latitude to adopt or reject certain categories of overhead, and to accept, reject, or amend GFI's overhead allocation formula.[423]

While at least three district court opinions in the Second Circuit have already quoted the Second Circuit opinion for the heightened scrutiny test for willful defendants,[424] it seems difficult to conceive that a court would structure the review of evidence on the basis on graduated levels of scrutiny.[425] Accepting the opinion at face value would require consideration of a number of difficult questions, including the need to define "non-rigorous scrutiny" for non-willful infringers!

Equally important is the need for the Second Circuit to reconcile its 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"' with the dicta espoused in Sheldon.[426] Judge Hand's opinion emphasizes the defendant's willfulness, yet he advocates the allocation of lavish bonuses, corporate overhead, and the costs of other movie projects.[427] Surely the Second Circuit does not suggest that Judge Hand's appellate review of the trial court's proceedings satisfies the Second Circuit standard for "rigorous scrutiny?"[428]

Taken seriously, the Second Circuit's opinion presents new issues for the parties to dispute and opportunities for the court to exercise its discretion. The opinion also envisions categories of expenses that must be shown to be implicated ***568** by the production of the infringing product.[429] However, once the category is "implicated," no items within the category can be singled out for denial. The opinion offers the peculiar example of country club dues:

> For example, if "entertainment expenses" is a category of overhead implicated in the line of business that produced or sold the infringing product, then country club dues included within that category should not be singled out for exclusion, as they were by the district court here. Rather, the court should limit its inquiry to the sufficiency of the nexus between the expense category and production of the infringing product.[430]

Overall, the Second Circuit's Hamil opinion glorifies form over substance. It implies that a district judge can deny offsetting credit for fixed costs but only for willful defendants and only after a process of rigorous scrutiny. This could be easily interpreted as a sub rosa process merely to preserve Judge Hand's flawed opinion. The Sheldon opinion should either be restricted to similar exceptions to the apportionment rule in Westinghouse[431] or supported with sound precedent and doctrine that unambiguously supports the generalized nature in which it is being applied. The Federal Circuit opinion in Nike, Inc. v. Wal-Mart Stores, Inc. now contradicts the Second Circuit's position of allowing offset credit for income taxes.[432] The rationale in the Federal Circuit opinion would seem to apply equally well to allocations of fixed costs: offsetting credit for income taxes or allocated fixed costs allows the defendant to retain a benefit.

VIII. Willfulness and Overhead

It has been unfairly alleged that the Second Circuit's Sheldon opinion supports the position that offset credit for overhead should depend on the willfulness of the defendant.[433] The source of that allegation lies in the Ninth Circuit's dicta in Kamar[434] and Frank Music.[435] The Second Circuit has done little to justify this scurrilous charge except for the implications of its opinion in Hamil.

The key to understanding this doctrine is to recognize that the opinions that discuss it rarely adopt the theory to support the holding of the case. There have ***569** been a few holdings directly on point, but most of the discussion is dicta and, as exemplified in any of the cases that cite Sheldon for support, inaccurate dicta.[436]

The issue of willfulness arose in Kamar in regard to a specific claim by the plaintiff. The plaintiff asserted that the defendant had demonstrated sufficient willfulness to warrant the trial judge to exercise his discretion and release the limits on statutory damages according to section 101(b) of the Copyright Act of 1909.[437]

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 from profits of overhead expenses.[438] 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.[439]

The court 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."[440] This dicta, volunteered in passing, has caused a significant amount of mischief.

The first case in which the theory was tangentially related to the holding was in Harper House, in which the jury was instructed to apply no offset credit for fixed costs if the defendant was found to have acted willfully.[441] The jury instructions were considered joint instructions and the defendant was found to have waived his opportunity to object.[442]

None of the cited cases offer holdings that justify this opinion; at best these cases provide supporting dicta. The District Court of Connecticut, in Manufacturers Technologies, Inc. v. Cams, Inc., may have been the first to directly hold that fixed costs should be denied to willful defendants.[443] That opinion was supported only with a citation to a professional treatise.[444]

***570** The Eastern District of Pennsylvania examined the theory but, avoided committing itself by holding that the defendant did not act willfully, as that term is used in the theory, because the defendant had a reasonable interpretation of the consent decree at issue.[445] Thus, the holding in Allen-Myland, Inc. v. International Business Machines Corp. is not particularly important except that, by its example, it warns that there can be substantial conflict over the appropriate definition of "willful" as applied to the offset credit for fixed costs and as it might be distinguished from other meanings.[446]

The Eighth Circuit fully adopted the theory in 1992 with an insubstantial citation to Frank Music:

> Overhead may not be deducted from gross revenues to arrive at profits when an infringement was deliberate or willful. See Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 515 (9th Cir. 1985). The district court found that Blann deliberately omitted the copyright notice . . . due to his extensive familiarity with copyright law. The Blanns argue that they did not deliberately infringe Saxon's trademark. However, the district court disagreed and its findings were not clearly erroneous.[447] The Eighth Circuit fails to even mention its prior opinion in Levin, which held for the incremental income approach.

***571** While the common law remedy of an accounting in equity requires proof of willfulness to warrant the award of the defendant's unjust enrichment[448] there is little legal doctrine to justify the notion that any particular offset credit depends on the defendant's willfulness.[449] There are exceptions to this statement to the extent that the Third Restatement provides that a defendant's conscious or willful actions warrant the remedy of unjust enrichment.[450] In the absence of established willfulness, a defendant is generally ordered to pay a license fee or rental payment.

On the other hand, there is a significant body of case law and legal principle to support the statement that the failure to provide offset credit for all of the defendant's reasonable expenses is to punish the defendant, which is anathematic to a court in equity.[451]

It is also fair to place some of the responsibility for this at the feet of Justice Holmes and his opinion in Wrigley,[452] as that opinion was cited as justification for the original dicta in Sammons.[453] In an opinion of less than 500 words, Justice Holmes created a stir for more than seventy years with his unsupported assertion ***572** stating that "[i]t would be unjust to charge an infringer with the gross amount of his sales without allowing him for the materials and labor that were necessary to produce the things sold, but it does not follow that he should be allowed what he paid for the chance to do what he knew that he had no right to do."[454]

IX. Survey by Circuit

The purpose of this Part is to describe the breadth and depth of the split in circuits on the issue of allocated fixed costs and to describe the fractured nature of some of the non-polarized circuits. The survey includes federal and state causes of action, although the vast majority of cases are federal intellectual property claims. Given the widespread agreement relating to claims for contract and patent damages, those opinions are generally excluded from specific mention. Unfortunately, the survey is neither exhaustive nor necessarily statistically representative. No opinions were intentionally omitted, but inevitably some important opinions remain unrevealed.

A. First Circuit

The First Circuit supports offsetting attributable, allocated overhead, although it was the first appellate court to openly acknowledge the National Brake Paradox.[455] Likewise, Massachusetts courts have issued some of the strongest opinions supporting the incremental income approach for trade secret claims.[456]

***573** Federal district courts have regularly considered allocations of overhead for patent damages[457] as well as copyright damages.[458] Therefore the First Circuit is a jurisdiction in which the opposing treatments of overhead expenses for copyright damages as opposed to unjust enrichment[459] could justify the plaintiff's seeking lost profits rather than unjust enrichment when potential offset claims for overhead allocations are large. There is also a minor trend in the First Circuit to use regression analysis to establish the fixed or variable nature of overhead expenses for damage cases.[460]

B. Second Circuit

The Second Circuit has a long tradition of approving the deduction of fixed cost allocations.[461] This could be due to the Tremaine opinion[462] representing a reversal of a Second Circuit or because New York state law is one of the few bodies of law to apply that opinion in state law cases.[463] Except in cases of implied ***574** statutory jurisdiction for federal agencies, courts in the Second Circuit generally apply a permissive policy towards deductions. It has been a strong advocate of allowing deduction for income taxes[464] and trial judges are expected to estimate the defendant's expenses when possible.[465]

From about 1980 to 1990, various district courts in the Second Circuit denied the deduction of fixed cost allocations and occasionally even followed the Maltina approach of rejecting overhead allocations for infringing activities that amount to a small percentage of the defendant's overall activities.[466] Given the tone of the Second Circuit's reversal of Hamil I, it appears stricter enforcement of the Second Circuit view has been implemented.[467]

The Second Circuit is extremely influential and appears to issue the most opinions on unjust enrichment in equity, especially in relation to business expenses and overhead. On the other hand, in 2006, the Second Circuit handed down an opinion in Cavanagh[468] that includes a thorough discussion of the limits of a district court's jurisdiction, based on a strong understanding of Grupo[469]--for cases of implied statutory jurisdictions. The Cavanagh opinion also correctly distinguishes the standard between disgorgement under that jurisdiction and for civil penalties under the SEC's statutory jurisdiction.[470]

*575 C. Third Circuit

Opinions in Third Circuit vary over time and do not reflect much adherence to stare decisis. The Third Circuit handed down two decisions in 1932 that approved offsetting credit for allocated overhead.[471] Neither opinion was particularly enthusiastic; in fact, the opinion in George Haiss Manufacturing Co. offers substantial language in favor of the incremental income approach.[472] The Third Circuit opinion in Century Distilling Co. v. Continental Drilling Corp. was a much more decisive opinion in favor of the incremental income approach and recognized the National Brake Paradox as a significant advantage.[473] More recently some district courts have approved offsetting the allocation and have provided favorable dicta for the concept of denying the offset to conscious defendants.[474]

The Third Circuit's opinions on contract damages[475] have been cited inside and outside the circuit in support of various applications of the incremental income approach.[476] Both opinions are written forcefully and reject the "literal profit" justification--the notion that fixed cost allocations should be offset to reflect normal accounting practice.[477] There are also two important opinions regarding the measure of unjust enrichment for tortious interference that rely on these contract damage cases.[478] It is also interesting to note that the Third Circuit affirmed the plaintiff's claim for the defendant's profits as damages, acknowledging that a remedy in equity was being applied as a remedy at law.

***576** It remains unclear how the Third Circuit will reconcile its opinions in CFTC v. American Metals Exchange Corp.[479] and United States v. Lane Labs-USA, Inc.[480] American Metals held that the majority position is that profits, not proceeds, of the defendant should be disgorged.[481] Equally important, the Third Circuit advised that a remedy for reimbursing the plaintiff is outside the bounds of unjust enrichment in equity and would require a separate action:

> 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. Absent a hearing to calculate ill-gotten gains, the disgorgement ordered in an amount equal to investor losses could be a penalty assessment. If investors wish to seek recovery of their losses as a remedy, they are free to do so in an independent civil action against defendants. 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.[482]

Yet in Lane Labs, the Third Circuit endorsed an award to a suit from the FDA that measured disgorgement as the plaintiff's revenue and/or as reimbursement to the consumer.[483] There is no statutory basis for any distinction as both the CFTC and FDA depend on implied statutory jurisdiction.

D. Fourth Circuit

There are no Fourth Circuit Court opinions directly relating to offsetting allocated fixed costs. In Polo Fashions, Inc. v. Craftex, Inc., the plaintiff appealed the district court's deduction of fixed to measure the plaintiff's trademark damages.[484] The Fourth Circuit denied the appeal, arguing that the inclusion was not unfair in light of the trebling of the resulting measure in the award.[485]

The remaining district court and state opinions in the Fourth Circuit deny the allocation. The circuit's strongest opinion, Carter Products, Inc. v. Colgate-Palmolive Co., involves trade secrets and applies the differential cost approach after citing Century Distilling from the Third Circuit and Levin from the Eighth Circuit.[486] The Carter opinion also quoted the Restatement of Torts for the fact that ***577** accounting procedure should not control legal opinion.[487] The federal district courts in Virginia have also handed down a handful of opinions that deny offsets for fixed costs allocations.[488]

Maryland state courts have also issued two opinions on the measure of the defendant's profits for claims resembling those of the federal agencies.[489] Both opinions stress the importance of approving sufficient offsets to a defendant in a regulatory civil claim in order to avoid awarding the state a punitive award in equity.[490] However, one of the two opinions specifically denies offsetting credit for fixed costs.[491]

E. Fifth Circuit

The Fifth Circuit has not been very active on this issue. It handed down the Maltina opinion in 1980,[492] but few opinions have been issued since at either the appellate or district level.

Similarly, in a design patent case, Henry Hanger & Display Fixture Corp. of America v. Sel-O-Rak Corp., the court found the factual relationship between the infringing production and the claimed expense to be determinative.[493] The court wrote:

> While apportionment of some overhead and general business costs between the infringing and the non-infringing operations of a business enterprise will usually be ***578** made, this should not be done unless it is shown that the particular overhead classifications are such that an apportionment is proper. It is not enough merely to say that the overall overhead for income tax purposes was a stated percentage of overall sales. The master's determination that the claim of the defendants to an allowance for overhead was not established was correct.[494]

The Fifth Circuit has two contradictory opinions relating to implied statutory jurisdiction.[495] Expressing concern about the possibility of awarding a punitive monetary remedy, the Oregon District Court cited the Fifth Circuit and stated that "[t]o the extent an agent necessarily and reasonably incurred expenses to earn the commissions he must now disgorge, a setoff may be appropriate in some instances. Otherwise, disgorgement might exceed the amount by which the agent was unjustly enriched."[496] In 2004, the Fifth Circuit accepted the SEC position that no direct incidental expense should offset the measure of defendant's profits without reversing its earlier opinion.[497] Perhaps these contradictory positions can be resolved by distinguishing interpretations of whether the underlying activity was a transaction or business activity, i.e. that United Energy Partners as a business operation was without any legitimate business activity. However, the Fifth Circuit should be chagrinned to learn that at about the same time, the SEC admitted to the Southern District of New York that the majority position included provision for the offset of direct incidental expenses.[498]

F. Sixth Circuit

The Sixth Circuit has a history of some insightful opinions that have influenced other courts. It has an early history of denying the allocation.[499] Its application of "but-for" analysis in the form of the standard of comparison approach in Gordon Form Lathe Co. v. Ford Motor Co. remains useful even today.[500] In addition, the Sixth Circuit's analysis to justify the denial of offset ***579** credit for the defendant's income taxes in Schnadig Corp. v. Gaines Manufacturing Co.,[501] circumvented the Supreme Court opinion in Wrigley[502] and was recently adopted by the Federal Circuit in Nike.[503]

The Sixth Circuit's analysis of the issue of offsetting credit for the defendant's fixed costs was a fairly balanced discussion of the issue that reflected its decision to compromise or to take a position. The opinion held that offsetting credits are a question of fact to be determined by the trial court, which may have been avoiding the issue.[504] However, this position has been maintained by the Supreme Court as well in Hamilton Shoe and Sheldon.[505] At the same time, it led the court to a compromise, holding that the defendant should be allowed to offset two-thirds of its fixed costs.[506] At least one other opinion at the district level has been specifically patterned after the Sixth Circuit's compromise, holding for 60%.[507]

G. Seventh Circuit

Undoubtedly, the Seventh Circuit's opinions to deny allocated fixed costs are the most consistent on the deduction of overhead for contract damages, patent damages, and unjust enrichment in equity. Until the mid-1940's, however, the Seventh Circuit approved overhead allocations for offsetting credit.[508]

It is surprising that the Federal Trade Commission (FTC) has succeeded in convincing the Seventh Circuit to affirm the FTC's claim for the remedy of revenue disgorgement in a case of implied statutory jurisdiction equity.[509] This holding seems to contradict a recent Posner opinion relating to corporate bribery, which he equates to fraud.[510] In Williams Electronics Games, Inc. v. Garrity, Judge Posner explained that the monetary remedy for fraud (as an ancillary claim for injunctive relief) is the defendant's profits after offsetting revenues with all variable costs.[511] The 2005 draft of the Third Restatement appears to endorse the Williams ***580** Electronics opinion, especially in relation to that opinion's assertion that "[r]estitution is available in any intentional-tort case in which the tortfeasor has made a profit that exceeds the victim's damages (if the damages exceed the profit, the plaintiff will prefer to seek damages instead), whether or not the tort involved a breach of fiduciary duty."[512]

H. Eighth Circuit

The Eighth Circuit has chosen to approve the theory of denying offsetting credit for the fixed costs of willful defendants and has therefore abandoned the support for the incremental income approach evident in Levin.[513] The Minnesota courts are among the minority to agree with section 406 of the Restatement of Agency on denying a defaulting agent reimbursement for reasonable expenses.[514]

I. Ninth Circuit

Behind only to the Second Circuit, the Ninth Circuit is a strong advocate of the full-absorption approach. A district court in the Ninth Circuit originated the theory behind the Fifth Circuit's opinion in Maltina, but the Ninth Circuit quickly disowned that idea in Kamar.[515] Unfortunately, the dicta and speculation in some of the Ninth Circuit's opinions on willfulness,[516] particularly in Frank Music and Kamar,[517] has created significant confusion, but perhaps the strong exception taken in the ZZ Top opinion by the district court in Washington may resolve that theory.[518]

***581** Based on this Article's unscientific sample, it also appears that related opinions in the Ninth Circuit focus significantly on copyright claims. In that area of law, the Frank Music opinion attempted to broaden the reach of the defendant's indirect revenues or "consequential profits" from the violation of a musical's copyright in the MGM casino floorshow to include a small share of the casino's profits.[519] Subsequent opinions in the area of indirect revenues inside and outside of the Ninth Circuit appear to reject this theory as questions of fact and causation.[520]

J. Tenth Circuit

The only opinion from the Tenth Circuit is rather old and does not appear to gain much deference from the district court for the holding that allocated fixed costs can be offset in a patent claim. The opinion sets an unusually low hurdle for the defendant to establish the attributability of the defendant's fixed costs.[521] Otherwise there is one district court opinion each on trademark[522] and copyright[523] claims that deny offsets for fixed cost allocations.

Colorado state law may have some influence on future opinions in the circuit. The Federal Circuit's opinion in The University of Colorado Foundation, Inc. v. American Cyanamid Company, denying allocated overhead in a state cause of action for an accounting in equity on patent infringement, seems likely to have some influence for the future despite the fact that the opinion makes it clear that the opinion was based on Colorado law rather than federal law.[524] Colorado state courts have also rejected fixed costs allocations for trade secret cases.[525]

*582 K. Eleventh Circuit

The Eleventh Circuit "inherited" the precedent of Maltina, the most extreme advocate of the incremental income approach,[526] from the Fifth Circuit, which handed down the opinion when Florida was still included in the Fifth Circuit.[527] As recently as 2000, the Eleventh Circuit affirmed Maltina as have many of the district courts.[528]

X. Incremental vs. Full Absorption

"The utter unreliability of any estimate of cost is shown by the accounting which the defendant has submitted. . . . That the defendant would have been guilty of a trespass upon the rights of the plaintiff in order thereby to make a profit can be believed. That it would have persisted in the infringement at a loss of $62,500 is simply incredible."[529]

Supreme Court precedent provides some weak support for the full-absorption approach that is rightly ignored by most federal and state courts. Seemingly, Tremaine[530] is on point, but the opinion is too brief (less than 1000 words) and cites no precedent. The Court's argument in Tremaine is simple: you need to deduct allocated fixed costs to measure profits for an accounting in equity just as a businessman would gauge his operations with management accounting.[531] Tremaine is suspect because it fails to engage in any "but-for" analysis and it fails to adequately define fixed costs in relation to the infringement of adding a tremolo ***583** to the organ. Except in New York state courts,[532] this opinion has largely been ignored or criticized and distinguished.[533] The Court's affirmation in Sheldon is also of limited precedential value as the Supreme Court did not address measurement issues, deeming measurement issues as questions of fact.[534] Justice Jackson's opinion in Woolworth has friendly dicta for full absorption, but he also specifically limits the court's Sheldon opinion to the issue of a trial court's discretion under the Westinghouse opinion.[535]

On the other hand, the Supreme Court is also a strong advocate of defining unjust enrichment in equity as "fruit of the defendant's advantage," rather than literal profit, and claiming that the goal of unjust enrichment in equity is to deny the defendant any advantage. Furthermore the goal of denying the defendant any incentive or possibility of an incentive to commit the unjust act is gaining priority over the literal profit goal, at least as witnessed by the Federal Circuit's opinion in Nike[536] and the Third Restatement's draft of March 2007.[537]

A. Restatements

The ALI seems to support the incremental approach, albeit not in a clear voice and with significant contradictions. Sections 37[538] and 45[539] of the Restatement (Second) of Unfair Competition, relating to trademarks and trade secrets, do differ. Comment (h) of section 37 asserts that allocations of fixed costs should not be offset against the defendant's revenues even if normal accounting ***584** practices would otherwise make such an offset.[540] In contrast, section 45, takes no position for trade secret claims and describes the two main approaches as well as Maltina.[541] This Part also refers to a predecessor section in the Restatement of Torts section 748 cmt. j that asserted that the incremental income approach is the only appropriate measure.[542]

The most recent draft for the Third Restatement is a bit clearer. The norm or general statement is that allocations of fixed costs should not be offset against the defendant's revenues:

> e. Disgorgement; accounting for profits; the problem of attribution (3) Deductions and credits. Because disgorgement liability is liability for net profits, a recurring issue of the accounting described in § 51(4) is the extent to which the defendant should be allowed a deduction (that is, a credit against liability) for contributions made by the defendant to the profits the defendant is liable to disgorge. As a general rule, the defendant is entitled to a deduction for all marginal costs incurred in producing the revenues that are subject to disgorgement. . . . 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.[543]

The last sentence in this statement endorses priority for the goal of denying the defendant an incentive or "but-for" profit as compared to the goal of disgorging a literal measure of profit. This rationale is the key factor in the Federal Circuit's recent opinion in design patent case that denied income taxes as an offset for the defendant's revenues.[544] Regrettably, the Third Restatement makes no reference to that connection even though section 51 is in accord with the holding of that case.

However, this clear statement is later contradicted by illustration 16, which seems to endorse Judge Hand's opinion in Sheldon for the full-absorption approach:

> Calculation of the net profit realized from "Letty Lynton" requires, moreover, an allocation of various items of overhead and general expense between "Letty Lynton" and Studio's other ventures. Despite their complexity, the same allocations are routinely made in other contexts (for example, in determining Studio's contractual obligations to persons entitled to share in the net profits of particular films). Unless ***585** circumstances dictate otherwise, the same allocation will serve as the starting point for measuring Studio's liability to Author.[545]

In addition, the 2005 draft of the Third Restatement presented the first version of the restatement's section on intellectual property claims, section 42.[546] In that section, there is a suggestion that the denial of allocated overhead might be considered a punitive measure of unjust enrichment in equity and the section cites parts of the Second Circuit Sheldon and Hamil opinions with approval.[547]

Unless the ALI explains or changes these contradictions in the Third Restatement, it appears possible that a court could justify either approach with the Third Restatement and the Restatement of Unfair Competition, even though the bulk of either restatement supports the incremental approach.

B. Analysis

The full-absorption approach cannot satisfy any "but-for" test because the "but-for" test eliminates expenses that are fixed in both the actual and "but-for" cases. Offsetting allocated expenses may satisfy the "common sense" notion of profit, but even accounting standards are not necessarily relevant when measuring unjust enrichment in equity.[548] Accordingly, the full-absorption method does not deny the defendant the incentive to infringe. The defendant's ability to allocate fixed expenses is also an advantage significant to most courts for cases of breach of contract and for patent and copyright damages.

To effectively advocate the full-absorption approach, one must contend that unjust enrichment in equity should only be measured according to a literal definition of profit (i.e. to measure profit in a management accounting sense). This interpretation is at odds with more than one hundred years of case law, in which virtually all courts have held expenses, such as the following, occasionally need to be excluded from offset in measuring unjust enrichment:[549] infringing expenses, accrued expenses, excessive compensation, interest expense, and income taxes, among other exclusions.

***586** In the absence of Supreme Court intervention or a self-imposed reversal from either the Second or Seventh Circuits, the polarized split will continue. Therefore, it will continue to be advantageous for the plaintiff to file unjust enrichment claims in the Seventh Circuit. If a plaintiff is stuck in the Second Circuit and fixed costs are of major significance, a claim for damages at law might secure a larger monetary remedy than unjust enrichment in equity.

The remaining issues should be easier to resolve. For the most part, pro-rata allocations have largely disappeared in the face of some attribution requirement.[550] Conversely, part of the Maltina doctrine needs to be abandoned. If the Maltina opinion merely stood for the incremental approach, it would warrant no special attention. However, Maltina adds a rule of thumb that any activity that amounts to less than about ten percent of the defendant's total business operations are too small to require an increment in fixed costs.[551] Obviously the rule of thumb would be less embarrassing to apply to defendant with ten million dollars in revenue than one with ten billion dollars in revenue, but the rule of thumb is a shortcut to justify ***587** skipping the process otherwise required to determine if the defendant's costs vary with the defendant's infringing activities.

The Maltina rule of thumb is now less popular than it was in the 1980s when it found support even in the Southern District of New York.[552] The only remaining active supporters of this rule of thumb are the Fifth and Eleventh Circuits.[553]

There is one justification for the full-absorption approach offered by the Ninth Circuit that warrants specific criticism. One opinion suggests that if the defendant were not allowed to offset fixed costs, the defendant's profit margin in unjust enrichment would be higher than the plaintiff's actual profit margin.[554] The opinion then hypothesizes that the defendant's exaggerated unjust enrichment would encourage plaintiffs to delay filing a complaint to maximize the remedy's profit advantage over actual operations. The infringed would thus be encouraged to victimize the infringer. The opinion suffers from convoluted logic, a heightened concern for the infringer rather than the infringed, and what seems to be a naive view of the "lucrative" nature of commercial litigation. The Ninth Circuit should also remember that the defense of laches can be applied as needed and that the same scenario is equally likely or unlikely to occur in contract and patent damages, which also deny allocations of fixed cost in measuring the monetary remedy.

Advocates for both the incremental and full-absorption approaches need to provide some substantial support for their positions. In the absence of resolving the National Brake Paradox, advocates of full absorption have inadequate support ***588** compared to the following support for the incremental approach (in order of importance):
(1) Only the incremental approach can actually deny the defendant any economic benefit from infringement if the defendant has attributable fixed costs that would otherwise be allocated.

(2) There is no literal measure of "profit" for unjust enrichment in equity; it is not unusual for certain expenses to be excluded from offsetting the defendant's revenues that would normally be offset according to GAAP including such items as infringing expenses and income taxes. Furthermore, unjust enrichment in equity has generally been interpreted to be broader than "profit" and to include most any form of economic advantage.

(3) The goal of denying the defendant any incentive or possibility of an incentive to commit the unjust act is gaining priority over the literal profit goal at least as witnessed by the Federal Circuit's opinion in Nike, Inc. v. Wal-Mart Stores, Inc.[555] and the Third Restatement's draft of March, 2007.[556]

(4) Other areas of the substantive law regularly hold that allocations of the defendant's fixed costs are substantial and significant.[557]

C. Discretion

In Hamilton-Brown Shoe and Sheldon, the Supreme Court took the position that measurement of the defendant's unjust enrichment is a question of fact best left to the trial court.[558] If this conclusion were interpreted to mean that measurement should be left to the discretion of the trial court, an alternative to the polarized positions of the two approaches would emerge as an additional source of legitimacy for the court's discretion.

However, it is unclear why the measure should be discretionary. While there is little doubt that apportionment needs substantial discretion to accommodate the wide variety of case facts, measurement should be a little more objective. If certain fairness issues creep into the case, they can be resolved in apportionment.

The first problem with instituting a strictly discretionary alternative is that such a doctrine from now on offers little aide for the issues remaining in implied jurisdiction. Measurement issues for implied jurisdiction must largely be resolved with some form of Grupo analysis on the basis of historical practice in fact.

The second problem relates to the concomitant danger that has occasionally visited courts in equity: the potential abuse of subjective discretion. Real or imagined, the Supreme Court has seen fit to occasionally chide the court system ***589** with Seldon's parable of the Chancellor's foot. The most recent warning of such dangers by the Supreme Court provides a useful explanation of the historical analogy:

A Court of Chancery might then well deserve the spirited rebuke of Seldon; "For law we have a measure, and know what to trust to--Equity is according to the conscience of him, that is Chancellor; and as that is larger, or narrower, so is Equity. "T is all one, as if they should make the standard for the measure the Chancellor's foot. What an uncertain measure would this be? One Chancellor has a long foot; another a short foot; a third an indifferent foot. It is the same thing with the Chancellor's conscience."[559]

The third problem is a less colorful, but has a more pervasive consequence of excessive discretion in that the deterrent value of the remedy can be diluted with uncertainty. In the financial world, risk is measured by the potential variability of outcomes, both good and bad. As the variance of outcomes increases in relation to the mean or expected value, predictability declines and risk increases. All other factors remaining constant, as risk increases, the financial value of the outcome decreases. Accordingly, the value of the remedy to the plaintiff and the expected cost to the defendant decreases. Therefore, deterrence decreases with the expected cost.

XI. Conclusions

Unjust enrichment in equity is awarded to a broad range of claims that share a common origin of securing a monetary remedy as ancillary relief to an injunction. This shared origin offers opportunities to compare measurement of unjust enrichment between different substantive areas of the law, as well as implies the minimum standard of a trustee in default as the worst case basis for the counter-restitution claims from a defendant in unjust enrichment. The principles of trust law offer additional guidelines for the reviewing potential offsets for the defendant or quasi-trustee.

The shared origin from a court in equity for an accounting in equity, or an accounting of profits, also justifies the current use of opinions handed down in the 19th century relating to breach of fiduciary duty or infringement of patents and copyrights. Intellectual property statutes in the 19th century did not alter measurement of unjust enrichment from its traditional practice.

The controversy relating to whether the defendant's allocations of fixed costs should receive offsetting credit is essentially the result of a disagreement among the federal circuits about the relative priority of two objectives of unjust enrichment that occasionally suggest different measures. The choice between the two different ***590** approaches can be financially significant in the measure of unjust enrichment and the issue of including or excluding fixed costs allocations is substantively significant in other areas of the law that use remedies different from unjust enrichment.

Advocates of the full-absorption approach, of offsetting the defendant's fixed costs, stress the importance of measuring the defendant's enrichment by a literal definition of "profit" or "net profit" that necessarily requires deductions of fixed costs and income taxes. Opponents of allocated fixed costs, advocating the incremental income approach, emphasize the alternative goal of denying the defendant any possibility of retaining an advantage from her infringement. Objective analysis indicates that the full-absorption approach, although it resembles modern accounting, will always leave the defendant with some financial advantage after disgorging unjust enrichment.

There is ample precedent that supports and rejects both approaches. However, opinions based on the full-absorption approach occupy unusual positions in relation to the broad spectrum of measuring unjust enrichment or remedies, forming paradoxes from trying to reconcile the opinions or necessitating exceptional grants of discretion to obscure the discontinuities. The bulwark opinion supporting full absorption, Sheldon v. Metro-Goldwyn Pictures Corp., relies on contradictory precedent, mistaken research, and logical errors. The precedential value of the opinion should be restricted to its apportionment discussion. Seemingly, the recent trend is also adverse to the full-absorption approach as both a recent Federal Circuit opinion on offset credit for income taxes and the March 2007 draft of the Third Restatement support the primary importance for unjust enrichment to deny the defendant an financial advantage, a goal that unjust enrichment measured by the full-absorption approach cannot accomplish.

It does appear that the defendant to an unjust enrichment claim is treated as a quasi-trustee and that the defendant's claims for counter-restitution should be treated no worse than for a trustee in default. The strong influence of the law of trusts on unjust enrichment warrants explicit recognition, which would improve the legal foundation supporting the otherwise sparse discussion of counter-restitution and increase the consistency of testing claims for offsets that presently elude categorization.

Unjust enrichment remains a discipline of the law that is hobbled by its vocabulary. Most authorities acknowledge the fact that terms like "restitution" and "unjust enrichment," largely coined for the First Restatement, have created as much confusion as they have resolved.[560] Similarly, the terms "fixed cost," "profit," or ***591** "disgorgement" need to be used more explicitly or with greater awareness of possible misunderstanding or abuse.

The reasoning and discussion of unjust enrichment is also impaired by the weak practice of citing precedent. Just as this Article advocates the recognition of the comparability and even the precedential value of opinions on measuring unjust enrichment from different areas of the substantive law, caution is urged against assuming the comparability of opinions from the same area of substantive law when the opinions are based on materially different fact patterns or procedural limitations that tend to skew the measure and distort its precedential value to all but similarly obscure fact patterns.

On the micro level, cases within the same areas of substantive law that both address an award of unjust enrichment in equity may not be at all comparable because of unique case factors, including those discussed in Table 3 and exemplified in this Article. Most particularly, cases in which the defendant defaults in her burden of proof, in which offsets or defendant's expenses are not even claimed, or where the court exercises an unusual amount of discretion to deny all possible offsets are hardly apt as precedents on counter-restitution. In the absence of careful examination for comparability, the use of precedent sometimes better resembles the practice of quoting sound bites out of context.

The continued growth of federal agency claims requires the development of a "Grupo analysis," similar to the Second Circuit's Cavanagh opinion, to confirm that a district court has jurisdiction to hear agencies' claims. As courts literally reexamine the past for guidance in current cases, hopefully greater clarification will be provided to confirm that forfeiture is neither a traditional remedy in equity nor an appropriate measure for contemporary claims.

*592 APPENDIX

Fixed Cost Allocations Enrich the Defendant

Simple algebra and definitions show that when the measure of unjust enrichment offsets fixed cost allocations, the disgorgement of unjust enrichment will not deny the defendant all of her unjust enrichment.

The two key definitions include the "but-for" case, which refers to the defendant's operating results without infringement and "fixed costs," which refers to the sum of each item of fixed cost that remains constant (with reasonable adjustment for inflation and other exogenous factors) with or without the defendant's infringing activities. The first three equations are simple definitions:
(1) Profit Actual = Revenue Actual - Costs Actual

(2) Costs = Variable Direct Costs + Variable Indirect Costs + Fixed Costs

(3) Profit But For = Revenue But For - Costs But For

(4) Unjust Enrichment = Profit Actual - Profit But For The fifth equation is the result of substituting equations (1) and (3) into (4):

(5) Unjust Enrichment = Revenue Actual - Costs Actual - (Revenue But For - Costs But For) The sixth equation is the result of a rearrangement of terms:

(6) = (Revenue Actual - Revenue But For) - (Costs Actual - Cost But For) The seventh equation is the result of substituting equation (2) into (6):

(7) = (Revenue Actual - Revenue But For) - ((Variable Direct Costs Actual + Variable Indirect Costs Actual + Fixed Costs Actual) - (Variable Direct Costs But For + Variable Indirect Costs But For + Fixed Costs But For)) The eighth equation is a rearrangement of (7):

(8) = (Revenue Actual - Revenue But For) + Variable Direct Costs But For + Variable Indirect Costs But For + Fixed Costs But For - Variable Direct Costs Actual - Variable Indirect Costs Actual - Fixed Costs Actual The ninth equation eliminates the fixed cost variables because Fixed Costs But For = Fixed Costs Actual by definition and therefore fixed costs are not relevant to measure of unjust enrichment:

(9) = (Revenue Actual - Revenue But For) + Variable Direct Costs But For + Variable Indirect Costs But For - Variable Direct Costs Actual - Variable Indirect Costs Actual Therefore, since fixed costs are not relevant to the measure, any offset credit for the defendant's fixed costs will provide the defendant with an advantage after disgorgement.

Footnotes

a1 George P. Roach is the founder of a Dallas litigation consulting and valuation firm, Multi Discipline Consultants, and is a senior adviser to the litigation consulting firm of Freeman & Mills, Inc. in Los Angeles. His educational background includes an M.B.A., a J.D., and a B.A. in Economics.

1 Libman Co. v. Vining Indus., 876 F. Supp. 185, 190 (C.D. Ill. 1995), rev'd on other grounds, 69 F.3d 1360, 1364 (7th Cir. 1995).

2 Univ. of Colo. Found. v. Am. Cyanamid Co., 342 F.3d 1298, 1306 (Fed. Cir. 2003). See Rhone-Poulenc Agro S.A. v. DeKalb Genetics Corp., 272 F.3d 1335, 1340 (Fed. Cir. 2001), vacated, 538 U.S. 974, remanded to 66 F. App'x 874 (affirming jury verdict awarding damages for unjust enrichment arising from fraudulent misappropriation of trade secrets and patent infringement).

3 See Kremen v. Network Solutions, Inc., 337 F.3d 1024, 1029-30 (9th Cir. 2003) (ruling that internet domain name is intangible property which could serve as basis for conversion claim); Kremen v. Cohen, 325 F.3d 1035, 1037-39 (9th Cir. 2003) (certifying a question to the California Supreme Court regarding whether an Internet domain name is property that can be converted under California tort law).

4 See Carpenter v. United States, 484 U.S. 19, 27-28 (1987) (citing Snepp v. United States, 444 U.S. 507, 515 n.11 (1980)) (characterizing breach of the common law duty to protect employer's confidential information as unjust enrichment).

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

6 See Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 709-10 (9th Cir. 2003) ("Bourns denies that Raychem proved that it suffered $9 million in damages. Raychem replies by pointing to Bourns' enrichment by its torts. 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.").

7 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); Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 515 (9th Cir. 1985).

8 Maltina Corp. v. Cawy 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).

9 See infra Part VI.C.

10 See infra Part VII.

11 Christensen v. Nat'l Brake & Elec. Co., 10 F.2d 856, 871 (E.D. Wis. 1926). See also Hamil Am., Inc. v. SGS Studio, Inc. (Hamil I), No. 95-CV-2513, 1998 U.S. Dist. LEXIS 386, at *6-7 (S.D.N.Y. Jan. 21, 1998), aff'd in part, rev'd in part sub nom., Hamil II, 193 F.3d 92 (2d Cir. 1999). But see Stephen E. Margolis, The Profits of Infringement: Richard Posner vs. Learned Hand, 23 Berkeley Tech. L.J. (forthcoming 2008) (asserting that the full-absorption approach is justified under economic concept of opportunity cost), available at http://works.bepress.com/stephen_margolis/1; Hamil II, 193 F.3d at 106.

12 Simple algebra shows that the full-absorption method will always leave the defendant enriched by the amount of allocated fixed costs. See infra App.

13 Sheldon v. Metro-Goldwyn Pictures Corp. (Sheldon II), 106 F.2d 45, 51 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940).

14 Marsha Walton, Cyberthieves Go Phishing to Rob Banks, Cnn.com, Feb. 14, 2008, http://www3.cnn.com/2008/TECH/02/12/cyber.thieves/index.html (crediting Willie Sutton, the notorious bank robber, with the quote).

15 See Margolis, supra note 11 (estimating the financial significance of the fixed costs at issue; while the expenses at issue in his article are significant in relation to the potential monetary remedy of each case, Margolis' estimates include all corporate overhead, rather than just fixed overhead that does not vary with the level of infringing activity); See infra Part III.B for further discussion of fixed costs.

16 50 F.2d 450, 452 (E.D. Pa. 1931), modified, 63 F.2d 479 (3d Cir. 1932).

17 876 F. Supp. 185, 190 (C.D. Ill. 1995), rev'd on other grounds, 69 F.3d 1360, 1364 (7th Cir. 1995).

18 420 F. Supp. 404, 406 (N.D. Ill. 1976).

19 592 F. Supp. 1083, 1087, 1089 (W.D. Pa. 1984) (According to paragraph 45 of the findings of fact, the unburdened cost for the part was $4.60, while the cost burdened with an overhead allocation would have been $11.85. According to paragraph 46, the cost of $4.60 results in a profit of $1.10, while a cost of $11.85 would have resulted in a loss of $6.05 per part.).

20 496 F. Supp. 476, 497 (D. Minn. 1980).

21 886 F.2d 931, 941 (7th Cir. 1989) (awarding $4.3 million).

22 23 F.2d 459, 460-61 (3d Cir. 1927).

23 56 F.2d 313, 314 (3d Cir. 1932).

24 26 F. Supp. 126, 128 (D. Md. 1939).

25 No. 87-CV-610, 1996 U.S. Dist. LEXIS 12709, at *11-15 (S.D. Fla. May 5, 1996), aff'd, 934 F. Supp. 425 (S.D. Fla. 1996) (The court stated that both parties agreed on revenues of $7,898,412 and both agreed to expenses of $6,404,965. Pilgrim asserted a loss of $1,214,689 and Burger King a gain of $1,493,447. The court allowed an additional expense of $105,975 of itemized advertising which is unrelated to overhead so the range needs to be narrowed by that amount. Otherwise the court approved allocated distribution expenses of $127,809, but denied all other overhead allocations.).

26 825 F. Supp. 340, 350 (D. Mass. 1993).

27 496 F. Supp. 476 (D. Minn. 1980).

28 Id. at 482, 494.

29 Id. at 494.

30 Id. at 498 (quoting Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1172 (6th Cir. 1980)).

31 See infra Part VI.B.

32 See Flat Slab Patents Co. v. Turner, 285 F. 257, 279 (8th Cir. 1922) (stating that alternative allocation methods justify allocations of 50.83% or 72.89% of the defendant's overhead); Wilkie v. Santly Bros., Inc., 36 F. Supp. 574, 575 (S.D.N.Y. 1940), aff'd, 139 F.2d 264 (2d Cir. 1943) (proposing unjust enrichment due to change in overhead approach ranging from $6,764 to $20,000).

33 See Century Distilling Co. v. Cont'l Distilling Corp., 205 F.2d 140, 147 (3d Cir. 1953), superseded by statute, Trademark Act of 1946 (Lanham Act), Pub. L. No. 79-489, 60 Stat. 427, as recognized in A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc., 61 U.S.P.Q.2d (BNA) 1637 (E.D. Penn. 2002) (affirming the special master's refusal to offset the infringer's profits with non-variable expenses on the basis that this allowed an infringer to conceal profits); Saf-Gard Prods., Inc. v. Serv. Parts, Inc., 491 F. Supp. 996, 1001 (D. Ariz. 1980) ("Plaintiff's fixed overhead expenses had already been amortized over and paid out of plaintiff's actual sales. To include these fixed expenses as an element of the plaintiff's cost in this proceeding would essentially require that the same fixed costs be re-amortized over the defendant's infringing units. This would result in a windfall to the defendant in the form of a credit against the plaintiff's profits."). See infra Part VII, discussing Hamil I, No. 95-CV-2513, 1998 U.S. Dist. LEXIS 386 (S.D.N.Y. 1998), aff'd in part, rev'd in part sub nom., Hamil II, 193 F.3d 92 (2d Cir. 1999).

34 Sammons v. Colonial Press, Inc., 126 F.2d 341, 348 (1st Cir. 1942). See also SEC v. Great Lakes Equities Co., 775 F. Supp. 211, 215 (E.D. Mich. 1991) ("For example, where the expenditures are to defray obligations of the wrongdoer, the wrongdoer is benefited by those expenditures. Thus, for example, even under defendant's theory, there is no basis for deducting the costs of fixed expenses since those expenses would be incurred whether or not the fraud took place. By allowing a deduction for fixed expenses, part of the proceeds of the fraud is being used to defer costs that defendants Sims and GLE had to pay in any event, and they would be unjustly enriched by those payments. Clearly, defendants Sims and GLE should not be allowed to profit by their fraud.").

35 Hamil II, 193 F.3d 92, 106 (2d Cir. 1999). See infra Part VII for further analysis of this case and the Second Circuit's proposal for resolving the National Brake Paradox.

36 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.3 (Tentative Draft No. 5, 2007) (citation omitted).

37 Alvin Toffler, Powershift: Knowledge, Wealth, and Violence at the Edge of the 21st Century 280 (Bantam Books 1990).

38 Henry Lacey McClintock, Handbook of the Principles of Equity §24, at 53 (2d ed. 1948) ("[E]quity is a system for the correction

of the defects in the law."); note, Discretionary Power of Courts of Equity, 16 Harv. L. Rev. 444, 444 (1903) ("Equitable remedies being extraordinary, they may, at the chancellor's discretion, be refused or given in order to do equity. Equity is viewed in this connection in a large sense; it is not only what is just and right as between plaintiff and defendant, but also what, according to a sound public policy, is just and right as regards the interests of the public."); 1 Dan B. Dobbs, Law of Remedies § 4.3(1), at 587 (2d ed. 1993).

39 Monroe Park v. Metro. Life Ins. Co., 457 A.2d 734, 737 (Del. 1983); see also Kelley v. Mayor of Dover, 300 A.2d 31, 38 (Del. Ch. 1972) ("[e]quity will not permit one to evade the law by dressing what is prohibited in substance in the form of that which is permissible").

40 See Andrew Kull, Rationalizing Restitution, 83 Cal. L. Rev. 1191, 1191 (1995) ("Few American lawyers, judges, or law professors are familiar with even the standard propositions of the doctrine, and the few who are continue to disagree about elementary issues of definition."); Douglas Laycock, The Scope and Significance of Restitution, 67 Tex. L. Rev. 1277, 1277 (1989) ("Despite its importance, restitution is a relatively neglected and underdeveloped part of the law. In the mental map of most lawyers, restitution consists largely of blank spaces with undefined borders and only scattered patches of familiar ground. Few law schools teach a separate course in restitution, no restitution casebook is in print, and scholarship in the field is largely devoted to specific applications.").

41 Cf. F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 232 (1952) ("Few bodies of law would be more difficult to reduce to a short and simple formula than that which determines the measure of damage recoverable for actionable wrongs. The necessary flexibility to do justice in the variety of situations which copyright cases present can be achieved only by exercise of the wide judicial discretion within limited amounts conferred by this statute. It is plain that the court's choice between a computed measure of damage and that imputed by statute cannot be controlled by the infringer's admission of his profits which might be greatly exceeded by the damage inflicted. Indeed sales at a small margin might cause more damage to the copyright proprietor than sales of the infringing article at a higher price.").

42 Restatement (Third) of Restitution and Unjust Enrichment §1 cmt. c (Discussion Draft, 2000).

43 FTC v. Verity Int'l, Ltd., 443 F.3d 48, 67 (2d Cir. 2006) ("The defendants-appellants do argue, however, that such restitution must be limited to so-called equitable restitution. We agree. This contention is based on the fact that two types of restitution are distinguishable: As Justice Scalia explained in Great-West Life & Annuity Insurance Co. v. Knudson, 534 U.S. 204 (2002), 'In the days of the divided bench, restitution was available in certain cases at law, and in certain others in equity.' Id. at 212. Equitable restitution allowed the plaintiff to recover money or property in the defendant's possession that could 'clearly be traced' to money or property 'identified as belonging in good conscience to the plaintiff.' Id. Legal restitution, on the other hand, was awarded when the plaintiff could not assert title to or the right to possession of particular property but nevertheless had some basis for recovering for some benefit that the defendant wrongly received from the plaintiff. Id. Here, because the availability of restitution under §13(b) of the FTC Act, to the extent it exists, derives from the district court's equitable jurisdiction, it follows that the district court may award only equitable restitution. The fact that only an equitable remedy is available eviscerates the defendants-appellants' contention that the Seventh Amendment confers a right to a jury trial in this case."); SEC v. Credit Bancorp, Ltd., No. 99-CV-11395, 2002 U.S. Dist. LEXIS 20597, at *7-8 (S.D.N.Y. Oct. 31, 2002) (conceding that its authority is not overwhelming, seemingly in response to the defendant's claims for a larger number of offsets, and claiming that it was widely acknowledged that only certain kinds of expenses could be offset: "[t]he SEC cit[ed] a number of cases for the proposition that in disgorgement cases (as opposed to civil penalty cases) only certain expenses, such as brokerage commissions, may be deducted from the amount to be disgorged." (citation omitted)).

44 Sheldon v. Metro-Goldwyn Pictures Corp., (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. That relief had been given in accordance with the principles governing equity jurisdiction, not to inflict punishment but to prevent an unjust enrichment by allowing injured complainants to claim 'that which, ex aequo et bono, is theirs, and nothing beyond this.' Statutory provision for the recovery of profits in patent cases was enacted in 1870. The principle which was applied both prior to this statute and later was thus stated in the leading case of Tilghman v. Proctor." (citations omitted)).

45 Restatement of Restitution §114 (1937) ("A person who has performed the duty of another by supplying a third person with necessaries, although acting without the other's knowledge or consent, is entitled to restitution from the other therefor if (a) he

acted unofficiously and with intent to charge therefor, and (b) the things or services supplied were immediately necessary to prevent serious bodily harm to or suffering by such person.”).

46 See George P. Roach, How Restitution and Unjust Enrichment Can Improve Your Corporate Claim, 26 Rev. Litig. 265, 275-76 (2007) (stating that the six sources come from three major sources of claims: statutory, jurisdiction at law, and jurisdiction in equity).

47 See Stevens v. Gladding, 58 U.S. 447, 455 (1855) (applying the doctrine of complete relief, another name for the clean-up doctrine).

48 Id. at 454-55 (“And the only equitable jurisdiction, as to copyright, conferred upon the courts of the United States, is by the act of February 15, 1819, which gives original cognizance to the courts of the United States, as well in equity as at law, of cases arising under any law of the United States granting to authors or inventors the exclusive right to their respective writings, inventions, and discoveries; and, upon any bill in equity filed by any party aggrieved in any such case, shall have authority to grant injunctions according to the course and principles of courts of equity, to prevent the violation of the rights of any authors or inventors secured to them by any laws of the United States, on such terms as the said courts may deem fit and reasonable. Though the substance of this enactment is incorporated into the 17th section of the patent act of July 4, 1836, so far as it related to inventors, and so far as it related to the subject of patent-rights, is no longer in force, proprio vigore, yet, so far as it gave cognizance to the courts of the United States of cases of copyright, it still remains in force, and is the only law conferring equitable jurisdiction on those courts in such cases; for the 9th section of the act of February 3, 1831, protects manuscripts only.”).

49 Sheldon III, 309 U.S. at 399 (quoted supra note 44).

50 Nike Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1441 (Fed. Cir. 1998).

51 Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., 316 U.S. 203, 203 (1942), superseded by statute, Trademark Act of 1946 (Lanham Act), Pub. L. No. 79-489, 60 Stat. 427, as recognized in A & H Sportswear, Inc. v. Victoria’s Secret Stores, Inc., 61 U.S.P.Q.2d (BNA) 1637 (E.D. Penn. 2002).

52 Sheldon III, 309 U.S. 390, 399 (1940) (quoted supra note 44).

53 Sheldon III, 309 U.S. at 399.

54 Porter v. Warner Holding Co., 328 U.S. 395, 399-400 (1946).

55 See Hecht Co. v. Bowles, 321 U.S. 321, 329 (1944) (requiring an unequivocal statement by Congress to preclude the remedy).

56 Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc., 527 U.S. 308, 318-19 (1999); Rondeau v. Mosinee Paper Corp., 422 U.S. 49, 64 (1975).

57 A simple word search for the term “disgorgement” in the LexisNexis combined database of federal and state cases from 1/1/1800 to 12/13/1960 reveals only thirteen cases. Cf. SEC v. R.J. Allen & Assoc., Inc., 386 F. Supp. 866, 880 (S.D. Fla. 1974), aff’d sub nom., Woods v. Barnett Bank of Ft. Lauderdale, 765 F.2d 1004 (11th Cir. 1985) (discussing the evolution of “disgorgement” in securities cases).

58 See Restatement (Third) of Restitution and Unjust Enrichment §3 cmt. b (Discussion Draft 2000) (discussing disgorgement for unjust enrichment); Restatement (Third) of Restitution and Unjust Enrichment §43 (Tentative Draft No. 4, 2005) (discussing disgorgement for breach of fiduciary duty); Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e (Tentative Draft No. 5, 2007) (“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."); Restatement (Third) of Restitution and Unjust Enrichment §51(4) (Tentative Draft No. 5, 2007) (discussing disgorgement in the context of the problem of measurement of harm).

59 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, 96-97 (2007) (showing three frequently cited cases in which the court confuses disgorgement of profits and disgorgement of revenues).

60 See Artmark-Chicago, Ltd. v. E. Mishan & Sons, Inc., No. 90-CV-4512, 1992 U.S. Dist. LEXIS 12572, at *8-10 (N.D. Ill. Aug. 12, 1992) (distinguishing overhead from fixed costs).

61 Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., No. 1:00-CV-1934, 2003 U.S. Dist. LEXIS 8788, at *60-61 (N.D. Ga. May 9, 2003).

62 See infra Part VI.

63 For an example of an opinion that confuses the standard for fixed costs, see In re Independent Service Organizations Antitrust Litigation, 23 F. Supp. 2d 1242, 1251 (D. Kan. 1998) ("An incremental expense, as defined under standard principles of cost accounting, is an expense which varies directly with the activity to which it relates over the short term. To be incremental, it is important that the cost vary over the short term, one year or less, rather than the long term, because all costs are variable over the long term. Thus, parts cost is an incremental expense because parts usage varies with service revenue. On the other hand, overhead costs such as the salaries of management, rent, utilities, and the cost of operating a computer system are not incremental because they ordinarily do not vary directly with sales or service revenue.").

64 See infra Part V.A.

65 See USM Corp. v. Marson Fastener Corp., 467 N.E.2d 1271, 1278 (1984) ("USM argues, on the contrary, that SG&A expenses should be determined on an incremental cost approach so that only those items of SG&A expense that were increased by the production and sale of blind rivets may be deducted from gross profit. In this process all the defendants' expenses that would have been incurred if they had manufactured no blind rivets would be disregarded. This approach, which has also been called the 'differential cost or marginal profit theory,' measures the profit derived from the defendants' offending conduct." (citation omitted)); Elnicky Enters., Inc. v. Spotlight Presents, Inc., No. 81-CV-0420, 1982 U.S. Dist. LEXIS 13288, at *3 (S.D.N.Y. Jan. 11, 1982) ("The intent of this Court was and is to use these terms in accordance with their generally accepted definitions in the field of cost accounting as expressed, for example, in Edwards, Accounting II (3d ed. 1974) at 279: 'The test is the behavior of the expense if the department [causing the expense] is eliminated. If the expense is directly traceable to a department and would disappear if the department is closed, it is a direct expense; if not, it is an indirect expense... indirect expenses become expenses of the department only through allocation.'").

66 Variable expenses under this area of the law are those that vary with the first unit that infringes. It can remain constant in amount thereafter but it is still variable in comparison to not producing the infringing product at all. See also Andersen v. Cumming, 827 F.2d 1303, 1304 (9th Cir. 1987) (holding that related capital expenditures should be offset in determining the defendant's unjust enrichment in the form of operating profits).

67 Carborundum Co. v. Elec. Smelting & Aluminum Co., 203 F. 976, 985 (3d Cir. 1913) ("The present case, however, is entirely different. The defendant company paid its taxes on land, buildings, and machinery which had been purchased, erected and installed for the express and only purpose of carrying on the manufacture and sale of carborundum."); Black & Decker Inc. v. Pro-Tech Power Inc., 26 F. Supp. 2d 834, 855-56 (E.D. Va. 1998) ("Because all of Pro-Tech's revenues are attributable to its yellow and black products, virtually all costs should be considered variable costs.").

68 Elec. Pipe Line, Inc. v. Fluid Sys., 250 F.2d 697, 699 (2d Cir. 1957) ("The Master found that Fluid Systems would have incurred no increase in general overhead expenses had it undertaken the thirty-seven installations for which it was allowed recovery of lost profits. Over the period in question defendant's general overhead increased coincidentally with gross sales. Plaintiff maintains that this experience proves that defendant would have incurred increased overhead expenses had it taken on the installations in

question. The Master found, however, that substantially all of the increase in overhead was occasioned by increases in salaries and the establishment of offices in New York and Chicago. Therefore, although the general overhead and gross sales figures increased coincidentally, the increases were not related and the Master's conclusion appears justified.").

69 Columbia Wire Co. v. Kokomo Steel & Wire Co., 194 F. 108, 110 (7th Cir. 1911).

70 Libman Co. v. Vining Indus., 876 F. Supp. 185, 190 (C.D. Ill. 1995), rev'd on other grounds, 69 F.3d 1360 (7th Cir. 1995).

71 Wilkie v. Santly Bros., Inc., 139 F.2d 264, 265 (2d Cir. 1943). Other cases follow this holding as well. See, e.g., Sammons v. Colonial Press, Inc., 126 F.2d 341, 349 (1st Cir. 1942); Sheldon II, 106 F.2d 45, 51 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940); Kamar Int'l, Inc. v. Russ Berrie & Co., 752 F.2d 1326, 1333 (9th Cir. 1984); Segrets, Inc. v. Gillman Knitwear Co., 42 F. Supp. 2d 58, 85 (D. Mass. 1998), aff'd in part, vacated in part, 207 F.3d 56 (1st Cir. 2000); Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Constr. Co., 542 F. Supp. 252, 264-65 (D. Neb. 1982).

72 Basic Am., Inc. v. Shatila, 992 P.2d 175, 195 (Idaho 1999).

73 Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 516 (9th Cir. 1985); U.S. Media Corp. v. Edde Entm't, Inc., No. 94-CV-4849, 1998 U.S. Dist. LEXIS 10985, at *33 (S.D.N.Y. July 17, 1998).

74 Alexander v. Chesapeake, Potomac, and Tidewater Books, Inc., 60 F. Supp. 2d 544, 549 (E.D. Va. 1999), aff'd sub nom., Alexander v. Modrak, 2 F. App'x 298 (4th Cir. 2001).

75 Wilkie, 139 F.2d at 266.

76 Hamil II, 193 F.3d 92, 106-07 (2d Cir. 1999); see infra Part VII.B.

77 Id. at 105.

78 Id. at 106-07.

79 Providence Rubber Co. v. Goodyear, 76 U.S. 788, 804 (1869), superseded by statute, Bryson Act of 1952, Pub. L. No. 82-593, 66 Stat. 792, as recognized in Am. Med. Sys. v. Med. Eng'g Corp., 6 F.3d 1523 (Fed. Cir. 1993) ("The calculation is to be made as a manufacturer calculates the profits of his business."); Tremaine v. Hitchcock & Co., 90 U.S. 518, 529 (1874) ("So it is true that the general expenses of their business would have been the same, if instead of buying and selling one hundred organs, they had bought and sold only ninety-nine. But will it be contended that because buying and selling an additional organ involved no increase of the general expenses, the price obtained for that organ above the price paid was all profit? Can any part of the whole number sold be singled out as justly chargeable with all the expenses of the business? Assuredly no."); Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1172 (6th Cir. 1980) ("The fixed expenses are as necessary to the infringing production as are the variable expenses, and should be similarly treated."); Sunbeam Prods., Inc. v. Wing Shing Prods. (BVI) Ltd. (In re AI Realty Mktg., Inc.), 311 B.R. 378, 401 (Bankr. S.D.N.Y. 2004), aff'd, 153 F. App'x 703 (Fed. Cir. 2005) ("The basic truth [is] that no article of manufacture can be profitable in a real sense if it cannot bear its proportionate share of the fixed costs." (citing Schnadig, 620 F.2d at 1172)); Lindal Cedar Homes, Inc. v. Ireland, No. 03-CV-6102, 2004 U.S. Dist. LEXIS 18878, at *21 (D. Or. 2004); Neal v. Thomas Organ Co., 241 F. Supp. 1020, 1022 (S.D. Cal. 1965) (allowing a deduction for "indirect costs of doing business... [of] 14.7 percent" because "it is common knowledge that any business has indirect costs and this percent should apply in the selling and handling of the [infringing items]... the same as it would apply in the handling of any other items."); Bergstrom v. Sears, Roebuck and Co., 496 F. Supp. 476, 498 (D. Minn. 1980) ("The Court has concluded that it would be economically unrealistic to calculate Sears' net profit without an allowance, to some extent, for the fixed expenses incurred by Sears which are outlined above."). But see Part VI.A, discussing that in claims for breach of contract, courts have specifically denied the relevance of accounting measures that would otherwise credit allocations of fixed costs.

80 See infra Part V.

81 Restatement of Restitution §1 cmt. b. (1937) ("A person confers a benefit upon another if he gives to the other possession of or some other interest in money, land, chattels, or choses in action, performs services beneficial to or at the request of the other, satisfies a debt or a duty of the other, or in any way adds to the other's security or advantage. He confers a benefit not only where he adds to the property of another, but also where he saves the other from expense or loss. The word 'benefit,' therefore, denotes any form of advantage. The advantage for which a person ordinarily must pay is pecuniary advantage; it is not, however, necessarily so limited, as where a physician attends an insensible person who is saved subsequent pain or who receives thereby a greater chance of living.").

82 Levin Bros. v. Davis Mfg. Co., 72 F.2d 163, 165 (8th Cir. 1934).

83 Restatement (Third) of Restitution and Unjust Enrichment §51 (Tentative Draft No. 5, 2007) (citations omitted); George E. Palmer, The Law of Restitution §1.8 (1978) ("The two most important meanings are, first, that there has been an addition to the defendant's wealth or an increase in his estate; and second, that a performance requested by the defendant has been rendered. But a crucial question in many circumstances is when a benefit has been transferred.").

84 Restatement (Third) of Restitution and Unjust Enrichment §51(4)(a) (Tentative Draft No. 5, 2007).

85 Restatement (Third) of Restitution and Unjust Enrichment §53 & cmt. e (Tentative Draft No. 5, 2007) ("Consequential gains. Consequential gains consist of secondary enrichment that is attributable in significant part to an intervening transaction by the recipient, or to circumstances of the recipient that give the claimant's entitlement a special value in the recipient's hands.").

86 1 Dan B. Dobbs, supra note 38, §4.1(4) (footnotes and annotations added).

87 See, e.g., Dyll v. Adams, 167 F.3d 945, 948 (5th Cir. 1999), aff'd, 167 F.3d 945 (5th Cir. 1999) (concluding a constructive trust on stock options which increased in value and would otherwise have been worthless absent the tort, including the options of an innocent third party); see also Gen. Clutch Corp. v. Lowry, 10 F. Supp. 2d 124, 131 (D. Conn. 1998) (refusing to reduce award for unjust enrichment based on the value of stock despite testimony that there was no ready market for the stock).

88 Campbell v. Tenn. Valley Auth., 421 F.2d 293, 296 (5th Cir. 1969).

89 Cross v. Berg Lumber Co., 7 P.3d 922, 934 (Wyo. 2000) ("Where wrongfully detained property has a value for use, the measure of damages is the value of such use during the detention period."); see De Camp v. Bullard, 54 N.E. 26, 28 (N.Y. 1899) (stating damages are not based on the gains of the trespasser, but instead on the loss to the plaintiff); Raven Red Ash Coal Co. v. Ball, 39 S.E.2d 231, 239 (Va. 1946) (claiming damages are based on losses to plaintiff when the trespass is deliberate).

90 Randall v. Loftsgaarden, 478 U.S. 647, 671 (1986) (Brennan, J., dissenting); Janigan v. Taylor, 344 F.2d 781, 786 (1st Cir. 1965).

91 Restatement of Restitution §157 cmt. b (1937).

92 Bus. Trends Analysts, Inc. v. Freedonia Group, Inc., 887 F.2d 399, 404 (2d Cir. 1989) ("The parties have sacrificed some trees and much ink over the issue of whether enhanced good will and market recognition may be treated as a profit.... [W]e see no legal barrier to such an award under Section 504(b) so long as the amount of the award is based on a factual basis rather than 'undue speculation.' Although we recognize that proving the value received from an infringing product used to enhance commercial reputation may be difficult, we are unpersuaded that the difficulty is so universal that an award for such gains may never be made as a matter of law." (citations omitted)). See also Dennis S. Corgill, Measuring the Gains of Trademark Infringement, 65 Fordham L. Rev. 1909 (1997) (developing hypothesis that current measurement of the benefits from trademark infringement ignores some of the larger consequences of the trademark infringement, which includes an acceleration or enhancement of the infringer's product

life cycle and possibly even the infringer company's life cycle that could not occur in the absence of the infringement).

93 See City of Elizabeth v. Am. Nicholson Pavement Co., 97 U.S. (7 Otto) 126, 139 (1877) ("But when the entire profit of a business or undertaking results from the use of the invention, the patentee will be entitled to recover the entire profits, if he elects that remedy. And in such a case, the defendant will not be allowed to diminish the show of profits by putting in unconscionable claims for personal services or other inequitable deductions. These general propositions will hardly admit of dispute; and they will furnish us some guide in deciding the questions raised in this case." (citations omitted)).

94 Callaghan v. Myers, 128 U.S. 617, 664 (1888) ("We do not think that the value of the time of an infringer, or the expense of the living of himself or his family, while he is engaged in violating the rights of the plaintiff, is to be allowed to him as a credit, and thus the plaintiff be compelled to pay the defendant for his time and expenses while engaged in infringing the copyright.").

95 See Page Mach. Co. v. Dow, Jones & Co., 238 F. 369, 375 (S.D.N.Y. 1916) ("The next item is 'administration' expenses, which means no more than the salaries of executive officers. I quite agree with the plaintiff that there is reason to suppose that after 1908 the defendant's officers, who were the principal owners, decided to distribute actual profits by way of salaries. This event...suggests that the purpose was to avoid the showing of high profits. Such devices the court will defeat."); Restatement (Third) of Unfair Competition §37 cmt. g (1995) ("Other expenses directly associated with producing the relevant gross income are also deductible. The value of a defendant's own labor, however, and salaries or wages paid to persons responsible for the tortious conduct, are not ordinarily deductible. Distributions of profits to partners or stockholders are also not ordinarily deductible.").

96 Sygma Photo News, Inc. v. High Soc'y Magazine, Inc., 778 F.2d 89, 93-94 (2d Cir. 1985).

97 See infra Part X.

98 Nike Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1448 (Fed. Cir. 1998) ("Nike argues that the award should be based on pre-tax profits.... Nike points out that an award of only the infringers' post-tax profits would leave the appellants in possession of their tax refunds, and that if the appellants still enjoy a profit the award can not [sic] be their 'total profits' as mandated by the statute.").

99 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.3 (Tentative Draft No. 5, 2007) ("The defendant is normally denied a credit for income taxes paid. The reason is not to punish wrongdoers (as is sometimes stated), but to avoid a distortion resulting from the effect of the judgment on the defendant's future tax liability."); Restatement (Third) of Unfair Competition §37 cmt. g (1995) ("Income tax paid by the defendant on the profits for which it is accountable should not generally be deducted in computing the defendant's liability. Since the defendant can ordinarily claim the amount paid under an accounting as a deductible business expense, it can recoup some or all of the income tax previously paid on the profits included in the award.").

100 See Page Mach. Co. v. Dow, Jones & Co., 238 F. 369, 375 (S.D.N.Y. 1916).

101 See, e.g., SEC v. First Jersey Sec., Inc., 101 F.3d 1450, 1475 (2d Cir. 1996) (holding that a settlement in separate class action is offset for calculation of unjust enrichment); SEC v. Chem. Trust, No. 00-CV-8015, 2000 U.S. Dist. LEXIS 19786, at *34 (S.D. Fla. Dec. 19, 2000) ("Likewise, funds that the FBI seized from ACC, $26,940.28, pursuant to a seizure warrant issued in a parallel criminal investigation may inure at a later time to the benefit of the defrauded investors herein. To the extent those funds do inure to the benefit of investors, they should be credited against ACC's accounting."); In re Alpha Telcom, Inc., No. 01-CV-1283, 2004 U.S. Dist. LEXIS 20002, at *32-33 (D. Or. Aug. 18, 2004), vacated sub nom., SEC v. Ross, 504 F.3d 1130 (9th Cir. 2007) ("Many agents say they are being sued by former clients, and contend they should not also be liable for disgorgement. I disagree. The injuries sustained by the former clients are entirely distinct from the commissions that the agent received. The agent can be liable for both."); but see SEC v. Alliance Leasing Corp., 28 F. App'x 648, 652 (9th Cir. 2001) ("Appellants argue that the district court should have reduced the disgorgement by the amounts investors recovered from Alliance in the bankruptcy proceeding. Disgorgement prevents unjust enrichment, requires return of ill-gotten gains and is independent of other remedies....Appellants should not be allowed to keep ill-gotten gains merely because the investors recovered some of the money from Alliance in the bankruptcy proceeding."); In re Alpha Telecom, 2004 U.S. Dist. LEXIS 20002, at *33 ("It is analogous to a malpractice claim against a surgeon. He may be required to refund the amount paid for the surgery and also be liable for any injury sustained by the patient.").

[102] See Tilghman v. Proctor, 125 U.S. 136, 146 (1887), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983) (noting that when there is no advantage to the defendant, plaintiffs can only have an action for damages); Dean v. Mason, 61 U.S. 198, 203 (1858) ("The decree was entered, on the report of the master, for the estimated amount of profits which the defendant, with reasonable diligence, might have realized; not what, in fact, he did realize. This instruction was erroneous. The rule in such a case is the amount of profits received by the unlawful use of the machines, as this, in general, is the damage done to the owner of the patent.").

[103] See, e.g., Dean v. Mason, 61 U.S. at 203 (requiring the award of actual damages).

[104] SEC v. First City Fin. Corp., 890 F.2d 1215, 1231 (D.C. Cir. 1989).

[105] Herrmann v. Steinberg, 812 F.2d 63, 66 (2d Cir. 1987); SEC v. McCaskey, No. 98-CV-6153, 2002 U.S. Dist. LEXIS 4915, at *16 n.6 (S.D.N.Y. Mar. 26, 2002); SEC v. World Gambling Corp., 555 F. Supp. 930, 934-35 (S.D.N.Y. 1983), aff'd, 742 F.2d 1440 (2d Cir. 1983); SEC v. Credit Bancorp, Ltd., No. 99-CV-11395, 2002 U.S. Dist. LEXIS 20597, at *8 (S.D.N.Y. Oct. 29, 2002); SEC v. Rosenfeld, No. 97-CV-1467, 2001 U.S. Dist. LEXIS 166, at *6 (S.D.N.Y. Jan. 9, 2001); SEC v. Bocchino, No. 98-CV-7525, 2002 U.S. Dist. LEXIS 22047, at *6-7 (S.D.N.Y. Nov. 8, 2002).

[106] Packet Co. v. Sickles, 86 U.S. (19 Wall.) 611, 617-18 (1873).

[107] Palmer, supra note 83, §2.7, at 87-88 ("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.").

[108] Restatement of Restitution §136, cmt. a (1937).

[109] Sheldon III, 309 U.S. 390, 399 (1940) (quotation supra note 44).

[110] Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 505 (1964).

[111] Nike Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1441 (Fed. Cir. 1998).

[112] 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."); Restatement (Third) of Unfair Competition §37 reporter's note cmt. a (1995) ("Most courts do not draw a distinction between the rules governing monetary relief at common law and under the Lanham Act."); Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.4 (Tentative Draft No. 5, 2007) ("From a trustee charged with liability for breach of duty it is a short conceptual step to a defendant charged as a constructive trustee, thence to anyone who is required to account (whether or not via the remedy of constructive trust) for profits realized in consequence of a wrong to the claimant. 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.").

[113] Sammons v. Colonial Press, Inc., 126 F.2d 341, 346 (1st Cir. 1942); see also Gotham Silk Hosiery Co. v. Artcraft Silk Hosiery Mills, Inc., 33 F. Supp. 344, 345 (D. Del. 1940) ("It is well recognized in the cases that a patent accounting case is similar to other

equitable accountings, and that all that equity seeks to accomplish is substantial justice." (citations omitted)); X-It Prods., L.L.C. v. Walter Kidde Portable Equip., Inc., 155 F. Supp. 2d 577, 658 (E.D. Va. 2001) ("A constructive trust is merely a procedural device by which a court of equity may rectify certain wrongs.... Courts have impressed equitable remedies of this kind upon wrongfully obtained profits in a variety of contexts, including breach of fiduciary obligation or breach of contract." (citations omitted)).

114 See Roach, supra note 59, at 4-5 ("As further demonstrated in the chart in Appendix A, the average number of case opinions per year from federal courts relating to the defendant's profits has increased approximately 700% in the last 40 years. From 1965 to 2005, the federal share of federal and state case opinions increased from 50% to 80%.").

115 Root v. Lake Shore & M.S. Ry. Co., 105 U.S. 189, 193 (1881) ("This act 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. Before this act it had been held that a citizen of one State could not obtain an injunction in the Circuit Court for a violation of a patent-right against a citizen of the same State, as no act of Congress authorized such suit. This act removed that objection and gave the jurisdiction, although the parties were citizens of the same State. But in the exercise of the jurisdiction in all cases of granting injunctions to prevent the violation of patent-rights the court is to proceed according to the course and principles of courts of equity in such cases." (quoting Sullivan v. Redfield, 23 F. Cas. 357, 360 (C.C.D.N.Y. 1825))).

116 Stevens v. Gladding, 58 U.S. 447, 454-55 (1855).

117 Sheldon III, 309 U.S. 390, 399-400; Tilghman v. Proctor, 125 U.S. 136, 148-49 (1887), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983) ("The rule in equity of requiring an infringer to account for the gains and profits which he has made from the use of a patented invention, instead of limiting the recovery to the amount of royalties paid to the patentee by third persons, has been constantly upheld under the provision of the patent act of 1870, embodied in the Revised Statutes, which, beside reenacting the grant of general equity jurisdiction in patent cases, further enacts that 'upon a decree being rendered in any such case for an infringement, the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction, and the court shall have the same powers to increase the same in its discretion that are given by this act to increase the damages found by verdicts in actions upon the case;' and thus expressly affirms the defendant's liability to account for profits, as well as authorizes the court sitting in equity to award and to treble any damages that the plaintiff has sustained in excess of the defendant's profits.").

118 Stevens, 58 U.S. at 455 (citations omitted).

119 Sheldon III, 309 U.S. at 399 (quotation supra note 44).

120 Porter v. Warner Holding Co., 328 U.S. 395, 399-400 (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).

121 Mitchell v. Robert DeMario Jewelry, Inc., 361 U.S. 288, 291-92 (1960).

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

123 See SEC v. Cavanagh, 445 F.3d 105, 120 (2d Cir. 2006) (displaying cases from both English equity courts and American courts awarding equitable remedies resembling modern disgorgement cases); Newby v. Enron Corp., 188 F. Supp. 2d 684, 702-03 (S.D. Tex. 2002), consolidated by 206 F.R.D. 427 (S.D. Tex. 2002), aff'd, 302 F.3d 295 (5th Cir. 2002) ("A constructive trust and an accounting for profits imposed for breach of fiduciary duty are equitable remedies of restitution."); Beals v. Wash. Int'l, Inc., 386 A.2d 1156, 1159 (Del. Ch. 1978) ("The Delaware cases holding that the Court of Chancery, once having acquired jurisdiction over a controversy may, in appropriate cases, go on to grant complete relief although the relief granted is in the nature of a legal remedy,

are not inconsistent with this holding. To say that Chancery may award compensatory damages in certain instances is not to say that Chancery may also award punitive damages.").

124 See Brophy v. Cities Serv. Co., 70 A.2d 5, 8 (Del. Ch. 1949) (stating that in equity jurisdictions, a corporation does not need to be charged in the compliant when an employee breaches a confidential relationship); Diamond v. Oreamuno, 248 N.E.2d 910, 912 (N.Y. 1969) (fiduciary breach); FTC v. Verity Int'l, Ltd., 443 F.3d 48, 67 (2d Cir. 2006), cert. denied, 127 S. Ct. 1868 (2007) (ancillary jurisdiction).

125 Restatement (Second) of Trusts §172 cmt. b, §179 (1959); Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 619 (1912); Hart v. Ten Eyck, 1 N.Y. Ch. Ann. 296, 2 Johns. Ch. 62, 108 (N.Y. Ch. 1816), rev'd sub nom., Woodcock v. Bennett, 1 Cow. 711 (1823) ("The rule of law and equity is strict and severe on such occasions. If a party having charge of the property of others, so confounds it with his own, that the line of distinction cannot be traced, all the inconvenience of the confusion is thrown upon the party who produces it, and it is for him to distinguish his own property or lose it. If it be a case of damages, damages are given to the utmost value that the article will bear.").

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

127 Id.

128 Id. ("[T]he 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."). This is not to say that there is an actual fiduciary relation which would give the right to an accounting for profits regardless of the existence of a basic claim to equitable relief. See also L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co., 277 U.S. 97, 100 (1928) ("But the question cannot be answered by the merely formal reply that if the Larson Company chooses to make the Wrigley Company its agent or trustee ex maleficio and to demand the profits made by the agent it must take the burden with the benefit and can have no more than the agent made in fact. To call the infringer an agent or trustee is not to state a fact but merely to indicate a mode of approach and an imperfect analogy by which the wrongdoer will be made to hand over the proceeds of his wrong.").

129 Root, 105 U.S. at 214-16; Tilghman v. Proctor, 125 U.S. 136, 148 (1888), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983) ("But, as has been recently declared by this court, upon an elaborate review of the cases in this country and in England, it is more strictly accurate to say that a court of equity, which has acquired, upon some equitable ground, jurisdiction of a suit for the infringement of a patent, will not send the plaintiff to a court of law to recover damages, but will administer full relief, by awarding, as an equivalent or a substitute for legal damages, 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." (citing Root, 105 U.S. at 214-15)); see also Packet Co. v. Sickles, 86 U.S. (19 Wall.) 611, 617-18 (1873) ("The rule in suits in equity, of ascertaining by a reference to a master the profits which the defendant has made by the use of the plaintiff's invention, stands on a different principle. It is that of converting the infringer into a trustee for the patentee as regards the profits thus made; and the adjustment of these profits is subject to all the equitable considerations which are necessary to do complete justice between the parties, many of which would be inappropriate in a trial by jury."); Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 259 (1916) (requiring, through equity, a trademark infringer account for and yield gains to the true owner by analogy to a trustee's liability for profits acquired by wrongful use of trust property); but see L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co., 277 U.S. 97, 100 (1928) ("It would be unjust to charge an infringer with the gross amount of his sales without allowing him for the materials and labor that were necessary to produce the things sold, but it does not follow that he should be allowed what he paid for the chance to do what he knew that he had no right to do."); 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."); Triplex Safety Glass Co. v. Pittsburgh Plate Glass Co., 38 F. Supp. 639, 642 (D. Del. 1941) ("The generic rule for ascertaining the amount of the profits recoverable in equity for the infringement of a patent, is that of treating the infringer as though he were a trustee for the patentee, in respect of the profits which he realized from his infringement.... This must not be taken to mean that there is a fiduciary relation created between the patentee and the infringer by reason of the infringement. All that it means is that compensation is to be 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." (quoting 3 Walker on Patents §844 (1937))); Dad's Root Beer Co. v. Doc's Beverages, Inc., 94 F. Supp. 121, 122 (S.D.N.Y. 1950), aff'd, 193 F.2d 77 (2d Cir. 1951) ("In this proceeding, the law of the State of New York with respect to unfair competition is controlling.... But this action is in equity. The plaintiff prayed as relief that the defendant account for the profits made [by] it on its sales, and the law seems well settled that

equity will treat the wrongdoer as a trustee for the plaintiff so far as the former has realized profits from its acts.”).

130 King Mechanism & Eng’g Co. v. W. Wheeled Scraper Co., 59 F.2d 546, 547 (7th Cir. 1932) (breaking the analysis down into three parts: (1) when the patent has already expired before the claim is filed and no injunctive relief can be afforded, the court has no jurisdiction, (2) when there is a small amount of time remaining on the patent after the claim is filed, jurisdiction is discretionary, and (3) when the claim for injunctive relief is a subterfuge to gain jurisdiction in equity, the court should transfer the case to a court at law.).

131 Great-West Life & Annuity Ins. Co. v. Knudson, 534 U.S. 204, 211 (2002) (“But an injunction to compel the payment of money past due under a contract, or specific performance of a past due monetary obligation, was not typically available in equity.”); Tull v. United States, 481 U.S. 412, 425 (1987) (“The Government next contends that, even if the civil penalties under §1319(d) are deemed legal in character, a jury trial is not required. A court in equity was empowered to provide monetary awards that were incidental to or intertwined with injunctive relief. The Government therefore argues that its claim under §1319(b), which authorizes injunctive relief, provides jurisdiction for monetary relief in equity.... This argument has at least three flaws. First, while a court in equity may award monetary restitution as an adjunct to injunctive relief, it may not enforce civil penalties. 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. A potential penalty of $22 million hardly can be considered incidental to the modest equitable relief sought in this case.”).

132 Restatement (Third) of Restitution and Unjust Enrichment §52 cmt. e.1 (Tentative Draft No. 5, 2007). Absence of but-for causation does not necessarily exonerate the wrongdoer, because a finding that the defendant would have realized the profit in any event does not compel the conclusion that the defendant, under the circumstances, has not been unjustly enriched. To take an obvious example, a trustee who makes a profit from the personal use of trust assets could not escape liability in restitution by proving that he could have (and would have) made the same profit legitimately, if only his access to the trust assets had been hindered in some way. Nor does the existence of but-for causation compel the conclusion in every case that the proper measure of unjust enrichment is the whole of the defendant’s traceable gains. See, e.g., Restatement (Third) of Restitution and Unjust Enrichment, §52 illus. 12 (Tentative Draft No. 4, 2005); id. §43, illus. 36 (exploring the question of how far to pursue consequential gains from the purchase of shares on inside information); id. §53 illus. 16 (exploring the question of how far to pursue consequential gains from trespass).

133 Palmer, supra note 83, §3.12, at 303.

134 C. R. McCorkle, Annotation, Compensation For Improvements Made or Placed On Premises of Another by Mistake, 57 A.L.R.2d 263 (1958) (“At common law, emphasis is placed upon the right of the owner of land to control and use it as he sees fit, and it is considered that he is under no obligation, either legal or moral, to pay for improvements made or placed thereon without his knowledge or consent, even though he may derive benefit therefrom.... In equity, the mistaken improver may be entitled to relief by way of compensation under the rule or maxim that he who seeks equity must do equity, or under the doctrines of unjust enrichment or estoppel.”); see Roach, supra note 46, at 289-91 (claiming that jurisdictions for some claims overlap, and therefore plaintiffs have the option to file either a legal tort claim or an equitable unjust enrichment claim).

135 Palmer, supra note 83, §3.12, at 303 (“The requirement that a party who obtains restitution must return or otherwise account for benefits received in an exchange transaction does not rest on a principle of mechanics: that since the transaction is being rescinded it necessarily follows that there must be a reexchange of benefits transferred on each side. Instead, the true basis of the requirement is to prevent the unjust enrichment of the plaintiff, who is himself seeking restitution based on the defendant’s unjust enrichment.”).

136 Restatement (Second) of Trusts §188 cmt. f (1959) (“Although the trustee is authorized to incur an expense, he is under a duty to exercise such care and skill as a man of ordinary prudence would exercise in incurring the expense.”).

137 Id. §244 cmt. c (“To the extent to which the trustee is entitled to indemnity, he has a security interest in the trust property. He will not be compelled to transfer the trust property to the beneficiary or to a transferee of the interest of the beneficiary or to a successor trustee until he is paid or secured for the amount of expenses properly incurred by him in the administration of the trust.”).

138 Restatement of Restitution §158 (1937).

139 Id. §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).

140 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.").

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

142 Id.

143 United States v. Wight, 839 F.2d 193, 197 (4th Cir. 1987); Jay v. Gen. Realties Co., 49 A.2d 752, 755 (D.C. Cir. 1946); Burg v. Miniature Precision Components, Inc., 330 N.W.2d 192, 199 (Wis. 1983); but see Raymond Farmers Elevator Co. v. Am. Surety Co., 290 N.W. 231, 235 (Minn. 1940) (agreeing with Restatement of Agency in disallowing truck operating costs but allowing the cost of grain in grain sale revenue).

144 Restatement (Third) of Restitution and Unjust Enrichment §51 illus. 22 (Tentative Draft No. 5, 2007).

145 See Roach, supra note 46, at 332-48 (showing the equitable realm of unjust enrichment tends to be uncertain for litigators because judges have a wide degree of discretion when dealing with equitable remedies).

146 Sanguinetti v. Strecker, 577 P.2d 404, 410 (Nev. 1978) ("[E]ven a fraudulent grantee is entitled to reimbursement of 'necessary expenditures in preserving the property."' (quoting Morris v. Hanssen, 78 S.W.2d 87, 95 (Mo. 1934)); Farnum v. Silvano, 540 N.E.2d 202, 206 (Mass. App. Ct. 1989) (holding that the plaintiff was entitled to rescission subject to reimbursing the defendant for taxes and repairs).

147 Restatement of Restitution §158 cmt. d (1937).

148 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.3 (Tentative Draft No. 5, 2007).

149 R. A. Vinluan, Annotation, Measure of Damages For Wrongful Removal of Earth, Sand, or Gravel From Land, 1 A.L.R.3d 801 (1965); V. Woerner, Annotation, Right of Trespasser to Credit for Expenditures in Producing, As Against His Liability For Value of Oil or Minerals, 21 A.L.R.2d 380 (1952).

150 See Austrian Motors, Ltd. v. Travelers Ins. Co., 275 S.E.2d 702 (Ga. Ct. App. 1980); see generally 1 Dobbs, supra note 38, §4.5(3).

151 Wooden-Ware Co. v. United States, 106 U.S. 432, 433-34 (1882). Modern English 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).

152 See SEC v. Cavanagh, 445 F.3d 105, 120 (2d Cir. 2006) (citing Garth v. Cotton, (1973) 27 Eng. Rep. 1182, 1196 (Lord Chancellor's Ct.)).

[153] See Restatement (Third) of Restitution & Unjust Enrichment § 51 cmt. e.3, illus. 20 (Tentative Draft No. 5, 2007).

[154] See Restatement (Third) of Restitution & Unjust Enrichment §40, cmt. d, illus. 11 (Tentative Draft No. 4, 2005) (the illustration is based on Welch v. Kosasky, 509 N.E.2d 919 (Mass. App. Ct. 1987)).

[155] Austrian Motors, 275 S.E.2d at 706.

[156] Restatement (Third) of Restitution and Unjust Enrichment §53(1) (Tentative Draft No. 5, 2007) ("A person who is liable to make restitution of property or its value is liable for secondary enrichment in the form of interest, use value, or rental value, to the extent that such enrichment is either realized in fact or appropriately presumed. Secondary enrichment of this kind may be presumed in the case of a recipient who is a wrongdoer (§51(1)) or who is otherwise responsible for unjust enrichment (§52(1)), as necessary to ensure that such recipients retain no benefit from the breach of duty or from the acts or omissions giving rise to responsibility, as the case may be.").

[157] Cross v. Berg Lumber Co., 7 P.3d 922, 935-36 (Wyo. 2000).

[158] Olwell v. Nye & Nissen Co., 173 P.2d 652, 653 (Wash. 1946).

[159] Edwards v. Lee's Adm'r, 96 S.W.2d 1028, 1031 (Ky. Ct. App. 1936).

[160] For an interesting claim by a plaintiff who pleaded for specific restitution of intangible property (custody of a website), the property's income as unjust enrichment, and punitive damages, see Kremen v. Cohen, 337 F.3d 1024, 1030 (9th Cir. 2003).

[161] C. R. McCorkle, Annotation, Compensation For Improvements Made or Placed On Premises of Another by Mistake, 57 A.L.R.2d 263 (1958).

[162] See SEC v. Cavanagh, 445 F.3d 105, 109, 118 (2d Cir. 2006) (discussing the equitable remedy of disgorgement in contrast to the civil remedy by statute). See also Securities Act of 1933, 15 U.S.C. § 77t(d)(2)(C) (2000); Securities Exchange Act of 1934, 15 U.S.C. § 78u(d)(3)(B)(iii) (2000).

[163] See Roach, supra note 59, at 62 ("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."). There are examples of orders to disgorge revenues. See, e.g., Stenograph L.L.C. v. Bossard Assocs., 144 F.3d 96, 103 (D.C. Cir. 1998); Am. Honda Motor Co. v. Two Wheel Corp., 918 F.2d 1060, 1064 (2d Cir. 1990); Alameda Films S.A. De C V v. Authors Rights Restoration Corp., 331 F.3d 472, 485 (5th Cir. 2003) (affirming the jury verdict for revenues, but remanding for determination of proper attorney's fees). See also Blackman v. Hustler Magazine, Inc., 800 F.2d 1160, 1163 (D.C. Cir. 1986) ("where the infringer 'does not assume this burden [of establishing revenues earned] or if its attempt to do so is found unacceptable by the court... then the gross figure is left to stand as the profit factor."' (quoting Russell v. Price, 612 F.2d 1123, 1131 (9th Cir. 1979))).

[164] Murphy Door Bed Co. v. Interior Sleep Sys., Inc., 874 F.2d 95, 103 (2d Cir. 1989) ("Even if Zarcone does not offer evidence of his costs (as he has not heretofore), the court should estimate them based on the evidence before it."); Dayva Int'l v. Award Prods. Corp., No. 97-CV-1397, 1998 U.S. App. LEXIS 4386, at *10-11 (Fed. Cir. Mar. 11, 1998) ("Thus, a trial court only has an independent duty to apportion profits, even where the defendant fails to present evidence, if it is clear from the record that not all the profits claimed are attributable to the infringement."); see also H-D Mich. Inc. v. Bikers Dream, Inc., No. 97-CV-864, 1998 U.S. Dist. LEXIS 17259, at *22 (C.D. Cal. July 28, 1998) ("South County argues that, in the absence of evidence proving its costs, the trier of fact has a duty to estimate expenses. Given the Court's broad discretion to fashion monetary relief 'subject to the principles of equity,' the Court may estimate costs when the Defendant has provided some basis on which costs may be determined." (citation omitted)).

165 Roach, supra note 59, at 61. ("Should the defendant fail to meet this burden, the court is entitled to deny the defendant any offsets against the revenues established by the plaintiff. Only the Second Circuit has specifically held that even when the defendant fails to meet her burden of proof, the court should still attempt to estimate the defendant's costs of goods sold to reduce the revenues."); see supra note 164 and accompanying text.

166 See supra note 163.

167 McGaffee v. McGaffee, 58 N.W.2d. 357, 360-61 (Iowa 1953) (In this case involving fraud, the assignment of the business was reversed and the assets that were purchased with the proceeds of the business were to be impressed with a lien, including real estate, automobiles and insurance policies. The defendant was granted offset for reasonable value of services.).

168 1 Dobbs, supra note 38, §9.3(4), at 601; see also 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.").

169 See SEC v. Blatt, 583 F.2d 1325, 1335 (5th Cir. 1978) ("Disgorgement is remedial and not punitive. 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."); Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.4 (Tentative Draft No. 5, 2007) ("Disgorgement does not impose a general forfeiture: defendant's liability in restitution is not the whole of the gain from a tainted transaction, but the amount of the gain that is attributable to the underlying wrong. For reasons already mentioned, however, the precise amount of the defendant's unjust enrichment may be difficult or impossible to ascertain. The unusual difficulty of measurement in particular contexts explains why, in applying the disgorgement remedy, courts so often refer to burdens of proof and presumptions.").

170 1 Dobbs, supra note 38, §4.1(1) ("Most generalizations about restitution are trustworthy only so long as they are not very meaningful and meaningful only so long as they are not very trustworthy.").

171 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e(4) (Tentative Draft No. 5, 2007).

172 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).

173 Restatement of Restitution §158 cmt. b (1937).

174 See infra Parts VI.B & V.

175 See Beals v. Wash. Int'l, Inc., 386 A.2d 1156, 1159 (Del. Ch. 1978) (discussing Colburn v. Simms, (1843) 67 Eng. Rep. 224 (Ch.)).

176 See supra note 172.

177 Williams Elecs. Games, Inc. v. Garrity, 366 F.3d 569, 576 (7th Cir. 2004), aff'd, 479 F.3d 904 (2007) (concluding that the victim of commercial bribery can obtain either his damages or the profits that the bribe yielded, where the total profits equal the amount of the bribe plus the revenues generated by the bribe minus the cost of goods sold any other variable costs incurred in making the sales).

178 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.4 (Tentative Draft No. 5, 2007) .

179 See Restatement of Restitution §109 (1937) ("A person who has conferred a benefit upon another in the course of a transaction which the other has avoided because of the transferor's fraud or duress, is entitled to restitution from the other if, and only if, the other has been fully restored to his former position and if a harsh forfeiture cannot otherwise be avoided.").

180 Brooks v. Conston, 72 A.2d 75, 79 (Pa. 1950) ("The wrong that Conston committed was in his original acquisition of the stores, not in his operation of them; that operation was not in competition with, or to the detriment of, or in hostility to, some other business of plaintiffs, nor will it ultimately cause them any loss; on the contrary it has considerably enhanced the value of their subsequently returned property; while Conston did not, of course, realize it at the time, he was in fact, in conducting the business, not working against, but for, plaintiffs' interests. Actions of restitution are not punitive.... While, ordinarily, a person guilty of fraud is not to be allowed profits or benefits derived therefrom in whatever form, we are of opinion that where, as here, his services have greatly increased the value of the property which he fraudulently acquired, and the fruits of his management ultimately accrue to the rightful owner, an allowance may properly be made for the service rendered if, in the discretion of the court, the circumstances in the particular case so warrant.").

181 1 Dobbs, supra note 38, §9.3(4), at 602 n.42 (citing Palmer, supra note 83, §3.12, at 304).

182 See infra note 191.

183 Restatement of Restitution §158 cmt. d (1937).

184 Restatement (Second) of Trusts §243. If the trustee commits a breach of trust, the court may in its discretion deny him all compensation or allow him a reduced compensation or allow him full compensation.

185 Callaghan v. Myers, 128 U.S. 617, 664 (1888); Clair v. Kastar, Inc., 70 F. Supp. 484, 486 (S.D.N.Y. 1946).

186 Burrow v. Arce, 997 S.W.2d 229, 238 (Tex. 1999); see also Boston Children's Heart Found., Inc. v. Nadal-Ginard, 73 F.3d 429, 435 (1st Cir. 1996) (noting that a court can require a fiduciary to forfeit the right to retain or receive compensation for conduct in violation of his or her fiduciary duty, even absent a showing of actual injury to the principal).

187 See Int'l Consulting Servs. v. Cheap Tickets, Inc., No. 01-CV-4678, 2007 U.S. Dist. LEXIS 71689, at *17-18 (E.D.N.Y. Sept. 12, 2007) ("Likewise, the court held in John B. Stetson Co. v. Stephen L. Stetson Co. [, 58 F. Supp. 586, 591 (S.D.N.Y. 1944)] that 'defendant is entitled to a reasonable deduction for salary paid to [the president of the company], regardless of the fact that he is responsible for the violation of the decree,' on the basis that '[h]is services helped produce the profits from which the plaintiff is to benefit, and the reasonable value thereof should be deducted in the computation.'; see also Hair Assocs. v. Nat'l Hair Replacement Servs. [, 987 F. Supp. 569, 595 (W.D. Mich. 1997)] ('Several courts have concluded that the officer of an infringing company is entitled to a reasonable salary which must be taken into account in computing profits.') (collecting cases). In the instant case, where ICS' employees were necessary for the functioning of the business, a reasonable salary deduction (including pension and profit-sharing plans), as represented by plaintiff's tax returns, is appropriate.").

188 456 F. Supp. 176, 182 (E.D. Va. 1978), aff'd in part, rev'd in part, 595 F.2d 926 (4th Cir. 1979), rev'd, 444 U.S. 507 (1980); Frank Snepp, Irreparable Harm 357 (U. Kan. Press) (1999) (recounting that the district court did, however, allow Snepp to offset his income taxes).

[189] 1 Dobbs, supra note 38, § 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." (citations omitted)); 1 Dobbs, supra note 38, §4.5(3), at 645.

[190] Perhaps the best known and near-legendary example of this principle is the Highwayman's Case, a story occasionally told by the Seventh Circuit to embarrass frivolous claims. It concerns two partners in an enterprise of literal highway robbery in which one partner filed claim against the other for an unfair division of the spoils. The judge ordered the foolish plaintiff to be hung and fined the plaintiff's lawyers a large sum. Christopher H. Hanna, A Tribute to Professor Joseph W. McKnight: Shades of The Highwayman's Case in the 21st Century, 55 SMU L. Rev. 229, 230-32 (2002); see also Byron v. Clay, 867 F.2d 1049, 1051-52 (7th Cir. 1989) ("Indiana has a statute making 'ghost employment' a crime. The supremacy clause notwithstanding, a federal court should hesitate to order the commission of a state crime. In arguing that he, not Clay fils, should have the opportunity to defraud the people of Indiana, Byron is like the highwayman who sued his partner in crime for an accounting of the profits--and was hanged for his efforts." (citations omitted)).

[191] Restatement (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.").

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

[193] Restatement 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.").

[194] Callaghan v. Myers, 128 U.S. 617, 664 (1888).

[195] W. E. Bassett Co. v. Revlon, Inc., 435 F.2d 656, 665 (2d Cir. 1970) ("The only one of the claimed deductions which Revlon should not be allowed is the overlabelling expense, because Revlon should have to bear the cost of correcting its own wrongdoing.").

[196] Sygma Photo News, Inc. v. High Soc'y Magazine, Inc., 778 F.2d 89, 93-94 (2d Cir. 1985).

[197] United States v. Sutton, 795 F.2d 1040, 1062-63 (Temp. Emer. Ct. App. 1986).

[198] Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448, 458 (1936), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Century Wrecker Corp. v. E.R. Buske Mfg. Co., 913 F. Supp. 1256 (N.D. Iowa 1996) (quoting McKee Glass Co. v. H. C. Fry Glass Co., 248 F. 125, 128 (3d Cir. 1918)); see also Restatement (Third) of Unfair Competition §37 cmt. d (1995) ("If the defendant's misconduct results in numerous individual sales, each sale is an independent wrong to the plaintiff. The plaintiff may thus recover the defendant's profits on profitable transactions without a deduction for losses suffered on unprofitable transactions."); Wolfe v. Nat'l Lead Co., 272 F.2d 867, 870 (9th Cir. 1959), overruled in part on other grounds by Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156 (9th Cir. 1966) (claiming with citations that the Duplate holding has been shown true in both patent and trademark cases); Burger King Corp. v. Mason, 855 F.2d 779, 781 (11th Cir. 1988) (following the analysis in Wolfe and rejecting the good faith defense of an attorney in a trademark infringement case); Restatement (Third) of Unfair Competition §45 cmt. f ("In allocating overhead among products derived from the appropriation and other products marketed by the defendant, the courts generally apply an incremental cost allocation that allows deductions only for additional expenses made necessary by the manufacture or sale of the products subject to the accounting. The defendant may set off losses from prior accounting periods against subsequent profits only if the profits are dependent on expenses incurred in the prior period, such as advertising costs that result in profits in a succeeding year." (citations omitted)).

[199] See, e.g., Nat'l Carbon Co. v. Richards & Co., 85 F.2d 490, 492 (2d Cir. 1936) ("The rule requires the plaintiff, where both the patented invention and other factors have contributed to the profits, to apportion the profits, or else to prove that he is entitled to the entire fund, which he may do by showing either that 'the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature,' or that the defendant has 'inextricably commingled and confused the parts composing' the fund." (citations omitted)); Restatement (Third) of Unfair Competition §37 cmt. d ("The leading case holding that the defendant is not entitled to offset losses from independent transactions in determining profits is Wolfe v. National Lead Co. [, 272 F.2d 867 (9th Cir. 1959)]. See also Burger King Corp. v. Mason [, 855 F.2d 779, 781-82 (11th Cir. 1983)] (holdover franchisee could not set off losses from some restaurants against profits from others, but was permitted to offset one year's losses against another year's gains from the same restaurant).").

[200] See, e.g., Crosby Steam Gage & Valve Co. v. Consol. Safety Valve Co., 141 U.S. 441, 451 (1891) ("As for the contention that the destroyed valves ought to form a credit against the profits actually realized by the defendant on other valves, it is sufficient to say that the only subject of inquiry is the profit made by the defendant on the articles which it sold at a profit, and for which it received payment, and that losses incurred by the defendant through its wrongful invasion of the patent are not chargeable to the plaintiff, nor can their amount be deducted from the compensation which the plaintiff is entitled to receive."); Duplate Corp., 298 U.S. at 458 ("There may be an acceptance of transactions resulting in a gain with a rejection of transactions resulting in a loss."). But see Sutton, 795 F.2d at 1062 ("The trial court ultimately based its award upon total profits realized by defendants through their miscertification scheme. In this respect, the court took into account defendants' practice of selling all tiers of crude oil at one averaged price with a markup, and this of course resulted in losses on some sales of oil.").

[201] See Restatement (Third) of Trusts §213 (1992) ("A trustee who is liable for a loss caused by a breach of trust may not reduce the amount of the liability by deducting the amount of a profit that accrued through another and distinct breach of trust; 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.").

[202] See King v. Talbot, 40 N.Y. 76, 91 (1869) ("The rule is perfectly well settled, that a cestui que trust is at liberty to elect to approve an unauthorized investment, and enjoy its profits, or to reject it at his option; and I perceive no reason for saying, that where the trustee has divided the fund into parts and made separate investments, the cestui que trust is not at liberty, on equitable as well as legal grounds, to approve and adopt such as he thinks it for his interest to approve.").

[203] Duplate Corp., 298 U.S. at 458 ("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. Upon a statement of an account, a patentee is not looked upon as a 'quasi-partner of the infringers,' under a duty to contribute to the cost of the infringing business as a whole.... He is the victim of a tort, free at his own election to adopt what will help and discard what will harm." (citation omitted)).

[204] Black & Decker, Inc. v. Pro-Tech Power, Inc., 26 F. Supp. 2d 834, 856 (E.D. Va. 1998).

[205] Sheldon II, 106 F.2d 45, 54-55 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940); Burger King Corp. v. Mason, 855 F.2d 779, 781-82 (11th Cir. 1983).

[206] Jones Apparel Group, Inc. v. Steinman, 466 F. Supp. 560, 563 (E.D. Pa. 1979).

[207] King, 40 N.Y. at 91.

[208] Crosby Steam Gage & Valve Co. v. Consol. Safety Valve Co., 141 U.S. 441, 457 (1891).

[209] Sheldon II, 106 F.2d at 54-55.

[210] Black & Decker, Inc. v. Pro-Tech Power, Inc., 26 F. Supp. 2d 834, 856 (E.D. Va. 1998).

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

212 SEC v. Commonwealth Chem. Secs., Inc., 574 F.2d 90, 102 (2d Cir. 1978) ("We see no reason why, in determining how much should be disgorged in a case where defendants have manipulated securities so as to mulct the public, the court must give them credit for the fact that they had not succeeded in unloading all their purchases at the time when the scheme collapsed.").

213 Id.

214 Christensen 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.").

215 Restatement (Third) of Restitution and Unjust Enrichment §42 cmt. i (Tentative Draft No. 4, 2005) ("In conducting an accounting, a court may properly adjust the stringency of the defendant's evidentiary burden in response to the character of the defendant's wrongdoing. But the decision to disallow a provable deduction, logically relevant to a determination of the net profit attributable to the infringement, can be justified only if the court claims the authority to impose an overtly punitive sanction." (citation omitted)); id. §51 cmt. e.3 ("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.").

216 Joel Eichengrun, Remedying the Remedy of Accounting, 60 Ind. L.J. 463 (1985).

217 Id. at 466-67.

218 Id. at 471.

219 Dairy Queen, Inc. v. Wood, 369 U.S. 469, 478-79 (1962).

220 See supra Part III.D.

221 See supra Part III.D.

222 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.1 (Tentative Draft No. 5, 2007).

223 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.").

224 Id. §51 cmt. e.3 ("Because disgorgement liability is liability for net profits, a recurring issue of the accounting described in §51(4) is the extent to which the defendant should be allowed a deduction (that is, a credit against liability) for contributions made by the defendant to the profits the defendant is liable to disgorge. As a general rule, the defendant is entitled to a deduction for all marginal costs incurred in producing the revenues that are subject to disgorgement.... 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.").

225 Mowry v. Whitney, 81 U.S. 620, 651 (1872).

226 Sheldon III, 309 U.S. 390, 400 (1940); Coupe v. Royer, 155 U.S. 565, 583 (1895); Keystone Mfg. Co. v. Adams, 151 U.S. 139, 147 (1894); Sessions v. Romadka, 145 U.S. 29, 45 (1892); Tilghman v. Proctor, 125 U.S. 136, 144 (1888), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983); Root v. Lake Shore & M.S. Ry. Co., 105 U.S. 189, 192 (1881); Mfg. Co. v. Cowing, 105 U.S. 253, 255 (1881); Littlefield v. Perry, 88 U.S. 205, 207 (1874); Phila. Rubber Works Co. v. U.S. Rubber Reclaiming Works, 277 F. 171, 176 (2d Cir. 1921); Wales v. Waterbury Mfg. Co., 101 F. 126, 129 (2d Cir. 1900); Cambria Iron Co. v. Carnegie Steel Co., 224 F. 947, 949 (3d Cir. 1915); Swan Carburetor Co. v. Nash Motors Co., 133 F.2d 562, 565 (4th Cir. 1943); Horvath v. McCord Radiator & Mfg. Co., 100 F.2d 326, 330 (6th Cir. 1938); Van Kannel Revolving Door Co. v. Uhrich, 297 F. 363, 368 (8th Cir. 1924); Dunkley Co. v. Cent. Cal. Canneries, 7 F.2d 972, 975 (9th Cir. 1925); Pasqueau v. United States, 26 Ct. Cl. 509, 531 (1891); Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 245 F. 860, 869 (D. Conn. 1917); Minerals Separation, Ltd. v. Butte & Superior Mining Co., 274 F. 878, 878 (D. Mon. 1921); Wetherill v. N.J. Zinc Co., 29 F. Cas. 835, 836 (C.C.D.N.J. 1874); Gould's Mfg. Co. v. Cowing, 10 F. Cas. 879, 882 (C.C.N.D.N.Y. 1874); Bus. Trends Analysts, Inc. v. Freedonia Group, Inc., 700 F. Supp. 1213, 1238 (S.D.N.Y. 1988), aff'd in part, rev'd in part, 887 F.2d 399 (2d Cir. 1989); Phila. Rubber Works Co. v. U. S. Rubber Reclaiming Works, 276 F. 600, 603 (W.D.N.Y. 1920), aff'd, 277 F. 171 (1921); Carson v. Am. Smelting & Refining Co., 25 F.2d 116, 119 (W.D. Wa. 1928); Van Brunt v. La Crosse Plow Co., 208 F. 281, 287 (W.D. Wis. 1913), aff'd, 220 F. 626 (7th Cir. 1915).

227 Sheldon III, 309 U.S. at 400; see also Gotham Silk Hosiery Co. v. Artcraft Silk Hosiery Mills, Inc., 33 F. Supp. 344, 345-46 (D. Del. 1940) ("In settling an accounting between a patentee and an infringer of the patent, the question is: not what profits the latter has made in his business, or from his manner of conducting it, but what advantage has he derived from his use of the patented invention?" (citing Ill. Cent. R.R. Co. v. Turrill (In re Cawood Patent), 94 U.S. (4 Otto) 695, 696 (1877), aff'd, 110 U.S. 301 (1884)); Carter Prods., Inc. v. Colgate-Palmolive Co., 214 F. Supp. 383, 408 (D. Md. 1963) (trade secrets).

228 Miller v. Baynard, 7 Del. 559, 567-68 (1863) ("Any secret arrangement, therefore, having a tendency to mislead a bidder, is in our opinion, a serious departure from fair dealing, and if the price be thereby enhanced, it clearly amounts to a deception practiced by the seller upon the purchaser, advantageous to the former, and injurious to the latter. In point of morals, is not such an arrangement wrong? And if so, is it right to permit him, either at law or in equity, to avail himself of the fruits of an advantage obtained by artifice or deception?"); Winn v. Dillon, 27 Miss. 494, 497 (1854) ("The facts stated in the bill show not only bad faith on the part of the appellee, but a breach of the plain spirit of the contract entered into between him and the appellant. And the well-established principles of equity prevent a party from reaping the fruits of such an advantage, and declare that the property so acquired must be held in trust for the benefit of the party justly entitled to it.").

229 Curry v. King, 92 P. 662, 665 (Cal. Ct. App. 1907) ("The animating principle of the proposition is that no one should nor will be permitted to enjoy the fruits of an advantage taken of a fiduciary relation, whose dominant characteristic is the confidence reposed by one in another."); see also Vigli v. Davis, 179 P.2d 586, 594-95 (Cal. Ct. App. 1947) ("It has therefore been stated that, '[t]he law does not allow the agent who has also a right to purchase to wait until someone makes an offer of an amount in excess of the agreed purchase price and then elect to purchase the property at the lesser price without informing the owner of the higher offer, and after the agent has obtained the consent from the owner to buy the property, then immediately sell it for the higher price as his own property'.... One who acts as an agent and also deals with his principal as to the subject matter of the agency cannot take advantage of his principal by withholding from him information secured by means of the agency. In the language of the Restatement of Agency: 'Before dealing with the principal on his own account ... an agent has a duty, not only to make no misstatements of fact, but also to disclose to the principal all material facts fully and completely."' (citations omitted)); Neb. Power Co. v. Koenig, 139 N.W. 839, 842 (Neb. 1913) ("Among the principles enforced by courts of equity in dealing with conduct growing out of relations of trust and confidence are the following: Means and knowledge acquired by a trusted representative in performing the duties of his trust cannot be used by him to gain an individual advantage at the expense of his employer.").

230 Miller, 7 Del. at 567-68.

231 Winn, 27 Miss. at 497.

232 The British definition of unjust enrichment has not included the notion of "negative unjust enrichment." Consider the case of

Celaneses 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).

233 Ill. Cent. R.R. Co. v. Turrill (In re Cawood Patent), 94 U.S. 695, 710 (1877), aff'd, 110 U.S. 301 (1884); see also Mfg. Co. v. Cowing, 105 U.S. 253, 255 (1882) ("'The question to be determined...is, what advantage did the defendant derive from using the complainant's invention over what he had in using other processes then open to the public, and adequate to enable him to obtain an equally beneficial result. The fruits of the advantage are his profits.' It does not necessarily follow from this that where the patent is for one of the constituent parts, and not for the whole of a machine, the profits are to be confined to what can be made by the manufacture and sale of the patented part separately." (quoting Mowry v. Whitney, 81 U.S. (14 Wall.) 620, 651 (1872))); 1 Dobbs, supra note 38, §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.").

234 Providence Rubber Co. v. Goodyear, 76 U.S. (9 Wall.) 788, 804 (1870), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Am. Med. Sys. v. Med. Eng'g Corp., 6 F.3d 1523 (Fed. Cir. 1993) ("The rule is founded in reason and justice. It compensates one party and punishes the other. It makes the wrong-doer liable for actual, not possible, gains. The controlling consideration is that he shall not profit by his wrong. A more favorable rule would offer a premium to dishonesty and invite to aggression."); Dean v. Mason, 61 U.S. 198, 203 (1858) ("The rule in such a case is, the amount of profits received by the unlawful use of the machines, as this, in general, is the damage done to the owner of the patent. It takes away the motive of the infringer of patented rights by requiring him to pay the profits of his labor to the owner of the patent."); Maier Brewing Co. v. Fleischmann Distilling Corp., 390 F.2d 117, 121 (9th Cir. 1968); Teaching Co. v. Unapix Entm't, Inc., 87 F. Supp. 2d 567, 589 (E.D. Va. 2000) ("As articulated by the Seventh Circuit, the Lanham Act specifically provides for the awarding of profits in the discretion of the judge subject only to principles of equity.... 'The trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party."' (citations omitted)); Dad's Root Beer Co. v. Doc's Beverages, Inc., 94 F. Supp. 121, 122 (S.D.N.Y. 1950), aff'd, 193 F. Supp. 77 (2d Cir. 1951) (applying New York law) ("Ample authority supports the accounting heretofore ordered. Upon the facts, it would be unconscionable to permit defendants to retain any reward from their illegal enterprise. Nor should the law be such as to offer the slightest encouragement to those who perpetrate the kind of acts herein condemned.").

235 Maier Brewing Co., 390 F.2d at 122 ("The legislative history of the Lanham Act expressly states the purpose of the Act: 'This bill, as any other proper legislation on trade-marks, has as its object the protection of trademarks, securing to the owner the good will of his business and protecting the public against spurious and falsely marked goods. The matter has been approached with the view of protecting trade-marks and making infringement and piracy unprofitable."' (citing S. Rep. No. 79-1333, at 1-2 (1946)).

236 See supra note 112. See also supra note 223.

237 McCormick v. Seymour, 15 F. Cas. 1329, 1335 (N.D.N.Y. 1854), aff'd in part, 60 U.S. 96 ("If the patent is for a machine, an entire machine, the patentee is entitled, as damages in case of infringement, to the profits he could have made in constructing and vending his machine, over and above the mere profits arising out of its manufacture. By that we mean, the mere profits of its mechanical construction, and not the profits that grow out of the exclusive right to manufacture the invention under the patent. The latter belong to the patentee, while the former, the mere mechanical profits, are excluded from the damages. And, if the case is one of an improvement on a machine, then he is entitled, as a measure of damages, to all the advantages of the use of his patented improvement, excluding the profits of the manufacture, and excluding also the value, if any, of the use of the old machine. Now, so far as respects the benefits and advantages that a patentee would derive from an improvement on a machine, you see, at once, that they would depend very much, if not altogether, upon the usefulness of the machine with that improvement, compared with its usefulness without that improvement.").

238 Tilghman v. Proctor, 125 U.S. 136, 146 (1887), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983).

239 See supra note 215.

240 See supra note 198.

241 "But for" analysis is almost the same perspective as the advantage perspective discussed in this first part of Part V. See supra notes 224 & 229 and accompanying text.

242 Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e.4 (Tentative Draft No. 5, 2007) (quoting Taylor v. Meirick, 712 F.2d 1112, 1122 (7th Cir. 1983)).

243 Hughes Tool Co. v. G. W. Murphy Indus., Inc., 491 F.2d 923, 930-31 (5th Cir. 1973); see also McCreary v. Pa. Canal Co., 141 U.S. 459, 464 (1891) ("There is nothing, however, to show that the device described in the patent of April 16, 1872, to the McCrearys, was not an operative device, and if it were open to the defendant to use, the plaintiff, in this action, would be limited in his recovery to the profits which the defendant made by the use of the improvement described in the second patent, over the device shown in the earlier patent."); Black v. Thorne, 111 U.S. 122, 123-24 (1884) (claiming that if defendants could find a proper alternative to produce the same output, then there may have been some profit or gain to the defendants); Amusement Corp. v. Mattson, 138 F.2d 693, 696 (5th Cir. 1943) ("It was plaintiff's duty to show that by using his device, defendant made profits which it would not have made if it had used other devices open to it."); Carson v. Am. Smelting & Refining Co., 25 F.2d 116, 119 (W.D. Wash. 1928) (providing a detailed analysis of the role of the infringement to the defendant's business and distinguishing how that role may change the measure of unjust enrichment in equity).

244 Nat'l Carbon Co. v. Richards & Co., 85 F.2d 490, 492 (2d Cir. 1936) ("The trial judge held that apportionment was impossible and that the plaintiff was entitled to the entire profits, but he nevertheless reduced them by the amount of profits which the defendants would have realized had they continued to use the superseded condensation and creosote system, renovated so as to restore its 1927 efficiency, which the parties seemed to agree would be a fair standard of comparison. The profits from solvent recovery with the carbon system were found to be $38,353.36 and the profits attainable had the renovated condensation and creosote system been used were found to be $13,942.71. The plaintiff's award was the difference between these sums.").

245 Int'l Indus., Inc. v. Warren Petroleum Corp., 248 F.2d 696, 699 (3d Cir. 1957) ("The advantage enjoyed by defendant is to be measured by the standard of comparison method. This method contemplates the comparison of the cost of transportation by means of the use of the trade secret with a method of accomplishing the same result which would have been open to defendant had he not appropriated the trade secret. The master found that the proper standard with which to compare the marine transportation of LPG was that of railroad transportation."); Restatement (Third) of Unfair Competition, §45 reporter's note cmt. f (1995).

246 Columbia Wire Co. v. Kokomo Steel & Wire Co., 194 F. 108, 110 (7th Cir. 1911).

247 See, e.g., Gordon Form Lathe Co. v. Ford Motor Co., 133 F.2d 487, 495 (6th Cir. 1943), aff'd, 320 U.S. 714 (1943) ("In determining what is a proper standard of comparison in a particular case, it is unnecessary for the owner of the patentto prove affirmatively that at the time of the infringement, a particular process or thing was better than any other except his invention. This requirement would be unreasonable because impossible of performance. It would entail evidence to prove a negative, i.e., the existence of a better process or thing than the one fixed upon and likely it would be impossible to prove that nothing better existed anywhere. The usual procedure is for the plaintiff to select an acceptable standard of comparison and to offer evidence to prove the advantage derived by the defendant from the use of plaintiff's invention over what he could have derived from the standard selected."); Oneal v. San Jose Canning Co., 33 F.2d 892, 893 (9th Cir. 1929) ("Where unlawful using of a patented article or process constitutes the infringement involved in an action in equity, the infringer's profits are ascertained... as follows: The advantage which the defendant derived from using the complainant's invention, over what he could have derived from using any other process or thin, which was known prior to that invention."); Cambria Iron Co. v. Carnegie Steel Co., 224 F. 947, 954-55 (3d Cir. 1915) ("The simple fact is that the defendant did infringe, and in the cupola practice incident to such infringement did incur these costs. We have, therefore, before us these admitted costs based on the actual workings of the defendant when carrying on their infringing operations. This affords a practical and reliable standard of comparison.").

248 Thomson v. Wooster, 114 U.S. 104, 118 (1885) (approving the use of hand labor and comparison standard); Brown Bag-Filling Mach. Co. v. Drohen, 171 F. 438, 439 (C.C.W.D.N.Y. 1909), aff'd, 175 F. 576 (2d Cir. 1910) (approving the use of hand labor and comparison standard); Olwell v. Nye & Nissen Co., 173 P.2d 652, 653 (Wash. 1946) (noting that defendant saved ten dollars a day by using plaintiff's patented egg-washing machine).

[249] C&F Packing Co. v. IBP, Inc., 224 F.3d 1296, 1304 (Fed. Cir. 2000) ("IBP argues that it can profitably sell precooked sausage topping even without C&F's trade secrets, but not having tried, its suggestion is speculation. IBP's sales figures presented at trial did not identify any sausage products made without using C&F's trade secrets."); Devex Corp. v. Gen. Motors Corp., 494 F. Supp. 1369, 1377 (D. Del. 1980), aff'd, 667 F.2d 347 (3d Cir. 1981) ("There must be some basis for believing that the alternative process on which his standard is based was a realistic alternative, and not some process the only possible value of which is to make the patentee's process appear more useful than, in fact, it is.").

[250] See Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 513 n.7 (9th Cir. 1985) (stating that the district court's award of actual damages for the license was inadequate).

[251] Restatement (Third) of Restitution and Unjust Enrichment §51 cmt. e, illus. 13 (Tentative Draft No. 5 Mar. 12, 2007) ("Director borrows corporate funds to finance the private purchase of property that he subsequently resells to Corporation, realizing from this disloyalty a profit of $300,000. Director thereafter reinvests the $300,000 in an unrelated venture, producing a further gain of $700,000. Director is liable to Corporation for $300,000 in any event. The additional $700,000 is a consequential gain for which Director is also liable to Corporation, unless the court finds that the profit from this subsequent transaction is unduly remote from the underlying wrong (§51(4)(a)). The causal connection between the wrong to Corporation and Director's consequential gain might be broken, for example, if Director could prove that he had alternative sources of financing from which he both could and would have made the subsequent investment in any event."); see also supra note 132.

[252] Margolis, supra note 11.

[253] Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1172 (6th Cir. 1980).

[254] Id. For example, the proverbial producer of children's sneakers that has excess production capacity has no real opportunity cost if it chooses to produce additional "generic" sneakers that infringe on a cartoon character because the infringer could have pursued both non-exclusive options.

[255] See supra Part III.B.

[256] See supra notes 102-103 and accompanying text.

[257] Amschwand v. Spherion Corp., No. H-02-4836, 2005 U.S. Dist. LEXIS 21007, at *19-20 (S.D. Tex. Aug. 24, 2005), aff'd, 505 F.3d 342 (5th Cir. 2007) (citing Callery v. U.S. Life Ins. Co., 392 F.3d 401, 409 (10th Cir. 2004)) ("Callery is persuasive for the proposition that monetary damages equal to the benefits a beneficiary would have received but for the fiduciary's breach do not constitute 'equitable relief' and are therefore unavailable under ERISA § 502(a)(3).").

[258] Edelman, supra note 151, at 76.

[259] Garretson v. Clark, 111 U.S. 120, 121 (1884).

[260] Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 615-16 (1912).

[261] Garretson, 111 U.S. at 121.

[262] Nike, Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1441 (Fed. Cir. 1998) ("It now appears that the design patent laws provide no effectual money recovery for infringement. This is the result of the statute, as applied to the peculiar character of property involved, in a test case decided April last by the Supreme Court of the United States. Since that decision the receipts of the Patent Office in the design department have fallen off upwards of 50 percent, and the average weekly issue of design patents has also

fallen off just one half." (quoting H.R. Rep. No. 1966, at 1 (1886), reprinted in 18 Cong. Rec. 834 (1887)).

263 Id. (quoting H.R. Rep. No. 1966, at 2-3 (1886)).

264 Id. at 1442 ("In 1897 the courts of law were granted the power to grant injunctions in patent cases, and to award both the infringer's profits and the patentee's damages; and to increase damages in accordance with the principles of trespass upon the case.").

265 Sheldon III, 309 U.S. 390, 399 (1940).

266 Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 203 (1942), superseded by statute, Trademark Act of 1946 (Lanham Act), Pub. L. No. 79-489, 60 Stat. 427, as recognized in A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc., 61 U.S.P.Q.2d (BNA) 1637 (E.D. Penn. 2002).

267 Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 620-21 (1912).

268 Id. at 618-19.

269 See Computing Scale Co. v. Toledo Computing Scale Co., 279 F. 648, 673 (7th Cir. 1921) ("In our judgment the Westinghouse Case should forever extinguish in the minds of infringers, caught and held by a decree on the merits, the hope, long entertained and theretofore frequently availed of with success, of escaping all but nominal damages by commingling the appropriated property with other property, by hiding, or by drawing herrings across the trail. Equity will pursue an infringer of a patent as vigilantly as it will any other trespasser. And the first fruits of the Westinghouse decision should be this: If a manufacturer, knowing of a patent, decides to chance an unlicensed use, he should realize that he may be caught by a final decree on the merits and be ordered to respond accordingly; and, so realizing, he should be held to the duty of keeping separate and accurate records of all his infringing acts; and, on his failure to keep such records, the court, in measuring the damages on account of his trespasses, should resolve all doubts against him." (citation omitted)).

270 Westinghouse, 225 U.S. at 620.

271 See Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 206-07 (1942), superseded by statute, Trademark Act of 1946 (Lanham Act), Pub. L. No. 79-489, 60 Stat. 427, as recognized in A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc., 61 U.S.P.Q.2d (BNA) 1637 (E.D. Penn. 2002) (similar application of this doctrine to trademarks).

272 See Straus v. Notaseme Hosiery Co., 240 U.S. 179, 183 (1916) (stating that evidence of defendants excluding plaintiff's name by using another completely unlike that of the plaintiff's was enough to shift the burden to the plaintiff); Tex. Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc., 966 F.2d 956, 957 (5th Cir. 1992) ("'The plaintiff, of course, is not entitled to profits demonstrably not attributable to the unlawful use of his mark.' Mishawaka has been followedand cited numerous times in many federal courts, including the Ninth Circuit in its decision in Maier Brewing Co. 'If it can be shown that the infringement had no relation to profits made by the defendant, that some purchasers bought goods bearing the infringing mark because of the defendant's recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff's symbol, the burden of showing this is upon the poacher.'" (citations omitted)).

273 Sheldon II, 106 F.2d 45 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940).

274 Id. at 50.

275 Sheldon v. Metro-Goldwyn Pictures Corp. (Sheldon I), 26 F. Supp. 134, 142 (S.D.N.Y. 1938), rev'd, 106 F.2d 45 (2d Cir. 1939),

aff'd, 309 U.S. 390 (1940).

276 Sheldon II, 106 F.2d at 50.

277 F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 234 (1952) ("The Court of Appeals cut the award of these actual profits to one-fifth thereof, upon the ground that success of the picture had been largely due to factors not contributed by the infringement. The propriety of this reduction was the sole issue before this Court.").

278 Taylor v. Meirick, 712 F.2d 1112, 1120 (7th Cir. 1983); see also JBJ Fabrics, Inc. v. Mark Indus., Inc., No. 86-CV-4881, 1987 U.S. Dist. LEXIS 13445, at *15 (C.D. Cal. Nov. 5, 1987) ("The rule is that one deducts from the gross sales price the costs that are directly attributable to the items in question. But general overhead, such as management, rent, telephones, designers, and the like are not to be deducted, since they are, by hypothesis, there whether the particular item is sold or not. Only if a particular 'overhead' item can be specifically related to the goods in question can it be deducted. This is true even if overhead increases losses or decreases gains for the enterprise as a whole.").

279 Sure-Trip, Inc. v. Westinghouse Eng'g, 47 F.3d 526, 531 (2d Cir. 1995) (applying Pennsylvania law); Adams v. Lindblad Travel, Inc., 730 F.2d 89, 93 (2d Cir. 1984); Vitex Mfg. Corp. v. Caribtex Corp., 377 F.2d 795, 798 (3d Cir. 1967); Restatement (Second) of Contracts §347 (1979).

280 U.C.C. §2-708(2) (1998) ("If the measure of damages provided in subsection (1) is inadequate to put the seller in as good a position as performance would have done then the measure of damages is the profit (including reasonable overhead) which the seller would have made from full performance by the buyer, together with any incidental damages provided in this Article (Section 2-710), due allowance for costs reasonably incurred and due credit for payment or proceeds of resale."); Health Related Servs, Inc. v. Golden Plains Convalescent Ctr., Inc., 806 S.W.2d 102, 106 (Mo. Ct. App. 1991); John A. Cookson Co. v. N.H. Ball Bearings, Inc., 787 A.2d 858, 865 (N.H. 2001).

281 See, e.g., Resolute Ins. Co. v Percy Jones, Inc., 198 F.2d 309, 312-13 (10th Cir. 1952); Huffman Towing, Inc. v. Mainstream Shipyard & Supply, Inc., 388 F. Supp. 1362, 1371 (N.D. Miss. 1975); Penncro Assocs. v. Sprint Spectrum L.P., No. 04-CV-2549, 2006 U.S. Dist. LEXIS 31117, at *57-58 (D. Kan. May 15, 2006), aff'd, 499 F.3d 1151 (10th Cir. 2007); All Pro Maids, Inc. v. Layton, No. 058-N, 2004 Del. Ch. LEXIS 116, at *43 (Del. Ch. Aug. 9, 2004), aff'd, No. 29-2005, 2005 Del. LEXIS 283 (Del. July 22, 2005); W.L. Gore & Assoc., Inc. v. Carlisle Corp., No. 4160, 1978 U.S. Dist. LEXIS 17698, at *39 (D. Del. May 17, 1978); Sterling Freight Lines v. Prairie Material Sales, 674 N.E.2d 948, 951 (Ill. App. Ct. 2d Dist. 1996); Leingang v. Mandan Weed Bd., 468 N.W.2d 397, 399 (N.D. 1991).

282 See Colleen Murphy, Misclassifying Monetary Restitution, 55 SMU L. Rev. 1577, 1625 n.265 (2002) (quoting David Schoenbrod et al., Remedies: Public and Private 727 (3d Ed. 2002)) ("Restitution aims at the defendant's [rightful position]. Disgorgement is the key concept. By making the defendant disgorge the benefits he cannot justly retain, the law of restitution returns the defendant to the position he should, 'in equity and good conscience,' have occupied.").

283 See Indu Craft v. Bank of Baroda, 47 F.3d 490, 495 (2d Cir. 1995) ("We begin analysis of this proof by noting that the general rule for measuring damages for breach of contract has long been settled. It is the amount necessary to put the plaintiff in the same economic position he would have been in had the defendant fulfilled his contract."); Conditioned Air Corp. v. Rock Island Motor Transit Co., 114 N.W.2d 304, 312 (Iowa 1962) ("To say that one is entitled to recover his net profit is another way of saying that he is entitled to recover what he actually lost, as a result of the other party's default. In other words, he is entitled to be made whole as a result thereof, to be placed financially were he would have been but for such breach.").

284 Zippertubing Co. v. Teleflex, Inc., 757 F.2d 1401, 1411 (3d Cir. 1985) ("We agree with the view that where the plaintiff's overhead or fixed expenses are not affected by the defendant's breach, no deduction should be made in calculating the profits which the plaintiff would have made had it not been for the breach. It is obvious that fixed expenses are an essential element in determining the net profits of any business and must, for accounting purposes, be allocated among each of the businesses' sales activities. Nevertheless, as we stated in Vitex Manufacturing Corp. v. Caribtex Corp., it does not follow that a proportionate share of fixed expenses should be considered a cost factor in the computation of lost profits." (citations omitted)).

[285] Restatement (Third) of Restitution and Unjust Enrichment §44 (Tentative Draft No. 4, 2005); see also Colo. Interstate Gas Co. v. Natural Gas Pipeline Co., 885 F.2d 683, 691 n.12 (10th Cir. 1989) ("Natural also asserts the award of $8,000,839 in restitutionary damages was inappropriate. It argues that restitutionary damages are unavailable for tortious interference claims under Section 766A of the Restatement. While it cites one case to this effect, the weight of authority holds that restitutionary damages are available for tortious interference with contract." (citations omitted)); Fed. Sugar Ref. Co. v. United States Sugar Equalization Bd., 268 F. 575, 582 (S.D.N.Y. 1920) ("But, laying aside the case referred to, the principle announced is illogical in its limitations. The point is not whether a definite something was taken away from plaintiff and added to the treasury of defendant. The point is whether defendant unjustly enriched itself by doing a wrong to plaintiff in such manner and in such circumstances that in equity and good conscience defendant should not be permittedto retain that by which it has been enriched."); Nat'l Merch. Corp. v. Leyden, 348 N.E.2d 771, 775-76 (Mass. 1976) ("While the analogy to unfair competition and cognate torts is convenient, it is not necessary, for there is authority both in the case law and scholarly commentary for the direct proposition that an unjust enrichment measure is appropriate for wilful interference with contractual relations." (citations omitted)).

[286] Zippertubing, 757 F.2d at 1411 (quoted supra note 284).

[287] Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 483 (1964); Grain Processing Corp. v. Am. Maize-Products Co., 185 F.3d 1341, 1350 (Fed. Cir. 1999); see also Brooktree Corp. v. Advanced Micro Devices, Inc., 977 F.2d 1555, 1579 (Fed. Cir. 1992) ("The 'but for' inquiry therefore requires a reconstruction of the market, as it would have developed absent the infringing product, to determine what the patentee 'would... have made."' (citations omitted)).

[288] Uniroyal, Inc. v. Rudkin-Wiley Corp., No. N-75-51, 1989 U.S. Dist. LEXIS 16707, at *28 (D. Conn. June 26, 1989) ("The Federal Circuit has recognized the incremental income approach as a valid actuarial recognition that fixed costs do not vary with increases in production." (citations omitted)).

[289] See Ford Motor Co. v. Auto Supply Co., 661 F.2d 1171, 1174 (8th Cir. 1981) ("The variable costs, which Ford would have incurred had they been able to make these additional sales, were subtracted from gross sales. The above fixed cost, which Ford would have extended regardless of the additional sales, were not deducted."); Gen. Elec. Co. v. Sciaky Bros., Inc., 415 F.2d 1068, 1076 (6th Cir. 1969) (rejecting damages for machines sold over six years before the claim); Elec. Pipe Line, Inc. v. Fluid Sys., 250 F.2d 697, 699 (2d Cir. 1957) ("Therefore, although the general overhead and gross sales figures increased coincidentally, the increases were not related and the Master's conclusion appears justified."); Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., 561 F. Supp. 512, 528 (E.D. La. 1981) ("The Court would agree that plaintiffs' damages should be increased by fixed overhead costs and infringers' salaries which the plaintiffs would not have incurred had they manufactured these machines.").

[290] Univ. of Colo. Found. v. Am. Cyanamid Co., 342 F.3d 1298, 1300 (Fed. Cir. 2003).

[291] Peninsular & Oriental Steam Navigation Co. v. Overseas Oil Carriers, Inc., 553 F.2d 830, 835 (2d Cir. 1977).

[292] United States v. Consol. Edison Co. of N.Y., 580 F.2d 1122, 1127 (2d Cir. 1978).

[293] Id.

[294] Kull, supra note 40, at 1195 n.15 (quoting Consol. Edison Co. of N.Y., 580 F.2d at 1122). Professor Kull also criticizes the AEC case for misapplying section115 of the Restatement of Restitution to the case facts.

[295] See Peninsular, 553 F.2d at 837 ("Under these circumstances, the only possible measure of 'reasonable value' is the reasonable expense incurred by CANBERRA as a result of her assistance to Turpin. The parties have agreed that such expenses represent $8,500 of P & O's claim. Accordingly, we reverse and order judgment entered for Peninsular and Oriental Steam Navigation Co. in the amount of $8,500.").

[296] The Department of Labor is generally active for claims arising under ERISA.

[297] See David M. FitzGerald, Vice President and Deputy Chief Hearing Officer, Nat'l Assoc. of Sec. Dealers (NASD), Address at FTC 90th Anniversary Symposium: The Genesis of Consumer Protection Remedies under Section 13(b) of the FTC Act 18-19 (Sept. 24, 2004), http:// www.ftc.gov/ftc/history/docs/fitzgeraldremedies.pdf ("The FTC continues to examine a range of management and support positions to determine which ones can be eliminated to put more staff at the front lines of the agency's missions. As part of this effort, in the late 1990s, the agency reduced by 24 percent the Office of the Executive Director, the agency's management and administrative organization. The FTC moved administrative positions to other organizations where the work could be performed more efficiently, but eliminated most of these positions to free positions for attorneys, investigators, and others at the front lines of the agency's consumer protection and competition missions."). See also FTC, Federal Trade Commission Policy Statement on Monetary Equitable Remedies in Competition Cases (July 25, 2003), http:// www.ftc.gov/os/2003/07/disgorgementfrn.htm (announcing the use of disgorgement as a remedy for violations of the Hart-Scott-Rodino Act, FTC Act, and Clayton Act).

[298] Mitchell v. Robert DeMario Jewelry, 361 U.S. 288, 292 (1960).

[299] Stevens v. Gladding, 58 U.S. (17 How.) 447 (1855).

[300] See FTC v. Verity Int'l, Ltd., 443 F.3d 48, 67 (2d Cir. 2006) (illustrating that unjust enrichment in equity is distinct from unjust enrichment at law).

[301] Compare CFTC v. Am. Metals Exch. Corp., 991 F.2d 71, 77 n.10 (3d Cir. 1993) (noticing that courts have been inconsistent with the definitions of "profits" and "proceeds"), and SEC v. Blatt, 583 F.2d 1325, 1335 n.30 (5th Cir. 1978) (forcing Pullman to disgorge $313,377.50, the sum of the actual profits plus interest), and FTC v. Febre, 128 F.3d 530, 535 n.6 (7th Cir. 1997) (calculating the profits by taking the refunds from the consumer sales (costs) and subtracting that from the amount consumers paid (proceeds)), with United States v. Lane Labs-USA, Inc., 427 F.3d 219, 231 (3d Cir. 2005) ("Restitution is properly sought in equity 'where money or property identified as belonging in good conscience to the plaintiff could clearly be traced to particular funds or property in the defendant's possession.'"), and SEC v. United Energy Partners, Inc., 88 F. App'x 744, 746 (5th Cir. 2004) ("[Defendants] also claim that the district court: should have offset against the disgorgement order the amounts spent on legitimate business expenses.... The equitable decision to order disgorgement is reviewed for abuse of discretion. There was no abuse of discretion." (citation omitted)).

[302] Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc., 527 U.S. 308, 318 (1999).

[303] Beals v. Wash. Int'l, Inc., 386 A.2d 1156, 1159 (Del. Ch. 1978) ("I therefore hold that Chancery historically and traditionally did not enforce forfeitures or penalties and that this was the rule of law in the high court of chancery in England in 1776 and is therefore the rule in this Court today.") (citing Colburn v. Simms, 2 Hare 543, 67 Eng. Rep. 224 (1843)); Restatement (Third) of Restitution and Unjust Enrichment §51(e)(4) (Tentative Draft No. 5, 2007); see also Andrew Kull, Symposium: Private Law, Punishment and Disgorgement: Restitution's Outlaws, 78 Chi.-Kent L. Rev. 17, 27 (2003).

[304] SEC v. Cavanagh, 445 F.3d 105, 118 (2d Cir. 2006); see also Beals, 386 A.2d at 1159 (stating that the Chancery did not allow disgorgement remedies).

[305] Cavanagh, 445 F.3d at 118 ("First, we note that our inquiry concerns not the name used by equity courts and commentators for historical remedies but rather their specific actions and the resulting practical consequences. Thus, if one equity court compelled 'restitution' of wrongly gained assets while another ordered 'disgorgement' and a third held that cheating trustees must 'make good the trust' from which they stole, the remedies may have been identical. In this case, the District Court ordered defendants and relief defendants to 'disgorge'--that is, to surrender to the District Court--profits from securities fraud either (in the case of defendants) because they committed or negligently abetted the fraud or (in the case of relief defendants) because they profited from the fraud and have no just claim to their profits. The discussion below will demonstrate that although the term 'disgorgement' became common only recently, equity courts have traditionally awarded analogous forms of relief under a variety of names.").

[306] Id. at 120. Note that in two of the colonial era cases cited, the chancery court awarded the proceeds of the timber sales and rents,

both apparently without offsets. See infra note 346 (discussing that the intentional misappropriation of timber is treated like that of minerals and rents may not have attributable, non-infringing expenses).

307 SEC v. Blavin, 760 F.2d 706, 710 (6th Cir. 1985). There are other cases in which the issue of offset credit was not raised. See, e.g., SEC v. Tome, 833 F.2d 1086, 1096 (2d Cir. 1987); SEC v. First City Fin. Corp., 890 F.2d 1215, 1231 (D.C. Cir. 1989); SEC v. Poirier, 140 F. Supp. 2d 1033, 1048 (D. Ariz. 2001).

308 SEC v. Great Lakes Equities Co., 775 F. Supp. 211, 214 (E.D. Mich. 1991), aff'd, 12 F.3d 214 (6th Cir. 1993).

309 SEC v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1115 (9th Cir. 2006) ("The district court did not abuse its discretion in refusing to deduct $36.6 million in Wallenbrock and Citadel business and operating expenses from the disgorgement amount." (citations omitted)).

310 CFTC v. Avco Fin. Corp., No. 97-CV-3119, 1998 U.S. Dist. LEXIS 12996, at *3-4 (S.D.N.Y. Aug. 20, 1998) ("While AVCO's gross sales revenue from the Recurrence program was $4,148,572, the evidence at trial indicated that AVCO incurred substantial expense to generate the gross sales revenues. Those expenses included large amounts of money in advertising, as well as substantial overhead costs for rent, utilities, telephone systems, postage, etc. AVCO's and Vartuli's 1993-1997 tax returns indicate that combining AVCO's taxable income with Vartuli's taxable income from AVCO shows that the cumulative profit generated by AVCO over the period was $701,534.... Accordingly, keeping in mind that disgorgement is a nonpunitive equitable remedy meant to deprive wrongdoers of 'ill-gotten gains,' the Court reduces the amount of disgorgement for which Vartuli and AVCO are jointly and severally liable to $701,534.").

311 SEC v. Thomas James Assocs., Inc., 738 F. Supp. 88, 95 (W.D.N.Y. 1990); SEC v. McCaskey, No. 98-CV-6153, 2002 U.S. Dist. LEXIS 4915, at *4 (S.D.N.Y. Mar. 26, 2002).

312 SEC v. World Gambling Corp., 555 F. Supp. 930, 935 (S.D.N.Y. 1983), aff'd, 742 F.2d 1440 (2d Cir. 1983).

313 See McCaskey, 2002 U.S. Dist. LEXIS 4915, at *16 ("The disgorgement amount should not be offset by any losses incurred by the wrongdoer when the scheme collapsed."); Great Lakes, 775 F. Supp. at 214-15 ("The benefit or unjust enrichment of a defendant includes not only what it gets to keep in its pocket after the fraud, but also the value of the other benefits the wrongdoer receives through the scheme. Thus, in insider trading cases, a tipper must disgorge not only his own profits but also any profits made by his tippees, even if the tipper did notreceive any tangible kickback from those tippees. The benefit to the tipper is inferred. Similarly, in this case, the benefit defendants Sims and GLE received from the various payments can also be inferred. Moreover, the specific categories of expenses which are proffered by the defendants are not deductible." (citations omitted)).

314 SEC v. United States Envtl., Inc., No. 94-CV-6608, 2003 U.S. Dist. LEXIS 12580, at *77-78 (S.D.N.Y. July 21, 2003), aff'd, 114 F. App'x 426 (2d Cir. 2004); SEC v. Great Lakes Equities Co., 775 F. Supp. 211, 214-15 (E.D. Mich. 1991), aff'd, 12 F.3d 214 (6th Cir. 1993) (rejecting deductions from the disgorgement amount for overhead, commissions, and other expenses; criticizing the opinion in Thomas James Assocs., Inc., 738 F. Supp. 88, for equating disgorgement with restitution); McCaskey, 2002 U.S. Dist. LEXIS 4915, at *16 n.6; SEC v. Credit Bancorp, Ltd., No. 99-CV-11395, 2002 U.S. Dist. LEXIS 20597, at *8 (S.D.N.Y. Oct. 31, 2002) ("Moreover, general business expenses may not be subtracted from the amount to be disgorged.").

315 SEC v. Kenton Capital, Ltd., 69 F. Supp. 2d 1, 16 (D.D.C. 1998); SEC v. United Energy Partners, Inc., 88 F. App'x. 744, 746-47 (5th Cir. 2004); World Gambling, 555 F. Supp. at 934-35 (S.D.N.Y. 1983) (offsetting "transfer taxes," but not overhead costs); SEC v. TLC Ins. & Trade Co., 179 F. Supp. 2d 1149, 1157 (C.D. Cal. 2001).

316 Herrmann v. Steinberg, 812 F.2d 63, 66 (2d Cir. 1987); see also SEC v. Alliance Leasing Corp., 28 F. App'x 648, 652 (9th Cir. 2001) (allowing deductions only for the commissions to pay off independent contractors); United States Envtl., Inc., 2003 U.S. Dist. LEXIS 12580, at *75-76 (allowing deductions only for transaction costs, such as brokerage commissions); SEC v. Rosenfeld, No. 97-CV-1467, 2001 U.S. Dist. LEXIS 166, at *6 (S.D.N.Y. Jan. 9, 2001) ("A court may in its discretion, deduct from the defendant's gross profits certain expenses incurred while garnering the illegal profits, including correspondence and related expenses and transaction costs such as brokerage commissions. This, however, does not mean that a defendant can group his

expenses under a broad category of business costs and accordingly expect deductions from the disgorgement amount without supporting evidence." (citations omitted)); SEC v. Benson, 657 F. Supp. 1122, 1133-34 (S.D.N.Y. 1987) (disallowing a deduction for expenses that defendants could not identify the uses for); Litton Indus., Inc. v. Lehman Bros. Kuhn Loeb, Inc., 734 F. Supp. 1071, 1077 (S.D.N.Y. 1990), rev'd on other grounds, 967 F.2d 742 (2d Cir. 1992) ("To require disgorgement of all fees and commissions without permitting a reduction for associate expenses and costs constitutes a penalty assessment and goes beyond the restitutionary purpose of the disgorgement doctrine."); SEC v. Bocchino, No. 98-CV-7525, 2002 U.S. Dist. LEXIS 22047, at *6-7 (S.D.N.Y. 2002) (noting that the court has discretion to deduct certain expenses incurred while garnering the illegal profits, including correspondence and related expenses, and transaction costs such as brokerage commissions).

317 SEC v. Opulentica, 479 F. Supp. 2d 319, 331 (S.D.N.Y. 2007) ("Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act provide for the imposition of civil penalties, for any violation of the Act involving 'fraud, deceit, manipulation, or deliberate or reckless disregard of a regulatory requirement' that 'resulted in... or created a significant risk of substantial losses,' up to a maximum (for individual defendants) of the greater of $120,000 for each violation or the gross pecuniary gain from the violation." (citations omitted)).

318 Securities Act of 1933, 15 U.S.C. §77t(d)(2)(C) (2000); Securities Exchange Act of 1934, 15 U.S.C. §78u(d)(3)(B)(iii) (2000).

319 SEC v. Cavanagh, 445 F.3d 105, 116-120 (2d Cir. 2006).

320 SEC v. Great Lakes Equities Co., 775 F. Supp. 211, 214-15 (E.D. Mich. 1991), aff'd, 12 F.3d 214 (6th Cir. 1993). See also SEC v. Thomas James Assocs., Inc., 738 F. Supp. 88, 93 (W.D.N.Y. 1990) ("The Second Circuit has recognized that 'the sweeping mandate manifests [sic] in the securities laws would be all but meaningless were it not for the broad investigatory and enforcement powers created under the statutory scheme.... A trial judge is invested with considerable discretion in granting injunctive relief.... Moreover, once the equity jurisdiction of the district court properly has been invoked, the court has power to order all equitable relief necessary under the circumstances."' (citation omitted)); SEC v. R.J. Allen and Assocs., Inc., 386 F. Supp. 866, 881 (S.D. Fla. 1974), aff'd sub nom., Woods v. Barnett Bank of Ft. Lauderdale, 765 F.2d 1004 (11th Cir. 1985) ("Once the equity jurisdiction of the district court has been properly invoked by a showing of a securities law violation, the Court possesses the necessary power to fashion an appropriate remedy. Thus, while the Exchange Act does not specifically authorize the ancillary relief sought in this case, it is for the federal courts to adjust their remedies so as to grant the necessary relief where federally secured rights are invaded." (citations and quotation marks omitted)).

321 SEC v. Cavanagh, No. 98-CV-1818, 2004 U.S. Dist. LEXIS 13372, at *102 (S.D.N.Y. July 15, 2004), aff'd, 445 F.3d 105 (2d Cir. 2006) ("Defendants are not entitled to deduct costs associated with committing their illegal acts."); SEC v. TLC Inv. & Trade Co., 179 F. Supp. 2d 1149, 1157 (C.D. Cal. 2001) (noting that defendant is not entitled to offset expenses in carrying out a fraudulent scheme).

322 SEC v. United States Envtl., Inc., No. 94-CV-6608, 2003 U.S. Dist. LEXIS 12580, at *79-80 (S.D.N.Y. July 21, 2003), aff'd, 114 F. App'x 426 (2d Cir. 2004); SEC v. Hughes Capital Corp, 917 F. Supp. 1080, 1086-87 (D.N.J. 1996), aff'd, 124 F.3d 449 (3d Cir. 1997) ("The defendants also argue that the total amount of disgorgement should be offset by certain 'legitimate' business expenses. The defendants have not, however, provided any evidence regarding business expenses. In calculating the disgorgement figure, the SEC already subtracted the $45,774.52 cost of the initial public offering.").

323 See SEC v. First City Fin. Corp., 890 F.2d 1215, 1232 (D.C. Cir. 1989) ("Here, appellants took a different approach using a sophisticated expert witness. As we noted, they maintained that the post-March 25 price was influenced by four other independent factors besides the belated section 13(d) disclosure, so even if First City had disclosed on March 14, the price would not have run up then to the extent it did after March 25. The difficulty we see with appellants' argument is that none of the four factors are independent of the section 13(d) disclosure determination."); SEC v. Blavin, 760 F.2d 706, 713 (6th Cir. 1985) ("Blavin challenges inclusion of subscription fees he received in the district court's amount of wrongful profits in this case. Disgorgement orders are not limited to confiscation of trading profits. Because Blavin failed to register with the Commission, he was prohibited from selling investment advice, and was not entitled to keep the fees paid by subscribers to his newsletter." (citations omitted)).

324 SEC v. Benson, 657 F. Supp. 1122, 1125 (S.D.N.Y. 1987). The Ninth Circuit cited approvingly to Benson for an acceptable judicial response to a defendant invoking the Fifth Amendment. The Ninth Circuit later described the Benson holding as follows: In Benson, the defendant invoked his Fifth Amendment right and tried to introduce evidence precluding summary judgment against

him. SEC v. Collelo, 139 F.3d 674, 677 (9th Cir. 1988). The court, however, barred him from introducing any such evidence. Id. at 678. It held that "by his initial obstruction of discovery and his subsequent assertion of the privilege, defendant has forfeited the right to offer evidence disputing the plaintiff's evidence or supporting his own denials." Id. at 677 (citations omitted).

325 SEC v. Hughes Capital Corp., 124 F.3d 449, 455 (3d Cir. 1997).

326 See infra note 331.

327 See Herrmann v. Steinberg, 812 F.2d 63, 66 (2d Cir. 1987) (stating that a disgorgement of costs can only apply if there is a close connection between the expense and the proceeds. Absent that connection, the defendants are not able to offset the costs); Litton Indus. v. Lehman Bros. Kuhn Loeb Inc., 734 F. Supp. 1071, 1077 (S.D.N.Y. 1990), rev'd on other grounds, 967 F.2d 742 (2d Cir. 1992) ("To require disgorgement of all fees and commissions without permitting a reduction for associate expenses and costs constitutes a penalty assessment and goes beyond the restitutionary purpose of the disgorgement doctrine."); SEC v. Alliance Leasing Corp., 28 F. App'x 648, 652 (9th Cir. 2001) (restating that commission expenses to independent contractors may be disgorged); U.S. Envtl., 2003 U.S. Dist. LEXIS 12580, at *75-76 ("Indeed, courts in this Circuit have held that a court may, within its discretion, deduct from the amount of illegal profits to be disgorged any direct transaction costs, such as brokerage commissions, which 'plainly reduce the wrongdoer's actual profit."' (citations omitted)); SEC v. Bocchino, No. 98-CV-7525, 2002 U.S. Dist. LEXIS 22047, at *6-7 (S.D.N.Y. Nov. 8, 2002) (noting that the court has discretion to deduct certain expenses incurred while garnering the illegal profits, including correspondence and related expenses, and transaction costs such as brokerage commissions); SEC v. McCaskey, No. 98-CV-6153, 2002 U.S. Dist. LEXIS 4915, at *14 (S.D.N.Y. Mar. 26, 2002) ("Courts in this Circuit consistently hold that a court may, in its discretion, deduct from the disgorgement amount any direct transaction costs, such as brokerage commissions, that plainly reduce the wrongdoer's actual profit."); SEC v. Rosenfeld, No. 97-CV-1467, 2001 U.S. Dist. LEXIS 166, at *6 (S.D.N.Y. Jan. 9, 2001) ("A court may in its discretion, deduct from defendant's gross profits certain expenses incurred while garnering the illegal profits, including correspondence and related expenses and transaction costs such as brokerage commissions."); Hughes, 917 F. Supp. at 1086-87; SEC v. Shah, No. 92-CV-1952, 1993 U.S. Dist. LEXIS 10347, at *14 (S.D.N.Y. July 28, 1993) ("Allowing a deduction for reasonable brokers' commissions incurred in making insider trades is consistent with the view in the Second Circuit that disgorgement is not a penalty assessment, but merely a means of divesting a wrongdoer of ill-gotten gains." (citations omitted)); Benson, 657 F. Supp. at 1134 (salary supplements to payoff participants in the defendant's fraudulent scheme and monies paid to charities cannot be disgorged: "The manner in which Benson chose to spend his misappropriations is irrelevant as to his objection to disgorge. Whether he chose to use this money to enhance his social standing through charitable contributions, to travel around the world, or to keep his co-conspirators happy is his own business.").

328 SEC v. Thomas James Assocs., 738 F. Supp. 88, 92 (W.D.N.Y. 1990).

329 See SEC v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1114 (9th Cir. 2006) ("The essence of the defendants' scheme was to obtain investors' money under false pretenses in order to fund the defendants' speculative business ventures."); CFTC v. Avco Fin. Corp., No. 97-CV-3119, 1998 U.S. Dist. LEXIS 12996, at *3-5 (S.D.N.Y. Aug. 20, 1998) (dissecting all revenues and costs associated with the defendant's activity); Thomas James Assocs., 738 F. Supp. at 95 (discussing the functions of a securities firm to determine corresponding costs and expenses).

330 SEC v. First Pac. Bancorp, 142 F.3d 1186, 1191-92 (9th Cir. 1998); SEC v. Benson, 657 F. Supp. 1122, 1129 (S.D.N.Y. 1987); SEC v. TLC Inv. & Trade Co., 179 F. Supp. 2d 1149, 1157 (C.D. Cal. 2001); SEC v. Kenton Capital, Ltd., 69 F. Supp. 2d 1, 15-16 (D.D.C. 1998).

331 SEC v. Global Express Capital Real Estate Inv. Fund I, L.L.C., No. 2:03-CV-01514, 2006 U.S. Dist. LEXIS 96477, at *66-67 (D. Nev. Mar. 28, 2006).

332 Id. at *10-13.

333 First Pac. Bancorp, 142 F.3d at 1192.

334 SEC v. Hughes Capital Corp, 917 F. Supp. 1080, 1086-87 (D.N.J. 1996), aff'd, 124 F.3d 449 (3d Cir. 1997) (quoted supra note 322).

335 SEC v. Poirier, 140 F. Supp. 2d 1033 (D. Ariz. 2001).

336 SEC v. McCaskey, No. 98-CV-6153, 2002 U.S. Dist. LEXIS 4915, at *24 n.10 (S.D.N.Y. Mar. 26, 2002) (citing Roger Adelman, et. al., The Securities Enforcement Manual: Tactics and Strategies §197 (Richard Phillips ed., ABA Section of Business Law 1997)).

337 SEC v. Kenton Capital, Ltd., 69 F. Supp. 2d 1, 15-16 (D.D.C. 1998).

338 SEC v. Credit Bancorp, Ltd., No. 99-CV-11395, 2002 U.S. Dist. LEXIS 20597, at *8 (S.D.N.Y. Oct. 31, 2002).

339 McCaskey, 2002 U.S. Dist. LEXIS 4915, at *14.

340 SEC v. United Energy Partners, Inc., 88 F. App'x 744, 746 (5th Cir. 2004).

341 FTC v. Gem Merch. Corp., 87 F.3d 466, 470 (11th Cir. 1996).

342 SEC v. First City Fin. Corp., 890 F.2d 1215, 1217 (Fed. Cir. 1989).

343 Id. at 1218-19.

344 Id. at 1220-30 (affirming disgorgement award of $2.7 million out of defendant's total profit of $15.4 million).

345 See Roach, supra note 59, at 96 ("One of the most predominate problems with both opinions [FTC v. Febre, 128 F.3d 530 (7th Cir. 1997) and FTC v. Gem Merch. Corp., 87 F.3d 466 (11th Cir. 1996)] is that that they juxtapose disgorgement of revenues with disgorgement of profits. In both opinions, the circuit courts defend the decision of the district court to equate the remedy to the customer payments for all units sold, revenue disgorgement, by discussing characteristics of disgorgement of profits and cite cases for support of those statements. The majority of the cases cited, however, either awarded a measure of disgorgement of profits or equitable rescission.").

346 The Grupo analysis in Cavanagh does cite two cases that might be mistaken for proceeds or revenue cases: Garth v. Cotton, 27 Eng. Rep. 1182, 1196, 1 Ves. Sen. 524, 546 (Lord Chancellor's Ct. 1753) and Haldane v. Fisher, 1 Yeates 121, 127 (Pa. 1792), which awarded proceeds of stolen timber and rents, respectively. Even the holding in Porter v. Warner Holding Co., 328 U.S. 395 (1946) for the defendant to disgorge rents in excess of federal rent controls can be interpreted as equivocal, as that case never considered the issue of offsetting credit. As the Seventh Circuit points out, however, the holding in that case was for the disgorgement of profits. SEC v. Cherif, 933 F.2d 403, 413 n.10 (7th Cir. 1991) ("Porter v. Warner Holding Co., cited by the SEC (Br. 33), is not dissimilar. Porter involves a statutory provision in the Emergency Price Control Act of 1942 similar to the remedies provision in the Exchange Act. The Supreme Court wrote broadly about the equitable power residing in a district court adjudicating an action brought under the Emergency Price Control Act, but it held only that disgorgement of illegally obtained profits could be sought from a violator." (citations omitted)).

347 Beals v. Wash. Int'l, Inc., 386 A.2d 1156, 1159 (Del. Ch. 1978).

348 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. Justice Kennedy's observation is well grounded in legal history. In crafting a remedy for a breach of trust the exclusive aim of the common-law equity courts was to make the victim whole, 'endeavor[ing] as far as possible to replace the parties in the same situation as they would have been in, if no breach of trust had been committed.' Historically, punitive damages were unavailable in any equitable action on the theory that 'the Court of Chancery as the Equity Court is a court of conscience and will permit only what is just and right with no element of vengeance."') (citations omitted); Consumer Prot. Div. v. Morgan, 874 A.2d 919, 945 (Md. 2005) ("The [Consumer Protection Division of Maryland] also should deduct the payments Shpritz made to the purchasers, albeit those payments were not in accordance with the law. In so ruling, we do not condone the unlawful transactions, but instead apply the rules for restitution rather than impose civil or criminal penalties. By seeking to compel Shpritz to pay these amounts again, the Division forsakes unjust enrichment for what in effect punitive damages... accordingly, the Division must recalculate its restitution order to exclude the actual costs incurred by Shpritz.").

349 See CFTC v. Am. Metals Exch. Corp., 991 F.2d 71, 77 n.10 (3d Cir. 1993) ("Appellant argues that the measure of disgorgement should be unlawful 'profits.' Appellees argue that the measure should be unlawful 'proceeds.' The term most frequently used in reported decisions appears to be 'profits."').

350 Id. at 79 ("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. Absent a hearing to calculate ill-gotten gains, the disgorgement ordered in an amount equal to investor losses could be a penalty assessment. If investors wish to seek recovery of their losses as a remedy, they are free to do so in an independent civil action against defendants. 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.").

351 Compare United States v. Lane Labs-USA, Inc., 427 F.3d 219, 231 (3d Cir. 2005) ("Restitution is properly sought in equity where money or property identified as belonging in good conscience to the plaintiff could clearly be traced to particular funds or property in the defendant's possession." (quoting Great-West Life & Annuity Ins. Co. v. Knudson, 534 U.S. 204, 213 (2002)), with FTC v. Verity Int'l, Ltd., 443 F.3d 48, 67 (2d Cir. 2006) (quoted supra note 43).

352 See infra Part VIII.

353 See United States v. Snepp, 456 F. Supp. 176, 181-82 (E.D. Va. 1978), aff'd in part, rev'd in part, 595 F.2d 926 (4th Cir. 1979), rev'd, 444 U.S. 507 (1980) (stating that the Court will use its equity powers and impose a constructive trust because nominal damages would not provide adequate protection.); Snepp, supra note 188, at 357.

354 So far, this happens only rarely. See MJAC Consulting, Inc. v. Barrett, No. 04-CV-6078, 2006 U.S. Dist. LEXIS 49944, at *11 (S.D.N.Y. July 24, 2006) ("The various securities cases cited by MJAC are, as this Court has previously noted, conceptually similar to employer-employee cases where the breaching party has no entitlement to any profit and is therefore forced to disgorge all of the fruits of his breach. In contrast, this case presents a situation where Barrett would have been entitled to keep half of the Harris consulting fees had she proceeded in a lawful manner." (citations omitted)).

355 Sheldon III, 309 U.S. 390, 402 (1940).

356 Id. at 409 ("Petitioners also complain of deductions allowed in the computation of the net profits. These contentions involve questions of fact which have been determined below upon the evidence and we find no ground for disturbing the court's conclusions.").

357 F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 234 (1952).

358 Sheldon III, 309 U.S. at 408.

359 Id. at 398 ("The court thought an allowance to petitioners of 25 percent of these profits 'could be justly fixed as a limit beyond which complainants would be receiving profits in no way attributable to the use of their play in the production of the picture.' But,

though holding these views, the District Court awarded all the net profits to petitioners, feeling bound by the decision of the Court of Appeals in Dam v. Kirk La Shelle Co., 175 F. 902, 903 (2d Cir. 1910), a decision which the Court of Appeals has now overruled.").

360 Sheldon II, 106 F.2d 45, 50-51 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940).

361 Id. at 48.

362 Sheldon III, 309 U.S. 390, 397 (1940). Note that the fair market price should not be very relevant to this determination unless it is used as a floor or minimum because the goal is to determine the maximum possible contribution.

363 Id.

364 Id. ("They were not innocent offenders. From comparison and analysis, the Court of Appeals concluded that they had 'deliberately lifted the play;' their 'borrowing was a deliberate plagiarism.' It is from that standpoint that we approach the questions now raised.").

365 See supra notes 45-47 and accompanying text.

366 Westinghouse Elec. v. Wagner Elec., 225 U.S. 604, 620 (1912).

367 Sheldon II, 106 F.2d 45, 50 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940).

368 Id.

369 See Sheldon I, 26 F. Supp. 134, 142 (S.D.N.Y. 1938), rev'd, 106 F.2d 45, 50 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940) (calculating revenues at $1,655,269.15 and 25% of profits equaling $133,000).

370 There is some disagreement among the three Sheldon courts as to whether the expert opinions related to revenues or domestic net profits. Compare Sheldon III, 309 U.S. 390, 408 (1940) ("These witnesses were in complete agreement that the portion of the profits attributable to the use of the copyrighted play in the circumstances here disclosed was very small. Their estimates given in percentages of receipts ran from five to twelve percent; the estimate apparently most favored was ten percent as the limit. One finally expressed the view that the play contributed nothing. There was no rebuttal. But the court below was not willing to accept the experts' testimony 'at its face value.' The court felt that it must make an award 'which by no possibility shall be too small.' Desiring to give petitioners the benefit of every doubt, the court allowed for the contribution of the play twenty percent. [sic] of the net profits."), with Sheldon II, 106 F.2d at 50 ("The expert testimony was of two kinds, that of producers and that of exhibitors. The questions put to each were substantially the same: what was the proportion of the gross receipts properly apportionable to the play? Their answers were in percentages that ran between five and twelve (one of them is perhaps to be understood as saying that the play contributed nothing at all)."), and Sheldon I, 26 F. Supp. at 138 ("Evidence from experts and other sources was presented to establish that the 'maximum average contribution of a play such as Dishonored Lady to the moving picture Letty Lynton could not possibly amount to more than 10% of the net domestic profits of the picture.' [sic] Proof was offered through well-known producers of the royalties paid to authors whose works were used as the basis for motion pictures, such as 'Peter Pan.' [sic] For the motion-picture rights to that play and its title, Sir James Barrie received 7% of the gross receipts.").

371 Sheldon II, 106 F.2d at 51-55 (dealing with both the defendant's and plaintiff's objections to the accounting).

372 Id. at 52.

[373] Sheldon II, 106 F.2d 45, 51 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940) (citing Callaghan v. Myers, 128 U.S. 617, 665 (1888); Flat Slab Patents Co. v. Turner, 285 F. 257, 282-83 (8th Cir. 1922); Kan. City Hay Press Co. v. Devol, C.C., 127 F. 363, 369 (W.D. Mo. 1904)).

[374] Id. at 52.

[375] See supra Part IV.C.

[376] Sheldon II, 106 F.2d at 51.

[377] Restatement (Second) of Trusts §243 (1959).

[378] See supra Part IV.B, tbl. 3 and accompanying text.

[379] Restatement of Restitution §158 cmts. b-c (1937).

[380] Id. §158 cmt. d.

[381] Id.

[382] Sheldon II, 106 F.2d 45, 51 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940) (citing Restatement of Restitution §158 cmt. d (1937)). Some cases have quoted the misstatement favorably. See Softel, Inc. v. Dragon Med. & Scientific Commc'ns, 891 F. Supp. 935, 941-42 (S.D.N.Y. 1995), modified in part on other grounds, 37 U.S.P.Q.2d (BNA) 1282 (S.D.N.Y. 1995) ("Courts have allowed the deduction of a variety of expenses, including an allocation of fixed cost overhead expenses associated with the production of an infringing product."); Kamar Int'l, Inc. v. Russ Berrie & Co., 752 F.2d 1326, 1331 (9th Cir. 1984) (stating that in Sheldon, "the court of appeals found 'a deliberate plagiarism,' and for that reason allowed the infringers to deduct from profits 'only... such factors as they bought and paid for."' (citing Sheldon II, 106 F.2d at 51)); ZZ Top v. Chrysler Corp., 70 F. Supp. 2d 1167, 1169 (W.D. Wash. 1999) (noting the plaintiff's argument in Kamar that Sheldon 'prevents the deduction of overhead costs." (citations omitted)).

[383] Sheldon II, 106 F.2d at 51.

[384] Id.

[385] Id.

[386] See id. at 51-52 (arguing that overhead and fixed costs, such as advertisements, may actually vary with the costs of production).

[387] Sheldon II, 106 F.2d at 54 (citations omitted).

[388] Levin Bros. v. Davis Mfg. Co., 72 F.2d 163, 166 (8th Cir. 1934). Curiously, when courts in the Second Circuit paraphrase and refer to the Levin opinion for support on fixed cost allocation, they never provide pinpoint cites. See, e.g., Wilkie v. Santly Bros., Inc., 139 F.2d 264, 265 (2d Cir. 1943); Sheldon II, 106 F.2d 45, 54 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940); Design Resources, Inc. v. John Wolf Decorative Fabrics, No. 83-CV-7606, 1985 U.S. Dist. LEXIS 16244, at *27 (S.D.N.Y. Sept. 5, 1985); Warner Bros. v. Gay Toys, 598 F. Supp. 424, 429 (S.D.N.Y. 1984); Alfred Bell & Co. v. Catalda Fine Arts, Inc., 86 F. Supp. 399, 415 (S.D.N.Y.

1949), modified, 191 F.2d 99 (2d Cir. 1951).

389 George Haiss Mfg. Co. v. Link-Belt Co., 63 F.2d 479, 480-81 (3rd Cir. 1932).

390 Levin Bros., 72 F.2d at 166.

391 Id.

392 Id.

393 Sheldon II, 106 F.2d at 54.

394 Levin Bros. v. Davis Mfg. Co., 72 F.2d 163, 165 (8th Cir. 1934) ("No fast and hard rules should or can be stated to guide application of this general rule to the infinite variety of fact situations developed in different cases."). See also Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1173 (6th Cir. 1979) ("Given the Levin court's recognition of these conflicting considerations, it is not surprising that Levin has been relied upon as authority both to allow and to disallow the use of fixed expenses to offset an award of profits.").

395 George Haiss Mfg. Co. v. Link-Belt Co., 63 F.2d 479, 482 (3rd Cir. 1932) ("We are unable to find any precedent upholding this method of calculation of profits, but the principle of apportioning overhead on the percentage that the receipts from infringing sales bears to the total receipts of the business of the company for the same period is approved in the following cases: Nat'l Folding-Box & Paper Co. v. Dayton Paper Novelty Co.; Riverside Heights Orange Growers' Ass'n v. Stebler; Auto Vacuum Freezer Co. v. William A. Sexton Co.; Phila. Rubber Works Co. v. U.S. Rubber Reclaiming Works; Starr Piano Co. v. Auto Pneumatic Action Co. The principle adopted in these cases charges as overhead expense, added to cost of manufacture, the proportion that the infringing business bears to total business of the infringer." (citations omitted)).

396 Id. at 481 ("In instances where the infringer, engaged in the production and sale of other articles, has failed to keep accurate costs of production, and is desirous of charging to the profits of the infringing business a certain portion of overhead, and such effort is contested, the burden is upon the infringer to segregate the charges and to prove that the expenses were made necessary by the extra cost of producing the infringing devices, or at least to show specifically which portion of them is due to manufacture of infringing articles. And, unless so specifically proven, allowances will not be made.").

397 Warner Bros. v. Gay Toys, 598 F. Supp. 424, 429 (S.D.N.Y. 1984).

398 Id. ("Plaintiffs challenge the application of this rule on two grounds. First, they claim that, far from supporting the full-absorption method as proposed by defendant, Sheldon actually supports the incremental approach as this approach was approved in Levin Bros. However, the plain language quoted above contradicts this: whatever the Eighth Circuit intended in Levin Bros., Judge Hand interpreted that decision to mean that overhead could be deducted from an infringing defendant's profits; and it is this latter holding which subsequent cases in this Circuit have followed and by which we are bound.").

399 See Restatement (Second) of Trusts §213 (1959) (explaining the anti-netting rule); see also supra Part IV.D.

400 Sheldon II, 106 F.2d 45, 54 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940) ("The exhibition of a picture at theatre X was a separate tort which the plaintiffs might elect to sue upon, ignoring any losses from the exhibition at theatre Y. As to exhibitions in the United States we therefore hold that the losses should not be credited to the defendants.").

401 Id.

402 Id.

403 Id.

404 See supra Part IV.D.

405 Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448 (1936), superseded by statute, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, as recognized in Century Wrecker Corp. v. E.R. Buske Mfg. Co., 913 F. Supp. 1256 (N.D. Iowa 1996).

406 Sheldon II, 106 F.2d 45, 54 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940).

407 Crosby Steam-Gage & Valve Co. v. Safety-Valve Co., 141 U.S. 441, 457 (1891).

408 Sheldon II, 106 F.2d at 53.

409 Id. (citing L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co., 277 U.S. 97 (1928)).

410 L. P. Larson, 277 U.S. at 100 (stating that circumstances, such as knowledge and conduct of the charged party, could change the outcome of the case).

411 Sheldon II, 106 F.2d at 53.

412 Hamil I, No. 95-CV-2513, 1998 U.S. Dist. LEXIS 386, at *4-6 (S.D.N.Y. 1998), aff'd in part, rev'd in part sub nom., Hamil II, 193 F.3d 92 (2d Cir. 1999).

413 Hamil II, 193 F.3d 92, 108-09 (2d Cir. 1999).

414 Hamil I, 1998 U.S. Dist. LEXIS 386, at *4-6.

415 Hamil II, 193 F.3d at 106 ("Sheldon's approach has been consistently applied by this Court. In subsequent cases, we have assumed that general overhead expenses were deductible and reviewed only the sufficiency of the nexus between the expense and the infringing product and/or the adequacy of the adduced formula for allocating overhead costs to the production of the infringing product.").

416 Hamil I, 1998 U.S. Dist. LEXIS 386, at *7 ("If the infringer were allowed to deduct expenses that would have been incurred even if the infringing goods were not produced, it would, in effect, be profiting from the infringement because it would be passing part of its fixed cost on to the copyright holder. For example, assume that an infringer owns a store for which it pays $1,000 per month in rent and that it sells $100 in legitimate merchandise and $900 in infringing merchandise per month. If it did not sell the infringing merchandise it would lose $900 per month. By allowing the infringer to deduct a proportionate amount of its rent in computing the damages to be paid as a result of its infringing activity, the Court would thus allow the infringer to turn a $900 loss into a break even operation. In that instance the infringer should not be permitted to deduct the rent expense in calculating its profit from the infringement.").

417 Hamil II, 193 F.3d at 105.

418 Id. at 106 ("The court appears to have based its holding at least in part on the fact that the infringement by GFI was willful, relying on cases from other jurisdictions suggesting that willful or deliberate infringers may not deduct overhead when calculating the profit the plaintiff is entitled to recover.").

419 Jarvis v. A & M Records, 827 F. Supp. 282 (D.N.J. 1993).

420 Hamil I, No. 95-CV-2513, 1998 U.S. Dist. LEXIS 386, at *3 (S.D.N.Y. 1998), aff'd in part, rev'd in part sub nom., Hamil II, 193 F.3d 92 (2d Cir. 1999) ("In cases such as this, where the defendant's infringement is found to be willful the courts are divided on the question of the defendant's right to deduct 'overhead' expense in calculating the profit that the plaintiff is entitled to recover. Some courts have adopted the 'full absorption' approach, which permits the defendant to deduct all overhead expenses in the same percentage as the sales of the infringing goods bears to its total sales. Other courts allow the defendant to deduct only 'incremental' overhead costs, that is, those costs which can be shown to be directly related to the production of the infringing goods." (citations omitted)).

421 Restatement (Third) of Restitution and Unjust Enrichment §42 (2005). Illustration 22 is supported by Hamil, where the court reviewed the extensive authorities permitting deductions from profits on account of allocable overhead and noted that it was "not prepared to abandon the teachings of Sheldon in favor of a hard and fast rule denying all overhead deductions to willful infringers." Hamil II, 193 F.3d 92, 106 (2d Cir. 1999).

422 Hamil II, 193 F.3d at 106-07 (citations omitted).

423 Id. at 107.

424 Caffey v. Cook, 409 F. Supp. 2d 484, 503 (S.D.N.Y. 2006); Sunbeam Prods., Inc. v. Wing Shing Prods. (BVI) Ltd., 311 B.R. 378, 401 (S.D.N.Y. 2004), aff'd, 153 F. App'x 703 (Fed. Cir. 2005); Rocket Jewelry Box, Inc. v. Quality Int'l Packaging, Ltd., 250 F. Supp. 2d 333, 341 (S.D.N.Y. 2003), aff'd in part, vacated in part, 90 F. App'x 543 (Fed. Cir. 2004).

425 Restatement (Third) of Restitution and Unjust Enrichment §42 (2005) (asserting that the rigorous scrutiny standard is commonplace. "Courts commonly hold the conscious infringer to a more demanding standard of proof in establishing deductions from infringing sales," but only Hamil is cited for this bald assertion.) (citing Hamil II, 193 F.3d at 107).

426 Hamil II, 193 F.3d at 106-07.

427 See supra Part VII.A.

428 See Restatement (Third) of Restitution and Unjust Enrichment §42 (2005) (cautioning that the language in Hamil that requires a strong nexus between allocable overhead and the infringing activity should not be "bootstrapped" into denying allocable, attributable overhead on the basis of the willfulness of the defendant.).

429 Hamil II, 193 F.3d 92, 105 (2d Cir. 1999).

430 Id.

431 Westinghouse Elec. v. Wagner Elec., 225 U.S. 604, 620-21 (1912).

432 Nike, Inc. v Wal-Mart Stores, Inc., 138 F.3d 1437, 1448 (Fed. Cir. 1998).

433 Actually, the first significant opinion to approach the theory in dicta was Sammons v. Colonial Press, Inc., 126 F.2d 341, 348 (1st Cir. 1942).

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

435 Frank Music Corp. v. Metro-Goldwyn Mayer, Inc., 772 F.2d 505, 516 (9th Cir. 1985).

436 ZZ Top v. Chrysler Corp., 70 F. Supp. 2d 1167, 1169 n.2 (W.D. Wash. 1999) ("The Court recognizes that a number of other federal appellate and district courts have held or suggested that a willful infringer may not deduct overhead expenses from gross revenues. Most, if not all, of these cases rely, either directly or indirectly, on Frank Music, Kamar, and/or Sheldon, which do not justify such a rule.").

437 Kamar, 752 F.2d at 1329 ("A maximum of $5,000 is placed upon these statutory damages for each copyright infringed but that limitation does not 'apply to infringements occuring after the actual notice to a defendant, either by service of process... or other written notice....' 17 U.S.C. §101(b) (1976). The district court held that the limitation applied in this case.").

438 Id. at 1331.

439 Id.

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

441 Harper House, Inc. v. Thomas Nelson, Inc., No. 85-CV-4225, 1987 U.S. Dist. LEXIS 14132, at *25 (C.D. Cal. Aug. 27, 1987).

442 Id. at *26.

443 Mfrs. Techs., Inc. v. Cams, Inc., 728 F. Supp. 75, 84 (D. Conn. 1989).

444 Id. ("Deductible expenses are those which are specifically linked to and associated with the infringing product. Defendant CAMS has fairly and reasonably apportioned its revenues and expenses between its QC programs and other business ventures and has met its burden of proof in this regard. Certain of those expenses, however, are not deductible. The $754 of taxes is not deductible because the Court has determined that the infringement here was willful. The same is true for CAMS' overhead or 'allocated expenses' totalling [sic] $21,669." (citations omitted)).

445 Allen-Myland, Inc. v. Int'l Bus. Machs. Corp., 770 F. Supp. 1014, 1027-28 (E.D. Pa. 1991).

446 Id. at 1026-27. See also Lindy Pen Co. v. Bic Pen Corp., 982 F.2d 1400, 1406 (9th Cir. 1993), superseded by statute, Trademark Amendments Act of 1999, Pub. L. No. 106-43, 113 Stat. 218, as recognized in R&R Partners, Inc. v. Tovar, No. 03:04-CV-00145, 2007 U.S. Dist. LEXIS 29819 (D. Nev. Apr. 23, 2007) ("Willful infringement carries a connotation of deliberate intent to deceive. Courts generally apply forceful labels such as 'deliberate,' 'false,' 'misleading,' or 'fraudulent' to conduct that meets this standard. Cases outside this jurisdiction offer additional guidance. For instance, the Circuit for the District of Columbia equates willful infringement with bad faith. Willfulness and bad faith 'require a connection between a defendant's awareness of its competitors and its actions at those competitors' expense.' The Sixth Circuit has stated that a knowing use in the belief that there is no confusion is not bad faith. Indeed, this court has cautioned that an accounting is proper only where the defendant is 'attempting to gain the value of an established name of another."' (citations omitted)); Caffey v. Cook, 409 F. Supp. 2d 484, 504 (S.D.N.Y. 2006) ("To establish willfulness under the Act, 'the plaintiff must show (1) that the defendant was actually aware of the infringing activity, or (2) that the defendant's actions were the result of reckless disregard for, or willful blindness to, the copyright holder's rights.' Indeed, the plaintiff is not required to prove defendants' 'actual knowledge that it was infringing' on his copyright. Rather,

'[k]nowledge of infringement may be constructive rather than actual; that is, it need not be proven directly but may be inferred from the defendant's conduct."' (citations omitted)).

447 Saxon v. Blann, 968 F.2d 676, 681 (8th Cir. 1992).

448 Palmer, supra note 83, §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).

449 See ZZ Top v. Chrysler Corp., 70 F. Supp. 2d 1167, 1169 n.2 (W.D. Wash. 1999) (quoted supra note 436); CSU, L.L.C. v. Xerox Corp. (In re Indep. Serv. Orgs. Antitrust Litig), 23 F. Supp. 2d 1242, 1251 (D. Kan. 1998) ("The court finds that the deductibility of CSU's fixed overhead costs does not depend on whether CSU's infringement was willful or not.").

450 Restatement (Third) of Restitution and Unjust Enrichment §3 (Discussion Draft, 2000) ("A person who interferes with the legally protected rights of another, acting without justification and in conscious disregard of the other's rights, is liable to the other for any profit realized by such interference.").

451 Sheldon III, 309 U.S. 390, 405 (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."); Restatement (Third) of Restitution and Unjust Enrichment §1 cmt. c (Discussion Draft, 2000); id. §2 cmt. d ("Restitution in a proper case may strip a defendant of all profits gained in a transaction with the plaintiff.... Such a result is permissible only against a defendant whom the law treats as a conscious wrongdoer."); id. §3 cmt. c ("Liability to disgorge profits is ordinarily limited to instances of conscious wrongdoing .... As an exception to this general rule, trustees and other fiduciaries may be made liable for profits realized even as the result of an unintentional breach of fiduciary duty."); id. §42 cmt. i ("By contrast, a refusal to allow relevant deductions for expenses that will not otherwise be recovered subverts the ostensible function of the accounting for profits, importing a punitive component that has no basis in the statutes on which these actions for accounting are ordinarily based. The fact that the statutes make express provision for enhanced damages in particular cases makes it harder to justify the manipulation of the profits-based remedy to inflict a punishment not specified by statute.").

452 L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co., 277 U.S. 97 (1928).

453 Sammons v. Colonial Press, Inc., 126 F.2d 341, 348 (1st Cir. 1942) ("Possibly a deduction for overhead should be allowed in such a case when the infringement is innocent and denied when the infringement is conscious and deliberate.").

454 L. P. Larson, 277 U.S. at 99-100.

455 Sammons, 126 F.2d at 348.

456 See, e.g., USM Corp. v. Marson Fastener Corp., 467 N.E.2d 1271, 1278-79 (Mass. 1984) ("Although our cases have not recognized the incremental cost approach as such, they are consistent with its use."); Jet Spray Cooler, Inc. v. Crampton, 385 N.E.2d 1349, 1358 (Mass. 1979) ("The judge's order of reference to the second damage master instructed the master: '(1) To find the extent of the use made by the defendants of the trade secret (Foster Miller Report); (2) To find the amount of profits made by the defendants on the sale of units incorporating the trade secret; and (3) To find the amount of the plaintiffs' loss of profits due to the defendants' sales of such dispensersto plaintiffs' customers to the extent such loss exceeds the defendants' profits on these same sales.'"); Regis v. Jaynes, 77 N.E. 774, 777-78 (Mass. 1906) ("The defendants contend that their liability for profits cannot exceed the amount of the net profits which they have received, and that to determine this amount the actual expenses of carrying on their business must be ascertained, and a proper proportion of such expenses deducted from the gross profits of this department. They rely upon the case of The Tremolo Patent, [90 U.S. 518,] 23 Wall. 518 [(1875)], in which it was held that in order to ascertain the profits made from sales of an organ with a patented attachment a ratable proportion of the general expenses of carrying on the business in effecting sales of organs should be deducted from the profits made from the patented attachment. The defendants in that case sold organs both with and without the patented attachment; and Strong, J. said that if in estimating profits every part of

their business were not chargeable with a proportionate share of the expenses no part could be; and this would be an injustice which no one would defend. This decision was followed in Walter Baker & Co. v. Slack, 130 Fed. Rep. 514 [(7th Cir. 1904)]. There has not been uniformity of decision on this question, partly because the circumstances of the different cases have not been the same. See Avery v. Meikle, 85 Ky. 435 [(Ky. 1887)]; Saxlehner v. Eisner & Mendelson Co. 138 Fed. Rep. 22 [(2d Cir. 1905)]; Societe Anonyme v. Western Distilling Co. 46 Fed. Rep. 921 [(E.D. Mo. 1891)]; Fairbank Co. v. Windsor, 118 Fed. Rep. 96 [(W.D.N.Y. 1902)]. The decision of the case last cited in 124 Fed. Rep. 200, does not touch upon this point. The defendants in the case at bar appear to have been carrying on a large business, and they did not offer to show that their general expenses have been at all increased by their taking up the sale of 'Rexall' goods.").

457 Data Gen. Corp. v. Grumman Sys. Support Corp., 825 F. Supp. 340, 350-51 (D. Mass. 1993) (copyright damages).

458 See Andrew Corp. v. Gabriel Elecs., Inc., 785 F. Supp. 1041, 1049 (D. Me. 1992) ("In order to establish lost profits, it is necessary to subtract the cost of producing the goods that would have been sold but for the infringement from the price that would have been charged for the goods. In determining the costs of goods, it is necessary to include not only direct labor and materials costs, but material and labor overhead including engineering and operating expenses."); Polaroid Corp. v. Eastman Kodak Co., No. 76-CV-1634, 1990 U.S. Dist. LEXIS 17968, at *197-99 (D. Mass. Oct. 12, 1990) (considering the overhead costs and whether or not they are too attenuated to include).

459 Segrets, Inc. v. Gillman Knitwear Co., 42 F. Supp. 2d 58, 78 (D. Mass. 1998), aff'd in part, vacated in part, 207 F.3d 56 (1st Cir. 2000).

460 See Andrew, 785 F. Supp. at 1050 n.8 ("Mr. Hoffman indeed testified that regression analysis alone cannot prove cause and effect. It can be and is successfully used to demonstrate correlations between variables and inferences can be made from these corrolations." (citations omitted)); Polaroid, 1990 U.S. Dist. LEXIS 17968, at *187-88 (stating that regression is a fairly reliable technique).

461 Hamil II, 193 F.3d 92, 106 (2d Cir. 1999); Manhattan Indus. v. Sweater Bee by Banff, Ltd., 885 F.2d 1, 7-8 (2d Cir. 1989); Sheldon II, 106 F.2d 45,51 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940); Oehring v. Fox Typewriter Co., 251 F. 584, 588 (2d Cir. 1918).

462 Tremaine v. Hitchcock, 90 U.S. 518, 528-29 (1874).

463 Cutter v. Gudebrod Bros. Co., 83 N.E. 16, 16 (N.Y. 1907); Loos v. Wilkinson, 21 N.E. 392, 395 (N.Y. 1889); McNamara v. Powell, 52 N.Y.S.2d 515, 526 (N.Y. Sup. Ct. 1944); Conviser v. J. C. Brownstone Co., 197 N.Y.S. 682, 682 (N.Y. Sup. Ct. 1922); David Fox & Sons, Inc. v. King Poultry Co., 292 N.Y.S.2d 21, 23 (N.Y. App. Div. 1st Dep't 1968); Bates Chevrolet Corp. v. Haven Chevrolet, Inc., 229 N.Y.S.2d 168, 168 (N.Y. App. Div. 1st Dep't 1962), overruled by David Fox & Sons, Inc. v. King Poultry Co., 292 N.Y.S.2d 21, 23 (N.Y. App. Div. 1st Dep't 1968).

464 Murphy Door Bed Co. v. Interior Sleep Sys., Inc., 874 F.2d 95, 103 (2d Cir. 1989); W.E. Bassett Co v. Revlon, Inc., 435 F.2d 656, 665 (2d Cir. 1970) ("Subject to a determination of the reasonableness of the claimed deductions, Revlon should be able to deduct from its net sales its overhead, most of its operating expenses, and the federal income taxes on the 'Cuti-Trim' items. The only one of the claimed deductions which Revlon should not be allowed is the overlabelling expense, because Revlon should have to bear the cost of correcting its own wrongdoing."); but see Alfred Bell & Co. v. Catalda Fine Arts, Inc., 191 F.2d 99, 106 (2d Cir. 1951) (denying offset credit for income taxes due to defendant willfulness).

465 Murphy Door Bed, 874 F.2d at 103 ("Even if Zarcone does not offer evidence of his costs (as he has not heretofore), the court should estimate them based on the evidence before it.").

466 Banff Ltd. v. Express, Inc., 921 F. Supp. 1065, 1070 (S.D.N.Y. 1995); Bic Leisure Prods., Inc. v. Windsurfing Int'l, Inc., 761 F. Supp. 1032, 1039 (S.D.N.Y. 1991), aff'd in part, rev'd in part, 1 F.3d 1214 (Fed. Cir. 1993); 20th Century Wear, Inc. v. Sanmark-Stardust Inc., No. 81-CV-6359, 1984 U.S. Dist. LEXIS 20527, at *12-13 (S.D.N.Y. Jan. 11, 1984) (citing Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582, 586 (5th Cir. 1980)); Elnicky Enters., Inc. v. Spotlight Presents, Inc., No. 81-CV-0420, 1982

U.S. Dist. LEXIS 13288, at *2 (S.D.N.Y. Jan. 11, 1982).

467 See supra Part VII.B.

468 SEC v. Cavanagh, 445 F.3d 105, 116-17 (2d Cir. 2006).

469 Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc., 527 U.S. 308 (1999).

470 Cavanagh, 445 F.3d at 118-20.

471 Duro Co. (of Oh.) v. Duro Co. (of N.J.), 56 F.2d 313 (3d Cir. 1932); George Haiss Mfg. Co. v. Linkbelt Co., 63 F.2d 479 (3d Cir. 1932).

472 George Haiss, 63 F.2d at 482.

473 Century Distilling Co. v. Cont'l Distilling Corp., 205 F.2d 140, 147 (3d Cir. 1953), superseded by statute, Trademark Act of 1946 (Lanham Act), Pub. L. No. 79-489, 60 Stat. 427, as recognized in A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc., 61 U.S.P.Q.2d (BNA) 1637 (E.D. Penn. 2002).

474 See Jarvis v. A & M Records, 827 F. Supp. 282, 295 (D.N.J. 1993) ("While overhead is deductible if the defendants did not act willfully, it is a question of fact whether these defendants did in fact act willfully."); Allen-Myland, Inc. v. Int'l Bus. Machs. Corp., 770 F. Supp. 1014, 1024-28 (E.D.Pa. 1991) (discussing various views on the concept of willfulness).

475 Buono Sales, Inc. v. Chrysler Motors Corp., 449 F.2d 715, 720 (3d Cir.1971); Vitex Mfg. Corp. v. Caribtex Corp., 377 F.2d 795, 798-99 (3d Cir.1967).

476 Indu Craft v. Bank of Baroda, No. 87-CV-7379, 1993 U.S. Dist. LEXIS 17937, at *37 (S.D.N.Y. Dec. 17, 1993), rev'd, 47 F.3d 490 (2d Cir. 1995) (tortious interference); Huffman Towing, Inc. v. Mainstream Shipyard & Supply, Inc., 388 F. Supp. 1362, 1371 (N.D. Miss. 1975) (breach of contract); Cardinal Consulting Co. v. Circo Resorts, Inc., 297 N.W.2d 260, 269 (Minn. 1980).

477 Century Distilling, 205 F.2d at 147; George Haiss, 63 F.2d at 482.

478 All Pro Maids, Inc. v. Layton, No. 058-N, 2004 Del. Ch. LEXIS 116, at *42-43 (Del. Ch. Aug. 9, 2004), aff'd, No. 29-2005, 2005 Del. LEXIS 283 (Del. June 22, 2005); Zippertubing Co. v. Teleflex, Inc., 757 F.2d 1401, 1411 (3d Cir. 1985).

479 CFTC v. Am. Metals Exch. Corp., 991 F.2d 71 (3d Cir. 1993).

480 United States v. Lane Labs-USA, Inc., 427 F.3d 219 (3d Cir. 2005).

481 Am. Metals, 991 F.2d at 77 n.10.

482 Id. at 78.

483 Lane Labs, 427 F.3d at 229-30 (claiming that restitution may be allowed to reimburse defrauded consumers and also may be

allowed as a deterrent).

484 Polo Fashions, Inc. v. Craftex, Inc., 816 F.2d 145, 147 (4th Cir. 1987).

485 Id. at 149.

486 Carter Prods., Inc. v. Colgate-Palmolive Co., 214 F. Supp. 383, 397, 401 (D. Md. 1963).

487 Id. at 401.

488 See JTH Tax v. H&R Block E. Tax Servs., 245 F. Supp. 2d 749, 751 (E.D. Va. 2002) ("Legal authority dictates that only variable costs, and not fixed costs, are to be deducted from gross revenues to calculate profits."); Teaching Co. L.P. v. Unapix Entm't, Inc., 87 F. Supp. 2d 567, 591 (E.D. Va. 2000) (stating that overhead costs, such as entertainment expenses and development costs of other products "are not properly deductible."); Alexander v. Chesapeake, Potomac and Tidewater Books, Inc., 60 F. Supp. 2d 544, 549 (E.D. Va. 1999), aff'd sub nom., Alexander v. Modrak, 243 F.3d 535 (4th Cir. 2001) (stating that "a deduction for overhead is only permitted when 'the infringer can demonstrate it was of actual assistance in the production, distribution, or sale of the infringing product."') (citing Kamar Int'l, Inc. v. Russ Berrie and Co., 752 F.2d 1326, 1332 (9th Cir. 1984)).

489 See Consumer Prot. Div. v. Morgan, 874 A.2d 919, 945 (Md. 2005) ("The Division confuses matters by labeling these investments 'business expenses.' The Division need not deduct expenses incurred as part of maintaining a business, such as rent, office supplies, utilities, and regular salaries, but it must deduct investments in purchasing, repairing, and refurbishing the house."); Mid S. Bldg. Supply of Md., Inc. v. Guardian Door & Window, Inc., 847 A.2d 463, 485 (Md. 2004) ("Damages for trademark infringement are sufficiently proved if a reasonable basis of computation is afforded. An award is not rendered uncertain simply because the damages cannot be calculated with absolute exactness.").

490 Consumer Prot. Div., 874 A.2d at 945; Mid S. Bldg. Supply of Md., 847 A.2d at 485.

491 Consumer Prot. Div., 874 A.2d at 945.

492 Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582 (5th Cir. 1980).

493 Henry Hanger & Display Fixture Corp. v. Sel-O-Rak Corp., 270 F.2d 635, 643-44 (5th Cir. 1959).

494 Id. at 643.

495 SEC v. Blatt, 583 F.2d 1325, 1335 (5th Cir. 1978); SEC v. United Energy Partners, Inc., 88 F. App'x. 744, 746 (5th Cir. 2004).

496 In re Alpha Telecom, Inc., No. 01-CV-1283, 2004 U.S. Dist. LEXIS 20002, at *27 (D. Or. Aug. 18, 2004), vacated sub nom., SEC v. Ross, 504 F.3d 1130 (9th Cir. 2007) (citing Blatt, 583 F.2d at 1335).

497 United Energy Partners, 88 F. App'x at 746.

498 SEC v. Credit Bancorp, Ltd., No. 99-CV-11395, 2002 U.S. Dist. LEXIS 20597, at *8 (S.D.N.Y. Oct. 31, 2002).

499 There are cases that denied the allocation. See, e.g., Dickinson v. O. & W. Thum Co., 8 F.2d 570, 573 (6th Cir. 1925); Enter. R.

Equip. Co. v. Wine R. Appliance Co., 77 F.2d 159, 161 (6th Cir. 1935), rev'd on other grounds, 297 U.S. 387 (1936); Horvath v. McCord Radiator & Mfg., Co., 100 F.2d 326, 334 (6th Cir. 1938).

500 Gordon Form Lathe Co. v. Ford Motor Co., 133 F.2d 487, 498 (6th Cir. 1943), aff'd, 320 U.S. 714 (1943).

501 Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1170-71 (6th Cir. 1980).

502 Larson Co. v. Wrigley Co., 277 U.S. 97 (1928).

503 Nike, Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1448 (Fed. Cir. 1998).

504 Schnadig, 620 F.2d at 1173-74.

505 Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 262 (1916); Sheldon III, 309 U.S. 390, 409 (1940).

506 Schnadig, 620 F.2d at 1175.

507 Bergstrom v. Sears, Roebuck & Co., 496 F. Supp. 476, 498 (D. Minn. 1980).

508 W. H. Miner, Inc. v. Peerless Equip. Co., 115 F.2d 650, 655 (7th Cir. 1940).

509 FTC v. Febre, 128 F.3d 530, 536 (7th Cir. 1997).

510 Williams Elecs. Games, Inc. v. Garrity, 366 F.3d 569, 572 (7th Cir. 2004).

511 Id. at 576.

512 Restatement (Third) of Restitution and Unjust Enrichment §44 cmt. a (Tentative Draft No. 4, 2005) ("'Restitution is available in any intentional-tort case in which the tortfeasor has made a profit that exceeds the victim's damages (if the damages exceed the profit, the plaintiff will prefer to seek damages instead), whether or not the tort involved a breach of fiduciary duty....' Williams Electronics Games, Inc. v. Garrity, 366 F.3d 569, 576 (7th Cir. 2004) (Posner, J.)").

513 Saxon v. Blann, 968 F.2d 676, 681 (8th Cir. 1992).

514 Raymond Farmers Elevator Co. v. Am. Surety Co., 290 N.W. 231, 235 (Minn. 1940) ("The position of the Restatement, Agency, §403, comment 'c,' appears to be that the agent is responsible for the gross profit and cannot deduct expenditures incurred in making an improper profit. Apparently the basis is that the penalty for wrongful dealing is forfeiture of the agent's own investment. This rule is sound. There are perhaps situations where it should be tempered by the circumstances, but the instant case does not come within that category. The evidence justified the finding made below. The rule operate here."). But see Jay v. Gen. Realties Co., 49 A.2d 752, 755 (D.C. Cir. 1946).

515 Kamar Int'l, Inc. v. Russ Berrie & Co., 752 F.2d 1326, 1331-32 (9th Cir. 1984).

[516] See infra Part VIII.

[517] See Frank Music Corp. v. Metro-Goldwyn Mayer, Inc., 772 F.2d 505, 515-16 (9th Cir. 1985); Kamar Int'l, 752 F.2d at 1331.

[518] ZZ Top v. Chrysler Corp., 70 F. Supp. 2d 1167, 1169 (W.D. Wash. 1999) (stating that "[t]he Ninth Circuit has not, therefore, required the preclusion of an overhead deduction where the infringement was intentional or considered the appropriateness of such a rule in light of the provisions of the 1976 Act.").

[519] Frank Music, 772 F.2d at 516-17.

[520] Polar Bear Prods. v. Timex Corp., No. 03-CV-35188, 2004 U.S. App. LEXIS 22131, at *39 (9th Cir. Oct. 25, 2004); Rainey v. Wayne State Univ., 26 F. Supp. 2d 963, 971 (E.D. Mich. 1998); Estate of Vane v. Fair, Inc., 849 F.2d 186, 190 (5th Cir. 1988). But see Andreas v. Volkswagen, Inc., 336 F.3d 789, 798 (8th Cir. 2003).

[521] Stearns-Roger Mfg. Co. v. Ruth, 87 F.2d 35, 41 (10th Cir. 1936).

[522] Universal Motor Oils Co. v. Amoco Oil Co., 809 F. Supp. 816, 822 (D. Kan. 1992); Weaver v. Burger King Corp. (In re Weaver), 219 B.R. 890, 902 (Bankr. D. Mont. 1998).

[523] CSU, L.L.C. v. Xerox Corp. (In re Indep. Serv. Orgs. Antitrust Litig.), 23 F. Supp. 2d 1242, 1251 (D. Kan. 1998).

[524] Univ. of Colo. Found. v. Am. Cyanamid Co., 342 F.3d 1298, 1300 (Fed. Cir. 2003).

[525] See Julius Hyman & Co. v. Velsicol Corp., 233 P.2d 977, 1008 (Colo. 1951) ("The rule is that damages based upon mere speculation and conjecture are not allowable; however where it has been definitely established that damages are traceable to and the direct result of a wrong, the uncertainty as to the amount thereof is a question for determination by the trier of fact.").

[526] Maltina Corp. v. Cawy Bottling Co., 613 F2d 582, 585 (5th Cir. 1980).

[527] Abbott Labs. v. Unlimited Beverages, Inc., 218 F.3d 1238, 1242 (11th Cir. 2000).

[528] Nike Inc. v. Variety Wholesalers, Inc., 274 F. Supp. 2d 1352, 1372-73 (S.D. Ga. 2003), aff'd, 107 F. App'x 183 (11th Cir. 2004); Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., No. 1:00-CV-1934, 2003 U.S. Dist. LEXIS 8788, at *58 (N.D. Ga. May 9, 2003); Burger King Corp. v. Pilgrim's Pride Corp., No. 87-CV-610, 1996 U.S. Dist. LEXIS 12709, at *12 (S.D. Fla. 1996), aff'd, 934 F. Supp. 425 (S.D. Fla. 1996); Playboy Enters. Inc. v. P.K. Sorren Exp. Co. Inc. of Fla., 546 F. Supp. 987, 998 (S.D. Fla. 1982).

[529] George Haiss Mfg. Co. v. Link Belt Co., 50 F.2d 450, 452 (D. Pa. 1931).

[530] Tremaine v. Hitchcock & Co. (The Tremolo Patent), 90 U.S. (23 Wall.) 518, 528-29 (1874) (quoted supra note 79); but see Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 F. 315, 322-23 (2d Cir. 1921) ("The authorities hold that any profit gained by a defendant from the use of what was old prior to the date of the patent infringed cannot constitute any part of the compensation to be awarded to the patentee. In the instant case the market value of the addition made by defendant to the old tire is easy of ascertainment. Both kinds of tires were manufactured... and sold by defendant side by side. The concurrent operations thus furnish a basis of ascertainment. They show that the profit on the sales of an equal number of plain tread tires, arrived at by including exactly the same items of cost used in determining the profits received from the infringing tire, would have been $77,064.30.").

531 Tremaine, 90 U.S. at 528-29.

532 See Cutter v. Gudebrod Bros. Co., 83 N.E. 16, 16 (N.Y. 1907) (citing and agreeing with the Tremaine court).

533 See, e.g., Carter Prods., Inc. v. Colgate-Palmolive Co., 214 F. Supp. 383, 402 (D. Md. 1963) ("The [Tremaine] case has been seldom cited by federal courts, and is hard to reconcile with some later Supreme Court decisions, e.g., Sheldon v. Metro-Goldwyn Pictures Corp. In Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., the defendant contended that the account, as stated by the Master and confirmed by the Circuit Court of Appeals failed to make due allowance for certain items entering into the cost of manufacturing and selling the shoes in diminution of defendant's profits, including interest on capital, depreciation of real estate, taxes, insurance, advertising, and trade discounts. But the Supreme Court affirmed, saying: 'These are matters of fact, respecting which we see no sufficient reason for disturbing the decree."' (citations omitted)); Regis v. Jaynes, 77 N.E. 774, 777 (Mass. 1906) (quoted supra note 456).

534 Sheldon III, 309 U.S. 390, 409 (1940) ("Petitioners also complain of deductions allowed in the computation of the net profits. These contentions involve questions of fact which have been determined below upon the evidence and we find no ground for disturbing the court's conclusions."). See also Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 262 (1916) (discussed supra note 533).

535 F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 234 (1962).

536 Nike, Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1448 (Fed. Cir. 1998).

537 See supra note 112.

538 Restatement (Second) of Unfair Competition §37 (1995).

539 Id. §45.

540 Restatement (Third) of Unfair Competition §37, cmt. h (1995).

541 Id. §45 cmt. h.

542 Restatement of Torts §748 cmt. j (1938) (permitting a deduction only for the marginal increase in costs resulting from the production of the infringing goods).

543 Restatement (Third) of Restitution and Unjust Enrichment §51 (Tentative Draft No. 5, 2007).

544 See supra note 432 and accompanying text.

545 Restatement (Third) of Restitution and Unjust Enrichment §51, illus. 16 (Tentative Draft No. 5, 2007).

546 Restatement (Third) of Restitution and Unjust Enrichment §42 (Tentative Draft No. 4, 2005).

547 See id. §42, cmt. i; see supra Part VII.A.

548 Zippertubing Co. v. Teleflex, Inc., 757 F.2d 1401, 1411 (3d Cir. 1985); Vitex Mfg. Corp. v. Caribtex Corp., 377 F.2d 795, 798-99 (3d Cir. 1967); Buono Sales, Inc. v. Chrysler Motors Corp., 449 F.2d 715, 719-21 (3d Cir. 1971); Pac. Portland Cement Co. v. Food Mach. & Chem. Corp., 178 F.2d 541, 554 (9th Cir. 1949); Carter Prods., Inc. v. Colgate-Palmolive Co., 214 F. Supp. 383, 402-406 (D. Md. 1963).

549 City of Elizabeth v. Am. Nicholson Pavement Co., 97 U.S. (7 Otto) 126, 139-40 (1877).

550 Compare In Design v. K-Mart Apparel Corp., 13 F.3d 559, 565-66 (2d Cir. 1994) ("Overhead expense is also a proper deduction from the profits of an infringer, who has the 'burden of proving that each item of general expense contributed to the production of the infringing items, and of further offering a fair and acceptable formula for allocating a given portion of overhead to the particular infringing items in issue."' (citations omitted)), and Duro Co. of Oh. v. Duro Co. of N.J., 56 F.2d 313, 316 (3d Cir. 1932) ("When the aggregate sales of the infringing business are ascertained, the percentage of the general expenses properly attributable to the infringing business must be determined. This is determined by the ratio or percentage between the aggregate sales of the entire business and the aggregate sales of the infringing business. Having determined this ratio, or the percentage of the infringing sales to all sales, he took the percentage of the expenses of the entire business and thus got the expenses to the infringing business."), and Wolfe v. Nat'l Lead Co., 272 F.2d 867, 871-72 (9th Cir. 1959), overruled by Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156 (9th Cir. 1966) ("Appellee, in the District Court, therefore proposed the 'sales-ratio' method: applying to the joint expense the ratio of receipts from the sale of infringing goods to the total receipts. Application of this ratio showed 64% of costs to be attributableto 'Dutch' products. This method is recognized as proper where a more exact basis of apportionment is not available."), and Basic Am., Inc. v. Shatila, 992 P.2d 175, 195 (Idaho 1999) ("The trial court applied the correct measure of IFP's profits: the gross sales from the Real Hash Brown, less the expense attributable to the production of the offending product. The court found that the percentage allocation of IFP's general expenses was directly related to the actual expenses for producing the Real Hash Brown, and calculated the damages accordingly."), with Henry Hanger & Display Fixture Corp. v. Sel-O-Rak Corp., 270 F.2d 635, 643 (5th Cir. 1959) ("While apportionment of some overhead and general business costs between the infringing and the non-infringing operations of a business enterprise will usually be made, this should not be done unless it is shown that the particular overhead classifications are such that an apportionment is proper. It is not enough merely to say that the overall overhead for income tax purposes was a stated percentage of overall sales. The master's determination that the claim of the defendants to an allowance for overhead was not established was correct."), and Manhattan Indus. v. Sweater Bee by Banff, Ltd., 885 F.2d 1, 7-8 (2d Cir. 1989) ("Although Bayard need not prove its overhead expenses and their relationship to the production of the contemptuous goods in 'minute detail,' it still must carry its burden of demonstrating a sufficient nexus between each expense claimed and the sales of the unlawful goods." (citations omitted)).

551 Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582, 585 (5th Cir. 1980).

552 Compare Abbott Labs. v. Unlimited Beverages, Inc., 218 F.3d 1238, 1242 (11th Cir. 2000), and Clamp Mfg. Co. v. Enco Mfg. Co., 5 U.S.P.Q.2d 1643 (C.D. Cal. 1987), aff'd, 870 F.2d 512 (9th Cir. 1989), and Burger King Corp. v. Pilgrim's Pride Corp., No. 87-610-CIV-KING, 1996 U.S. Dist. LEXIS 12709, at *11-12 (S.D. Fla. May 5, 1996), aff'd, 934 F. Supp. 425 (S.D. Fla. 1996), and Playboy Enters., Inc. v. P.K. Sorren Exp. Co. Inc. of Fl., 546 F. Supp. 987, 998 (S.D. Fla. 1982), and Nike Inc. v. Variety Wholesalers, Inc., 274 F. Supp. 2d 1352 (S.D. Ga. 2003), aff'd, 107 F. App'x 183 (11th Cir. 2004), and Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., No. 1:00-CV-1934 2003 U.S. Dist. LEXIS 8788, at *61 (N.D. Ga. May 9, 2003), and 20th Century Wear, Inc. v. Sanmark-Stardust Inc., No. 81-CV-6359, 1984 U.S. Dist. LEXIS 20527, at *12-13 (S.D.N.Y. Jan. 11, 1984), and Polo Fashions, Inc. v. Extra Special Prods., Inc., 208 U.S.P.Q. (BNA) 421 (S.D.N.Y. 1980), and Teaching Co. Ltd. P'ship. v. Unapix Entm't, Inc., 87 F. Supp. 2d 567, 591 (E.D. Va. 2000), with Kamar Int'l, Inc. v. Russ Berrie & Co., 752 F.2d 1326 (9th Cir. 1984), and Segrets, Inc. v. Gillman Knitwear Co., 42 F. Supp. 2d 58 (D. Mass. 1998), aff'd in part, rev'd in part, 207 F.3d 56 (1st Cir. 2000).

553 The Fifth Circuit has not reversed itself and the Eleventh Circuit cited Maltina as precedent for a similar holding in Abbott Labs., 218 F.3d at 1242.

554 Kamar Int'l, 752 F.2d at 1332 ("A different question is whether overhead expenses should be allowed when they would be incurred regardless of the production and sale of the infringing goods. A rule disallowing such expenses has the advantage of not allowing an infringer to reduce damages by deducting fixed overhead costs the infringer would have borne even without his sales of

infringing goods. On the other hand, such a rule might create perverse incentives for a copyright owner to delay enforcing his rights and instead allow a diversified infringer to produce and sell infringing goods. If the copyright owner currently uses his fixed overhead to capacity, he would obtain by lawsuit net profits greater than he could have earned. Not only will the profits not cost him an increase in his own overhead; he will actually receive a premium representing the disallowance of the infringer's overhead.").

555 Nike, Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1448 (Fed. Cir. 1998).

556 See supra note 236 and accompanying text.

557 See supra Part VI.

558 See supra note 505 and accompanying text.

559 Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc., 527 U.S. 308, 333 (1999) (quoting Joseph Story, 1 Commentaries on Equity Jurisprudence 21, §19 (Stevens & Haynes 1884).

560 Kull, supra note 40, 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.").