No. 18-1501

In the Supreme Court of the United States

CHARLES C. LIU *et al.*, *Petitioners,*

v.

SECURITIES AND EXCHANGE COMMISSION, *Respondent*.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF OF REMEDIES AND RESTITUTION SCHOLARS AS AMICI CURIAE IN SUPPORT OF NEITHER SIDE

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QUESTIONS PRESENTED

This brief addresses two questionss:

1. Whether "equitable relief" in the securities laws includes the longstanding equitable remedy of disgorgement, also known as accounting of profits, and

2. Whether disgorgement in the securities laws should be measured by the longstanding rules of equity, a measure that both petitioners and respondent appear to reject.

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INTEREST OF AMICI

The amici joining this brief are Richard L. Hasen, Douglas Laycock, Doug Rendleman, Caprice L. Roberts, and Michael Traynor. Amici are law professors and a senior practitioner who study and publish on the law of restitution or the law of remedies more generally, including restitution. Three were Advisers to the *Restatement (Third) of Restitution and Unjust Enrichment* (Am. Law Inst. 2011), and a fourth served on the Members Consultative Group for that project. Two are the reporters, and two more are Advisers, for the *Restatement (Third) of Torts: Remedies* (in progress). One is President Emeritus of the American Law Institute. Four are editors of major casebooks on Remedies, and one is the new editor of the leading treatise on Remedies. All five have taught Remedies at major law schools.[1]

Amici fear that this case threatens the stability or even the existence of a large, well defined, and important body of law concerning disgorgement of a wrongdoer's profits. It appears from the filings at the petition stage, and now from petitioners' merits brief, that neither side will accurately present that body of law. Petitioners seek to do away with the law of dis-

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[1] This brief was prepared and funded entirely by amici and their counsel. No other person contributed financially or otherwise. Petitioners' consent is on file with the Clerk; respondent's consent is submitted with the brief.

The American Law Institute speaks only through its *Restatements*, *Principles of the Law*, and similar projects. Each such project is carefully reviewed and formally approved by both its governing Council and its membership. This brief is not a statement of the American Law Institute. None of the universities where amici are employed takes any position on the issues in this case.

gorgement, at least in the context of judicial enforcement of the securities laws; the Commission greatly exaggerates the law of disgorgement and consistently overreaches in its claims.

This brief seeks to refresh the Court's recollection of disgorgement's deep roots in equity, and of what the law of disgorgement actually provides and how disgorgement is measured, lest this body of law be distorted or even lost as a result of the parties' exaggerated claims. These amici take no position on the facts of this case or on the proper result if the law of disgorgement were properly applied to these facts.

SUMMARY OF ARGUMENT

1. All parties in this case seek to lead the Court into serious error. Petitioners would abolish disgorgement in federal court, at least in securities cases. But disgorgement is an equitable remedy, authorized by Congress, with a long history in this Court and a longer history elsewhere.

The Commission would exaggerate disgorgement beyond recognition, collecting far more than defendants' profits, and turning disgorgement into what this Court has properly characterized as a penalty. Congress provided for penalties, not to exceed gross profits, separately from the provision at issue here. The provision here authorizes only "equitable relief."

2.A. Disgorgement of a wrongdoer's profits is a long-established equitable remedy. The most numerous set of cases in this Court have involved willful infringements of intellectual property. The disgorgement remedy is now codified with respect to trademark, copyright, trade secret, and design patents, and

repealed by legislation with respect to utility patents.[2] But as this Court explained in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), and in many other cases, and as Justice Story had explained in his *Commentaries* more than a century before, the remedy was developed in equity as relief incident to an injunction long before it was codified in these statutes. It was enough that earlier versions of these statutes had granted equitable jurisdiction over the subject matter, in provisions that parallel the authorization for "equitable relief" in the statute at issue here.

B. It is equally settled that the measure of relief in this remedy is the wrongdoer's net profits, not gross receipts. This is the unambiguous conclusion of the *Restatement (Third) of Restitution and Unjust Enrichment* (Am. Law Inst. 2011). It is the unambiguous holding of a long line of this Court's cases. Beginning at least as early as *Livingston v. Woodworth*, 56 U.S. (15 How.) 546 (1853), and continuing as recently as *Kokesh v. SEC*, 137 S. Ct. 1635 (2017), this Court has repeatedly and explicitly stated that liability for wrongful profits extends only to net profits.

C. The disgorgement remedy and its net-profits measure is equally applicable to fraud. Fraud was one of the earliest bases for equitable jurisdiction, well settled by the sixteenth century. Justice Story devoted two chapters to fraud, and treated the

[2] 11 U.S.C. §1117(a) (2012) (trademark); 17 U.S.C. §504(b) (2012) (copyright); 18 U.S.C. §1836(b)(3)(B) (2012) (trade secret); 35 U.S.C. §289 (2012) (design patents). For utility patents, Congress deliberately omitted an earlier provision explicitly authorizing recovery of profits, and this was interpreted as a repeal. *See* 35 U.S.C. §284 (2012).

disgorgement remedy as obvious. Cases in this Court and elsewhere grant disgorgement of profits, in equity, as a remedy for frauds of all kinds.

D. In sum, the Commission's claim for gross receipts is not "equitable relief" within the statute. But a claim for net profits would be classic "equitable relief" within the meaning of the statute.

3. Petitioners claim that disgorgement is not a traditional equitable remedy. If they mean only disgorgement as claimed by the Commission, they are right. But they appear to mean that no form of disgorgement was ever an equitable remedy. This is a futile attempt to deny what is obvious and settled.

Retreating slightly, petitioners claim that accounting for profits was available, but only against fiduciaries. One of the cases they cite for this proposition was not even an equity case. The other two cases cited were routine holdings that a familiar legal remedy (damages for a completed tort in one, ejectment in the other) was entirely adequate. None of these cases says anything about accounting of profits against wrongdoers who were not fiduciaries.

Petitioners try to explain away the patent cases by saying that they were authorized by statute. But that was true only after 1870, and the patent cases go back much further.

And finally, they claim that accounting was legal restitution, not equitable. The principal case they cite for that proposition says roughly the opposite of what they claim, and their claim is belied by the long line of cases explaining accounting as equitable.

4. Each defendant in a disgorgement case is liable only for his own profits. He is not jointly-and-

severally liable for the profits of others. The Commission overreaches on this point as well.

Liability for damages is often joint and several, because each defendant caused, or contributed to causing, all the harm. But disgorgement is measured on defendant's side of the transaction. Each defendant must disgorge his own profits, but no defendant must disgorge money in an amount equal to the profits that went to others. This Court so held in *Elizabeth v. Pavement Co.*, 97 U.S. 126 (1877), and there are similar holdings elsewhere much more recently. Liability for the profits of others would not be disgorgement at all. Such an order would be a penalty, not equitable relief.

5. The Court should restore the Commission's disgorgement remedy to its proper bounds. The Court should not accept petitioners' demand to abolish an important equitable remedy because the Commission has overreached. Instead, it should correct the overreaching. The Court should clarify that disgorgement is "equitable relief" authorized by the securities laws, and that it is to be measured by the net profits received by each defendant individually.

ARGUMENT

I. Each Party's Position Seriously Overreaches.

The Securities and Exchange Act, 15 U.S.C. §78u(d)(5) (2012), authorizes the Commission to seek, and any federal court to grant, in any action under the securities laws, "any equitable relief that may be appropriate or necessary for the benefit of investors." Petitioners claim that this authorization of "equitable

relief" does not include disgorgement of a violator's wrongful profits.

Petitioners are clearly wrong. Disgorgement of profits, also and more traditionally known as accounting of profits (or accounting for profits, or sometimes, just account or accounting), is a well established remedy with a long history in both state and federal law. This remedy is rooted in equity, as this Court has long recognized. *See, e.g.*, *SCA Hygiene Products Aktiebolag v. First Quality Baby Products*, LLC, 137 S. Ct. 954, 964 (2017); *Porter v. Warner Holding Co.*, 328 U.S. 395, 398-403 (1946); *Stevens v. Gladding*, 58 U.S. (17 How.) 447, 455 (1854). It is therefore a form of "equitable relief."

The Commission routinely claims that this authorization of "equitable relief" allows it to recover gross receipts, rather than net profits, and allows it to recover these receipts on a basis of joint-and-several liability, rather than the net profits actually received by each defendant. These claims, and the lower courts' acceptance of these claims, are documented in *Kokesh v. SEC*, 137 S. Ct. 1635, 1644-45 (2017).

The Commission is also clearly wrong. There is a well established measure of the profits that are recoverable in a suit for the equitable remedy of disgorgement. Intentional or conscious wrongdoers, defaulting fiduciaries, and violators of certain statutes that provide for recovery of defendant's profits on a lesser showing of culpability, are liable individually for the net profits that each defendant actually received as a result of the wrong. A statutory authorization of "equitable relief," without more, does not authorize liability for gross receipts, and it does not authorize joint-and-several liability, because

these were no part of the longstanding equitable remedy of disgorgement.

Congress provided separately for recovery of gross profits in 15 U.S.C. §77t(d) (2012) and 15 U.S.C. §78u(d)(3) (2012)—the latter authorization just two subparagraphs away from the authorization of equitable relief. These two gross-profits provisions authorize a civil penalty against each defendant found to have violated certain provisions of the securities laws. The penalty may not exceed "the gross amount of pecuniary gain to such defendant." These separate provisions suggest congressional recognition that recovery of gross profits is indeed a penalty, and that this penalty is not authorized by the provision for "equitable relief" at issue here.

The court of appeals believed that defrauded investors should recover the full amount of their losses. "[T]he proper amount of disgorgement in a scheme such as this one is the entire amount raised less the money paid back to investors." Pet. App. 7a.

Of course amici agree that defrauded investors should recover the full amount of their losses. But that would be the measure of damages—the net amount that victims lost. It is not the measure of disgorgement or profits—the net amount that wrong-doers gained. And for better or worse, Congress did not authorize the Commission to sue for damages. Victims who wish to recover damages must sue on their own behalf. *See, e.g.*, 15 U.S.C. §77k (2012).

In their most recent filing, petitioners take a new position. They now say that the Commission can recover disgorgement in administrative proceedings, but not in any court. Pet. Br. 17, 28. They did not

make this argument below. And of course they did not mention this theory in the petition for certiorari, for that would have made this a rather insignificant case. This new theory converts petitioners' argument into what is essentially a venue objection—that they were tried before an independent Article III court instead of before an Administrative Law Judge employed by their opponent in the litigation.

Assuming that the statute of limitations has now run—the key events appear to have happened in 2010—petitioners' new argument would get them off the hook in this case. But it would do nothing to solve the problem the Court identified in *Kokesh*. Petitioners even assure the Court that "[n]ot much" would change if they win on this ground. Pet. Br. 2. So they apparently accept the Commission's exaggerated conception of disgorgement, as long as it is not applied to them.

The reason offered for this new argument is that in the Securities Act, 15 U.S.C. §77h-1(e), Congress used the more specific terms, "accounting" and "disgorgement," with respect to administrative proceedings. This is said to show that when Congress said "equitable relief," in an amendment enacted at a different time, by a different Congress, amending a different statute, "equitable relief" did not include what it has included for all or nearly all of the last two hundred years. "Equitable relief" has a long-established meaning, and the Securities and Exchange Act says that "equitable relief" is available in federal courts. The Court should enforce §78u(d)(5) as written.

Replying to petitioners, this means that disgorgement is available in federal court. Replying to

the Commission, this means that disgorgement is limited to the long established meaning of "equitable relief."

II. Disgorgement, or Accounting for Profits, Is a Long-Established Equitable Remedy That Imposes Liability for the Wrongdoer's Net Profits—Not Gross Profits or Gross Receipts.

A. Disgorgement of a Wrongdoer's Profits Is a Longstanding Equitable Remedy.

Disgorgement of a wrongdoer's profits is an equitable remedy with a long history. The *Restatement* describes it as "one of the cornerstones of the law of restitution and unjust enrichment." *Restatement (Third) of Restitution and Unjust Enrichment* §3 cmt. *a* (Am. Law Inst. 2011).

The leading case in this Court is still *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), a suit to recover the profits of an infringing movie based on the script of plaintiff's copyrighted play. The Court referred to the remedy as an "accounting of profits." 309 U.S. at 396. (Disgorgement became a common label more recently. The *Restatement* notes that restitutionary remedies for the recovery of defendants' profits "are often called 'disgorgement' or 'accounting.'" *Restatement (Third)* §51(4).)

The Court *in Sheldon* outlined the history of the accounting remedy and its origins in equity before it was partially codified in the Patent Act of 1870 and the Copyright Act of 1909. As the Court explained:

> 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 according to 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."

Sheldon, 309 U.S. at 399 (quoting *Livingston v. Woodworth*, 56 U.S. (15 How.) 546, 560 (1853) (other citations omitted).[3]

Livingston is a patent example from before the 1870 Act; another is *Rubber Co. v. Goodyear*, 76 U.S. (9 Wall.) 788 (1869). A copyright example from before the 1909 Act is *Callaghan v. Myers*, 128 U.S. 617 (1888). In *Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.*, 240 U.S. 251, 259-60 (1912), the Court gave a detailed explanation of the equitable origins of accounting for the profits of trademark infringement, closely parallel to *Sheldon*'s explanation with respect to patent and copyright. The did not cite the Trademark Act's then terse authorization for the recovery of profits. Act of Feb. 20, 1905, 33 Stat. 724, §19 at 729. The Court relied solely on the equity power and on accounting as a remedy incident to an injunction.

The right to an accounting of profits from infringement was established in the lower courts well

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[3] The phrase "ex aequo et bono" appears in many older restitution cases, at least as far back as Lord Mansfield's seminal opinion in *Moses v. Macferlan*, 97 Eng. Rep. 676, 679 (K.B. 1760). A literal translation would be "according to what is just and good;" the looser but more common translation is "according to equity and good conscience."

before the first such cases reached this Court. Justice Story explained in 1836 that damages were generally an inadequate remedy for patent or copyright infringement and that the equity court would therefore enjoin infringement. 2 Joseph Story, *Commentaries on Equity Jurisprudence as Administered in England and America* §§931-32 at 210 (1st ed. 1836). He continued:

> Besides; in most cases of this sort, the bill usually seeks an account, in one case of the books printed, and in the other of the profits, which have arisen from the use of the invention, from the persons, who have pirated the same. And this account will, in all cases, where the right has been already established, or is established under the direction of the Court, be decreed as incidental, in addition to the other relief of a perpetual injunction.

Id. §933 at 211. This was long before the first codification in 1870.

The doctrinal evolution of the remedy in patent cases is briefly reviewed in Caprice L. Roberts, *The Case for Restitution and Unjust Enrichment Remedies in Patent Law*, 14 Lewis & Clark L. Rev. 653, 657-61 (2010). As this Court briefly summarized that history, recovery of the infringer's profits "was established by a series of decisions under the patent act of 1836, which simply conferred upon the courts of the United States general equity jurisdiction, with the power to grant injunctions in cases arising under the patent laws." *Tilghman v. Proctor*, 125 U.S. 136, 144 (1888).

This statutory grant of equitable jurisdiction is parallel to the authorization of "equitable relief" at

issue here. The initial doctrinal evolution was also entirely parallel. The Second Circuit initially based the power to order disgorgement of the profits of securities fraud on a grant of exclusive jurisdiction "of all suits in equity and actions at law brought to enforce any liability or duty created by this chapter or the rules and regulations thereunder." *SEC v. Texas Gulf Sulphur Co.*, 446 F.2d 1301, 1307-08 (2d Cir. 1971) (citing 15 U.S.C. §78aa as §27 of the Securities and Exchange Act).

B. The Measure of Disgorgement Has Always Been the Wrongdoer's Net Profits.

The measure of disgorgement has always been the wrongdoer's net profits, not gross receipts. The *Restatement* defines disgorgement liability as follows:

> [T]he unjust enrichment of a conscious wrongdoer, or of a defaulting fiduciary without regard to notice or fault, is the net profit attributable to the underlying wrong. The object of restitution in such cases is to eliminate profit from wrongdoing while avoiding, so far as possible, the imposition of a penalty. Restitution remedies that pursue this object are often called "disgorgement" or "accounting."

Restatement (Third) of Restitution and Unjust Enrichment §51(4).[4]

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[4] Section 51(2) provides an alternate measure of restitution based on the market value of the thing taken. This is not a measure of disgorgement; it is an alternative to disgorgement. It could not plausibly be applied to securities manipulation, and it is not at issue here.

Disgorgement so defined is not necessarily compensatory. It is measured by the wrongdoer's profits, and these profits may be either more than, or less than, the victim's losses. *Id.* §1 cmt. *a*; *id.* §3 cmts. *a*, *b*, & *c* & reporter's note *a*.

Neither is disgorgement punitive. It is measured by the wrongdoer's net profits. Liability for more than the net profits would not be restitution or disgorgement; it would be a penalty, as this Court held in *Kokesh*. But disgorgement is an equitable remedy, as shown above; the statutory provision at issue authorizes only "equitable relief;" and equity does not impose penalties. *See, e.g.*, *Tull v. United States*, 481 U.S. 412, 424 (1987) ("while a court in equity may award monetary restitution as an adjunct to injunctive relief, it may not enforce civil penalties").

The *Restatement*'s summary statement of the law is supported by a vast body of cases, including in this Court. The Court most recently reaffirmed the rule in *Kokesh v. SEC*, 137 S. Ct. 1635 (2017):

> 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. Denial of an otherwise appropriate deduction, by making the defendant liable in excess of net gains, results in a punitive sanction that the law of restitution normally attempts to avoid.

Id. at 1644-45 (quoting *Restatement (Third)* §51 cmt. *h*). *See also Kansas v. Nebraska*, 574 U.S. 445, 135 S. Ct. 1042, 1057-58 (2015) (holding that "a disgorgement order constitutes a 'fair and equitable' remedy,"

but affirming an award of *less* than net profits after '[b]alancing of equities and hardships'").

Probably the most frequent application of disgorgement in this Court has been in intellectual-property cases. The Court acknowledged the net-profits rule in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663 (2014), noting that the Copyright Act allows the infringer to prove its expenses and to apportion profits between infringing and non-infringing elements of its work. *Id.* at 677-78 (citing 17 U.S.C. §504(b) (2012)).

More precisely, the statute assumes the existence of the equitable rule that infringers must disgorge net profits; what the statute enacts is an allocation of the burden of proof. "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. §504(b). What expenses are deductible? The statute doesn't say. It assumes that legitimate expenses are deductible, because they have always been deductible as part of the equitable remedy on which the statutory provision is based. What the statute does is make clear that the infringer has to prove those expenses.

In *Sheldon v. Metro-Goldwyn Pictures,* the principal issue in this Court was the apportionment between infringing and non-infringing contributions to a movie's profits. The Court was clear throughout that it was apportioning net profits; the phrases "net profits" and "net gains" appear in the opinion thirteen times. 309 U.S. at 396-98, 402, 404, 408-09.

The Court summarily rejected the copyright holder's complaint about the "deductions allowed in the computation of the net profits." *Id.* at 409. The Second Circuit, in an opinion by Judge Learned Hand, had reviewed the calculation of net profits in considerable detail, considering objections from both sides, and also considering the apportionment of those profits between infringing and non-infringing elements. 106 F.2d 45, 51-55 (2d Cir. 1939).

The settled rule of net profits was the measure derived from equity, before any codification. The Patent Act of 1870 provided only that plaintiff could recover "the profits to be accounted for by the defendant." Act of July 8, 1870, 16 Stat. 198, §55 at 206. The statute did not specify net profits, and the corresponding copyright provision (in the same statute) did not specify profits at all; it simply granted equity jurisdiction and authorized injunctions. *Id.* §106 at 215. The trademark statutes did not allude to net profits until the Lanham Act, 60 Stat. 427, §35 at 440 (1946), and then only to allocate the burden of proof, as in the Copyright Act. But net profits were the measure in all three sets of cases under principles of equity.

A copyright example from before the 1909 Act is *Callaghan v. Myers*, 128 U.S. 617 (1888), a case about the copyright in headnotes and other supplemental matter in a series of law reports. With no statutory guidance, but applying the historic rules of equity, the Court accepted net profits as "the only proper rule." "In regard to the general question of the profits to be accounted for by the defendants, as to the volumes in question, the only proper rule to be adopted is to deduct from the selling price the actual and legitimate

manufacturing cost." *Id.* at 665.

In *Tilghman v. Proctor*, 125 U.S. 136 (1888), a patent case, the Court said that "it is inconsistent with the ordinary principles and practices of courts of chancery, either, on the one hand, to permit the wrongdoer to profit by his own wrong, or, on the other hand, to make no allowance for the cost and expense of conducting his business." *Id.* at 145-46.

There are numerous other examples. We note a few more in which the point appears most explicitly. *L.P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 277 U.S. 97 (1928), was a trade-dress case in which the infringer was required to account for its "net profits." *Id.* at 99. "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." *Id.* at 100. Even so, the Court held that defendant should not be credited for the income taxes it had paid on the infringing profits. This is fully consistent with the rule of net profits, because the defendant will get an offsetting tax savings because of its reduced earnings in the year it pays the judgment. *See Healy v. Commissioner*, 345 U.S. 278, 284 (1953).

The Court also emphasized net profits in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), a patent case. "Of course, the result to be accomplished is a rational separation of the net profits so that neither party may have what rightfully belongs to the other." *Id.* at 647.

The Court had elaborated in *Rubber Co. v. Goodyear*, 76 U.S. (9 Wall.) 788 (1869):

> "The profits made in violation of the rights of the complainants" in this class of cases, within the meaning of the law, are to be computed and ascertained by finding the difference between cost and yield. In estimating the cost, the elements of price of materials, interest, expenses of manufacture and sale, and other necessary expenditures, if there be any, and bad debts, are to be taken into the account, and usually nothing else. The calculation is to be made as a manufacturer calculates the profits of his business. "Profit" is the gain made upon any business or investment, when both the receipts and payments are taken into the account.

Id. at 804 (quoting (in the first two lines) the decree of the court below).

Livingston v. Woodworth, the 1853 case quoted in *Sheldon*, was a suit for infringing use of a patented planing machine in defendants' sawmill. The special master, in his first report, found that defendants produced planks at a cost of $1.50 per thousand feet, and sold them for $2.00 per thousand feet, leaving a net profit of 50 cents per thousand feet. After a remand by the circuit court, the master found that defendants might have reduced their cost to $1.00 per thousand feet, thus doubling their net profit, if they had operated the mill more efficiently. 56 U.S. at 555-56; *see also id.* at 548-49 (simpler statement of these facts in argument of counsel).

So the ultimate issue in *Livingston* was whether defendants should be liable for their actual net profits, or for what their net profits might have been if they had acted with greater diligence. But the entire

dispute was about the amount of expenses that should be deducted from the gross proceeds of the infringement. The Court unanimously chose actual rather than potential profits as the only rule consistent with equity. A fortiori, plaintiffs could not have recovered gross receipts.

See also Westinghouse Electric and Manufacturing Co. v. Wagner Electric and Manufacturing Co., 225 U.S. 604, 616 (1912) (stating that plaintiff had not proved profits by showing $955,000 in sales of infringing transformers, but that it did prove profits by showing that "defendant had netted $132,000 from their sale"); *Elizabeth v. Pavement Co.*, 97 U.S. 126, 142 (1877) (setting out the calculation of profits in the opinion, and clearly calculating only net profits); *Mason v. Graham*, 90 U.S. (23 Wall.) 261, 275-77 (1874) (same); *Mowrey v. Whitney*, 81 U.S. (14 Wall.) 620 (1871) (holding that the profits from an infringed manufacturing process are only the "advantage … defendant derive[d] 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 achieve an equally beneficial result."); *Littlefield v. Perry*, 88 U.S. (21 Wall.) 205 (1874) (applying *Mowrey* to improvements in the product itself and allowing award of only the profits from those improvements).

An example from another context is *Twist v. Prairie Oil & Gas Co.*, 274 U.S. 684 (1927). The whole issue in this Court was whether a poorly pleaded complaint presented a claim at law or in equity. The Court held that the claim was equitable, because the claim was in the nature of a bill to quiet title and because "recovery, as upon an accounting, of the agreed

amount of the net profits was a normal incident of such a bill." *Id.* at 690.

C. The Equitable-Disgorgement Remedy Also Applies to Fraud, and the Measure in Fraud Cases Is Also Net Profits.

Accounting for profits also applies to fraud, although there are fewer cases in this Court. The *Restatement* lists specific claims to which the accounting remedy applies, and the first of these is fraud. *See Restatement (Third)* §13 (fraud), and §51(1) (listing this and other sections for which disgorgement is available).

Justice Story was clear that the obligation to account in equity for rents and profits was a remedy available for fraud. As he summarized:

> Other cases may be easily put, where a like remedial justice is administered in Equity. But in all these cases it will be found, that there is some peculiar equitable ground for interference; such as *fraud*, or accident, or mistake, the want of a discovery, some impediment at law, the existence of a constructive trust, or the necessity of interposing to prevent multiplicity of suits.

1 Story, *Commentaries* §512 at 487 (emphasis added). Fraud had been a settled ground of equitable jurisdiction from the earliest days; the Chancellor's jurisdiction in the sixteenth century was often summarized as "fraud, accident and breach of confidence." F.W. Maitland, *Equity* 7 (1936). Justice Story devoted two lengthy chapters to fraud, describing it as a "great head of concurrent

jurisdiction in Equity." 1 Story, *Commentaries* §184 at 194.

An example in this Court is *Dickson v. Patterson*, 160 U.S. 584 (1896), where plaintiff got rescission and an accounting of defendant's profits, in equity, after being defrauded in a series of real estate transactions. The measure of recovery was net profits; defendant was to "have credit for any sums paid by him in discharge of taxes, or other charges upon the property." *Id.* at 592.

There are similar cases in state court; we offer a few examples. *Brooks v. Conston*, 72 A.2d 75 (Pa. 1950), held that a plaintiff who was defrauded in the sale of a chain of retail stores was entitled, in equity, to rescission and an accounting of defendant's profits from operating the stores. The measure of recovery was net profits; defendant was allowed credit for losses in some of the stores, for wages, and no doubt for the cost of goods sold, although that was apparently not disputed and does not appear in the opinion.

Lang v. Giraudo, 40 N.E.2d 707 (Mass. 1942), held that a plaintiff who was defrauded in the sale of land was entitled, in equity, to rescission and a mutual accounting to recover defendant's profits. Again the measure was net profits:

> In the absence of special circumstances rendering it inequitable the defendant will, in general, be entitled to credit for payments made by her or out of her funds for taxes, principal or interest on mortgages or other liens existing when she took title, instalments due to the finance company, and for necessary

> repairs to the extent that they increased the value of the property, all in accordance with established principles.

Id. at 140-41.

Falk v. Hoffman, 135 N.E. 243 (N.Y. 1922) (Cardozo, J.), held that a plaintiff who was defrauded in the sale of corporate shares is entitled, in equity, to rescission, an accounting of defendant's profits, and because the proceeds of defendant's resale of the shares were still identifiable, a constructive trust over those proceeds to ensure collection of the judgment. All of these cases appear to treat the recovery of profits as routine; note *Lang*'s reference to "established principles."

D. In Sum, the Commission's Demand for Gross Receipts Is Not Equitable Relief, but Disgorgement of Net Profits Is Classic Equitable Relief.

This Court has most fully developed the disgorgement remedy in the intellectual-property cases reviewed in Parts II.A and B, *supra*. These cases make clear that the Court has always understood disgorgement as equitable. The Court viewed restitution of defendant's profits as additional relief incidental to its authority to enjoin the infringement. Consequently, the Court held that a general grant of equitable jurisdiction was enough to authorize recovery of defendant's profits. Disgorgement, injunctions, and receiverships are the natural referents for the statutory authorization of "equitable relief" in the securities laws. And before the Commission persuaded the lower courts to award disgorgement of

gross receipts, disgorgement had a settled meaning. It always meant net profits.

The Commission's recurring demand for gross receipts is not a prayer for "equitable relief" within the meaning of the statute. But a prayer for net profits appropriately measured would be a classic form of "equitable relief" within the meaning of the statute. These long-settled rules provide clear guidance; in reaffirming these long-settled rules, the Court would not be "just making it up." Pet. Br. 16 n.7. The mistake would be to abandon these rules because the scope of equity has become less familiar since the merger, or because reduced familiarity enabled the Commission to overreach. To abandon this long-settled body of law would indeed be making something up.

III. Petitioners' Claim That Disgorgement Was Never an Equitable Remedy Badly Distorts the Cases.

Petitioners' merits brief claims that the "SEC's disgorgement remedy is not traditionally available equitable relief." Pet. Br. 26. If petitioners mean to refer only to what the Commission claims as disgorgement, then of course they are right. But much of what they argue under that heading appears to say that no form of disgorgement—not even disgorgement properly measured by the traditional rules of equity—was ever part of equity. And in that, they are flatly wrong, as the many cases in this Court demonstrate, and as Justice Story's account of the pre-1836 cases in the lower courts further confirms. See Part II.A *supra*.

Disgorgement was "typically" available in equity; it was available "in all cases" in which infringement

was enjoined. 2 Story, *Commentaries* §933 at 211. This early history also shows that disgorgement was not the Commission's "brainchild" or "invention" in the 1960s. *Compare* Pet. Br. 26-27.

Nor was accounting for profits limited to fiduciaries. *Compare id.* at 28-29. It likely originated in breach of trust cases, but it was not confined to them. Once a case was in equity on some other ground, accounting for profits was available as a remedy. Thus this Court's cases and Justice Story's *Commentaries* describe accounting as "incident to a decree for injunction." *See supra* 10-11, 13, 18, 21.

Petitioners cite three cases to show that only fiduciaries had to account for their profits, but none of those cases stands for any such thing. In two of these cases, there was no ground for equitable jurisdiction, and lack of fiduciary relationship was only one of the grounds the Court noted as missing. So in *United States v. Bitter Root Development Co.*, 200 U.S. 451 (1906), the government sought to recover the value of timber that defendants had cut without authority. The damage had been done, and the government did not seek an injunction. The Court said that "the action is really nothing but an action of trespass or trover to recover damages," and that the legal remedy was entirely adequate. *Id.* at 472. A plaintiff seeking only damages was a standard ground for refusing equity jurisdiction.

Ellis v. Davis, 109 U.S. 485 (1883), was a suit to recover land that had passed under an allegedly invalid will. But defendant was in possession, so there was a legal remedy in ejectment, to recover both possession and an account of the rents and profits. Defendant in possession of disputed land was also a

standard ground for declining equity jurisdiction. Compare *Twist v. Prairie Oil & Gas Co.*. described *supra* at 18-19.[5]

Petitioners' third case wasn't even an equity case. *Robinson v. Robinson*, 53 N.E. 854 (Mass. 1899), was based on a statute authorizing a legal "action of account," *id.* at 854, not an equitable claim for an accounting. But the writ of account had been abolished in Massachusetts, so an "action of contract" had to be used instead. *Ibid*. That these were both legal actions is confirmed by one of the court's comparisons: "if an account had been sought in equity," then various consequences would have followed. *Id.* at 855.

Petitioners try to explain away all the patent cases by saying that they were authorized by statute. Pet. Br. 29. As already noted, that was true only after 1870; before that, the various patent statutes did not mention defendant's profits. *Supra* 9, 15. There was no statutory authorization in copyright until 1909. *Ibid*. Yet profits were awarded in both contexts, as relief incident to an injunction.

Finally, petitioners claim that restitution is equitable only when a plaintiff seeks to reclaim specific property, and that whenever restitution ends in a money judgment, it is legal. Pet. Br. 30-31. They rely principally on *Great-West Life and Annuity*

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[5] When *plaintiff* was in possession of the disputed land, ejectment would not lie, and then equity took jurisdiction under the heading of a bill to remove cloud on title. This longstanding distinction is still largely in effect, somewhat modified by modern legislation. *See* Douglas Laycock & Richard L. Hasen, *Modern American Remedies: Cases and Materials* 626-27 (5th ed. 2019).

Insurance Co. v. Knudson, 534 U.S. 204 (2002), which said (at 213) that when restitution ends in an ordinary money judgment, it is generally a legal remedy. They do not disclose the Court's nearby footnote: "There is a limited exception for an accounting for profits, a form of equitable restitution that is not at issue in this case." *Id.* at 214 n.2; *see also Tull v. United States*, 481 U.S. 412, 424 (1987) ("a court in equity may award monetary restitution as an adjunct to injunctive relief").

The footnote offered the example of a plaintiff recovering a specific piece of property via a constructive trust, and then getting an accounting of defendant's profits from the use of that property. *Id.* That is indeed a common basis for an accounting of profits. But as the *Restatement* makes clear, accounting of profits is also generally available as a remedy for most forms of intentional wrongdoing, with or without a constructive trust. *Restatement (Third)* §51 & cmt. *b*. And as this Court's earlier cases make clear, accounting for profits was available as an incident of an injunction against wrongful conduct, including fraud, without any requirement to identify specific property from which the wrongful profits were derived.

The early Justices of this Court, through Justice Story and continuing to 1940, when *Sheldon* was decided, and for some years beyond that, spent much or all of their careers practicing law and deciding cases when the federal courts had a law side and an equity side, and when the two sides were conceived as completely separate. Those Justices were far more familiar with the scope of equity than lawyers and judges today. And they were very clear: accounting for

profits was an equitable remedy to recover the gains from wrongful acts, and a general grant of equitable jurisdiction authorized courts to award it.

IV. Each Defendant Is Liable Only for His or Her Own Profits, and Not for Profits Received by Other Participants in the Same Illegal Conduct.

1. The second recurring error in the Commission's enforcement of what it calls disgorgement is to impose joint-and-several liability for profits received by others. This issue may have been less frequently litigated, but the principle is clear.

Courts in many contexts impose joint-and-several liability for *damages*, because each defendant caused, or contributed to causing, the plaintiff's entire harm. But disgorgement is fundamentally different. It is measured not by what plaintiff lost, but by what defendant gained. It is based in unjust enrichment, to ensure that a wrongdoer does not profit by his wrong. And clearly, each defendant is enriched by, or profits from, only that which he actually received.

To require Defendant *A* to pay an amount equivalent to the profits received by Defendant *B* is not to deprive *A* of enrichment or profits or of anything he wrongfully acquired, however enrichment might be measured. To hold *A* liable for profits received by *B* is to impose a penalty on *A*.

Disgorgement is an equitable remedy; the statute authorizes only "equitable relief;" and equity does not impose penalties. Thus the *Restatement* provides that the goal of disgorgement remedies "is to eliminate profit from wrongdoing while avoiding, so far as

possible, the imposition of a penalty." *Restatement (Third)* §51(4).

This Court encountered the issue of joint-and-several liability in *Elizabeth v. Pavement Co.*, 97 U.S. 126 (1877). Elizabeth, New Jersey, hired a contractor to pave streets, and the contractor used a patented paving method without obtaining any license to do so. There were three defendants in the case: the city, the corporation that paved the streets, and an individual who was an agent for the corporate contractor and who had made some of the paving contracts in his own name.

The Court held that all three defendants were infringers and could have been enjoined or held liable in damages. But only the corporate contractor had profits, and only it could be liable for those profits. The city had no profits, because the contract price had not been reduced; the contractor had reaped all the profits from the infringement for itself. The individual defendant had not shared in those profits; he had gotten only a salary. The city and the individual were not liable for the contractor's profits. They were not liable for any profits, because they had no profits. *Id.* at 140.

This issue was also presented in Learned Hand's review of the accounting in *Sheldon v. Metro-Goldwyn Pictures*. Some of defendants' profits were payable to a partnership with a contractual right to a share of the profits. The three partners in this partnership were all officers in one of the corporate defendants. The court assumed that the partnership, or its partners, would have been liable for its share of the profits, but they had not been named as defendants. 106 F.2d 45, 51 (2d Cir. 1939). The named defendants

were not liable for the profits of the separate partnership, even though the money had passed through their hands.

Some of the profits from the infringing movie were earned by theaters controlled by defendants and partially owned by defendants. The named defendants were held liable for their share of these profits, proportioned to their percentage of ownership. But they were not liable for the share of the other owners of the theaters. *Id.* at 52.

There are similar decisions in state courts. *USM Corp. v. Marson Fastener Corp.*, 467 N.E.2d 1271 (Mass. 1984), was a trade-secret dispute between two manufacturers. Defendant hired an engineer away from plaintiff, and the engineer built a duplicate of plaintiff's secret machine for his new employer.

The court recognized that the engineer "could well be viewed as jointly and severally liable" for plaintiff's damages. *Id.* at 1277. But plaintiff had sued for disgorgement of defendant's profits, which were likely easier to prove. And the engineer made "a straightforward, unassailable argument that, because he received no profits from the sale of blind rivets made by use of USM's trade secret, he is not liable." *Ibid.* And the court agreed.

Another clear example is *Ward v. Taggart*, 336 P.2d 534 (Cal. 1959) (Traynor, J.). Taggart was a real-estate broker who carried out an elaborate fraud, inserting himself between a buyer and seller, lying to both, and finally buying the property for his own account at one price and reselling to plaintiff at a higher price. He and a confederate were held jointly-and-severally liable in damages. But it turned out

that Taggart had bought at a below-market price and resold at the market value, so that the plaintiff-buyer had suffered no damages. The defrauded seller suffered all the damages, but he apparently did not sue.

The plaintiff-buyer then successfully recast his claim as one to recover defendants' profits from the fraud. But Taggart had not shared his profits with his confederate. "[S]he did not share in the illicit profit that Taggart obtained," and she could not be liable for something she had "not acquired." *Id.* at 538.

2. If defendants are partners and the wrongful profits accrued to the partnership, then of course all partners are liable under the law of partnership. Courts have occasionally gone further, imposing joint-and-several liability on "practical partners." This narrow and dubious exception originated in *Belford, Clarke & Co. v. Scribner*, 144 U.S. 488, 506-08 (1892). The Court in *Belford* noted that the Copyright Act at the time (the Act of 1870) expressly made printers and publishers equally liable for infringement, inferred that both the printer and the publisher had profited, and held the two jointly liable even though the amount of the printer's profits had apparently not been proven.

The Ninth Circuit recognizes *Belford* as creating "a long-standing exception" to the usual rule that "defendants in copyright infringement proceedings are generally not jointly liable for profits." *Nelson-Salabes, Inc. v. Morningside Development, LLC*, 284 F.3d 505, 517 (9th Cir. 2002).

The First and D.C. Circuits have explicitly rejected this exception. *Washingtonian Publishing*

Co. v. Pearson, 140 F.2d 465, 467 (D.C. Cir. 1944); *Sammons v. Colonial Press, Inc.*, 126 F.2d 341, 344-48 (1st Cir. 1942). *Washingtonian Publishing* attributed *Belford* to the statute of the time, and held that the decision was overridden by the Copyright Act of 1909. *Sammons* said that *Belford* had not been followed, and that it was "irreconcilable with the long line of cases, of which the latest is *Sheldon v. Metro-Goldwyn Pictures Corp.*, supra, explaining the true equitable principles upon which an infringer is accountable for profits." 126 F.2d at 347. The Second and Fifth Circuits have also insisted on several liability. *MCA, Inc. v. Wilson*, 677 F.2d 180, 186 (2d Cir. 1981); *Amusement Corp. v. Mattson*, 138 F.2d 693, 697 & n.3 (5th Cir. 1943). They did not cite *Belford*, but they did cite the emphatic and detailed opinion i*n Sammons*.

Learned Hand's treatment of the issue in *Sheldon* plainly shows that he did not think there was any such exception; if there were anything to the vague concept of "practical partners," the defendants, and the affiliates not sued in that case, would surely qualify.

It is settled that in the great run of cases, each defendant is liable only for his own profits. The Court should not recognize an exception for "practical partners" who are not legally partners. *Belford* should be disapproved to that extent. Apart from that, *Belford* is one more example of a wrongdoer's liability for profits pursuant to a general grant of equitable jurisdiction.

V. The Court Should Reform the Commission's Disgorgement Remedy Rather Than Abolish It.

Disgorgement of profits is "equitable relief" within the meaning of the statute, having originated as relief incident to an injunction, and having long been treated as equitable by this Court and many others. The Commission has overreached, and its over-reaching has prevailed in the lower courts, but this Court should not read the disgorgement remedy out of the statute because of that.

Instead, the Court should restore the disgorgement remedy to its proper bounds. It should clarify that disgorgement is to be measured by the net profits received by each defendant severally. That is the true measure of the equitable remedy included in the statutory phrase "equitable relief."

CONCLUSION

The judgment should be vacated, and the case remanded for further proceedings consistent with a proper definition of disgorgement—the net profits received by each defendant severally.

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