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**ARTICLES**

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**RELIEF FOR IP RIGHTS INFRINGEMENT IS  
PRIMARILY EQUITABLE:****HOW AMERICAN LEGAL EDUCATION IS SHORT-  
CHANGING THE 21<sup>ST</sup> CENTURY CORPORATE  
LITIGATOR****Charles E. Rounds, Jr.†***Abstract*

*This article examines the equitable remedy of restitution for unjust enrichment in the IP rights infringement context. Instruction in Equity's "notion" of unjust enrichment and the remedy for it was*

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*once standard fare in the American law school. That is no longer the case, even though “[a]s the American economy completes its transition to a data economy, unjust enrichment in equity will increasingly become the principal remedy to protect economic interests.”\* Law school-sponsored litigation clinics are fine, but not at the expense of basic doctrine. Though this primer covers critical common law doctrine that every IP rights litigator needs to have internalized, the term common law being employed broadly in juxtaposition to the civil law tradition, a primer is no substitute for systematic instruction in Equity’s institutions and remedies; the core fiduciary relationships of agency and trust; and the fiduciary principle generally. Particularly in the IP rights infringement context, “restitution principles serve to illuminate legislative purpose; to identify the points at which a given statute varies a rule that would otherwise obtain at common law; and as an aid to interpretation of a doubtful case.”\*\**

## INTRODUCTION

Unjust enrichment can be either an equitable or a legal wrong.<sup>1</sup> Restitution and injunction are Equity’s principal remedies for that wrong.<sup>2</sup> Whether in Equity or at law, unjust enrichment is the basic principle on this side of the Atlantic that underlies the remedy of restitution, both generally and in the context of IP rights infringement.<sup>3</sup> In this article, intellectual property (IP) is employed as an umbrella term not only for property rights that flow from authorized monopolies on certain “creations of the mind” such as copyright, patent, and trademark,<sup>4</sup> but also from “comparable rights to control the use of any idea, expression, information, image, designation, or the like.”<sup>5</sup> Rights to websites, confidential information, and data files would qualify under this broad definition

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\* See generally George P. Roach, *Counting the Beans: Unjust Enrichment and the Defendant’s Overhead*, 16 TEX. INTELL. PROP. L.J. 483, 485 (2008).

\*\* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42 cmt. a, at 86 (Tentative Draft No. 4, 2005).

1. Andrew Kull, *James Bar Ames and the Early Modern History of Unjust Enrichment*, 25 OXFORD J. LEGAL STUD. 297 (2005).

2. RESTATEMENT OF RESTITUTION § 136 cmt. a (1937).

3. Edwin W. Patterson, Book Review, 47 YALE L.J. 1420, 1421 (1938) (reviewing RESTATEMENT OF RESTITUTION (1937)).

4. See generally ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* 1 (2003).

5. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42 cmt. a (Tentative Draft No. 4, 2005).

of IP.<sup>6</sup> These rights, however, have to be enforceable in some court. There can be no unjust enrichment “unless the defendant has obtained a benefit in violation of the claimant’s right to exclude others from the interest in question.”<sup>7</sup>

The equitable remedy of restitution for unjust enrichment has been the American legal tradition’s principal remedy for the infringement of IP rights.<sup>8</sup> “As the American economy completes its transition to a data economy, [it] will increasingly become the principal remedy” for the infringement of “economic interests” generally, at least on this side of the Atlantic.<sup>9</sup> Even the Federal statutes that define and regulate IP monopolies generally defer to and/or codify traditional principles of Equity when it comes to fashioning remedies for IP rights infringement.<sup>10</sup> There are some exceptions: “The most notable departure from restitution principles concerns the available remedies for patent infringement. The Patent Act of 1946 has been interpreted (although only since 1964) to foreclose a claim by the patentee to disgorgement of the infringer’s profits.”<sup>11</sup>

One who is unjustly enriched is unjustifiably enriched, that is to say there is no legal or equitable basis for the enrichment.<sup>12</sup> The donee of a valid gift is not unjustly enriched, absent special facts.<sup>13</sup> Neither is the party to a valid contract, absent special facts.<sup>14</sup> Neither is a judgment creditor who has prevailed in a properly brought tort

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6. George P. Roach, *Counting the Beans: Unjust Enrichment and the Defendant’s Overhead*, 16 TEX. INTELL. PROP. L.J. 483, 485-85 (2008).

7. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42 cmt. b (Tentative Draft No. 4, 2005).

8. Roach, *supra* note 6, at 584-85.

9. *Id.* at 485.

10. *See generally* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42 cmt. a (Tentative Draft No. 4, 2005) (“The restitution claim described in § 42 will thus rarely be asserted without reference to statute, but it retains independent significance for a number of reasons. When they authorize restitutionary remedies—the most important in this context being the accounting for profits—the statutes in question codify, with modifications, the rule of this Section. Restitution principles serve to illuminate legislative purpose; to identify the points at which a given statute varies a rule that would otherwise obtain at common law; and as an aid to interpretation in doubtful case.”).

11. *Id.* § 42 cmt. c.

12. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 1, cmt. b (Discussion Draft, 2000).

13. RESTATEMENT OF RESTITUTION § 112 (1937). *See also Id.* § 1, cmt. b.

14. *See generally* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 1, cmt. b (Discussion Draft, 2000).

action.<sup>15</sup> On the other hand, one who by gift, contract, or judicial process procures an economic benefit fraudulently is unjustly enriched.<sup>16</sup> So also is one who comes into possession of another's property by mistake.<sup>17</sup> A classic example of the latter is when a bank, by mistake, credits a checking account with a certain amount, perhaps as the result of a computer glitch.<sup>18</sup> The bank is entitled to debit the account for an equivalent amount.<sup>19</sup> If it were not the case, the owner of the account, even when innocent, would be unjustly enriched at the expense of the bank. There was no contractual basis for the deposit. Nor did the bank intend to make a gift to the account holder, and likely would not have had the authority to do so in any case.

The concept of restitution for unjust enrichment is a thread that is woven prominently throughout the entire fabric of the Anglo-American legal tradition.<sup>20</sup> It is also the principal monetary remedy for the infringement of IP rights in the 21<sup>st</sup> Century.<sup>21</sup> In one popular IP hornbook, however, it is mentioned only once, specifically in the context of a discussion of monetary relief for trademark infringement, and obliquely at that.<sup>22</sup> The authors refer to unjust enrichment without explanation as a "notion" and then move on, presumably on the mistaken assumption that most of their readers will be versed in core Equity doctrine.<sup>23</sup> While the assumption might have been warranted at one time, it is no longer. In 1879, Harvard Law School required that its students take 3 year hours of Equity, 1 year hour of Agency, and 2 year hours of Trust, a "year hour" being one hour per week per academic year.<sup>24</sup> "A survey of the American law-school curriculum in

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15. *Id.*

16. RESTATEMENT OF RESTITUTION § 128, cmt. d (1937).

17. *Id.* § 59. cmt. a (1937).

18. *Cf.* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 6, cmt. b, illus. 2 (Tentative Draft No. 1, 2001) ("A instructs B bank to make an electronic funds transfer to C bank for the account of D. B transmits funds with garbled instructions to C, in consequence of which C credits the funds to the account of E. W withdraws the funds. B has a claim of restitution against E"). *See also* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 6, cmt. b, illus. 4 (Tentative Draft No. 1, 2001) ("As the result of a clerical error, Insurer remits \$50,000 to Policyholder. Policyholder had made no claim under the policy, and no payment was due. Insurer has a claim in restitution against Policyholder to recover the mistaken payment").

19. RESTATEMENT OF RESTITUTION § 22 (1937).

20. *See generally* RESTATEMENT OF RESTITUTION, 5-9 (1937).

21. *See Roach, supra* note 6, at 484-85.

22. *See SCHECHTER & THOMAS, supra* note 4, at 768.

23. *See generally Id.*

24. E. GORDON GEE & DONALD W. JACKSON, FOLLOWING THE LEADER? THE UNEXAMINED CONSENSUS IN LAW SCHOOL CURRICULA 18 (1975).

the year 1907-1908 reported that a separate course in Quasi-Contracts,” the law side of the unjust enrichment equation, was being offered at 30 of 49 ‘Leading Law Schools,’ typically as a one-semester course for two hours a week.”<sup>25</sup>

Things began to unravel in the 1960’s. Today, none of these courses are on the required side of the Harvard Law School curriculum.<sup>26</sup> Trusts as a discrete course survives, but on the elective side of the curriculum inappropriately linked to Estates.<sup>27</sup> And as Harvard went, so went the nation.<sup>28</sup> It has been ever thus.<sup>29</sup> Now, Equity, the trust and agency relationships, and the fiduciary principle generally are common law “notions” to be acquired by osmosis in a course on the lawyer’s Code of Professional Conduct<sup>30</sup> or the statutory trust-agency hybrid known as the corporation; or perhaps in a course on the Investment Company Act of 1940<sup>31</sup>; or, failing that, in some bar review cram course. This marginalization has not been without consequences: Though restitution is an “essential and nuanced common law area,” it is now the case that these days “many” lawyers, judges, and even professors are “misunderstanding” and “misstating” basic restitution principles.<sup>32</sup>

The term common law has meant different things in different times, to include the following: (1) The “law in force in all of the Kingdom of England, as distinguished from local customary law

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25. Kull, *supra* note 1, at 298-99 (citing H. L. Wilgus, *Legal Education in the United States*, 6 MICH. L. REV. 647, tbl.VI (following page 678) (1908)).

26. Harvard Law School: J.D. Program (2010), <http://www.law.harvard.edu/academics/degrees/jd/index.html>; Harvard Law School Graduation Checklist (2010), <http://www.law.harvard.edu/academics/registrar/policies-forms/graduationchecklist2009-10.pdf>.

27. Harvard Law School: Courses (2010), <http://www.law.harvard.edu/academics/courses/2009-10?words=Trusts&schedblock=&term=&subject=>; Harvard Law School: Description of Trusts and Estates Course (2010), <http://www.law.harvard.edu/academics/courses/2009-10/?id=6745>.

28. *See generally* GEE & JACKSON, *supra* note 24, at 14-15, 22-25, 47-48.

29. *See generally id.* It was, after all, Prof. William A Keener who began the process of spreading the case method of instruction beyond the confines of Harvard Yard upon assuming the deanship of Columbia Law School in 1890. *See* Kull, *supra* note 1, at 306.

30. *See generally* Charles E. Rounds, Jr., *Lawyer Codes Are Just About Licensure, the Lawyer’s Relationship with the State: Recalling the Common Law Agency, Contract, Tort, Trust and Property Principles that Regulate the Lawyer-Client Fiduciary Relationship*, 60 BAYLOR L. REV. 771, 776 (2008).

31. *See generally* Charles E. Rounds, Jr. & Andreas Dehio, *Publicly-Traded Open End Mutual Funds in Common Law and Civil Law Jurisdictions: A Comparison of Legal Structure*, 3 N.Y.U. J.L. & BUS. 374 (2007).

32. Doug Rendleman, *Restating Restitution: The Restatement Process and Its Critics*, 65 WASH. & LEE L. REV. 933, 936 (2008).

peculiar to a limited area, such as the custom of the county of Kent” during the medieval period;<sup>33</sup> (2) “Judge-made law—judicial precedents—as distinguished from statutes enacted by Parliament or some other legislature”;<sup>34</sup> (3) “The law applied by the former royal courts of King’s Bench, Common Pleas and Exchequer, as distinguished from the canon law applied by the ecclesiastical courts and the rules of equity administered by the High Court of Chancery”;<sup>35</sup> and (4) “The law of those areas which have systems of private law derived from and more or less resembling the law in force in the Kingdom of England when it merged in the Kingdom of Great Britain (1 May 1707).”<sup>36</sup>

When the term *common law* is employed in this article, it is usually employed in the broad fourth sense to distinguish the trust from analogous civil law institutions on the Continent and elsewhere that are creatures of all-inclusive codification.<sup>37</sup> It is said that Equity is not separate and apart from the common law as that term is understood in its broadest sense, but a gloss or a collection of appendices to the common law. “Equity without common law would have been a castle in the air, an impossibility.”<sup>38</sup> By way of example, “[e]quity accepts the common law ownership of the trustee, but regards it as against conscience for him to exercise that legal ownership otherwise than for the benefit of the *cestui que trust*, and therefore engrafts the equitable obligation upon him.”<sup>39</sup> But it would also not be correct to suggest that the procedural blending of law and equity, the consequence of a law reform movement that began on this side of the Atlantic in the middle of the 19<sup>th</sup> century,<sup>40</sup> has lead to the

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33. 6 WILLIAM F. FRATCHER, *Chapter 11: Trust*, in INT’L ENCYC. COMP. L. 5 (F. H. Lawson ed., 1973).

34. *Id.*

35. *Id.*

36. *Id.* Such areas would include “the British Isles (except Scotland), the United States of America (except the State of Louisiana and the Commonwealth of Puerto Rico), Canada (except the Province of Quebec), Australia, New Zealand, the Republic of Liberia, and some of the present and former British colonies and possessions in Africa, the West Indies and elsewhere.” *Id.*

37. *See generally* CHARLES E. ROUNDS, JR. & CHARLES E. ROUNDS, III, LORING AND ROUNDS: A TRUSTEE’S HANDBOOK § 8.12.1 (2010 ed.) [hereinafter LORING & ROUNDS] (civil law alternatives to the trust); *see generally* Rounds & Dehio, *supra* note 31.

38. FREDERIC WILLIAM MAITLAND, EQUITY: ALSO THE FORMS OF ACTION AT COMMON LAW 19, (A. H. Chaytor & W. J. Whittaker eds.) (“We ought not to think of common law and equity as of two rival systems. Equity was not a self-sufficient system; at every point it presupposed the existence of the common law.”).

39. G. W. KEETON, AN INTRODUCTION TO EQUITY 95 (6th ed., 1965).

40. Michael Lobban, *Preparing for Fusion: Reforming the Nineteenth-Century Court of*

elimination of the substantive distinctions between the two “common law” regimes. Had that happened, a wholesale abolition of the law of trusts would have resulted.<sup>41</sup> It did not. Here, I am employing the term common law in its narrower sense: “Judge-made law—judicial precedents—as distinguished from statutes enacted by Parliament or some other legislature.”<sup>42</sup> Restitution for unjust enrichment in the IP context is still an equitable remedy when it comes to the disgorgement of profits,<sup>43</sup> and breaches of fiduciary duty in the agency context are still enforced in Equity, not at law.<sup>44</sup>

The marginalization of Equity in the American law school curriculum, particularly the agency, the trust, and the fiduciary principle generally, is not doing any favors for the aspiring IP rights infringement litigator. I have already noted the central role that equitable restitution for unjust enrichment is now playing in 21<sup>st</sup> century IP rights infringement litigation. But it gets worse. In the landmark case of *Root v. Railway Co.*, (1881), the U.S. Supreme Court endorsed the practice of treating the infringer of a patent right “as though he were a trustee . . . for the patentee” for purposes of accounting for profits realized incident to the infringement.<sup>45</sup> It is asking a lot of an IP course instructor to cover the fundamentals of Equity and the law of Trusts, as well as the Federal statutes that grant limited monopolies in certain creations of the mind. And it is asking an awful lot of his or her students to appreciate, for example, why a patent infringer is not analogous to a trustee *de son tort*.<sup>46</sup> Years ago this all would have been covered in the required courses on the agency, contract, and trust relationships; the bundle of rights known as property; the tort; and Equity and the fiduciary principle

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*Chancery, Part II*, 22 LAW & HIST. REV. 565, 584 (noting that “the key political impetus for fusion came from America”).

41. See MAITLAND, *supra* note 38, at 16-18.

42. FRATCHER, *supra* note 33.

43. RESTATEMENT OF RESTITUTION § 136 cmt. a (1937).

44. HAROLD GREVILLE HANBURY & RONALD HARLING MAUDSLEY, MODERN EQUITY 518 (10<sup>th</sup> ed. 1976) (confirming that it is a default rule of Equity that an agent may not self-deal with property that is the subject of the agency).

45. *Root v. Ry. Co.*, 105 U.S. 189, 214 (1881). In *Root*, the Plaintiff brought an action in equity only for damages related to infringement of a patent that had already expired by the time of the suit. This led the Court to reject the Plaintiff’s equity claim because in this unusual circumstance, he had “a plain, adequate, and complete remedy at law.” *Id.* at 190. However, the court endorsed the general rule that when Equity applies the infringer is treated as a trustee and owes a plaintiff an accounting of profits. *Id.* at 214.

46. See *Id.* at 215 (suggesting that a patent infringer is not a trustee *de son tort* because the subject property had not been impressed with a trust prior to the infringement).

generally.<sup>47</sup> These are all facets of the common law as enhanced by Equity, the foundation upon which all our statutory and regulatory edifices are constructed.

This article is the fifth in a series of articles that consider the implications of the marginalization of Equity in the American legal academy. In *Publicly-Traded Open End Mutual Funds in Common Law and Civil Law Jurisdiction: A Comparison of Legal Structures*, we explained how the Investment Company Act of 1940, which regulates mutual funds, tweaks the common law of agency and trusts at the margins but otherwise leaves it undisturbed.<sup>48</sup> In other words, the Act would be gibberish without the common law. Securities lawyers take note.

In *Lawyer Codes Are Just About Licensure, the Lawyer's Relationship with the State: Recalling the Common Law Agency, Contract, Tort, and Trust Principles That Regulate the Lawyer-Client Fiduciary Relationship* I questioned why instruction in the lawyer's Code of Professional Conduct is mandatory in most law schools while instruction in the law of agency is generally not, particularly in light of the fact that the lawyer-client relationship is first and foremost one of agency.<sup>49</sup>

In *The Common Law Is Not Just About Contracts: How Legal Education Has Been Short-Changing Feminism* I endeavored to make the case that the private side of the legal ledger, the common law/Equity side, has been chronically under-examined by feminist scholars, particularly as a vehicle for empowering and protecting women economically.<sup>50</sup> We laid the blame for this under-utilization of existing legal doctrine squarely at the doorstep of the American law school, whose core curriculum is now structured around the simplistic, one-dimensional "private contract versus state regulation" narrative.

And in *State Common Law Aspects of the Global Unwindings of the Madoff Ponzi Scheme and the Sub-Prime Mortgage Securitization Debacle* I suggested that globalizing the American law school curriculum at the expense of instruction in core common law doctrine can have the perverse effect of making that curriculum even more

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47. GEE & JACKSON, *supra* note 27, at 19-22 (comparing core law school curricula from the 1950s, 1960s, and 1970s).

48. Rounds & Dehio, *supra* note 34, at 473 *passim*.

49. Rounds, *supra* note 33, *passim*.

50. Charles E. Rounds, Jr., *The Common Law Is Not Just About Contracts: How Legal Education Has Been Short-Changing Feminism*, 43 U. RICH. L. REV. 1185 *passim* (2009).



provincial than it has already become.<sup>51</sup>

Section I of this article serves as a general Equity primer, with a focus on equitable remedies. Section II zeros in on equitable remedies in the IP infringement context, particularly restitution for unjust enrichment. Though restitution for unjust enrichment straddles law and Equity, IP rights infringement is primarily in Equity's bailiwick. Because an IP rights infringer is deemed to be a common law trustee for purposes of assessing liability,<sup>52</sup> Section II also serves as primer on the trust, the trust being an institution which centuries ago essentially evolved from an application of the equitable remedy of specific performance.

## I. A GENERAL EQUITY PRIMER

### A. Equity's Common Law Context

Anglo-American common law in its parochial sense derives from "[t]he law applied by the former courts of King's Bench, Common Pleas and Exchequer, as distinguished from the canon law applied by the ecclesiastical courts and the rules of equity administered by the High Court of Chancery."<sup>53</sup> The contract is a common law legal relationship.<sup>54</sup> So is the agency, although an agent may be liable in Equity to the principal for a breach of fiduciary duty.<sup>55</sup> A fee simple is a common law property right, although the beneficiaries of a trust also have property rights.<sup>56</sup> However, such property rights of a trust are recognized and enforced in Equity.<sup>57</sup> The trust is not a creature of the common law in its parochial sense. It essentially evolved out of an

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51. Charles E. Rounds, Jr., Rounds, *State Common Law Aspects of the Global Unwindings of the Madoff Ponzi Scheme and the Sub-Prime Mortgage Securitization Debacle: Butressing the Thesis that Globalizing the American Law School Curriculum at the Expense of Instruction in Core Common Law Doctrine Will Only Further Provincialize It*, 27 WISC. INT'L. L.J. 99 *passim* (2009).

52. *Root v. Ry. Co.*, 105 U.S. 189, 214 (1881).

53. 6 WILLIAM. F. FRATCHER, *Chapter 11: Trust*, in INT'L ENCYC. COMP. L. 5 (F. H. Lawson ed., 1973).

54. 1 AUSTIN WAKEMAN SCOTT ET AL., SCOTT & ASCHER ON TRUSTS § 2.3.10.3 (5th ed. 2006) [hereinafter 1 SCOTT & ASHER] ("the beneficiary of a trust traditionally enforced his or her rights by a proceeding in equity, while the beneficiary of a contract traditionally pursued an action at law").

55. SNELL'S EQUITY ¶ 19-18 (John McGhee ed., 31st ed. 2005) [hereinafter SNELL'S EQUITY].

56. See generally LORING AND ROUNDS, *supra* note 40, § 5.3 (the trust beneficiary's property interest).

57. SNELL'S EQUITY, *supra* note 55, ¶ 19-18.

equitable remedy.<sup>58</sup>

*B. Equity's Origins.*

As noted, Equity is not separate and apart from the common law as that term is understood in its broadest sense but actually a gloss on or collection of appendices to the common law,<sup>59</sup> the common law in its broadest sense being “[t]he law of those areas which have systems of private law derived from and more or less resembling the law in force in the Kingdom of England when it merged in the Kingdom of Great Britain (1 May 1707).”<sup>60</sup> Massachusetts, Virginia, Australia, New Zealand, and the Canadian province of Ontario are just some of the jurisdictions which have such systems of private law. By way of example, “Equity accepts the common law ownership of the trustee, but regards it as against conscience for him to exercise that legal ownership otherwise than for the benefit of the *cestui que trust* [beneficiary], and therefore engrafts the equitable obligation upon him.”<sup>61</sup> Abuses of the legal agency relationship, as well as breaches of trust, are subject to equitable remedies.<sup>62</sup>

Besides adding to Anglo-American jurisprudence the institution of the trust, Equity has also contributed two novel and fertile remedies of specific performance and injunction.<sup>63</sup> Ultimately, however, Equity will do whatever it takes to make an injured party whole, to include the assessment of damages.<sup>64</sup> Whereas a judgment at law declared the plaintiff’s rights, a decree in Equity imposed duties on the defendant. In other words, equity acted and still acts *in personam*.<sup>65</sup>

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58. See generally LORING & ROUNDS, *supra* note 40 (by the early 15<sup>th</sup> century the English courts of equity were enforcing uses).

59. SNELL’S EQUITY, *supra* note 55, ¶ 1-03.

60. 6 WILLIAM. F. FRATCHER, *Chapter 11: Trust*, in INT’L ENCYC. COMP. L. 6 (F. H. Lawson ed., 1973).

61. KEETON, *supra* note 42, at 95.

62. See, e.g., SNELL’S EQUITY, *supra* note 55, ¶ 7-127 (an agent who engages in unauthorized self dealing with the principal’s property must account to the principal for any incidental profits received by the agent).

63. F. W. MAITLAND, EQUITY 21–22 (A. H. Chaytor & W. J. Whittaker eds., 1909). *But see* George L. Gretton, *Trusts Without Equity*, 49 INT’L & COMP. L.Q. 599, 618 (2000) (provocatively asserting that “[i]t is important that lawyers in the civil law tradition understand that the trust is not a ‘unique institution’ and has no necessary connection with equity”).

64. SNELL’S EQUITY, *supra* note 55, ¶ 18-09 (“[T]he court has jurisdiction to make a monetary award in equity in cases where there has been a breach of an equitable duty, or where equity recognizes a duty to account”).

65. See HANBURY & MAUDSLEY, *supra* note 44, at 15 (“The key to understanding the nature of equitable remedies is the appreciation of the importance of the maxim that ‘Equity acts *in personam*.’ This has been the basis of the jurisdiction from the earliest days; and is so

Equity has given us as well a number of detached doctrines: the so-called Equity maxims, which, though critically relevant in the real world, were decades ago tossed out of the Ivory Tower.<sup>66</sup> One of these maxims, “He who seeks equity must do equity,” underpins any off-set rights an IP infringer may have.<sup>67</sup> There are valuable nuggets hidden among these discarded doctrines just waiting to be found and exploited by the creative civil litigator. The judicial supervision of the administration of decedents’ estates is another of Equity’s contributions, a topic well beyond the scope of this article.<sup>68</sup>

Rights, duties, and obligations that are equitable in nature have their origins in the principles, standards, and rules developed by English courts of chancery.<sup>69</sup> Thus, to truly understand Equity one needs to have some understanding of what these courts are and how they came to be. The Equity saga actually begins in thirteenth century England. It is a saga whose themes nonetheless should resonate with 21<sup>st</sup> century owners of IP rights:

[I]n the rough days of the thirteenth century, a plaintiff was often unable to obtain a remedy in the common law courts, even when they should have had one for him, owing to the strength of the defendant, who would defy the court or intimidate the jury. Either deficiency of remedy or failure to administer it was a ground for petition to the King in Council to exercise his extraordinary judicial powers. A custom developed of referring certain classes of these petitions to the Chancellor, and this custom was confirmed by an order of Edward II in 1349. The Chancellor acted at first in the name of the King in Council, but in 1474 a decree was made on his own authority, and this practice continued, so that there came to be a Court of Chancery as an institution independent of the King and his Council.<sup>70</sup>

The Lord Chancellor, usually a clergyman, was the officer responsible for keeping the Great Seal of England, and was a close adviser of the monarch.<sup>71</sup> Only in 1362, well after the Norman

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today”).

66. See LORING & ROUNDS, *supra*, note 40, § 8.12 (cataloging some critical Equity maxims, as well as highlighting in the footnoting some of their 21<sup>st</sup> century applications).

67. See *infra* Part II.

68. See SNELL’S EQUITY, *supra* note 55, ¶ 29-02, 29-03.

69. 1 SCOTT & ASCHER, *supra* note 57, § 1.1.

70. SNELL’S EQUITY, *supra* note 55, ¶ 1-08.

71. The Chancellor was a member of the monarch’s private or “privy” council. See John deP. Wright, *The Judicial Committee of the Privy Council*, 10 GREEN BAG 2D 363, 363-65 (2007).

invasion, did the Lord Chancellor, who to this day outranks the Prime Minister in official precedence, begin addressing Parliament in English rather than in French.<sup>72</sup> The chancery scribes were responsible for the monarch's paperwork. It is said that "[t]he genealogy of modern Standard English goes back to Chancery, not Chaucer."<sup>73</sup> As keeper of the King's (or Queen's) Conscience, the Lord Chancellor was once the chief judge of the Court of Chancery. In England, with the Judicature Acts 1873 and 1875 to be exact, the High Court of Chancery was merged with the common law courts, the common law judges then being given the power to administer Equity.<sup>74</sup>

Now to this side of the Atlantic. After the American Revolution, the thirteen original states adopted substantially the entire common law of England. This included, with little change, its system of Equity jurisprudence, of which the institution of the trust was an integral part.<sup>75</sup> Massachusetts was the last hold-out, not fully recognizing Equity as a complementary part of its judicial system until 1877.<sup>76</sup> Thus, in some parts of the United States, most notably Massachusetts and Pennsylvania, there was actually a time when beneficiaries could bring breach-of-contract-type legal actions against trustees.<sup>77</sup>

In most states, with the notable exception of Delaware, there are no longer separate courts of law and Equity.<sup>78</sup> The consolidation, however, has left intact the differences between legal property

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72. See generally LORING & ROUNDS, *supra* note 40, § 8.15 (discussing in part the phenomenon of "Law French").

73. DAVID CRYSTAL, *THE CAMBRIDGE ENCYCLOPEDIA OF THE ENGLISH LANGUAGE* 41 (1995).

74. See HANBURY & MAUDSLEY, *supra* note 44, at 13-14.

75. GEORGE GLEASON BOGERT, *THE LAW OF TRUSTS AND TRUSTEES* § 6 (rev. 2d ed. Supp. 1984).

76. Edwin H. Woodruff, *Chancery in Massachusetts*, XX L.Q. REV. 370, 383-84 (1889). See also 1 SCOTT & ASCHER, *supra* note 57, § 1.9.

77. 4 AUSTIN WAKEMAN SCOTT ET AL., *SCOTT & ASCHER ON TRUSTS* § 24.1.2 (5th ed. 2007) [hereinafter 4 SCOTT & ASHER].

78. Morton Gitelman, *The Separation of Law and Equity and the Arkansas Chancery Courts: Historical Anomalies and Political Realities*, 17 U. ARK. LITTLE ROCK L.J. 215, 244 (1995) ("Only four states, Arkansas, Delaware, Mississippi, and Tennessee, still have separate courts of equity.") *but cf.* John J. Watkins, *The Right to Trial by Jury in Arkansas After Merger of Law and Equity*, 24 U. ARK. LITTLE ROCK L. REV. 649, 649 (2002) (Showing that in 2000 Arkansas merged their courts of law and equity).

78. A share of stock in a corporation would be a legal property interest. A share or participation in a trustee mutual fund, e.g., a fund that is sponsored by Fidelity, Vanguard, or Bank of America, would be an equitable property interest.

interests and equitable property interests,<sup>79</sup> between legal remedies and equitable ones. The consolidation also has left intact the substantive differences between legal duties and equitable duties.<sup>80</sup> “An equitable duty is a duty enforceable in a court of chancery or in a court having the powers of a court of chancery.”<sup>81</sup> The duties of an agent with discretion to the principal or of a trustee to the beneficiaries are equitable, particularly the duty not to engage in unauthorized self-dealing.<sup>82</sup>

### C. Equitable Remedies

The key to understanding the nature of equitable rights is “the appreciation of the importance of the maxim that ‘Equity acts *in personam*.’”<sup>83</sup> The equitable remedy of specific performance or injunction entails an order that the defendant should do or not do something upon threat of incarceration.<sup>84</sup> The decree is not *in rem*.<sup>85</sup>

From the beginning of its existence the extraordinary jurisdiction of the Court of Chancery, based largely upon existing inadequacies of the common law courts, was exercised in cases in which a fiduciary had failed to perform his duties so that either he or some third person acquired property to which the beneficiary was entitled, and in cases in which a person, by fraud, mistake, or duress has been deprived of property which he could not regain by the ordinary remedies then available.<sup>86</sup>

Tracing orders<sup>87</sup> and imposition of constructive trust orders,<sup>88</sup> are said to be equitable remedies.<sup>89</sup> Technically, however, tracing and the

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79. A share of stock in a corporation would be a legal property interest. A share or participation in a trustee mutual fund, e.g., a fund that is sponsored by Fidelity, Vanguard, or Bank of America, would be an equitable property interest.

80. See generally HANBURY & MAUDSLEY, *supra* note 44, at 17-18 (suggesting that even after the “fusion” of the “administration” of the regimes of law and Equity, “there is still a great deal of difference between legal and equitable duties, in terms particularly of their consequences”).

81. RESTATEMENT (SECOND) OF TRUSTS § 2 cmt. e (1959).

82. SNELL’S EQUITY, *supra* note 55, ¶ 7-37.

83. HANBURY & MAUDSLEY, *supra* note 44, at 15.

84. *Id.* at 33 n. 9 (confirming that one who refuses to comply with a specific performance order risks imprisonment for being in contempt of court).

85. *Id.* at 16.

86. RESTATEMENT OF RESTITUTION 9 (1937).

87. See generally SNELL’S EQUITY, *supra* note 55, ¶ 28-35 (following and tracing in equity).

88. See *infra* Part II.

89. See, e.g., RESTATEMENT OF RESTITUTION § 160 (1937) (categorizing the constructive trust as an equitable remedy).

imposition of a constructive trust are not equitable “remedies”:

Occasionally other processes of equity are described as equitable remedies. The constructive trust is sometimes described thus, and so is the process of tracing in equity. Yet these are not so much remedies as part of the process of establishing the substantive rights of the parties. By holding, for example, that there is a right to trace property and that the recipient is bound by a constructive trust, the court is able to decide what order to make; but the tracing and the constructive trust can hardly be said to be a “remedy,” at all events in the sense that an injunction or a decree of specific performance is a remedy.<sup>90</sup>

The court in the exercise of its discretionary equitable powers may even mix a cocktail of equitable remedies.<sup>91</sup> If more than one remedy is needed to make the plaintiff whole, so be it.<sup>92</sup> In the case of infringement of IP property rights, the cocktail is likely to be an injunction and an accounting for incidental profits.<sup>93</sup> Under the equitable doctrine of election of remedies, the plaintiff will have some say in what the ingredients are:

Where remedies are alternative and inconsistent, a claimant must elect between them. The election need not be made until a claimant is able to make an informed choice, but should not be unreasonably delayed to the prejudice of the defendant. Normally the election should be made before judgment but, in exceptional cases, the election may be made later than that.<sup>94</sup>

There is, however, generally no room in equity for windfalls and double recoveries:

There is no reason in principle, why different types of equitable relief should not be granted in respect of the same breach of

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90. SNELL'S EQUITY, *supra* note 55, ¶ 12-17.

91. *See, e.g.*, RESTATEMENT OF RESTITUTION § 136, illus. 1 (1937) (“A is the owner of a trade secret, which he confides to an employee. The employee sells this to B, who knows that it is a trade secret and that the employee is not authorized to communicate it. B uses the trade secret in originating a new line of goods. A is entitled to a decree enjoining B from continuing to use the trade secret and requiring him to account for the profits which he has made by its use.” Cf. Restatement (Third) of Agency § 8.01, Reporter’s Note (2006) (“By rescinding a contract, a principal does not lose a claim for damages against an agent when rescission alone does not restore the principal’s position”).

92. SNELL'S EQUITY, *supra* note 55, ¶ 18-24 (noting that equitable remedies are to be regarded as being cumulative rather than alternative, subject only to the proscription against double recoveries); HANBURY & MAUDSLEY, *supra* note 44, at 60-61 (damages in addition to specific performance)

93. RESTATEMENT OF RESTITUTION § 136, illus. 2 (1937).

94. SNELL'S EQUITY, *supra* note 55, ¶ 18-22 (31<sup>st</sup> ed. 2005).

equitable duty. Thus, a court may decree specific performance and a pecuniary performance; it may also award compensation for any delay in performance provided that there is a legal or equitable duty that supports a claim for such compensation. In such cases, the only limitation on the remedies will be that double recovery is to be avoided. As a result, in many cases, equitable remedies are to be regarded as being cumulative rather than alternative.<sup>95</sup>

#### *D. The Equitable Accounting Action*

In appropriate circumstances, Equity may order one in possession of property belonging to another to account to the Court for the property, even if the possession is in violation of merely a legal duty.<sup>96</sup> Having obtained an accounting, the Court may order the property returned to its rightful owner pursuant to a restitution order should it be found that the property is wrongfully in the hands of the accountant.<sup>97</sup> The Court also may enjoin the accountant from continuing the wrongful activity.<sup>98</sup> Usually, accounting actions lie in the context of breaches of fiduciary duty, particularly in the agency and trust contexts: “Save in exceptional cases, the right to an account is dependent upon the existence of a fiduciary relationship . . . As a result, no account can be obtained by a customer against his banker, since the relation between them is in no sense fiduciary and is merely that of debtor and creditor.”<sup>99</sup> On the other hand, though the infringer of another’s IP rights is usually not in a fiduciary relationship with the victim, Equity will in this instance entertain a complaint for an accounting.<sup>100</sup> IP rights infringement is one of those exceptional cases. “The usual method of seeking restitution is by a [complaint] in equity, with a request for an accounting for any profits which have been received.”<sup>101</sup>

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95. *Id.* ¶ 18-24.

96. *Id.* ¶ 18-06..

97. *Id.*

98. *Id.* ¶ 18-07.

99. *Id.* ¶ 18-05.

100. *But see* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42, cmt. a (Tentative Draft No. 4, 2005) (noting that “many claims based on profitable interference with a trade secret might be brought instead within the terms of § 43, because the unauthorized disclosure of a trade secret often involves a breach of fiduciary duty”). In one English case involving the unauthorized exploitation of a technical idea communicated in confidence to the defendants, the court in the exercise of its equitable powers assessed damages against the defendants, though Equity’s usual remedies in such situations would have been an injunction coupled with an order that the defendants account for their incidental profits). *See* *Seager v. Copydex Ltd.*, [1967] 1 W.L.R. 923 (Eng.).

101. RESTATEMENT OF RESTITUTION § 136, cmt. a (1937). *See, e.g.*, *Christensen v. Nat’l*

### *E. Accounting for One's Unjust Enrichment*

Unjust enrichment can be either an equitable or a legal wrong.<sup>102</sup> When it is an equitable wrong, restitution and injunction are the typical remedies for that wrong.<sup>103</sup> When one is unjustly enriched, the ability to follow the subject property or trace the economic value will have a bearing on the type of equitable remedy that is fashioned.<sup>104</sup> It is said that tracing is concerned with the same person but different assets whereas following is concerned with the same asset but different persons.<sup>105</sup> Where a trustee, for example, has in breach of trust transferred a trust asset to a third party, the beneficiary has a choice to make: "He may either follow the original asset and enforce his equitable title to the original asset, or trace into the substituted asset in the hands of the trustee and enforce a proprietary remedy against it."<sup>106</sup> In the *Restatement of Restitution* (1937) tracing is referred to as "following property into its product."<sup>107</sup>

Where tracing or following is not appropriate, such as is generally the case where one's *intangible* IP rights are being wrongfully exploited by another, then an injunction coupled with an equitable damage award keyed to incidental profits may be the appropriate cocktail of equitable remedies:

[T]here are significant instances of liability based on unjust enrichment that do not involve the restoration of anything the claimant previously possessed. Salient examples include cases involving the disgorgement of profits, or other benefits wrongfully obtained, in excess of the plaintiff's loss.<sup>108</sup>

#### 1. Restitution

Perhaps the American Law Institute's project to restate the law

*Brake & Electric Co.*, 10 F.2d 856 (1926) (the court in an accounting action being asked to sort out how a patent infringer's ill-gotten profits should be calculated and reflected on its accounts). English law is generally in accord. See HANBURY & MAUDSLEY, *supra* note 44, at 20 (confirming that Equity's "familiar remedies" for IP rights infringement are "an injunction and an account").

102. Kull, *supra* note 1, at 297-319.

103. *Id.*

104. SNELL'S EQUITY, *supra* note 55, ¶ 28-35. See also RESTATEMENT OF RESTITUTION ch. 13 (1937) (chapter heading entitled "Following Property into its Product").

105. JOHN MOWBRAY, ET AL., LEWIN ON TRUSTS ¶ 41-05 (17th ed. 2000).

106. SNELL'S EQUITY, *supra* note 55, ¶ 28-36.

107. RESTATEMENT OF RESTITUTION, ch. 13 (1937) (chapter heading entitled "Following Property into its Product").

108. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 1, cmt. c (Discussion Draft, 2000).



of restitution for unjust enrichment has been mis-titled.<sup>109</sup> Its first effort is entitled *Restatement of the Law of Restitution: Quasi Contracts and Constructive Trusts* (1937).<sup>110</sup> The second, entitled *Restatement (Second) of Restitution*, was withdrawn in 1985 after two tentative drafts.<sup>111</sup> The tentative drafts of the third are collectively entitled *Restatement of the Law Restitution and Unjust Enrichment*.<sup>112</sup> It is respectfully suggested that a title such as *Restatement of the Law of Restitution for Unjust Enrichment* would better impart the idea that unjust enrichment is the wrong and restitution the primary remedy for it. Again, unjust enrichment is the receipt of a benefit without legal justification. “A person obtains restitution when he is restored to the position he formerly occupied either by the return of something which he formerly had or by the receipt of its equivalent in money.”<sup>113</sup> In the case of IP rights infringement, the gross measure of the restitution is generally the value of the benefit received.<sup>114</sup>

## 2. Injunction

An injunction is a court order issued directing a party to a proceeding to do or refrain from doing a specified act.<sup>115</sup> Generally a court will not grant an injunction when monetary compensation is an adequate remedy.<sup>116</sup> “Despite early attempts, the common law courts failed to add the injunction to their judicial armory, so that the Chancellor had to come to the aid of those whose wrongs could not be adequately addressed by damages.”<sup>117</sup> The infringement of one’s IP rights can be just such a wrong, as a damage award for past conduct, without more, is unlikely to deter the infringer from continuing the wrongful conduct after the final decree has been issued. Moreover, the intangible nature of an ownership interest in IP makes it

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109. See generally Kull, *supra* note 1, at 318 (suggesting that the title *Restatement of Unjust Enrichment* may have been eschewed by the authors of the first restatement out of concern that the American Law Institute would be seen “as endorsing an open-ended charter of liability, to be invoked in any case where ‘enrichment’ and ‘injustice’ might be thought to coincide.”).

110. RESTATEMENT OF RESTITUTION (1937).

111. RESTATEMENT (SECOND) OF RESTITUTION (Tentative Draft No. 1, 1983); RESTATEMENT (SECOND) OF RESTITUTION (Tentative Draft No. 2, 1984).

112. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT (Tentative Draft No. 4, 2005)

113. RESTATEMENT OF RESTITUTION § 1, cmt. a (1937).

114. *Id.* § 136 (1937).

115. SNELL’S EQUITY, *supra* note 55, ¶ 16-01.

116. *Id.*

117. *Id.* ¶ 16-05.

impossible to place that interest under physical lock and key, such as in a safe deposit box along with the Krugerrands. The Patent Act of 1952, for example, provides that the several courts having jurisdiction of cases under it may grant injunctions “in accordance with the principles of equity.”<sup>118</sup> This is yet another example of where a critical statute incorporates by reference a vast body of foundational law that no longer resides on the required side of the American law school curriculum, and in most law schools it no longer resides prominently on the elective side, either.<sup>119</sup> The Investment Company Act of 1940 is another example.<sup>120</sup>

## II. THOUGH RESTITUION FOR UNJUST ENRICHMENT STRADDLES LAW AND EQUITY, IP RIGHTS INFRINGEMENT IS EQUITY’S BAILIWICK

At law, the concept of unjust enrichment incubated in the corner of the common law we now refer to as quasi contracts.<sup>121</sup> “That heading includes a wide variety of situations . . . , as where a person by mistake pays a debt a second time, or is coerced into conferring a benefit upon another, or renders aid to another in an emergency or is wrongfully deprived of his chattels by another who has used them for his own benefit.”<sup>122</sup> The legal remedy is generally limited to the payment of money.<sup>123</sup> In Equity, the concept of unjust enrichment evolved as a corollary to both the fiduciary principle and constructive trust jurisprudence.<sup>124</sup>

The *Restatement of Restitution* (1937) endeavored to detach the concept of restitution for unjust enrichment from its various cultural roots and place it in its own vase on the shelf of the constructs of the common law as it has been enhanced by Equity: “The task of ‘restatement’, in this instance, took the form of a radical reconception of an important area of the law that antiquated formal categories had

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118. 35 U.S.C. § 283 (2006).

119. Harvard Law School’s 2009-2010 course catalog, for example, reveals only a one unit “Law and Equity: Reading Group” on the elective side of the curriculum. HLS Courses, <http://www.law.harvard.edu/academics/courses/2009-10/?id=6757> (last visited April 15, 2010). Presumably the fiduciary principle and equitable remedies are covered tangentially, if at all, in courses on the contract, civil procedure, the corporation, lawyer codes, and the like.

120. See generally Rounds & Dehio, *supra* note 34.

121. RESTATEMENT OF RESTITUTION 4 (1937).

122. *Id.* at 1.

123. *Id.* (confirming that the subject of quasi contracts is limited to actions at law to secure the payment of money).

124. HANBURY & MAUDSLEY, *supra* note 44, at ch. 14 (the constructive trust).

previously obscured, following exactly in this regard the prescriptions of some noted legal realists.”<sup>125</sup> Meanwhile, the process of disbanding separate courts of equity was well underway on both sides of the Atlantic, a reform movement that actually began on this side in the middle of the nineteenth century.<sup>126</sup> It would not be long before Equity would find itself marginalized in the American law school curriculum.<sup>127</sup> But Equity itself never went away, as evidenced by the ever-expanding role that the trust has been playing in the 21<sup>st</sup> Century as an instrument of global commerce.<sup>128</sup> Perhaps the only consequence of all this “top down” academic interference in the natural and incremental progression of the common law as enhanced by equitable principles and institutions has been to foster sloppy legal analysis and confusion, a predictable outgrowth of all this de-contextualization.<sup>129</sup> The High Court of Australia, a jurisdiction in which Equity has been enjoying a rich and thorough-going renaissance, explains, using a real world fact pattern:

Nevertheless, reflection will demonstrate that the notion of unjust enrichment cannot be accepted as a modern synonym for a refusal “against conscience” to pay the money in question. This is because . . . the action for money had and received lies against defendants who fail to account but who, on any sensible understanding of the term, have not been enriched. A recent example . . . is the decision of the New Zealand Court of Appeal in *Martin v. Pont*. A principal who entrusted money to an agent for the purpose of investing it with a nominated finance company was entitled to recover from the agent when, by reason of defalcation by an employee of the agent which did not benefit the agent, the purpose was not carried out.<sup>130</sup>

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125. Andrew Kull, *Restitution and Reform*, 32 S. ILL. U. L.J. 83, 86 (2007).

126. Michael Lobban, *Preparing for Fusion: Reforming the Nineteenth Century Court of Chancery, Part II*, 22 L. & HIST. REV. 565, 584 (2004) (noting that the “key political impetus for fusion came from America”).

127. See GEE & JACKSON, *supra* note 24 at 25 (By 1969, only 22 out of a sampling of 61 American law schools were still requiring Equitable Remedies or Equity).

128. See Rounds, *supra* note 54, *passim*.

129. Doug Rendleman, *Restating Restitution: The Restatement Process and Its Critics*, 65 WASH. & LEE L. REV. 933, 936 (2008) (“States, large and small, have muddled restitution analysis or have made just plain incorrect restitution decisions. Many lawyers, judges, and professor misunderstand and misstate basic restitution principles”).

130. *Roxborough v. Rothmans of Pall Mall Austl. Ltd.* [2001] 208 CLR 516, 543 (Eng.) (citing *Martin v. Pont* [1993] 3 NZLR 25 (Eng.)). Assumpsit for money had and received was a common law form of action. If money was converted, or if the subject matter had been sold by the converter and restitution of the proceeds was sought, the common-law form of action was “assumpsit for money had and received.” See RESTATEMENT OF RESTITUTION § 128, cmt. 1

The Court then went on to make some general observations about the civil law mind set, a mind set that has particularly taken hold in the American law school:

“Considerations such as these, together with practical experience, suggest caution in judicial acceptance of any all-embracing theory of restitutionary rights and remedies founded upon a notion of ‘unjust enrichment.’ To the lawyer whose mind has been moulded by civilian influences, the theory may come first, and the source of the theory may be the writing of jurists, not the decisions of judges. However, that is not the way in which a system based on case law develops; over time, general principle is derived from judicial decisions upon particular instances, not the other way around.”<sup>131</sup>

On this side of the Atlantic, there are now few left who are equipped, by formal legal training at least, to appreciate the boldness of the efforts of the realists, via the *Restatement of Restitution* (1937), to colonize the “vast *terra incognita* occupied by the set of legal actions grouped under the impenetrable name of ‘quasi-contract’ and a miscellaneous set of equitable remedies (principally constructive trust)” in that “many American lawyers would be hard pressed even to say what equity is (or was).”<sup>132</sup> The “modern” American law school deserves the lion’s share of the blame for failing to provide the American IP litigator with the analytical tools he or she needs to properly contextualize the critical body of law that now falls under the general heading of “restitution for unjust enrichment.” The *Restatement*, itself, however, must share some of that blame, with its “multiplicity of rules,” “abstraction from context,” and “artificiality of illustrations.”<sup>133</sup> There is much that the Australians can teach the American IP litigator.

#### A. *IP Rights Infringement is Equity’s Bailiwick.*

The earliest proceedings in common law courts were

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(1937). “Assumpsit originated as an action of trespass on the case brought for a failure to perform an undertaking or for performing negligently the duties of a public calling.” RESTATEMENT OF RESTITUTION 6 (1937). As an aside, it has been suggested that the conjoining of the synonymous participles “had,” a Germanic derivative, and “received,” a Latin derivative, is an echo from a distant time when the Norman French and Saxon English languages were fusing into modern English.

131. *Roxborough v. Rothmans of Pall Mall Australia Ltd.* [2001] 208 CLR 516, 544 (Eng.).

132. Kull, *supra* note 125, at 87.

133. Kull, *supra* note 125, at 90.

restitutionary in nature.<sup>134</sup> They fell into three general categories: (1) Seeking the recovery of land; (2) Seeking the payment of a debt, and (3) Seeking to have a fiduciary account for a sum of money and restore it to the rightful owner.<sup>135</sup> Today, a relief at law generally takes the form of money damages for the breach of a contract or the commission of a tort.<sup>136</sup> In the case of a contract breach, the equitable remedy of specific enforcement may be available to the plaintiff to the extent the legal remedy of damages cannot “put him in a position as beneficial to him as if the agreement has been specifically performed.”<sup>137</sup> In other words, Equity’s jurisdiction over the enforcement of an express contract is based on the inadequacy of a remedy at law.<sup>138</sup>

Straddling the boundary of law and Equity is the remedy of restitution in quasi contract. Recall that “[a] quasi contractual obligation is one that is created by the law for reasons of justice, without any expression of assent and sometimes even against a clear expression of dissent.”<sup>139</sup> Is the remedy then legal or equitable? In 1760, the murkiness of Lord Mansfield’s musings in the common law case of *Moses v. Macferlan* touched off a debate that continues to this day:

This kind of equitable action, to recover back money, which ought not in justice to be kept, is very beneficial, and therefore much encouraged. It lies only for money which, *ex aequo et bono*, the defendant ought to refund . . . [The action] lies for money paid by mistake; or upon a consideration which happens to fail; or for money got through imposition, (express or implied;) or extortion; or oppression; or an undue advantage taken of the plaintiff’s situation, contrary to laws made for the protection of persons under those circumstances . . . In one word, the gist of this kind of action is, that the defendant, upon the circumstances of the case, is obliged by the ties of natural justice and equity to refund the money.<sup>140</sup>

What was the learned justice getting at when he refrained from capitalizing the “E” in equity? Was the action for money had and

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134. RESTATEMENT OF RESTITUTION 5 (1937).

135. *Id.*

136. *See generally* *Mertens v. Hewitt Assoc.*, 508 U.S. 248, 255 (1992) (“Money damages are, of course, the classic form of *legal* relief”).

137. SNELL’S EQUITY, *supra* note 55, ¶ 15-02.

138. *Id.* ¶ 15-02.

139. ARTHUR LINTON CORBIN, CORBIN ON CONTRACTS § 19, at 27 (One Vol. ed. 1952).

140. *Moses v. MacFerlan*, (1760) 97 Eng. Rep. 676, 681 (K.B.).

received one in Equity, that is to say in the “Chancery sense,”<sup>141</sup> or was the law somehow merely softening its rough edges with “natural justice” and other equitable considerations? Justice Cardozo in the 1935 U.S. Supreme Court case of *Atlantic Coast Line R. Co. v. State of Florida* suggested that Lord Mansfield had referred to Equity in its Chancery sense.<sup>142</sup> Two years later, the *Restatement of the Law of Restitution, Quasi Contracts and Constructive Trusts* (1937) was adopted and promulgated by the American Law Institute. For good or for ill, the Americans had elected to end run the issue, leaving the English and the Australians to continue the debate.<sup>143</sup> The debate continues to this day, as evidenced by the enlightened musings of one learned Australian justice:

Lord Wright is widely credited with having brought the idea of unjust enrichment to England in the 1940s, drawing on the principle expounded in the 1936 *Restatement of the Law of Restitution, Quasi Contracts and Constructive Trusts*. I think scholars now agree that the concept was first used in English jurisprudence in an 1802 tract by Sir William Evans. It was an “Essay on the Action for Money Had and Received”, in the form of an extended dissertation on *Moses v. Macferlan*. Evans cited a civil law maxim that in translation states that it is naturally just that one man should not be enriched to the detriment of another. In 1997, Gummow, J, a justice of the High Court of Australia and co-author of the early editions of Meagher, Gummow and Lehand, *Equity, Doctrines and Remedies*, signaled in *Hill v. Van Erp* at 226-227 his unhappiness with the exorbitant claims of those who sought to pack down the whole of restitution into a tight unjust enrichment box. His honour returned to the topic in the 2001 *Roxborough* case. There he cited with approval Justice Paul Finn’s statement about unjust enrichment being capable of concealing rather than revealing why the law arrives at its outcomes. Gummow J added arguments based on the disinterment of Lord

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141. See Justice Keith Mason, Chancery Bar Assoc., Inner Temple, *What Has Equity to Do with Restitution? Does It Matter?* (Nov. 27, 2006), [http://www.lawlink.nsw.gov.au/lawlink/Supreme\\_Court/ll\\_sc.nsf/pages/SCO\\_mason271106](http://www.lawlink.nsw.gov.au/lawlink/Supreme_Court/ll_sc.nsf/pages/SCO_mason271106) (speculating as to whether Lord Mansfield in this legal action “was possibly importing just a touch of Chancery law, especially with his embrace of the ideas of oppression and of taking undue advantage”).

142. *Atlantic Coast Line v. Florida*, 295 U.S. 301, 309 (1935). Cardozo suggested that a “cause of action for restitution is a type of the broader cause of action for money had and received, a remedy which is equitable in origin and function,” *id.* (citing *Moses v. MacFerlan*, (1760) 97 Eng. Rep. 676, 681 (K.B.)).

143. See, e.g., Mason, *supra* note 141.

Mansfield's Equity in its Chancery sense.<sup>144</sup>

For good or for ill, the rules stated in the *Restatement of Restitution* (1937) were made "without reference to the question whether the remedy is at law or in equity, except where the results reached in actions at law differ in substance from those reached in proceedings in equity."<sup>145</sup> While to this day the issue of whether an action in quasi-contract is legal or equitable may be unresolved, at least in the minds of some, this cannot be said of an action to remedy the infringement of someone's IP rights. Such an action is unambiguously equitable because the remedy is substantively different from a legal remedy, and from an equitable remedy incident to a legal remedy. The difference is this: the plaintiff is entitled not only to what the plaintiff lost but also any benefits accruing to the infringer incident to the infringement.<sup>146</sup> Thus the infringement damages are calculated as if the infringer were a constructive trustee.<sup>147</sup> The English refer to this type of equitable remedy as a "compensatory remedial constructive trust," which they would hasten to add is not a trust at all.<sup>148</sup> Further on in this article I suggest that from the victim's perspective, depending upon the particular facts and circumstances, it may be worth making the argument that an IP rights infringer is an actual constructive trustee of the appropriated IP rights and/or the profits that were occasioned by the infringement.<sup>149</sup> If the court were to buy such an argument in a case where the infringer is insolvent, the victim of the infringement might possibly have a leg up.<sup>150</sup>

Equity, the guardian of "natural justice," is better suited than the law to deal with the idiosyncrasies of IP rights infringement: "Persons who tortiously use trade names, trade secrets, water rights, and other similar interest of others, are ordinarily liable in tort for the harm which they have done. In some cases, however, no harm is done, and in these cases, if the sole remedy were by an action of tort, the wrongdoer would be allowed to profit at little or no expense."<sup>151</sup> In other words, were equitable relief not available for IP rights

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144. *See Id.*

145. RESTATEMENT OF RESTITUTION 4-5 (1937).

146. *Id.* at 553.

147. LEWIN ON TRUSTS, *supra* note 105, ¶ 7-13, at 188.

148. *Id.*

149. *See infra* Part II(B)(3).

150. HANBURY & MAUDSLEY, *supra* note 44, at 310.

151. RESTATEMENT OF RESTITUTION cmt. a, at 553 (1937).

infringement, one might be tempted to invest in such tortuous activity, as one would need only to reimburse the rightful owner of the IP rights for any consequential losses of *the owner*. The balance of the economic benefit that had accrued to the infringer as a result of the tortuous activity could be pocketed by the infringer. One who graduates from law school without a thorough grounding in Equity, both its institutions and its remedies, will find it difficult to competently function in the Anglo-American legal tradition, no matter how many practical “skills” courses are on his or her transcript. Hiring partners in IP litigation firms should take note.

*B. Trust Law’s Influence on IP infringement remediation*

1. Introduction.

In the 1881 case of *Root v. Railway Co.*, the U.S. Supreme Court held that, in suits in equity for relief against the infringements of a patent, the rule for ascertaining the infringer’s profits for purposes of computing the patentee’s damages is the infringer shall be treated “as though he were a trustee for the patentee, in respect to profits.”<sup>152</sup> For those unversed in trusts and equitable remedies, an explanation of the rule’s common law context is in order, a context that in 1881 would have been self-evident to anyone with a law degree.<sup>153</sup>

An express trust, that is to say a trust that does not arise by operation of law, is “a fiduciary relationship with respect to property, arising from a manifestation of intention to create that relationship and subjecting the person who holds title to the property to duties to deal with it for the benefit of charity or for one or more persons, at least one of whom is not the sole trustee.”<sup>154</sup> As a fiduciary, a trustee has a duty of undivided loyalty, that is, a duty to act solely in the interests of the beneficiaries of the trust.<sup>155</sup> While a trustee is entitled to be reasonably compensated out of trust assets, it is default law that

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152. *Root v. Ry. Co.*, 105 U.S. 189, 214 (1881).

153. See GEE & JACKSON, *supra* note 24, at 18 (a Harvard Law School graduate practicing law in 1881 would have had 3 year hours in Equity, 1 year hour of Agency, and 2 year hours of Trusts under his belt, one year hour being one hour per week per academic year of formal instruction).

154. RESTATEMENT (THIRD) OF TRUSTS § 2 (2001). It should be noted, however, that “[b]efore 1890, when the Trustee Act of 1888 came into force, many trustees who would today be called constructive trustees were called express trustees.” LEWIN ON TRUSTS, *supra* note 105, at ¶ 7-08, n. 33.

155. See generally LORING AND ROUNDS, *supra* note 40, at § 6.1.3.



the trustee may not otherwise self-deal with those assets.<sup>156</sup> Any profit that accrues to the trustee as a result of the trustee’s unauthorized self-dealing must be turned over to the trust estate.<sup>157</sup> On the other hand, the trustee is entitled to indemnity from the trust estate for reasonable expenses incurred in the course of administering the trust.<sup>158</sup> The trustee, of course, has no fiduciary duty to make advances out of his own pocket, absent special facts, but to the extent he chooses to do so, he is entitled to take “security for indemnification.”<sup>159</sup> A trustee who has made good any loss occasioned by his breach of trust is entitled to be indemnified for expenses reasonably incurred to the extent the trust estate is benefited thereby.<sup>160</sup> A beneficiary who seeks equity must do equity.<sup>161</sup>

There are two categories of “involuntary” trust relationship that arise by operation of law: the resulting trust and the constructive trust. The resulting trust is beyond the scope of this article.<sup>162</sup> Constructive trust jurisprudence, on the other hand, informs the law of equitable remedies in the IP rights infringement context either directly or culturally. The English have developed a useful taxonomy of constructive trusts:<sup>163</sup>

Institutional Constructive Trusts		Remedial Constructive Trusts	
Trustees de son tort	Quasi trustees	proprietary	compensatory

The institutional constructive trust arises “from some pre-existing fiduciary relationship before or apart from any breach of trust or duty.”<sup>164</sup> Unless an IP rights infringer is in a fiduciary relationship with the victim, perhaps as the victim’s employee, such a trust is beyond the scope of this article.<sup>165</sup> On the other hand, the aspiring

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156. *Id.*  
 157. *Id.*  
 158. *Id.* § 3.5.2.3.  
 159. *Id.*  
 160. *Id.*  
 161. *Id.*  
 162. *Id.* § 3.3 (discussing the resulting trust).  
 163. See LEWIN ON TRUSTS, *supra* note 105, at 186-188 (classification of constructive trusts and constructive trusteeship).  
 164. *Id.* at ¶ 7-11.  
 165. *Id.*

American IP rights litigator would do well to become familiar with English remedial constructive trust jurisprudence. This is because the U.S. Supreme Court justices in the *Root* case were grappling with what the English refer to as the compensatory remedial constructive trust, which one learned English commentator emphatically asserts is not a trust at all:

It is a misnomer for a situation in which equity compels a defendant to pay compensation to a claimant. The remedy here is merely personal. The defendant is misleadingly said to be compelled to ‘account as constructive trustee,’ but this only means that the defendant must account as if he were, or in some manner as, a trustee, which he is not in any sense.<sup>166</sup>

As late as 1926 U.S. courts were still wrestling with this subtle intersection of trust law and equitable remedies:

It is my understanding that the popular characterization of an infringer as a trustee *ex maleficio* is referable properly to the origin of his liability; that is, his situation is analogous to that of a trustee, but arising through his wrong . . . He is viewed as one who has profited through wrongful appropriation of a right, and is therefore called upon to account upon the principles applicable to one against whom the liability to account is initially, contractually, or by other express act or assent, created.<sup>167</sup>

I for one am not inclined to write off the proprietary remedial constructive trust, or an American equivalent thereof, when it comes to IP rights infringement. A proprietary remedial constructive trust arises “when equity requires a defendant to transfer property to a claimant *in specie* otherwise than pursuant to a pre-existing trust or fiduciary relationship.”<sup>168</sup> Certainly, more thought needs to be given on this side of the Atlantic as to whether IP rights infringers might be or should be deemed full-blown proprietary remedial constructive trustees of the IP rights that they have wrongfully exploited, and perhaps of their incidental ill-gotten gains, as well. This would be of more than academic interest to the general creditors of an insolvent infringer.<sup>169</sup> Perhaps IP rights infringement is stuck in the interstices between the proprietary and the compensatory remedial constructive trust. If so, the practical relevance of that predicament needs to be

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166. *Id.* at ¶ 7-13 (distinguishing the compensatory remedial constructive trust from the proprietary remedial constructive trust).

167. *Christensen v. Nat’l Brake & Elec. Co.*, 10 F.2d 856, 861-862 (1926).

168. LEWIN ON TRUSTS, *supra* note 105, ¶ 7-13.

169. HANBURY & MAUDSLEY, *supra* note 44, at 310.

explored. In Section II of this article, I resurrect the issue of whether a proprietary remedial constructive trustee is an actual trustee, the assertions of the *Restatement of Restitution* (1937) to the contrary notwithstanding.<sup>170</sup> It is rightly-settled law on both sides of the Atlantic, however, that the compensatory remedial constructive trust is merely a device for computing equitable damages and is not a true trust.<sup>171</sup>

2. The trust as an institute actually evolved from an equitable remedy.

At this point, it is probably worth pausing to remind ourselves again of what an express trust is. While the Americans have endeavored to detach the constructive trust from express trust jurisprudence, many types of constructive trusts are still considered true trusts by the English, and perhaps they should be again considered so by the Americans. It is never too late to revisit the issue.

The trust makes little sense divorced from its cultural context.<sup>172</sup> The modern trust evolved from the English “use”, which itself evolved from an equitable remedy. An important milestone on the road to the modern trust was reached in the early 15th century when the English courts began enforcing “uses.”<sup>173</sup> A “use” was a transfer of an interest in real estate from A to B for the benefit of C.<sup>174</sup> In other words, it was a transfer “to his use” or *a son oes*. A landholder, in order to prevent the property from descending to his heirs at law, or to deprive an overlord of his feudal rights, or to avoid Crown taxes,<sup>175</sup> would transfer his interest in the land to a “feoffee,” a sort of paleo-trustee, for the benefit of the “cestui que use,” a sort of paleo-beneficiary.<sup>176</sup> Now that uses could be enforced, either the “feoffor” (A) or the “cestui que use” (C) had a cause of action against a

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170. See *infra* Part II.

171. HANBURY & MAUDSLEY, *supra* note 44, at 310-311 (Substantive Trust or Remedy: The American View).

172. See Rounds & Dehio, *supra* note 34, 498-500 (comparing the English trust with the German *treuhand*).

173. CORNELIUS J. MOYNIHAN, INTRODUCTION TO THE LAW OF REAL PROPERTY chs. 8 & 9 (2d ed. 1988); RESTATEMENT (SECOND) OF TRUSTS §§ 67-73 (1959); 1 AUSTIN WAKEMAN SCOTT ET AL., SCOTT ON TRUSTS § 1.3, 12 (4th ed. 2000) [hereinafter 1 SCOTT ON TRUSTS]. For the Roman, Germanic, and Islamic theories as to the origin of the English use, see LORING AND ROUNDS, *supra* note 40, § 8.37 (the origin of the Anglo-American trust).

174. See F. W. Maitland, *The Origin of Uses*, 8 HARV. L. REV. 127 (1894-95).

175. 1 SCOTT ON TRUSTS, *supra* note 176, § 1.5, at 19.

176. *Id.* §1.3.

“faithless feoffee” (B).<sup>177</sup>

Already by the time of the Wars of the Roses (1455-1485), most of the land in England was held to uses.<sup>178</sup> In an attempt to “put a stop to the drainage of royal revenues by the evasion of feudal dues through the practice of conveying to uses,” Parliament, in 1536, enacted the Statute of Uses.<sup>179</sup> The statute provided that title to land held upon a use would now lodge with the “cestui que use,” the beneficiary.<sup>180</sup> In other words, the interest of the “cestui que use” was converted into a legal estate or, as they say, “executed.”<sup>181</sup> The intention was that the title-holding “feoffee” would then be out of the picture.<sup>182</sup> Now the “cestui que use,” the beneficiary, would have *both* the legal title and the entire equitable interest.<sup>183</sup> The beneficial owner would have no “use” to hide behind for the purpose of avoiding taxes and feudal obligations.<sup>184</sup> At least that was how things were supposed to work. In practice, however, the courts quickly set about de-fanging the statute’s provisions to the point where the only equitable arrangement that did not manage to escape its snare was the passive trust.<sup>185</sup>

The statute was subsequently held inapplicable by the courts to trusts where the trustee had *active responsibilities*.<sup>186</sup> Those responsibilities might be as minimal as collecting and disbursing rents.<sup>187</sup> And, of course, it did not apply to *trusts of personal property*.<sup>188</sup> Most trusts today fall into one or both of these categories.

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177. *Id.* § 1.4, at 14-15.

178. *Id.* § 1.5, at 19 (noting the extreme damage that the use had done to the feudal system).

179. MOYNIHAN, *supra* note 173, at 203. The citation to the Statute of Uses is 27 Hen. VIII, c. 10. (1536). *See also* Attorney-Gen. v. Sands, Hardres 488, 491 per Atkyns, arguendo (1669) (“A trust is altogether the same that an use was before [the Statute of Uses], and they have the same parents, fraud and fear; and the same nurse, a court of conscience”).

180. 1 SCOTT ON TRUSTS, *supra* note 176, § 1.5, at 19-20.

181. MOYNIHAN, *supra* note 173, at 180; 1 SCOTT & ASCHER, *supra* note 57, § 3.4.1, at 163.

182. MOYNIHAN, *supra* note 173, at 180; 1 SCOTT ON TRUSTS, *supra* note 176, § 1.5, at 19.

183. MOYNIHAN, *supra* note 173, at 180; 1 SCOTT ON TRUSTS, *supra* note 176, §§ 1.5, 1.6, at 19-21.

184. 1 SCOTT & ASCHER *supra* note 57, § 1.1, at 8.

185. *Id.* § 3.4.1, at 163.

186. *Id.* § 1.7, at 19.

187. *Id.*; MOYNIHAN, *supra* note 173, at 203. *see also Id.* § 3.4.2, at 164 (Under the Restatement (Third) of Trusts, a trust is active if the trustee has *any* affirmative duties to perform).

188. 1 SCOTT & ASCHER, *supra* note 57, § 1.7, at 20; RESTATEMENT (SECOND) OF TRUSTS

The Statute of Uses also was held not to apply to a so-called *use upon a use*,<sup>189</sup> a concept that at one time was much beloved by academics.<sup>190</sup> The *use upon a use* is beyond the scope of this article and of little or no practical concern for today's trustee.<sup>191</sup> The Statute was held not to apply to a use *raised on a term for years*,<sup>192</sup> to be distinguished from "a use for a term of years raised on a freehold estate."<sup>193</sup> Oral trusts, resulting trusts,<sup>194</sup> and constructive trusts<sup>195</sup> also managed to slip through the net.<sup>196</sup>

The Statute of Uses was a critical component of a global compromise that had been struck after extensive negotiations between the Crown and the common law lawyers on behalf of their clients, the realm's equitable landowners:

Part of this negotiation also included *The Statute of Enrolments* (1536), 27 Hen. VIII, c. 16, which provided for registration of most executed uses that affected land and, after a great outcry from gentry concerned about their lost ability to leave land by will, *The Statute of Wills* (1540), 32 Hen. VIII, c. 16, which permitted free devise of all fee simple socage interests in land, and two-thirds of the land held by knight service. The result was more legal freedoms for landowners, subject to the enrolment of land interests to protect the fiscal interests of the Crown.<sup>197</sup>

The land registration system of the typical common law jurisdiction to this day, however, remains something of a sieve. In 21<sup>st</sup> century Massachusetts, shares of beneficial interest in a nominee trust

§ 70 (1959). *Cf.*, 1 SCOTT & ASCHER, *supra* note 57, § 3.4.4, at 171 (noting that more recent cases tend to hold that a passive trust of personal property is subject to execution or terminable by the beneficiary, by analogy to the Statute of Uses or under a counterpart rule).

189. 1 SCOTT & ASCHER, *supra* note 57, § 1.7 at 21; RESTATEMENT (SECOND) OF TRUSTS § 71 (1959).

190. 1 SCOTT & ASCHER, *supra* note 57 § 1.7 at 21; RESTATEMENT (SECOND) OF TRUSTS § 71 (1959).

191. *See generally* 1 SCOTT & ASCHER, *supra* note 57 § 3.4.5, at 173 (suggesting that "it is doubtful whether a court today would be willing to decide a case by reference to such an odd and hoary principle"). In any case, today it is quite permissible to fund a trust with an equitable interest in another trust. *See*, 2 AUSTIN WAKEMAN SCOTT ET AL., SCOTT & ASCHER ON TRUSTS 567, § 10.7 (5th. ed. 2009).

192. 1 SCOTT & ASCHER, *supra* note 57, § 1.7, at 20; RESTATEMENT (SECOND) OF TRUSTS § 70 cmt. b (1959).

193. *See* 1 SCOTT & ASCHER, *supra* note 57, § 1.7, at 20.

194. *Id.* § 3.4.6, at 173.

195. *Id.* § 3.4.7, at 174.

196. *Id.* § 3.4.1, at 163. *See generally* LORING AND ROUNDS, *supra* note 40, §§ 3.3, 4.1.1.1 (the constructive trust and the resulting trust).

197. DANIEL R. COQUILLETTE, FRANCIS BACON 51 (1992).

of land still need not be recorded.<sup>198</sup>

Prior to the Revolution, “the Statute of Uses was deemed to be in force in the American colonies, and upon the formation of the states it was incorporated into their legal systems as part of the common law.”<sup>199</sup> Today, there are remnants of the statute scattered throughout the United States,<sup>200</sup> although in England, the Statute of Uses itself was repealed in 1925 by the Law of Property Act.<sup>201</sup>

3. Assuming the IP rights infringer is a proprietary remedial constructive trustee of the rights and/or of the ill-gotten gains.

Certain breaches of express trust may warrant the judicial imposition of a constructive trust.<sup>202</sup> Courts also employ the constructive trust to facilitate the remedy of restitution for unjust enrichment,<sup>203</sup> to include affording a remedy for certain breaches of contract: If a person comes into possession of real or personal property as a result of fraud, undue influence, or some other such intentional wrong,<sup>204</sup> a court may order the one in wrongful possession to hold the property not for himself or the perpetrator of the wrong but as a constructive trustee for the person who, but for the

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198. See Louis H. Hamel, Jr., *Keeping a Vacation Home in the Family for Younger Generations*, 23(3) EST. PLAN. 123, 127 (Mar/Apr. 1996); see generally LORING AND ROUNDS, *supra* note 40, § 9.6.

199. MOYNIHAN, *supra* note 173, at 204.

200. *Id.*

201. An Act to consolidate the enactments relating to Conveyancing and the Law of Property in England and Wales, 1925, 15 & 16 Geo. 5, c. 20, § 1 (Eng.).

202. HANBURY & MAUDSLEY, *supra* note 44, at 312-314 (unauthorized profit by a trustee or fiduciary). The word “constructive” is derived from the verb “construe,” not from the word “construct.”

203. If, for example, “the owner of an interest in land transfers it to another upon an oral agreement for other land in exchange, and if the transferee relies on a statute of frauds in refusing to perform the agreement, the transferee holds the interest thereby acquired on a constructive trust for the transferor.” RESTATEMENT (THIRD) OF TRUSTS §24 cmt. d(1) (2001). Similar relief would be available to the settlor or the intended beneficiaries had the transfer been “in trust.” RESTATEMENT (THIRD) OF TRUSTS § 24 cmt. g, at 354, cmt. h. In other words, the transferee may not retain the property for himself simply because the transferor has failed to comply with the statute of frauds. See generally, LORING AND ROUNDS, *supra* note 40, § 8.15.5 (Statute of Frauds).

204. 1 SCOTT & ASCHER, *supra* note 57, § 6.11.1, at 307 (noting that “[i]f *B*, by a consciously false representation of fact, induces *A* to transfer land to *B*, who orally agrees to hold the land in trust or to reconvey it, it is clear that *B* may not keep the land”). See also 6 AUSTIN WAKEMAN SCOTT ET AL., SCOTT & ASCHER ON TRUSTS § 43.1.1, at 2933 (5th ed. 2008).

wrong, would have received the property.<sup>205</sup> The proprietary remedial constructive trustee has an affirmative duty to transfer the legal title to the person wronged and, until that is accomplished, a duty not to harm, or allow others to harm, the property. The fiduciary or fiduciary-like powers of a proprietary remedial constructive trustee are generally not disclaimable.<sup>206</sup>

Is the proprietary remedial constructive trust a true trust? The *Restatement of Restitution* (1937) answers with a resounding “no way!”<sup>207</sup> This has come to be known as the American view.<sup>208</sup> The proprietary remedial constructive trust is an involuntary arrangement, or so the reasoning goes, whereas the express trust is the product of the voluntary reordering of rights, duties and obligations with respect to property.<sup>209</sup> The trustee of an express trust, it is asserted, is a fiduciary; the trustee of a proprietary remedial constructive trust is not.<sup>210</sup> The proprietary remedial constructive trust, as is the case with the compensatory remedial constructive trust, is just a remedy, Equity’s answer to the law’s quasi-contract.<sup>211</sup> 1937 marks the year when the constructive trust was formally “lopped off” from the *Restatement of Trusts* and “folded into” the *Restatement of Restitution*.<sup>212</sup>

The *Restatement of Restitution*’s authors, however, did concede “that both in the case of an express trust and in that of a constructive trust one person holds the title to property subject to an equitable duty to hold the property for or to convey it to another, and the latter has in each case some kind of an equitable interest in the property.”<sup>213</sup>

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205. 1 SCOTT & ASCHER, *supra* note 57, § 6.11.1, at 208. *See, e.g.*, Nile v. Nile, 734 N.E.2d 1153, 1162 (Mass. 2000) (upholding the imposition of a constructive trust on the assets of the decedent’s revocable inter vivos trust in order to secure the decedent’s obligations under a postdivorce settlement agreement between the decedent and his former wife); Lackey v. Lackey, 691 So. 2d 990, 995 (Miss. 1997) (trust beneficiary entitled to have constructive trust imposed on proceeds of life insurance policy purchased with property embezzled from trust). *See generally* BOGERT, *supra* note 75, § 473, at 67 (Fraudulent Misrepresentation or Concealment), § 474 (Mistake, Undue Influence, and Duress).

206. UNIFORM PROBATE CODE § 2-1102 cmt. (amended 2006),(Uniform Disclaimer of Property Interests Act does not cover constructive trusts).

207. RESTATEMENT OF RESTITUTION § 160, cmt. a (1937).

208. HANBURY & MAUDSLEY, *supra* note 44, at 310-311 (the American view); LEWIN ON TRUSTS, *supra* note 105, at ¶ 7-13, at 188 (the “purely remedial” trust as a “North American” invention).

209. RESTATEMENT OF RESTITUTION § 160, cmt. a (1937).

210. *Id.*

211. *Id.*

212. Kull, *supra* note 125, at 92.

213. RESTATEMENT OF RESTITUTION § 160, cmt. a, at 641 (1937).

Moreover, they offered no explanation for why, as a matter of public policy or otherwise, the involuntariness of a proprietary remedial constructive trust should make it something other than a true trust. Just because a duck has been artificially inseminated does not make it any less of duck.<sup>214</sup> Can it really be said that the proprietary remedial constructive trustee of X's property owes X no fiduciary duties? While it would go too far to suggest that a proprietary remedial constructive trustee without notice has a duty to invest the subject property, or should be held "to the usual standard of *exacta diligentia* which is required of express trustees in the performance of their duties," at minimum, the proprietary remedial constructive trustee will have a duty to get title and possession safely into the hands of its rightful owner, as would be the case with the trustee of a trust that has terminated.<sup>215</sup>

The proprietary remedial constructive trust and the express trust share other critical characteristics as well. A proprietary remedial constructive trustee, for example, may be entitled to indemnity from the subject property for the costs and expenses he incurs in obtaining the property, or in effecting improvements that benefit the property.<sup>216</sup> For, he who seeks equity, in this case the one who seeks the imposition of a constructive trust, must do equity. Certainly, English law is not in accord with the American view. Under English law, the proprietary remedial constructive trust still enjoys the status of a "substantive institution."<sup>217</sup> It has been asserted that since 1937 *no one* has considered any constructive trust a part of the law of trusts.<sup>218</sup> This may be the case, but only on this side of the Atlantic.

Not only is the argument that the proprietary remedial constructive trust is something other than a true trust less than compelling, so also is the logic that it is an equitable remedy. It would seem that the proprietary remedial constructive trust is imposed to facilitate the fashioning of an equitable remedy, such as restitution. Having allowed the person wronged to trace a particular item of property, and having imposed a proprietary remedial constructive trust upon it, the court then fashions whatever remedies are

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214. The English would agree. *See generally* LEWIN ON TRUSTS, *supra* note 105, at ¶ 7-13, at 188 ("Remedial constructive trusts can be subdivided into *proprietary* and *compensatory* remedial constructive trusts, to which may be added a transatlantic *purely remedial* trust, which has not yet reached . . . [England's] . . . shores").

215. *See* HANBURY & MAUDSLEY, *supra* note 44, at 308-309.

216. LEWIN ON TRUSTS, *supra* note 105, at ¶ 21-21.

217. HANBURY & MAUDSLEY, *supra* note 44, at 311.

218. Kull, *supra* note 125, at 92.



appropriate to make the beneficiary whole.<sup>219</sup> Still, the imposition of a proprietary remedial constructive trust on traceable property is a remedy in the sense that it freezes the status quo, that is, it prevents the transferee from consuming the property or passing it on to third parties. In that sense, it is an equitable remedy.

As an aside, the U.S. Supreme Court in the *Root* case ruled out the IP infringer being an *institutional* constructive trustee:

The case is not within the principle, according to which, in certain circumstances, a court of equity decrees a wrong-doer to be a trustee de son tort, and exerts its jurisdiction over him in that character. Where a defendant has wrongfully intermeddled with property already impressed with a trust, he may be required as a trustee to account for it.<sup>220</sup>

Be that as it may, one who wrongfully infringes upon X's IP rights holds those rights for the benefit of X<sup>221</sup>. All profits must be accounted for. If the infringer is not a true trustee, it is in name only; if the infringer is not a fiduciary, it is in name only, as well.

#### 4. Accounting actions against self dealing trustees

A trustee who improperly self deals may be compelled in an action to account to disgorge any net profits that are incident to the transaction.<sup>222</sup> For purposes of computing equitable restitution damages, the infringer of IP rights is deemed a defalcating trustee of an express trust, or a proprietary remedial constructive trustee.<sup>223</sup>

##### *a. Assessing a self-dealing trustee's liability and set-off rights.*

If the trustee of an express trust self-deals with trust property in breach of trust, the trustee is chargeable with any resulting loss or depreciation in the value of the property.<sup>224</sup> On the other hand, the trustee is chargeable with any profit the trustee makes on the transaction, or any profit that would have accrued to the trust estate

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219. See generally LORING AND ROUNDS, *supra* note 40, § 7.2.3.1.

220. *Root v. Ry. Co.*, 105 U.S. 189, 215 (1881).

221. See *Infra* p. 7.

222. See 4 SCOTT & ASCHER, *supra* note 80, § 24.13 (discussing trustee's liability resulting from transaction.); See generally LORING AND ROUNDS, *supra* note 40, § 6.1.3 (the trustee's duty of loyalty).

223. See *Root*, 105 U.S. at 214; RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 43 cmt. f (Tentative Draft No. 4, 2005).

224. See generally 4 SCOTT & ASCHER, *supra* note 80, § 24.13 (discussing trustee's liability for breach of trust by purchasing property).

had there not been a breach.<sup>225</sup> Thus, if a trustee borrows property from the trust estate at one rate of interest and lends it to a third party at a higher rate of interest, the trust estate is entitled to the benefit of the spread.<sup>226</sup> The trustee will hold the profit upon a constructive trust for the benefit of the trust estate.<sup>227</sup> In that case, until the profit is disgorged, there are effectively two trusts, the constructive trust and the express trust. The *Restatement of Restitution* (1937) is in accord with these general principles: “Where a fiduciary in violation of his duty to the beneficiary receives or retains a bonus or commission or other profit, he holds what he receives upon a constructive trust for the beneficiary.”<sup>228</sup>

Even the trustee who wrongfully self deals, however, may have set-off rights against the trust estate. Take, for example, a trust of real estate that is the subject of a \$10,000 first mortgage and a \$5,000 second. The trustee purchases with the trustee’s own funds the second mortgage for \$3000. At foreclosure, the real estate is sold for \$16,000. While the trustee is not entitled to profit from the transaction, the trustee may well be entitled to be reimbursed from the proceeds of the sale for the \$3,000 that was paid for the second mortgage, plus interest on the amount.<sup>229</sup> What is left over from the proceeds would accrue to the trust estate. Likewise, if a patent right is exploited without leave of the patentee, the infringer under trust principles may well still be entitled to an off-set for the personal “capital” that the infringer deployed to affect the infringement.<sup>230</sup>

*b. Assessing the IP infringer’s analogous liability*

The *Restatement of Restitution* (1937) provides that a person who tortiously exploits the IP rights of another is under a duty of restitution for the value of the benefit thereby received.<sup>231</sup> The

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225. RESTATEMENT (SECOND) OF TRUSTS § 206 cmt. a (1959). *See generally* BOGERT, *supra* note 75 § 543 (1984) (Measure of Damages); 4 SCOTT & ASCHER, *supra* note 80, § 24.9 (electing to hold trustee accountable for profits that have accrued as a result of breach).

226. RESTATEMENT (SECOND) OF TRUSTS § 206 cmt. j (1959); 4 SCOTT & ASCHER, *supra* note 80, § 24.7.

227. LEWIN ON TRUSTS, *supra* note 105, ¶ 20-32 (“But if the trustee’s personal use of the trust property results in both a profit to the trustee and a loss in respect of the beneficiaries being deprived of the use of the property, the beneficiaries cannot recover both the profit and the loss.”).

228. RESTATEMENT OF RESTITUTION § 197 (1937).

229. *See* RESTATEMENT (SECOND) OF TRUSTS § 206, cmt. h, illus. 5 (1959).

230. *See, e.g.*, Christensen v. National Brake & Electric Co., 10 F.2d 856, 861-862 (E.D. Wis. 1926).

231. RESTATEMENT OF RESTITUTION § 136 (1937).

*Restatement of Restitution and Unjust Enrichment*, currently a work in progress, is more or less in accord. It would go on, however, to address what ought to be the appropriate measure of recovery when the infringer's conduct is "blameworthy" and when it is not: "A conscious wrongdoer, or one who acts despite a known risk that the conduct in question violates the rights of the claimant, will be required to disgorge all gains (including consequential gains) derived from the wrongful transaction."<sup>232</sup> The innocent or negligent infringer, on the other hand, need only disgorge the direct benefit.<sup>233</sup> "Direct benefit may be measured, where such a measurement is available and appropriate, by a reasonable royalty or by the reasonable cost of a license."<sup>234</sup> In either case, the claimant would have a right to elect either an assessment-of-damages remedy or a disgorgement-of-infringer's profits remedy.<sup>235</sup> "To the extent that the defendant's profits from infringement represent profits the plaintiff would otherwise have earned, the calculation of 'infringer's profits' becomes an indirect mode of showing 'plaintiff's damages', and the same amount might be recovered under either heading—subject to protection against double-counting."<sup>236</sup>

The Third Restatement would purport to present a current statement of the background common law of restitution for unjust enrichment, the term common law being employed here in its broadest sense. Contextualizing the myriad state and Federal statutes that regulate IP rights infringement is a worthy undertaking: "Restitution principles serve to illuminate legislative purpose; to identify the points at which a given statute varies a rule that would otherwise obtain at common law; and as an aid to interpretation of a doubtful case."<sup>237</sup> The traditional Equitable Remedies course, which covered critical foundational doctrine, needs to be revived and reinstated on the required side of the American law school curriculum. The Australians are way ahead of us in this regard.<sup>238</sup>

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232. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42(2)(a) (Tentative. Draft No. 4, 2005).

233. *Id.*

234. *Id.*

235. *Id.* § 42 cmt. d.

236. *Id.*

237. *Id.* at cmt. a, at 86.

238. At the School of Law and Management, La Trobe University, Melbourne, Australia, for example, the Law of Equity and Trusts is a required course. See La Trobe University, CLE Requirements, <http://www.latrobe.edu.au/lawman/about/schools/law/cle-requirements> (last visited Mar. 14, 2010).

i. The IP infringer's net profit

In the case of disgorgement of benefits incident to an IP rights infringement, Equity seeks to “strip the wrongdoer of net gain attributable to the wrong—because disgorgement in excess of net gain would be punitive, as would disgorgement of gains derived from legitimate sources.”<sup>239</sup> Thus, what may or may not be deducted from gross receipts is likely to be a critical issue in any IP infringement case. “The need to establish the wrongful *derivation* of the defendant's profits requires the court to identify the contribution to defendant's overall profits (or to some meaningful subdivision thereof) attributable to the wrong.”<sup>240</sup> This is easier said than done:

When a profitable, unauthorized use has been made of another's intellectual property or similar rights, the interests in question have typically been used to create new values combining disparate and largely incommensurable elements. Determining the net profits attributable to the product in question—as distinct from the defendant's other sources of income—may be difficult in itself, particularly if defendant's business enterprise is complex. Assuming that a figure for the relevant net profits may be determined, the court confronts the further difficulty of deciding what portion thereof should be attributed to the defendant's interference with the plaintiff's legally protected interests.<sup>241</sup>

In any case, there needs to be a provable link between the infringement and the ill-gotten profits. “Where the connection between profits and infringement is merely speculative, or can be logically excluded, recovery will be denied.”<sup>242</sup>

ii. The IP infringer's right to counter-restitution is grounded in trust law as informed by Equity's application of the law of unjust enrichment

It is black letter law that if a trustee incurs an expense incident to an unauthorized self dealing transaction, and in so doing confers upon the trust estate a benefit, the trustee is ordinarily entitled to indemnity to the extent of the benefit of the value conferred.<sup>243</sup> He who seeks

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239. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42, cmt. h (Tentative Draft No. 4, 2005).

240. *Id.*

241. *Id.*

242. *Id.*

243. RESTATEMENT (SECOND) OF TRUSTS § 245 cmts. c-d (1959). *See also* LEWIN ON

equity must do equity. The Restatement (Third) of Trusts is generally in accord.<sup>244</sup> Under the Uniform Trust Code, a trustee is entitled to be reimbursed out of the trust property, with interest as appropriate, expenses that were not properly incurred in the administration of the trust to the extent necessary to prevent unjust enrichment of the trust.<sup>245</sup> “Given this purpose, a court, on appropriate grounds, may delay or even deny reimbursement for expenses which benefited the trust.”<sup>246</sup> As a deemed express trustee or proprietary remedial constructive trustee, the infringer of IP rights in certain cases also has an equitable right of indemnity.

Whether it is the case of the trustee of an express trust who has engaged in unauthorized self dealing or the proprietary remedial constructive trustee of someone else’s IP rights, this equitable right of indemnity is grounded in Equity’s contribution to the law of unjust enrichment, specifically the equitable right of counter-restitution. The court in equity is loath to fashion a remedy that leaves either party unjustly enriched.<sup>247</sup> The Restatement of Restitution is in full accord: “Where the right to restitution is dependent upon restoration by the person seeking restitution, he cannot enforce a constructive trust without making restoration.”<sup>248</sup> In the Comment thereto relating to reimbursement for expenditures on the improvement of property unjustifiably acquired, there is a culpability exception: One who acquires property by fraud, for example, may well not be entitled to counter-restitution.<sup>249</sup> In any case, just as the trustee of an express trust must substantiate any claims for indemnity, so too the burden is on the IP rights infringer to prove all offsets for counter-restitution.<sup>250</sup>

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TRUSTS, *supra* note 105, at ¶ 21-25, at 539-40; 3 AUSTIN WAKEMAN SCOTT ET AL., SCOTT & ASCHER § 18.1.2.6 (2009); 4 SCOTT & ASCHER, *supra* note 80, § 22.2.1.

244. RESTATEMENT (THIRD) OF TRUSTS § 88, cmt. a (Tentative Draft No. 4, 2005).

245. UNIFORM TRUST CODE § 709(a)(2) (2005). *See generally* 4 SCOTT & ASCHER, *supra* note 80, § 22.2.1.

246. UNIFORM TRUST CODE § 709 cmt. (2005). “Appropriate grounds . . . [for delay or even denying reimbursement for expenses which benefited the trust] . . . include: (1) whether the trustee acted in bad faith in incurring the expense; (2) whether the trustee knew that the expense was inappropriate; (3) whether the trustee reasonably believed the expense was necessary for the preservation of the trust estate; (4) whether the expense has resulted in a benefit; and (5) whether indemnity can be allowed without defeating or impairing the purposes of the trust.” *Id.*

247. Roach, *supra* note 6, at 511. *See, e.g.,* Christensen v. National Brake & Electric Co, 10 F.2d 856, 862 (1926) (noting that equity is loath to fashion a remedy that is “punitive”).

248. RESTATEMENT OF RESTITUTION § 177 (1937).

249. RESTATEMENT OF RESTITUTION § 177 cmt. c, (1937). *See also* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 51 cmt. e(4) (Tentative Draft No. 5, 2007) (carrying over the fraud exception).

250. Roach, *supra* note 6, at 516. *See generally* RESTATEMENT (THIRD) OF RESTITUTION

In the context of IP rights infringement, the practical mechanics of equitable indemnity or counter-restitution can be mind-boggling. In his *Counting the Beans: Unjust Enrichment and the Defendant's Overhead*, for example, George P. Roach explores the question of whether and to what extent an IP infringer is entitled to an offset for its fixed costs.<sup>251</sup> “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), and advocates of the incremental income approach who exclude allocations of fixed costs (principally, the Fifth, Seventh, and Eleventh Circuits).”<sup>252</sup>

iii. The anti-netting rule applicable to IP rights infringers is borrowed lock, stock, and barrel from trust law

It is black letter law that “[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 profit that accrued through another and distinct breach of trust.”<sup>253</sup> This is known as the anti-netting rule.<sup>254</sup> If the breaches of trust, however, are not separate and distinct, the trustee is accountable only for the net gain or chargeable only with the net loss resulting therefrom.<sup>255</sup> Without the anti-netting rule, a trustee under certain circumstances might be inclined to commit multiple breaches of trust: “For example, the trustee whose misconduct has caused a loss may take improper risks in pursuit of extra profits if those profits may serve to eliminate or reduce the amount of expected surcharge.”<sup>256</sup> In the context of trust law, “the profit from a breach of trust is the amount by which the value of the beneficiaries’ interests exceeds what the value of those interests would have been if the trust had been properly administered.”<sup>257</sup>

In the context of IP infringement, “separate infringements that produce negative results do not have to be accumulated in the

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AND UNJUST ENRICHMENT § 42, cmt. h (Tentative Draft No. 4, 2005).

251. Roach, *supra* note 6, at 485.

252. *Id.*

253. RESTATEMENT (THIRD) OF TRUSTS § 213 (1990).

254. Loren C. Ipsen, *Trends in the Liability of Corporate Fiduciaries*, 24 IDAHO L. REV. 443, 450 (1989).

255. RESTATEMENT (THIRD) OF TRUSTS § 213 (1990).

256. *Id.* § 213 cmt. f.

257. *Id.* § 213 cmt. b.

measure of the defendant's profit or benefit."<sup>258</sup> This is an equitable application of the anti-netting rule. It has been applied by courts in the IP infringement context,<sup>259</sup> but generally without direct attribution to any core doctrine.<sup>260</sup> Implicitly, however, the courts are analogizing to the law of trusts.<sup>261</sup> Again, it is time for the American law school to go back to the future and reinstate Trusts as a required course. It is a relationship that is marbled throughout the common law as enhanced by Equity, as well as invoked in a panoply of critical statutory and regulatory regimes.

### CONCLUSION

This article has examined the equitable remedy of restitution for unjust enrichment in the IP rights infringement context. Instruction in Equity's "notion" of unjust enrichment and the remedy for it was once standard fare in the American law school. That is no longer the case, even though "[a]s the American economy completes its transition to a data economy, unjust enrichment in equity will increasingly become the principal remedy to protect economic interests."<sup>262</sup> Law school-sponsored litigation clinics are fine, but not at the expense of imparting basic doctrine. Though this primer covers critical common law doctrine that every IP rights litigator needs to have internalized, the term "common law" being employed broadly in juxtaposition to the civil law tradition, it is no substitute for systematic instruction in Equity's institutions and remedies, the core fiduciary relationships of agency and trust, and the fiduciary principle generally. Particularly in the IP rights infringement context, "restitution principles serve to illuminate legislative purpose; to identify the points at which a given statute varies a rule that would otherwise obtain at common law; and as an aid to interpretation of a doubtful case."<sup>263</sup>

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258. Roach, *supra* note 6, at 522.

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

260. See generally Roach, *supra* note 6.

261. *Id.* at 522-25.

262. See generally *Id.*

263. RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42, cmt. a (Tentative Draft No. 4, 2005).