NO. 24-4333

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SWINOMISH INDIAN TRIBAL COMMUNITY,

Plaintiff-Appellee,

v.

BNSF RAILWAY COMPANY,

Defendant-Appellant.

On Appeal from the United States District Court for the Western District of Washington (Case No. 15-cv-543) (District Judge Robert S. Lasnik)

BRIEF OF WASHINGTON LEGAL FOUNDATION AS AMICUS CURIAE SUPPORTING DEFENDANT-APPELLANT AND REVERSAL

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RULE 26.1 DISCLOSURE STATEMENT

Washington Legal Foundation has no parent company, issues no stock, and no publicly held company owns a ten percent or greater interest in it.

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INTEREST OF AMICUS CURIAE[1]

Washington Legal Foundation is a nonprofit, public-interest law firm and policy center with supporters nationwide. WLF promotes free enterprise, individual rights, limited government, and the rule of law. It often appears as an amicus curiae in federal court to support adherence to common-law limits on equitable remedies, including disgorgement. *See, e.g., AMG Cap. Mgmt., LLC v. FTC*, 593 U.S. 67 (2021); *Liu v. SEC*, 591 U.S. 71 (2020).

And WLF's Legal Studies division, its publishing arm, routinely produces papers by outside experts on disgorgement. *See* Christine P. Bump, *Courts Scrutinize FDA "Disgorgement" Demands*, WLF Legal Backgrounder (Nov. 4, 2005), https://perma.cc/LHY3-NM7U; Pamela J. Auerbach & Alex Dimitrief, *"Mission Creep" at FTC?: Use of Disgorgement Remedy Signals Desire to Prosecute*, WLF Legal Backgrounder (Apr. 5, 2022), https://perma.cc/573A-6E4M.

WLF opposes runaway and punitive "equitable" awards, which have become a major problem in the civil justice system. While remedies at law

[1] No party's counsel authored any part of this brief. No one, apart from WLF and its counsel, contributed money intended to fund the brief's preparation or submission. All parties consented to WLF's filing this brief.

are carefully policed by statutory caps or even constitutional guardrails, equitable remedies have grown out of control, circumventing their crucial common-law limits. The award below is part of this disturbing trend and should be reversed.

STATEMENT OF THE CASE

BNSF Railway Company operates a railway route over roughly 1,500 miles of track from the middle of the country to refineries in Washington state. About 0.7 miles of this route trespassed over the Swinomish Tribal Community's land. BNSF had secured an easement from the Tribe to run no more than 25 cars per day (in each direction) over this portion of the line. When BNSF's customers increased their demand for oil, BNSF exceeded the per-day limit over that route for about 10 years.

The Tribe sued. It suffered no actual damages. Rather than claim damages for breach of contract under the easement, the Tribe brought a common-law claim for trespass. Judge Lasnik in the Western District of Washington awarded the Tribe a staggering $394,517,169 in disgorgement—compared to total profits the court calculated for BNSF of about $400 million—and refused to allow BNSF to deduct from the

calculated profits its full costs of running trains. The District Court held that but for the trespass, BNSF could not have shipped most of the oil.

BNSF's trespass was part of an extensive enterprise made possible by BNSF's legitimate, non-trespassing business activities. Even so, the District Court gave BNSF zero credit for these blameless activities and awarded the Tribe more than 91% of the court's calculated profits for the entire business enterprise. The District Court also refused to deduct certain costs associated with BNSF's earning those profits and made basic calculation errors costing BNSF millions of dollars.

The primary question on appeal is whether a disgorgement remedy can require a defendant to disgorge profits that derive from lawful conduct (BNSF's lawful operation of 99.9% of its track, its longstanding agreements with customers, its loading and unloading facilities, and so on). The answer is no.

SUMMARY OF ARGUMENT

As an equitable remedy, disgorgement is never punitive. Its purpose is simply to ensure that a wrongdoer cannot enjoy benefits derived from illegal or unethical conduct. Equity seeks to restore the status quo between the parties, not to exact retribution on one side. When disgorgement is applied punitively, it strays from its equitable roots and

loses its mooring. Punishment is the domain of criminal and civil penalties, not equitable remedies.

A district court's inherent equity jurisdiction is strictly limited to the "jurisdiction in equity exercised by the High Court of Chancery in England at the time of the adoption of the Constitution and the enactment of the original Judiciary Act [of] 1789." *Grupo Mexicano de Desarrollo v. Alliance Bond Fund*, 527 U.S. 308, 318 (1999) (citing A. Dobie, *Handbook of Federal Jurisdiction and Procedure* 660 (1928)). From the time of the Articles of Confederation until the merger of courts of equity and law, courts severely limited the disgorgement of profits. Disgorgement was available against a defendant only for its net profits—and even then only for those profits traced to that defendant's unlawful behavior.

Today is no different. Federal courts acting in equity may award only "the net profit attributable to the underlying wrong." Restatement (Third) of Restitution & Unjust Enrichment § 51(4) (2011). These common-law limits further "[t]he object of restitution," which "is to eliminate profit from wrongdoing while avoiding, so far as possible, the imposition of a penalty." *Id.*

In *Liu*, the U.S. Supreme Court reinforced these common-law limits on disgorgement. First, disgorgement awards cannot exceed the net profits

of the wrongdoer. 591 U.S. at 83. Second, disgorgement awards must deduct legitimate expenses. *Id.* at 92. And above all, disgorgement awards should not be so excessive that they cross the line from equity into penalty. *Id.* at 82. Equity courts carefully "avoid[ed] transforming [a disgorgement award] into a penalty outside their equity powers." *Id.* The decision below jettisons each of those limits.

The District Court's disgorgement award here is unmoored from these equitable roots. Again, equitable remedies are not designed to punish. Yet, as here, any disgorgement award that disregards a defendant's legitimate contributions is necessarily punitive. Rather than credit BNSF's significant contributions, the District Court awarded profits attributable to BNSF's legitimate activities a thousand miles away from the trespass. That erroneous award calculation must be reversed. If this methodology is applied to other disgorgement cases—which often arise in various contexts—it will have drastic consequences, potentially subjecting defendants to massive, inappropriate liability.

This case offers the Court the opportunity to bring the District Court's unhinged disgorgement award back within proper equitable bounds.

ARGUMENT

I. THE DISTRICT COURT'S DISGORGEMENT AWARD IS A PENALTY THAT EXCEEDS THE BOUNDS OF EQUITY.

Equitable relief does not mean unbounded relief. *See Marshall v. City of Vicksburg*, 82 U.S. (15 Wall.) 146, 149 (1892). Indeed, equitable relief "must mean *something* less than *all* relief." *Mertens v. Hewitt Associates*, 508 U.S. 248, 258, n.8 (1993). Equitable relief is always subject to strict limitations, which have governed courts for generations. When, as here, courts exceed those venerable limits, they "limit the relief not at all" and "render the modifier ['equitable'] superfluous." *Id*. at 257–58.

A. Courts acting in equity have no power to punish.

Three categories of relief were typically available in equity: Injunction, mandamus, and restitution. *See, e.g.*, *id.* at 256. Restitution, at issue here, is equitable because it restores the status quo and orders the "return of that which rightfully belongs to the purchaser or tenant." *Tull v. United States*, 481 U.S. 412, 422 (1987). The scope of equitable relief is strictly circumscribed to ensure fairness to the parties. *See Marshall*, 82 U.S. (15 Wall) at 149 (1892).

Equitable restitution is restorative. "[F]or restitution to lie in equity, the action generally must seek not to impose personal liability on the

defendant, but to restore to the plaintiff particular funds or property in the defendant's possession." *Great-West Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204, 214 (2002). A plaintiff whose property has wrongfully fallen into a defendant's hands is not entitled to equitable relief if the property (or its proceeds) is no longer in the defendant's possession; that plaintiff's only available remedy would be a claim at law for damages. *Id*. at 213–16.

Equity does not punish. *See, e.g.*, Walter Ashburner, *Principles of Equity* 53 (1902) ("A court of equity has no punitive jurisdiction. It never fined or imprisoned a wrongdoer."); *see also Bush v. Gaffney*, 84 S.W.2d 759, 764 (Tex. Civ. App. 1935) ("A court of equity is a court of conscience, but not a forum of vengeance. It will make restitution, but not reprisals. It will fill full the measure of compensation, but will not overflow it with vindictive damages."). As the leading treatise on equity puts it, "Punishment through monetary awards or otherwise is contrary to the basis and purpose of equity." *Meagher, Gummow & Lehane's Equity: Doctrines & Remedies* § 23-595, at 865 (5th Ed. 2015).

The Supreme Court has insisted repeatedly that equitable remedies may not be punitive. "While equity courts did not limit profits remedies to particular types of cases, they did circumscribe the award in multiple ways

to avoid transforming it into a penalty outside their equitable powers." *Liu*, 591 U.S. at 82 (citing *Marshall*, 82 U.S. (15 Wall) at 149). Above all, "[e]quity never, under any circumstances, lends its aid to enforce a forfeiture or penalty, or anything in the nature of either." *Marshall*, 82 (15 Wall) U.S. at 149 (citations omitted). This principle applies across all types of cases. Yet by failing to circumscribe its restitution award according to this ancient rule, the District Court transformed disgorgement into a penalty far beyond the bounds of equity.

B. A disgorgement award that fails to consider a defendant's legitimate contributions is unduly punitive.

The Supreme Court has identified several common-law limiting "principles" that prevent a "disgorgement award . . . [from] cross[ing] the bounds of traditional equity practice." *Liu*, 591 U.S. at 87. Among other things, equity strictly limits disgorgement to the "net profits from wrongdoing." *Id.* at 83. District courts thus "may not enter disgorgement awards that exceed the gains 'made upon any business or investment, when both the receipts and the payments are taken into account.'" *Id.* at 83 (quoting *Rubber Co. v. Goodyear*, 76 U.S. (9 Wall) 788, 804 (1870)).

Consistent with that limit, "courts must deduct legitimate expenses before ordering disgorgement" and must "ascertain[] whether expenses

are legitimate or whether they are merely wrongful gains 'under another name.'" *Id.* at 92 (quoting *Goodyear*, 78 U.S. (9 Wall) at 804). As examples, *Liu* points to "lease payments and cancer-treatment equipment" as "items [that] arguably have value independent of fueling a fraudulent scheme." *Id.* at 92. On remand, *Liu* directed this Court to examine "whether including those expenses in a profit-based remedy" comported with "equitable principles." *Id.* Although lease payments and equipment purchases are fixed or long-term costs that do not vary directly with output, *Liu* still expected that those legitimate expenses would be deducted from a disgorgement award. *Id.*

In short, disgorgement is measured not by the plaintiff's loss, but by the defendant's improper gain. It remedies unjust enrichment, to ensure that a wrongdoer does not profit by his wrong. Of course, a defendant is unjustly enriched by, or profits from, only what he should not have received. That is why an apportionment must always be made between those profits attributable to the plaintiff's property and those profits earned by the defendant's own contributions. *See, e.g.*, Dobbs, *Law of Remedies: Damages–Equity–Restitution* § 4.5(3), at 642 (2d Ed. 1993). Otherwise, the award is doing more than just recouping the defendant's ill-gotten gains. It is depriving the defendant of the fruits of his legitimate

labors and investments. *See, e.g., Meridien Hotels, Inc. v. LHO Fin. P'ship*, 255 S.W.3d 807, 821 (Tex. App. 2008) (exempting management fees earned by the trespasser from the disgorgement calculation).

As BNSF argues, the Restatement applies this principle through the "unduly remote" rule. Restatement (Third) of Restitution and Unjust Enrichment § 51 cmt. f. But many other authorities state the general principle. *See* Dobbs, *supra*. This rule is fundamental to equity and restitution specifically.

This concept is especially pervasive in the patent-infringement context. Prior to 1946, when plaintiffs in patent cases could seek an accounting of profits, federal courts nearly always had to apportion infringing from non-infringing revenues *See, e.g.*, *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 490 (1853). In one case, the heirs of a patent holder sued the defendants for infringement. The lower court ordered disgorgement of "the amount of profits which may have been, or with due diligence and prudence might have been, realized, by the defendants for the work done by them or by their servants by means of the" infringing machine. *Livingston v. Woodworth*, 56 U.S. 546, 559 (1853).

The Supreme Court held that it was "aware of no rule which converts a court of equity into an instrument for the punishment of simple torts."

Id. Thus, the lower court's ruling was unwarranted by "the well-established rules of equity jurisprudence." *Id*. "[I]t would be peculiarly harsh and oppressive," the Court explained, "were it consistent with equity practice to visit upon the appellants any consequences in the nature of a penalty." *Id.* at 559–60. So even in the 1850s it was "clear[]" that disgorgement was "restrict[ed]" to a defendant's "actual gains and profits" from the wrongdoing. *Id*.

In another patent case, the Supreme Court held that "it is clear that [the plaintiff patentee] is not entitled to receive more than the profits actually made in consequence of the use of his process in the manufacture of the" infringing products. *Mowry v. Whitney*, 81 U.S. 620, 649 (1871). This meant that it was improper for the lower court to order disgorgement of all the profits the defendant made for selling the infringing goods. It was only the extra profits derived from the infringement itself that an equity court could order handed over to the patentee. *See id*. at 650 ("[A]n infringer is not liable to the extent of his entire profits in the manufacture.").

Patent courts awarding disgorgement still must carefully divide profits to ensure that disgorgement awards "reflect the value attributable to the infringing features of the product, and no more." *Ericsson, Inc. v. D-*

Link Sys., Inc., 773 F.*3d* 1201, 1226 (Fed. Cir. 2014); *see also LaserDynamics, Inc. v. Quanta Comput., Inc.*, 694 F.3d 51, 57–59, 68 (Fed. Cir. 2012). This is true even if the infringing features are needed for the product to be sold.

Ignoring the defendant's contributions is punitive and thus improper. *Seymour*, 57 U.S. at 490. A contrary rule would subject defendants to a potentially "unlimited series of penalties." *Id.* "If the measure of damages be the same whether a patent be for an entire machine or for some improvement in some part of it, then it follows that each one who has patented an improvement in any portion of a steam engine or other complex machines may recover the whole profits arising from the skill, labor, material, and capital employed in making the whole machine." *Id*. Under such a rule, "the unfortunate mechanic may be compelled to pay treble his whole profits to each of a dozen or more several inventors of some small improvement in the engine he has built." *Id.* Here, for example, if BNSF trespassed over another tenant's land as part of the 1,500-mile route, the District Court's methodology would simply double the award. If BNSF had trespassed over yet a third tenant's land, it would triple. And so on. This is untenable—and obviously punitive.

There is one exception to this general rule limiting disgorgement of profits: "[W]hen the entire profit of a business or undertaking results from" wrongdoing, the plaintiff can choose "to recover the entire profits." *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 203 (1881). But that exception is very narrow and does not apply here. BNSF had a thriving and profitable railway enterprise long before it exceeded the easement's cars-per-day limit on 0.7 of 1,500 miles of track and continues to have a thriving and profitable railway after it has ceased trespassing. No record evidence suggests that BNSF's "entire profit" or "undertaking" results from its trespass on 0.7 miles of track over the Tribe's easement.

Here, the District Court awarded profits that were clearly attributable to BNSF's legitimate contributions. Like a patented piece of a larger machine, the Tribe's 0.7 mile of land was *at most* a small piece of the 1,500-mile route from North Dakota to Washington. Thus, the full profits awarded do not in any sense "rightfully belong" to the Tribe. *See, e.g., Mary v. QEP Energy Co.*, 24 F.4th 411, 421 (5th Cir. 2022) (holding that a landowner may only recover in disgorgement for trespass the *additional* profits the defendant obtained by the encroachment, not the profits earned had the pipeline been installed entirely within the servitude).

In sum, the District Court's remedies order "transform[s] an[] equitable profits-focused remedy into a penalty." *Liu*, 591 U.S. at 82 (citing *Marshall*, 82 U.S. (15 Wall) at 149). By awarding the Tribe $394,517,169, the District Court ignored "the countervailing equitable principle that the wrongdoer should not be punished by 'pay[ing] more than a fair compensation to the [party] wronged.'" *Id.* at 80 (internal citations omitted). The award should be vacated.

II. THE DECISION BELOW, IF LEFT UNCORRECTED, INVITES DISASTROUS CONSEQUENCES WELL BEYOND THIS CASE.

Affirming the District Court's $394,517,169 award would stretch the concept of equity beyond recognition. Such an award is vastly disproportionate to any loss caused by BNSF's trespass. It not only transforms an equitable remedy into a cudgel for punishing BNSF, it also leaves the Tribe much better off than it would have been had the trespass never occurred. But equity abhors a windfall.

The stakes are high. Courts apply the same equitable principles for disgorgement across many areas of the law. Disgorgement is merely restitution by another name. This Court's decision will determine how lower courts in this circuit should approach disgorgement not only for trespass, but also for patent, securities, and copyright cases, to name just

a few. It would be a dramatic shift to apply the District Court's methodology elsewhere; and it would be incongruous to treat trespass differently.

It would also sow great uncertainty. Legal predictability is a cornerstone of the rule of law. Businesses "crave certainty as much as almost anything: Certainty is what allows them to make long-term plans and long-term investments." Alan Greenspan & Adrian Wooldridge, Capitalism in America: A History 258 (Penguin Press, 1st ed. 2018). Above all, commercial actors must be able to anticipate the potential legal consequences of their actions. The novel use of disgorgement as a penalty injects great uncertainty. Unlike statutory penalties, which are codified and subject to legislative oversight, disgorgement is often calculated in an ad hoc manner, leaving businesses vulnerable to unpredictable restitutionary awards.

Weidling disgorgement as a penalty in civil cases also bypasses the procedural safeguards that protect defendants from unfair overreach in criminal and civil penalty proceedings. When, as here, disgorgement operates as a de facto penalty, these safeguards are circumvented, raising significant due process concerns. Without clear limits on their equitable powers, courts are prone, even inadvertently, to excessive or arbitrary

disgorgement awards, eroding public trust in the judiciary's role as a neutral arbiter.

The District Court's total-profit rule thus exacerbates the very real risk of overdeterrence. The dramatically increased threat of tort liability has the potential not only to distract innovative firms, reducing the quality of innovation, but also to raise the cost of innovation, thus reducing the quantity. See Peter W. Huber, *Liability: The Legal Revolution and Its Consequences* 1–3 (1988) (showing how the dramatic increase in tort litigation puts American businesses at a global competitive disadvantage). In highly regulated sectors such as finance, healthcare, and technology, the threat of punitive disgorgement can discourage legitimate business activities, reducing competition and innovation. Companies may refrain from entering certain markets or pursuing innovative strategies for fear that unintentional violations could result in excessive disgorgement penalties. This chilling effect would stifle economic growth and innovation.

Nor is that all. Excessive disgorgement penalties also disrupt market efficiency by reallocating funds away from more socially desirable uses. For example, companies facing substantial disgorgement penalties may be forced to cut jobs, scale back operations, or divert resources from research and development to legal compliance and litigation. These

outcomes harm not only the penalized company but also its employees, shareholders, and consumers.

Using disgorgement as a penalty is fundamentally unfair. It violates equitable principles, undermines the rule of law, and creates economic inefficiencies that discourage innovation and investment. By clarifying disgorgement's limited role as a remedial measure and strictly enforcing *Liu*'s common-law safeguards, this Court can ensure that this remedy continues to promote justice without compromising fairness or economic stability.

CONCLUSION

This Court should reverse.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

I certify that this brief complies with the type-volume limits of Federal Rule of Appellate Procedure 29(a)(5) because it contains 3,348 words, excluding those parts exempted by Federal Rule of Appellate Procedure 32(f).

I also certify that this brief complies with the typeface and type-style requirements of Federal Rules of Appellate Procedure 32(a)(5) and (6) because it uses 14-point Century Schoolbook font.

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