

AN OVERVIEW OF LOSS IN USSG §2B1.1



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Introduction

This memorandum discusses issues often raised about economic loss and loss calculation under USSG §2B1.1.¹ Effective November 1, 2001, the Commission consolidated theft and fraud guidelines into §2B1.1 and modified the definition of loss to be based on reasonably foreseeable pecuniary harm and to include intended loss. This memorandum focuses discussion on some applicable cases and concepts and is not intended as a comprehensive compilation of all case law addressing these issues.

A. The Definition of “Loss” Under §2B1.1

The sentencing guidelines define “loss” as “the greater of actual loss or intended loss.”² The sentencing judge “need only make a reasonable estimate of the loss.”³ The estimate should be based on available information and the court may consider a variety of different factors.⁴ The court may also choose from competing methods of calculating loss.

1. Actual Loss

Actual loss is often referred to as “but for” loss and the guideline application notes relate that this encompasses “the reasonably foreseeable pecuniary harm that resulted from the offense.”⁵ For example, in *United States v. Neadle*, a defendant committed fraud in order to be licensed to write property and casualty insurance. Subsequently, for purposes of sentencing, the defendant was held liable for millions in losses of those whom he had insured who suffered catastrophic damages caused by a hurricane.⁶ Thus, all reasonably foreseeable losses that flow directly, or indirectly, from a defendant’s conduct should be included in the loss calculation.

The loss figure will not be limited to the losses that are directly attributable to acts of the defendant. Losses caused by the acts of co-conspirators that were reasonably foreseeable to the defendant should also be included in the loss calculation.⁷ The court can limit the defendant’s

¹ See United States Sentencing Commission, *Guidelines Manual*, §2B1.1 (Nov. 2006).

² USSG §2B1.1, comment. (n. 3).

³ USSG §2B1.1, comment. (n. 3(C)).

⁴ *Id.*

⁵ USSG §2B1.1, comment. (n.3(A)(I)); see *United States v. Ary*, 518 F.3d 775 (10th Cir. 2008)(when a defendant objects to facts stated in the PSR, the government must prove those facts by a preponderance of the evidence at the sentencing hearing).

⁶ See *United States v. Neadle*, 72 F.3d 1104 (3d Cir.), *op. amended by* 79 F.3d 14 (3d Cir. 1996).

⁷ *United States v. Catalfo*, 64 F.3d 1070, 1082-83 (7th Cir. 1995); *United States v. Wilkins*, 2009 WL 211812 (6th Cir. Jan. 29, 2009); *United States v. Mauskar*, 557 F.3d 219 (5th Cir. 2009).

liability to those acts of co-conspirators that were reasonably foreseeable and part of the criminal activity that the defendant “agreed to jointly undertake.”⁸

When a court assesses the facts and determines an “actual loss” figure, this figure must be “reasonably foreseeable pecuniary harm” or “pecuniary harm that the defendant knew or, under the circumstances, reasonably should have known, was a potential result of the offense.”⁹ In *United States v. Whiting*, the defendant was convicted of converting funds from employees paychecks that were intended for medical benefits and making false statements related to those employees’ health benefits.¹⁰ The “actual loss” was calculated using the total amount of unpaid medical claims made by the employees.¹¹ However, the sentencing judge stated on the record that he had found no “causal link” between the defendant’s misstatements about benefits and the losses caused by the medical claims in the case.¹² The appellate court reversed, finding that there must be a causal link to the conduct of the defendant to determine an “actual loss.”¹³ In *United States v. Rothwell*, the appellate court found that there was no reasonable link between the fraud committed by the defendant during the construction of a building and the subsequent default on the construction loan.¹⁴ Therefore, the losses from the loan could not be attributable to the defendant during sentencing.

2. *Intended loss*

Intended loss means “pecuniary harm that was intended to result from the offense” and includes loss that would have been impossible or unlikely.¹⁵ For example, in *United States v. Lane*, a bank fraud case, the defendant was able to acquire a loan based on fraudulent statements and the amount of intended loss was determined to be “the amount of money that the defendant places at risk as a result of the fraudulent loan application.”¹⁶ In *United States v. Mikos*, the court noted that while the payment of \$1.8 million in fraudulent Medicare bills was highly unlikely,

⁸*United States v. McClatchey*, 316 F.3d 1122, 1128 (10th Cir. 2003).

⁹USSG §2B1.1, comment.(n.3(A)(iv)).

¹⁰*United States v. Whiting*, 471 F.3d 792, 802 (7th Cir. 2007).

¹¹*Id.*

¹²*Id.*

¹³*Id.*

¹⁴*United States v. Rothwell*, 387 F.3d 579, 584 (6th Cir. 2004).

¹⁵USSG §2B1.1, comment.(n.3(A)(ii)).

¹⁶*United States v. Lane*, 323 F.3d 568, 586 (7th Cir. 2003); *see also United States v. Neal*, 294 F.App’x 96 (5th Cir. 2008)(Although the actual loss was calculated at \$150,000,inclusion of the intended loss of \$11 million was “proper” under §2B1.1, particularly in view of the nature of the scheme which sought to leave thousands of workers without worker’s compensation coverage); *see United States v. Middlebrook*, 553 F.3d 572 (7th Cir. 2009).

that figure did represent the intended loss regardless of whether or not Medicare paid.¹⁷

There need not be any calculation of actual loss before the court can rely on the intended loss figure, and in some cases it may be easier “as a matter of proof” to show intended loss.¹⁸

When calculating the intended loss, absolute accuracy is not required as long as the calculation is not “outside the realm of permissible computations.”¹⁹ An estimate made by the sentencing judge “need not be calculated with precision.”²⁰ There is no “clear error” when a loss calculation is supported by the presumptively reasonable facts from the presentence report and the defendant fails to rebut those facts.²¹ For instance, in *United States v. Al-Shahin*, a case involving a fraudulent insurance claim, the court calculated the intended loss by using the demand letter sent by the defendant’s lawyer to the insurance company although the defendant ultimately collected a settlement amount that was less than half the demand amount from the insurance company.²² When a defendant sold stolen credit cards to others, the sentencing judge fixed the loss at the total credit limits of all of the credit cards.²³ The court concluded that the defendant could reasonably expect such a loss as “the natural and probable consequences of his or her actions.”²⁴ Similarly, in *United States v. Wilfong*, the defendant fraudulently opened credit accounts at local businesses in the names of victims and the court calculated intended loss by totaling up the credit limits of all open accounts even though the defendant had not used all of the available credit.²⁵

In cases involving fraudulent or forged checks the face value of the instruments are often used to calculate the intended loss figure.²⁶ The sentencing judge may treat the face amount of the checks as prima facie evidence of the defendant’s intent but still allow the defendant to offer

¹⁷*United States v. Mikos*, 539 F.3d 706 (7th Cir. 2008).

¹⁸*United States v. Thurston*, 358 F.3d 51, 68 (1st Cir. 2004), *judgment vacated on other grounds*, 544 F.3d 22 (1st Cir. 2008).

¹⁹*United States v. Lopez*, 222 F.3d 428, 437 (7th Cir. 2000).

²⁰*United States v. Miller*, 316 F.3d 495, 503-06 (4th Cir. 2003).

²¹*United States v. McClain*, 280 F.App’x 425(5th Cir. 2008), *cert. denied*, 129 S.Ct. 1024 (2009).

²²*United States v. Al-Shahin*, 474 F.3d 941, 950 (7th Cir. 2007).

²³*United States v. Alli*, 444 F.3d 34, 38-39 (1st Cir. 2006).

²⁴*Id.*

²⁵*United States v. Wilfong*, 475 F.3d 1214 (10th Cir. 2007).

²⁶*United States v. Himler*, 355 F.3d 735, 740-41 (3d Cir. 2004); *see also United States v. Grant*, 431 F.3d 760 (11th Cir. 2005).

evidence to rebut that figure.²⁷ If the defendant does not provide “persuasive evidence” to rebut intent, then the courts are “free to accept the loss figure” taken from the face value of the instruments.²⁸ Further, some courts have held that the “intended loss” in a fraudulent check scheme can include the value of counterfeit checks turned over by the defendant at the time of his voluntary surrender even if those checks were never used.²⁹ Similarly, in a case where the defendant unsuccessfully attempts to obtain cash advances from stolen credit cards, each unsuccessful attempt represented an intended loss.³⁰

When confronted with an ongoing scheme, a sentencing judge may have to extrapolate to find the intended loss. For example, in *United States v. Rettenberger*, where the defendant faked a disability to collect federal benefits, the sentencing judge assumed that the defendant would have continued to collect benefits until the age of 65 and assessed the intended loss as that full amount.³¹ In *United States v. Willis*, the defendant submitted several fraudulent applications for FEMA relief.³² For some she had only received a portion of funds available which were automatically disbursed by FEMA, but for other applications she had taken more steps to obtain additional funds, so the sentencing judge did not clearly err by considering the full value of all the applications filed even though the defendant had not attempted to obtain all available funds from each application. In *United States v. Kosth*, the intended loss was the full amount of loan commitments the defendant secured from the Small Business Administration because, although the defendant did not receive the full amount, that sum was diverted from the intended recipients.³³ Similarly, in *United States v. Crawley*, the sentencing judge determined that the intended loss constituted the defendant’s salary and pension for a several year period when the defendant committed fraud to obtain the position of union president. On appeal the circuit court concluded that the sentencing judge’s reasonable estimate of the intended loss was not “clearly erroneous.” The defendant had argued that any loss figure should be reduced by the amount of “legitimate services” he provided the union, but the sentencing judge determined that there were

²⁷*United States v. Khorozian*, 333 F.3d 498, 509 (3d Cir. 2003); *United States v. Santos*, 527 F.3d 1003 (9th Cir. 2008)(Agreeing with the Third and the Eleventh Circuit the Ninth Circuit held that the face value of the stolen checks is ‘probative’ of the defendants’ intended loss, but the court must also consider any evidence presented by the defendant tending to show that he did not intend to produce counterfeit checks up to the full face value of the stolen checks); *United States v. Dullum*, ___ F.3d ___, 2009 WL 636485, *3-4 (3d Cir. March 13, 2009).

²⁸*Id.*, quoting *United States v. Geevers*, 226 F.3d 186, 194 (3d Cir. 2000); *United States v. Serino*, 2009 WL 281803 (3d Cir. Feb. 6, 2009).

²⁹*United States v. Kushner*, 305 F.3d 194, 198 (3d Cir. 2002).

³⁰*United States v. Ravelo*, 370 F.3d 266 (2d Cir. 2004).

³¹*United States v. Rettenberger*, 344 F.3d 702, 708 (7th Cir. 2003).

³²*United States v. Willis*, ___ F.3d ___, 2009 WL 514313 (11th Cir. March 3, 2009).

³³*United States v. Kosth*, 257 F.3d 712, 722 (7th Cir. 2001).

no “legitimate services” provided since he procured the position by fraud.³⁴

In the case of real property, unless the defendant was “so consciously indifferent or reckless about the repayment of the loans as to impute to him the intention that the lenders should not recoup their loans,” intended loss will not likely be the appropriate measure of loss since the real property serves as collateral and will be recoverable should the owner default.³⁵

“Intended loss” is not simply “potential loss,” and the “court errs when it simply equates potential loss with intended loss without deeper analysis.”³⁶ The calculation of “intended loss” is determined by what loss the government can reasonably show the defendant *intended* to cause.³⁷ At least one Circuit Court has suggested that intended loss may include “probable” losses that may have not been directly foreseen or intended by the defendant.³⁸

3. *No “Economic Reality Principle” under the guidelines*

Prior to the November 2001 amendments to the sentencing guidelines, some courts noted an exception to the use of intended loss when a defendant had devised a scheme obviously doomed to fail which caused little or no economic loss. Under the revised definition of intended loss, this exception is no longer available. Loss calculations should thus include harm that would have been “impossible or unlikely to occur.”³⁹ It is possible that the sentencing judge might consider these same factors as a basis for a downward departure. In *United States v. McBride*, the court ruled that impossible losses are to be included in the loss figure but remanded the case for the sentencing judge to consider a departure based on “economic reality.”⁴⁰

4. *Loss Calculations Post-Booker*

At least one Circuit has explored the application of 18 U.S.C. § 3553(a) factors to the calculation of loss and the application of upward variances based on loss. In *United States v. Hilgers*, the presentence report first suggested an “intended loss” based on the amount a down

³⁴*United States v. Crawley*, 533 F.3d 349 (5th Cir.), *cert. denied*, 129 S.Ct. 522 (2008).

³⁵*United States v. Goss*, 549 F.3d 1013, 1015 (5th Cir. 2008).

³⁶*Geevers*, 226 F.3d at 192.

³⁷*Miller*, 316 F.3d at 505.

³⁸*United States v. Baum*, 555 F.3d 1129, 1133-1135 (10th Cir. 2009).

³⁹USSG §2B1.1, comment. (n.3(A(ii))); *see also United States v. Messervey*, 317 F.3d 457 (5th Cir. 2003)(intended loss can include impossible losses); *United States v. Dinnall*, 2009 WL 405365 (11th Cir. Feb. 18, 2009).

⁴⁰*United States v. McBride*, 362 F.3d 360, 376 (6th Cir. 2004).

payment and fees for a mortgage loan would have been absent the defendant's fraud.⁴¹ The sentencing judge agreed with the defendant's argument that the PSR's calculation was "too speculative" and found a guideline loss of *zero*, but then stated that this case was "outside the heartland" and sentenced the defendant to five years which an upward variance from the guideline range of over three years.⁴² Upon review, the Ninth Circuit panel made a point of noting that "the district court's consideration of the large potential loss that could result from *Hilger's* action was not unreasonable" and considering "the potential loss to victims" was "chief" among the various § 3553(a) factors to be considered in the sentence.⁴³

B. Gain as Alternative Measure

The sentencing guidelines instruct the court to "use the gain that resulted from the offense as an alternative measure of loss only if there is a loss but reasonably cannot be determined."⁴⁴ Thus, even when there is no identifiable loss to the victims, the court should calculate the gain to the defendant as an alternative means to determine loss. In *United States v. Haas*, the defendant sold prescription drugs imported from Mexico in circumvention of FDA regulations. While there was no evidence that the drugs sold were inferior or that the purchasers of the drugs were cheated in any way, the court concluded that an alternative measure of loss in such a case should be the gain realized by the defendant through the commission of the offense.⁴⁵ In *United States v. Munoz*, it was highly impractical to identify and contact the victims because many were elderly and spoke only Spanish. Consequently the sentencing judge used the gain as an alternate calculation of loss.⁴⁶

Substituting the gain for the loss is not the preferred method as it "ordinarily underestimates the loss."⁴⁷ Sentencing judges are cautioned against "abandoning a loss calculation in favor of a gain amount where a reasonable estimate of the victims' loss is feasible."⁴⁸ Courts cannot use gain "as a proxy" for each defendant's culpability and must

⁴¹ *United States v. Hilgers*, ___ F.3d ___, 2009 WL 606220 (9th Cir. March 11, 2009).

⁴² *Id.*

⁴³ *Id.*

⁴⁴ USSG §2B1.1, comment. (n. 3(B)).

⁴⁵ *United States v. Haas*, 171 F.3d 259, 268-69 (5th Cir. 1999).

⁴⁶ *United States v. Munoz*, 430 F.3d 1357, 1369-71 (11th Cir. 2005).

⁴⁷ *United States v. Triana*, 468 F.3d 308, 323 (6th Cir. 2006), citing *United States v. Snyder*, 291 F.3d 1291, 1295 (11th Cir. 2002).

⁴⁸ *Munoz*, 430 F.3d at 1371, quoting *United States v. Bracciale*, 374 F.3d 998, 1004 (11th Cir. 2004).

properly calculate loss when possible to do so.⁴⁹ But note that at least one Circuit has determined that gain can be “used as a proxy for a portion of the total loss where some, but not all, of the loss can be determined.”⁵⁰

C. Estimating Loss

In situations where loss cannot be accurately determined, or is impossible to determine, then the “court need only make a reasonable estimate of the loss.”⁵¹ This estimate may be made using available information to determine the value and the sentencing judge is “entitled appropriate deference” because of the court’s unique position to assess the evidence.⁵² For example, the court may consider the value of assets concealed in a bankruptcy fraud as relevant evidence in determining intended loss.⁵³

The evidence the sentencing judge uses to calculate loss can include hearsay if the hearsay has a sufficient indicia of reliability.⁵⁴ In *United States v. Flores-Seda*, the sentencing judge relied on the hearsay testimony of the victim’s attorney to estimate loss.⁵⁵ In *United States v. Humphrey*, the sentencing judge utilized the defendants’ personal journal which detailed the names of their victims and amounts collected in a loan fraud scheme.⁵⁶ On appeal, the court agreed that such material provided a “sufficient indicia of reliability” to be used to calculate an estimated loss.⁵⁷ In *United States v. Hahn*, the sentencing judge relied on the cash deposits made into the defendant’s account to determine the loss from multiple cash thefts.⁵⁸ A defendant who challenges a district court’s loss calculation carries a heavy burden and must show that the calculation was not just inaccurate, but “outside the realm of permissible computation.”⁵⁹

⁴⁹*United States v. Gallant*, 537 F.3d 1202 (10th Cir. 2008).

⁵⁰*United States v. Armstead*, 522 F.3d 769, 778 (9th Cir. 2008).

⁵¹USSG §2B1.1, comment. (n.3(C)); see *United States v. Bennett*, 252 F.3d 559 (2d Cir. 2001); and *United States v. Schaefer*, 384 F.3d 326 (7th Cir. 2004); *United States v. Gordon*, 495 F.3d 427 (7th Cir. 2007).

⁵²USSG §2B1.1, comment. (n.3(C)).

⁵³*United States v. Holthaus*, 486 F.3d 451 (8th Cir.), *cert. denied*, 128 S. Ct. 343 (2007).

⁵⁴*United States v. Sliman*, 449 F.3d 797, 802 (7th Cir. 2006).

⁵⁵*United States v. Flores-Seda*, 423 F.3d 17, 21 (1st Cir. 2005).

⁵⁶*United States v. Humphrey*, 104 F.3d 65, 71 (5th Cir. 1997).

⁵⁷*Id.*

⁵⁸*United States v. Hahn*, 551 F.3d 977 (10th Cir. 2008), *cert. denied*, ___ S.Ct. ___, 2009 WL 481477 (U.S. March 30, 2009).

⁵⁹*United States v. Wheeler*, 540 F.3d 683 (7th Cir. 2008).

The sentencing judge also may choose the method to calculate loss he or she prefers even if there is a viable competing method.⁶⁰ There is a “heavy burden” placed on the defendant to disprove the reasonableness of the sentencing judge’s calculation of loss.⁶¹

The sentencing judge cannot assign a loss figure “arbitrarily” or with no findings. The court must develop some evidence to support the loss figure rather than settle on a number.⁶² In *United States v. Liveoak*, the sentencing judge’s adoption of a loss figure taken from a co-defendant’s plea (without fact-finding in the defendant’s case) was held to be unreasonable.⁶³ Further, it is not the defendant’s burden to disprove loss amounts; the government must prove loss by a preponderance of the evidence.⁶⁴ If, however, a defendant fails to rebut evidence as to loss, he cannot expect the sentencing judge to draw favorable inferences.⁶⁵

Some circuits allow a sentencing judge to consider the stipulated loss figure in the defendant’s plea agreement as long as the court also considers any loss evidence that is presented by the parties and “the record clearly demonstrates that the defendant fully understood the potential consequences of his stipulation.”⁶⁶ The Seventh Circuit, however, has determined that such stipulated facts waive any challenge by the defendant at sentencing.⁶⁷ In *United States v. Elashyi*, a case where the defendant reserved his right to argue that there was “no loss” while contemporaneously stipulating in the plea agreement to a specific loss figure (should a loss be found), the court determined that if the sentencing judge found that there was a loss then the defendant had no further grounds to challenge the stipulated figure even if there was “no evidence” to support the calculation of the stipulated figure in the plea agreement.⁶⁸

⁶⁰ *United States v. King*, 246 F.3d 1166, 1177-78 (9th Cir. 2001), *superceded on other grounds*, 257 F.3d 1013 (9th Cir. 2001).

⁶¹ *United States v. Ameri*, 412 F.3d 893, 901 (8th Cir. 2005).

⁶² *United States v. Renick*, 273 F.3d 1009, 1027 (8th Cir. 2001); *United States v. Oseby*, 148 F.3d 1016, 1025-1027 (8th Cir. 1998)(the sentence was reversed due to insufficient findings on loss calculations); *see also United States v. Higgins*, 270 F.3d 1070 (7th Cir. 2001)(sentencing judge made insufficient findings regarding loss); *United States v. Ross*, 502 F.3d 521 (6th Cir. 2007)(the “court may not merely summarily adopt the factual findings in the presentence report or simply declare that the facts are supported by a preponderance of the evidence.”) .

⁶³ *United States v. Liveoak*, 377 F.3d 859, 866-67 (8th Cir. 2004); *see also United States v. Pierce*, 400 F.3d 176 (4th Cir. 2005)(the court is not bound by the loss figure in the co-defendant’s sentencing).

⁶⁴ *United States v. Hartstein*, 500 F.3d 790 (8th Cir. 2007), *cert. denied*, 128 S. Ct. 939 (2008).

⁶⁵ *United States v. Ravelo*, 370 F.3d 266, 272-73 (2d Cir. 2004).

⁶⁶ *United States v. Granik*, 386 F.3d 404, 413 (2d Cir. 2004); *United States v. Camacho*, 348 F.3d 696, 699-700 (8th Cir. 2003).

⁶⁷ *United States v. Gramer*, 309 F.3d 972, 975 (7th Cir. 2002); *see also United States v. Woods*, 554 F.3d 611, 614 (6th Cir. 2009).

⁶⁸ *United States v. Elashyi*, 554 F.3d 480, 509 (5th Cir. 2008).

Although the guidelines are now advisory, a sentencing judge must still make factual findings as to the amount of loss and a “reasonable estimate” of loss to satisfy the evidentiary requirements. A court’s failure to do so will render a loss calculation invalid.⁶⁹

1. *Fair market value*

“Fair market value” can be determined by the court through comparison or replacement cost to the victim. In *United States v. Whitlow*, an odometer fraud case where the court took judicial notice of the National Automobile Dealers Association (NADA) guide to determine the value of the vehicles,⁷⁰ the appellate court noted that a value determination by the district court in such cases cannot be disturbed unless it is “clearly erroneous.”⁷¹ The Tenth Circuit has noted, however, that there is “more than one permissible way to measure loss in criminal odometer tampering cases” and a court’s choice between them cannot be clearly erroneous.⁷²

Replacement costs can also be used to make a loss estimate, as in *United States v. Shugart*, where the court determined that “replacement cost may be used to value items for which market value is difficult to ascertain.”⁷³

“Fair market value” of certain services, such as insurance coverage, can be determined by their cost or premium value.⁷⁴

The court can assess the “fair market value” of a loss even if the replacement cost or production costs are lower than the determined market value. For instance, in *United States v. Bae*,⁷⁵ a lottery retailer generated \$525,586 in lottery tickets with a winning redemption value of \$296,153 and argued that the losing tickets had no “fair market value.” The district court reasoned that the value of the tickets at the time they were purchased was the appropriate fair market value.⁷⁶

⁶⁹*United States v. Medina*, 485 F.3d 1291 (11th Cir. 2007); *United States v. Ali*, 508 F.3d 136 (3d Cir.), *cert. denied*, 128 S. Ct. 408 (2007); *United States v. Johnson*, 270 F.App’x 839 (11th Cir. 2008).

⁷⁰*United States v. Whitlow*, 979 F.2d 1008, 1011 (5th Cir. 1992).

⁷¹*Id.* at 1012, quoting *United States v. Bachynsky*, 949 F.2d 722, 734-35 (5th Cir. 1991).

⁷²*United States v. Sutton*, 520 F.3d 1259 (10th Cir. 2008).

⁷³*United States v. Shugart*, 176 F.3d 1373, 1375 (11th Cir. 1999)(replacement costs of burned church were accurate measure of loss).

⁷⁴*United States v. Simpson*, 538 F.3d 459, 463 (6th Cir. 2008).

⁷⁵*United States v. Bae*, 250 F.3d 774, 776 (D.C. Cir 2001); *see also United States v. Onyiego*, 286 F.3d 249 (5th Cir. 2003)(face value is accurate value to use when determining loss).

⁷⁶*Id.*

“Fair market value” of items that have a wholesale or retail value are typically determined on a case by case basis. In *United States v. Hardy*, the court determined that the loss should be the wholesale value of the stolen items since the true owner intended to sell the items at wholesale prices.⁷⁷ When the items in question were taken from a retailer, the courts have reasoned that “the price at which the retailers would have sold that merchandise serves as a reasonable estimate of loss.”⁷⁸

The sentencing judge should determine “fair market value” on the date the fraud ceased operations in cases where loss may fluctuate.⁷⁹ The courts have ruled that there is “no error in selecting the end of the conspiracy as an appropriate date from which to calculate loss.”⁸⁰ In *United States v. Radziszewski*, the defendant objected to the sentencing judge’s use of a foreclosure value for a property secured with a fraudulent loan rather than a higher appraisal of the property after the fraud.⁸¹ The court declined to use the defendant’s preferred value in part because it was not the value at the time of fraud.⁸² In a case involving the fair market value of real property that has not been recently sold (at foreclosure or otherwise) however, the defendant may rebut the government’s proposed value or the basis on which that value was calculated.⁸³

2. *Cost of repairs*

The cost of repairing property can also be used to estimate loss as long as the cost does not exceed the fair market value. In *United States v. Cedeno*, a case where the sentencing judge included both the original fair market value of damaged watches and the costs to repair the watches, the appeals court noted that “there is no damage that can be done beyond total destruction.”⁸⁴ Courts cannot “double count” fair market value and repair costs.⁸⁵

Repairs that may also be improvements of property *can* be included in loss. In *United States v. Lindsley*, the court concluded that improvements made to a victim company’s computer

⁷⁷*United States v. Hardy*, 289 F.3d 608, 613-14 (9th Cir. 2002).

⁷⁸*United States v. Wasz*, 450 F.3d 720, 727 (7th Cir. 2006).

⁷⁹*United States v. Hart*, 273 F.3d 363, 374 (3d Cir. 2001)(the sentencing judge declined to calculate loss at the time of sentencing where defendant argued the victims could have mitigated losses by selling at a later date).

⁸⁰*Id.*

⁸¹*United States v. Radziszewski*, 474 F.3d 480, 487 (7th Cir. 2007).

⁸²*Id.*

⁸³*United States v. Siciliano*, ___ F.Supp.2d ___, 2009 WL 633182 (E.D. Pa. March 11, 2009).

⁸⁴*United States v. Cedeno*, 471 F.3d 1193, 1195 (11th Cir. 2006).

⁸⁵*Id.*

system after a hacker broke in could be attributed to the loss figure as necessary repair costs.⁸⁶

There are some estimated repair costs that are specific to certain offenses. For example, in *United States v. Shumway*, the court had to apply special provisions relating to Archaeological Resources Protection Act to determine “repair costs” to damaged Native American sites on federal lands.⁸⁷

3. *Number of victims multiplied by loss*

It is appropriate for the sentencing judge to take an average loss per victim and multiply it across an approximate number of victims to generate a total loss figure in cases where specific losses for individual victims are not easily calculated⁸⁸ In *United States v. Mei*, a credit card fraud case, the sentencing judge estimated intended loss based on the average credit card limit multiplied by the number of cards used.⁸⁹ Further, such an estimation can include victims who are not aware they have been defrauded or even those who “relay their satisfaction with [the] fraudulent treatment.”⁹⁰

4. *Reduction in value of securities*

The guidelines state that the reduction in value of securities and other corporate assets due to the defendant’s conduct may be considered in the estimate of loss.⁹¹ The determination of “the extent to which a defendant's fraud, as distinguished from market or other forces, caused shareholders' losses inevitably, cannot be an exact science. . . . The Guidelines' allowance of a 'reasonable estimate' of loss remains pertinent.”⁹² However, such determinations must still be made on the evidence when available.⁹³

Some courts have concluded that the difficulty in calculating loss in some securities cases calls for the use of the “rescissory measure,” or the difference between the value of the security at

⁸⁶*United States v. Lindsley*, 254 F.3d 71 (5th Cir. 2001).

⁸⁷*United States v. Shumway*, 112 F.3d 1413, 1424-26 (10th Cir. 1995).

⁸⁸USSG §2B1.1, comment. (n.3(C)(iii)); see *United States v. Aibodun*, 536 F.3d 162, 167-68 (2d Cir 2008), cert. denied, 129 S.Ct. 589 (2008).

⁸⁹*United States v. Mei*, 315 F.3d 788, 792 (7th Cir. 2003).

⁹⁰*United States v. Curran*, 525 F.3d 74, 80 (1st Cir. 2008).

⁹¹USSG §2B1.1, comment. (n.3(C)(iv)).

⁹²*United States v. Rutkoske*, 506 F.3d 170 (2d Cir. 2007), cert. denied, 128 S.Ct. 2488 (2008).

⁹³*United States v. Zolp*, 479 F.3d 715 (9th Cir. 2007)(the sentencing court’s determination that the stock was “worthless” was erroneous when the stock continues to have residual value, even if the value is close to zero because “close to zero is not zero”).

the disclosure of the fraud and the price the injured party initially paid for the stock.⁹⁴ To determine loss with this method some courts have taken the average selling price of the security during the life of the fraud and subtracted the average selling price after the fraud was disclosed but before the next major announcement concerning the security.⁹⁵ In a case involving the fraudulent or misleading sale of securities, such as when a defendant “promote[s] worthless stock in worthless companies,” a “rescissory measure” calculation is unnecessary and all resulting losses are attributable to the defendant.⁹⁶

When discussing the estimation of value of securities for the purposes of loss some courts have sought guidance from civil damage measures. In *United States v. Olis*, the defendant was charged with a massive accounting fraud at Dynegy Corporation and the sentencing judge concluded the loss was over \$100 million, thus generating a 292-month sentence.⁹⁷ The loss was calculated only through trial testimony of one witness regarding the purchase price and sale price for Dynegy stock that the victims paid.⁹⁸ The Fifth Circuit pointed out that there were other factors that affected the value of the stock that were not properly considered by the sentencing judge and that, at a minimum, a sentencing judge in a securities case should look to the principles of loss calculation in civil cases.⁹⁹ In particular, the court noted that “there is no loss attributable to a misrepresentation unless the truth is subsequently revealed and the price of the stock accordingly declines.”¹⁰⁰ In *Olis*, approximately two-thirds of the losses suffered by the victims through the decline in Dynegy stock took place before the defendant’s fraud was announced or more than a week after earnings were restated due to the fraud.¹⁰¹ At least one court has Additionally, some courts have noted that a disclosure by a third party may, in some cases, cause a decline in value that is not the result of the defendant’s conduct nor attributable to the loss figure.¹⁰²

⁹⁴*United States v. Grabske*, 260 F.Supp.2d 866 (N.D. Cal. 2002); *United States v. Bakhit*, 218 F.Supp.2d 1232 (C.D. Cal. 2002).

⁹⁵*Id.*

⁹⁶*United States v. Kelley*, 2009 WL 19083, *3 (2d Cir. Jan. 5, 2009).

⁹⁷*United States v. Olis*, 429 F.3d 540 (5th Cir. 2005).

⁹⁸*Id.* at 548.

⁹⁹*Id.* at 545-46, citing *Dura Pharmaceuticals, Inc. v. Broudo*, 544 U.S. 336, 341-43 (2005).

¹⁰⁰*Id.*

¹⁰¹*Id.* at 548.

¹⁰²*United States v. Reifler*, 446 F.3d 65 (2d Cir. 2006) (holding that in calculating the guidelines offense level with respect to the amount of loss, the district court properly found that the fraud itself, and not the government’s disclosure of the fraud, was the cause of the decline in the company’s stock price and thus the cause of the shareholder losses).

5. *More general factors*

The sentencing judge's estimated loss can also include more general factors, such as the scope and duration of the offense and the revenues that have been generated by similar operations.¹⁰³

D. Exclusions From Loss

1. *Interest, finance charges, late fees, penalties and similar costs*

The application notes of §2B1.1 of the Sentencing Guidelines create an exclusion from loss for any interest, finance charges, late fees, penalties, amounts based on an agreed-upon return or rate of return, or similar costs.¹⁰⁴ In *United States v. Morgan*, the court concluded that the sentencing judge was in error to include interest and finance charges in the amount of loss determined.¹⁰⁵

2. *Costs to the government, and costs incurred by victims*

The costs to the government and the costs to the victims to aid in the prosecution of the defendant are not included in any loss calculation.¹⁰⁶ In *United States v. Schuster*, the court reversed a loss figure that included the victims' costs and expenses to aid in the prosecution of the defendant through testimony.¹⁰⁷ However, costs incurred by a bank for investigating its own employee (the defendant) are not consequential damages barred from loss by §2B1.1, Application Note 3(D), because the investigation was an "immediate response" to the defendant's conduct.¹⁰⁸

¹⁰³USSG §2B1.1, comment. (n.3(C)(v)).

¹⁰⁴USSG §2B1.1, comment. (n.3(D)(i)).

¹⁰⁵*United States v. Morgan*, 376 F.3d 1002, 1014 (9th Cir. 2004); *see also United States v. Dunn*, 300 F. App'x 336 (6th Cir. 2008)(sentencing court improperly included interest in its loss calculations for sentencing purposes.).

¹⁰⁶USSG §2B1.1, comment. (n.3(D)(ii)).

¹⁰⁷*United States v. Schuster*, 467 F.3d 614, 618-20 (7th Cir. 2006); *see also United States v. Klein*, 543 F.3d 206 (5th Cir. 2008), *cert. denied*, 129 S.Ct. 1384 (2009)(A doctor who improperly over-billed insurance carriers for medicines he provided to patients should still get credit for the value of medicines properly delivered to patients. The sentencing judge's failure to do so was reversible error).

¹⁰⁸*United States v. DeRosier*, 501 F.3d 888 (8th Cir. 2007).

E. Credits Against Loss

1. Money and property returned

Loss shall be reduced by money and property returned as well as services rendered by the defendant (or those acting jointly with the defendant) to the victim *before* the offense was detected.¹⁰⁹ The time of detection is the earliest of: (1) the time the offense was discovered by the victim or the government; *or* (2) the time the defendant knew or reasonably should have known that the offense was detected or about to be detected.¹¹⁰

Property returned after detection will not be credited against the loss figure. In *United States v. Swanson*, the sentencing judge declined to subtract the value of money returned after discovery of the offense reasoning that “the fact that a victim has recovered part of its loss after discovery does not diminish a defendant’s culpability for purposes of sentencing.”¹¹¹ Restitution paid prior to sentencing but subsequent to detection, whether voluntarily or not, will not be subtracted from the loss amount.¹¹² Property that is forfeited by the defendant in the same or related proceeding will also not be credited to the defendant’s loss figure.¹¹³

Timing is not the only consideration when determining whether a credit applies against the loss figure. In *United States v. Hausmann*, a personal injury lawyer who directed kickbacks from a chiropractor to whom he referred clients, argued at sentencing that the loss figure should be reduced by the “valuable free services” and legal fee reductions he provided the victim clients.¹¹⁴ The court declined to adopt this approach since these services were routinely provided to all of the lawyer’s clients, not just those defrauded, and the “net detriment” to those victims was not lessened relative to the other clients.¹¹⁵ Additionally, even if property is returned or services are rendered prior to discovery, it may not qualify the defendant for a credit against loss if the beneficiaries of the property or service were not eligible to receive them. In *United States v. Ekpo*, the defendant did not return any of the monies received from the government to provide wheelchairs to Medicare participants and failed to present evidence that the beneficiaries would have been medically eligible to receive the wheelchairs provided, so the court did not allow a

¹⁰⁹USSG §2B1.1, comment. (n.3(E)(i)).

¹¹⁰*Id.*; *United States v. Stennis-Williams*, ___ F.3d ___, 2009 WL 588829, *2 (8th Cir. March 10, 2009).

¹¹¹*United States v. Swanson*, 360 F.3d 1155, 1168-69 (10th Cir. 2004), *citing United States v. Nichols*, 229 F.3d 975, 979 (10th Cir. 2000).

¹¹²*United States v. Akin*, 62 F.3d 700, 702 (5th Cir. 1995).

¹¹³*United States v. Cacho-Bonilla*, 404 F.3d 84, 92 (1st Cir. 2005).

¹¹⁴*United States v. Hausmann*, 345 F.3d 952, 959-60 (7th Cir. 2003).

¹¹⁵*Id.*

credit for the wheelchairs' value.¹¹⁶

The value of the any property returned prior to discovery is set at the time the property is returned, not at the time of sentencing. In *United States v. Holbrook* the defendant argued that loss should not include the value of a software company that the victim bank acquired via lien after discovery of the fraud.¹¹⁷ The software company was not producing a profit prior to the time the victim bank took it over via lien and invested \$10 million to turn the company profitable. The defendant did not contest the sentencing court's finding that the value of the software company at the time of the sentencing was "either entirely or almost entirely" due to the victim bank's investment, but rather argued for a "literal interpretation" of Note 3(E)(ii). The court declined.

A defendant's loss calculation is not reduced by costs incurred in defrauding victims. In *United States v. Pelle* the defendant marketed and sold internet kiosks by deliberately and fraudulently fabricating the value of these items and their profit potential to investors. The court refused to reduce the loss amount by the value of the kiosks.¹¹⁸

Additionally, credits will not be applied toward any intended loss figure unless the return of property was intended by the defendant to be a result of the offense.¹¹⁹

2. Collateral

In a case involving collateral pledged or provided by defendant, the loss shall be reduced by the amount the victim has recovered at sentencing.¹²⁰ A sentencing judge should examine whether a defendant intended for the collateral to go back to the victim.¹²¹ In *United States v. MacCormac*, the court stated that a sentencing judge "must also consider whether a defendant planned to return the collateral or anticipated that such collateral would be repossessed or foreclosed on by the lending institution."¹²² In *United States v. Lane*, the intended loss in a bank fraud was reduced by the value of real property used to collateralize the fraudulently obtained

¹¹⁶ *United States v. Ekpo*, 266 F. App'x 830(11th Cir.), cert. denied, 129 S.Ct. 220 (2008).

¹¹⁷ *United States v. Holbrook*, 499 F.3d 466 (5th Cir. 2007).

¹¹⁸ *United States v. Pelle*, 263 F. App'x 833 (11th Cir. 2008).

¹¹⁹ See *United States v. Sensmeier*, 361 F.3d 982 (7th Cir. 2004).

¹²⁰ USSG §2B1.1, comment. (n.3(E)(ii)).

¹²¹ *United States v. MacCormac*, 309 F.3d 623, 629 (9th Cir. 2005).

¹²² *Id.*

loan.¹²³ However, recall that in the case of an asset with a value “either entirely or almost entirely” due to the victim’s investment subsequent to seizure by the victim, as in *United States v. Holbrook*, the defendant shall not receive credit for the value of the asset at the time of sentencing.¹²⁴

At least one circuit has construed USSG §2B1.1 (n.3(E)(ii)) to mean that the “pledge” of such collateral must, like money and property returned, be done prior to discovery.¹²⁵ In *United States v. Austin*, the court reasoned that allowing collateral to be “pledged” as late as sentencing “would be totally at odds with the principles embodied in subsection (I) and would alter the long-standing, well-recognized rule that post-detection repayments or pledges of collateral do not reduce loss.”¹²⁶

F. Special Rules

1. *Stolen or Counterfeit Credit Cards and Access Devices*

Loss calculation for stolen credit cards and other access devices will include all unauthorized charges and shall not be less than \$500 per item.¹²⁷ Items that include telecommunication access codes will not have a loss assessed less than \$100.¹²⁸ In *United States v. Alli*, the credit card provision in the application note did not overcome a larger intended loss figure where the defendant had “a reasonable expectation, if not knowledge, that the cards would be used to the fullest extent possible.”¹²⁹ For this reason the \$500 figure should be seen as a minimum amount applicable, not as a universal application for credit card loss, and in situations in which the sentencing judge can determine there is a higher intended loss that figure should be used.¹³⁰

¹²³ *Lane*, 323 F.3d at 590; see also *United States v. Downs*, 123 F.3d 637, 642-44 (7th Cir. 1997)(the value of collateral must be deducted from the loan amount to determine loss).

¹²⁴ *Holbrook*, 499 F.3d at 466 *et seq.*

¹²⁵ *United States v. Austin*, 479 F.3d 363 (5th Cir. 2007).

¹²⁶ *Id.*

¹²⁷ USSG §2B1.1, comment. (n.3(F)(i)).

¹²⁸ *Id.* (“if the unauthorized access device is a means of telecommunications access that identifies a specific telecommunications instrument or telecommunications account (including an electronic serial number/mobile identification number (ESN/MIN) pair), and that means was possessed, and not used, during the commission of the offense, loss shall not be less than \$100 per unused means”).

¹²⁹ *Alli*, 444 F.3d at 38-39.

¹³⁰ *Id.*

2. *Government Benefits*

The loss in cases involving government benefits should not be less than the amount of unintended benefits received or diverted.¹³¹ In *United States v. Tupone*, the court reasoned that the loss derived by the defendant's fraudulent receipt of worker's compensation benefits was "the difference between the amount of benefits actually obtained [...] and the amount the government intended him to receive."¹³² A sentencing judge should not calculate loss based on the total amount of benefits received if a portion of those benefits would have been received absent the fraud.¹³³

3. *Davis-Bacon Act Violations*

The loss involving a violation of 40 U.S.C. § 276a will be the difference between the legally required wages and the wages that were actually paid by the defendant.¹³⁴

4. *Ponzi and Other Fraudulent Schemes*

If payments made before detection are deemed to be a necessary part of the scheme or fraud, they too may not be deducted from the loss figure. For example, in Ponzi scheme cases where payments are routinely made to some or all of the victims, the defendant will receive no credit for payments made to "any individual investor in the scheme in excess of that investor's principal investment."¹³⁵

5. *Certain Other Unlawful Misrepresentation Schemes*

When defendants pose as licensed professionals, represent that products are approved by the government when they are not, fail to properly obtain approval for regulated goods, or fraudulently obtain approval for goods from the government, the loss shall be calculated with no credit provided for those items or services provided.¹³⁶ A defendant will receive no credit in such

¹³¹USSG §2B1.1, comment. (n.3(F)(ii)).

¹³²*United States v. Tupone*, 442 F.3d 145, 154 (3d Cir. 2006).

¹³³*United States v. Harms*, 442 F.3d 367, 380 (5th Cir. 2006).

¹³⁴USSG §2B1.1, comment. (n.3(F)(iii)).

¹³⁵USSG §2B1.1, comment. (n.3(F)(iv)); *see also United States v. Craiglow*, 432 F.3d 816, 820 (8th Cir. 2005); *but see United States v. Hartstein*, 500 F.3d 790 (8th Cir. 2007), *cert. denied*, 128 S. Ct. 939 (2008)(The Eighth Circuit determined that it is the government's burden to provide evidence of the "defendant's intent as to any particular victim or group of victims" before it can be proved that any scheme was intended to be a "Ponzi scheme," and thus apply the provisions of §2B1.1, Application Note 3(F)(iv), which disallows credits for the gain of one victim offsetting the loss of another).

¹³⁶USSG §2B1.1, comment. (n.3(F)(v)).

cases where products are misbranded or falsely represented as being approved by a government agency regardless as to the actual fitness or performance of those products.¹³⁷ In *United States v. Millstein*, the defendant received no credit for the value of the misbranded prescription drugs sold to victims even though there was no evidence that the drugs that were delivered did not perform as promised.¹³⁸

6. *Value of Controlled Substances*

The loss in a case involving controlled substances is the estimated street value of those items.¹³⁹

7. *Value of Cultural Heritage Resources*

The value of a “cultural heritage resource” shall include the archaeological value, the commercial value, or the cost of restoration.¹⁴⁰ The court “need only make a reasonable estimate” of the loss to a cultural heritage resource based on available information.¹⁴¹

Conclusion

USSG §2B1.1 covers a wide range of possible loss scenarios, from a clearly defined theft or embezzlement case to complex securities frauds such as *Olis*.¹⁴² A sentencing judge can apply case-specific facts within the guideline framework to determine loss in even the most complex cases, and even when there are competing methods of calculation. The court may be called on to review or make an estimate of loss based on available evidence, and the court’s decision will be reviewed for reasonableness and fair application of the facts presented by the government and the defendant. While there are rules for exclusions, credits, and special application for loss calculation, the guidelines and reviewing courts recognize the sentencing judge’s “unique position” to assess the evidence.

¹³⁷ *Id.*

¹³⁸ *United States v. Millstein*, 401 F.3d 53, 74 (2d Cir. 2005).

¹³⁹ USSG §2B1.1, comment. (n.3(F)(vi)).

¹⁴⁰ USSG §2B1.1, comment. (n.3(F)(vii)); USSG §2B1.5, comment. (n.2(A)); *see also Shumway*, 112 F.3d at 1424-26.

¹⁴¹ USSG §2B1.5, comment. (n.2(B)).

¹⁴² *United States v. Olis*, 429 F.3d 540 (5th Cir. 2005).