

1. The individual liability of corporate officers under patent and copyright law

Lynda J. Oswald

The law encourages economic activity by limiting the personal liability of corporate owners through the corporate form. Not surprisingly, corporate officers are also concerned with personal liability. Unlike owners, officers do not participate to the full extent in the success of the corporation; correspondingly, they have little interest in assuming the risks. Imposition of officer liability should be fair, predictable, and further (rather than frustrate) important societal goals. Otherwise, corporate officers may be overcautious, make inefficient decisions, and forego economic activity that the corporate form was intended to encourage.

Patent and copyright law share certain fundamental characteristics: both encourage invention and creation but also provide for the public interest. In addition, the infringement of a patent or a copyright is a tort. The critical implication of this characterization is that general principles of tort and agency law apply to such infringement – a point that has important ramifications for infringement rules and individual liability. However, corporate officer liability doctrines under both the Patent Act¹ and Copyright Act² diverge markedly from traditional corporate, agency, and tort doctrines.

This chapter examines traditional corporate, agency, and tort law concepts that impose liability upon a corporate officer for his or her own wrongful acts, and agency rules of *respondeat superior* that impute that individual's actions to the corporation. In the patent infringement arena, the U.S. Court of Appeals for the Federal Circuit (Federal Circuit) has deviated from traditional doctrine and inappropriately imposed liability

¹ 35 U.S.C. §§ 1 *et seq.* (2012).

² 17 U.S.C. §§ 1 *et seq.* (2012).

upon corporate officers through a distorted application of piercing doctrine. In the copyright arena, the regional circuit courts of appeal apply a vicarious liability test that is not only inapposite to officer liability, but in some ways mimics the piercing analysis used by the Federal Circuit in the patent law arena, and in other ways replicates the personal participation test of traditional doctrine. This chapter discusses why individual officer liability is so muddled in both patent and copyright law, and concludes that current case law reflects an instinctive rejection by the courts of application of strict liability to individuals. The courts' subconscious efforts to reach liability standards and outcomes for corporate officers that are fault-based, rather than strict, have caused the courts to create *sui generis* officer liability rules that are at odds with traditional doctrine. This chapter proposes a more direct approach to the imposition of personal liability on corporate officers that focuses on culpability.

I. CORPORATE OFFICER LIABILITY UNDER TRADITIONAL DOCTRINE

When a corporation commits a tort or other wrongful act, that corporation is liable for the harm or injury that ensues. A corporation is a legal entity; it is separate and distinct from both its owners (whether individual shareholders or a parent corporation) and its corporate officers.³ In the normal course of events, neither the corporate officers nor the corporate owners (i.e., shareholders) are liable for the debts or torts of the corporation.⁴ However, in extraordinary circumstances, liability can attach to corporate officers or owners.

A. Liability of Corporate Owners: Piercing of the Corporate Veil

Normally, shareholders are protected from the debts and liabilities of the corporation (beyond their contribution to capital) by the principle of limited liability.⁵ The separateness of the corporate entity can be ignored, however, where respecting it would "defeat public convenience, justify wrong or protect fraud."⁶ Typically, the courts employ piercing only

³ See, e.g., *Walker v. Anderson*, 232 S.W.3d 899, 918 (Tex. App. 2007).

⁴ See *FMC Finance Corp. v. Murphree*, 632 F.2d 413, 421 (5th Cir. 1980).

⁵ *Krivo Indus. Supply Co. v. Nat'l Distillers & Chem. Corp.*, 483 F.2d 1098, 1102 (5th Cir. 1973), *modified per curiam*, 490 F.2d 916 (5th Cir. 1974).

⁶ *Fish v. East*, 114 F.2d 177, 191 (10th Cir. 1940).

where: (1) “the corporation was formed or used for an illegal, fraudulent, or unjust purpose”; or (2) “the shareholders have ignored the corporate form and have used it to conduct their own affairs” (known as the “mere instrumentality” or “alter ego” theory).⁷ Most courts require that piercing be supported by findings: “(1) that there be such unity of interest and ownership that the separate personalities of the corporation and the individual no longer exist and (2) that, if the acts are treated as those of the corporation alone, an inequitable result will follow.”⁸

Although the term “piercing the corporate veil” is over 100 years old,⁹ there are relatively few examples of it in action.¹⁰ The act of piercing the corporate veil is considered an extraordinary event,¹¹ and veil-piercing doctrine has been described as “unpredictable, inconsistent, and largely unprincipled.”¹² In practice, veil piercing is used only to reach the owners of closely held corporations or parent corporations – not to reach shareholders of large, publicly-held corporations – even though in theory corporations with a sole or few shareholders are protected by limited liability in the same manner as corporations with many shareholders.

B. Liability of Corporate Officers: Personal Participation

In some instances, the plaintiff may seek to hold individual officers liable, in addition to the corporation. There are a myriad of reasons why plaintiffs may sue individual officers: perhaps because the corporation has insufficient funds to fully compensate for the infringement and so additional pockets are sought; because the plaintiff is seeking access to director’s and officer’s insurance; because the individual’s behavior is viewed as particularly culpable and in need of punishment; because the

⁷ Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 120 (2003) (citation omitted).

⁸ *Automotriz del Golfo de California S.A. de C.V. v. Resnick*, 306 P.2d 1, 3 (1957) (citations omitted).

⁹ See Mark J. Lowenstein, *Veil Piercing to Non-owners: A Practical and Theoretical Inquiry*, 41 SETON HALL L. REV. 839, 841 (2011) (phrase “first popularized” by Professor Maurice Wormser in early 1900s).

¹⁰ See Robert B. Thompson, *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036, 1047-48 & table 1 (1991); Robert B. Thompson, *Piercing the Veil within Corporate Groups: Corporate Shareholders as Mere Investors*, 13 CONN. J. INT’L L. 379, 380 & n.4 (1999); Peter B. Oh, *Veil-Piercing*, 89 TEX. L. REV. 81, 110 (2010).

¹¹ See *Dole Food Co. v. Patrickson*, 538 U.S. 468, 475 (2003).

¹² Timothy P. Glynn, *Beyond “Unlimiting” Shareholder Liability: Vicarious Tort Liability for Corporate Officers*, 57 VAND. L. REV. 329, 333 (2004).

corporation is small or closely held and it is thus difficult to distinguish the various roles that the officer/employee/owner holds, or because the plaintiff seeks to create divisions between the corporation and its officers that will encourage settlement.¹³

Under traditional corporate law doctrine, piercing of the corporate veil is used to hold *owners* of a corporation liable,¹⁴ not officers.¹⁵ Officers generally are shielded from liability for the wrongful acts of their corporation unless they personally participated in a tort or other wrongful act (such as a statutory or regulatory violation)¹⁶ “through affirmative actions of direction, sanction, or cooperation in the wrongful acts of commission or omission.”¹⁷ Thus, officers are not held liable based on their mere status as officers.¹⁸

The liability of corporate officers in such instances flows directly from traditional agency law principles that hold an agent personally liable for his or her own tortious conduct, even where the individual was acting in an official capacity as an agent of the corporation, or at the direction of his or her principal, and not on the agent’s own behalf.¹⁹ In such instances, the plaintiff may pursue the corporation, the individual officer, or both.²⁰

An officer may also be a shareholder (even the sole shareholder) of a corporation, but in that instance, traditional doctrine dictates that the court should distinguish carefully the grounds on which liability is being imposed. In the leading case of *Donsco, Inc. v. Casper Corp.*, for example, the Third Circuit emphasized that while the individual at issue being held personally liable was both a shareholder and an officer, the individual’s liability stemmed from his role “as an actor rather than as an owner.”²¹ The court noted that because officer liability is not rooted in a

¹³ See *Dangler v. Imperial Machine Co.*, 11 F.2d 945, 947 (7th Cir. 1926); Oswald, *supra* note 7, at 121 n.32; Jason A. Wietjes and Michael D. Pegues, *Director and Officer Liability for Inducement of Patent Infringement*, 21 INTELLECTUAL PROPERTY LITIGATION, no. 2, at p. 3 (Winter 2010) (published by ABA Section of Litigation, Intellectual Property Litigation Committee).

¹⁴ *Donsco, Inc. v. Casper Corp.*, 587 F.2d 602, 606 (3d Cir. 1978).

¹⁵ See *Crigler v. Salac*, 438 So.2d 1375, 1380 (Ala. 1983).

¹⁶ See *Donsco*, 587 F.2d at 606.

¹⁷ See *Oswald*, *supra* note 7, at 118.

¹⁸ See *Murphy Tugboat Co. v. Shipowners & Merchants Towboat Co.*, 467 F. Supp. 841, 852 (N.D. Cal. 1979), *aff’d*, 658 F.2d 1256 (9th Cir. 1981).

¹⁹ See RESTATEMENT (SECOND) OF AGENCY § 343 (1958).

²⁰ See *Strang v. Hollowell*, 387 S.E.2d 664, 666 (N.C. Ct. App. 1990) (citations omitted).

²¹ 587 F.2d 602, 606 (3d Cir. 1978).

piercing of the corporate veil, it was “in no way dependent upon a finding that [the corporation] is inadequately capitalized, that the corporation is a mere alter ego [of the individual], that the corporate form is being used to perpetrate a fraud, or that corporate formalities have not been properly complied with.”²² Rather, “[t]he only crucial predicate” to officer liability is the individual’s “participation in the wrongful acts.”²³

C. Liability of the Corporation for Acts of Corporate Officers

Under the well-known doctrine of *respondeat superior*, the wrongdoing of the officer, as agent, can be imputed to the corporation, rendering both the individual and the corporation liable.²⁴ This is a one-way street of imputed liability, however: the corporation is liable, as the principal, for the actions of the officer as agent. There is no rule holding the officer liable for the corporation’s actions or liabilities merely because the individual holds the position of officer.

II. INDIVIDUAL OFFICER LIABILITY FOR PATENT INFRINGEMENT

The Federal Circuit has adopted a clearly inapposite doctrine – piercing of the corporate veil – to assess the personal liability of corporate officers for patent infringement. The statutory framework of the Patent Act and the court’s desire to constrain the expansive strict liability of direct patent infringement most likely fuels adoption of this misplaced theory.

A. Patent Infringement Generally

A patent is a property interest of the patent holder,²⁵ infringement of the patent is a tortious taking of that property,²⁶ and the patent infringer is

²² *Ibid.*

²³ *Ibid.*

²⁴ *Poppenhusen v. New York Gutta Percha Comb Co.*, 19 F. Cas. 1059, 1063 (C.C.S.D. N.Y. 1858).

²⁵ *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1915).

²⁶ *Ibid.*

thus a tortfeasor.²⁷ However, overlaid onto these common law characteristics is the specific statutory scheme of patent infringement found in the Patent Act.

In particular, Section 271(a) of the Patent Act imposes direct infringement liability on “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent thereof ...”²⁸ Section 271(a) has no intent element and so direct patent infringement is a strict liability offense.²⁹ While a defendant’s lack of willfulness or lack of bad faith may affect the availability of enhanced damages under the Patent Act,³⁰ it does not mitigate the imposition of liability itself.

The Patent Act also contemplates two forms of indirect infringement liability (only one of which, inducement of infringement, is relevant to officer liability).³¹ Neither form of indirect infringement can exist in the absence of direct infringement by another.³² Section 271(b) addresses inducement of infringement and provides: “Whoever actively induces infringement of a patent shall be liable as an infringer.”³³ The courts interpret this language as encompassing a broad range of actions, such as licensing, indemnification of third parties for infringement, design or purchase of infringing items, and repair or maintenance of infringing items.³⁴ Unlike the strict liability of direct infringement, inducement of infringement has an intent element.³⁵

²⁷ See, e.g., *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931).

²⁸ 35 U.S.C. § 271(a) (2012).

²⁹ See, e.g., *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2065 n.2 (2011); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996).

³⁰ See 35 U.S.C. § 284 (2012).

³¹ Contributory infringement is addressed in 35 U.S.C. § 271(c). While it has a knowledge requirement, § 271(c) focuses more on the nature of the item sold than upon the status of the seller, and thus is not discussed further in this chapter.

³² See, e.g., *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S.Ct. 2111, 2117 and n.3 (2014).

³³ 35 U.S.C. § 271(b) (2012).

³⁴ See 17 DONALD S. CHISUM, *CHISUM ON PATENTS* § 17.04[4] (2012) (citing cases).

³⁵ See *Global-Tech Appliances*, 131 S. Ct. at 2068-69.

B. The Development of Officer Patent Infringement Doctrine

While most federal law issues go to the regional circuit courts of appeal, which have general jurisdiction,³⁶ patent cases fall under the specialized jurisdiction of the Federal Circuit. The creation of this specialized appellate court on October 1, 1982 has had profound effects upon the development of patent infringement doctrine, including officer liability doctrine.

Two characteristics in particular distinguish the Federal Circuit from its sister circuits. First, unlike the regional circuit courts, the Federal Circuit's jurisdiction is based solely on subject matter; geography plays no role. Second, the Federal Circuit has exclusive, nationwide jurisdiction over that subject matter. These subject matters include, in addition to patents, international trade, government contracts, certain trademark issues, federal personnel issues, veteran's benefits, and public safety officers' benefit claims.³⁷ Patent cases now form the largest segment of the Federal Circuit's caseload, comprising 47 percent, or almost one-half, of the appeals filed before the Federal Circuit in FY 2013.³⁸ The next largest category of cases pertained to personnel actions, which comprised only 17 percent of the total number of appeals filed.³⁹ It is not surprising, therefore, that the Federal Circuit is often viewed as a "patent court."⁴⁰

The development of the rules pertaining to the individual liability of corporate officers for patent infringement can be broken into two temporal segments: before and after formation of the Federal Circuit in 1982. Pre-Federal Circuit doctrine coalesced around traditional agency, tort, and corporate law rules. Federal Circuit doctrine, by contrast, has taken a wrong turn toward holding corporate officers individually liable under theories more appropriately applied to corporate owners.⁴¹

³⁶ See www.uscourts.gov/FederalCourts.aspx (describing current configuration of federal courts) (last visited Sept. 8, 2014).

³⁷ 28 U.S.C. § 1295 (2012).

³⁸ *Statistics, Caseload by Category, Appeals Filed, 2013*, U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT (2012), at www.cafc.uscourts.gov/the-court/statistics.html (last visited Sept. 8, 2014).

³⁹ *Ibid.*

⁴⁰ Paul R. Gugliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1455 (2012).

⁴¹ See generally Ronald B. Coolley, *Personal Liability of Corporate Officers and Directors for Infringement of Intellectual Property*, 68 J. PAT. & TM. OFF. SOC'Y 228 (1986); Oswald, *supra* note 7.

1. Pre-Federal Circuit liability rules

Prior to the creation of the Federal Circuit in 1982, the leading case on officer liability for patent infringement was *Dangler v. Imperial Machine Co.*,⁴² decided by the Seventh Circuit in 1926. The *Dangler* court noted that the rules regarding personal liability of officers for patent infringement were confused and unclear.⁴³ Plaintiffs “seldom sought” to hold individual officers liable unless the corporation itself was insolvent,⁴⁴ and courts generally imposed liability only where the officers “acted outside the scope of their official duties.”⁴⁵

Dangler was the stereotypical case: the defendant corporation declared bankruptcy soon after the trial court found that the patent was valid and had been infringed, causing the patent owner to look for other parties from whom to recover. The two individual defendants were the president and secretary of the corporation; between them, they owned “nearly” 40 percent of the corporation’s stock. The plaintiff contended that the individual officers should be held personally liable because they had operated the corporation as a shell.⁴⁶

The Seventh Circuit disagreed, finding that managing officers of corporations were generally not liable for the patent infringement of the corporation even if the infringement was “committed under their general direction.”⁴⁷ However, the *Dangler* court went on to state that an officer could be held jointly liable with the corporation based upon his or her own acts:

It is when an officer acts willfully and knowingly – that is, when he personally participates in the manufacture or sale of the infringing article (acts other than an officer), or when he uses the corporation as an instrument to carry out his own willful and deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability – that officers are held jointly liable with the company.⁴⁸

The officers in *Dangler* were not held liable because the corporation was “a bona fide corporation” active in a field in which there were numerous patents (thus making it difficult for the corporation to evaluate whether

⁴² 11 F.2d 945 (7th Cir. 1926).

⁴³ *Ibid.* at 946.

⁴⁴ *Ibid.* at 947.

⁴⁵ *Ibid.*

⁴⁶ *Ibid.* at 945–47.

⁴⁷ *Ibid.* at 947.

⁴⁸ *Ibid.*

its actions might infringe), and the corporation had sought appropriate legal counsel before proceeding.⁴⁹

Subsequent courts⁵⁰ adopted *Dangler's* general rule that “in the absence of some special showing, the managing officers of a corporation are not liable for the infringements of such corporation, though committed under their general direction.”⁵¹ The *Dangler* rule did not insulate officers from individual liability, however, and there were several cases in which an officer was held personally liable for infringement based upon his or her actions as a “moving force” behind the infringement,⁵² or because of his or her deliberate participation in the infringing acts.⁵³

2. Post-1982: the development of Federal Circuit doctrine

a. Early Federal Circuit cases: erroneous adoption of piercing analysis

Officer liability issues came before the Federal Circuit soon after its creation, and just as quickly took a wrong analytical turn that persists to today. In the first such case, *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*,⁵⁴ the Federal Circuit found that three individuals, all officers and shareholders of two corporations accused of infringement, could be held individually liable for direct infringement and for inducement of infringement.⁵⁵

The *Orthokinetics* court began by examining the officers' liability for direct infringement under Section 271(a) of the Patent Act, making two conflicting statements with regard to such liability. On the one hand, the court correctly stated that “[i]nfringement is a tort and officers of a corporation are personally liable for tortious conduct of the corporation if they personally took part in the commission of the tort or specifically

⁴⁹ *Ibid.* at 948.

⁵⁰ *See, e.g., White v. Mar-Bel, Inc.*, 509 F.2d 287, 292-93 (5th Cir. 1975); *Telling v. Bellows-Claude Neon Co.*, 77 F.2d 584, 586 (6th Cir. 1935); *Dean Rubber Mfg. Co. v. Killian*, 106 F.2d 316, 320 (8th Cir. 1939); *Southwestern Tool Co. v. Hughes Tool Co.*, 98 F.2d 42, 46 (10th Cir. 1938).

⁵¹ 11 F.2d at 947.

⁵² *See, e.g., White*, 509 F.2d at 292.

⁵³ *See, e.g., Bewal, Inc. v. Minnesota Mining & Mfg. Co.*, 292 F.2d 159, 167 (10th Cir. 1961); *Weller Mfg. Co. v. Wen Prods. Inc.*, 231 F.2d 795, 801 (7th Cir. 1956); *Southwestern Tool Co. v. Hughes Tool Co.*, 98 F.2d 42, 45-46 (10th Cir. 1938).

⁵⁴ 806 F.2d 1565 (Fed. Cir. 1986).

⁵⁵ *Ibid.* at 1578.

directed other officers, agents, or employees of the corporation to commit the tortious act.”⁵⁶

On the other hand, the *Orthokinetics* court went on to state that evaluating the personal liability of corporate officers “under § 271(a) requires invocation of those general principles relating to piercing the corporate veil.”⁵⁷ In doing so, the court muddled doctrine relating to owner liability (piercing) with that relating to officer liability (personal participation). Moreover, the court’s recitation of the facts indicated that the court did not give sufficient weight to the different roles that individuals can play within a corporation – i.e., as shareholders (owners) and managers (officers) – and the differing standards of liability that should apply to each such role. For example, the court emphasized that the individuals were the sole owners of the corporations at issue, yet did not discuss evidence of abuse of the corporate form that would permit the court to pierce the corporate veil and hold those individuals personally liable. Rather, the court emphasized that the individuals “were directly responsible for the design and production of the infringing [products] and that they were the only ones who stood to benefit from sales of those [products].”⁵⁸

However, the mere fact that a corporate *owner* is in a position to financially benefit from the sale of an infringing device is insufficient grounds to impose liability upon him or her.⁵⁹ The relevance of monetary benefit is even more attenuated in the *officer* liability context, where every officer can be said to benefit from the corporation’s profitability and financial stability, if only in the sense of an enhanced likelihood of employment, but where the officer has no direct claim on the corporation’s profits, as would a shareholder.

The *Orthokinetics* court’s consideration of the individual’s “direct[] responsib[ility] for the design and production of the infringing”⁶⁰ items is equally perplexing. Although direct participation in a tortious act can lead to individual officer liability, the *Orthokinetics* court seemed to ground its analysis in the individuals’ authority as officers to control the corporation’s acts. In so doing, the *Orthokinetics* court opened the door to a broad statement of officer liability, as officers always have the authority to control the corporation.

⁵⁶ *Ibid.* at 1579 (citation omitted).

⁵⁷ *Ibid.*

⁵⁸ *Ibid.*

⁵⁹ *Oswald, supra* note 7, at 132.

⁶⁰ 806 F.2d at 1579.

The *Orthokinetics* court then turned its attention to the officers' liability for indirect infringement under Section 271(b), once again incorrectly interjecting corporate *owner* liability standards into corporate *officer* liability analysis. The court stated: "it is well settled that corporate officers who actively aid and abet their corporation's infringement may be personally liable for inducing infringement under § 271(b) regardless of whether the corporation is the alter ego of the corporate officer."⁶¹ This, of course, suggests that an officer *can* be the alter ego of the corporation: the alter ego theory, however, requires a "unity of interest and ownership" held only by corporate owners.⁶² Certainly, an officer can be liable for inducement of infringement under Section 271(b), but that liability is grounded in the officer's own acts of aiding and abetting direct infringement by the corporation, and requires a showing of intent.

The *Orthokinetic* court's erroneous adoption of piercing analysis and alter ego theory to reach corporate officers quickly took firm root in Federal Circuit case law. In *Manville Sales Corp. v. Paramount Systems, Inc.*,⁶³ in 1990, the court found that two corporate officers were not liable for direct infringement under Section 271(a) because the required "evidence to justify piercing the corporate veil" was not present,⁶⁴ and that the district court had erred in imposing individual liability upon the officers even though the district court had found that the officers were not the alter ego of the corporation.⁶⁵

The Federal Circuit made an incomplete and short-lived attempt to correct its wrong course on officer liability in *Hoover Group, Inc. v. Custom Metalcraft, Inc.*⁶⁶ in 1996, where it noted that when an officer is acting within the scope of his or her responsibility, those acts "are not always sufficient grounds for penetrating the corporate protection and imposing personal liability,"⁶⁷ and that piercing the corporate veil to impose personal liability upon officers was appropriate "only in limited circumstances."⁶⁸ Rather, the *Hoover Group* court stated: "when a person *in a control position* causes the corporation to commit a civil wrong, imposition of personal liability requires consideration of the nature of the wrong, the culpability of the act, and whether the person acted in his/her

⁶¹ *Ibid.* at 1578–79.

⁶² *Automotriz*, 306 P.2d at 3–4.

⁶³ 917 F.2d 544 (Fed. Cir. 1990).

⁶⁴ *Ibid.* at 552.

⁶⁵ *Ibid.* (citation omitted).

⁶⁶ 84 F.3d 1408 (Fed. Cir. 1996).

⁶⁷ *Ibid.* at 1411 (citing *Manville*, 917 F.2d at 553).

⁶⁸ *Ibid.*

personal interest or in that of the corporation.”⁶⁹ Rather than completely backing away from the statements in *Orthokinetics* and *Manville* that individual liability can only be based in a piercing of the corporate veil, however, the *Hoover Group* court found that individual officer liability for direct infringement under Section 271(a) could be based in either a piercing of the corporate veil or personal participation by the corporate officer⁷⁰ – effectively, getting only one-half of the analysis correct.

The Federal Circuit’s next foray into officer liability, in *Al-Site Corp. v. VSI Int’l, Inc.*,⁷¹ decided in 1999, returned Federal Circuit doctrine firmly back to the erroneous precedents set in *Orthokinetics* and *Manville*. According to the *Al-Site Corp.* court, “[p]ersonal liability under § 271(a) ... requires sufficient evidence to justify piercing the corporate veil,”⁷² and “[t]he most common reason” for ignoring the corporate form is that the “corporation was merely the alter ego of its officers.”⁷³ The court noted that the chairman and chief executive officer had “made the sole decision” to continue the allegedly infringing activity after the corporation had received a ‘cease and desist’ letter from the plaintiff,⁷⁴ but that he did so in “a good faith belief of noninfringement engendered by advice of counsel.”⁷⁵ This, the Federal Circuit concluded, was insufficient to demonstrate that the corporation operated as the officer’s “alter ego” or to support a piercing of the corporate veil.⁷⁶

b. Recent Federal Circuit decisions: solidifying incorrect officer liability doctrine The damaging, and seemingly permanent, legacy of the wrong path initiated by the *Orthokinetics* court can be seen in recent Federal Circuit cases. For example, in *Wechsler v. Macke Int’l Trade, Inc.*,⁷⁷ decided in 2007, the Federal Circuit failed to explicitly discuss the distinction between owner and officer liability in evaluating individual patent infringement liability. Anthony O’Rourke was the president, sole stockholder, and sole employee of Macke International Trade, Inc.⁷⁸

⁶⁹ *Ibid.* (emphasis added) (citation omitted).

⁷⁰ 84 F.3d at 1411–12.

⁷¹ 174 F.3d 1308 (Fed. Cir. 1999).

⁷² *Ibid.* at 1331 (citing *Manville*, 917 F.2d at 552).

⁷³ *Ibid.* (quoting *Manville*, 917 F.2d at 552).

⁷⁴ *Ibid.* at 1331.

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*

⁷⁷ 486 F.3d 1286 (Fed. Cir. 2007), *appeal withdrawn*, 274 Fed. Appx. 870 (Fed. Cir. 2008).

⁷⁸ *Ibid.* at 1289.

Because corporate, agency, and tort doctrines (including alter ego doctrine) are state law issues and not unique to patent law, the Federal Circuit applies the law of the regional circuit in which the case originated (here, the Ninth Circuit).⁷⁹ The Ninth Circuit, in turn, applies the law of the forum state (here, California).⁸⁰ California's jurisprudence regards application of the alter ego doctrine as an extraordinary measure and applies it "only reluctantly and cautiously,"⁸¹ requiring both "a unity of interest and ownership [such] that the individuality, or separateness, of the said person and the corporation has ceased," and a finding that "an adherence to the fiction of the separate existence of the corporation would ... sanction a fraud or promote injustice."⁸²

The plaintiff put forth five arguments in support of piercing: (1) the corporation was undercapitalized; (2) O'Rourke as an individual held the assets while the corporation held the liabilities; (3) O'Rourke treated corporate assets as his own; (4) O'Rourke held himself out as liable for the corporation's debts; and (5) O'Rourke used the corporate identity to defraud creditors.⁸³

The *Wechsler* court's analysis correctly applied piercing analysis to O'Rourke in his role as a shareholder. However, the plaintiff lumped owner and officer liability together, and the court never drew the explicit distinctions that would clarify that: (1) piercing and alter ego doctrine were relevant to O'Rourke only in his status as a corporate owner; and (2) any liability that might attach to him in his role as a corporate officer would have to be based on personal participation. Ultimately, the appellate court found that none of these assertions raised a genuine issue of material fact,⁸⁴ and affirmed the trial court's grant of summary judgment.⁸⁵

In 2010, a chink in the Federal Circuit's piercing doctrine emerged in *Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc.*,⁸⁶ where the court hinted at the problematic nature of its precedent regarding application of piercing to officers. The corporation was a small family business, managed by two individuals, both of whom denied that they

⁷⁹ *Ibid.* at 1295 (citations omitted).

⁸⁰ *Ibid.* (citation omitted).

⁸¹ *Ibid.* (citation omitted).

⁸² *Ibid.* (citation omitted) (ellipses in *Wechsler*).

⁸³ *Ibid.*

⁸⁴ *Ibid.* at 1295.

⁸⁵ *Ibid.* at 1297.

⁸⁶ 609 F.3d 1308 (Fed. Cir. 2010).

were officers but admitted that they ran the company.⁸⁷ The Federal Circuit found that the trial court had erred in failing to provide jury instructions on piercing of the corporate veil⁸⁸ – and piercing, under Federal Circuit precedent, was necessary to impose direct liability upon individual officers under Section 271(a).⁸⁹ The *Wordtech* court noted in a footnote that commentators have argued that veil piercing does not apply to officers,⁹⁰ but found that it could not address that issue in the case before it because unless and until this issue is raised and addressed *en banc* by the Federal Circuit, panels are bound by previous precedential decisions. The *Wordtech* court then stated that “[t]he corporate veil can shield officers from liability under § 271(a),”⁹¹ but that “corporate officers who actively assist with their corporation’s infringement may be personally liable for inducing infringement *regardless* of whether the circumstances are such that a court should disregard the corporate entity and pierce the corporate veil.”⁹² The court highlighted, in a footnote, its discomfort with the differing rules for officer liability under Section 271(a) (which requires piercing) and Section 271(b) (which does not) as well as the differing treatment of officer and owner liability under existing precedent, but noted that the issues were “left for another day.”⁹³

The Federal Circuit’s most recent discussion of individual officer liability for patent infringement came in *Hall v. Bed Bath & Beyond, Inc.*⁹⁴ in 2013. The plaintiff alleged inducement of infringement by the Vice-President/General Merchandise Manager. The plaintiff cited *Orthokinetics*’ language that “it is well settled that corporate officers who actively aid and abet their corporation’s infringement may be personally liable for inducing infringement under § 271(b) regardless of whether the corporation is the alter ego of the corporate officer.”⁹⁵ However, the *Hall* court rejected the imposition of liability on the officer on the basis of New York veil-piercing doctrine, which requires a “two-part showing: (i) that the *owner* exercised complete domination over the corporation with respect to the transaction at issue; and (ii) that such domination was used to commit a fraud or wrong that injured the party seeking to pierce

⁸⁷ *Ibid.* at 1311.

⁸⁸ *Ibid.* at 1314.

⁸⁹ *Ibid.* at 1313 (citing *Orthokinetics*, 806 F.2d at 1579).

⁹⁰ *Ibid.* at n.2 (citing, *inter alia*, Oswald, *supra* note 7, at 130).

⁹¹ *Ibid.* at 1315–16.

⁹² *Ibid.* at 1316 (citing *Manville*, 917 F.2d at 553; *Hoover*, 84 F.3d at 1412).

⁹³ *Ibid.* at 1316 n.3.

⁹⁴ 705 F.3d 1357 (Fed. Cir. 2013).

⁹⁵ *Ibid.* at 1365 (quoting *Orthokinetics*, 806 F.2d at 1578-79).

the veil.”⁹⁶ Thus, the New York doctrine itself revealed that veil-piercing relates to owner liability, not officer liability, and thus was inapposite to the case before the court. Ultimately, the Federal Circuit did not reach the merits of this argument but affirmed the district court’s dismissal of the action against the individual on the grounds that the allegedly infringing activity by the individual had occurred *before* the patent had issued and thus was not actionable.⁹⁷

III. INDIVIDUAL OFFICER LIABILITY FOR COPYRIGHT INFRINGEMENT

Individual officer liability in the copyright arena has received less scholarly attention than in the patent arena. This is likely to be at least in part because the courts house officer liability for copyright infringement in vicarious liability, which, on its face at least, appears to be a more doctrinally sound theory. However, closer examination reveals that the vicarious liability theory used for officer liability for copyright infringement also rests on shaky theoretical foundations.

In many ways, copyright infringement looks similar to patent infringement. Infringement of the copyright is a tort, and the copyright infringer is a tortfeasor.⁹⁸ However, while appeals in patent cases are heard by a specialized intermediate appellate court – the Federal Circuit – appeals in copyright cases go to the regional circuit courts of appeal. Because the regional circuit courts are generalist, not specialized, courts, they hear cases across a more diverse range of topics and are far more likely than the Federal Circuit to hear cases posing issues of traditional corporate, agency, and tort law concepts. This suggests that the regional circuits should be more adept than the Federal Circuit in correctly applying traditional doctrine to federal intellectual property issues. In fact, however, while courts seldom turn to application of the clearly erroneous piercing doctrine to hold corporate officers liable for copyright infringement, copyright infringement cases do reveal other articulations of officer liability that are at odds with traditional doctrine.

⁹⁶ *Ibid.* (emphasis added) (quoting *Am. Fuel Corp. v. Utah Energy Dev. Co.*, 122 F.2d 130, 134 (2d Cir. 1997)).

⁹⁷ *Ibid.*

⁹⁸ *See Ted Browne Music Co. v. Fowler*, 290 F. 751, 754 (2d Cir. 1923).

A. Infringement Liability under Copyright Law

As in patent law, it is not difficult in copyright law to impute infringement liability for the acts of officers to the corporation, invoking *respondeat superior* to hold the master (i.e., the corporation) liable for the infringing acts of the agent (i.e., the employee or officer).⁹⁹ The more difficult and provocative question in copyright law, like patent law, is under which circumstances should the *officer* be held individually liable for infringement.

The statutory language of the Copyright Act imposes direct infringement liability upon actors who engage in infringing actions under the Copyright Act,¹⁰⁰ such as reproduction, distribution, or copying.¹⁰¹ Direct copyright infringement, like direct patent infringement, is a strict liability.¹⁰²

However, unlike the Patent Act, the Copyright Act defines only direct infringement statutorily.¹⁰³ The absence of explicit statutory language has caused indirect copyright infringement to evolve through the courts in a messy and chaotic manner, as the courts have drawn upon both general tort and agency doctrine and have analogized to statutory patent infringement liability.¹⁰⁴ Indirect liability for copyright infringement now takes one of two forms: (1) “vicarious liability,” which imposes liability upon a party who “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities,”¹⁰⁵ and (2) “contributory infringement,” which imposes liability upon a party who has “knowledge of the infringing activity [and] induces, causes or materially contributes to the infringing conduct of another.”¹⁰⁶

⁹⁹ See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996).

¹⁰⁰ 15 U.S.C. § 501(a) (2012) (“Anyone who violates any of the exclusive rights of the copyright owner... is an infringer of the copyright ...”).

¹⁰¹ See *ibid.* § 106.

¹⁰² See *Educ. Testing Serv. v. Simon*, 95 F. Supp. 2d 1081, 1087 (C.D. Cal. 1999).

¹⁰³ See 15 U.S.C. § 501(a) (2012).

¹⁰⁴ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (noting that it was “appropriate” to refer to patent liability rules in developing copyright vicarious liability rules “because of the historic kinship between patent law and copyright law”).

¹⁰⁵ *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citations omitted).

¹⁰⁶ *Ibid.* (footnote omitted).

Overall, vicarious liability doctrine in the copyright cases “evidence[s] no grand principle in the making, nor even a distinct doctrine.”¹⁰⁷ The modern articulation of vicarious liability as an explicit theory for indirect copyright infringement liability stems from the leading case of *Shapiro, Bernstein & Co. v. H.L. Green Co.*, decided by the Second Circuit in 1963.¹⁰⁸ Faced with an allegation that a store that allowed a concessionaire to sell infringing copies of musical recordings on its premises should itself be held liable for infringement, the court noted that its inquiry was one of having “to trace, case by case, a pattern of business relationships which would render one person liable for the infringing conduct of another.”¹⁰⁹ Ultimately, the court concluded:

When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials – even in the absence of actual knowledge that the copyright monopoly is being impaired – the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.¹¹⁰

The courts have since condensed the *H.L. Green Co.* court’s statement into a concise, two-pronged test for vicarious copyright liability, finding that vicarious liability attaches when the defendant has: (1) “the right and ability to supervise the infringing activities”; and (2) “a direct financial interest in those activities.”¹¹¹

B. Officer Liability for Copyright Infringement

Individual officer liability for copyright infringement can arise in one of two ways. The first is actual participation in direct infringement, which arises from the language of the Copyright Act. The second, vicarious liability, arises from the case law and shows a disturbing deviation from traditional legal doctrine.

¹⁰⁷ Craig A. Grossman, *The Evolutionary Drift of Vicarious Liability and Contributory Infringement: From Interstitial Gap Filler to Arbiter of the Content Wars*, 58 SMU L. REV. 357, 361 (2005).

¹⁰⁸ 316 F.2d 304 (1963).

¹⁰⁹ *Ibid.* at 307.

¹¹⁰ *Ibid.* citations omitted).

¹¹¹ *Roy Export Co. Establishment v. Trs. of Columbia Univ.*, 344 F. Supp. 1350, 1352 (S.D.N.Y. 1972).

1. Direct copyright infringement

Theoretically, an officer can be held directly liable for copyright infringement based upon his or her own culpable actions – a principle that arises out of traditional tort liability notions.¹¹² In practice, only a few courts have used personal participation by a corporate officer to support imposition of direct copyright infringement liability upon the individual, usually with little analysis.

Bangkok Broadcasting & T.V. Co. Ltd. v. IPTV Corp.,¹¹³ decided in 2010, is a rare example of an officer being held personally liable for direct copyright infringement. The court applied traditional tort doctrine in assessing officer liability, noting: “Under Ninth Circuit precedent, ‘a corporate officer or director is, in general, personally liable for all torts which he authorizes or directs or in which he participates, notwithstanding that he acted as an agent of the corporation and not on his own behalf.’”¹¹⁴ The court further explained that cases imposing individual liability upon corporate officers “have typically involved instances where the defendant was the ‘guiding spirit’ behind the wrongful conduct ... or the ‘central figure’ in the challenged corporate activity.”¹¹⁵ Here, the individual: (1) had been the CEO since the corporation’s founding; (2) personally hired all employees, selected programming, and arranged distribution agreements; and (3) personally negotiated the license renewal agreement at issue in the case.¹¹⁶ Thus, the CEO was held jointly liable with the corporation for direct copyright infringement. The outcome in *Bangkok Broadcasting* is disturbing, for the acts of the officer that led to imposition of personal liability are the type of acts commonly undertaken by managers. Read on its face, the case would seem to be a troubling extension of personal liability to all officers engaged in normal officer activities: hiring, negotiating, and managing the firm.

The courts’ reluctance to hold a corporate officer individually liable stems from the strict liability standard of direct copyright infringement. The implications of strict liability for corporate officers in the copyright area are much the same as in the patent area: the corporate officer, theoretically at least, can be held individually liable and without fault or intent for personal participation in the infringing behavior. This result is harsh, and so courts in the copyright area, as in the patent area, have

¹¹² *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966).

¹¹³ 742 F. Supp. 2d 1101 (C.D. Cal. 2010).

¹¹⁴ *Ibid.* at 1114 (citations omitted).

¹¹⁵ *Ibid.* (citations omitted).

¹¹⁶ *Ibid.* at 1115.

turned to other mechanisms for assessing officer liability. While in patent law those alternative mechanisms are incorrect applications of piercing theory, in copyright law the mechanisms take the form of applying an expansive multi-factor test for evaluating such liability that is at odds with traditional doctrine.

2. Vicarious copyright infringement liability

In the copyright context, personal participation has become entwined in the vicarious liability standard, shifting personal participation from direct infringement liability to a form of indirect liability.

In 1976, the court in *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assoc., Inc.*¹¹⁷ identified the following situations in which the courts had imposed vicarious liability on individual officers for copyright infringement:

- (1) the officer personally participated in the actual infringement; or (2) the officer derived financial benefit from the infringing activities as either a major shareholder in the corporation, or through some other means such as receiving a percentage of the revenues from the activity giving rise to the infringement; or (3) the officer used the corporation as an instrument to carry out a deliberate infringement of copyright; or (4) the officer was the dominant influence in the corporation, and determined the policies which resulted in the infringement; or (5) on the basis of some combination of the above criteria.¹¹⁸

Interestingly, the *Famous Music* plaintiff was asserting that an officer should be held liable as a joint tortfeasor with the corporation for copyright infringement. Arguably, then, the *Famous Music* list should apply to *direct* copyright infringement – and certainly, some of the factors listed, such as personal participation, are more logical in that context. Subsequent cases, however, have transformed this list into a multi-factor test and have applied it to the evaluation of the *vicarious* liability of corporate officers, an indirect copyright infringement notion.¹¹⁹

On close examination, the *Famous Music* test is nonsensical. Because the factors are stated in the alternative – “or” – any one factor theoretically suffices to impose liability upon an individual actor. The

¹¹⁷ 423 F. Supp. 341 (D. Mass. 1976), *aff'd*, 554 F.2d 1213 (1st Cir. 1977).

¹¹⁸ *Ibid.* at 344 (internal citations omitted).

¹¹⁹ See, e.g., *Emi Mills Music, Inc. v. Empress Hotel, Inc.*, 470 F. Supp. 2d 67, 74 (D. P.R. 2006); *Marvin Music Co. v. BHC Lim Partnership*, 830 F. Supp. 651, 655 (D. Mass. 1993).

implications of this are interesting. The first factor – personal participation – replicates the test for direct infringement liability, yet is adopted here in the context of indirect infringement. The second factor – financial benefit as a major shareholder – creates the potential for holding an officer liable merely because he holds dual roles as an officer and an owner. The third factor looks like a variant of the alter ego test, while the fourth factor looks much like a “control” test. The second and fourth factors, combined together, closely mimic the traditional two-pronged test for vicarious liability.

In practice, the individuals against whom infringement liability is sought under the *Famous Music* test tend to hold multiple roles within the corporation. For example, in *Marvin Music Co. v. BHC Ltd. Partnership*,¹²⁰ BHC Corp. was the general partner of BHC Limited Partnership, which in turn owned, controlled, and operated Club Café (at which copyrighted music was performed and played without authorization).¹²¹ The defendant-officer held multiple roles; he was the president of the corporation, a general partner of the limited partnership, and general manager of Club Café.¹²²

In analyzing the officer’s vicarious liability as an individual, the court adopted the *Famous Music* test, but also emphasized that he was, “at all relevant times ... an officer, shareholder and partner in the organizations controlling” the club at which the allegedly infringing activities occurred¹²³ (thus emphasizing the individual’s multiple roles). The court listed a number of activities the officer engaged in – control of day-to-day operations, hire of musicians, direct engagement in licensing activities with ASCAP, knowledge of the license termination, and dominant influence over club policies¹²⁴ – but did not discuss whether those activities would suggest personal participation in the wrongful acts.

However, the *Marvin Music* court noted, the *Famous Music* test addresses the scenario where an officer “derived financial benefit from the infringing activities as either a major shareholder in the corporation, or through some other means”¹²⁵ This factor does not rely upon a piercing of the corporate veil, as does traditional corporate law doctrine for imputing liability to shareholders. Rather, the inquiry focuses merely on the financial benefit derived by the individual from the infringing

¹²⁰ 830 F. Supp. 2d 651 (D. Mass. 1993).

¹²¹ *Ibid.* at 653.

¹²² *Ibid.*

¹²³ *Ibid.* at 655.

¹²⁴ *Ibid.*

¹²⁵ *Ibid.* at 654-55.

activity, regardless of the individual's role. In this instance, the court found, the *Famous Music* test was satisfied because the officer's "multiple roles in the club's management and ownership" provided him with "a substantial financial stake in the infringing activity."¹²⁶ Thus, the *Famous Music* test collapses the individual's separate roles as a shareholder and an officer into a single analysis that significantly broadens individual exposure to copyright infringement and significantly weakens the protections of the corporate form for small and closely-held corporations in particular.

By contrast, the district court in *Emi Mills Music, Inc. v. Empress Hotel, Inc.*,¹²⁷ found an officer vicariously liable under the *Famous Music* test without discussion of the source of the individual's financial benefit. The officer at issue was identified as the president and treasurer of a corporation accused of unauthorized public performance of copyrighted music; as such, he had "responsibility for the control, management operations and maintenance of the affairs" of the corporation.¹²⁸ However, he was not identified by the court as having any ownership interest in the corporation. Nonetheless, the court found him to be jointly and severally liable with the corporation for copyright infringement,¹²⁹ citing the second and fourth factors of the *Famous Music* test: (1) the individual's substantial financial stake in the infringing activity; and (2) the individual's dominant influence in the corporation and control over policies that led to infringement.¹³⁰ While under *Famous Music*, either element alone can suffice to support individual officer liability, it is unclear what financial benefit the *EMI Mills Music* court was looking to, other than mere employment by the hotel. To the extent that mere employment satisfies the second factor of the *Famous Music* test, all corporate officers are at risk of being held indirectly liable for copyright infringement.

Similarly, the individual at issue in *Disney Enterprises, Inc. v. Hotfile Corp.* was primarily a technical engineer, "responsible for implementing business ideas and functions" for the allegedly infringing corporation.¹³¹ He actively participated in the corporation's management and decision-making,¹³² although it was "undisputed" that he lacked "authority to

¹²⁶ *Ibid.* at 655.

¹²⁷ 470 F. Supp. 2d 67 (D. P.R. 2006).

¹²⁸ *Ibid.* at 74.

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*

¹³¹ 2013 U.S. Dist. LEXIS 172339, at *42 (S.D. Fla. Sept. 20, 2013).

¹³² *Ibid.* at *43.

make unilateral decisions regarding important aspects of [the corporation's] business or operations."¹³³ He held a power of attorney from the corporation to act as manager of the company when "authorized to do so by other shareholders,"¹³⁴ and wrote the source code that ran the corporation's website and that was the basis for the allegations of infringement against the corporation.¹³⁵

The court acknowledged the individual's role as a shareholder of the firm without discussing the relevance of such status.¹³⁶ Rather, the court's analysis focused on actions that showed the individual's "participation, control, and benefit" in the corporation's activities.¹³⁷ The court found that the individual had both a "dominant influence upon the corporation"¹³⁸ and derived a financial benefit from the infringing activities,¹³⁹ although it is unclear whether he derived those benefits in his role as a shareholder rather than as an officer. If the financial benefit arose solely from his status as a shareholder, that suggests that any active officer who holds an ownership stake in the corporation is at risk of personal liability – a substantial and unwarranted expansion of individual liability.

3. Hints of piercing analysis in copyright cases

Noticeably absent from either the traditional two-pronged *H.L. Green* vicarious liability test or the *Famous Music* test is any reference to a piercing of the corporate veil. Thus, when the plaintiff in *White v. Marshall*¹⁴⁰ argued that an individual should be held personally liable for the corporation's allegedly infringing activities based upon "the role he played – as an owner and manager in the corporation,"¹⁴¹ the court rejected the argument, explaining: "To 'pierce the corporate veil' is to hold the *owners* of a corporation to be personally liable for the corporation's liabilities."¹⁴²

However, piercing notions seem to be creeping into a few copyright officer liability cases. In 2010, in *Word Music, LLC v. Lynns Corp. of*

¹³³ *Ibid.* at *44.

¹³⁴ *Ibid.*

¹³⁵ *Ibid.* at *43-44.

¹³⁶ *Ibid.* at *141.

¹³⁷ *Ibid.*

¹³⁸ *Ibid.* at *144.

¹³⁹ *Ibid.* at *143.

¹⁴⁰ 693 F. Supp. 2d 873 (E.D. Wis. 2009).

¹⁴¹ *Ibid.* at 885.

¹⁴² *Ibid.* (citations omitted) (emphasis added).

Am.,¹⁴³ for example, the officer argued that he could only be liable under a piercing analysis, citing *Orthokinetics*.¹⁴⁴ The court acknowledged that *Orthokinetics* was a patent infringement case, but then went on to apply it, noting that *Orthokinetics* recognized personal participation in a tort as grounds for liability, as well as piercing.¹⁴⁵ By comparison, the officer in *Word Music* was the “sole officer, director and shareholder” of the defendant corporation, was the “ultimate authority” for decision-making at the corporation with regard to advertising, distribution and sales, “personally participated” in the decision to sell infringing products, “personally benefitted financially” from the sales of infringing products, and was “the dominant influence in the corporation and determined the policies that resulted in infringement.”¹⁴⁶ This, the *Word Music* court found, was sufficient to support imposition of direct infringement liability on the officer.

IV. OFFICER LIABILITY IN A STRICT LIABILITY REGIME

Something must be driving the appellate courts – both the regional circuits in the instance of copyright law and the Federal Circuit in the instance of patent law – down the wrong path. That “something” is mostly likely the courts’ profound discomfort with the imposition of strict liability and its application to corporate officers. Direct infringement under both patent law and copyright law is based on strict liability and yet holding corporate officers strictly liable for infringement is fundamentally unfair and inconsistent not only with traditional corporate, agency, and tort law, but the underlying purposes of strict liability regimes.

A. Strict Liability Generally

Strict liability is generally defined as “liability that is imposed on an actor apart from either (1) an intent to interfere with a legally protected interest without a legal justification for doing so, or (2) a breach of a duty

¹⁴³ 2010 U.S. Dist. LEXIS 95559 (M.D. Tenn. Sept. 13, 2010).

¹⁴⁴ *Ibid.* at *21.

¹⁴⁵ *Ibid.* at *22.

¹⁴⁶ *Ibid.* at *22-23.

to exercise reasonable care, i.e., actionable negligence.”¹⁴⁷ Modern common law generally applies strict liability to very carefully defined actions, such as abnormally dangerous activities¹⁴⁸ or products liability.¹⁴⁹ Imposition of strict liability is guided by several policies and objectives, such as the promotion of fairness, economic efficiency, risk-spreading, and deterrence.¹⁵⁰ Although a full exploration of these policies is beyond the scope of this chapter, the basic principles underlying them can be summed up easily.

Fairness, in the strict liability setting, rests on the notion that where both parties are blameless, the one who created the risk of harm and enjoyed the benefit of the activity should bear any ensuing loss.¹⁵¹ As explained by Richard Epstein, “as against an innocent plaintiff who has nothing to do with the creation of the harm in question, it is only too clear that the defendant who captures the entire benefit of his own activities should, to the extent that the law can make it so, also bear its entire costs.”¹⁵²

The economic efficiency arguments for strict liability rest on the notion that maximization of societal welfare and an efficient free market demand that firms and consumers bear the true costs associated with the activities that they undertake; i.e., costs should be “internalized.”¹⁵³ Forcing a firm to bear all of the costs associated with its activities ensures that the price charged consumers will be a true price (e.g., costs will not be shunted off onto non-compensated injured parties), thus eliminating market distortions and inefficiencies.¹⁵⁴

Strict liability can also assist in the spreading of risk. A firm forced to bear the costs of injuries occasioned by its activities can spread those risks among all consumers by raising prices enough to cover the liability. Each consumer can bear a small increase in price more easily than an

¹⁴⁷ W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS § 75, at 534 (5th ed. 1984).

¹⁴⁸ See RESTATEMENT (SECOND) OF TORTS § 519 (1) (1977).

¹⁴⁹ See RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY (1998).

¹⁵⁰ See Lynda J. Oswald, *Strict Liability of Individuals Under CERCLA: A Normative Analysis*, 20 B.C. ENV'T'AL AFF. L. REV. 579, 593-98 (1993).

¹⁵¹ This notion can be derived from the seminal case of *Rylands v. Fletcher*, 3 H. & C. 744, 159 Eng. Rep. 737, *rev'd*, L.R. 1 (Ex. 265), *aff'd*, L.R. 3 H.L. 330 (1868) (English & Irish Appeals).

¹⁵² RICHARD A. EPSTEIN, *MODERN PRODUCTS LIABILITY* Law 27 (1980).

¹⁵³ See Barbara Ann White, *Economizing on the Sins of our Past: Cleaning up Our Hazardous Wastes*, 25 HOUS. L. REV. 899, 915-17 (1988).

¹⁵⁴ *Ibid.* at 917.

injured party can bear the full costs of an uncompensated harm.¹⁵⁵ To the extent that the risk can be covered by insurance, it is generally easier (and thus more economically efficient) for the firm to obtain that insurance than the individual at risk of harm.¹⁵⁶

Finally, strict liability is thought to promote deterrence. The party undertaking the activity that causes harm is in the best position to identify the accompanying risks and to take measures to minimize or eradicate that harm.¹⁵⁷ Thus, imposition of strict liability encourages these parties to structure their activities in such a way as to reduce the potential harm associated with their undertakings.¹⁵⁸ At a more pragmatic level, strict liability avoids the burdens of proof associated with a fault-based standard such as negligence.¹⁵⁹

B. The Strict Liability of Officers for Patent or Copyright Infringement

These arguments for strict liability have limited applicability to the imposition of liability on corporate officers in the context of patent and copyright infringement. First, fairness dictates that where both parties are blameless, the party that created the harm and benefited from the activity should bear the risk. The benefit of copyright or patent infringement most directly accrues to the firm, not the corporate officer. Except for indirect benefits such as keeping his or her job or perhaps receiving compensation tied to the profits of the firm, the corporate officer does not receive the benefits of the activity that created the harm. Second, economic efficiency requires that the risk of harm be priced into a product so that the all costs are internalized. This is accomplished by imposing liability on the corporation and the imposition of additional or secondary liability on the corporate officer does not add to economic efficiency. Third, imposing liability on an individual corporate officer does not contribute to a sharing of risk. Risk sharing requires spreading the potential cost of harm among a wide class of beneficiaries (in this case, consumers and owners),

¹⁵⁵ See *Greenman v. Yuba Power Prods., Inc.*, 377 P.2d 897, 901 (Cal. 1963).

¹⁵⁶ See Guido Calabresi, *Some Thoughts on Risk Distribution and the Law of Torts*, 70 YALE L. J. 499, 500-02, 543-44 (1961).

¹⁵⁷ See Guido Calabresi and Jon T. Hirschoff, *Toward a Test for Strict Liability in Torts*, 81 YALE L. J. 1055, 1067-74 (1972).

¹⁵⁸ See RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* § 6.5 (8th ed. 2011).

¹⁵⁹ See *Beshada v. Johns-Manville Prod. Corp.*, 447 A.2d 539, 548 (N.J. 1982); POSNER, *supra* note 158, § 6.5.

and is accomplished through pricing. Finally, imposing liability on corporate officers could promote deterrence, but only if the officer has both knowledge of the infringement and the ability to prevent it. Imposing strict liability on officers without knowledge or control can have no deterrent effect.

While the courts are willing to enforce the statutory strict liability schemes of direct patent and copyright infringement against corporations, they are more hesitant to impose such a harsh liability regime upon individual actors, such as officers. So, the courts have tried to devise alternatives that minimize the finding of direct infringement in both areas. In the patent law field, the courts have turned to concepts relating to piercing of the corporate veil to assess officer liability. The problem with this, of course, is that it not only rewrites traditional corporate doctrine, but it essentially eliminates the protection of the corporate form for small and closely-held firms, where individuals are likely to wear dual hats as owners and officers. In the copyright arena, the regional circuits have tended to avoid the application of direct infringement liability based on personal participation, and have instead turned to indirect forms of infringement liability. However, the courts analyze officer liability as a form of vicarious liability, yet vicarious liability is really a form of agency law that holds the master strictly liable for the torts of the servant. Moreover, the multi-factor test that the courts have articulated is a strange conglomeration of factors that suggests a desire to look to an officer's intent to infringe, yet is inartfully worded.

The correct result would be to avoid direct infringement liability in almost all instances for officer liability in both patent and copyright cases, on the ground that it is virtually impossible for an officer, in his or her role as an officer, to personally undertake the acts that result in patent or copyright infringement. The corporation is indeed the direct infringer in the vast majority of cases. That is not to say, however, the officer should avoid liability in *every* instance. Rather, the officer's liability should be indirect, and should be supported by the appropriate test for such indirect infringement. In the patent arena, that is inducement of infringement, which has an explicit "intent" or *scienter* requirement. Similarly, officer liability for copyright infringement should be grounded in intent. The current, multi-factor, *Famous Music* test does a very poor job of teasing out the officer's intent, as it is not only framed in the alternative (as though only a single factor would suffice to establish liability), but it also seems to mix in notions of corporate ownership when it considers factors such as financial benefits as a major shareholder.

“Control” seems to offer the best proxy for evaluating the personal liability of an officer, and there are suggestions of the courts using this criterion in both the patent and copyright areas. To the extent that a corporate officer knew of the corporation’s infringement or was “willfully blind” to it,¹⁶⁰ and the officer was in a position to direct and decide whether the corporation did in fact infringe, it would seem to fair to hold that officer personally liable. Indeed, the Federal Circuit seems to be implicitly seeking fairness by using piercing analysis, which, though inapposite in this context, is nonetheless an equitable doctrine, to assess personal liability.

It would not take a great leap in doctrine to reach this result under the existing “inducement of infringement” language in Section 271(b) of the Patent Act.¹⁶¹ However, it would require a rewriting of the existing *Famous Music* vicarious liability test in the copyright field. Rewriting that test is warranted and easily accomplished. First, the *Famous Music* test is already specific to the corporate officer inquiry and is distinct from the general vicarious liability standard set forth in *H.L. Green Co.* The regional circuits have already established that officer liability requires a more specialized test than the general vicarious liability standard. In addition, there is already an established pattern of borrowing between patent and copyright doctrine; it seems eminently reasonable for copyright law to borrow from patent law in the officer liability area as well, particularly since there is no good reason to have different standards for evaluating officer liability in the patent and copyright fields. In short, the courts can reach the “fair” result they seem to be seeking in the officer liability field without completely jettisoning traditional doctrine.

V. CONCLUSION

The distinction between liability as a shareholder and liability as an officer seems clear on its face. However, in both the patent and copyright arenas, principles of officer liability deviate from traditional doctrine in ways that are inappropriate and that ignore the differences in the role of corporate officers and shareholders. While the differing statutory frameworks of patent and copyright law have caused officer liability in each area to devolve along different paths, in both areas, courts appear to have been motivated by a desire to limit inappropriate extension of strict

¹⁶⁰ *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068-69 (2011).

¹⁶¹ See *Oswald*, *supra* note 7, at 143–45.

liability to individual officers – but in both areas, they have gone about that effort in a manner that ignores traditional doctrine and that fails to provide corporate officers with appropriate protection from individual liability.

BIBLIOGRAPHY

Statutes and Codes

- United States Code, 15 U.S.C. § 501(a) (2012).
United States Code, 28 U.S.C. § 1295 (2012).
United States Code, 35 U.S.C. § 271(a), (b), and (c) (2012).
United States Code, 35 U.S.C. § 284 (2012).
United States Code, Copyright Act of 1976, 15 U.S.C. §§ 1 *et seq.* (2012).
United States Code, Patent Act of 1952, 35 U.S.C. §§ 1 *et seq.* (2012).

Cases

- Al-Site Corp. v. VSI Int'l, Inc., 174 F.3d 1308 (Fed. Cir. 1999).
Am. Fuel Corp. v. Utah Energy Dev. Co., 122 F.2d 130 (2d Cir. 1997).
Automotriz del Golfo de California S.A. de C.V. v. Resnick, 306 P.2d 1 (1957).
Bangkok Broadcasting & T.V. Co. Ltd. v. IPTV Corp., 742 F. Supp. 2d 1101 (C.D. Cal. 2010).
Beshada v. Johns-Manville Prod. Corp., 447 A.2d 539 (N.J. 1982).
Bewal, Inc. v. Minnesota Mining & Mfg. Co., 292 F.2d 159 (10th Cir. 1961).
Crigler v. Salac, 438 So.2d 1375 (Ala. 1983).
Dangler v. Imperial Machine Co., 11 F.2d 945 (7th Cir. 1926).
Dean Rubber Mfg. Co. v. Killian, 106 F.2d 316 (8th Cir. 1939).
Disney Enterprises, Inc. v. Hotfile Corp., 2013 U.S. Dist. LEXIS 172339 (S.D. Fla. Sept. 20, 2013).
Dole Food Co. v. Patrickson, 538 U.S. 468 (2003).
Donsco, Inc. v. Casper Corp., 587 F.2d 602 (3d Cir. 1978).
Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641 (1915).
Educ. Testing Serv. v. Simon, 95 F. Supp. 2d 1081 (C.D. Cal. 1999).
Emi Mills Music, Inc. v. Empress Hotel, Inc., 470 F. Supp. 2d 67 (D. P.R. 2006).
Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assoc., Inc., 423 F. Supp. 341 (D. Mass. 1976), *aff'd*, 554 F.2d 1213 (1st Cir. 1977).
Fish v. East, 114 F.2d 177 (10th Cir. 1940).
FMC Finance Corp. v. Murphree, 632 F.2d 413 (5th Cir. 1980).
Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996).
Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159 (2d Cir. 1971).
Global-Tech Appliances, Inc. v. SEB S.A., 131 S. Ct. 2060 (2011).
Greenman v. Yuba Power Prods., Inc., 377 P.2d 897 (Cal. 1963).
Hall v. Bed Bath & Beyond, Inc., 705 F.3d 1357 (Fed. Cir. 2013).
Hoover Group, Inc. v. Custom Metalcraft, Inc., 84 F.3d 1408 (Fed. Cir. 1996).
Jurgens v. CBK, Ltd., 80 F.3d 1566 (Fed. Cir. 1996).

- Krivo Indus. Supply Co. v. Nat'l Distillers & Chem. Corp., 483 F.2d 1098 (5th Cir. 1973), *modified per curiam*, 490 F.2d 916 (5th Cir. 1974).
- Limelight Networks, Inc. v. Akamai Techs., Inc., 134 S.Ct. 2111 (2014).
- Manville Sales Corp. v. Paramount Systems, Inc., 917 F.2d 544 (Fed. Cir. 1990).
- Marvin Music Co. v. BHC Lim Partnership, 830 F. Supp. 651 (D. Mass. 1993).
- Murphy Tugboat Co. v. Shipowners & Merchants Towboat Co., 467 F. Supp. 841 (N.D. Cal. 1979), *aff'd*, 658 F.2d 1256 (9th Cir. 1981).
- Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565 (Fed. Cir. 1986).
- Poppenhusen v. New York Gutta Percha Comb Co., 19 F. Cas. 1059 (C.C.S.D. N.Y. 1858).
- Roy Export Co. Establishment v. Trs. of Columbia Univ., 344 F. Supp. 1350 (S.D.N.Y. 1972).
- Rylands v. Fletcher, 3 H. & C. 744, 159 Eng. Rep. 737, *rev'd*, L.R. 1 (Ex. 265), *aff'd*, L.R. 3 H.L. 330 (1868) (English & Irish Appeals).
- Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 256 F. Supp. 399 (S.D.N.Y. 1966).
- Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304 (1963).
- Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984).
- Southwestern Tool Co. v. Hughes Tool Co., 98 F.2d 42 (10th Cir. 1938).
- Strang v. Hollowell, 387 S.E.2d 664 (N.C. Ct. App. 1990).
- Ted Browne Music Co. v. Fowler, 290 F. 751 (2d Cir. 1923).
- Telling v. Bellows-Claude Neon Co., 77 F.2d 584 (6th Cir. 1935).
- Walker v. Anderson, 232 S.W.3d 899 (Tex. App. 2007).
- Wechsler v. Macke Int'l Trade, Inc., 486 F.3d 1286 (Fed. Cir. 2007), *appeal withdrawn*, 274 Fed. Appx. 870 (Fed. Cir. 2008).
- Weller Mfg. Co. v. Wen Prods. Inc., 231 F.2d 795 (7th Cir. 1956).
- White v. Mar-Bel, Inc., 509 F.2d 287 (5th Cir. 1975).
- White v. Marshall, 693 F. Supp. 2d 873 (E.D. Wis. 2009).
- Word Music, LLC v. Lynns Corp. of Am., 2010 U.S. Dist. LEXIS 95559 (M.D. Tenn. Sept. 13, 2010).
- Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc., 609 F.3d 1308 (Fed. Cir. 2010).

Secondary Sources

- Calabresi, Guido, *Some Thoughts on Risk Distribution and the Law of Torts*, 70 YALE L. J. 499 (1961).
- Calabresi, Guido and Jon T. Hirschoff, *Toward a Test for Strict Liability in Torts*, 81 YALE L. J. 1055 (1972).
- CHISUM, DONALD S., CHISUM ON PATENTS (2012).
- Coolley, Ronald B., *Personal Liability of Corporate Officers and Directors for Infringement of Intellectual Property*, 68 J. PAT. & TM. OFF. SOC'Y 228 (1986).
- EPSTEIN, RICHARD A., MODERN PRODUCTS LIABILITY LAW (1980).
- Glynn, Timothy P., *Beyond "Unlimiting" Shareholder Liability: Vicarious Tort Liability for Corporate Officers*, 57 VAND. L. REV. 329 (2004).
- Grossman, Craig A., *The Evolutionary Drift of Vicarious Liability and Contributory Infringement: From Interstitial Gap Filler to Arbiter of the Content Wars*, 58 SMU L. REV. 357 (2005).

- Gugliuzza, Paul R., *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437 (2012).
- KEETON, W. PAGE ET AL., PROSSER & KEETON ON THE LAW OF TORTS (5th ed. 1984).
- Lowenstein, Mark J., *Veil Piercing to Non-owners: A Practical and Theoretical Inquiry*, 41 SETON HALL L. REV. 839 (2011).
- Oh, Peter B., *Veil-Piercing*, 89 TEX. L. REV. 81 (2010).
- Oswald, Lynda J., *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115 (2003).
- Oswald, Lynda J., *Strict Liability of Individuals Under CERCLA: A Normative Analysis*, 20 B.C. ENV'TAL AFF. L. REV. 579 (1993).
- POSNER, RICHARD A., ECONOMIC ANALYSIS OF LAW (8th ed. 2011).
- RESTATEMENT (SECOND) OF AGENCY (1958).
- RESTATEMENT (SECOND) OF TORTS (1977).
- RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY (1998).
- Statistics, Caseload by Category, Appeals Filed, 2013*, U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT (2012), at www.ca9c.uscourts.gov/the-court/statistics.html (accessed Sept. 8, 2014).
- Thompson, Robert B., *Piercing the Veil within Corporate Groups: Corporate Shareholders as Mere Investors*, 13 CONN. J. INT'L L. 379 (1999).
- Thompson, Robert B., *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036 (1991).
- White, Barbara Ann, *Economizing on the Sins of our Past: Cleaning up Our Hazardous Wastes*, 25 HOUS. L. REV. 899 (1988).
- Wietjes, Jason A. and Michael D. Pegues, *Director and Officer Liability for Inducement of Patent Infringement*, 21 INTELLECTUAL PROPERTY LITIGATION, no. 2, at p. 3 (Winter 2010) (published by ABA Section of Litigation, Intellectual Property Litigation Committee).
- www.uscourts.gov/FederalCourts.aspx.