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HOLDING CORPORATE OFFICERS STRICTLY LIABLE UNDER PATENT AND COPYRIGHT LAW

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The law encourages economic activity by limiting the personal liability of owners through the corporate form. Not surprisingly, corporate decisionmakers are also concerned with personal liability. Perhaps nothing is more important to a corporate officer than understanding when he or she may be personally liable for corporate liabilities. 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 personal 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 forms of intellectual property play a dual role: encouraging invention and creation but also providing for the public interest.¹ Most significantly, for purposes of this manuscript, the infringement of a

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¹ See *Sony Corp. v. Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (noting that the provision for protection of copyright and patent in Art. 1, § 8 of the U.S. Constitution “is intended to motivate the creative activity of authors and inventors by the provision of a special reward, or to allow the public access to the products of their genius after the limited period of exclusive control has expired,” but that “reward to the owner [is] a secondary consideration”). The third form of federal intellectual property, trademark law, focuses more on protection of and provision of accurate information to the consumer and less on promotion of the interests of the trademark owner. See *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 163-64 (1995) (“trademark law, by preventing others from copying a source identifying mark, ‘reduce[s] the customer’s costs of shopping and making purchasing decisions,’” and ‘helps assure a producer that it (and not an imitating competitor) will reap the financial-related rewards associated with a desirable product’) (citation omitted; brackets in original). Because of this difference in focus, this paper does not address officer liability for trademark infringement, leaving that topic to later exploration in another work. This topic is covered briefly in See Ronald B. Coolley, *Personal Liability of Corporate Officers and Directors for Infringement of Intellectual Property*, 68 J. PAT. & TRADEMARK OFF. SOC’Y 228, 238 (1986).

patent or a copyright is a tort.² 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. Thus, exploration of traditional doctrine is important as an initial starting point. However, corporate officer liability doctrines under both the Patent Act³ and Copyright Act⁴ diverge markedly from traditional corporate, agency, and tort doctrines. Why this is so? And what are the implications of this divergence?

Part I of this paper explores traditional corporate, agency, and tort law concepts. These include the corporate law doctrine that shields the corporate owners—shareholders—from liability in most instances. It also examines traditional tort law rules that impose liability upon a corporate officer for his or her own wrongful acts, and agency rules of *respondeat superior* that would impute that individual's actions to the corporation. Part II examines officer liability under the Patent Act, finding that the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) has inappropriately imposed liability upon corporate officers through a distorted application of piercing doctrine. In effect, the Federal Circuit uses doctrine applicable only to corporate *owner* liability to reach corporate *officers*. Similarly, Part III examines individual officer liability for copyright infringement, finding that 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. Part IV 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 that are fault-based, rather than strict, for corporate officers have caused the courts to create *sui generis* officer liability rules that are at odds with traditional doctrine. The goal of the courts is laudable, but their approach creates uncertainty and may impose liability in inappropriate situations. I propose a more direct approach to imposition of personal liability on corporate officers that focuses on culpability.

I. CORPORATE OFFICER LIABILITY UNDER TRADITIONAL DOCTRINE

² See *infra* notes 9 (patent law) & 148 (copyright law) and accompanying text.

³ 35 U.S.C. § 1 *et seq.* (2012).

⁴ 15 U.S.C. § 1 *et seq.* (2012).

When a corporation⁵ commits a tort or other wrongful act, that corporation, naturally, is liable for the harm or injury that ensues. In some instances, however, the plaintiff may seek to hold individual officers liable, in addition to the corporation. In any given case, we can speculate as to why a plaintiff seeks to extend liability to an individual officer, but the potential explanations are myriad and seldom articulated in the courts' opinions: perhaps because the corporation has insufficient funds to fully compensate for the infringement and so additional pockets are sought,⁶ because the plaintiff is seeking access to directors and officers insurance,⁷ because the individual's behavior is viewed as particularly culpable and need of punishment, because the 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 divisiveness between the corporation and its officers that will encourage settlement.⁸ Whatever the reason, the case law reveals that patent and copyright owners sometimes do seek to hold officers personally liable,⁹ and that the legal standards used to assess such personal liability deviate substantially from traditional tort and agency doctrines of corporate officers liability imposed in other contexts.

⁵ Like the shareholders of a corporation, *see, e.g.*, MODEL BUS. COR. ACT § 6.22(a) (2008) ("Unless otherwise provided in the articles of corporation, a shareholder of a corporation is not personally liable for the acts or debts of the corporation except that he may become personally liable by reason of his own acts or conduct."), members of limited liability companies ("LLCs") also enjoy the limited liability afforded to shareholders of corporations. *See, e.g.*, UNIF. LTD. LIAB. ACT § 303(a), 6B U.L.A. 587 (1996) ("A member or manager of [an LLC] is not personally liable for a debt, obligation, or liability of the company solely by reason of being or acting as a member or manager."). Commentators have addressed the application of piercing analysis to these non-corporation forms of limited liability entities. *See, e.g.*, Robert B. Thompson, *The Limits of Liability in the New Limited Liability Entities*, 32 WAKE FOREST L. REV. 1, 7 (1997) ("[We can expect a regular flow of cases seeking to pierce the veil of these new limited liability entities addressed to closely held businesses.>"). For ease of discussion, this manuscript refers only to "corporations," but the discussion should be seen as referring to other limited liability companies as well.

⁶ *See* Coolley, *supra* note 1, at 228 ("Personal liability of a corporate officers or director is advantageous to a plaintiff since it increases the number of pockets available for payment of damages and can increase the likelihood of settlement."); *Dangler v. Imperial Machine Co.*, 11 F.2d 945, 947 (7th Cir. 1926) ("There are . . . numerous authorities that hold the managing officers liable for damages committed by the corporation in case of infringements. The enforcement of this liability is seldom sought, except in the case of insolvency of the corporation.").

⁷ *See* Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 121 n.32 (2003).

⁸ *See* Jason A. Wietjes & Michael D. Pegues, *Director and Officer Liability for Inducement of Patent Infringement*, 21 INTELLECTUAL PROPERTY LITIGATION, no. 2, p. 3, 3 (Winter 2010) (published by ABA Section of Litigation, Intellectual Property Litigation Committee).

⁹ *See infra* Parts II (patent) and III (copyright).

The individual liability of corporate officers implicates the intersection of three areas of traditional legal doctrine: corporate, tort, and agency law. The question of which parties (if any) can be held liable for torts or other wrongdoings depends upon both the actions and the roles of the parties involved. 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.¹⁰ 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.¹¹ However, in extraordinary circumstances, liability can attach to either corporate officers or shareholders; that liability, however, differs depending upon whether individual to whom liability is extended is an owner or an officer, and the standards for imposing such liability likewise differ.

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

Normally, shareholders, whether individuals, parent corporations, or other affiliated groups, are protected from the debts and liabilities of the corporation (beyond their contribution to capital) by the principle of limited liability.¹² That limited liability can be ignored, however, where respecting it would “defeat public convenience, justify wrong, or protect fraud.”¹³ Imposition of liability upon corporate owners in such instances is known as “piercing the corporate veil.” Typically, the courts employ piercing only where: (1) the corporation was

¹⁰ See, e.g., *Walker v. Anderson*, 232 S.W.3d 899, 918 (Tex. App. 2007) (“A corporation is a separate legal entity from its shareholders, officers, and directors.”).

¹¹ See *FMC Finance Corp. v. Murphree*, 632 F.2d 413, 421 (5th Cir. 1980) (“A corporation is a legal entity existing separate and distinct from its shareholders, officers and directors, who as a general rule are not liable for the corporation’s debts and obligations.”); Frank H. Easterbrook & Daniel R. Fischer, *Limited Liability and the Corporation*, 52 U. CHI. L. REV. 89, 89-90 (1985) (“The rule of limited liability means that the investors in the corporation are not liable for more than the amount they invest. . . . The managers and other workers are not vicariously liable for the firm’s deeds.”).

¹² *Krivo Indus. Supply Co. v. Nat’l Distillers & Chem. Corp.*, 483 F.2d 11098, 1102 (5th Cir. 1973), *modified per curiam*, 490 F.2d 916 (5th Cir. 1974):

Basic to the theory of corporation law is the concept that a corporation is a separate entity, a legal being having an existence separate and distinct from that of its owners. This attribute of the separate corporate personality enables the corporation’s stockholders to limit their personal liability to the extent of their investment. . . . The corporate form, however, is not lightly disregarded, since limited liability is one of the principal purposes for which the law has created the corporation.

See also MODEL BUS. CORP. ACT. § 6.22(b) (2002) (“Unless otherwise provided in the articles of incorporation, a shareholder of a corporation is not personally liable for the acts or debts of the corporation except that he may become personally liable by reason of his own acts or conduct.”).

¹³ *Fish v. East*, 114 F.2d 177, 191 (10th Cir. 1940).

formed or used for an illegal, fraudulent, or unjust purpose, or (2) where 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).¹⁴ 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.”¹⁵

Although the term “piercing the corporate veil” is over 100 years old,¹⁶ there are relatively few examples of it in action.¹⁷ The act of piercing the corporate veil is considered an extraordinary event,¹⁸ and courts engage in it only on an infrequent basis. Glynn characterized the “[v]eil piercing jurisprudence [as] unpredictable, inconsistent, and largely unprincipled.”¹⁹ 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,²⁰ even though in

¹⁴ Oswald, *supra* note 7, at 120 (citing 1 WILLIAM MEADE FLETCHER ET AL., FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS FLETCHER, ET AL, §41.10 (rev. vol. West Group 1999)). In employing these tests, the courts look to factors such as whether the corporate formalities have been respected (i.e., has a board of directors been created, have corporate officers been appointed, and have corporate financial accounts and records been maintained?), see Mark J. Loewenstein, *Veil Piercing to Non-Owners: A Practical and Theoretical Inquiry*, 41 SETON HALL L. REV. 839, 846 (2011), and whether the corporation has been adequately capitalized. *Id.* at 847. See also *id.* at 848 (noting that “[b]ecause ‘formalities’ are not an issue in the operation of an LLC, courts generally focus on other factors, such as the use of the entity’s bank accounts to pay personal expenses, failure to maintain separate records, use of common facilities by the owners and the companies, and inadequate capitalization”).

Courts clearly value and respect for corporate formalities. One empirical study showed that courts pierce in two-thirds of cases in which corporate formalities were not observed, but did not pierce in over ninety percent of cases in which formalities were observed. See Robert B. Thompson, *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036, 1036 (1991).

¹⁵ *Automotriz del Golfo de Cal. v. Resnick*, 306 P.2d 1, 3 (1957); see 1 FLETCHER, *supra* note 14, § 41.30, at p. 619 (Supp. 2002).

¹⁶ See STEPHEN B. PRESSER, *PIERCING THE CORPORATE VEIL* § 1.5 (2009) (noting that the term was first used by Professor Maurice Wormser and citing Maurice Wormser, *Piercing the Veil of Corporate Entity*, 12 COLUM. L. REV. 496 (1912)) and § 1.3, at 1-12 (suggesting that the notion of limited liability for corporations was recognized in American common law shortly after the Revolutionary War but noting that “[t]he precise reach of corporate shareholder limited liability in the early United States is . . . uncertain”).

¹⁷ See *infra* note 20 (discussing Thompson & Oh studies).

¹⁸ See *Dole Food Co. v. Patrickson*, 538 U.S. 468, 475 (2003) (noted that veil piercing is a “rare exception, applied in the case of fraud or certain other exceptional circumstances”).

¹⁹ Timothy P. Glynn, *Beyond “Unlimiting” Shareholder Liability: Vicarious Tort Liability for Corporate Officers*, 57 VAND. L. REV. 330, 333 (2004).

²⁰ The seminal study was done by Thompson in 1991; he analyzed approximately 1,600 veil-piercing cases through 1985 and found that the corporate veil was pierced in 40.18% of the cases (or about 640 cases), but that all of

theory corporations with a sole or few shareholders are protected by limited liability in the same manner as corporations with many shareholders.²¹

B. Liability of Corporate Officers: Personal Participation

Under traditional corporate law doctrine, piercing of the corporate veil is used to hold *owners* (shareholders) of a corporation liable,²² not officers.²³ Officers generally are shielded from liability for the wrongful acts of their corporation unless they personally participated in a tort or other wrongful acts²⁴ “through affirmative actions of direction, sanction, or cooperation in the wrongful acts of commission or omission.”²⁵ Thus, officers are not held liable based on

those cases involved close corporations and corporate groups. See Robert B. Thompson, *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036, 1047-48 & table 1 (1991). See Thompson subsequently updated his study, adding 802 cases from 1986 through 1996; the new findings supported the original findings. 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).

Oh conducted an updated study in 2010, examining over 2,900 cases and finding that piercing occurred in almost 50% of the cases, but again, only against close corporations and corporate groups. Peter B. Oh, *Veil-Piercing*, 89 TEX. L. REV. 81, 110 (2010).

²¹ See 1 FLETCHER, *supra* note 14, at § 41.35, at pp. 665-66 (“[T]he mere fact that all or almost all of the corporate stock is owned by an individual or a few individuals will not afford sufficient grounds for disregarding corporateness.”).

²² *Donsco, Inc. v. Casper Corp.*, 587 F.2d 602, 606 (3d Cir. 1978) (“The effects of piercing the corporate veil is to hold the owner liable.”); See generally STEPHEN B. PRESSER, *PIERCING THE CORPORATE VEIL* § 1.1. (SUPP. 2010); Rebecca J. Huss, *Revamping Veil Piercing for all Limited Liability Entities: Forcing the Common Law Doctrine into the Statutory Age*, 70 U. CIN. L. REV. 95 (2001); John H. Matheson, *Why Courts Pierce: An Empirical Study of Piercing the Corporate Veil*, 7 BERKELEY BUS. L. J. 1, 20 (2010); David Million, *Piercing the Corporate Veil, Financial Responsibility, and the Limits of Limited Liability*, 56 EMORY L.J. 1305 (2004).

²³ See *Crigler v. Salac*, 438 So.2d 1375, 1380 (Ala. 1983) (citing *L.C.L. Theatres, Inc. v. Columbia Pictures Indus., Inc.*, 619 F.2d 455 (5th Cir. 1980) (individual officer liability for tortious acts “does not depend upon the same grounds as ‘piercing the corporate veil,’ that is, inadequate capitalization, use of the corporate form for fraudulent purposes, or failure to comply with the formalities of corporate organization”).

²⁴ See *Donsco*, 587 F.2d at 606 (“A corporate officer is individually liable for the torts he personally commits and cannot shield himself behind a corporation when he is an actual participant in the tort.”). Corporate officers do not incur similar liability for contractual obligations arising out of corporate activities. See, e.g., RESTATEMENT (SECOND) OF AGENCY § 320 (1958) (“A person making . . . a contract with another as agent for a disclosed principal does not become a party to the contract.”).

Parent corporations who are actively involved in the activities of their subsidiaries may be held directly liable for that involvement, see *United States v. Bestfoods*, 524 U.S. 51, 60-61 & n.8 (1998), in addition to be held indirectly liable as a shareholder (owner) under piercing analysis.

²⁵ See JOSEPH W. BISHOP, JR., *THE LAW OF CORPORATE OFFICERS AND DIRECTORS: INDEMNIFICATION AND INSURANCE* § 3.13 (1982) (“Participation by an officer in a wrongful act of the corporation may be found not solely on the basis of direct action but may also consist of knowing approval or ratification of unlawful acts.”); Oswald, *supra* note 7, at 118 (citing *Lobato v. Pay Less Drug Stores, Inc.*, 261 F.2d 406, 409 (10th Cir. 1958)). For a discussion of the types of

their mere status as officers,²⁶ but rather because of their active participation in wrongful acts,²⁷ whether those wrongful acts consist of torts or statutory or regulatory violations.²⁸

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 if he or she is acting on behalf of the principal.²⁹ Agency law provides that an individual's active participation in wrongdoing can lead to personal liability, 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.³⁰ In such instances, the plaintiff may pursue the

participation can lead to liability, see Martin Petrin, *The Curious Case of Directors' and Officers' Liability for Supervision and Management: Exploring the Intersection of Corporate and Tort Law*, 59 AM. U. L. REV. 1661, 1168-70 (2010).

²⁶ See *Murphy Tugboat Co. v. Shipowners & Merchants Towboat Co.*, 467 F. Supp. 841, 852 (N.D. Cal. 1979) ("Courts have, however, consistently stated that a corporate executive will not be held vicariously liable, merely by virtue of his office, for the torts of his corporation"), *aff'd*, 658 F.2d 1256 (9th Cir. 1981). *Bernstein v. Starret City, Inc.*, 758 N.Y.S.2d 658, 659 (N.Y. App. Div. 2003); *Bowling v. Holdeman*, 413 NE.2d 1010, 1014 (Ind. Ct. App. 1980).

²⁷ See *Escude Cruz v. Ortho Pharm. Corp.*, 619 F.2d 902, 907 (1st Cir. 1980) (noting requirement of "personal involvement by the corporate officers in some decision or action which is causally related to plaintiff's injury"); *Mill Run Assocs. v. Locke Prop. Co.*, 282 F.Supp.2d 278, 287 (E.D. Pa. 2003) (noting "general, if not universal, rule . . . that an officer of a corporation who takes part in the commission of a tort by the corporation is personally liable therefor . . ."); 3A FLETCHER, *supra* note 14, § 1137 ("An officer or director of a corporation is not personally liable for torts of the corporation or of its other officers and agents merely by virtue of holding corporate office, but can only incur personal liability by participating in the wrongful activity."). The scope of director liability is not explored in this article.

²⁸ *Citronelle-Mobile Gathering, Inc. v. Herrington*, 826 F.2d 16, 25 (Temp. Emerg. Ct. App. 1987) ("Furthermore, personal responsibility for corporate liability may attach when the individual's wrongful conduct causes the violation of a statute and accompanying regulations.").

²⁹ Note that a corporate director (as opposed to an officer) is not the corporation's agent and so is not at risk of this same type of individual liability. See RESTATEMENT (SECOND) OF AGENCY § 14C (2006) ("Neither the board of directors nor an individual director of a business is, as such, an agent of the corporation or of its members.") As explained in the Restatement, the individual director "has no power of his own to act on the corporation's behalf, but only as one of the body of directors acting as a board. Even when he acts as a member of the board, he does not act as an agent, but as one of the group which supervises the activities of the corporation." *Id.* cmt. b. Where the director also serves as an officer of the corporation, however, he or she is "necessarily an agent, and normally a general agent, of the corporation, since he [or she] acts on its behalf and subject to its control exercised through the board of directors." *Id.* This is just another variant of recognizing the different "hats" that an individual may wear within a corporation.

³⁰ RESTATEMENT (SECOND) OF AGENCY § 343 (1958) ("An agent who does an act otherwise a tort is not relieved from liability by the fact that he acted at the command of the principal or on account of the principal . . ."); 3A FLETCHER, *supra* note 13, § 1135 ("An individual is personally liable for all torts which that individual committed, notwithstanding the person may have acted as an agent or under directions of another. This rule applies to torts committed by those acting in their official capacities as officers or agents of a corporation.").

corporation, the individual officer, or both, and the liability of the officer will be joint and several with that of the corporation.³¹

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 recognize the different hats the individual is wearing and should distinguish carefully the grounds on which liability is being imposed. In the leading case of *Donsco, Inc. v. Casper Corp.*,³² 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."³³ The court noted that because officer liability is not rooted in a 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."³⁴ Rather, "[t]he only crucial predicate" to officer liability is the individual's "participation in the wrongful acts."³⁵

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. As explained in an 1858 case:

A corporation can only act by their [sic] agents. It can act only by those who are in their employ. And when one in the employ of a corporation, in the business of his employment, does an act for their benefit, and which they adopt, and

³¹ See *Strang v. Hollowell*, 387 S.E.2d 664, 666 (N.C. Ct. App. 1990) (citations omitted):

It is well settled that one is personally liable for all torts committed by him, including negligence, notwithstanding that he may have acted as agent for another or as an officer for a corporation. Furthermore, the potential for corporate liability, in addition to individual liability, does not shield the individual tortfeasor from liability. Rather, it provides the injured party a choice as to which party to hold liable for the tort.

³² 587 F.2d 602 (3d Cir. 1978).

³³ *Id.* at 606.

³⁴ *Id.*

³⁵ *Id.*

approve, and take advantage of, they will be deemed to have authorized the act, and will be as much bound by it as though expressly authorized.³⁶

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. Rather, the officer's liability must stem from his or her own personal participation in the the acts creating the liability, not her or her status.

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. As discussed above, piercing is a traditional corporate doctrine used to set aside the corporate form to hold corporate *owners* liable.³⁷ While this deviation from traditional doctrine can be explained partially by the specialized path that patent appeals takes, the statutory framework of the Patent Act and the court's desire to constrain the expansive strict liability of direct patent infringement more likely impel adoption of this misplaced theory.

A. Patent Infringement and the Role of the Federal Circuit

1. Infringement Liability Generally Under the Patent Act

Patent infringement is often described in traditional common law terms. A patent is a property interest of the patent holder,³⁸ infringement of the patent is a tortious taking of that property, and the patent infringer is thus a tortfeasor.³⁹ However, overlaid on these common law characteristics is the specific statutory scheme of patent infringement found in the Patent Act of 1952.⁴⁰

³⁶ *Poppenhusen v. New York Gutta Percha Comb Co.*, 19 F. Cas. 1059, 1063 (C.C.S.D. N.Y. 1858).

³⁷ *See supra* Part I.A.

³⁸ *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1915) (“[T]he exclusive right conferred by the patent was property, and the infringement was a tortious taking of the property.”).

³⁹ *See, e.g., Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931) (“Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee.”); *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1365 (Fed. Cir. 2008) (“Patent infringement is a tort . . .”).

⁴⁰ 35 U.S.C. § 1 *et seq.* (2012).

The Patent Act addresses both direct and indirect patent infringement in separate sections of Section 271. In particular, Section 271(a) 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”⁴¹ Section 271(a) has no intent element and so direct patent infringement is a strict liability offense.⁴² While a defendant’s lack of willfulness or lack of bad faith may affect the availability of enhanced damages under the Patent Act,⁴³ 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). Neither form of indirect infringement can exist in the absence of direct infringement by another.⁴⁴ Section 271(b) addresses inducement of infringement and provides: “Whoever actively induces infringement shall be liable as an infringer.”⁴⁵ 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.⁴⁶ Unlike the strict liability of direct infringement, inducement of infringement has an intent element.⁴⁷

The second form of indirect liability recognized by the Patent Act is contributory infringement. Section 271(c) holds liable “a party who sells a component with knowledge that the component is especially designed for use in a patented invention, and is not a staple article

⁴¹ 35 U.S.C. § 271(a). Utility patents typically extend for twenty years from the date of patent application. 35 U.S.C. § 154. Design patents endure for fourteen years from date of patent issuance. *Id.* § 173.

⁴² *See, e.g.,* Global Tech Appliances, Inc. v. SEB, S.A., 131 S. Ct. 2060, 2065 n.2 (2011) (“Direct infringement has long been understood to require no more than the unauthorized use of a patented invention [A] direct infringer’s knowledge or intent is ‘irrelevant.’”); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (“Infringement itself . . . is a strict liability offense.”).

⁴³ *See* 35 U.S.C. § 284 (the court, in its discretion, may increase damages up to three times the amount found or assessed).

⁴⁴ *See, e.g.,* Deepsouth Packing Co. v. Laitrim Corp., 406 U.S. 578 (1972); *Joy Techs. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993) (“Liability for either active inducement of infringement or for contributory infringement is dependent upon the existence of direct infringement.”). [The Federal Circuit seemed to call this into question in *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1031 (Fed. Cir. 2012) (per curiam) (en banc). [Note: that issue is before the Supreme Court right now; this footnote will be updated once that opinion is issued.]

⁴⁵ 35 U.S.C. § 271(b).

⁴⁶ *See* 17 DONALD S. CHISUM, CHISUM ON PATENTS § 17.04[4] (citing cases).

⁴⁷ After some degree of confusion in the lower courts, the U.S. Supreme Court determined in 2011 that inducement of infringement “requires knowledge that the induced acts constitute patent infringement,” *Global Tech*, 131 S. Ct. at 2068, and that “knowledge” encompasses “willful blindness.” *Id.* at 2068-69.

of commerce suitable for noninfringing use.”⁴⁸ The “classic” example of contributory infringement arises when a supplier sells a part that is necessary for and used in a patented product or process and that has no other use,⁴⁹ knowing that the intended use is infringing.⁵⁰ Although contributory infringement also has an intent element, it focuses more on the nature of the item sold than upon the status of the seller, and thus is not discussed further in this manuscript.

2. The Special Case of Federal Circuit Precedent

The federal courts are composed primarily of courts of general jurisdiction.⁵¹ While most federal law issues go to the regional circuit courts of appeal, patent cases fall under the specialized jurisdiction of the Federal Circuit. The Federal Circuit is a relative newcomer to the federal court system, having been created on October 1, 1982. The creation of this specialized appellate court has had profound effects upon the development of patent infringement doctrine,⁵² including officer liability doctrine.

Prior to creation of the Federal Circuit in 1982, appeals of patent cases were taken from the federal district courts to the regional circuit courts of appeals, while appeals from decisions of the Patent and Trademark Office (“PTO”) were taken to the Court of Customs and Patent Appeals.⁵³ Because each of the regional circuits sets its own precedents, interpretation of patent law could (and did) vary significantly from circuit to circuit, leading to forum-shopping by litigants.⁵⁴ Concerns about the efficacy and efficiency of patent law, coupled with a faltering economy, fear of decreasing American global commercial competitiveness, and the demands of

⁴⁸ 35 U.S.C. § 271(c).

⁴⁹ See *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

⁵⁰ See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (“alleged contributor [must know] that the combination for which his component was especially designed was infringing”).

⁵¹ See the Judicial Act of 1891, ch. 517, 26 Stat. 826 (creating basic structure of federal courts); www.uscourts.gov (describing current configuration of federal courts) (last visited May 24, 2014).

⁵² For example, the development of multi-actor patent infringement doctrine. See Lynda J. Oswald, *Simplifying Multiactor Patent Infringement Cases Through Proper Application of Common Law Doctrine*, 51 AM. BUS. L.J. 1 (2014).

⁵³ See Richard L. Revesz, *Specialized Courts and the Administrative Lawmaking System*, 138 U. PA. L. REV. 1111, 1125 & n.62 (1990) (citing 28 U.S.C. § 1338 (1982)).

⁵⁴ See H.R. Rep. No. 97-312, at 20 (1981) (noting “undue forum-shopping and unsettling inconsistencies” in patent litigation).

the patent bar and inventive community, drove Congress to create a new court—the Federal Circuit—that was intended to foster the development of patent doctrine.⁵⁵

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 nationwide jurisdiction over specific subject matter, and that jurisdiction is exclusive; i.e., it is not shared with other intermediate appellate courts. These subject matters include, in addition to patents, an eclectic mishmash of other topics: international trade, government contracts, certain trademark issues, federal personnel issues, veteran’s benefits, and public safety officers’ benefit claims.⁵⁶

Thus, the Federal Circuit is not exclusively a patent appellate court, which reflects a deliberate decision by Congress to create a specialized appellate court with a varied docket.⁵⁷ Nonetheless, patent cases now form the largest segment of the Federal Circuit’s caseload, comprising 47%, or almost one-half, of the appeals filed before the Federal Circuit in FY 2013.⁵⁸ The next largest category of cases pertained to personnel actions, which comprised only 17% of the total number of appeals filed.⁵⁹ It is not surprising, therefore, that the Federal Circuit is often viewed as a “patent court.”⁶⁰

Moreover, the specialized jurisdiction and patent-centric focus of the Federal Circuit’s caseload means that it does not see the broad range of cases presented to the regional circuits. This, in turn, contributes to the court’s erroneous interpretation and application of traditional doctrine in the context of individual officer liability for patent infringement.

B. The Development of Officer Patent Infringement Liability Doctrine

⁵⁵ See generally Christopher A. Cotropria, “*Arising Under*” Jurisdiction and Uniformity in Patent Law, 9 MICH. TELECOMM. & TECH. L. REV. 253, 259-61 (2003) (providing history of Federal Circuit’s creation); Paul R. Guigliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1455-57 (2012) (same).

⁵⁶ 28 U.S.C. § 1295 (2012).

⁵⁷ See S. Rep. No. 97-275, at 6 (1981):

This rich docket assures that the work of the proposed court will be broad and diverse and not narrowly specialized. The judge will have no lack of exposure to a broad variety of legal problems. Moreover, the subject matter of the new court will be sufficiently mixed to prevent any special interest from dominating it.

⁵⁸ *Statistics, Caseload by Category, Appeals Filed, 2013*, U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT (2012), at www.cafc.uscourts.gov/images/stories/the-court/Statistics/fy2013_filings_by_category.pdf.

⁵⁹ *Id.*

⁶⁰ Guigliuzza, *supra* note 55, at 1455.

The development of the rules pertaining to the individual liability of corporate officers for patent infringement has been explored elsewhere,⁶¹ and only a brief overview is provided here. This development 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.

1. Pre-Federal Circuit Liability Rules

Prior to the creation of the Federal Circuit in 1982, patent cases were heard in the regional circuit courts of appeal. The leading case on officer liability was *Dangler v. Imperial Machine Co.*,⁶² decided by the Seventh Circuit in 1926. The *Dangler* court noted that, at that point in time, the rules regarding personal liability of officers for patent infringement were confused and unclear.⁶³ Plaintiffs “seldom sought” to hold individual officers liable unless the corporation itself was insolvent,⁶⁴ and courts generally imposed liability only where the officers “acted outside the scope of their official duties.”⁶⁵

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, leaving the patent owner to cast about for other parties from whom to recover.⁶⁶ The two individual defendants were the president and secretary of the corporation; between them, they owned

⁶¹ See generally Ronald B. Cooley, *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; Ashley M. Fry, Note, *Corporate-Participant Liability for Direct Patent Infringement: A Look to Copyright Law's Vicarious Liability Analysis*, 2012 COLUM. BUS. L. REV. 284; Joseph M. Sauer, Note, *A Tear in the Corporate Veil: The Liability of Corporate Officers for Patent Infringement*, 37 DUQUESNE L. REV. 89 (1998); Patrick T. Schmidt, Note, *The Internalization of Corporate Patent Infringement: Challenging the Federal Circuit's Approach to Corporate-Participant Liability*, 88 TEX. L. REV. 217 (2009).

⁶² 11 F.2d 945 (7th Cir. 1926).

⁶³ *Id.* at 946 (“the authorities are not in accord”).

⁶⁴ *Id.* at 947 (“The enforcement of this liability is seldom sought, except in the case of insolvency of the corporation.”).

⁶⁵ *Id.*

⁶⁶ *Id.* at 945.

40% of the corporation's stock.⁶⁷ The plaintiff contended that the individual officers should be held personally liable because they had operated the corporation as a shell.⁶⁸

The Seventh Circuit disagreed, finding that managing officers of corporations were generally not liable for patent infringement of the corporation even if the infringement was "committed under their general direction."⁶⁹ However, the *Dangler* court went on to state, 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.*⁷⁰

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 its actions might infringe), and the corporation had sought appropriate legal counsel before proceeding.⁷¹ Thus, the court concluded, the case fell "far short of establishing any one of the situations for which the officer of the corporation may be held liable for the infringements of the corporation."⁷²

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"⁷³ was adopted by many subsequent courts.⁷⁴ The

⁶⁷ *Id.* at 946.

⁶⁸ *Id.* at 945.

⁶⁹ *Id.* at 947.

⁷⁰ *Id.* *Dangler* continues to be cited by the trial courts of the Seventh Circuit. *See, e.g.*, *Top Tobacco L.P. v. Midwestern Cash & Carry, L.L.C.*, 2014 U.S. Dist. LEXIS 7598, at *18 (N.D. Ill. Jan. 22, 2014); *Callanetics Mgt. Co. v. Pinckney*, 2013 U.S. Dist. LEXIS 173749, at *10 (N.D. Ill. Dec. 11, 2013).

⁷¹ 11 F.2d at 948.

⁷² *Id.*

⁷³ *Id.* at 947.

⁷⁴ *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); *S.W. Tool Co. v. Hughes Tools Co.*, 98 F.2d 42, 46 (10th Cir. 1938).

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 infringement⁷⁵ or because of his or her deliberate participation in the infringing acts.⁷⁶

2. Post-1982: The Development of Federal Circuit Doctrine

The Federal Circuit issued its first opinion on October 28, 1982, in which it adopted as binding precedent “the holdings of our predecessor courts, the United States Court of Claims and the United States Court of Customs and Patent Appeals, announced by those courts before the close of business 30 September 1982,” but declared itself not bound by the decisions of the regional circuit courts of appeal.⁷⁷ Thus, while the Federal Circuit started out with a substantial body of precedent upon which to draw, it also started out with significant freedom to create and develop its own precedents and doctrines.

a. Early Federal Circuit Cases: Erroneous Adoption of Piercing Analysis

Officer liability issues arose before the Federal Circuit soon after its creation, and just as quickly took a wrong analytical turn that continues to plague officer liability doctrine. The first such case to come before the Federal Circuit was *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*,⁷⁸ in 1986. The *Orthokinetics* court found that three individuals, all officers and shareholders of two corporations accused of infringement, could be held individually liable for

⁷⁵ See, e.g., *White*, 509 F.2d at 292-93 (defendant “was the incorporator, president, majority stockholder, and moving force which resulted in the manufacture of the accused device [and] participated in the manufacture and sale of his machine”); *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 728-29 (9th Cir. 1964) (defendant-officer was the “moving active conscious force” behind the corporation’s infringement and “is therefore subject to personal liability without regard to whether [the corporation] is his alter ego”); *Marks v. Polaroid Corp.*, 237 F.2d 428, 435 (1st Cir. 1956) (defendant-officer “was the moving, active conscious force behind” the corporation’s infringement).

⁷⁶ See, e.g., *Bewal, Inc. v. Minnesota Mining & Mfg. Co.*, 292 F.2d 159, 167 (10th Cir. 1961) (corporate officers who “wilfully and knowingly participate in, induce and approve of acts of infringement . . . are liable with the corporation for the wrongful acts”); *Weller Mfg. Co. v. Wen Prods. Inc.*, 232 F.2d 795, 801 (7th Cir. 1956) (holding liable defendant-officer who deliberately designed the infringing product and who “was at all times in control of the administrative and managerial policy of the corporation”); *Southwestern Tool Co. v. Hughes Tool Co.*, 98 F.2d 42, 45-46 (10th Cir. 1938) (holding liable defendant-officer who used the corporation “as an instrument to carry out his own deliberate infringement”).

⁷⁷ *S. Corp. v. United States*, 690 F.2d 1368, 1369 (Fed. Cir. 1982) (en banc).

⁷⁸ 806 F.2d 1565, 1578 (Fed. Cir. 1986).

direct infringement under Section 271(a) and for inducement of infringement under Section 271(b).⁷⁹

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. First, the court stated that "[i]nfringement is a tort and officers of corporation are personally liable for tortious conduct of the corporation if they personally took part in the commission of the tort or specifically directed other officers, agents, or employees of the corporation to commit the tortious act."⁸⁰ This statement is, of course, a reiteration of the general principles of general tort and agency law that typically govern the personal liability of corporate officers⁸¹ and is unobjectionable on its face.

However, 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."⁸² 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.⁸³ 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]."⁸⁴

It is hard to divine the relevance of these two factors for either officer or owner liability. The mere fact that a corporate owner is in a position to benefit from the sale of an infringing device is insufficient grounds to impose liability upon him or her:

⁷⁹ *Id.*

⁸⁰ *Id.* at 1579.

⁸¹ See *supra* Part I.B.

⁸² *Id.* at 1579.

⁸³ See *supra* notes 12-13 and accompanying text (discussing piercing)

⁸⁴ *Orthokinetics*, 806 F.2d at 1579.

Even in their role as shareholders, the individuals are not automatically liable simply because they are likely to profit monetarily from the corporation's infringing acts. A rule so holding would make *all* shareholders automatically personally liable if illegal or infringing acts of the corporation led to financial gain, even if those acts were unintentional or inadvertent. Rather, the additional indicia needed to pierce the corporate veil must be shown before shareholders forfeit the protection of the corporate form.⁸⁵

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"⁸⁶ items is equally perplexing as a factor relating to officer liability. Although direct participation in a tortious act can lead to individual officer liability, the *Orthokinetics* court did not inquire into such direct participation by the corporate officers, seeming instead to ground its analysis in the fact that the individuals, as officers, had the authority 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.

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." 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.⁸⁷ 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.⁸⁸

⁸⁵ Oswald, *supra* note 7, at 132.

⁸⁶ 806 F.2d at 1578.

⁸⁷ *Automotriz*, 306 P.2d at 3-4.

⁸⁸ See *supra* notes 45-47 and accompanying text (discussing inducement of infringement).

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.*,⁸⁹ in 1990, the court found that two corporate officers⁹⁰ were not liable for direct infringement under Section 271(a) because the required "evidence to justify piercing the corporate veil" was not present.⁹¹ The *Manville* court stated that "[a]lthough facts support the conclusion that the officers had knowledge of their acts, these acts were within the scope of their employment and thus were protected by the corporate veil."⁹² The *Manville* court also found 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.⁹³ Thus, the *Manville* court displayed a complete lack of understanding of the differing roles of owners and officers in corporations, and the differing standards of liability that apply to each such role.

The Federal Circuit attempted to correct its wrong direction on officer liability in *Hoover Group, Inc. v. Custom Metalcraft, Inc.*⁹⁴ in 1996, but the remedial measures were short-lived. While *Orthokinetics* had held that officers could be personally liable under "general principles relating to piercing the corporate veil,"⁹⁵ *Hoover Group* sought to constrain this holding by noting 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,"⁹⁶ and that piercing the corporate veil to impose personal liability upon officers was appropriate "only in limited circumstances."⁹⁷ Rather, the *Hoover Group* court stated, "[w]hen a person *in a control position* causes the corporation to commit a civil wrong, imposition of

⁸⁹ 917 F.2d 544 (Fed. Cir. 1990).

⁹⁰ The appellate court looked only the actions of these individuals in their role as officers, and did not address whether they were also shareholders. *Id.* at 553-54.

⁹¹ *Id.* at 552.

⁹² *Id.* at 553. The *Manville* court cited *A. Stucki Co. v. Worthington Industries, Inc.*, 849 F.2d 593 (Fed. Cir. 1988), a 1988 Federal Circuit decision that addressed the liability of a parent corporation for a subsidiary's patent infringement—in other words, a classic example of using piercing to reach a corporate *owner*.

⁹³ *Id.* The *Manville* court cited a 1967 Third Circuit decision, *Zubik v. Zubik*, 384 F.2d 267 (3d Cir. 1967), which evaluated the liability of an individual in his capacity as a shareholder for the torts of his closely-held corporation. *Id.*

⁹⁴ 84 F.3d 1408 (Fed. Cir. 1996).

⁹⁵ *Id.* at 1411.

⁹⁶ *Id.* (citing *Manville*, 917 F.2d at 553).

⁹⁷ *Id.*

personal liability requires consideration of the nature of the wrong, the culpability of the act, and whether the person acted in his/her personal interest or in that of the corporation.”⁹⁸ Although the use of the term “control” is concerning because of its lack of precision,⁹⁹ and suggests that mere ability to control, rather than actual exercise of the same, is sufficient, the remainder of the state articulates the correct rule: an officer may be held personally liable for his or her personal participation in the wrongdoing.

Unfortunately, while *Hoover Group* seemed to be backing away from the statements in *Orthokinetics* and *Manville* that individual liability can only be based in a piercing of the corporate veil, it did not completely jettison application of piercing analysis to corporate officers. Rather, 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 officer¹⁰⁰—effectively, getting only one-half of the analysis correct. Moreover, the court’s explanation for why the officers involved were not liable was inaccurate; further, it erroneously indicated that officer liability could not be imposed in the absence of veil piercing:

Unless the corporate structure is a sham, as is not here asserted, personal liability for inducement to infringe is not automatic but must be supported by personal culpability. The district court did not find bad faith or fraud or culpable intent on the part of [the individual]. The court erred in imposing liability although the corporate veil was not pierced.¹⁰¹

The Federal Circuit’s next foray into officer liability, in *Al-Site Corp. v. VSI International, Inc.*,¹⁰² decided in 1999, returned Federal Circuit doctrine firmly back to the erroneous precedents set in *Orthokinetics* and *Manville*. The *Al-Site Corp.* court noted that “[p]ersonal liability under § 271(a) . . . requires sufficient evidence to justify piercing the corporate veil,”¹⁰³ and that “[t]he most common reason” for ignoring the corporate form is that the ““corporation was merely the alter ego of its officers.””¹⁰⁴ The plaintiff had sued a corporation and its

⁹⁸ *Id.* (emphasis added) (citing 3A FLETCHER, *supra* note 14, at §§ 1134-1166 (rev. vol., West 1994)).

⁹⁹ *See infra* Part IV.

¹⁰⁰ 84 F.3d at 1411-22.

¹⁰¹ *Id.* at 1412.

¹⁰² 174 F.3d 1308 (Fed. Cir 1999).

¹⁰³ *Id.* at 1331 (citing *Manville*, 917 F.2d at 552).

¹⁰⁴ *Id.*

chairman and chief executive officer, Myron Orlinsky, for infringement of a patent on hanger tags used on a display rack for eyeglasses. Although Orlinsky had “made the sole decision to continue using the hanger tags” after the corporation had received a cease and desist letter from the plaintiff,¹⁰⁵ he did so in “a good faith belief of noninfringement engendered by advice of counsel.”¹⁰⁶ 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.¹⁰⁷

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 addressing officer liability for patent infringement. For example, in *Wechsler v. Macke Int’l Trade, Inc.*,¹⁰⁸ decided in 2006, 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.¹⁰⁹ The district court granted summary judgment that Macke was not O’Rourke’s alter ego.¹¹⁰ The appellate court affirmed, but without explicitly stating whether it was looking at O’Rourke’s role as an owner or as an officer.¹¹¹

¹⁰⁵ *Id.* at 1314.

¹⁰⁶ *Id.* at 1331.

¹⁰⁷ *Id.*

¹⁰⁸ 486 F.3d 1286 (Fed. Cir. 2007).

¹⁰⁹ *Id.* at 1289.

¹¹⁰ The trial court had granted judgment as a matter of law (“JMOL”) that O’Rourke was personally liable for inducing Macke’s infringement of the patent. The trial court found that Special Verdict No. 1 (that O’Rourke was not personally liable for inducing Macke’s infringement) was inconsistent with Special Verdict No. 3 (that O’Rourke and Macke willfully infringed the patent). The trial court’s solution was to “essentially discard[]” Special Verdict No. 1. *Id.* at 1290

¹¹¹ There was a second issue involving inducement and willful infringement in the case that is beyond the scope of this paper. At trial, the jury found that O’Rourke was not personally liable for infringement, but that the “defendants” willfully infringed. The district court granted judgment as a matter of law (“JMOL”) that individual was personally liable for infringement on the grounds that a corporation does not act independently of its sole principal and that a finding of willful infringement by the corporation is necessarily a finding of willful infringement by that principal as well. The appellate court reversed, finding that the trial court’s logic—that “a person that incorporates him or herself to conduct business can never escape personal liability for willful infringement by the corporation,” *id.* at 1292,—was erroneous. Rather, the appellate court noted, the standard for personal liability is

The *Weschler* court began by addressing the source of applicable law. Corporate and agency law doctrines stem from state, not federal, doctrine. Because these doctrines (including alter ego doctrine) are not unique to patent law (which is, of course, exclusively federal law), the Federal Circuit applies the law of the regional circuit in which the case originated.¹¹² The law of the Ninth Circuit thus applied here, and that regional circuit in turn applies the law of the forum state, which in this instance was California.¹¹³ California's jurisprudence regards application of the alter ego doctrine as an extraordinary measure and applies it "only reluctantly and cautiously,"¹¹⁴ 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.'"¹¹⁵

While the plaintiff argued that O'Rourke's status as sole owner, director, and officer of Macke supported a piercing of the corporate veil,¹¹⁶ the appellate court noted that sole ownership is insufficient grounds for a piercing; rather, "[b]ad faith in one form or another" was

based upon "personal culpability" and "requires the officer to have possessed a specific intent to 'aid and abet' the infringement", *id.* at 1292 (citing *Water Techs. Corp.*, 850 F.2d at 668); as such, it is distinct from the willful infringement inquiry of "whether the infringer had a good faith belief that the patent was invalid and/or not infringed." *Id.* (citing *SRI Intern., Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1464 (Fed. Cir. 1997)). Interestingly, the appellate court's rather muddled analysis seemed to suggest that the appellate court was implicitly recognizing the distinction between the liability of owners (where the corporation must be a "sham") and the liability of officers (which requires personal culpability), albeit in the specific context of willful infringement:

Under the district court's logic, a person that incorporate s him or herself to conduct business can never escape liability for willful infringement by the corporation. This is inconsistent with our case law. Unless the corporate structure is a sham, we have held that personal liability for inducement must be supported by personal culpability. This requires the officer to have possessed a specific intent to "aid and abet" the infringement. A primary consideration for willful infringement, on the other hand, is whether the infringer had a good faith belief that the patent was invalid and/or not infringed. The two standards are not the same. For example, a corporate officer could negligently believe that a patent was invalid and/or not infringed. This might support a finding of willful infringement by the corporation, but not a finding of personal liability for the officer.

Id. at 1292 (citations omitted).

¹¹² *Id.* at 1295 (citing *Insituform Techs., Inc. v. CAT Contracting, Inc.*, 385 F.3d 1360, 1380 (Fed. Cir. 2004) (citing *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574-75 (Fed. Cir. 1984)).

¹¹³ *Id.* (citing *Towe Antique Ford Found. v. IRS*, 999 F.2d 1387, 1391 (9th Cir. 1993)).

¹¹⁴ *Id.* (citing *Las Palmas Assocs. v. Las Palmas Ctr. Assocs.*, 235 Cal. App. 3d 1220, 1249, 1 Cal. Rptr. 2d 301 (1991)).

¹¹⁵ *Id.* (citing *Firstmark Capital Corp. v. Hempel Fin. Corp.*, 859 F.2d 92, 94 99th Cir. 1988) (ellipses in *Weschler*).

¹¹⁶ *Id.* at 1295 (citing *Carlesimo v. Schwebel*, 197 P.2d 167 (1948)).

required.¹¹⁷ 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.¹¹⁸ However, the appellate court found that none of these assertions raised a genuine issue of material fact¹¹⁹ and that no reasonable jury could have found that Macke was the alter ego of O'Rourke, making the trial court's grant of summary judgment correct.¹²⁰

The appellate court's analysis in *Wechsler* was a correct application of piercing analysis in the context of O'Rourke's status as a shareholder. However, the plaintiff lumped owner and officer liability together, and the appellate court never drew the explicit distinctions that would clarify: (1) that piercing and alter ego doctrine was relevant to O'Rourke only in his status as a corporate owner, and (2) that any liability that might attach to him in his role as corporate officer would have to be based on personal participation (or personal "culpability," as the *Wechsler* court called it).

In 2010, a chink in the Federal Circuit's piercing doctrine began to emerge in *Wordtech Systems v. Integrated Networks Solutions*.¹²¹ Although the Federal Circuit again applied a piercing analysis to individual officers, this time the court also hinted at the problematic nature of its precedent. The corporation at issue was a small family business, managed by the two sons of the founder, both of who denied they were officers but admitted they ran the company.¹²² The jury had found the corporation and two individual defendants liable for direct patent infringement, as well as for inducement of infringement and contributory infringement.¹²³

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.* at 1295.

¹²⁰ *Id.* at 1297.

¹²¹ 609 F.3d 1308 (Fed. Cir. 2010).

¹²² *Id.* at 1311.

¹²³ *Id.* at 1310. With regard to the contributory infringement issue, the court found that while the corporate form "does not shield officers from liability for personally participating in contributory infringement," *id.* at 1317, the plaintiff had failed to provide proof of the necessary elements for such infringement, thus necessitating remand for new trial. *Id.* Contributory infringement is not considered further in this article.

On appeal, the Federal Circuit reversed and remanded the case¹²⁴ because the trial court had failed to provide jury instructions on piercing of the corporate veil¹²⁵—and piercing, under Federal Circuit precedent, was necessary to impose direct liability upon individual officers under Section 271(a).¹²⁶ The *Wordtech* court noted in a footnote that commentators have argued that veil piercing does not apply to officers,¹²⁷ but found that it could not address that issue in the case before it for two reasons. First, the parties had not argued that the individuals were owners, nor did the parties draw any distinctions between owner and officer liability.¹²⁸ Second, unless and until this issue is raised and addressed *en banc* by the Federal Circuit, panels are bound by previous precedent, which is the piercing theory articulated in *Orthokinetics*.¹²⁹ Thus, the *Wordtech* court suggested that veil piercing is not the proper test for officers, yet failed to develop this analysis.

Imposition of personal liability upon the two individuals in the absence of instructions about whether the entity was indeed a valid corporation and about piercing of the corporate veil was, in the appellate court’s view, “plain error that requires a new trial,” as the plaintiff bore the burden of showing that either the entity was not a valid corporation when the individuals committed infringing acts on its behalf (and thus was not protected by limited liability) or that the corporation was valid and its veil should be pierced under state law.¹³⁰

With regard to the inducement of infringement claim, the *Wordtech* court stated that “[t]he corporate veil can shield officers from liability under § 271(a),”¹³¹ 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.”¹³² The court highlighted, in a footnote, its discomfort 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

¹²⁴ *Id.* (noting that on remand, the trial court was to address, *inter alia*, “ the issues of piercing [the entity’s] corporate veil and [the entity’s] corporate status”).

¹²⁵ *Id.* at 1314.

¹²⁶ *Id.* at 1313 (citing *Orthokinetics*, 806 F.2d at 1579).

¹²⁷ *Id.* at n.2 (citing [Oswald, *supra* note 7]).

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *Id.* at 1314.

¹³¹ *Id.* at 1315-16.

¹³² *Id.* at 1316 (citing *Manville*, 917 F.2d at 553; *Hoover*, 84 F.3d at 1412).

officer and owner liability under existing precedent, but noted that the issues could not be resolved on the record before it and so were “left for another day.”¹³³

The Federal Circuit’s most recent discussion of individual officer liability for patent infringement came in *Hall v. Bed Bath and Beyond, Inc.*¹³⁴ in 2013. The discussion there was brief and more of a casual aside. Nonetheless, the case reconfirms the Federal Circuit’s incorrect path for officer individual liability, thus compounding a series of errors in the law.

The plaintiff in *Hall* sued Bed, Bath & Beyond for design patent infringement, also alleging inducement of infringement by Farley Nachemin, the Vice-President and 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.”¹³⁵ 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 the veil.”¹³⁶ Thus, the New York doctrine itself revealed that veil-piercing is relates to owner liability, not officer liability,¹³⁷ and thus was inapposite to the case before it, where the individual was clearly liable only as an officer, not an owner. Ultimately, the Federal Circuit did not reach the merits of this argument. The district court had dismissed 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. The Federal Circuit affirmed the dismissal on these procedural timing grounds.

C. Summary

Why does the Federal Circuit persist in applying the blatantly incorrect piercing doctrine to the evaluation of the personal liability of corporate officers for patent infringement? One

¹³³ *Id.* at 1316 n.3.

¹³⁴ 705 F.3d 1357 (Fed. Cir. 2013).

¹³⁵ *Id.* at 1365 (quoting *Orthokinetics*, 806 F.2d at 1578-79)).

¹³⁶ *Id.* (emphasis added) (quoting *Am. Fuel Corp. v. Utah Energy Dev. Co.*, 122 F.2d 130, 134 (2d Cir. 1997)).

¹³⁷ And, in fact, a parenthetical to the Second Circuit opinion cited by the *Hall* court in support of its holding also talks in terms of owner liability, when it discusses piercing the corporate veil in order to hold a parent corporation liable for the acts of the subsidiary. *Wm. Passalacqua Builders, Inc. v. Resnick Developers South, Inc.*, 933 F.2d 131, 138 (2d Cir. 1991).

answer might be that the Federal Circuit, as a specialized federal appellate court, has little opportunity to interact with traditional corporate law doctrine across a wide variety of settings (as do the regional circuit courts of appeal). A search of the Federal Circuit's decisions available on Lexis from the inception of the Federal Circuit in 1982 to March 16, 2014, revealed a total of 24 majority opinions and two dissents in which piercing of the corporate veil was addressed in substantive detail.¹³⁸ Of those 24 majority opinions, 21 of them addressed patent law issues.¹³⁹ The remaining three consisted of an appeal from the Court of International Trade,¹⁴⁰ bankruptcy,¹⁴¹ and a debt collection claim under the Small Business Act.¹⁴²

However, as the next Part illustrates, the regional circuit courts of appeal also apply inapposite theories in assessing the individual liability of corporate officers for *copyright* infringement, although their errors take them down a different analytical path. The fact that

¹³⁸ The terms "piercing," "corporate," and "veil" were searched in Federal Circuit cases LEXIS Advance from 1982 to March 16, 2014, resulting in 365 cases. The search was then narrowed to "corporate veil," resulting in 35 cases. Those cases were examined to determine if the rationale behind veil piercing was discussed in substantial detail, or whether the doctrine was only referred to in a cursory manner, without analysis.

¹³⁹ See *Taurus IP, LLC v. DaimlerChrysler Corp.*, 726 F.3d 1306 (Fed. Cir. 2013) (reverse piercing); *Hall v. Bed Bath & Beyond, Inc.*, 705 F.3d 1357 (Fed. Cir. 2013); *Kippen v. Pack*, 491 Fed. Appx. 187 (Fed. Cir. 2012); *Wordtech Sys. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308 (Fed. Cir. 2010); *Dow Jones & Co. v. Ablaise Ltd.*, 606 F.3d 1338 (Fed. Cir. 2010); *Tiger Teams Techs., Inc. v. Synesi Group, Inc.*, 371 Fed. Appx. 90 (Fed. Cir. 2010); *Weschler v. Macke Int'l Trade, Inc.*, 486 F.3d 1286 (Fed. Cir. 2007); *Insituform Techs. v. CAT Constr., Inc.*, 385 F.3d 1360 (Fed. Cir. 2004); *Sys. Div., Inc. v. Teknek Elecs., Ltd.*, 253 Fed. Appx. 31 (Fed. Cir. 2007); *Tegal Corp. v. Tokyo Electron Co.*, 2002 U.S. App. LEXIS 1992 (Fed. Cir. Feb. 1, 2002); *In re Al-Site Corp.*, 2000 U.S. App. LEXIS 2537 (Fed. Cir. Feb. 1, 2000) (writ of mandamus); *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308 (Fed. Cir. 1999); *3D Sys. V. Aarotech Labs., Inc.*, 160 F.3d 1373 (Fed. Cir. 1998); *Phonometrics, Inc. v. Resinter N. Am. Corp.*, 1997 U.S. App. LEXIS 26574 (Fed. Cir. Sept. 17, 1997); *Semiconductor Energy Lab. Co. v. Samsung Elecs. Am.*, 1997 U.S. App. LEXIS 15005 (Fed. Cir. June 23, 1997) (reverse piercing); *Hoover Group v. Custom Metalcraft*, 84 F.3d 1408 (Fed. Cir. 1996); *Nam Jin Yeu v. Kim*, 1991 U.S. App. LEXIS 17880 (Fed. Cir. July 31, 1991); *Manville Sales Corp. v. Paramount Sys.*, 917 F.2d 544, 552 (Fed. Cir. 1990); *A. Stucki Co. v. Worthington Industries, Inc.*, 849 F.2d 593 (Fed. Cir. 1988); *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565 (Fed. Cir. 1986); *Minn. Mining & Mfg. Co. v. Eco Chem.*, 757 F.2d 1256 (Fed. Cir. 1985).

Three dissenting opinions also raised piercing. See *Hunt Trust Estate v. United States*, 470 F.3d 1044 (Fed. Cir. 2006) (Gajarsa, J., dissenting); *Cygnus Telecoms. Tech., LLC v. Totalaccess.com, Inc.*, 345 F.3d 1373 (Fed. Cir. 2003) (Prost, J., dissenting); *Ohio Cellular Prods. Corp. v. Adams USA, Inc.*, 175 F.3d 1343 (Fed. Cir. 1999) (Newman, J., dissenting).

¹⁴⁰ See *United States v. Trek Leather, Inc.*, 724 F.3d 1330 (Fed. Cir. 2013) (stating that piercing and alter ego theory are avenues for evaluating a corporate officer's liability for the corporation's violation of 19 U.S.C. § 1592(a)).

¹⁴¹ See *Institut Pasteur v. Cambridge Biotech Corp.*, 186 F.3d 1356 (Fed. Cir. 1999) (bankruptcy court properly pierced to reach parent of a wholly owned subsidiary in a patent licensing case).

¹⁴² See *McCall Stock Farms v. United States*, 14 F.3d 1562 (Fed. Cir. 1993) (finding Small Business Administration's decision to pierce the corporate veil of a parent corporation was not arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law).

both copyright and patent law use analytically incorrect theories to assess officer liability suggests that while the Federal Circuit's specialized jurisdiction might be *one* factor in the incorrect articulation of officer liability for patent infringement, other factors are likely at play as well.

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 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, less in need of commentary and criticism. However, closer examination reveals that that 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.¹⁴³ However, the avenue for appeals is different in patent and copyright cases. 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. Two significant consequences flow from this difference. First, because there are multiple circuit courts involved, each of which sets its own precedent, there is a potential for circuit splits in copyright law that does not exist in patent law.¹⁴⁴ Thus, copyright law tends to be less uniform than patent law, which emanates from a single intermediate appellate court.

¹⁴³ See *Ted Browne Music Co. v. Fowler*, 290 F. 751, 754 (2d Cir. 1923) (“Courts have long recognized that infringement of a copyright is a tort, and all persons concerned therein are jointly and severally liable as such joint tort-feasors.”). Whether a copyright is a property interest is subject to some debate. See, e.g., Tom W. Bell, *Copyright as Intellectual Privilege*, 58 SYRACUSE L. REV. 523 (2007-08) (arguing copyright should be viewed as a privilege, not a property interest); Richard Epstein, *Liberty v. Property? Cracks in the Foundation of Copyright Law*, 42 SAN DIEGO L. REV. 1 (2005) (offering Lockean justification for copyright as property); Adam Mossoff, *Is Copyright Property?*, 42 SAN DIEGO L. REV. 29 (2005) (summarizing debate about whether copyright is property and arguing digital copyrights are property).

¹⁴⁴ Such circuit splits provide rich fodder for student commentators. See, e.g., Jonathan L. Kennedy, Note, *Double Standard and Facilitated Forum Shopping: A Historical Approach to Resolving the Circuit Split on Copyright Registration Timing*, 60 DRAKE L. REV. 305 (2011-12) (discussing circuit split in acts required to satisfy the registration requirements of § 411(a) of Copyright Act); Emily A. Caldwell, Note, *Can the Application of Laches Violate the Separation of Powers? A Surprising Answer from a Copyright Circuit Split*, 44 VAL. U. L. REV. 469 (2010) (discussing circuit split in whether a plaintiff can be barred from bringing a suit within the Copyright Act's 3-year statute of limitations by the equitable doctrine of laches); Shana Dines, Note, *Actual Interpretation Yields “Actual Dissemination”: An Analysis of the “Make Available” Theory Argued in Peer-to-Peer File-sharing Lawsuits, and Why Courts Ought to Reject It*, 32 HASTINGS COMM. & ENT. L., J. 157 (2009) (discussing circuit split in whether unauthorized distribution for purposes of copyright law requires that work be “actually disseminated” versus “made available”).

Second, because the regional circuit courts are generalist, not specialized, courts, they hear cases across a much more diverse range of topics. They are far more likely than the Federal Circuit to hear cases posing issues of traditional corporate, agency, and tort law concepts and in a much broader expanse of settings. 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 piercing doctrine to hold corporate officers liable for copyright infringement,¹⁴⁵ copyright infringement cases do reveal other articulations of officer liability that are at odds with traditional doctrine.

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. Traditional corporate, agency, and tort doctrines apply, and *respondeat superior* is invoked to hold the master (e.g., the corporation) liable for the infringing acts of the agent (employee or officer).¹⁴⁶ 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—a question made more complicated in the copyright area by the Copyright Act’s more limited statutory infringement provisions.

1. Direct Infringement

The statutory language of the Copyright Act provides for direct infringement (but not indirect, i.e., secondary, infringement).¹⁴⁷ The actor who engages in infringing actions under the Copyright Act (such as reproduction, distribution, or copying¹⁴⁸) is liable as a direct infringer.¹⁴⁹ Direct copyright infringement, like direct patent infringement, is a strict liability,¹⁵⁰ although the strict liability in copyright is, in a sense, less “strict” than in patent because of the presence of

¹⁴⁵ See *infra* Part III.B.3.

¹⁴⁶ *Id.* (citations omitted); see also *Disney Enterprises, Inc. v. Hotfile Corp.*, 2013 U.S. Dist. LEXIS 172339 (S.D. Fla. Aug. 28, 2013) (“Vicarious copyright liability has been described as a variation of the doctrine of respondeat superior—a form of strict liability premised on agency.”) (citing *Fonavisa, Inc. v. Cherry Auction*, 76 F.3d 259, 263 (9th Cir. 1996)).

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

¹⁴⁸ See 15 U.S.C. § 106 (defining exclusive rights belonging to the copyright holder).

¹⁴⁹ See generally NIMMER ON COPYRIGHT § 12.04[A][1] (2014).

¹⁵⁰ See *Educ. Testing Serv. V. Simon*, 95 F. Supp. 2d 1081, 1087 (C.D. Cal. 1999) (copyright infringement is a “strict liability tort”); 6 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 21:81 (2010).

the fair use defense. The elements of strict liability “make out the *prima facie* case of [copyright] infringement.”¹⁵¹ That *prima facie* case can be overcome, however, by a defendant who can show “fair use.” Thus, a defendant is held liable if he or she “is at fault, that is, not a fair user.”¹⁵²

2. Indirect Liability Under the Copyright Act

Unlike the Patent Act,¹⁵³ the Copyright Act defines only direct infringement statutorily¹⁵⁴; indirect, or secondary, infringement is addressed solely through case law.¹⁵⁵ The case law has evolved such that 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,”¹⁵⁶ 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”¹⁵⁷ (and which is generally viewed as a subset of vicarious liability.¹⁵⁸ Thus, indirect copyright infringement, which speaks of “vicarious liability” and “contributory infringement,” is similar to, but does not quite parallel, indirect patent infringement, which statutorily defines “inducement of infringement” and “contributory infringement.”

Unfortunately, in practice, the categories of direct and indirect copyright infringement do not line up as neatly as the preceding discussion might suggest. The *Sony* Court noted in 1984 that the “lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.”¹⁵⁹ In fact, the *Sony* Court used contributory infringement and vicarious liability interchangeably, reasoning that the second is merely a subcategory of the

¹⁵¹ Steven Hetcher, *The Immorality of Strict Liability in Copyright*, 17 MARQ. INTELL. PROP. L. REV. 1, 2 (2013).

¹⁵² *Id.*

¹⁵³ See 35 U.S.C. § 271 (infringement of patent provisions).

¹⁵⁴ See 17 U.S.C. § 501(a) (direct infringement of copyright).

¹⁵⁵ See *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984). See generally Ryan Pohlman, Note, *Inducement and Grokster: Guarding against the Pitfalls of Copyright Owners' New Weapon*, 55 DEPAUL L. REV. 1309, 1310-12 (2006).

¹⁵⁶ *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). See also *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965, 970 (9th Cir. 1992).

¹⁵⁷ *Id.*

¹⁵⁸ See *Sony Corp.*, 464 U.S. at 435 (quoted at note 167 *infra*).

¹⁵⁹ *Id.* at 437 n.17 (quoting district court, 480 F. Supp. at 457-58).

first.¹⁶⁰ A leading copyright treatise notes that the boundaries between contributory and vicarious liability “are often fluid.”¹⁶¹ This lack of clear delineation is particularly problematic in the area of officer liability, where the distinctions between the independent roles of officers and shareholders are often ignored by courts.

The courts do not view the lack of formal statutory language as an impediment to imposition of indirect liability for copyright infringement. However, 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 in devising liability for indirect copyright infringement under the common law. This leads the courts naturally to vicarious liability. In the words of one district court:

The theory of vicarious liability developed from the law of agency, specifically employer-employee relationships, in which the “master” was held strictly liable for the torts of a “servant.” Various legal concepts were fashioned to explain this liability, including the concepts of “control,” “right to control,” and “manner and means of performance.”¹⁶²

As further explained by the U.S. Supreme Court in the leading case of *Sony Corp. of Am. v. Universal City Studios, Inc.*¹⁶³:

The absence of . . . express language in the copyright statute does not preclude the imposition of liability for copyright infringement on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.¹⁶⁴

¹⁶⁰ *Sony Corp. of Am.*, 464 U.S. at 435. Contributory copyright infringement, like contributory patent infringement, see note 42 *supra*, has little relevance in the officer liability field, and so is not discussed further in this paper.

¹⁶¹ NIMMER ON COPYRIGHT, *supra* note 155, § 12.04[A].

¹⁶² *Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1325 (D. Mass. 1994) (citing RESTATEMENT (SECOND) OF AGENCY § 220(2) (1958)).

¹⁶³ 464 U.S. 417 (1984).

¹⁶⁴ 464 U.S. 417, 435 (1984).

However, the courts do not just turn to traditional common law doctrine in fleshing out copyright indirect infringement liability; they also turn to statutory patent law. As a result, the relationship between indirect infringement under the Patent Act and in copyright law is oddly incestuous. For example, the *Sony* Court noted the lack of “precedent in the law of copyright for the imposition of vicarious liability” on the particular theory asserted by the plaintiff, and then drew upon “[t]he closest analogy”—patent law—noting that it was “appropriate to refer [to patent liability rules] because of the historic kinship between patent law and copyright law.”¹⁶⁵ Ultimately, the *Sony* Court turned to contributory patent infringement law in articulating a standard for copyright contributory infringement.¹⁶⁶ Two decades later, in *MGM Studios v. Grokster*,¹⁶⁷ the Supreme Court acknowledged the *Sony* Court’s borrowing of contributory infringement from the Patent Act for copyright law, and used it as grounds for turning to the inducement language from Section 271(b) of the Patent Act in analyzing the meaning of intent for inducement of infringement in the copyright area.¹⁶⁸ The *Grokster* copyright intent language was then relied upon by the Federal Circuit in analyzing intent for inducement of infringement under the Patent Act,¹⁶⁹ completing a circle from the Patent Act to copyright common law to judicial interpretation of the Patent Act.

Thus, indirect copyright infringement law is an unusual amalgamation of common law tort doctrine and statutory patent law concepts, developed and created through the courts on a case-by-case basis. As characterized by Grossman, the end result is an “equitable, common law mush produced by courts trying to do justice in individual cases, often relying upon no more than analogies to other areas of the law.”¹⁷⁰ In particular, “the primordial cases for . . . vicarious liability evidence no grand principle in the making, nor even a distinct doctrine.”¹⁷¹

¹⁶⁵ *Id.* at 439. The plaintiff argued that the defendant should be held liable because “it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted materials.” *Id.*

¹⁶⁶ *Id.*

¹⁶⁷ 545 U.S. 913 (2005).

¹⁶⁸ *Grokster*, 125 S. Ct. at 2780 (“For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here . . .”).

¹⁶⁹ See *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1379 (Fed. Cir. 2005) (citing *Grokster*, 125 S. Ct. at 2768); *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1365 n.4 (Fed. Cir. 2006) (citing *MEMC* and *Grokster*).

¹⁷⁰ 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, 363 (2005).

¹⁷¹ *Id.* at 361.

Grossman summarized the early development of vicarious liability for copyright infringement, concluding that:

The early cases show courts trying to distinguish based almost exclusively on policy between business arrangements to which no copyright liability should attach and those to which it should. Absentee landlords provide the paradigm of innocence, while proprietors of entertainment and hospitality establishments are found liable for the infringing performance of their employees and independent contractor orchestras.¹⁷²

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.*,¹⁷³ decided by the Second Circuit in 1963.¹⁷⁴ 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 it was faced with a “legal problem vexing in its difficulty, a dearth o[f] squarely applicable precedents, a business setting so common that the dearth of precedents seems inexplicable, and an almost complete absence of guidance from the terms of the Copyright Act”¹⁷⁵ (a characterization that seems apt for the officer liability area as well).

In examining how far liability for copyright infringement should extend, the *H.L. Green Co.* 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.”¹⁷⁶ Thus, traditional *respondeat superior* doctrine would apply to hold a master liable for copyright infringement by a servant within the normal scope of his or her employment.¹⁷⁷ However, the court saw no reason to cling to formal employer-employee relationship distinctions as opposed to considering broader relationships arising out of independent contract, license, and lease.¹⁷⁸ Ultimately, the court concluded:

¹⁷² *Id.*

¹⁷³ 316 F.2d 304 (1963).

¹⁷⁴ See *Fonavisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996) (the “concept of vicarious copyright liability was developed in the Second Circuit as an outgrowth of the agency principles of respondeat superior”).

¹⁷⁵ 316 F.2d at 305.

¹⁷⁶ *Id.* at 307.

¹⁷⁷ *Id.* (citing *M. Witmark & Sons v. Calloway*, 22 F.2d 412, 414 (E.D. Tenn. 1927)).

¹⁷⁸ *Id.* (citation omitted).

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.¹⁷⁹

The *H.L. Green Co.* court was looking at vicarious liability in the context of trying to determine when to hold one defendant liable for the acts of another actor with which it had a business relationship. It was not contemplating the question of when liability should attach to an individual whose connection to the copyright infringement is based in his or her role as an officer.

The courts have since condensed the *H.L. Green Co.* court’s statement into a concise, two-prong test for vicarious copyright liability, finding that vicarious liability attaches when the defendant has: (1) the right and ability to supervise the infringing conduct, and (2) “an obvious and direct financial interest” in the infringing activity.¹⁸⁰ Although a straightforward test is appealing to courts because of its simplicity, the distillation of the infringement into the relationship between the potential defendants as a simplistic test makes it too easy to impose liability upon an individual officer, as the next Section illustrates.

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 statutory language of the Copyright Act.¹⁸¹ The second, vicarious liability, arises from the case law, drawing upon officer liability in patent law; like patent law, it shows a disturbing deviation from traditional legal doctrine, although the deviation takes a different path.

1. Direct Copyright Infringement

¹⁷⁹ *Id.* (citations omitted).

¹⁸⁰ See *Roy Export Co. Establishment v. Trs. of Columbia Univ.*, 344 F. Supp. 1350, 1352 (S.D.N.Y. 1972) (both prongs of test must be satisfied for vicarious liability to arise). Courts generally agree that vicarious liability may be applied in the copyright arena even in the absence of an employee-employer relationship. See *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

¹⁸¹ See *supra* Part III.A. 1 (direct copyright infringement).

In theoretical terms, an officer can be held directly liable for copyright infringement based upon his own culpable actions—a principle that arises out of traditional tort liability notions.¹⁸² As noted by one early court:

Since infringement constitutes a tort, common law notions of tort liability are relevant in fixing the scope of the statutory copyright remedy, and the basic common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tort-feasor is applicable in suits arising under the Copyright Act.¹⁸³

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, and they seldom probe deeply into the analysis. In 2013, in *Disney Enterprises, Inc. v. Hotfile Corp.*,¹⁸⁴ for example, the district court noted that individuals can be held directly liable for their own actions under traditional doctrine: "a corporate officer who directs, controls, ratifies, participates in, or is the moving force behind the infringing activity, is personally liable for such infringement."¹⁸⁵ However, this language was little more than expository, as the court went on to house the individual liability of the officer at issue in vicarious liability, without further discussion of direct infringement liability.¹⁸⁶

Bangkok Broadcasting & T.V. Co. v. IPTV Corp.,¹⁸⁷ decided in 2010, is a rare example of an officer being held personally liable for direct copyright infringement. The district 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.'"¹⁸⁸ This "basic principle," the court noted, applies across a number of fields, including trademark law, unfair competition, unfair business

¹⁸² See *supra* Part I.A.2.

¹⁸³ *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966).

¹⁸⁴ 2013 U.S. Dist. LEXIS 172339 (S.D. Fla. Sept. 20, 2013).

¹⁸⁵ *Id.* at *134 (quoting *Babbit Elecs. Inc., v. Dynascan Corp.*, 38 F.3d 1161, 1184 (11th Cir. 1994); *Southern Bell Tel. & Tel. Co. v. Assoc. Tel. Directory Publishers*, 756 F.2d 801, 811 (11th Cir. 1985)).

¹⁸⁶ See *id.*

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

¹⁸⁸ *Id.* at 1114 (citations omitted).

practices, and, notably, copyright infringement.¹⁸⁹ The court further explained that cases imposing individual liability upon corporate officers typically have “involved instances where the defendant was the “guiding spirit” behind the wrongful conduct, . . . or the “central figure” in the challenged corporate activity.”¹⁹⁰

After determining that the corporation was liable for copyright infringement, the *Bangkok Broadcasting* court evaluated the individual liability of Ron Petcha, the CEO. In establishing that Petcha had control over or was the ‘guiding spirit’ behind the infringing activity the court pointed out that he: (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.¹⁹¹ Thus, Petcha was held jointly liable with the corporation for the copyright infringement.¹⁹²

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 seems to stand for a broad imposition of officer liability, and would seem to be a troubling extension of personal liability to all officers engaged in normal officer activities – hiring, negotiating, and managing the firm. However, the court’s opinion also notes that the defendants had failed to counter the plaintiff’s assertion of individual liability,¹⁹³ so perhaps a direct opposition would have changed the outcome.

The courts’ reluctance to hold a corporate officer liable for personal participation in the copyright infringement undoubtedly 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,¹⁹⁴ and so courts in the copyright area, as in the patent area,¹⁹⁵

¹⁸⁹ *Id.*

¹⁹⁰ *Id.*

¹⁹¹ *Id.* at 1115.

¹⁹² The court did not engage in any discussion of the ownership interest, if any, that he might have held, or of any financial benefit that Petcha might have derived from the infringement—topics that courts imposing vicarious liability often turn to. See *infra* Part III.A.2.

¹⁹³ 742 F. Supp. 2d at 1115.

¹⁹⁴ As Part IV, *infra*, explains, while the goals of strict liability such as risk-spreading or economic efficiency make sense in the context of the firm, they are not effective as applied to the individual.

have 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 locating officer liability in vicarious liability and in then articulating an expansive multi-factor test for evaluating such liability that is at odds with traditional agency, tort, and corporate doctrines.

Under the traditional, two-pronged test for vicarious liability, imposition of vicarious liability upon the individual officer arises from the belief that the individual is able to police the conduct of the corporate infringer;¹⁹⁶ that control, when coupled with a financial interest (usually in the form of an ownership stake), leads to individual liability.¹⁹⁷ In *Arista Records LLC v. Lime Group LLC*,¹⁹⁸ for example, the facts indicated that Mark Gorton was: (1) the sole Director of Lime Works, which was liable for copyright infringement, and (2) the CEO, 100% shareholder, and sole director of Lime Group. Lime Group was the controlling shareholder of Lime Works, owning 87% of the company. The court identified a number of factors that led to its finding that Gorton had the ability to supervise the infringing activity including: (1) Gorton's own testimony that he "ran" Lime Works; (2) testimony of the former COO that Gorton was "ultimate decision-maker"; (3) testimony by the former COO that Gorton's approval was required for "any major strategic or design decisions"; (4) testimony by a Lime Works employee that Gorton could "veto" development decisions; and (5) Gorton's heavy involvement in creating the program that was the core of the infringing activities and his knowledge of the infringing activities.¹⁹⁹ The court established that Gorton had a financial interest in the activity because as majority owner of Lime Works, Lime Group and Gorton by virtue of his 100% ownership of Lime Group, directly benefited from the infringing activity.

2. Vicarious Copyright Infringement Liability

In the context of copyright infringement doctrine, personal participation has become wrapped into the vicarious liability standard, shifting personal participation from direct

¹⁹⁵ See *supra* Part II.B and accompanying text.

¹⁹⁶ See *Boz Scaggs Music v. KND Corp.*, 491 F. Supp. 908, 913 (D. Conn. 1980).

¹⁹⁷ Some courts state this more directly, using the traditional vicarious liability test generally employed in copyright law. See, e.g., *Hamstein Music Co. v. Club Sahara*, 1993 U.S. Dist. LEXIS 20644 (D.N.H. Oct. 26, 1993) ("a corporate officer may be vicariously liable if he or she has the right to or ability to supervise the infringing activity and also has a direct financial interest in such activity") (citing *Sailor Music v. Mai Kai of Concord, Inc.*, 640 F. Supp. 629, 633 (D.N.H. 1986)).

¹⁹⁸ 715 F. Supp. 2d 481 (S.D.N.Y. 2010).

¹⁹⁹ *Id.* at 521-22.

infringement liability to a form of indirect liability.²⁰⁰ Adding to the confusion, a number of courts have classified personal participation as a form of contributory infringement as well,²⁰¹ reflecting the blurred lines of copyright infringement liability.²⁰²

In 1976, the U.S. district court for Massachusetts, in *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Association, Inc.*,²⁰³ devised a multi-factor test for vicarious liability for individual officers for copyright infringement that is considerably more specific than the general two-prong test derived from *H.L. Green Co.*²⁰⁴ This test has a laundry list of factors that may be considered in evaluating officer individual liability:

- (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.²⁰⁵

The *Famous Music* test is based largely on the belief that a corporate officer is able to police the actions of the direct infringer (the corporation).

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

²⁰⁰ See *infra* Part III.A.2. (The current vicarious liability standard, in fact, specifically refers to the officer's "personal participat[ion] in the actual infringement. See *infra* note 208 and accompanying text.

²⁰¹ *Microsoft Corp. v. Ram Distribution*, 625 F. Supp. 2d 674, 682 (E.D. Wis. 2008) (citations omitted) (A party may be contributorily liable if he directly participates in the infringing activity or induces, causes, or materially contributes to the infringing conduct of another."). See also *Nelson-Salabes, Inc. v. Morningside Dev. LLC*, 284 F.3d 505, 513 (4th Cir. 2002); *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001); *Pinkham v. Sara Lee Corp.*, 983 F.2d 824, 834 (8th Cir. 1992); *Southern Bell Te. & Tel. Co. v. Assoc. Tel. Directory Publishers*, 756 F.2d 801, 811 (11th Cir. 1985); *Gershwin Pub. Corp. v. Columbia Artists Mgt., Inc.*, 443 F.2d 1159, 1163 (2d Cir. 1971).

²⁰² See *supra* Part III.A.2.

²⁰³ 423 F. Supp. 341 (D. Mass. 1976).

²⁰⁴ See *supra* note 182 and accompanying text.

²⁰⁵ *Id.* at 654-55 (quoting *Famous Music Corp v. Bay State Harness Racing & Breeding Assoc., Inc.*, 423 F. Supp. 341, 344 (D. Mass. 1976) (internal citations omitted), *aff'd*, 554 F.2d 1213 (1st Cir. 1977)). See also NIMMER ON COPYRIGHT, *supra* note 152, § 12.04[A][q] (footnotes omitted).

Famous Music test applies to *direct* copyright infringement—and certainly, some of the factors listed in the test, such as personal participation, are more logical in that context. Subsequent cases, however, have employed the test as a means for evaluating the *vicarious* liability of corporate officers, thus shifting the test to the indirect copyright infringement realm (and further illustrating the doctrinal and theoretical confusion of this arena).²⁰⁶

On close examination, the *Famous Music* test is nonsensical. The factors are stated in the alternative—“or”—such that any one factor theoretically suffices to impose liability upon an individual actor. The implications of this are interesting. The first factor—personal participation—replicates the test for direct infringement liability, yet, as noted above,²⁰⁷ courts have adopted this test 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—a result wholly in conflict with traditional corporate doctrine.²⁰⁸ The third factor looks like a variant of the alter ego test,²⁰⁹ while the fourth factor looks much like a “control” test. The second and fourth factors, combined together, closely mimic the traditional two-prong 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. *Marvin Music Co. v. BHC Lim Partnership*²¹⁰ is a good illustration of how an individual’s multiple roles within a corporation can intertwine and complicate the liability analysis. 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).²¹¹ Frank Ribaudó held multiple roles; he was the president of the corporation, a general partner of the limited partnership, and general manager of Club Café.²¹²

²⁰⁶ See, e.g., *Dream Custom Homes, Inc. v. Modern Day Constr., Inc.*, 773 F. Supp. 2d 1288 (M.D. Fla. Feb. 22, 2011); *Emi Mills Music, Inc. v. Empress Hotel, Inc.*, 470 F. Supp. 2d 67 (D. P.R. 2006); *Marvin Music Co. v. BHC Lim Partnership*, 830 F. Supp. 651 (D. Mass. 1993).

²⁰⁷ See *supra* note 209 and accompanying text.

²⁰⁸ See *supra* notes Part II.A.2 and accompanying text.

²⁰⁹ See *id.*

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

²¹¹ *Id.* at 653.

²¹² *Id.*

In analyzing Ribaudo's vicarious liability as an individual, the court adopted the *Famous Music* test,²¹³ but also emphasized that Ribaudo was, "at all relevant times, . . . an officer, shareholder and partner in the organizations controlling the Club Café"²¹⁴ (thus emphasizing the individual's multiple roles). The court list a number of activities—controlling of day-to-day operations, hiring of musicians, direct engagement in licensing activities with ASCAP, knowledge of the license termination, and dominant influence over club policies²¹⁵—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 . . ." ²¹⁶ This factor does not rely upon a piercing of the corporate veil, as does traditional corporate law doctrine for imputing liability to shareholders.²¹⁷ Rather, the inquiry focuses merely on the financial benefit derived by the individual from the infringing activity, regardless of the individual's role. In this instance, the court found, the *Famous Music* test was satisfied because Ribaudo's "multiple roles in the club's management and ownership" provided him with "a substantial financial stake in the infringing activity, which undoubtedly attracted patrons to the Club Café."²¹⁸ Thus, the *Famous Music* test collapses Ribaudo'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.*,²¹⁹ found a corporate officer vicariously liable under the *Famous Music* test without discussion of the source of the individual's financial benefit. The officer at issue, Carl Palermo, was identified as the president and treasurer of a corporation accused of unauthorized public performance of copyrighted music, as such, the court found, had "responsibility for the control, management operations and maintenance of the corporation's affairs."²²⁰ However, he was not identified by

²¹³ See *supra* note 189 and accompanying text.

²¹⁴ 830 F. Supp. at 655.

²¹⁵ *Id.*

²¹⁶ *Id.* at 654-55.

²¹⁷ See *supra* Part I.A.1.

²¹⁸ 830 F. Supp. at 655.

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

²²⁰ *Id.* at 74.

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,²²¹ citing two 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.²²² 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, Anton Titov, 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.²²³ He actively participated in the corporation's management and decisionmaking,²²⁴ although it was "undisputed" that he lacked "authority to make unilateral decisions regarding important aspects of [the corporation's] business or operations."²²⁵ Titov held a power of attorney from the corporation to act as manager of the company "when authorized to do so by other shareholders,"²²⁶ and wrote the source code that ran the corporation's website and that was the basis for the allegations of infringement against the corporation.²²⁷

The court acknowledged Titov's role as a shareholder of the firm without discussing the relevance of such status.²²⁸ Rather, the court's analysis focused on Titov's actions that showed his "participation, control, and benefit" in the corporation's activities.²²⁹ The court found that Titov had both a "dominant influence upon the corporation"²³⁰ and derived a financial benefit

²²¹ *Id.*

²²² *Id.*

²²³ 2013 U.S. Dist. LEXIS 172339, at *42 (S.D. Fla. Sept. 20, 2013).

²²⁴ *Id.* at *43.

²²⁵ *Id.* at *44.

²²⁶ *Id.*

²²⁷ *Id.* at *43-44.

²²⁸ *Id.* at *141 ("He owns a stake in the company nearly as large as its other . . . shareholders and runs it in equal part . . .").

²²⁹ *Id.*

²³⁰ *Id.* at *144.

from the infringing activities, although it is unclear whether Titov derived those benefits in his role as a shareholder rather than as an officer.²³¹ If the financial benefit was accrued by Titov solely in his role 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 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*²³² argued that an individual should be held personally liable for the corporation's alleged infringing activities based upon "the role he played—as an owner and manager in the corporation,"²³³ the court rejected the argument. As the court explained:

To 'pierce the corporate veil' is to hold the owners of a corporation to be personally liable for the corporation's liabilities. This is only done when 'the corporation's "affairs are organized, controlled, and conducted so that the corporation has no separate existence of its own and is the mere instrumentality of the shareholders and the corporate form is used to evade an obligation, gain an unjust advantage or to commit an injustice.'"²³⁴

However, piercing notions seem to be creeping into a few copyright officer liability cases. In 2010, in *Word Music LLC v. Lynns Corp. of Am.*,²³⁵ for example, the court recited the *Famous Music* multi-factor test for officer vicarious liability.²³⁶ The officer, however, argued that he could only be liable under a piercing analysis, citing *Orthokinetics*.²³⁷ 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

²³¹ *Id.* at *143 ("the evidence shows that as the company earned money from new subscriptions (some portion of which was attributable to the availability of infringing materials), so did Titov").

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

²³³ *Id.* at 885. Status as the sole shareholder and manager alone has been held insufficient to render an individual liable for copyright infringement. See *Bourne Co. v. Khalil*, 611 F. Supp. 269, 271 (E.D. Mich. 1985).

²³⁴ 693 F. Supp. 2d at 885 (citations omitted).

²³⁵ 2010 U.S. Dist. LEXIS 95559 (M.D. Tenn. Sept. 13, 2010).

²³⁶ *Id.* at *20.

²³⁷ *Id.* at *21.

well as piercing.²³⁸ The *Word Music* court then noted that the *Orthokinetics* court imposed liability on an individual who was the president and sole shareholder and was “directly responsible for the design and production of the infringing” products and “who stood to benefit from the sales” of said products.²³⁹ 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.” This, the court found, was sufficient to support direct infringement liability in the officer.

C. Summary

Imposition of individual liability upon corporate officers for copyright infringement is at doctrinal odds with traditional corporate, agency, and tort law doctrine. It is not, perhaps, as spectacularly wrong as the piercing analysis used by the Federal Circuit in the patent infringement arena, but it still cannot be reconciled with traditional doctrine. The inconsistency in analysis is clear even from the terminology used in this area. 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. In the context of officer liability for copyright infringement, though, we are not dealing with a liability imputed to the corporation, but the individual liability of the officer based on his or her own conduct. It is really a *direct*—i.e., *strict*—liability that we are addressing.

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. As the next Part argues, that “something” is mostly likely the courts’ discomfort with the imposition of strict liability and their machinations to avoid imposing such a harsh liability standard upon corporate officers.

IV. OFFICER LIABILITY IN A STRICT LIABILITY REGIME

We have seen that the courts confuse the bases for liability of officers with those of shareholders and try to force the personal liability of officers into vicarious liability categories when traditional doctrine would find the officers liable only for their direct participation in

²³⁸ *Id.* at *22.

²³⁹ *Id.* (quoting *Orthokinetics*, 806 F.2d at 1579).

tortious acts. Courts and commentators often are not precise in applying traditional concepts of corporate, agency, and tort law. Such imprecision may be exacerbated by the narrow scope of the Federal Circuit's jurisdiction and its lack of opportunity to apply these concepts over a broad range of cases.

Nevertheless, the explanation for the incorrect theories of officer liability that we have seen applied likely lies in the courts' profound discomfort with strict liability and its application to corporate officers and directors. Direct infringement under both patent law and copyright law is based on strict liability, although, as mentioned above,²⁴⁰ that strict liability is less "strict" in the copyright area because the ameliorating influence of the fair use defense provides an "out" in copyright law that is lacking in patent law. Holding corporate officers strictly liable for infringement appears fundamentally unfair and inconsistent not only with traditional corporate, agency, and tort law, but the underlying purposes of strict liability regimes.

A. The Strict Liability Standard

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 to exercise reasonable care, i.e., actionable negligence."²⁴¹ Modern common law generally applies strict liability for specific types of actions, such as hazardous activities²⁴² or the manufacture and sale of products, that cause harm to others. Fundamentally, the question comes down to which party is better able to allocate the costs, insure against the risks, and reduce or warn against the inherent dangers of the activity at issue?²⁴³

Imposition of strict liability is guided by several policies and objectives, such as the promotion of fairness, economic efficiency, risk-spreading, and deterrence.²⁴⁴ Although a full

²⁴⁰ See Part III *supra*.

²⁴¹ W. PAGE KEETON ET AL., PROSSER & KEETON ON THE LAW OF TORTS § 75, at 534 (5th ed. 1984).

²⁴² See RESTATEMENT (SECOND) OF TORTS § 519 (1) (1977) ("One who carries on an abnormally dangerous activity is subject to liability for harm to the person, land or chattels of another resulting from the activity, although he has exercised the utmost care to prevent the harm.").

²⁴³ 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).

²⁴⁴ See *Greenman v. Yuba Power Prod., Inc.*, 377 P.2d 897 (Cal. 1963); *Henningsen v. Bloomfield Motors, Inc.*, 161 A.2d 69 (N.J. 1960); *Phillips v. Kimwood Mach. Co.*, 525 P.2d 1033, 1026 n.6 (Or. 1974).

Strict liability has been explored by many commentators in many settings. See, e.g., GUIDO CALABRESI, *THE COSTS OF ACCIDENTS* (1970); Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability*:

exploration of these policies is beyond the scope of this manuscript, the basic principles underlying them can be summed up easily.

Fairness, in this 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.²⁴⁵ As explained by Epstein:

[I]f the gains derived from certain activities are indeed as great as the defendant contends, there is all the more reason why he should pay for the harm those activities caused to the person or property of another, for, 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.²⁴⁶

The economic efficiency arguments espoused in the strict liability context 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.”²⁴⁷ 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.²⁴⁸

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

One View of the Cathedral, 85 HARV. L. REV. 1089 (1972); David G. Owen, *Rethinking the Policies of Strict Products Liability*, 33 VAND. L. REV. 681 (1980); Richard A. Posner, *Strict Liability: A Comment*, 2 J. LEG. STUD. 205 (1973); Steven Shavell, *Strict Liability v. Negligence*, 9 J. LEG. STUD. 1 (1980).

²⁴⁵ 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), where the court stated: “the neighbor, who has brought something on his own property which was not naturally there, harmless to others so long as it is confined to his own property, but which he knows to be mischievous if it gets on his neighbor’s, should be obliged to make good the damage which ensues . . .”).

²⁴⁶ RICHARD A. EPSTEIN, *MODERN PRODUCTS LIABILITY* Law 27 (1980).

²⁴⁷ See Barbara Ann White, *Economizing on the Sins of our Past: Cleaning up Our Hazardous Wastes*, 25 Hous. L. REV. 899, 915-17 (1988).

²⁴⁸ *Id.* at 917.

an injured party can bear the full costs of an uncompensated harm.²⁴⁹ 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.²⁵⁰

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.²⁵¹ 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.²⁵² At a more pragmatic level, strict liability avoids the burdens of proof associated with a fault-based standard such as negligence.²⁵³

B. Considering Strict Liability for Officers

If we look at the arguments for strict liability, which of these is applicable to the imposition of liability on corporate officers?

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 the activity 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.

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

²⁴⁹ See *Greenman v. Yuba Power Prods., Inc.*, 377 P.2d 897, 901 (Cal. 1963) (“The purpose of such liability is to insure that the costs of injuries resulting from defective products are borne by the manufacturers that put such products on the market rather than by the injured persons who are powerless to protect themselves.”)

²⁵⁰ See Guido Calabresi, *Some Thoughts on Risk Distribution and the Law of Torts*, 70 YALE L. J. 499, 500-02, 543-44 (1961).

²⁵¹ See Guido Calabresi & Jon T. Hirschoff, *Toward a Test for Strict Liability in Torts*, 81 YALE L. J. 1055, 1067-74 (1972).

²⁵² See CALABRESI, *supra* note 250, at 541-43; RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* § 6.5 (8TH ed. 2011) (“[I]f a class of activities can be identified in which activity-level changes by potential injurers appear to be the most efficient method of accident prevention, there is a strong argument for imposing strict liability on the people engaged in those activities.”).

²⁵³ See *Beshada v. Johns-Manville Prod. Corp.*, 447 A.2d 539, 548 (N.J. 1982) (strict liability eliminates “complicated, costly, confusing, and time-consuming” task of proving that the defendant knew or should have known of the risk of harm); POSNER, *supra* note 252, § 6.5 (“The trial of a strict liability case is simpler than the trial of a negligence case because there is one less issue, negligence . . .”).

imposition of additional or secondary liability on the corporate officer does not add to economic efficiency.

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), and is accomplished through pricing.

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

C. Considering Strict Liability of Officers for Patent or Copyright Infringement

While the courts are willing to enforce the statutory strict liability schemes for 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 the indirect liability of vicarious infringement. However, the multi-factor test that they 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 (to say the least).

The correct result would be to avoid direct infringement liability in almost all cases 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,²⁵⁴ 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 is 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. 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 principles of corporate, tort, and agency doctrine in manners that are

²⁵⁴ *Global Tech Appliances, Inc. v. SEB, S.A.*, 131 S. Ct. 2060, 2068-69 (2011).

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