

# Director & Officer Liability for Infringement of Intellectual Property

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**ASSOCIATION OF CORPORATE COUNSEL**

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**Practices**

- Litigation, Intellectual Property, Litigation - IP & Technology  
Litigation, Litigation - Arbitration & Alternative Dispute  
Resolution

**Industries**

- Life Sciences

**Mr. Hasson** is leader of the firm's National Trials Team and is co-leader of the firm's Life Sciences Industry Team. His practice includes a range of litigation, including disputes in the technology and life sciences fields, regarding intellectual property rights, patent and other licensing and collaborative agreement disputes, fiduciary liabilities, mergers and acquisitions disputes, investigations, shareholder and securities claims, and appeals. In these areas, Mr. Hasson has prosecuted and defended numerous state and Federal trial court and arbitration cases and appeals as lead counsel.

**Education:** J.D., Harvard Law School, 1974 *cum laude*; B.A., Yale University, 1971  
*magna cum laude*

**Admissions:** State of California; United States Supreme Court; all state and Federal courts in California; Second, Fifth and Ninth Circuit Courts of Appeals



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**Practices**

- Intellectual Property, IP & Technology Litigation, Technology, Transactions & Licensing, Trade Secrets, Copyrights, Trademarks, Open Source

**Industries**

- Technology, Nanotechnology, Semiconductor

**Mr. Jakopin** is primarily involved in IP litigation related matters, while also advising clients on strategic IP issues.

Mr. Jakopin spent the first 10 years of his practice in Washington, DC, dealing primarily with IP litigation matters, particularly those involving complex matters relating to high technology electronics in the patent and trade secret arena. Mr. Jakopin transitioned his practice to Silicon Valley beginning in 1997, and expanded his practice to also include strategic IP matters for the firm's private and public companies, as well as building the firm's IP practice in Silicon Valley, having been the head of the Silicon Valley IP Group from 1997-2003. Since Mr. Jakopin has a strong technical background in electronics, he brings a unique combination of talents when litigating IP disputes, as well as when advising on licensing strategies, intellectual property acquisitions, cross-border issues and other strategic IP issues.

**Education:** J.D., Chicago-Kent College of Law, Illinois Institute of Technology, 1987 with honors; B.S., Electrical Engineering, University of Notre Dame, 1984

**Admissions:** State of California, State of Illinois, District of Columbia; U.S. District Courts for the Northern District of California, Central District of California, and Southern District of California, Court of Appeals for the District of Columbia, U.S. District Court of Appeals for the Federal Circuit; Registered to practice before: U.S. Patent and Trademark Office

**Affiliations:** American Bar Association, American Intellectual Property Law Association, Federal Circuit Bar Association



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**Practices**

- Emerging Growth & Technology, Corporate & Securities, Intellectual Property, International, China, Europe

**Industries**

- Semiconductor

**Mr. Wurzburg** has extensive experience in business transactions and intellectual property matters. His practice involves serving as outside corporate counsel for small and emerging corporations, handling all of their legal matters, and serving as outside counsel for large corporations having their own in-house legal staff, handling select transactions.

He has assisted company management with legal issues involved in financing their business and obtaining liquidity for their stock, selling (or licensing) their products and services through various channels of distribution, protecting and profiting from their intellectual property, compensating their employees and executives, and interfacing with their boards of directors and shareholders.

Mr. Wurzburg's clients are mostly high technology and consumer product companies. They include companies that develop, manufacture, and/or distribute computer hardware and software, semiconductors, lasers, telecommunications, chemical products, Internet/ASP, and solar energy products.

**Education:** J.D., Stanford Law School, 1980; M.S., Engineering Economics Systems, Stanford University, 1975; B.A., Stanford University, 1974

**Admissions:** State of California

**Affiliations:** American Bar Association, Asian American Multi-tech Association, Stanford Alumni Association, Peninsula Intellectual Property Law Association, and Licensing Executives Society



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**Susan Miner**  
**President, Carpenter Moore**  
**The Nasdaq Stock Market, Inc.**

Susan Miner, President, Carpenter Moore has more than a decade of experience in executive liability risk management. She has counseled hundreds of publicly-traded companies ranging from new IPO's to the Fortune 500. Susan's expertise includes negotiating complex insurance solutions in conjunction with financings, bankruptcies and M&A transactions. Susan is a recognized leader in the emerging area of Individual Directorship Liability, which is designed to protect the assets of high net worth individuals. Susan serves on the NASDAQ Insurance Agency - Carpenter Moore Board of Directors, though her primary focus remains daily client contact and market interaction.

Susan's education includes two engineering degrees and a Masters thesis from the California Institute of Technology. She worked at Intel's research and development laboratory and later served as a product manager for Bio-Rad Laboratories, Inc. Her extensive technology experience is a unique asset in the D&O industry.



## **A. IMPOSING LIABILITY ON DIRECTORS AND OFFICERS**

### **i Liability to third parties versus derivative liability; vicarious liability.**

### **ii Business Judgment Rule**

Board decisions not involving corporate waste or failing to have any rationale business purpose will be upheld unless presumption is rebutted showing breach of a director's fiduciary duty to the corporation and its stockholders. This rule recognizes that generally business decisions should not be overruled by the courts. A court will not substitute its own view for good-faith decisions made by an independent board acting with due care.

### **iii Fiduciary Duties of a Director**

(a) Duty of Loyalty

(b) Duty of Care

(c) Duty to Act in Good Faith and in the Corporation's Best Interests.

Bad faith is more than gross negligence. It is knowing misconduct. For example, failure to supervise needs to be willful or knowing—a sustained or systematic lack of oversight, such as failing to implement a reporting system or consciously failing to monitor an existing system.

### **iv Exculpation in the Charter—Limits in DE and CA**

### **v Some Other Causes of Director Liability**

(a) Derive an improper personal benefit

(b) Intentional Misconduct or knowing violations of the law

(c) Statutory—e.g. improper distribution

-e.g. failure to withhold

-e.g. inadequate disclosure in financing

### **vi Where does liability for IP infringement fit in?**



## **B. COPYRIGHT INFRINGEMENT LIABILITY**

Officers or directors could become indirectly liable for the copyright infringement of a company: vicarious liability and contributory infringement.

### **(i) Vicarious liability**

Liability can be imposed if an officer, director or owner of a company profits from the infringement, has the power to stop it, and declines to do so.

### **(ii) Contributory infringement**

An officer or director may also be found liable as a contributory infringer if he or she intentionally induces or encourages someone to directly infringe. The touchstone of liability under a contributory infringement theory is intentional conduct by the officer or director; that is, active steps taken to encourage infringement.

## **C. TRADEMARK INFRINGEMENT LIABILITY**

In order for an officer or director to be personally liable, he or she must personally take part in infringing activities or specifically direct employees to do so. A corporate officer may be personally liable if he or she is an “active, conscious force behind the alleged infringement.”

## **D. PATENT INFRINGEMENT LIABILITY**

### **(i) Direct Infringement 35 U.S.C. § 271(a)**

Direct infringement occurs when your company makes, uses, sells, offers to sell, or imports a product or process that infringes someone else’s patent. To establish personal liability for your corporation’s direct infringement, there first must be some finding by the court that justifies disregarding the corporate “veil” that ordinarily protects individuals from personal liability for corporate acts.

### **(ii) Inducing Infringement 35 U.S.C. § 271(a)**

To prove induced infringement, the patent owner must establish both direct infringement by another and a certain level of intent (on your part) that your inducing acts result in the patent being infringed. Notably,



inducing infringement does not require that your inducement takes place in the United States.

**(iii) “Special Showing” Requirement**

The prevailing rule that permits liability to reach corporate officers and directors pertains to whether there is “a special showing” of the officer or directors' personal participation in the conduct, e.g., that the officer acted willfully or knowingly, and is an active participant in the infringing activity, or uses the corporation as a sham to insulate him or herself from liability for the infringing activity.

DSU Medical Corp. vs. JMS Co., Ltd., 471 F.3d 1293, (Fed. Cir., Dec. 2006). Proof of inducing patent infringement requires not only evidence that the defendant engaged in conduct that contributed to the direct infringement, but also that the defendant actively and knowingly aided and abetted the other party's direct infringement.

**E. INDEMNIFICATION AND EXPENSE ADVANCEMENT**

**(i) Mandatory and Permissive Indemnification in DE and CA**

**(ii) Contractual**

**(iii) Limitations**

**F. D&O INSURANCE**

Directors' and officers' liability insurance may serve as a supplement to indemnification through its coverage of certain claims which may be non-indemnifiable, and also by providing protection in the event that the corporation becomes insolvent.

**G. RECOMMENDATIONS**