

# **PERSONAL LIABILITY OF CORPORATE OFFICERS FOR PATENT INFRINGEMENT: CHAOS IN THE FEDERAL CIRCUIT**

by

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Under traditional agency and tort law doctrine, corporate officers are shielded from liability for the tortious or illegal acts of their corporations unless, of course, the officers personally participated in the wrongful acts.<sup>1</sup> This protection has eroded, however, in the area of officer liability for patent infringement. Over the past two decades, the U.S. Court of Appeals for the Federal Circuit has articulated a standard of liability for individual officers that is based not on personal participation but rather upon a piercing of the corporate veil. In so doing, the Federal Circuit has, inadvertently it would seem, radically altered the nature of individual officer liability, expanding the scope of such liability and exposing corporate officers to a form of strict liability. Under the Federal Circuit's formulation of the rule for officer liability for patent infringement, officers of small and closely-held corporations in particular have lost much of the traditional protections afforded them by traditional agency and tort doctrine.

Nothing in the Patent Act of 1952<sup>2</sup> suggests that Congress intended the Act to erode the traditional protections afforded to corporations and their officers by agency and tort law doctrine. Such a radical change in liability standards ought not to arise from careless, imprecise, or inadvertent language by the Federal Circuit, but rather from a deliberate and intentional shift in legal theory. Moreover, because the standards in this area are now so very different from the norm, it is likely that few officers understand the nature of the broad personal liability they now face for the patent infringement of their corporations.

This Paper criticizes the Federal Circuit's current standard for the liability of corporate officers<sup>3</sup> for the patent infringement of their corporations and concludes that the Federal Circuit should abandon its current precedents. Instead, the Federal Circuit should recognize that the Patent Act's provisions regarding direct infringement,<sup>4</sup> which imposes a form of strict liability upon defendants, are simply inapplicable to corporate officers. Such individuals may, under appropriate circumstances, be liable for inducement to infringe,<sup>5</sup> but this cause of action carries with it a requirement of intent that, in effect, replicates the personal participation standard of traditional doctrine. The Federal Circuit's precedents suggest that the court has intuitively grasped this distinction, and has struggled to articulate a standard consistent with these precepts. Its failure to explicitly acknowledge the necessity of an intent element for individual officer liability, however, has led it to adopt a standard that is analytically and doctrinally corrupt.

Part I of this Paper describes traditional doctrine regarding the personal liability of corporate officers, as well as the traditional piercing of the corporate veil theory used to hold the owners of corporations personally liable. Part II describes Sections 271(a) and 271(b) of the Patent Act,<sup>6</sup> which provide the statutory bases for infringement liability generally. Part III analyzes the development of the Federal Circuit's standard for officer liability under the Patent Act, including the general status of officer liability rules prior to the creation of the Federal Circuit in 1982 and the subsequent evolution officer liability rules in the Federal Circuit, including the creation of the erroneous and inappropriate "piercing" standard.

In Part IV, I argue that corporate officers should never be held liable under Section 271(a) for direct infringement because application of a strict liability standard to such individuals is inappropriate. The Federal Circuit's flawed adoption of a piercing standard in the context of officer liability for direct infringement reflects its struggle to avoid the inequities inherent in apply this standard to officers.

Rather, corporate officers should only be held liable for inducement to infringe under Section 271(b), which carries with it an intent requirement that parallels the “personal participation” standard of traditional doctrine. Concluding remarks are made in Part V.

## **I. TRADITIONAL AGENCY AND CORPORATE LAW DOCTRINE REGARDING PERSONAL LIABILITY OF CORPORATE OFFICERS**

Under traditional agency and tort law doctrine, corporate officers and directors are generally immune from liability for the acts of the corporation. The exception, of course, is if the officer or director personally participates in the tortious or illegal acts of the corporation. Under traditional principles of tort and agency law, corporate officers can be held personally liable for their own wrongful acts, regardless of whether they were acting in an official capacity when they committed those acts.<sup>7</sup>

When an officer is held individually liable, the corporation generally is also liable under the doctrine of respondeat superior.<sup>8</sup> Thus, both the corporation and the officer may be held liable for harm arising from a single tortious act.<sup>9</sup> The liability of the officer is independent of the corporation’s liability, however, and arises from the officer’s actual participation in wrongful acts committed in the course of corporate undertakings or as a result of the officer knowing of and consenting to the wrongful acts.<sup>10</sup>

Thus, actual personal participation in the tort, through affirmative actions of direction, sanction, or cooperation in the wrongful acts of commission or omission, is necessary to support an imposition of personal liability upon an officer.<sup>11</sup> Liability is not imposed upon an officer merely because of his or her status within the corporation.<sup>12</sup> Rather, “[w]hat is required is some showing of direct personal involvement by the corporate officer in some decision or action which is causally related to plaintiff’s injury.”<sup>13</sup> Likewise, “personal responsibility for corporate liability may attach when the individual’s wrongful conduct causes the violation of a statute and accompanying regulations . . .,”<sup>14</sup> as is the case with patent infringement.<sup>15</sup>

The individual liability of an officer for his or her tortious acts is separate and distinct from a piercing of the corporate veil.<sup>16</sup> Piercing doctrine is properly used to hold the *owners* (i.e., the shareholders) of the corporation liable. Shareholders are merely investors in the corporation in which they own stock.<sup>17</sup> The principles of limited liability typically protect shareholders from the debts and liabilities of the corporation beyond the shareholders’ contribution to capital.<sup>18</sup> This limited liability extends not only to individual shareholders but also to corporations that own shares in other corporations, such as parent corporations or other affiliated corporate groups.<sup>19</sup>

Courts can pierce the corporate veil to hold the shareholders liable for the acts of the corporation where equity so requires,<sup>20</sup> such as when the corporation was formed or used for an illegal, fraudulent, or unjust purpose.<sup>21</sup> The court may also pierce the corporate veil under the “mere instrumentality” or “alter ego” theory where the shareholders have ignored the corporate form and have used it to conduct their own affairs.<sup>22</sup> The courts have used piercing doctrine to reach the shareholders of closely-held corporations and parents in parent-subsidiary relationships or other affiliated corporate groups, but have never used the doctrine in the context of a publicly-held corporation.<sup>23</sup> Because piercing is considered an extraordinary form of relief,<sup>24</sup> the courts are generally reluctant to pierce a corporate veil unless the circumstances clearly demonstrate that need to do so.<sup>25</sup>

The key to piercing doctrine, however, is that the disregard of the corporate form is used to impose liability upon the shareholders of the corporation in their role as *owners*, and not upon officers of the corporation. A single officer may, of course, occupy a position as both a shareholder (perhaps even a controlling shareholder) and an officer of the corporation, but in such an instance, care should be taken to distinguish between the differing grounds of liability for each. Owner liability is based upon the individual’s status as a shareholder in a corporation that has abused the corporate form; officer liability is based upon the individual’s personal participation in the wrongful acts that gave rise to liability. The failure of the Federal Circuit to recognize this critical distinction has resulted in the current confusion

surrounding the standard of liability applicable to corporate officers for patent infringement and to an unprecedented expansion in individual officer liability.

## II. STATUTORY BASES FOR PATENT INFRINGEMENT LIABILITY

The Patent Act makes no specific reference to the individual liability of a corporate officer for patent infringement. Under the Patent Act, a patentee has the legal right to exclude others from making, using, selling, or offering for sale the invention within the United States or from importing the invention into the United States<sup>26</sup> for a specific time period.<sup>27</sup> Officer liability claims do not arise in isolation but rather are tied to the activities of the corporation. The plaintiff will allege that the corporation has infringed one of the exclusive rights of patentees and will seek to hold the corporate officer or officers individually liable as well.<sup>28</sup> Plaintiffs seldom, if ever, go after officers individually, however, unless it appears that the corporation is insolvent.<sup>29</sup> Hence, officer liability cases tend to arise only in the context of small or closely-held corporations.

Prior to the enactment of the Patent Act of 1952, corporate officers were seldom found personally liable for patent infringement.<sup>30</sup> Infringement was viewed as a tort and the liability standard for officers was based in traditional principles of agency and tort doctrine, as described above.<sup>31</sup> However, the Patent Act of 1952 added two new provisions, Sections 271(a) and 271(b),<sup>32</sup> that created statutory bases for patent infringement liability.

Section 271(a) addresses *direct infringement*, providing that “whoever, without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.”<sup>33</sup> Because this section does not require an element of knowledge or intent,<sup>34</sup> it is, in effect, a strict liability provision. Even a person who independently creates and in good faith makes, uses, or sells a patented invention is automatically liable for patent infringement. The lack of willfulness or bad faith goes only to whether enhanced damages are available under the Act,<sup>35</sup> and not to whether liability exists in the first instance.

Section 271(b) imposes liability for *inducement of infringement*, providing that “[w]hoever actively induced infringement of a patent shall be liable as an infringer.”<sup>36</sup> Inducement to infringe cannot exist in the absence of direct infringement by another party.<sup>37</sup> Thus, a corporate officer who actively aids and abets his or her corporation’s direct infringement of a patent may be held liable for inducement to infringe.<sup>38</sup> More importantly, under Section 271(b), knowledge is an essential element and a defendant may not be held liable unless he or she *knowingly* induced infringement.<sup>39</sup> Inducement of infringement is thus more akin to an intentional tort, rather than the strict liability standard of direct infringement. This distinction has important, but thus far unrecognized, ramifications for officer liability standards.

Despite the statutory bases for patent infringement liability provided by Sections 271(a) and (b),<sup>40</sup> the courts continue to treat patent infringement as a type of tort.<sup>41</sup> As a result, they tend to apply the general principles of agency and tort law described above when evaluating the liability of a corporate officer for the infringing activities of his or her corporation. Unfortunately, as discussed in the next Part, the courts, and in particular the Federal Circuit, have incorrectly applied these traditional doctrines in this context, leading to both doctrinal confusion and incorrect outcomes.

## III. THE EVOLUTION OF PERSONAL LIABILITY OF CORPORATE OFFICERS FOR PATENT INFRINGEMENT

The standards for individual officer liability for patent infringement can be divided into two time frames: pre-1982, when patent appeals were decided by the regular U.S. circuit courts of appeals and post-1982, when the Federal Circuit was created and given the task of deciding all patent appeals. While theoretically the creation of a specialized court to hear patent appeals should have led to a more uniform

and precise body of patent case law, the reality has proven to be much different, at least in the context of officer liability issues for patent infringement.

#### **A. Pre-1982 Officer Liability Standards: *Dangler v. Imperial Machine Co.***

Prior to 1982, the leading decision on officer liability for patent infringement was *Dangler v. Imperial Machine Co.*<sup>42</sup> At the time that *Dangler* was decided by the U.S. Court of Appeals for the Seventh Circuit in 1926, the law regarding individual officer liability for patent infringement was in considerable disarray and the rules were uncertain.<sup>43</sup> Generally, however, courts were reluctant to hold officers personally liable for the infringing activities of their corporations, except where the officers acted “outside the scope of their official duties.”<sup>44</sup> Even then, enforcement of individual liability was “seldom sought,” except where the corporation itself was insolvent.<sup>45</sup>

In *Dangler*, the Seventh Circuit provided a comprehensive analysis of officer liability for patent infringement that focused specifically on the nature of the officer’s acts. The court stated:

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.<sup>46</sup>

The *Dangler* court then created what would become the majority view for the next sixty years, holding “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.”<sup>47</sup>

Subsequently, most (although not all) circuits adopted the holding of *Dangler*, finding that an individual officer generally would not be held liable for his or her corporation’s infringing activities in the absence of a “special showing” of why such liability was appropriate under the specific circumstances.<sup>48</sup> Generally, this showing required evidence of personal participation in the wrongful acts; in short, it comported with traditional rules of agency and tort law doctrine. The *Dangler* court and its adherents had instinctively, though perhaps not explicitly, recognized that individual liability of corporate officers for the patent infringement of their corporations was properly treated as an intentional, not a strict liability, tort. However, the adoption of Sections 271(a) and (b) of the Patent Act of 1952 and the creation of the Federal Circuit in 1982 introduced uncertainty regarding the individual liability of corporate officers in this context that has persisted to today.

#### **B. Post-1982 Officer Liability Standards: Chaos in the Federal Circuit**

The formation of the U.S. Court of Appeals for the Federal Circuit in 1982 made it at least theoretically possible that a more uniform body of law regarding personal liability of corporate officers for patent infringement would evolve.<sup>49</sup> The Federal Circuit was given jurisdiction, *inter alia*, over all appeals involving the U.S. patent laws. When the Federal Circuit was created, it adopted the precedent of its predecessor courts, the Court of Claims and the Court of Customs and Patent Appeals, but declared itself not bound by the decisions of the other circuit courts of appeals.<sup>50</sup> Thus, the stage was set for the Federal Circuit to articulate a new rule of its own regarding the personal liability of corporate officers for the patent infringement of their corporations.

The Federal Circuit quickly established that corporate officers could be held personally liable for the infringing activities of their corporations. In an early case, the court noted that: “The cases are legion in which courts have recognized and imposed personal liability on corporate officers for participating in,

inducing, and approving acts of patent infringement.”<sup>51</sup> However, the Federal Circuit’s path to finding such liability was tortuous and its reasoning continues to be inadequate, even two decades after the creation of the court.

The fatal flaw in the Federal Court’s reasoning arises because the court has persisted in finding that officers can be personally liable for direct infringement under Section 271(a). As written, however, Section 271(a) permits no consideration of intent – “whoever” makes, uses or sells a patented invention is automatically liable, regardless of his or her good faith (or lack thereof). While such a rule is justified in the context of the *corporation’s* liability for direct infringement, if applied literally to officers, it would have the effect of making corporate officers strictly liable for their corporation’s infringing activities.

In an effort to avoid such a harsh result, the Federal Circuit has grafted piercing analysis onto evaluation of individual officer liability. In doing so, the court was attempting to limit the imposition of liability upon corporate officers to those situations in which the officer has somehow acted willfully or in bad faith. The end result, however, is that the Federal Circuit has hopelessly confused the standards for officer liability. The more analytically correct result would be to recognize that officer liability can only arise under Section 271(b), in the context of inducement to infringe, as discussed below.<sup>52</sup>

### **1. Setting Out on the Wrong Path: *Orthokinetics* and *Manville***

The Federal Circuit had its first opportunity to address the application of Section 271(a)<sup>53</sup> to officer liability in a 1986 case, *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*<sup>54</sup> Unfortunately, instead of articulating a precise and accurate statement of officer liability for direct patent infringement, the *Orthokinetics* court set the Federal Circuit on the wrong path. Moreover, the analytical error that the Federal Circuit created in *Orthokinetics* was compounded four years later in its decision in *Manville Sales Corp. v. Paramount Systems, Inc.*<sup>55</sup>

*Orthokinetics, Inc.* was the assignee of a patent on a wheelchair. It sued Safety Travel Chairs, Inc. (STC), Entron, Inc., and three individuals, William Pivacek, Clark Chipman, and William J. Cole, for patent infringement. All three individuals were stockholders and officers of STC and Entron.<sup>56</sup> At trial, the jury found the three individuals personally liable for direct infringement under Section 271(a) and for inducement of infringement under Section 271(b).<sup>57</sup> The district court granted a judgment not withstanding the verdict, finding that because the jury could not have reasonably found the individual officers liable for willful infringement, it could not find them personally liable for the corporation’s infringing acts.<sup>58</sup>

On appeal, the Federal Circuit reversed the district court’s decision and reinstated the jury’s findings that the corporate officers were liable for direct infringement under Section 271(a), as well as for inducement of infringement under Section 271(b). In analyzing officer liability for direct infringement under Section 271(a), the court made two conflicting statements regarding the applicable standards. First, the court stated that assessing the personal liability of corporate officers for “the direct infringement of the corporation under Section 271(a) requires invocation of those general principles relating to piercing the corporate veil.”<sup>59</sup> Piercing, of course, is a mechanism for reaching the owners (i.e., shareholders) of a corporation, not the officers.<sup>60</sup> It has, in fact, *no* application in the context of officer liability, the court’s statement in this regard is simply wrong.

The court then went on to state that “[i]nfringement is a tort” and that “officers of a corporation are personally liable for the 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.”<sup>61</sup> This, of course, is a correct articulation of the general principles of agency law that typically control the personal liability of corporate officers – i.e., an officer may be held personally liable where he or she has personally participated in the wrongful acts. The court seemed to

view its statement of the personal participation test as an clarification of how piercing applies to officer liability under Section 271(a) and not as a separate ground for liability.

The *Orthokinetics* court's recitation of the facts supporting imposition of liability upon these three individuals illustrates its own analytical confusion of the separate bases of liability applicable to owners and officers of a corporation. The court noted that Pivacek was the President and sole shareholder of Entron and elected its board of directors, and that he was also President of STC. Pivacek, Cole, and Chipman held all of STC's directorships and owned all of STC's stock. However, ownership of stock, even 100% ownership, is insufficient to support direct liability under Section 271(a) in the absence of factors supporting a piercing of the corporate veil to hold the individuals liable in their capacity as *owners* of the corporation.

Moreover, mere ownership and control is not sufficient reason to set aside the corporate form even to hold the shareholders liable; rather, evidence of abuse of the corporate form is required.<sup>62</sup> No such evidence was present here. The *Orthokinetics* court went on to state that "[t]he evidence firmly establishes that Pivacek, Cole, and Chipman were directly responsible for the design and production of the infringing chairs and that they were the only ones who stood to benefit from sales of those chairs."<sup>63</sup> Corporate officers, as the decisionmakers of a firm, are always "directly responsible" for the corporation's acts of infringement, however. That mere ability to control (or even actual exercise of control) is insufficient to make those individuals liable under Section 271(a). Rather, the inquiry ought to be whether the officer induced the corporation to infringement under Section 271(b), which requires a showing of intent (in the form of knowledge or willfulness) on the part of the officer.

Not only did the *Orthokinetics* court fail to recognize this critical distinction, but its discussion of officer liability under Section 271(b) for inducement to infringe is also misleading. The court stated 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."<sup>64</sup> In so stating, the court implicitly suggested that an officer could possibly be the alter ego of the corporation (even though the alter ego theory requires a unity of interest and ownership that is achieved only by shareholders).<sup>65</sup>

Had the court been more precise in its analysis and language, it would have noted that it is only the officer's own acts of aiding and abetting the corporation in a direct act of infringement that are relevant to a determination of the officer's individual liability for inducement to infringe under Section 271(b). The distinction that the court was attempting to draw, however (i.e., that Section 271(a) requires piercing but that Section 271(b) does not) reveals the court's own intuitive understanding that while the intent requirement of Section 271(b) shields corporate officers from inappropriately expansive liability, the strict liability standard of Section 271(a) exposes them to just such excessive. The interjection of piercing theory was the Federal Circuit's defective and unsatisfactory attempt to qualify Section 271(a)'s broad imposition of liability.

Four years later, the Federal Circuit decided *Manville Sales Corp. v. Paramount Systems, Inc.*<sup>66</sup> Like *Orthokinetics*, *Manville* addressed the liability of the corporate officers involved both for direct infringement under Section 271(a) and for inducement to infringe under Section 271(b). While the outcome of this case – the officers were not held personally liable – sharply contrasts with that in *Orthokinetics* – the Federal Circuit perpetuated the error that it had made in *Orthokinetics*, basing its analysis of officer liability for direct infringement once again on the inapposite and inapplicable doctrine of piercing of the corporate veil.

*Manville Sales Corp.* had obtained a patent on an iris-arm luminaire assembly design. Anthony DiSimone, the corporate secretary of Paramount Systems, Inc., obtained a copy of *Manville's* iris arm design and sent the drawing to Robert Butterworth, the president of Paramount, who then gave the drawing to Ralph Bloom, a Paramount designer, for use in designing a similar device that was later made and sold by Paramount. The district court found that DiSimone and Butterworth were liable for both direct infringement and inducement of infringement under Sections 271(a) and 271(b).

The Federal Circuit explicitly stated that for officers to be personally liable for direct infringement under Section 271(a), “there must be evidence to justify piercing the corporate veil.”<sup>67</sup> In support of this erroneous liability standard, the *Manville* court cited a 1988 Federal Circuit decision, *A. Stucki Co. v. Worthington Industries*,<sup>68</sup> that addressed the liability of a parent corporation for the patent infringement of a company in which the parent’s subsidiary owned 50% of the stock. In short, *Worthington* was a classic piercing case in which piercing was used to reach the *owner* of a corporation that had engaged in wrongful behavior. The *Manville* court thus missed the critical point that the corporate veil shields *owners* of the corporation, not officers.

The Federal Circuit then found that the district court’s imposition of liability upon the two individual officers was “an abuse of its equitable power”<sup>69</sup> because the evidence did not show that individuals were attempting to avoid liability by hiding behind the protections of the corporate veil.<sup>70</sup> The Federal Circuit stated that “[a]lthough [the] 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.”<sup>71</sup> This, the Federal Circuit concluded, precluded a finding of individual liability.

The *Manville* court was also disturbed that the district court had imposed liability upon the corporate officers even though it had found that the officers were not the alter ego of the corporation.<sup>72</sup> The *Manville* court recited standard principles of alter ego theory,<sup>73</sup> citing a 1967 Third Circuit decision, *Zubik v. Zubik*,<sup>74</sup> which addressed the liability of an individual for the torts of his closely-held corporation. *Zubik* thus evaluated the liability of an individual in his role as an owner, not as an officer. In *Manville*, by contrast, the court did not focus on whether the officers whose liability was at issue were owners of the corporation (and in fact, did not even address in passing whether these individuals were stockholders), but rather looked at their individual actions in their capacity as officers. Such actions, if wrongful, could lead to individual liability under standard principles of agency and tort law because of the officers’ personal participation in the wrongful acts<sup>75</sup> but cannot lead to a finding that the officers abused the corporate form. Corporate officers, in their role as officers, cannot have the “unity of interest and ownership”<sup>76</sup> necessary to support an application of the alter ego theory. Clearly, the *Manville* court did not understand that piercing and alter ego theory are completely irrelevant to the evaluation of individual officer liability.

The *Manville* court then addressed individual officer liability for inducement to infringe under Section 271(b) in more detail. The court cited *Orthokinetics* for the proposition that inducement to infringe does not require a piercing of the corporate veil.<sup>77</sup> Inducement does, however, require a showing that the officer “knowingly” induced infringement.<sup>78</sup> Specifically, the court stated, “[i]t must be established that the defendant possessed specific intent to encourage another infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement.”<sup>79</sup> In short, the plaintiff must show that the officer actually induced the corporation’s direct infringement and that the officer “knew or should have known” that his or her actions would induce such direct infringement.<sup>80</sup>

Here, Paramount and the two officers were not aware of *Manville*’s patent until after the suit had been filed. Though Paramount did continue to produce the infringing product after the filing, it did so because the two officers had obtained advice of legal counsel that its product did not infringe.<sup>81</sup> Because there was “neither compelling evidence nor any findings”<sup>82</sup> that the officers at issue had “specific intent to cause another to infringe,” the Federal Circuit reversed the district court’s imposition of liability upon the individuals for inducement to infringe under § 271(b).<sup>83</sup>

Taken together, *Orthokinetics* and *Manville* stand for the propositions that: (1) an officer can only be held liable for direct infringement under Section 271(a) where the facts support a piercing of the corporate veil and (2) an officer can be held liable for inducement to infringe under Section 271(b) where the officer has directly assisted and abetted the corporation in its direct infringement. While the second proposition is accurate (provided one is not led astray by the *Manville* court’s suggestion that alter ego theory might also be a grounds for imposing liability under Section 271(b) on corporate

officers), the first proposition is clearly erroneous and shows a fundamental misunderstanding of the basic principles of agency and corporate law.

## 2. The Current Status of Federal Circuit Precedent: *Sensonics*, *Hoover Group*, and *Al-Site*

In 1996, the Federal Circuit seemed to be taking at least small steps toward articulation of a correct statement of officer liability for patent infringement in its decision in *Hoover Group, Inc. v. Custom Metalcraft, Inc.*<sup>84</sup> Unfortunately, whatever corrective measures the Federal Circuit attempted to take in *Hoover* were erased by its 1999 decision in *Al-Site Corp. v. VSI International, Inc.*<sup>85</sup> Thus, individual officer liability for direct infringement, in particular, continues to be governed by the clearly erroneous standard of piercing theory.

*Hoover Group* arose from a patent infringement suit filed by Hoover Group, Inc. against Custom Metalcraft, Inc. Hoover also filed suit against Dwayne Holden, the president, chief executive officer, and principal shareholder of Custom,<sup>86</sup> alleging that he was personally liable for both direct infringement under Section 271(a) and inducement to infringe under Section 271(b).

The district court held Holden personally liable, relying upon *Orthokinetics* and its veil-piercing theory. On appeal, the Federal Circuit reversed the finding of personal liability. The Federal Circuit did not explicitly reject its erroneous reasoning in *Orthokinetics* and *Manville*, but rather sought to distinguish and limit the reasoning of those two cases. The court began by discussing the holding of *Orthokinetics*, stating that the court there had held the corporate officers involved personally liable under the “general principles relating to piercing the corporate veil.”<sup>87</sup> The court emphasized, however, that when a corporate 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.”<sup>88</sup> The court noted that piercing the corporate veil to impose personal liability is appropriate “only in limited circumstances.”<sup>89</sup>

The Federal Circuit then went on to state the general rule of corporate officer liability, stating that corporate officers may be held personally liable for their tortious acts, and that this liability does not depend upon a piercing of the corporate veil.<sup>90</sup> Rather, “[w]hen a person in a control position causes the corporation to commit a civil wrong, imposition of personal liability requires consideration of the nature of the wrong, the culpability of the act, and whether the person acted in his/her personal interest or that of the corporation.”<sup>91</sup> While an officer is not liable for commercial torts committed within the scope of his or her employment, the officer may be liable for negligent or other culpable actions.<sup>92</sup>

However, the *Hoover* court still did not comprehend the inappropriateness of looking to piercing as a basis for officer liability. The court listed the “legal premises” on which officer liability could be based; the first of those was “piercing the corporate veil based on such criteria as absence of corporate assets or use of the corporate form for illegal purposes.”<sup>93</sup> Ultimately, the *Hoover* court fell back on *Manville*’s holding that piercing is needed to support imposition of personal liability upon a corporate officer under § 271(a).<sup>94</sup> The court noted that the plaintiff had not alleged that Custom’s corporate structure was a sham or that it existed merely to shield Holden from liability for his wrongful acts, nor had the district court pierced the corporate veil.<sup>95</sup> Thus, the appellate court determined that Holden could not be held personally liable for direct infringement under Section 271(a).

The Federal Circuit also reviewed Holden’s personal liability for inducement to infringe under Section 271(b). The court concluded that personal liability under this Section need not be based upon a piercing of the corporate veil, but rather must be based upon upon evidence of personal culpability on the part of the officer.<sup>96</sup>

Thus, the *Hoover Group* court concluded that personal liability of a corporate officer could be based either in: (1) a piercing of the corporate veil or (2) a finding of personal culpability on the part of the officer. While the latter standard comports with traditional agency law doctrine requiring personal

participation by the officer in the wrongful acts, the former perpetuates the Federal Circuit's earlier mistake in finding that piercing doctrine is in any way relevant to individual officer liability. The *Hoover Group* did appear to be backtracking somewhat from its earlier statements in *Orthokinetics* and *Manville* that individual liability for direct infringement is based in a piercing of the corporate veil. The court did not eliminate piercing as a basis for officer liability, however, as a correct application of traditional doctrine would demand. Thus, while *Hoover Group* makes some progress toward a correct articulation of a standard for officer liability for patent infringement, it by no means adequately states the correct status of the law.

Whatever limited advances in doctrinal clarity that the Federal Circuit might have made in *Hoover* were firmly erased in its 1999 decision in *Al-Site Corp. v. VSI International, Inc.*<sup>97</sup> In ruling on the personal liability of Myron Orlinsky, the chairman and CEO of a company found liable for infringing on patents for hangers for displaying non-prescription eyeglasses, the Federal Circuit simply reiterated its statements from *Manville*, stating that “[p]ersonal liability under § 271(a) . . . requires sufficient evidence to justify piercing the corporate veil.”<sup>98</sup> The *Al-Site* court further stated that the corporate form was to be disregarded only where “unusual circumstances” warrant such a result, and that “[t]he most common reason” for ignoring the corporate form is that the “corporation was merely the alter ego of its officers.”<sup>99</sup>

While Orlinsky made the “sole decision” to continue producing the hangers after receiving cease-and-desist letters from the plaintiff, the record showed “no further evidence of personal activity” by Orlinsky and no evidence that he overstepped his authority as CEO.<sup>100</sup> Thus, the Federal Circuit concluded, there was no evidence of the corporation acting as Orlinsky’s alter ego and no evidence to justify piercing the corporate veil to hold him personally liable.<sup>101</sup>

*Al-Site* did not raise the issue of liability under Section 271(b), but its statement of the liability standard under Section 271(a) took Federal Circuit precedent squarely back to the erroneous precedents created in *Orthokinetics* and *Manville*. The *Al-Site* court contemplated no other grounds for holding a corporate officer liable for direct infringement except a piercing of the corporate veil.

While the Federal Circuit’s articulation of the officer liability standard for inducement to infringe seems to be more accurate than its articulation of the liability standard for direct infringement, the court’s current position on this standard of liability is still not entirely clear. In its 1996 decision in *Sensonics, Inc. v. Aerosonic Corp.*,<sup>102</sup> the Federal Circuit seemed to have adopted a control test for corporate officer liability for inducement of infringement. Herbert J. Frank, the founder, owner, president, chief executive officer, and chief of engineering of Aerosonic Corp.,<sup>103</sup> was found personally liable for inducement to infringe a patent held by Sensonics, Inc. The Federal Circuit provided little discussion of the relevant issues, stating that “[t]he tort of inducement . . ., when applied to invoke personal liability, is premised upon a concept of tortfeasance whereby persons in authority and control may in appropriate circumstances be deemed liable for wrongdoing, when inducing direct infringement by another.”<sup>104</sup> The court sustained the district court’s finding that Frank had authority to control or discontinue production of the infringing device and so was liable for inducement to infringe.

A similar “control” test for corporate officer liability evolved in environmental law, where corporate officers who exercised control or authority over a corporation’s hazardous waste disposal practices may be held personally liable for clean-up costs under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).<sup>105</sup> The control test in the CERCLA context focuses on the degree or type of control that the corporate officer exercises over the activities leading to the statutory violation, as opposed to the officer’s actual involvement or participation in those activities.<sup>106</sup>

A “control” test is troubling because many, if not all, corporate officers have authority to control the acts that may lead to infringing activity on the part of their corporations. If the Federal Circuit meant to suggest that a corporate officer may be held individually liable under Section 271(b) whenever he or

she failed to prevent such infringement, the court will have greatly expanded the scope of officer liability, in effect imposing a form of strict liability upon those officers.

### 3. District Court Attempts to Avoid the Federal Circuit's Erroneous Precedents

Several district courts have engaged in analytical contortions in an effort to avoid the Federal Circuit's patently flawed analyses of agency and tort doctrine. The machinations that these courts have gone through in efforts to avoid the Federal Circuit's clearly erroneous precedents illustrates just how analytically bankrupt the Federal Circuit's standards for corporate officer liability really are.

In *Symbol Technologies, Inc. v. Metrologic Instruments, Inc.*,<sup>107</sup> for example, the U.S. District Court for the District of New Jersey made a heroic, though ultimately flawed, attempt to articulate a correct standard for officer liability. Metrologic Instruments, Inc. had alleged that Symbol Technologies, Inc. had infringed upon its patents for laser bar code scanners. C. Harry Knowles was the sole owner and president of Metrologic Instruments, and was one of three members of Metrologic's board of directors.<sup>108</sup> Knowles had personally conceived of one of the scanners that led to the infringement suits and had personally solicited potential customers.<sup>109</sup> Among its other claims, Symbol Technologies sought to hold Knowles personally liable for either direct infringement under Section 271(a) or for inducement of infringement under Section 271(b).

The *Symbol Technologies* court clearly understood the correct basis for imposing individual liability upon a corporate officer, stating "it is hornbook law that there is no need to pierce the corporate veil in order to find personal liability."<sup>110</sup> However, the district court was faced squarely with contrary precedent in both *Orthokinetics* and *Manville*.

The *Symbol Technologies* court avoided that precedent by determining that the piercing language of *Orthokinetics* was dicta, and that the actual holding of *Orthokinetics* that the defendant Privacek was liable for direct infringement was not based upon a piercing of the corporate veil, but rather upon his active participation in the infringing activities.<sup>111</sup> The court then stated that in *Manville*, the Federal Circuit had "built upon its own dicta in *Orthokinetics*" in applying piercing to corporate officer liability.<sup>112</sup> Specifically, the *Symbol Technologies* court found that the *Manville* court had combined the dicta of *Orthokinetics* and the piercing language found in the parent corporation case of *Worthington* to come up with "a new standard" for Section 271(a) liability that required a piercing of the corporate veil in order to hold an officer personally liable for patent infringement.<sup>113</sup> The *Symbol Technologies* court then stated that to the extent that *Manville* sought to establish a new standard for officer liability under Section 271(a), the *Manville* court failed in its undertaking because a decision of a prior panel of the Federal Circuit can only be overturned by the court sitting en banc.<sup>114</sup>

Through this sleight of hand, the *Symbol Technologies* court managed to avoid the adverse precedents of *Orthokinetics* and *Manville*. Unfortunately, the court's analysis is not compelling. A fair reading of *Orthokinetics* makes it clear that the piercing standard articulated there was not mere dicta and that the court had not relied upon the traditional personal participation standard in holding the corporate officer liable. Moreover, the Federal Circuit's own application of *Orthokinetics* in later cases<sup>115</sup> demonstrates that the Federal Circuit itself does not view the piercing language of that opinion as mere dicta. Viewed in this light, the piercing standard for corporate officer liability articulated in *Orthokinetics* and *Manville* must control.

In addition, while the *Symbol Technologies* court tried to articulate a correct standard for officer liability, its analysis and application of that standard was ultimately flawed. The *Symbol Technologies* court noted that Knowles was the president, sole owner, and a member of the board of directors of Metrologic, and was the designer, manufacturer, and seller of the infringing scanners. Because Metrologic had already conceded infringement as a matter of law, the court concluded that Knowles must likewise be held liable for direct infringement on the same claims.<sup>116</sup>

Although the court's recognition that piercing is not a prerequisite to imposition of personal liability upon a corporate officer for infringement is encouraging, its decision that the officer was nonetheless liable is disconcerting. Of what relevance are most of the factors that the court cited in holding the officer personally liable? The court recited of his status as president, sole owner, and a member of the board of the directors. These characteristics typify the owners of many, if not most, small and closely-held corporations. Including these factors in an evaluation of personal liability suggests that mere status as an owner and an officer, as opposed to affirmative acts of commission or omission, can result in liability for direct infringement under Section 271(a).

Moreover, the *Symbol Technologies* court noted that piercing could be used to hold an individual liable for direct infringement in proper circumstances, such as when the corporation is the mere alter ego of the individual,<sup>117</sup> but that piercing is by no means necessary to find such personal liability. Had the *Symbol Technologies* court been more precise with its own language and analysis, it would have noted that the alter ego theory is used to hold an individual liable only in his or her capacity as a stockholder of the corporation, and never in his or her capacity as an officer.

The *Symbol Technologies* court also addressed officer liability for inducement of infringement under Section 271(b), stating that liability for inducement can exist regardless of whether circumstances justify a piercing of the corporate veil.<sup>118</sup> The court stated that it must be shown that the alleged infringer "knowingly aided and abetted another direct infringement."<sup>119</sup> The court then went on to state, however, that Knowles was the President, sole owner, and one of three members of the Board of Directors,<sup>120</sup> and determined that it was "undisputed" that "such activities allowed Knowles to control production of the infringing products"<sup>121</sup> This suggests that mere status and unexercised capacity to control can be sufficient to allow imposition of personal liability.<sup>122</sup>

The U.S. District Court for the District of New Hampshire, deciding *Curtis Manufacturing Co. v. Plasti-Clip Corp.*<sup>123</sup> in 1994, followed the lead of the *Symbol Technologies* court. The *Curtis Manufacturing* court also rejected the holding of *Manville*, stating: "Without reason, *Manville* seemingly departed from generally settled law and sought to create a new standard for section 271(a), necessitating piercing the corporate veil in order to find an officer or a corporation personally liable for patent infringement." The court agreed with the *Symbol Technologies* court that *Manville* was not binding precedent as prior decisions by a panel of the Federal Circuit are binding on subsequent panels unless overturned by an en banc decision.<sup>124</sup> Thus, the *Curtis Manufacturing* court, like the *Symbol Technologies* court, believed that *Orthokinetics* controlled and that *Orthokinetics* did not articulate a piercing standard.

The *Curtis Manufacturing* court, unlike the *Symbol Technologies* court, clarified that mere status alone is not sufficient to generate personal liability for a corporate officer. Rather, the court explained, "[a]ctive participation sufficient to invoke personal liability has been characterized as 'the moving force' behind the infringement, 'the moving, active, conscious force behind the infringement,' or 'direct participation in and control of the infringing design, manufacture, and sale.'"<sup>125</sup> Interestingly, the corporate officer at issue in *Curtis Manufacturing*, Thomas W. Judd, is simply described as the company's president.<sup>126</sup> Either Judd had no ownership interest in the corporation or, if he did, the court found it unnecessary to comment on that relationship. As a result, the court was not misled, as were earlier courts, into factoring the officer's shareholder status into the evaluation of his liability.<sup>127</sup>

#### **IV. THE CORRECT STANDARD FOR OFFICER LIABILITY FOR PATENT INFRINGEMENT**

To a large extent, the Federal Circuit's analytical confusion regarding the standards for corporate officer liability for patent infringement can be traced to the court's misplaced reliance on Section 271(a) as a source of individual liability. A corporate officer acts on behalf of the corporation and cannot

undertake any direct actions of infringement himself or herself. An officer simply does not “make, use, or sell” a patented invention when acting in his or her role as an officer.

The Federal Circuit has determined that officers can be liable under Section 271(a), yet is understandably unwilling to go the full distance and impose the strict liability standard of that provision upon individual officers. To avoid the harsh result that such a strict liability standard would impose, the Federal Circuit has sought to limit the application of the provision by requiring some showing of “fault” on the part of the officer.

Unfortunately, not only does Section 271(a) of the Patent Act not contemplate such a culpability standard, but the culpability standard adopted by the Federal Circuit – piercing theory – is completely irrelevant to issues of officer liability. By couching the personal liability of corporate officers for direct patent infringement in terms of piercing, the courts have confused the issues and have opened the gates for a flood of inappropriate impositions of personal liability. Piercing doctrine is relevant only to holding an *owner* liable for the acts of the corporation. Undoubtedly, a large part of the confusion in this area stems from the dual roles that individuals play in these cases. Virtually all of the officer liability cases to date under Sections 271(a) and (b) have involved small closely-held corporations, where the individual is both an officer and the principal, if not sole, shareholder of the corporation. By looking to piercing doctrine to hold officers liable, the Federal Circuit suggests that owners of small or closely-held corporations are somehow more susceptible to individual liability for direct infringement merely because of their status. Yet, under well-settled traditional principles of corporate law, owners of these corporations are just as entitled to the protections of the corporate form as are shareholders in large, publicly-held corporations.

This is not to say that corporate officers can never be held personally liable for patent infringement. They most certainly can – for inducement to infringe under Section 271(b) of the Patent Act. Where an officer personally participates in a wrongful act that causes the corporation to engage in direct infringement – such as designing an infringing product, directing the corporation to continue its wrongful activities even after the infringement is brought to the corporation’s attention, or failing to obtain adequate advice of legal counsel before causing the corporation to undertake an infringing act – the corporate officer should be held liable under Section 271(b).

Section 271(b) carries an intent requirement, however, that closely parallels the personal participation test of traditional agency and tort law. A court evaluating the individual liability of an officer under Section 271(b), therefore, need not be concerned that an officer will be held inappropriately liable based merely upon his or her status. Thus, the court need not stretch to find theories, such as the misplaced piercing theory, that would limit the officer’s liability. The statutory provision itself already fills that role.

## V. CONCLUSION

There is nothing in the Patent Act that suggests that Congress intended to override traditional principles of agency and tort law, or that Congress intended the personal liability of corporate officers to be more expansive in this arena than in other areas of the law. Yet the Federal Circuit has, inadvertently yet undeniably, rewritten traditional doctrine to extend personal liability to corporate officers for the patent infringement of their corporations in ways that few officers would anticipate or suspect.

The analytical confusion that surrounds this area of the law could be eliminated if only the Federal Circuit were to recognize that: (1) piercing theory has no application to officer liability issues; (2) corporate officers cannot be held liable under Section 271(a) for direct infringement because of the infringing acts of their corporations; and (3) the intent requirement of Section 271(b) is a suitable proxy for the personal participation requirements of traditional corporate officer liability rules.

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## FOOTNOTES

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<sup>1</sup> See *infra* Part I (discussing traditional agency and corporate law doctrine).

<sup>2</sup> Ch. 950, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 1-376 (1994)).

<sup>3</sup> Although this Paper focuses on the personal liability of corporate officers for patent infringement, other individuals can also be held personally liable. In *Water Technologies Corp. v. Calco Ltd.*, 850 F.2d 660 (Fed. Cir. 1988), for example, a consultant was held personally liable for inducement to infringe. The consultant had given the infringing formulas to the infringing manufacturer, had held make the infringing products, had prepared customer use instructions, and had exerted control over the infringing manufacturer's manufacturing process. To date, however, courts have not held non-officer employees individually liable for patent infringement by their corporations but rather have extended liability only to "persons who were significant shareholders in the corporation, executive officers or chief executives, presidents of the corporation, alter egos of the company, or other high ranking individuals with personal control, supervision, and direction of both the company and the copying of the patent." *Wilden Pump & Eng'g Co. v. Pressed & Welded Prods. Co.*, 655 F.2d 984 (9th Cir. 1981).

In addition, corporate officers can be held personally liable under the Patent Act for actions other than direct infringement or inducement to infringe. In *Ohio Cellular Prods. Corp. v. Nelson*, 175 F.3d 1343 (Fed. Cir. 1999), *rev'd and remanded on other grounds, sub nom.*, *Nelson v. Adams USA, Inc.*, 529 U.S. 460 (2000), the defendant, who was the president and sole stockholder of Ohio Cellular, was held personally liable for wrongfully enforcing an invalid patent.

<sup>4</sup> See *infra* notes 33-35 and accompanying text.

<sup>5</sup> See *infra* notes 36-39 and accompanying text.

<sup>6</sup> 35 U.S.C. § 271(a) and (b).

<sup>7</sup> See 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 . . . ."); JOSEPH W. BISHOP, JR., *THE LAW OF CORPORATE OFFICERS & DIRECTORS: INDEMNIFICATION AND INSURANCE* § 3.13 (1982); 3A WILLIAM FLETCHER, *FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS* § 1135 (perm. ed. rev. vol. 1994) ("[A] person is personally liable for all torts committed by him . . . notwithstanding he may have acted as the agent or under the directions of another. And this is true to the full extent as to torts committed by the officers or agents of a corporation in the management of its affairs.").

<sup>8</sup> See HARRY G. HENN & JOHN R. ALEXANDER, *LAW OF CORPORATIONS* § 230, at 608 (3d ed. 1983).

<sup>9</sup> See 3A FLETCHER, *supra* note 7, § 1135.

<sup>10</sup> See *Donsco, Inc. v. Casper Corp.*, 587 F.2d 602, 606 (3d Cir. 1978):

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. . . .

The fact that an officer is acting for a corporation also may make the corporation vicariously liable or secondarily liable under the doctrine of respondeat superior; it does not however relieve the individual of his responsibility.

(citations omitted).

<sup>11</sup> See BISHOP, *supra* note 7, § 3.1, at 3-50 ("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."); 3A FLETCHER, *supra* note 7, § 1137 ("[A]n officer or director of a corporation is not liable for torts in which he has not participated, of which he has no knowledge, or to which he has not consented.").

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<sup>12</sup> See *Lobato v. Pay Less Drug Stores, Inc.*, 261 F.2d 406, 408-09 (10th Cir. 1958) (“[M]erely being an officer or agent of a corporation does not render one personally liable for a tortious act of the corporation. Specific direction or sanction of, or active participation or cooperation in, a positively wrongful act or commission or omission which operates to the injury or prejudice of the complaining party is necessary to generate individual liability in damages of an officer or agent of a corporation for the tort of the corporation.”); *Murphy Tugboat Co. v. Shipowners & Merchants Towboat Co.*, 467 F. Supp. 841, 852 (N.D. Cal. 1979) (“Courts have . . . 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); 3A FLETCHER, *supra* note 7, § 1137 (officers are held liable because of their wrongful or negligent acts, not because of their status).

<sup>13</sup> *Escude Cruz v. Ortho Pharmaceutical Corp.*, 619 F.2d 902, 907 (1st Cir. 1980) (“The general rule . . . is that an officer of a corporation ‘is liable for torts in which he personally participated, whether or not he was acting within the scope of his authority.’”); see also HENRY W. BALLANTINE, BALLANTINE ON CORPORATIONS § 112, at 275 (rev. ed. 1946) (“An 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.”).

<sup>14</sup> *Citronelle–Mobile Gathering, Inc. v. Herrington*, 826 F.2d 16, 25 (Temp. Emer. Ct. App. 1987).

<sup>15</sup> See *infra* notes 40-41 and accompanying text.

<sup>16</sup> 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.”).

<sup>17</sup> See, e.g., *United States v. Jon-T Chems., Inc.*, 768 F.2d 686, 690 (5th Cir. 1985).

<sup>18</sup> See, e.g., *Krivo Indus. Supply Co. v. National Distillers & Chem Corp.*, 483 F.2d 1098, 1102 (5th Cir. 1973), *modified per curiam*, 490 F.2d 916 (5th Cir. 1974); see also BALLANTINE, *supra* note 13, § 1, at 1, 4, § 119, at 288 (rev. ed. 1946); HARRY G. HENN & JOHN R. ALEXANDER, LAWS OF CORPORATIONS § 73 (3d ed. 1983).

<sup>19</sup> See generally HENN & ALEXANDER, *supra* note 18, § 148, at 355.

<sup>20</sup> See, e.g., *Krivo*, 483 F.2d at 1102; *Fish v. East*, 114 F.2d 177, 191 (10th Cir. 1940).

<sup>21</sup> See *Jon-T Chems.*, 768 F.2d at 691; 1 FLETCHER, *supra* note 7, § 41, at 603 (“In short, the corporate veil may be pierced upon a showing of improper conduct or that the corporation was either formed or used for some illegal, fraudulent, or unjust purpose.”).

<sup>22</sup> See 1 FLETCHER, *supra* note 7, § 41.10, at 615. The courts generally apply a two-pronged test in determining whether piercing is appropriate under the alter ego theory: “(1) that there be such unity of interest and ownership that the separate personalities of the corporation and the individual [shareholders] no longer exist and (2) that, if the acts are treated as those of the corporation alone, an inequitable result will follow.” *Autonotriz del Golfode California v. Resnick*, 306 P.2d 1, 3 (1957). See also 1 FLETCHER, *supra* note 7, § 41.10, at 615.

<sup>23</sup> See Robert B. Thompson, *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036, 1047 (1991).

<sup>24</sup> See *Zubik v. Zubik*, 384 F.2d 267, 273 (3d Cir. 1967); 1 FLETCHER, *supra* note 7, § 41.10, at 614-15 (“The standards of application of alter ego principles are high, and the imposition of liability notwithstanding the corporate shield is to be exercised reluctantly and cautiously.”).

<sup>25</sup> See 1 FLETCHER, *supra* note 7, § 41.10, at 614-15 (“Some courts speak of disregard of the corporate entity as requiring exceptional circumstances.”).

<sup>26</sup> See 35 U.S.C. § 271.

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<sup>27</sup> A patent is, in effect, the granting of a limited monopoly, giving the holder of a utility patent the right to enforce these rights for a period of twenty years from the date of application for a patent. 35 U.S.C. 154. Design patents are valid for fourteen years from the date of patent issuance. 35 U.S.C. § 173.

<sup>28</sup> Often, the plaintiff is seeking an additional pocket to recover from where it appears that the corporation itself may be insolvent.

<sup>29</sup> See *infra* note 45 and accompanying text.

<sup>30</sup> See Ronald B. Coolley, *Personal Liability of Corporate Officers and Directors for Infringement of Intellectual Property*, 68 J. PAT. (& TRADEMARK) OFF. SOC'Y 228, 230 (1986).

<sup>31</sup> See Part I *supra*.

<sup>32</sup> 35 U.S.C. § 271(a) and (b).

<sup>33</sup> 35 U.S.C. § 271(a).

<sup>34</sup> See PETER D. ROSENBERG, *PATENT LAW FUNDAMENTALS* § 17.02[1], at p.17-26 (rel. # 49, 10/99) (2d ed. 1980) (citing *Wahl v. Carrier Mfg. Co.*, 358 F.2d 1, 3 (7th Cir. 1966); *C.H. Dexter & Sons, Inc. v. Kimberly Clark Corp.*, 292 F.2d 371 (1st Cir. 1966); *Intel Corp. v. United States Int'l Trade Comm'n*, 946 F.2d 821, 832 (Fed. Cir. 1991)).

<sup>35</sup> See 35 U.S.C. § 184.

<sup>36</sup> 35 U.S.C. § 271(b).

<sup>37</sup> See 4 DONALD CHISUM, *CHISUM ON PATENTS* § 17.04[1] (1999).

<sup>38</sup> See *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478, 481 (Fed. Cir. 1985).

<sup>39</sup> See *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988). According to the Federal Circuit:

It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known that his actions would induce actual infringements.

*Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

<sup>40</sup> See *North American Philips Corp. v. American Vending Sales, Inc.*, 35 F.3d 1576, 1579 (Fed. Cir. 1994) ("While it may be appropriate to speak loosely of patent infringement as a tort, more accurately the cause of action for patent infringement is created and defined by statute. The statute does not speak generally of the 'tort of patent infringement,' but specifically of a liability that arises upon the making, using, or selling of an infringing article.") (citation omitted).

<sup>41</sup> See *Curtis Mfg. Co. v. Plasti-Clip Corp.*, 888 F. Supp. 1212, 1222 (D.N.H. 1994) (citations omitted) ("it is indisputable that patent infringement is a tort"); see also *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986) ("Infringement is a tort and officers of a corporation are personally liable for tortious conduct of the corporation if they personally took part in the commission of the tort or specifically directed other officers, agents, or employees of the corporation to commit the tortious act.") (citations omitted); *Symbol Techs. V. Metrologic Instruments, Inc.*, 771 F. Supp. 1390, 1402 (D. N.J. 1991) ("patent infringement is a tort").

<sup>42</sup> 11 F.2d 945 (7th Cir. 1926).

<sup>43</sup> *Id.* at 946 ("the authorities are not in accord").

<sup>44</sup> *Id.* at 946.

<sup>45</sup> *Id.* at 946-47:

The weight of authority, it seems, denies such liability in the ordinary case. That is to say, if the officers act merely as officers, they are not liable jointly with the corporation. It is only when they officers act outside the scope of their official duties that they become liable . . . . There are, however, numerous authorities that hold the managing officers liable for damages committed by the corporation in case of infringements. The

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enforcement of this liability is seldom sought, except in the case of insolvency of the corporation.

<sup>46</sup> *Id.* at 946-47.

<sup>47</sup> *Id.* at 947.

<sup>48</sup> *See, e.g.,* Wilden Pump & Eng'g Co. v. Pressed & Welded Prod. Co., 655 F.2d 984, 990 (9th Cir. 1981); White v. Mar-Bel, Inc., 509 F.2d 287, 292-93 (5th Cir. 1975); Southwestern Tool Co. v. Hughes Tool Co., 98 F.d 42, 46 (10th Cir. 1938); Dean Rubber Mfg. Co. v. Killian, 106 F.2d 316, 320 (8th Cir. 1939); Telling v. Bellows-Claude Neon Co., 77 F.2d 584, 586 (6th Cir. 1935).

<sup>49</sup> The Federal Circuit was established October 1, 1982, by the Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25.

<sup>50</sup> *See* South Corp. v. United States, 690 F.2d 1368, 1370-71 (Fed. Cir. 1982).

<sup>51</sup> Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565, 1579 (Fed. Cir. 1986).

<sup>52</sup> *See* Part IV *infra*.

<sup>53</sup> The Federal Circuit first addressed the application of § 271(b) to officer liability a year earlier, in *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478 (Fed. Cir. 1985), but did not take the opportunity there to articulate a comprehensive standard of officer liability.

<sup>54</sup> 806 F.2d 1565 (Fed. Cir. 1986).

<sup>55</sup> 917 F.2d 544 (Fed. Cir. 1990).

<sup>56</sup> 806 F.2d at 1569.

<sup>57</sup> *Id.* at 1578.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 1579.

<sup>60</sup> *See supra* Part I.

<sup>61</sup> 806 F.2d at 1579(citing 3A FLETCHER, *supra* note 7, § 1135).

<sup>62</sup> *See supra* notes 22 and accompanying text.

<sup>63</sup> 806 F.2d at 1579.

<sup>64</sup> *Id.*

<sup>65</sup> *See supra* Part I.

<sup>66</sup> 917 F.2d 544 (Fed. Cir. 1990).

<sup>67</sup> *Id.* at 552.

<sup>68</sup> 849 F.2d 593, 596 (Fed. Cir. 1988).

<sup>69</sup> 917 F.2d at 553.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> *Id.*

<sup>73</sup> *See supra* Part I.

<sup>74</sup> 384 F.2d 267, 271-72 (3d Cir. 1967).

<sup>75</sup> *See supra* Part I.

<sup>76</sup> *See* Part I.

<sup>77</sup> 917 F.2d at 553.

<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at 554.

<sup>83</sup> *Id.*

<sup>84</sup> 84 F.3d 1408 (Fed. Cir. 1996).

<sup>85</sup> 174 F.3d 1308 (Fed. Cir. 1999).

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<sup>86</sup> 84 F.3d at 1410.  
<sup>87</sup> *Id.* at 1411.  
<sup>88</sup> *Id.* (citing *Manville*, 917 F.2d at 553).  
<sup>89</sup> *Id.*  
<sup>90</sup> *Id.* (citations omitted).  
<sup>91</sup> *Id.* (citing 3A FLETCHER, *supra* note 7, §§ 1134-1166).  
<sup>92</sup> *Id.*  
<sup>93</sup> *Id.*  
<sup>94</sup> *Id.* at 1412.  
<sup>95</sup> *Id.*  
<sup>96</sup> *Id.*  
<sup>97</sup> 174 F.3d 1308 (Fed. Cir. 1999).  
<sup>98</sup> *Id.* at 1331 (citing *Manville*, 917 F.2d at 552)..  
<sup>99</sup> *Id.* (citing *Manville*, 917 F.2d at 552).  
<sup>100</sup> *Id.*  
<sup>101</sup> *Id.*  
<sup>102</sup> 81 F.3d 1566 (Fed. Cir. 1996).  
<sup>103</sup> *Id.* at 1575.  
<sup>104</sup> *Id.* (citations omitted).  
<sup>105</sup> Pub. L. No. 96-510, 94 Stat. 2767 (1980) (codified as amended at 42 U.S.C. §§ 9601-9675).  
<sup>106</sup> *See generally* Lynda J. Oswald, *Strict Liability of Individuals Under CERCLA: A Normative Analysis*, 20 B.C. ENVIRONMENTAL AFFAIRS LAW REVIEW 579, 616-20 (1993) (discussing cases arising under CERCLA).  
<sup>107</sup> 771 F. Supp. 1390 (D.N.J. 1991).  
<sup>108</sup> The court also concluded that “[a]s President and sole owner of Metrologic, it is Knowles who most directly benefits by any financial success associated” with the allegedly infringing scanners. 771 F. Supp. at 1402 n.7.  
<sup>109</sup> *Id.* at 1402.  
<sup>110</sup> 771 F. Supp. at 1402.  
<sup>111</sup> *Id.* at 1402-03.  
<sup>112</sup> *Id.* at 1403.  
<sup>113</sup> *Id.*  
<sup>114</sup> *Id.* at 1403.  
<sup>115</sup> *See, e.g.*, *Al-Site Corp. v. VSA Int’l, Inc.*, 174 F.3d 308 (Fed. Cir. 1999).  
<sup>116</sup> 771 F. Supp. at 1404.  
<sup>117</sup> *Id.* (citing *Rex Chainbelt, Inc. v. General Kinematics Corp.*, 363 F.2d 336, 348 (7th Cir. 1966)).  
<sup>118</sup> *Id.*  
<sup>119</sup> *Id.* (citing *Water Tech. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988); D. CHISUM, *supra* note 37, § 17.04[2], at 17-45)).  
<sup>120</sup> *Id.* at 1405.  
<sup>121</sup> *Id.*  
<sup>122</sup> The court went on to state, however, that Knowles also “personally conceived of the infringing device and headed a team which he assembled to develop the device.” *Id.*  
<sup>123</sup> 888 F. Supp. 1212 (D. N.H. 1994).  
<sup>124</sup> *Id.* at 1223.  
<sup>125</sup> *Id.* at 1225 (citations omitted).  
<sup>126</sup> *Id.* at 1215.

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<sup>127</sup> The *Curtis Manufacturing* court was ruling on motions for summary judgment and so did not reach the substantive issue of whether the officer was liable.