

CORPORATE-PARTICIPANT LIABILITY FOR DIRECT PATENT INFRINGEMENT: A LOOK TO COPYRIGHT LAW'S VICARIOUS LIABILITY ANALYSIS

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Under current Federal Circuit doctrine, district courts must “pierce the corporate veil” before holding corporate officers and shareholders personally liable for their corporations’ direct infringement under § 271(a) of the Patent Act. This Note traces the statutory and jurisprudential development of direct and induced patent infringement leading up to the Federal Circuit’s most recent discussion of its veil-piercing standard in the Wordtech case. It then examines the Federal Circuit’s veil-piercing doctrine, its criticisms, and the various proposals to remedy the current problems. This Note responds to the proffered solutions, and argues that adopting the vicarious liability doctrine from copyright infringement law is a more appropriate approach than the veil-piercing analysis and other alternatives for deciding corporate-participant liability under § 271(a). Accordingly, a court would impose liability where a corporate-participant has the right and ability to control the infringing activity and receives an obvious and direct financial benefit from the infringing activity. Vicarious liability is preferable because it does not have a scienter requirement, is not jurisdiction specific but rather applies universally, and targets omissions in addition to affirmative acts. In sum, the vicarious liability approach is consistent with the congressional intent behind the Patent Act and is a well-crafted tool to address the problems that frequently arise in patent infringement litigation.

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I. INTRODUCTION

In 2004, Wordtech Systems, Inc. (“Wordtech”) sued Integrated Networks Solutions, Inc. (“INSC”), a small Nevada company, alleging that INSC’s sale of devices called “Robocopiers” directly infringed three Wordtech patents for automated compact disc duplication technology.¹ Wordtech joined two INSC employees, Nasser Khatemi and Hamid Assadian, as co-defendants under a direct infringement theory.² After a jury found them personally liable, Khatemi and Assadian appealed the liability verdict to the U.S. Court of Appeals for the Federal Circuit.³ *Wordtech Systems, Inc. v. Integrated Network Solutions, Inc.*⁴ is significant in several respects. The case marks the Federal Circuit’s most recent discussion of corporate-participant liability⁵ for direct patent infringement. In addition, the circuit court follows its problematic, nearly thirty-year-old precedent of requiring district courts to “pierce the corporate veil” before imposing

¹ *Wordtech Sys., Inc. v. Integrated Network Solutions, Inc.*, 799 F. Supp. 2d 1140, 1141–42 (E.D. Cal. 2011).

² Wordtech also alleged that INSC, Khatemi, and Assadian contributorily infringed and induced third parties to infringe by selling the allegedly infringing products. *Id.* at 1142. Personal liability for contributory infringement is beyond the scope of this Note.

³ The Federal Circuit, established in 1982, has sole jurisdiction for appellate review of cases arising under the Patent Act. 28 U.S.C. § 1295(a)(1) (2011). The Leahy-Smith America Invents Act of 2011 now also assigns to the Federal Circuit patent appeals “in any civil action in which a party has asserted a compulsory counterclaim . . .” *Id.*

⁴ 609 F.3d 1308 (Fed. Cir. 2010).

⁵ This Note adopts Patrick Schmidt’s term “corporate-participant liability” and similarly uses it to mean the personal liability of the owners, directors, and officers of a corporation for their corporation’s direct patent infringement. See Patrick T. Schmidt, *The Internalization of Corporate Patent Infringement: Challenging the Federal Circuit’s Approach to Corporate-Participant Liability*, 88 TEX. L. REV. 217 (2009). Personal liability here is advantageous to a plaintiff because it increases the number of defendants available for payment of damages and can increase the likelihood of settlement. Ronald B. Coolley, *Personal Liability of Corporate Officers and Directors for Infringement of Intellectual Property*, 68 J. PAT. & TRADEMARK OFF. SOC’Y 228, 228 (1986).

corporate-participant liability for direct infringement.⁶ Finally, the case represents an opportunity for the court to adopt a more appropriate standard, should the case arise again on appeal or the court order a rehearing *en banc*.

The typical defendant in a patent infringement suit is a corporation, like INSC, that makes, sells, offers to sell, or uses a patented invention.⁷ In most cases, suing a corporation is all that is necessary for effective relief. Nonetheless, a plaintiff-patentee has the option of joining corporate officers and shareholders as co-defendants under both a direct infringement theory and an inducement theory.⁸ Such joinder often occurs in situations where a corporate defendant is insolvent or otherwise unable to pay damages for its infringement.⁹ Because patent infringement

⁶ See *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990).

⁷ Paul H. Heller, *Remedies in Patent Litigation*, 258 PLI/PAT 733, 841 (1988).

⁸ See, e.g., *Wordtech*, 609 F.3d at 1310; *Hoover Grp., Inc. v. Custom Metalcraft, Inc.*, 84 F.3d 1408, 1409 (Fed. Cir. 1996) ("Hoover charged Mr. Holden with personal liability for infringement and inducement to infringe the Hoover patents"); *Manville Sales Corp.*, 917 F.2d at 549 ("DiSimone and Butterworth were added as party-defendants After a bench trial, the district court found . . . direct and induced infringement by DiSimone and Butterworth"); *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1578 (Fed. Cir. 1986) ("The jury found the corporate officers liable for direct infringement . . . as well as for inducing infringement . . .").

⁹ This Note assumes that, at least in the public corporation context, an agent of a corporation is a person who actually "makes, uses, offers to sell, or sells" an infringing device in the course of the agent's employment and while under the direction of a higher-level individual (either a person who is solely an officer, director, or shareholder, or has multiple roles). The higher-level individual is the person whom the plaintiff will join as a co-defendant in a patent infringement suit, the reason being to seek compensation in cases where the corporation is insolvent, the actual infringer is not the truly responsible party or is impractical to sue, or the plaintiff seeks to pressure the defendants to settle.

is a statutory tort,¹⁰ corporate-participants are held jointly and severally liable with their corporations.¹¹

For the vast majority of patent infringement cases involving corporate-participant liability, liability is indirect (liability for infringement committed by a third party), subject to Patent Act provisions 35 U.S.C. §§ 271(b)¹² and (c).¹³ However, the Federal Circuit, as demonstrated in *Wordtech*, has also held that these individuals may be personally liable for direct infringement under § 271(a)¹⁴ regardless of whether they actually made, used, offered to sell, or sold a patented invention as specified in the provision.¹⁵ Under the Federal Circuit's current approach, a prerequisite to holding corporate-participants directly liable under § 271(a) is a determination that there are sufficient facts to justify piercing the corporate veil.¹⁶

¹⁰ *Wordtech*, 609 F.3d at 1313 (citing *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1365 (Fed. Cir. 2008)).

¹¹ JOHN GLADSTONE MILLS III ET AL., 6 PATENT LAW FUNDAMENTALS § 20:72 (2011) (citing *Reutgen v. Kanowrs*, 20 F. Cas. 555, 557 (C.C.D. Pa. 1804) (No. 11,710) ("Liability for all torts, including patent infringement, is joint as well as several.")).

¹² 35 U.S.C. § 271(b) (2010) ("Whoever actively induces infringement of a patent shall be liable as an infringer.").

¹³ *Id.* § 271(c) ("Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.").

¹⁴ *Id.* § 271(a) ("[W]hoever 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 therefor, infringes the patent.").

¹⁵ *See, e.g., Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986).

¹⁶ *See Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990) (citing *A. Stucki Co. v. Worthington Indus., Inc.*, 849 F.2d 593, 596 (Fed. Cir. 1988)).

A veil-piercing analysis is problematic because it requires reading a scienter element for corporate-participants into § 271(a), contrary to the strict liability nature of § 271(a).¹⁷ To bring these into harmony, the Federal Circuit should borrow copyright law's vicarious liability approach when considering corporate-participant liability under § 271(a). Accordingly, a court would impose personal liability where a corporate-participant has the right and ability to control the infringing activity and receives an obvious and direct financial benefit from the infringing activity.¹⁸ This alternative approach would more closely reflect traditional agency principles than does the veil-piercing analysis and would resolve the uncertainty¹⁹ regarding the conduct and circumstances required to impose liability on corporate-participants under § 271(a).

Part II of this Note traces the statutory and jurisprudential development of direct and induced patent infringement. It then examines the Federal Circuit's veil-piercing doctrine as applied in the direct infringement context. Part III discusses the criticisms of the veil-piercing doctrine and various scholars' proposals to remedy the current problems. Part IV responds to the proffered solutions in Part III, and argues that following the vicarious liability test under § 271(a) is a more appropriate approach than the veil-piercing analysis and other alternatives.

¹⁷ *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007).

¹⁸ For a full discussion of the vicarious liability approach in copyright law, see *infra* Part IV.

¹⁹ Scholars argue that the Federal Circuit has confused the test to hold officers liable with the test to hold owners liable, and that much of the confusion surrounding officer and shareholder liability in the patent infringement context arises from the dual roles that individuals tend to play in these cases. See Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 144 (2003).

II. JUDICIAL AND STATUTORY DEVELOPMENT OF DIRECT AND INDUCED PATENT INFRINGEMENT BY CORPORATE-PARTICIPANTS

A. The Impact of the Patent Act of 1952 on Corporate-Participant Liability

Understanding the Federal Circuit's current standards for personal liability under §§ 271(a) and (b) requires a closer look into the provisions' respective histories. The U.S. Constitution grants Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."²⁰ The Patent Act grants a limited monopoly to inventors in the form of patents, which give inventors the right to exclude others from making, using, selling, or offering to sell their patented inventions within the United States.²¹ The Patent Act of 1952 codified direct infringement under § 271(a)²² and divided the common law concept of "contributory infringement" into contributory infringement in § 271(c) and active inducement in § 271(b).²³ By adding these provisions,

²⁰ U.S. CONST. art. I, § 8, cl. 8.

²¹ 35 U.S.C. § 154(a) (2010) ("Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.").

²² See S. REP. No. 82-1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402 ("Section 271, paragraph (a), is a declaration of what constitutes infringement in the present statute.").

²³ See *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2066 (2011) ("Before 1952, both the conduct now covered by § 271(b) (induced infringement) and the conduct now addressed by § 271(c) (sale of a component of a patented invention) were viewed as falling within the overarching concept of 'contributory infringement.'"). Congress's goal in enacting §§ 271(b) and (c) was to codify the common law of contributory

Congress aimed to supply the federal courts with a clear, uniform definition of infringement.²⁴

Section 271(a) provides that “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 therefor, infringes the patent.”²⁵ This section is, on its face, a

infringement that had existed in patent law for over eighty years. *See* S. REP. NO. 82-1979, reprinted in 1952 U.S.C.C.A.N. 2394, 2402 (“The doctrine of contributory infringement has been part of our law for about 80 years. It has been applied to enjoin those who sought to cause infringement by supplying someone else with the means and directions for infringing a patent.”). Section 271(c) codifies the traditional type of contributory infringement. *See id.* (“The principle of contributory infringement . . . is concerned with the usual situation in which contributory infringement arises. This latter paragraph is much more restricted than many proponents of contributory infringement believe should be . . . the case. The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for noninfringement use does not constitute contributory infringement.”). Section 271(c) requires proof that the defendant *knew* his activity would cause infringement. *See id.* (“The sale of a component of a patented machine, etc., . . . must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement.”). Section 271(b) codifies the prohibition against all other types of behavior that had constituted contributory infringement prior to the 1952 Patent Act. *See id.* (“Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer.”). Unlike § 271(c), which requires that the defendant sell a component of a patented device or process “*knowing* the same to be especially made or especially adapted for use in an infringement of such patent,” 35 U.S.C. § 271(c) (2010) (emphasis added), the text of § 271(b) does not make explicit reference to knowledge or intent, and thus left open to the courts the question of the required level of knowledge.

²⁴ *See* S. REP. NO. 82-1979, reprinted in 1952 U.S.C.C.A.N. 2394, 2402 (“These paragraphs have as their main purpose clarification and stabilization.”).

²⁵ 35 U.S.C. § 271(a).

strict liability provision,²⁶ for it does not expressly require an element of knowledge or intent. Thus, even an individual who independently creates and in good faith makes, uses, offers to sell, or sells a patented invention is automatically liable for patent infringement under § 271(a), even if that individual does not know of the existence of the patent.²⁷ In a direct infringement action, knowledge and intent are taken into account only when determining damages.²⁸

Section 271(b) establishes liability for inducement of infringement, providing that “whoever actively induces infringement of a patent shall be liable as an infringer.”²⁹ Inducement to infringe cannot exist in the absence of direct infringement by another party, and liability thus depends upon a showing that the induced activity constitutes direct infringement.³⁰ As demonstrated in *Wordtech*, a plaintiff seeking to recover from corporate-participants may plead this indirect theory in addition to a direct infringement theory.³¹

²⁶ See, e.g., *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (“Because patent infringement is a strict liability offense, the nature of the offense is only relevant in determining whether enhanced damages are warranted.”); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (“Infringement itself . . . is a strict liability offense, . . . and a court must award ‘damages adequate to compensate for the infringement,’ regardless of the intent, culpability, or motivation of the infringer.”) (citations omitted); *Hilton Davis Chem. Co. v. Warner-Jenkins Co.*, 62 F.3d 1512, 1520 (Fed. Cir. 1995), *rev’d & remanded on other grounds*, 520 U.S. 17 (1995) (“Intent is not an element of infringement.”); *Intel Corp. v. U.S. Int’l Trade Comm’n*, 946 F.2d 821, 832 (Fed. Cir. 1991) (“[T]here is no intent element to direct infringement.”).

²⁷ *Hilton Davis*, 62 F.3d at 1520 (“[B]ecause intent is not an element of infringement, independent development does not excuse infringement of the patent owner’s right to exclude.”).

²⁸ See 35 U.S.C. § 284 (2010) (allowing the court in its discretion to increase damages up to three times the amount found or assessed).

²⁹ *Id.* § 271(b).

³⁰ See *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986) (“Absent direct infringement of the patent claims, there can be neither contributory infringement nor inducement of infringement.”) (citation omitted).

³¹ See *supra* note 2.

There are three noteworthy distinctions between §§ 271(a) and (b) that are relevant in the corporate-liability context. First, unlike § 271(a), courts have interpreted § 271(b) to contain a scienter requirement. In fact, the U.S. Supreme Court last year held that inducement requires *knowledge* that the induced acts constitute patent infringement.³² The alleged inducer must have (1) actual knowledge of the patent at issue—a requirement that alternatively can be met by a showing of willful blindness,³³ and (2) knowledge that the activity in question infringed that patent.³⁴ Second, under § 271(b), alleged inducers may assert a defense of good faith reliance on the opinion of counsel.³⁵ Third, piercing the corporate veil is not a prerequisite to imposing liability under § 271(b).³⁶ Thus, a court may find a corporate-participant liable for inducement even though her accused conduct is within the scope of her authority.³⁷

Although the Patent Act does not specifically speak to personal liability for corporate-participants, courts have

³² See *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2065 (2011).

³³ *Id.* at 2070 (explaining that the two requirements for willful blindness are (1) the defendant must subjectively believe that there is a high probability that a patent exists; and (2) the defendant must take deliberate actions to avoid learning of that fact).

³⁴ *Id.* at 2068; see also *Mformation Techs., Inc. v. Research In Motion Ltd.*, No. C 08-04990 JW, 2011 WL 6357804, at *20 (N.D. Cal. Dec. 19, 2011); *Mikkelsen Graphic Eng'r, Inc. v. Zund Am., Inc.*, No. 07-C-039, 2011 WL 6122377, at *7 (E.D. Wis. Dec. 8, 2011); *Trading Techs. Int'l, Inc. v. BCG Partners, Inc.*, Nos. 10 C 715, 10 C 716, 10 C 718, 10 C 720, 10 C 721, 10 C 726, 10 C 882, 10 C 883, 10 C 884, 10 C 885, 10 C 929, 10 C 931, 2011 WL 3946581, at *3 (N.D. Ill. Sept. 2, 2011).

³⁵ See, e.g., *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

³⁶ *Id.* ("Under this section, 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.") (citing *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1578-79 (Fed. Cir. 1986)).

³⁷ *Id.*

recognized that naming individual defendants may be the only means by which a successful plaintiff can recover complete compensation for an infringement.³⁸ The additions of §§ 271(b) and (c) created statutory bases from which courts have expanded liability to persons who themselves did not make, use, offer to sell, or sell infringing devices,³⁹ resulting in an increase in the number of lawsuits against corporate-participants.⁴⁰ Today, as *Wordtech* demonstrates, plaintiff-patentees can assert claims against corporate-participants under all three infringement provisions.

B. The Federal Circuit's Veil-Piercing Analysis

Given the Patent Act's silence on the appropriate standards to determine personal liability, the Federal Circuit, soon after its creation in 1982, began incorporating state corporate law standards to fill the statutory gap in patent cases involving corporate-participant parties. As the Federal Circuit made clear in *Wordtech*, in the patent infringement context, the "corporate veil" shields corporate-

³⁸ Heller, *supra* note 7, at 841–42 ("There are . . . situations in which the corporate defendant may be insolvent, or in such questionable financial health that it may not be fully responsible for any damages which may be assessed Obviously, in these cases a successful patentee will not be compensated for the infringement unless he can proceed against others who, arguably, are responsible for the infringement.").

³⁹ Coolley, *supra* note 5, at 230 (explaining that prior to the enactment of the Patent Act of 1952, courts rarely found corporate-participants liable for patent infringement by a corporate defendant, and that there had not been much concern for personal liability of officers and directors for infringement of intellectual property rights). Early judicial decisions waived on the question of personal liability, and most of those decisions concurred that an officer or director should not be liable for the profits of infringement if the profits benefited only the corporation. *Id.*

⁴⁰ Oswald, *supra* note 19, at 122; Joseph M. Sauer, *A Tear in the Corporate Veil: The Liability of Corporate Officers for Patent Infringement*, 37 DUQ. L. REV. 89, 89–90 (1998).

participants from personal liability for direct infringement under § 271(a).⁴¹

1. Overview of Limited Liability and The Veil-Piercing Doctrine

To better understand the problems with and the criticisms of the Federal Circuit's veil-piecing approach, a brief overview of limited liability and the veil-piercing doctrine outside the patent law context may be helpful. One advantage of incorporation is that the corporate form generally limits the personal liability of a company's shareholders. State statutes created the corporate form to enable shareholders to invest without incurring personal liability for corporate acts, thereby promoting commerce and industrial growth.⁴² Thus, when a court holds a corporation

⁴¹ Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc., 609 F.3d 1308, 1313 (Fed. Cir. 2010) (citing *Wechsler v. Macke Int'l Trade, Inc.*, 486 F.3d 1286, 1295 (Fed. Cir. 2007)).

⁴² Neil A. Helfman, *Establishing Elements for Disregarding Corporate Entity and Piercing Entity's Veil*, in 114 AM. JUR. 3D PROOF OF FACTS 403, § 3 (2010) ("A fundamental principle of corporate law is that shareholders sustain liability for corporate acts only to the extent of their investment."); see also Note, *Piercing the Corporate Law Veil: The Alter Ego Doctrine Under Federal Common Law*, 95 HARV. L. REV. 853, 870 (1982) ("A major social benefit of limited liability has been its encouragement of investors to take legitimate business risks.") (footnote omitted) [hereinafter *Corporate Law Veil*]. The vast majority of state incorporation statutes expressly insulate shareholders from liability for the debts or acts of a corporation. Joshua M. Siegel, *Reconciling Shareholder Limited Liability with Vicarious Copyright Liability: Holding Parent Corporations Liable for the Copyright Infringement of Subsidiaries*, 41 U. RICH. L. REV. 535, 538 (2007). See, e.g., HAW. REV. STAT. § 414-83(b) (2004) ("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 such shareholder may become personally liable by reason of such shareholder's own acts or conduct."); MICH. COMP. LAWS § 450.1317(4) (1989) ("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 or she may become personally liable by reason of his or her own acts or conduct.").

liable for a civil wrong, the *corporate* assets, not the shareholders' assets, furnish the damages award.⁴³

Although limited liability serves important public policy goals, courts have recognized that there are times when strictly adhering to the doctrine would lead to unjust results.⁴⁴ In such cases, courts will invoke the equitable doctrine of "piercing the corporate veil" to disregard the separateness of the corporation and hold individuals liable for corporate acts or obligations.⁴⁵ The doctrine is designed to incentivize corporate-participants to obey the state's laws fully by maintaining the formalities and the legal separateness of the corporation.⁴⁶

Courts look to the statutes of the state of incorporation as the governing law to determine whether the corporate veil may be pierced.⁴⁷ The determination of whether to pierce a corporate veil is ordinarily a question of fact.⁴⁸ The propriety of piercing the corporate veil is highly dependent on the equities of a particular situation, and the inquiry tends to be highly fact-driven.⁴⁹ While the factors that will justify piercing the corporate veil vary by jurisdiction, a number of courts will pierce a corporate veil under an "alter ego" theory⁵⁰ if a plaintiff makes three showings.⁵¹ First, the

⁴³ See Siegel, *supra* note 42, at 537–38 (citing the MODEL BUS. CORP. ACT § 6.22(b) (2005), which mandates that "a shareholder of a corporation is not personally liable for the acts or debts of the corporation").

⁴⁴ Helfman, *supra* note 42, § 1.

⁴⁵ In patent infringement cases, courts will pierce to "prevent fraud, illegality, injustice, a contravention of public policy, or prevent the corporation from shielding someone from criminal liability." *Wordtech*, 609 F.3d at 1314 (quoting *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990)).

⁴⁶ See, e.g., *Gardemal v. Westin Hotel Co.*, 186 F.3d 588 (5th Cir. 1999); *Local 144 v. C.N.H. Mgmt. Assocs.*, 752 F. Supp. 1195 (S.D.N.Y. 1990); 1 WILLIAM MEADE FLETCHER, FLETCHER CYCLOPEDIA OF THE LAW OF CORPORATIONS § 41.10 (2011).

⁴⁷ Helfman, *supra* note 42, § 1.

⁴⁸ FLETCHER, *supra* note 46, § 41.10; Helfman, *supra* note 42, § 5.

⁴⁹ FLETCHER, *supra* note 46, § 41.10.

⁵⁰ *Id.* ("The alter ego theory applies when there is such unity between a corporation and an individual that the separateness of the corporation

plaintiff must demonstrate a “unity of interest” between the corporate-participant and the corporation.⁵² This means not merely majority or complete stock control, but complete domination of the finances, policy, and business practices with respect to the transaction at issue, such that the corporation had no separate mind, will, or existence of its own at the time.⁵³ Second, the plaintiff must prove that the corporate-participant used such control to commit fraud or another wrong, to perpetrate the violation of a statutory or other positive legal duty, or to commit a dishonest and unjust act in contravention of the plaintiff’s legal rights.⁵⁴ This second step also requires a showing of *moral culpability*—dishonest or deceitful conduct intended to harm a third party—on the part of the corporate-participant.⁵⁵ Third, the plaintiff must prove that the corporate-participant’s control and actions proximately caused her injury.⁵⁶

Persuading a court to pierce the corporate veil is difficult for several reasons. Courts have often stated that they should pierce the veil only in “extreme circumstances” because of the “chilling effect it has on corporate risk-taking,”⁵⁷ and that a plaintiff bears the burden of overcoming

has ceased. Under the alter ego doctrine, when a corporation is the mere instrumentality or business conduit of another corporation or person, the corporate form may be disregarded.”).

⁵¹ Helfman, *supra* note 42, § 6.

⁵² FLETCHER, *supra* note 46, § 41.10.

⁵³ *Id.*

⁵⁴ *Id.* The U.S. Supreme Court has instructed that fraud is not necessary to pierce the veil. *Anderson v. Abbott*, 321 U.S. 349, 362 (1944).

⁵⁵ Helfman, *supra* note 42, § 15 (citing *Handam v. Wilsonville Holiday Partners, LLC*, 190 P.3d 480, 484 (Or. Ct. App. 2008)) (emphasis added).

⁵⁶ Not every jurisdiction requires this third showing. New York requires the third element. *See Brunswick Corp. v. Waxman*, 459 F. Supp. 1222 (E.D.N.Y. 1978); *see also* Helfman, *supra* note 42, § 6 (citing *Davenport v. Quinn*, 730 A.2d 1184 (Conn. App. Ct. 1999)).

⁵⁷ FLETCHER, *supra* note 46, § 41.10 (Courts generally apply the alter ego rule with great caution and reluctance. In fact, many courts require “exceptional circumstances before disregarding the corporate form.”) (citations omitted); Helfman, *supra* note 42, § 3 (“Courts have often opined that their power to pierce the corporate veil should be exercised

the presumption of the corporation's separate existence.⁵⁸ Further, some courts have stated that they will not infer abuse of the corporate form, and thus are less likely to pierce the veil, when a corporation is formed for a legitimate purpose or engaged in legitimate business.⁵⁹ Moreover, courts will not disregard the corporate form merely because the corporation's assets and insurance are insufficient to ensure a plaintiff's recovery.⁶⁰

Another important feature of the veil-piercing doctrine is that not all jurisdictions agree as to whether a court can hold an individual without an ownership interest personally liable for the corporation's wrongdoing.⁶¹ Some jurisdictions hold that stock ownership is important but not essential to determining whether to pierce.⁶² In those situations, an individual who exercises sufficient control over a corporation can be the corporation's "equitable owner" without being its

reluctantly, and only in 'exceptional circumstances', because of the chilling effect it has on corporate risks."); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990) (stating that the court must "start from the general rule that the corporate entity should be recognized and upheld, unless specific, unusual circumstances call for an exception").

⁵⁸ Helfman, *supra* note 42, § 24.

⁵⁹ *Id.*

⁶⁰ 1 WILLIAM MEADE FLETCHER, *FLETCHER CYCLOPEDIA OF THE LAW OF CORPORATIONS* § 41.45 (2010); *Walkovszky v. Carlton*, 223 N.E.2d 6, 9 (N.Y. 1966) ("The corporate form may not be disregarded merely because the assets of the corporation, together with the mandatory insurance coverage of the vehicle which struck the plaintiff, are insufficient to assure him the recovery sought.").

⁶¹ Helfman, *supra* note 42, § 1 (noting that even though the issue of piercing the corporate veil arises most often when a plaintiff seeks to hold shareholders liable for the obligations of an insolvent corporation, the piercing doctrine may also be used to impose liability on officers, directors, creditors, optionees, and spouses and significant others of stockholders).

⁶² Helfman, *supra* note 42, § 8 (citing *Fontana v. TLD Builders, Inc.*, 840 N.E.2d 767 (Ill. App. Ct. 2005)). *See also*, *Equity Trust Co. Custodian ex rel. Eisenmenger IRA v. Cole*, 766 N.W.2d 334, 339–40 (Minn. Ct. App. 2009) (reasoning that if veil piercing were solely dependent upon an individual's ownership interest in an entity, it would allow "unscrupulous" individuals to avoid liability by acting in a capacity that does not involve ownership).

shareholder.⁶³ Alternatively, some jurisdictions require stock ownership, ownership interest in the corporation, or some right to participate in the profits in order to find personal liability under the veil-piercing doctrine.⁶⁴ In sum, the courts' reluctance and plaintiffs' heavy burden make it highly difficult to persuade a court to pierce the corporate veil.

2. Veil-Piercing Under § 271(a)

The discussion above illustrates the difficulty plaintiffs face in carrying their burden. The Federal Circuit cases over the past thirty years illustrate this problem. The Federal Circuit has recognized two ways in which to pierce the corporate veil under § 271(a). First, the plaintiff may attempt to show that the corporation was merely the alter ego of its officers (thereby applying the three-part test described above). Second, and more generally, a court may exert its equitable powers and disregard the corporate entity if it decides that piercing the veil will prevent fraud, illegality, injustice, a contravention of public policy, or prevent the corporation from shielding someone from criminal liability.⁶⁵

The Federal Circuit first adopted its veil-piercing approach in 1986 in *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*⁶⁶ Scholars suggest that this decision, whereby the Federal Circuit grafted a piercing requirement onto its analysis, limiting the imposition of liability to situations where an individual acted with some form of fault, was a case-specific effort to avoid the harsh result of imposing

⁶³ Helfman, *supra* note 42, § 5.

⁶⁴ See, e.g., *Riddle v. Leuschner*, 335 P.2d 107, 111-12 (Cal. 1959) (holding that a managing employee who did not own stock or an ownership interest in a corporation or any right to participate in its profits could not be personally liable under the piercing doctrine).

⁶⁵ *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990). The second ground the Federal Circuit announced is essentially the second step of the alter ego test discussed above. See *supra* notes 54-55.

⁶⁶ 806 F.2d 1565 (Fed. Cir. 1986).

strict liability on individuals.⁶⁷ Since *Orthokinetics*, the Federal Circuit has neither upheld a lower court's finding of liability, nor overturned a finding of non-liability, as to a corporate-participant under § 271(a). The court also has not found it necessary to pierce the corporate veil in any case after *Orthokinetics* involving the question of corporate-participant liability.⁶⁸

Interestingly, though the *Orthokinetics* court stated that it was applying a veil-piercing analysis,⁶⁹ it rested its conclusion on an alternative theory. The patentee, Orthokinetics, sued Safety Travel Chairs, Inc. and three individuals who were the officers and sole shareholders of the corporation.⁷⁰ At trial, the jury found the three corporate-participants personally liable for direct infringement and for inducement of infringement.⁷¹ The district court granted a judgment notwithstanding the verdict, holding that because the jury could not have reasonably found the corporate-participants liable for willful infringement, it could not find them personally liable for the corporation's infringing acts.⁷² The Federal Circuit reversed and concluded that the corporate veil had been pierced, thereby exposing the corporate-participants to personal

⁶⁷ Oswald, *supra* note 19, at 128 (explaining that in its early cases, the court recognized the "harsh result" of holding corporate-participants strictly liable for their corporations' infringement, and thus injected an intent requirement into § 271(a) for the purposes of evaluating the liability of corporate-participants, but not the liability of other types of actors, including the corporation itself).

⁶⁸ The cases with corporate-participants, excluding parent corporations, for which the Federal Circuit has held the corporate veil intact include *Manville Sales Corp.*, 917 F.2d 544; *Wechsler v. Macke Int'l Trade, Inc.*, 486 F.3d 1286 (Fed. Cir. 2007); *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308 (Fed. Cir. 1999); and *Hoover Group, Inc. v. Custom Metalcraft, Inc.*, 84 F.3d 1408 (Fed. Cir. 1996).

⁶⁹ *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986).

⁷⁰ *Id.* at 1569.

⁷¹ *Id.* at 1578.

⁷² *Id.* at 1570.

liability for direct infringement.⁷³ The court rested its conclusion on the facts that the corporate-participants had complete ownership and control of the corporation and that they alone stood to benefit from profits obtained from sales of the infringing products.⁷⁴

Though the court imposed personal liability on the three corporate-participants, it is unclear whether the court actually applied a veil-piercing approach. While the court stated that assessing the personal liability of corporate officers for direct infringement “under § 271(a) requires invocation of those general principles relating to piercing the corporate veil,”⁷⁵ it omitted any discussion of the relevant state’s veil-piercing requirements.⁷⁶ Instead, the court emphasized the corporate-participants’ *direct responsibility* for the design and production of the infringing products and their *ability to benefit* from the infringements as important factors.⁷⁷

Aside from *Orthokinetics*, the Federal Circuit has consistently refused to pierce the corporate veil. For example, in *Manville Sales Corp. v. Paramount Systems, Inc.*,⁷⁸ Paramount’s corporate secretary obtained a copy of Manville’s patented iris arm design and sent it to Paramount’s president, who then sent the drawings to a designer who incorporated its features into a device that

⁷³ *Id.* at 1579.

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Id.* See also Sauer, *supra* note 40, at 91.

⁷⁷ *Orthokinetics*, 806 F.2d at 1579 (“Pivacek testified that he was at all material times the President and sole stockholder of Entron and that he elected its Board of Directors. He also testified that he is the President of STC and that he, Cole, and Chipman held all of STC’s directorships and owned all of the stock in STC. The 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. That evidence was fully sufficient to support the jury’s imposition of personal liability on Pivacek, Cole, and Chipman for the direct infringement of STC and Entron . . .”).

⁷⁸ 917 F.2d 544 (Fed. Cir. 1990).

Paramount later sold.⁷⁹ Paramount and the two officers were not aware of Manville's patent until after the suit had been filed, and although Paramount continued to produce the infringing product after the filing, it did so because the officers had obtained advice from legal counsel that Paramount's product did not infringe.⁸⁰ The Federal Circuit reversed the district court's finding of personal liability and held that, although the officers knowingly assisted in the duplication of Manville's design, the acts were within the scope of their employment and thus protected by the corporate veil.⁸¹ In addition, the court held that absent "specific intent to escape liability for a specific tort . . . the cause of justice does not require disregarding the corporate entity."⁸²

The Federal Circuit similarly reversed the district court's finding of personal liability in *Hoover Group, Inc. v. Custom Metalcraft, Inc.*⁸³ The *Hoover Group* court held that there was insufficient evidence to justify piercing the corporate veil and find Dwayne Holden—the president, chief executive officer, and principal shareholder of the defendant corporation—personally liable for the corporation's infringement.⁸⁴ The Federal Circuit said that the district court should have applied a veil-piercing analysis and found bad faith, fraud, or culpable intent on the part of Holden

⁷⁹ *Id.* at 549.

⁸⁰ *Id.* at 553.

⁸¹ *Id.* The court stated that a court "must start from the general rule that the corporate entity should be recognized and upheld, unless specific, unusual circumstances call for an exception." *Id.* at 552 (quoting *Zubik v. Zubik*, 384 F.2d 267, 272 (3d Cir. 1967)).

⁸² *Id.* (quoting *Zubik*, 384 F.2d at 267).

⁸³ 84 F.3d 1408 (Fed. Cir. 1996).

⁸⁴ *Id.* at 1411 ("Although Holden, as the chief executive officer and principal owner, can be viewed as controlling Custom's commercial activities, the district court did not pierce the corporate veil. However, the record shows that Mr. Holden made a straightforward commercial response to the assertions of patent infringement, including prompt consultations with counsel.").

before imposing liability.⁸⁵ The court concluded that absent a showing that the corporate structure was a sham, personal liability for inducement had to be supported by personal culpability.⁸⁶ It therefore held that if liability could not lie under § 271(a), the only way to find Holden liable would be for inducement under § 271(b) and only if he had the requisite intent.⁸⁷

The Federal Circuit even overturned a jury's verdict in *Al-Site Corp. v. VSI International, Inc.*,⁸⁸ which had found the defendant corporation's chairman and CEO, Myron Orlinsky, personally liable for patent infringement.⁸⁹ The Federal Circuit decided that there was insufficient evidence that Orlinsky acted outside the scope of his employment.⁹⁰ The court also affirmed a district court's decision to grant summary judgment in *Wechsler v. Macke International Trade, Inc.*⁹¹ that Anthony O'Rourke—the president, lone stockholder, and sole employee of Macke, a company O'Rourke formed in 1991 to develop, manufacture, and market pet products—was not the alter ego of his company.⁹²

This line of cases demonstrates that whenever the issue of corporate-participant liability comes before the Federal

⁸⁵ *Id.* at 1410 (“The district court, discussing Mr. Holden’s case, did not distinguish between the charges of inducement to infringe and direct infringement, and did not require that the corporate veil be penetrated.”).

⁸⁶ *Id.* at 1412.

⁸⁷ *Id.*

⁸⁸ 174 F.3d 1308 (Fed. Cir. 1999).

⁸⁹ *Id.* at 1331.

⁹⁰ *Id.* (“The record shows that Myron Orlinsky made the sole decision to continue using the hanger tags after VSI received cease and desist letters from Magnivision. The record, however, shows no further evidence of personal activity by Mr. Orlinsky. This evidence does not establish that Mr. Orlinsky overstepped his authority as CEO of VSI. Rather the record shows that Mr. Orlinsky acted consistent with his authority as CEO. Therefore, the record only supports the conclusion that Mr. Orlinsky acted within and according to the strictures of the corporate structure. The record shows no instance of the corporation operating as Mr. Orlinsky’s alter ego. Thus, the record contains no evidence to justify piercing the corporate veil.”).

⁹¹ 486 F.3d 1286 (Fed. Cir. 2007).

⁹² *Id.* at 1297.

Circuit, the result is the same: the corporate veil remains intact and the corporate-participants are protected from liability. As the recent *Wordtech* opinion demonstrates, the court continues to rely on the veil-piercing analysis as the sole basis for finding corporate-participant liability under § 271(a).

III. CRITICISMS OF THE FEDERAL CIRCUIT'S VEIL-PIERCING APPROACH

Several commentators have criticized the Federal Circuit's veil-piercing approach, arguing that it has little basis in traditional principles of agency and corporate law and suffers from inconsistent application. The *Wordtech* court itself acknowledged the open questions left by its precedent, but it refused to decide the issue "until such a challenge is presented and reconsidered by the full court."⁹³ The court feels bound by its precedent until the U.S. Supreme Court or the Federal Circuit sitting *en banc* overturns it.⁹⁴

A. Failure To Draw a Distinction Between Officers and Shareholders

The Federal Circuit itself recognizes that it has yet to distinguish between corporate officers and shareholders when deciding liability under § 271(a).⁹⁵ Professor Lynda Oswald explains that one major problem with the current corporate-participant liability theory is that it fails to draw a

⁹³ *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1313 n.2 (Fed. Cir. 2010).

⁹⁴ *Id.*

⁹⁵ *Id.* ("Wordtech does not argue that Khatemi and Assadian are owners of INSC, nor does it attempt to make any distinction between officers and owners on the corporate veil issue. Moreover, until such a challenge is presented and reconsidered by the full court, '[p]anel[s] of this court are bound by previous precedential decisions until overturned by the Supreme Court or by this court *en banc*.'" (quoting *Barclay v. United States*, 443 F.3d 1368, 1373 (Fed. Cir. 2006))).

sharp distinction between owner and officer liability.⁹⁶ She argues that veil-piercing is a mechanism for reaching *shareholders*, not officers,⁹⁷ and that officers who act in their role as officers cannot have the “unity of interest and ownership” necessary to support an application of the alter ego theory.⁹⁸ She further claims that the Federal Circuit’s failure to recognize this important distinction has resulted in the “current confusion” surrounding the standard of liability applicable to officers for infringement and an “unprecedented and unwarranted expansion in individual officer liability.”⁹⁹ As a consequence, an officer may face liability merely based upon her status as an officer.¹⁰⁰

Similarly, Patrick Schmidt argues that veil-piercing, a doctrine by which *shareholders* are held liable for obligations of the corporation, is generally thought to have nothing to do with officer liability.¹⁰¹ However, contrary to Oswald’s assessment, Schmidt maintains that the Federal Circuit’s veil-piercing analysis has led to a regime that is overly *deferential* to officers, not one that unfairly exposes officers to greater personal liability.¹⁰² According to Schmidt, this approach grants officers a far greater degree of protection for tortious activity than is afforded to officers by traditional principles of agency and corporate law.¹⁰³ Not only has this approach limited the ability of patentees to recover from corporate-participants, it also allows officers to operate their corporations without any real risk of personal liability, for they face no personal liability absent a showing of fraud or

⁹⁶ Oswald, *supra* note 19, at 119.

⁹⁷ *Id.* at 120 (explaining that officer liability is based upon the individual’s personal participation in the wrongful acts that gave rise to liability, whereas owner liability is based upon the individual’s status as a shareholder in a corporation that has abused the corporate form).

⁹⁸ *Id.* at 135.

⁹⁹ *Id.* at 120–21.

¹⁰⁰ *Id.* at 145.

¹⁰¹ Schmidt, *supra* note 5, at 233.

¹⁰² *Id.* at 241–42.

¹⁰³ *Id.* at 235.

illegality.¹⁰⁴ Both Oswald and Schmidt argue that in cases in which a corporate-participant “wears multiple hats” (where the individual is both a shareholder and officer) the participant’s conduct in each distinct capacity must be separately evaluated against the appropriate corresponding liability theory.¹⁰⁵

B. Unfairness of Imposing Strict Liability on Corporate Officers

A second criticism of the veil-piercing approach is that it unfairly imposes strict liability on individuals. Oswald recommends that the Federal Circuit abandon § 271(a) as an avenue for holding officers liable and instead look to inducement under § 271(b), which requires a showing of intent that Oswald argues parallels the “personal participation” standard of traditional agency and tort law.¹⁰⁶ She further suggests that the Federal Circuit recognize that § 271(a), which imposes a form of strict liability upon defendants, is inapplicable to officers.¹⁰⁷ She explains that if the courts ground their analyses of officer liability in § 271(b), which contains a scienter requirement, officers would not be subject to inappropriate or overly expansive personal liability.¹⁰⁸

¹⁰⁴ Schmidt explains that the deference given under the piercing approach may underincentivize a corporate strategy designed to avoid infringing behavior. *Id.* at 220. Corporate-participants will be incentivized to avoid infringement only to the extent that the corporation is capitalized. *Id.* at 240–41.

¹⁰⁵ Oswald, *supra* note 19, at 120; Schmidt, *supra* note 5, at 239.

¹⁰⁶ Oswald, *supra* note 19, at 117.

¹⁰⁷ *Id.* at 130.

¹⁰⁸ *Id.* at 145 (“Thus, the court need not stretch to find theories, such as the inapposite piercing theory, that would limit the officer’s liability. The statutory provision itself already fills that role.”).

C. Corporate-Participants in Closely Held Corporations Are at Greater Risk Under The Veil-Piercing Approach

A further criticism of the veil-piercing approach is that it is too blunt an instrument to take into account the distinctions between the size and nature of corporations, because it is solely a species of close corporations. To date, corporate-participant liability cases have tended to arise primarily in the context of small or closely held corporations, where the corporate-participant often occupies dual roles as both an officer and shareholder—if not the sole shareholder—of a corporation.¹⁰⁹ This point is crucial because over the years juries have awarded increasingly greater damages upon a finding of patent infringement,¹¹⁰ awards that can potentially exhaust the assets of a small company.

Moreover, while an analysis of nearly 1600 reported decisions in 1991 revealed that courts pierced the corporate veil in more than 40% of those cases,¹¹¹ that study also found that, as of 1997, there were no reported cases of a court piercing the veil of a corporation with more than *nine* shareholders.¹¹² This indicates that most, if not all, of the individual defendants exposed to liability owned or worked for small companies. A more recent study confirmed these

¹⁰⁹ *Id.* at 130; Schmidt, *supra* note 5, at 238 (“Admittedly, patentees generally only pursue theories of shareholder liability when the corporation is closely held.”). The *Wordtech* case illustrates this point. The defendant corporation, INSC, was very small, and was dominated and controlled by a very limited number of individuals who played active roles in everyday operations, including the infringing acts. See *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1311 (Fed. Cir. 2010).

¹¹⁰ Kevin Flannery & Gary Levin, *Personal Liability of Corporate Officers for Patent Infringement by Their Corporations*, 65 PA. B. ASS’N Q. 33, 33 (1994).

¹¹¹ Robert B. Thompson, *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036 (1991).

¹¹² Robert B. Thompson, *The Limits of Liability in the New Limited Liability Entities*, 32 WAKE FOREST L. REV. 1, 9 (1997) (stating that in a survey of all reported piercing cases through 1985, piercing did not occur in a corporation with more than nine shareholders).

results; cases from 1658 to 2006 show that state and federal courts pierce almost 50% of the time, but only in cases involving close corporations.¹¹³ The effect of the veil-piercing approach has and will continue to be most pronounced in small companies where the officers are more likely to be directly involved in managing the corporation's day-to-day operations.¹¹⁴

Oswald agrees that the Federal Circuit's approach unfairly targets corporate-participants of small corporations.¹¹⁵ She states that by looking to the veil-piercing doctrine to hold officers liable, the Federal Circuit has implied that owners of small or closely held corporations are somehow more susceptible to individual liability for direct infringement merely because of the dual roles they hold within the corporation; 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.¹¹⁶

Overall, the veil-piercing approach overlooks the relationship and interactions individuals have within corporations. A well-crafted approach would not focus on the particular title a corporate-participant holds, or whether fraud was the intent of the individual wrongdoer, but instead would look to the nature of the relationship the individual has with the *direct* infringers—the employees *actually* carrying out the infringing acts.

¹¹³ Peter B. Oh, *Veil-Piercing*, 89 TEX. L. REV. 81, 89 (2010).

¹¹⁴ Flannery & Levin, *supra* note 110, at 34 (explaining that liability can be particularly high for officers in start-up companies, from which much of the scientific innovation currently arises). In these companies, there are generally only one or a few officers who not only have large ownership stakes in the corporation, but also control the day-to-day research, development, and marketing efforts. *Id.* The environment in large public corporations, on the other hand, does not present the same level of risk since the corporate-participants, although ultimately responsible for decisions, are generally removed from the routine planning and execution of the corporate programs. *Id.*

¹¹⁵ Oswald, *supra* note 19, at 144.

¹¹⁶ *Id.*

IV. THE FEDERAL CIRCUIT SHOULD EMBRACE THE CONCEPT OF VICARIOUS LIABILITY USED IN COPYRIGHT LAW

This Note agrees with Schmidt's observation that the Federal Circuit's veil-piercing approach has dramatically increased the protections of corporate-participants. The purpose of the corporate form is to shield corporate-participants from liability. Yet, in the context of patent infringement, this corporate law mechanism conflicts with the Patent Act's goal of affording patentees adequate compensation for infringement, and the Federal Circuit's overly deferential piercing standard leaves many patentees without an adequate remedy. However, this Note does not propose abandoning § 271(a) as a means to hold corporate-participants liable. Rather, it suggests that courts continue to use § 271(a) while adopting the more appropriate vicarious liability approach that is currently applied to copyright infringement cases.

A. Reconsidering, Rather Than Abandoning, The Approach Under § 271(a)

1. Consequences of Abandoning § 271(a)

Contrary to Oswald's view, the courts should not eliminate § 271(a) as a way to reach corporate officers. It is preferable in certain situations to impose personal liability under § 271(a), rather than under § 271(b), because § 271(a) covers *failure* to take action to prevent infringement, whereas § 271(b) only covers *affirmative* acts.¹¹⁷ Moreover, under § 271(a), plaintiffs need not prove scienter, which is a difficult burden to meet, especially for public corporations.

¹¹⁷ Coolley, *supra* note 5, at 231 ("As 35 U.S.C. [§] 271(b) requires, an officer or director must 'actively' induce infringement. Being an officer or director of a corporation is not sufficient by itself to render that officer or director liable for any tort committed by the corporation or its managers or agents.") (citation omitted).

Indeed, after *Global-Tech Appliances, Inc. v. SEB S.A.*,¹¹⁸ the burden for proving knowledge will be much more difficult to meet for larger corporations than closely held ones. Finally, if courts were limited to § 271(b) for imposing liability on corporate-participants, defendants could assert a defense of reasonable reliance on the opinion of counsel,¹¹⁹ which would decrease a patentee's ability to obtain adequate compensation and frustrate the purpose of the Patent Act.¹²⁰

¹¹⁸ 131 S. Ct. 2060 (2011).

¹¹⁹ Although the Federal Circuit has yet to address this question directly, it has recognized the value of opinion of counsel in countering inducement claims. *See, e.g.,* *Micro Chem., Inc. v. Great Plains Chem. Co.*, 194 F.3d 1250, 1257, 1261 (Fed. Cir. 1999) (affirming summary judgment in favor of the president of an infringing corporation, because he "took reasonable steps to avoid infringement"—including seeking and relying on the advice of counsel in redesigning the accused product after the patent issued—and therefore "lacked the requisite intent and knowledge to be liable for inducement to infringe"); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (reversing a verdict against corporate officers who acted on a good faith belief, based on advice of counsel, that the accused product did not infringe). In addition, Federal Circuit cases have suggested that a defense of reasonable reliance on legal counsel exists under the piercing standard. *See, e.g., id.* at 552 ("Nonetheless, the [district] court held [the corporate-participant defendants] personally liable. The court did so despite having concluded that Paramount was *not* the alter ego of the officers. Moreover, the court had found that the 'evidence at trial did not demonstrate that Paramount knew of Manville's patent prior to this lawsuit' and that Paramount's subsequent infringing activity continued because of Paramount's good faith belief, based on the advice of counsel, that it was not infringing. . . . The court's findings preclude any inference that Butterworth and DiSimone were attempting to avoid liability under the protection of the corporate veil."); *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308, 1331 (Fed. Cir. 1999) ("Furthermore, after VSI received the cease and desist letter, Mr. Orlinsky consulted counsel before continuing to produce the Version 1 and 2 hanger tags. The record thus shows that Mr. Orlinsky acted pursuant to a good faith belief of noninfringement engendered by advice of counsel. Once again, this evidence does not justify rejecting legal recognition of the corporate structure.")

¹²⁰ Schmidt, *supra* note 5, at 245 (explaining that a specific intent standard under § 271(b) may place far too much faith in an officer's reasonable reliance on the opinion of counsel). "That is, to the extent that corporate agents are able to have an outside law firm 'rubber stamp' a

Moreover, there is no evidence that the drafters of the Patent Act intended to exclude certain types of defendants from § 271(a). The provision's broad language, particularly the word "whoever," suggests that the provision aims to cover an array of entities and individuals—officers and shareholders alike. Thus, Oswald's argument that officers and owners should be judged under §§ 271(b) and 271(a), respectively, conflicts with the text of the Patent Act. Because of these hurdles, and to ensure that plaintiffs are adequately compensated once infringement is found, the ideal solution would be to allow plaintiffs to join corporate-participants under § 271(a).

2. Veil-Piercing Is An Inappropriate Approach

The veil-piercing approach is not the appropriate test to apply under § 271(a). Under the veil-piercing doctrine, courts disregard the corporate entity and hold individuals responsible for acts *knowingly and intentionally* done in the name of the corporation.¹²¹ By including a veil-piercing analysis in § 271(a), the Federal Circuit has effectively inserted a scienter requirement into the strict liability provision. Applying a subjective test, however, is inconsistent with the text and the congressional intent behind the provision. The Patent Act provides no statutory basis for requiring intent or bad faith (i.e., with the specific intent to escape liability for a tort) to impose liability under § 271(a).¹²²

Further, an analysis under § 271(a) should not depend on the law of the jurisdiction, as it currently does under the

noninfringement opinion, corporations can easily circumvent the public policy of the patent system" *Id.* "[The] specific intent standard systematically excuses behavior that should otherwise be liable and defeats the Patent Act's ultimate goal of ensuring that patentees are adequately compensated for their inventions." *Id.* The Schmidt article was written before *Global-Tech Appliances, Inc.*, 131 S. Ct. 2060, which confirmed that specific intent is the correct standard under § 271(b).

¹²¹ FLETCHER, *supra* note 46, § 41.10.

¹²² Oswald, *supra* note 19, at 129. See discussion *supra* Part II.A.

veil-piercing standard.¹²³ A national standard is preferable to a jurisdiction-specific approach. There are two national standards worth considering: (1) a federal veil-piercing approach; and (2) the vicarious liability approach applied in copyright law. As discussed in the next section, the vicarious liability approach is the better option. A federal veil-piercing approach, however, does have some appeal. Courts and commentators have suggested that courts should depart from state law standards in certain federal contexts when determining whether to pierce the corporate veil, and instead apply a federal veil-piercing standing.¹²⁴ For instance, in *Blair v. Infineon Technologies AG*,¹²⁵ the District Court of Delaware stated that, for reasons of public policy, the alter ego standard for piercing the corporate veil is often “more lenient” for causes of action arising under the Employee Retirement Income Security Act (ERISA) than under state law.¹²⁶

As a federal statute that aims to promote scientific progress and protect the rights of patent holders, the Patent Act may similarly warrant a piercing standard that is “more lenient”¹²⁷ than those found in certain states. As previously discussed, not all jurisdictions are in agreement as to whether an individual who does not have an ownership interest in a corporation can be held personally liable for that corporation’s wrongdoing, and the factors that justify piercing the corporate veil vary among different jurisdictions.¹²⁸ Though a federal piercing standard would create uniformity and lower the barrier to patentees in obtaining adequate damage awards, the erroneous veil-

¹²³ See discussion *supra* Part II.B.1.

¹²⁴ See *Corporate Law Veil*, *supra* note 42.

¹²⁵ 720 F. Supp. 2d 462, 471 (D. Del. 2010).

¹²⁶ *Id.* (citing *United Elec., Radio & Mach. Workers of Am.*, 960 F.2d 1080, 1092 (1st Cir. 1992) (“In an ERISA case, the applicable federal standard can sometimes be less rigorous than its state common law counterparts. The rationale . . . is grounded on [sic] congressional intent.”)).

¹²⁷ *Id.*

¹²⁸ See discussion *supra* Part II.B.1.

piercing approach still poses the critical problems discussed above.¹²⁹ It fails to recognize the distinctions between the size and nature of corporations, and inappropriately inserts a scienter requirement into the strict liability provision.

Alternatively, an approach based on the Copyright Act's infringement provision would apply universally, rather than vary depending on the state of incorporation, in determining whether to impose liability on corporate-participants. As this Note will discuss in the next section, the vicarious liability approach is further preferable because it does not have a scienter requirement, cannot be evaded by a reliance-on-counsel defense, and more accurately reflects the realities of the cases in which the issue of corporate-participant liability arises.

B. Description of Copyright Law Vicarious Liability

As in patent law, current copyright infringement law extends liability beyond the direct infringer.¹³⁰ Copyright infringement is also a strict liability tort, and all individuals who participate in the infringement are jointly and severally liable with each other and the corporation.¹³¹ As in the case of patent infringement, the issue of individual liability in copyright infringement cases frequently arises when plaintiffs seek damages against a corporate officer, employee, shareholder, or agent.¹³² Unlike the Patent Act, however, the Copyright Act does not expressly provide for indirect liability (liability for infringement committed by another);¹³³ instead,

¹²⁹ See *supra* Part III.

¹³⁰ 6 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 21:81 (2010).

¹³¹ *Id.*; see also *Blue Nile, Inc. v. Ideal Diamond Solutions, Inc.*, No. C10-380Z, 2011 WL 3360664, at *2 (W.D. Wash. Aug. 3, 2011) ("Copyright is a strict liability tort; *therefore there is no corporate veil* and all individuals who participate are jointly and severally liable.") (citing *Foreverendeavor Music, Inc. v. S.M.B., Inc.*, 701 F. Supp. 791, 793-94 (W.D. Wash. 1988)) (emphasis added).

¹³² PATRY, *supra* note 130, § 21:81.

¹³³ 17 U.S.C. § 501(a) (2002) ("Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 or of the author as provided in section 106A (a), or who

indirect liability is borrowed from patent law and traditional tort-liability doctrines.¹³⁴

Courts may hold corporate-participants liable for the corporate acts of copyright infringement under two indirect liability theories: vicarious liability and contributory infringement.¹³⁵ Vicarious liability for copyright infringement, first articulated in *Shapiro, Bernstein & Co. v. H.L. Green Co.*,¹³⁶ may be imposed where one (1) has the right and ability to control the infringing activity; and (2) receives an obvious and direct financial benefit from the infringing activity.¹³⁷ In such instances, courts have

imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be."); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 434–35 (1984).

¹³⁴ Greg Jansen, *Whose Burden is it Anyway? Addressing the Needs of Content Owners in DMCA Safe Harbors*, 62 FED. COMM. L.J. 153, 157 (2010). Recent secondary liability copyright cases trace their roots to *Sony Corp. of America*, 464 U.S. at 435 (noting the similarities between copyright and patent, embracing the notion of contributory infringement, and recognizing that "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"); see also *Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1325 (D. Mass. 1994) ("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.'") (citing RESTATEMENT (SECOND) OF AGENCY § 220(2) (1958)).

¹³⁵ Jansen, *supra* note 134, at 157. Contributory infringement in copyright law is beyond the scope of this Note.

¹³⁶ 316 F.2d 304, 307 (2d Cir. 1963).

¹³⁷ See *id.* (holding that because a company that leased floor space to a phonograph record department benefited from the record department's sales of "bootleg" records, it was liable for those sales, even though the company had no actual knowledge of infringement); see also *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) ("Although vicarious liability was initially predicated upon the agency doctrine of respondeat superior . . . even in the absence of an employer-employee relationship one may be vicariously liable if he has the

determined that the purposes of copyright law are best served by imposing liability on the *beneficiary* of the infringement.¹³⁸

Under this doctrine, one can be liable even without specific knowledge of the infringing acts.¹³⁹ Despite the fact that the Copyright Act does not contain any provision on vicarious liability,¹⁴⁰ the majority of circuit courts have adopted the two-part test and impose vicarious liability on a third party when that party maintained the right and ability to control the infringing conduct and had a direct and obvious financial interest in infringing the copyrighted material.¹⁴¹

Since the vicarious liability test applies whenever the defendant corporate-participant had the right to supervise the infringer's activities and a direct financial interest in such activities, courts may impose vicarious liability even in situations where there is no employer-employee or employer-independent contractor relationship between the defendant and the actual infringer.¹⁴² However, courts have established

right and ability to supervise the infringing activity and also has a direct financial interest in such activities.").

¹³⁸ See *Shapiro*, 316 F.2d at 307.

¹³⁹ *Id.* at 308; *S. Bell Tel. & Tel. v. Associated Tel. Directory Publishers*, 756 F.2d 801, 811 (11th Cir. 1985) (noting that the defendant's actual knowledge of copyright infringement is not necessary for a finding of liability).

¹⁴⁰ See 17 U.S.C. § 501(a) (2002).

¹⁴¹ See *Gordon v. Nextel Commc'ns, Inc.*, 345 F.3d 922, 925 (6th Cir. 2003); *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); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992); *Pinkham v. Sara Lee Corp.*, 983 F.2d 824, 834 (8th Cir. 1992); *S. Bell Tel. & Tel.*, 756 F.2d at 811; *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, 160-61 (3d Cir. 1984); *Gershwin Publ'g Corp.*, 443 F.2d at 1163.

¹⁴² *Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324 (D. Mass. 1994) (explaining that although vicarious liability originated in the context of the employer-employee relationship, the *Shapiro* court stated that "courts have not drawn a rigid line between the strict cases of agency, and those of independent contractor, license, and lease") (citing *Shapiro*, 316 F.2d at 307).

limits to the reach of vicarious liability. For example, employment as an officer of the company is insufficient on its own to justify vicarious liability,¹⁴³ as is membership on the company's Board of Directors.¹⁴⁴

The *Shapiro* court did not pierce the corporate veil in holding the defendant corporate-participant liable.¹⁴⁵ Fearing that in certain situations copyright infringers may wrongly attempt to use the corporate form to shield themselves from liability,¹⁴⁶ the court pronounced a test that effectively allowed courts to disregard limited liability in cases of copyright infringement, regardless of whether or not the type of abuse feared by the *Shapiro* court actually occurred.¹⁴⁷

C. The Vicarious Liability Approach In Copyright Law Is The More Appropriate Standard

This Note advocates adopting the vicarious liability doctrine used in copyright infringement cases for corporate-participant liability under § 271(a). This approach does not entail a great departure from the Federal Circuit's veil-piercing approach, and remedies many of its faults. The imposition of vicarious liability on a controlling individual, even in the absence of any knowledge of copyright infringement, is premised on the belief that the individual is in a position to police the conduct of the infringer.¹⁴⁸ The vicarious liability approach focuses on the nature of the defendant corporate-participant's interactions and relationships with the corporation's employees who are *actually* carrying out the infringing activity. This approach is a better means to target those corporate-participants

¹⁴³ PATRY, *supra* note 130, § 21:81 (citing *Seals v. Compendia Media Grp.*, 290 F. Supp. 2d 947 (N.D. Ill. 2003)).

¹⁴⁴ *Id.* (citing *Burdick v. Koerner*, 988 F. Supp. 1206 (E.D. Wis. 1998)).

¹⁴⁵ STEPHEN B. PRESSER, *PIERCING THE CORPORATE VEIL* § 3:17 (2010).

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ *Coolley*, *supra* note 5, at 239 (citing *Boz Scaggs v. KND Corp.*, 491 F. Supp. 908, 913 (D. Conn. 1980)).

based on whether they failed to monitor their corporation's activities, not whether they created or used the corporation to commit a fraud.

In addition, vicarious liability, unlike veil-piercing, is not a species of close corporations. The test applies well in a broader range of scenarios, including cases with large, public corporations with clearer hierarchical structures. Even if public corporations are not the types of companies typical individual defendants work for, in such cases plaintiff-patentees may be more willing to join them under a § 271(a) theory because proving inducement under § 271(b) is very difficult.

1. Reconciling The Pre-Federal Circuit Patent Standard With The Current Copyright Vicarious Liability Test

One recent district court opinion reconciled pre-Federal Circuit personal liability standard with the vicarious liability doctrine. Ten weeks before the Federal Circuit decided *Wordtech*, the Eastern District of Wisconsin decided *White v. Marshall*,¹⁴⁹ a copyright infringement case that bridged corporate and patent law standards. To demonstrate the effectiveness of his orthodontic device, the plaintiff White took “before” and “after” photographs of his patients to be used in promotional materials and obtained federal copyright registration for these photographs.¹⁵⁰ Defendant Marshall assisted White in promoting the orthodontic devices.¹⁵¹ In 2004, Marshall and two others formed Super Spring Orthodontics, LLC (“Super Spring”), a company that provides orthodontic devices and services.¹⁵² White alleged that Super Spring launched a promotional website that displayed his copyrighted photographs,¹⁵³ and joined

¹⁴⁹ 693 F. Supp. 2d 873 (E.D. Wis. 2010).

¹⁵⁰ *Id.* at 877.

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Id.*

Marshall as a defendant in his complaint.¹⁵⁴ Marshall argued that White's allegations against him were insufficient to warrant "piercing the corporate veil."¹⁵⁵ The district court deemed Marshall's argument "misplaced"¹⁵⁶ and the veil-piercing approach inapplicable, explaining that White did not seek to pierce the corporate veil and hold Marshall liable as an owner for Super Spring's infringement.¹⁵⁷ Rather, White sought to hold Marshall "personally liable for the role he played—as an owner and manager in the corporations—in the alleged infringement."¹⁵⁸

The *White* court next turned to the question of the appropriate test to apply for imposing personal liability on corporate officers.¹⁵⁹ In his motion to dismiss, Marshall asked the court to apply *Dangler v. Imperial Mach. Co.*,¹⁶⁰ a patent infringement case that required a "special showing" to impose personal liability,¹⁶¹ whereas White asked the court to apply the vicarious liability test.¹⁶²

¹⁵⁴ *Id.*

¹⁵⁵ *Id.* at 885 (citing Marshall's Brief in Support of Motion to Dismiss Amended Complaint at 3–6, *White v. Marshall*, 693 F. Supp. 2d 873 (E.D. Wis. 2010) (No. 07-CV-892)).

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* (citing *Donsco, Inc. v. Casper Corp.*, 587 F.2d 602, 606 (3d Cir. 1978) (explaining inapplicability of veil-piercing analysis in regards to whether a corporate officer or owner should be personally liable for the role he played in copyright infringement)).

¹⁵⁹ *Id.* ("Marshall's second argument—that the Whites's allegations do not fulfill the criteria necessary to impose personal liability—invites the question of what the test for imposing liability should be.").

¹⁶⁰ *Id.* at 886.

¹⁶¹ *Dangler v. Imperial Mach. Co.*, 11 F.2d 945 (7th Cir. 1926). In *Dangler*, the Seventh Circuit provided an analysis of corporate-participant liability for patent infringement cases that focused on the nature of the individual's conduct. The court held that absent some "special showing" of why corporate-participant liability was the correct approach, officers are not liable for corporate infringements, though committed under their general direction. *Id.* at 947 ("It is when the officer acts willfully and knowingly—that is, when he personally participates in the manufacture or sale of the infringing article (acts other than as an officer), or when he uses the corporation as an instrument to carry out his own willful and

Because the parties had inadequately briefed the issue, the court gave its own views on what it believed the correct standard to be.¹⁶³ The court recognized that *Dangler* was good law in the circuit and that *Shapiro* was widely accepted among the various circuits.¹⁶⁴ It thus concluded that the “most reasonable marriage” of the more lenient *Shapiro* standard and the more demanding *Dangler* standard was to hold that an individual who is both an officer and shareholder, and who satisfies the vicarious liability test, necessarily satisfies the “special showing” requirement.¹⁶⁵ To justify its conclusion, the court stated that the *Dangler* court explicitly stated that the examples it gave were not the only instances in which an officer may be found personally liable.¹⁶⁶ It also noted that courts have been expanding the situations in which plaintiffs can meet the *Dangler* “special showing” requirement.¹⁶⁷ In the court’s view, the vicarious liability test is one way to accomplish this.

The *White* court’s reasoning demonstrates that the two standards are not necessarily inconsistent, and that the *Shapiro* test applies particularly well when the defendant

deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability—that officers are held jointly with the company. The foregoing are by no means cited as the only instances when the officers may be held liable, but they are sufficient for the present case.”). The court was concerned that the “uncertainty surrounding the questions of validity and infringement” of patents would “make any other rule unduly harsh and oppressive.” *Id.* at 947. In her article, Lynda Oswald discusses *Dangler* in great depth. Oswald, *supra* note 19, at 124–27. She explains how *Dangler* remained the majority view among the circuits for sixty years, *id.* at 125, but that in 1982, when the Federal Circuit adopted the precedent of its predecessor courts, it declared itself not bound by the decisions of the other circuit courts of appeals and thus never embraced the *Dangler* approach under § 271(a). *Id.* at 127.

¹⁶² *White*, 693 F. Supp. 2d at 886.

¹⁶³ *Id.*

¹⁶⁴ *Id.* at 886–87.

¹⁶⁵ *Id.* at 887.

¹⁶⁶ *Id.* (citing *Dangler*, 11 F.2d at 947).

¹⁶⁷ *Id.* (citing *Peaceable Planet, Inc. v. Ty, Inc.*, 185 F. Supp. 2d 893, 896 (N.D. Ill. 2002)).

corporate-participant is both an officer and shareholder. This is the factual scenario that most often arises in patent and copyright infringement cases dealing with corporate-participant liability.

The *White* court's conclusion may seem to be in tension with Oswald's argument that § 271(a) is an inappropriate avenue to attach liability, a position she supported by pointing to the *Dangler* "special showing" requirement.¹⁶⁸ Oswald argued that the *Dangler* court recognized that an officer's liability was properly treated as an intentional, not a strict liability, tort.¹⁶⁹ However, the *White* court noted that *Dangler*'s list of examples for "special showings" was not exhaustive,¹⁷⁰ the court reasoned that the *Dangler* analysis is thus not limited to situations where the defendant corporate-participant had knowledge or intent.

Moreover, the two prongs of vicarious liability are similar to the facts upon which the *Orthokinetics* court relied when it found personal liability: the corporate-participants were *directly responsible* for the design and production of the infringing products and *they alone stood to benefit from profits* obtained from sales of the infringing products.¹⁷¹ These were the factors the Federal Circuit panel in 1986 believed were *most pertinent* and characterize those individuals *most deserving* of liability. Adopting the vicarious liability approach would thus harmonize early Federal Circuit understanding of corporate-participant liability with the language of and intent behind § 271(a).

¹⁶⁸ Oswald, *supra* note 19, at 124–28.

¹⁶⁹ *Id.* at 126–27.

¹⁷⁰ *White*, 693 F. Supp. 2d at 887 ("However, *Dangler* importantly states . . . that the examples given in *Dangler* are not the only instances in which an officer may be found personally liable.") (citing *Dangler*, 11 F.2d at 947).

¹⁷¹ *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986).

2. Policy Justifications To Apply Vicarious Liability In The Patent Law Context

Courts and commentators often refer to “risk allocation” when explaining policy justifications for vicarious liability under the Copyright Act.¹⁷² In cases where a corporate-participant “seek[s] to profit from an enterprise in which identifiable types of losses are expected to occur,” which is typical for corporate parties in patent infringement cases, they argue that placing responsibility for those losses on the corporate-participant is “fair and reasonable.”¹⁷³ The vicarious liability doctrine treats expected losses as a cost of doing business.¹⁷⁴ The infringing corporation and the corporate-participant profiting from the infringement are better able than either the innocent injured patentee or the direct infringer—likely a low-level employee in the corporation—to distribute the costs and shift them to others who have profited from the enterprise.¹⁷⁵ The vicarious liability doctrine targets those corporate-participants—shareholders and officers alike—who are in the best position to police the direct infringer, and creates incentives to police the corporation’s operations carefully to avoid unnecessary losses.¹⁷⁶ In addition, by focusing on the benefit received from control over an enterprise, a court can evaluate the underlying fairness of holding the corporate-participant liable.¹⁷⁷

¹⁷² Siegel, *supra* note 42, at 549; *see also* Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 308 (2d Cir. 1963) (“For much the same reasons, the imposition of vicarious liability in the case before us cannot be deemed unduly harsh or unfair. Green has the power to police carefully the conduct of its concessionaire Jalen; our judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised.”).

¹⁷³ Siegel, *supra* note 42, at 549 (quoting Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1325 (D. Mass. 1994)).

¹⁷⁴ *Polygram Int’l Publ’g*, 855 F. Supp. at 1325.

¹⁷⁵ *Id.*

¹⁷⁶ *Id.*

¹⁷⁷ *Id.* at 1326.

However, commentators have noted that corporate-participants need to be able to make decisions based on the opinions of corporate counsel without having to be concerned that a district court will find them strictly liable for patent infringement.¹⁷⁸ Investors may be less likely to invest due to heightened risk of liability. But investment is not desirable if it results in products that infringe patents. With a vicarious liability standard, investors will be more likely to scrutinize their investments to avoid those that create liability. Also, additional monitoring and pre-investment research may help deter infringement.

In addition to encouraging efficient precautions by placing monitoring responsibilities on lowest-cost avoiders, adopting copyright law's vicarious liability approach will bring more uniformity to district court decisions. As previously discussed, the state law of incorporation governs the veil-piercing analysis.¹⁷⁹ This fact has significant consequences for uniformity in the context of patent infringement law. For example, California courts have developed liberal rules that allow the corporate veil to be pierced much more frequently¹⁸⁰ than in other states, such as Nevada.¹⁸¹

¹⁷⁸ Sauer, *supra* note 40, at 102.

¹⁷⁹ See *supra* text accompanying note 47.

¹⁸⁰ See *Nevada v. California*, CORPORATE SERV. CTR., <http://www.corporateservicecenter.com/nevada-california-comparison.html> (last visited Mar. 5, 2012) (claiming that "Nevada provides a much stronger corporate veil" based on Thompson's finding that, "among the states with the largest number of reported veil piercing decisions, California courts pierce the corporate veil at the highest rate—45% of attempted veil piercing cases in California are successful"). Unlike most other states, California does not recognize limited liability doctrine by statute, but rather relies on California case law to provide limited liability. *Id.* The primary legal precedent in California veil-piercing law is found in *Associated Vendors, Inc. v. Oakland Meat Co.*, 26 Cal. Rptr. 806 (Cal. Dist. Ct. App. 1962), which established twenty-eight separate factors that can be considered in a veil-piercing analysis.

¹⁸¹ In Nevada, the corporate veil is not subject to the interpretation of a body of developing case law, but instead is provided in the Nevada Revised Statutes (NRS) and can only be applied according to statute. NEV. REV. STAT. § 78.747 (2001) ("Except as otherwise provided by specific

To illustrate the problems with this inconsistency, imagine that there are two corporations operating in California. One is incorporated in Nevada and the other in California. In two separate incidents, plaintiffs sue the corporations for patent infringement and seek to hold the corporations' corporate-participants personally liable under § 271(a). Though both corporations are operating in the same state, one's corporate-participants are exposed to greater potential for personal liability than another's merely based on the place of incorporation. Patent law is federal law that aims for uniformity. Indeed, Congress's primary goal for the creation of the Federal Circuit was to increase the uniformity of patent law.¹⁸² The variable tests for veil-piercing among the states only detract from achieving this goal.

In addition to creating greater uniformity among the district courts, adopting the vicarious liability approach will bring greater uniformity to federal intellectual property law generally. The U.S. Supreme Court has recognized the

statute, no stockholder, director or officer of a corporation is individually liable for a debt or liability of the corporation, unless the stockholder, director or officer acts as the alter ego of the corporation. A stockholder, director, or officer acts as the alter ego of a corporation if: the corporation is influenced and governed by the stockholder, director or officer; there is such unity of interest and ownership that the corporation and the stockholder, director or officer are inseparable from each other; and adherence to the corporate fiction of a separate entity would sanction fraud or promote a manifest injustice. The question of whether a stockholder, director or officer acts as the alter ego of a corporation must be determined by the court as a matter of law.”).

¹⁸² “[S]upporters of the legislation [for the creation of the Federal Circuit] observed that the inter-circuit conflicts greatly increased the expense of litigation because of the forum shopping that occurred.” AM. BAR ASS’N, REPORT ON THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, SECTION OF ANTITRUST LAW (July 2002) (citing H.R. REP. NO. 97-312, at 21-22 (1981)). “They also noted the more fundamental concern that the lack of uniformity in the application of the patent laws impacted business planning, as patent holders could not determine with any reasonable degree of certainty the extent of their legal rights in an invention because the scope of those rights depended, in large part, on geography.” *Id.* “By centralizing patent appeals, supporters believed that business planning would become easier ‘as more stable and predicable patent law is introduced.’” *Id.* (quoting H.R. REP. NO. 97-312, at 23).

“historic kinship” between patent and copyright law,¹⁸³ and the Court explicitly incorporated into copyright law the inducement theory of liability from patent law.¹⁸⁴ Adoption of a vicarious liability approach under § 271(a) would bring patent law in greater harmony with copyright law.

3. Applying the Vicarious Liability Test To *Wordtech*

This Note has thus far examined the patent law veil-piercing doctrine and explained why the Federal Circuit should cast aside its erroneous standard and borrow from copyright law the vicarious liability test to determine corporate-participant liability under § 271(a). Circling back to the *Wordtech* case, this Note next considers what result the district court on remand may reach were it to evaluate Khatemi’s and Assadian’s personal liability under the vicarious liability test as advocated by this Note. In *Wordtech*, the Federal Circuit reversed the district court’s denial of the defendants’ motion for a new trial and remanded the case because the jury instructions omitted any mention of veil-piercing, which under the court’s precedent, was necessary to determine Khatemi’s and Assadian’s individual liability.¹⁸⁵ Under the current Federal Circuit

¹⁸³ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). *See also Eldred v. Ashcroft*, 537 U.S. 186, 201–02 (2003) (holding that Congress acted within its authority in enlarging the duration of copyrights under the Copyright Term Extension Act, and explaining that “because the Clause empowering Congress to confer copyrights also authorizes patents, the Court’s inquiry is significantly informed by the fact that early Congresses extended the duration of numerous individual patents as well as copyrights”).

¹⁸⁴ *Metro-Goldwyn-Mayer Studios Inc. v. Gorkster, Ltd.*, 545 U.S. 913, 936 (2005).

¹⁸⁵ *See Wordtech Sys., Inc. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308, 1311 (Fed. Cir. 2010). The district court never instructed the jury on INSC’s corporate status, and neither the jury instructions nor the jury’s verdict form mentioned piercing the corporate veil. The circuit court held that failure to instruct the jury was plainly erroneous because “[p]ersonal liability under § 271(a) . . . requires sufficient evidence to justify piercing the corporate veil.” *Id.* at 1314 (citing *Al-Site Corp. v. VSI*

standard, if Wordtech were to prevail on remand, it would need to prove either that INSC was not a valid corporation when Khatemi and Assadian committed infringing acts on its behalf, or that INSC's corporate veil should be pierced under Nevada state law.¹⁸⁶ To evade liability under § 271(a), the defendants argued that INSC was not a corporation at the time of infringement, and therefore the veil-piercing analysis was inapplicable. Wordtech did not argue that Khatemi and Assadian were owners of INSC, nor did it attempt to make any distinction between officers and owners on the corporate veil issue. The plaintiff did not need to, for the Federal Circuit has yet to draw a distinction based on a corporate-participant's role in a corporation. Instead, it continues to use the veil-piercing analysis regardless of whether the corporate-participant is solely an officer¹⁸⁷ or has a dual role as an officer and a shareholder.¹⁸⁸ On appeal, the Federal Circuit stated that the differing rules for officer liability under §§ 271(a) and (b) and the treatment of officer liability compared to owner liability in its precedent were "important issues that cannot be resolved on this record and are left for another day."¹⁸⁹ Moreover, the court stated that it would abstain from discussing whether the corporate veil should apply only to owners of a corporation, or to both owners and officers, until a plaintiff directly brings such a challenge before the court.¹⁹⁰ The Federal Circuit remanded the case to the district court to determine whether individual liability warranted a new trial.

Int'l, Inc., 174 F.3d 1308, 1331 (Fed. Cir. 1999)). Because the resolution of INSC's corporate status was a legal prerequisite to finding Khatemi and Assadian individually liable, the jury omissions were "obvious, important, and seriously affected the trial's fairness." *Id.*

¹⁸⁶ *Id.* at 1315. INSC was incorporated in Nevada on March 17, 1994. *Id.* at 1311.

¹⁸⁷ *See, e.g.,* Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 552 (Fed. Cir. 1990).

¹⁸⁸ *See, e.g.,* Insituform Techs., Inc. v. CAT Contracting, Inc., 385 F.3d 1360 (Fed. Cir. 2004); Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565 (Fed. Cir. 1986).

¹⁸⁹ *Wordtech*, 609 F.3d at 1316 n.3.

¹⁹⁰ *See id.* at 1313 n.2.

Applying the vicarious liability test, the district court may take into account the fact that the defendants were responsible for the company and were full-time employees.¹⁹¹ To escape liability under a veil-piercing analysis, Khatemi and Assadian denied that they served as officers.¹⁹² Whether or not this was true, their managerial titles would be irrelevant in determining whether they were vicariously liable. Both had a great deal of day-to-day control over the infringing activities and were effectively officers for vicarious liability purposes.¹⁹³ In its brief, Wordtech pointed out that Assadian was the “moving force” behind the implementation of the infringing Robocopier development program.¹⁹⁴ Moreover, neither Khatemi nor Assadian were owners of INSC, as Khatemi’s mother was the owner and sole shareholder.¹⁹⁵ This fact may make a difference under Nevada veil-piercing law. However, the vicarious liability approach does not require stock ownership, but rather a direct and obvious financial interest in the infringing activity.¹⁹⁶ The defendants appeared to have a direct financial interest, given that there were few INSC employees involved in the infringing activity to spread the wealth

¹⁹¹ *Id.* at 1311 (citing trial testimony in which the defendants stated that they were the only two full-time employees at the time of trial and that they were mostly responsible for INSC).

¹⁹² *Id.* Despite their denial of holding such positions, INSC filed annual lists of corporate officers in 1994 and 1995, identifying Khatemi as President and as a Director, respectively. *Id.*

¹⁹³ For example, Khatemi testified that he was a “salesman,” that his “specialty is software and software solution,” and that he sold Robocopier 600 and 8000 models. *Id.* Assadian described himself as an engineer responsible for INSC “product development.” *Id.* Assadian also testified that “mostly Mr. Khatemi and myself” were responsible for the company, but neither held an office. *Id.*

¹⁹⁴ Brief for Appellee at 9, *Wordtech*, 609 F.3d 1308 (No. 2009-1454) (“There is overwhelming evidence that Assadian was in control and had authority to direct INSC and its product development. Assadian was the creator of the Robocopier program and acted as its guiding spirit and active directing hand in full charge of its operations.”).

¹⁹⁵ *Wordtech*, 609 F.3d at 1311.

¹⁹⁶ See *supra* discussion Part IV.B.

gained from the sale of infringing devices.¹⁹⁷ Khatemi and Assadian were the lowest cost avoiders and failed to police the infringing activity in which INSC was engaged. Overall, the vicarious liability approach focuses in greater depth on the defendant corporate-participants' supervisory relationship with those employees actually carrying out the infringing activity, rather than on whether they committed fraud or had the requisite culpability to justify piercing INSC's veil.

4. Shifting To A Vicarious Liability Approach Would Not Entail Too Great A Departure

There may be some hesitancy about the Federal Circuit adopting a new standard and overruling nearly thirty years of precedent. However, neither the veil-piercing analysis nor the vicarious liability analysis are forms of direct liability,¹⁹⁸ because in each case a court would hold a *third party* liable for the direct infringer's act. Thus, switching to the copyright law analysis would provide more benefits while not departing greatly from the Federal Circuit's veil-piercing approach. Under the veil-piercing approach, a shareholder is *indirectly* liable for the obligations of the corporation because personal liability is the result of the shareholder having somehow abused the corporate form.¹⁹⁹ In contrast, the language of § 271(a) suggests that it is a direct liability provision imposed on the *actual* infringer as a result of that infringer having violated the exclusive rights granted to the

¹⁹⁷ According to Assadian, INSC had at most "20 and maybe 15" employees between 2000 and 2005, and only two full-time employees—himself and Khatemi—at the time of trial. *Wordtech*, 609 F.3d at 1311 (citing Reporter's Tr., Trial Proceedings, Nov. 10, 2008 at 11:6-12, 22:14-18, *Wordtech*, 609 F.3d 1308 (No. 2009-1454)).

¹⁹⁸ Oswald, *supra* note 19, at 128 (explaining that liability imposed under a piercing analysis is derivative liability); *see also* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 (1984) (explaining that secondary liability is a means to hold a third party liable for the actions of another).

¹⁹⁹ Oswald, *supra* note 19, at 128.

patentee by the Patent Act.²⁰⁰ Strictly read, only an actor who has made, used, offered to sell, or sold a patented invention can be liable under § 271(a).²⁰¹ However, congressional intent supports the notion of expansive liability,²⁰² and the Federal Circuit has deemed §§ 271(a) and (b) to apply to a greater class of individuals to reflect the realities of modern business enterprises. As Oswald recognizes, while a corporation may engage in such illegal behavior, rarely would a particular corporate-participant undertake the specific behaviors that would violate § 271(a).²⁰³ Thus, the Federal Circuit has already imputed a derivative liability standard into a direct liability provision in order to assure patentees adequate damage awards. Transitioning to a vicarious liability standard under § 271(a) would not be a tremendous leap from its current approach.

V. CONCLUSION

The Federal Circuit's current approach, discussed most recently in *Wordtech*, is an inappropriate means of holding corporate-participants liable for direct infringement under § 271(a) of the Patent Act. The approach fails to take into account the distinctions between the size and nature of corporations, its application varies among jurisdictions, and it inappropriately inserts a scienter requirement into the strict liability provision. As an alternative, the courts should

²⁰⁰ 35 U.S.C. § 271(a) (2010).

²⁰¹ *Id.*

²⁰² See *supra* accompanying notes on the additions of §§ 271(b) and (c) in the Patent Act of 1952. There is evidence of similar congressional intent behind the Copyright Act. See Siegel, *supra* note 42, at 543 (noting that a House Report in the legislative history of the Copyright Act indicated that the Act intended to codify case law which allows vicarious copyright liability). The House Report notes that in order to be a vicarious infringer, "a defendant must either actively operate or supervise the [infringing activities], or control the content of the infringing [material], and expect commercial gain from the operation and either direct or indirect benefit from the infringe[ment]." *Id.* (citing H.R. REP. NO. 94-1476, at 159-60 (1976)).

²⁰³ Oswald, *supra* note 19, at 128.

consider adopting copyright law's vicarious liability test. This two-pronged approach targets those individuals not based on their status in the corporation or state of mind, but based on the fact that they were in the best position to avoid infringement and failed to do so. Further, it covers individuals who failed to take actions to prevent infringement, while § 271(b) only covers affirmative acts.

The infringement provision of the Copyright Act contains nearly identical language to the analogous Patent Act direct infringement provision. It is thus an ideal model for reforming the approach in the patent law context. The vicarious liability analysis does not have a scienter requirement. In addition, the analysis does not depend on the defendant corporation's state of incorporation statutes, but instead is applied universally to determine whether to impose liability on corporate-participants. Adopting the vicarious liability approach is consistent with the congressional intent behind the Patent Act and is a well-crafted tool to address the problems that frequently arise in patent infringement litigation.

As it stands now, the Federal Circuit will continue to apply its veil-piercing approach. The *Wordtech* case offers the court an opportunity to reconsider its long-standing precedent, either by addressing the issue squarely should the case come up again on appeal, or by ordering an *en banc* rehearing of the case.