Note

CORPORATE OFFICERS AND DIRECTORS: LIKELY TARGETS IN PATENT INFRINGEMENT ACTIONS

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I. INTRODUCTION

Although monopolies are generally despised,[1] Congress has granted limited monopolies by conferring statutory protection to

1. Congress' disapproval of monopolies culminated in the Sherman Antitrust Act of 1890, enacted to control "powerful business organizations" with "unchecked economic power." 1 E. KINTNER, FEDERAL ANTITRUST LAW § 4.1, at 125 (1980). While acknowledging the difficulty in identifying a single legislative purpose behind any act of Congress, Mr. Kintner ventured:

> Congress' overriding objective was to attempt to restore, as far as possible, a free and open competitive environment absent anticompetitive business

inventors, authors, and others. One such limited monopoly is the patent,[2] which is said to further several important national objectives by rewarding inventors for their efforts, stimulating inventors to pursue further advances, and providing the public with immediate knowledge of the invention and an unrestricted right to use the invention after the patent expires.[3]

The rights that accompany an issued patent are enforced pursuant to several strict federal statutory provisions.[4] Upon successful assertion of one's rights in an infringement action, the patentee,[5] or

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> restraints such as agreements to control production, prices or output, or to divide markets, or restrictions caused by monopolistic control over the sources of raw materials or production of goods.

Id. at 126. Although this objective seems to create a "diametric opposition" between antitrust law, intended to promote competition, and patent law, which grants limited monopolies, the two have a common economic goal "*to maximize wealth by producing what consumers want at the lowest cost.*" W. BOWMAN, JR., PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL 1 (1973). The patent monopoly furthers this goal by providing consumers with products which would not be available but for the allowance of patent protection. *Id.*

2. The first Act, the Patent Act of 1790, codified the patent privilege. The evolution of patent legislation culminated in the Patent Act of 1952, which, as modified by numerous amendments, provides the foundation for modern patent law.

3. 1 W. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS (1890). These objectives were viewed from a practical perspective in a report by the President's Commission on the Patent System:

> First, a patent system provides an incentive to invent by offering the possibility of reward to the inventor and to those who support him. This prospect encourages the expenditure of time and private risk capital in research and development efforts.
>
> Second, and complementary to the first, a patent system stimulates the investment of additional capital needed for the further development and marketing of the invention. . . .
>
> Third, by affording protection, a patent system encourages early public disclosure of technological information, some of which might otherwise be kept secret. Early disclosure reduces the likelihood of duplication of effort by others and provides a basis for further advances in the technology involved.
>
> Fourth, a patent system promotes the beneficial exchange of products, services, and technological information across national boundaries by providing protection for industrial property of foreign nationals.

S. REP. No. 5, 90th Cong., 1st Sess. 2-3 (1967) (Report of the President's Commission on the Patent System).

4. This note focuses on three sections of 35 U.S.C. (1952): § 271, which defines patent infringement; § 281, which concerns remedies for infringement; and § 284, which provides for damages. *See infra* text accompanying notes 24-46.

5. A patentee is "[h]e to whom a patent has been granted" for a "new invention." BLACK'S LAW DICTIONARY 1014 (5th ed. 1979).

other claimant,[6] is statutorily guaranteed "damages adequate to compensate for the infringement."[7] The enforcement of this statutory provision has recently led to damage awards large enough to grasp the attention of all potential infringement litigants—patentees and technology users alike.

Although the typical defendant in an infringement action is a corporation,[8] the claimant may wish to name corporate officers and directors[9] as co-defendants if the infringing corporation is insolvent or unable to pay the entire damages award.[10] Claimants may also be motivated to name individual defendants by a desire to tap as many "pockets" as possible[11] or to use the threat of personal liability as a "tactical advantage."[12] This threat of personal liability is now

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6. The rights accompanying an issued patent are granted to "the patentee, his heirs or assigns." 35 U.S.C. § 154 (1952 & Supp. 1990). Therefore, these rights may be asserted by claimants other than the patentee. *See, e.g.*, Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565 (Fed. Cir. 1986) (assignee of two patents brought infringement action).

7. 35 U.S.C. § 284 (1952). *See infra* note 22.

8. An action for infringement most often arises when Corporation *A*, the claimant, discovers that Corporation *B* has been manufacturing, using, or selling the subject of the patent. Corporation *A* may bring an action for patent infringement against Corporation *B* seeking an injunction, an accounting for profits, or the recovery of compensatory damages.

9. Corporate officers are defined as "[t]hose persons who fill the offices which are provided for in the corporate charter such as president, treasurer, etc., though in a broader sense the term includes vice presidents, general manager and other officials of the corporation." BLACK'S LAW DICTIONARY 340 (6th ed. 1990). Directors are "[p]ersons appointed or elected according to law, authorized to manage and direct the affairs of a corporation or company." *Id.* at 460. Although these positions are most often distinct in practice, the broadly defined title "corporate officer" is often intended to encompass individuals functioning in a directorial capacity. This note respects the distinction between corporate officers and directors wherever possible—especially where the terms are used explicitly in statutory language. *See infra* notes 162-86 and accompanying text.

10. Heller, *Remedies in Patent Litigation*, 1988 PRACTIC. LAW INST. 733, 841-42. Naming individual defendants may be the only means by which a successful claimant can recover complete compensation for an infringement. *Id.*

11. Coolley, *Personal Liability of Corporate Officers and Directors for Infringement of Intellectual Property*, 68 J. PAT. OFF. & TRADEMARK SOC'Y 228 (1986). The availability of proceeds from directors' and officers' liability insurance policies may strengthen this motivation. *See infra* note 174 and accompanying text.

12. Lafuze, *Patent Litigation: Prefiling Considerations*, 1988 PRACTIC. LAW INST. 7, 64. The threat of personal liability is often used to deter infringement or encourage the settlement of infringement litigation in light of several compelling interests. *Id.* First, an officer or director is interested in avoiding personal liability, which may present a threat to financial security. *Id.* Second, the individual will be concerned with the effect on their personal or professional reputation. *Id.* Finally, personal

very credible: Judicial clarification of the federal statutory provisions guaranteeing patent rights has heightened the vulnerability of corporate officers and directors in infringement actions.[13]

This note discusses the evolution and present state of the law concerning the personal liability of corporate officers and directors for their corporations' infringing activities. Part II summarizes the federal statutory bases for liability in patent infringement actions. Part III provides an overview of the case law deciding the issue of personal liability for corporate infringements and addresses the trends which led to the rules of law adopted by the Court of Appeals for the Federal Circuit, the appellate forum for patent infringement actions.[14] Part IV introduces several state legislative efforts which enable corporations to limit the personal financial liability of their officers and directors.

II. STATUTORY GROUNDS FOR LIABILITY

The United States 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."[15] Congress confers this limited monopoly in the form of patents issued to qualified inventors.[16] This

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liability is a source of "disharmony" between the officer or director and the corporation with respect to such matters as indemnification and whether the corporation provides the individual's defense. *Id.*

13. *See supra* text accompanying notes 142-61.

14. On October 1, 1982, Congress granted the United States Court of Appeals for the Federal Circuit exclusive jurisdiction over appeals from district courts for actions arising under patent law pursuant to 28 U.S.C. § 1338(a) (1948). 28 U.S.C. § 1295(a) (1982 & Supp. 1990). The creation of the Federal Circuit was designed to reduce the caseload of the federal appellate system, eliminate forum-shopping, and, most importantly, "reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law." H.R. REP. No. 312, 97th Cong., 1st Sess. 23 (1981). The Federal Circuit acknowledged this role by stating that "[t]his court is charged with the duty of increasing doctrinal stability in the field of patent law." Chemical Eng'g Corp. v. Marlo, Inc., 754 F.2d 331, 333 (Fed. Cir. 1984).

15. U.S. Const. art. I, § 8, cl. 8.

16. Section 154, "Contents and Terms of Patent," contains the granting clause and provides:

> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, and, if the invention is a process, of the right to exclude others

privilege includes the right to exclude others from making, using, or selling the patented invention throughout the United States.[17]

While violation or infringement[18] of this statutory privilege is analogous to common law tort principles,[19] federal statutory provisions have been enacted which explicitly authorize the enforcement of patent rights. The legal means of enforcement is provided by the mandate that "[a] patentee shall have remedy by civil action for infringement of his patent."[20] This mandate serves as a "preamble"[21] to the statutory guarantee that "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . ."[22] This guarantee also allows the court to increase the damages up to three times the amount assessed by the

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> from using 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. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 154 (1988 & Supp. 1990) (amended Aug 23, 1988).

17. *Id.* Note that the patentee has the right to exclude others from importing into the United States products made by a patented process. *Id.*

18. Any violation of a patentee's statutory rights is considered an infringement of those rights. *See infra* note 24.

19. Courts have long suggested that this issue should be analyzed within the realm of tort law. *See* Carbice Corp. of Am. v. American Patents Dev. Corp., 283 U.S. 27, 33 (1931) (stating that infringement "is essentially a tort, and implies invasion of" a patentee's rights); *Orthokinetics*, 806 F.2d at 1579 (re-affirming the traditional classification of infringement as a tort); National Cash-Register Co. v. Leland, 94 F. 502, 507 (1st Cir.), *cert. denied*, 175 U.S. 724 (1899) (concluding that the general principles determining the liability of officers and directors for infringements committed by the corporation under their direction are not "peculiar to patent law, but are equally applicable to all torts").

20. 35 U.S.C. § 281 (1952).

21. The Patent Act of 1952 reorganized the sections relating to remedies for patent infringement and uses § 281 as a declaration to introduce the others. H.R. REP. No. 1923, 82d Cong., 2d Sess. 9-10 (1952).

22. 35 U.S.C. § 284 (1952). The statute provides:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
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> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.
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> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Id.

court or jury.[23] These provisions, based on traditional tort principles, endow claimants with the power to enforce their statutory rights.

Congress enacted a section to explicitly define infringement and the circumstances under which a claimant may be entitled to damages.[24] While infringement is often classified as direct or indirect,[25] Congress has separated the act of infringement into three interrelated categories: direct infringement,[26] inducement of infringement,[27] and contributory infringement.[28] These three categories of infringement are treated *seriatim*.

A. Direct Infringement

Section 271(a) states that "whoever, without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent."[29] In other words, direct infringement consists of making, using, *or* selling the

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23. *Id.*

24. 35 U.S.C. § 271 (1952). The House Judiciary Committee questioned the necessity of this section because "the granting clause [found in 35 U.S.C. § 154] creates certain exclusive rights and infringement would be any violation of those rights." H.R. REP. No. 1923, 82d Cong., 2d Sess. 9 (1952).

For the purposes of this note, discussion will be limited to 35 U.S.C. § 271(a)-(c) which provides:

> (a) Except as otherwise provided in [title 35], whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.
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> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
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> (c) Whoever sells 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.

Section 271(d)-(g) provides specific guidelines and clarifications: § 271(d) enumerates those activities which, if undertaken by the patentee, will not deny the patentee relief for infringement; and § 271(e)-(g) sets forth specific activities which will and will not constitute infringement.

25. Generally, indirect infringement occurs when one's conduct leads to another's direct infringement. *See infra* text accompanying notes 33-46 (defining inducement of infringement and contributory infringement).

26. 35 U.S.C. § 271(a) (1952). *See supra* note 24.

27. 35 U.S.C. § 271(b) (1952). *See supra* note 24.

28. 35 U.S.C. § 271(c) (1952). *See supra* note 24.

29. 35 U.S.C. § 271(a) (1952). *See supra* note 24.

invention defined by the patent within the United States during the term of the patent without the consent of the owner of the patent.[30]

One who makes, uses, or sells an invention protected by a patent without the consent of the owner is an infringer regardless of knowledge or intent.[31] In a direct infringement action, knowledge and intent are considered only when determining damages.[32]

B. *Inducement of Infringement*

Section 271(b) warns that "[w]hoever actively induces infringement of a patent shall be liable as an infringer."[33] This provision reflects the principle that "one who *aids and abets* an infringement is likewise an infringer."[34] Liability as an infringer for inducement, however, depends upon a showing that the induced activity constitutes direct infringement.[35]

Although section 271(b) is silent as to knowledge or intent, courts have required that the defendant in an inducement action have knowledge of the patent as well as the nature and consequences of his or her actions.[36] Active inducement of infringement may arise from a variety of activities, including the licensing, repair, design, or purchase for resale of an infringing product.[37] Indemnification of

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30. 4 D. CHISUM, PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 17.04[1] (rev. ed. 1990). The alternative language indicates that each activity alone is sufficient to constitute direct infringement. *See id.* §§ 16.02[3]-[5] (providing definitions of "making," "using," and "selling" the claimed invention).

31. *Id.* § 16.02[2]. There may be an infringement even if "the infringer does not work by the patent or even know of its existence." 6 LIPSCOMB'S WALKER ON PATENTS § 22:6, at 425 (3d ed. 1987).

32. CHISUM, *supra* note 30, § 16.02[2].

33. 35 U.S.C. § 271(b) (1952). *See supra* note 24.

34. H.R. REP. No. 1923, 82d Cong., 2d Sess. 9 (1952) (emphasis added). The broad range of activities has been held to include "actions by which one in fact causes, or urges, or encourages, or aids another to infringe a patent." Fromberg, Inc. v. Thornhill, 315 F.2d 407, 411 (5th Cir. 1963).

35. CHISUM, *supra* note 30, § 17.04[1].

36. Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir.) (stating that "[a]lthough section 271(b) does not use the word 'knowing,' the case law and legislative history uniformly assert such a requirement"), *cert. denied*, 488 U.S. 968 (1988). This requirement is based, in part, on the fact that "inducement has connotations of active steps knowingly taken—knowingly at least in the sense of purposeful, intentional, as distinguished from accidental or inadvertent." *Fromberg*, 315 F.2d at 411.

37. CHISUM, *supra* note 30, § 17.04[4]. "Licensing others may constitute active inducement if the licensor provides instructions, plans, or the like enabling the

another against liability for infringement and the provision of instructions for a product's infringing use may also constitute inducement.[38] The variety of included activities explains why active inducement has been widely utilized as a basis for holding corporate officers, agents, and employees liable for infringement.[39] For that reason, this note focuses on personal liability for active inducement under section 271(b).

C. *Contributory Infringement*

Contributory infringement is invoked to enjoin those seeking "to cause infringement by supplying someone else with the means and directions for infringing a patent" for the purpose of "appropriating the benefit of the patented invention."[40] Section 271(c) characterizes a contributory infringer as one who "sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process . . . ."[41] The provision requires that (1) the component be a material part of the patented invention and (2) the seller knew the component

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licensee to practice the patented product or process. However, there must be some connection between the license and the act of direct infringement." *Id.* Inducement will not result if the license agreement could be satisfied without the infringing activity. *Id.* Repair and maintenance "may constitute active inducement" when they act to perpetuate an infringement. *Id.* § 17.04[4][c]. A finding of inducement is most likely when the repair or maintenance is performed by a manufacturer of replacement parts on a continuous or contractual basis as opposed to sporadic repairs. *Id.* The design of an infringing product for another may suffice to constitute inducement. *Id.* § 17.04[4][d]. The purchase of an infringing product for use or resale may constitute inducement if one intentionally participates in the infringing activity by, for example, becoming involved in decisions regarding the production of the infringing product and continuously ordering the product. *Id.* § 17.04[4][e].

38. *Id.* § 17.04[4][b]. Indemnification may rise to the level of active inducement when it is intended to induce others to infringe a patent by guaranteeing a shield from liability. *Id.* Active inducement may also be found when one distributes products capable of infringing or innocent use and provides instructions as to the infringing use. *Id.* § 17.04[4][f]. A warning against infringing use may also be considered inducement if the warning invites the infringing use. *Id.* Publication of information regarding a patented product, when accompanied by other activities such as the sale of materials capable of infringing use, may constitute inducement. *Id.* § 17.04[4][g].

39. CHISUM, *supra* note 30, § 17.04.

40. H.R. REP. No. 1923, 82d Cong., 2d Sess. 9 (1952). Although the House Judiciary Committee stated that this doctrine applies to § 271(b), contributory infringement is only defined under § 271(c).

41. 35 U.S.C. § 271(c) (1952).

to be specially made or adapted for infringement of the patent.[42]

The second requirement is satisfied if the seller knew that a patent for a final product was held by another and that use of the seller's component in the final product would result in infringement.[43] The element of knowledge required for a finding of contributory infringement under section 271(c) is intended "[t]o avoid ensnaring innocent merchants who sold goods that later and without their knowledge were fashioned into infringing combinations by buyers . . . ."[44] However, the required degree of intent will be presumed "when the items sold had no use except in the infringing combination."[45] As is true for inducement under section 271(b), contributory infringement will not be found unless an underlying direct infringement of a patent is shown to have occurred.[46]

III. RESOLVING THE ISSUE OF DIRECTOR AND OFFICER LIABILITY IN PATENT INFRINGEMENT ACTIONS

The federal courts[47] have wrestled for over a century with the type and standard of misconduct necessary to justify the personal liability of corporate officers and directors faced with patent infringement actions.[48] On its face, this issue seems straightforward in light of traditional tort principles and their common application in

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42. 35 U.S.C. § 271(c) (1952). *See supra* note 24.

43. *See* Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 488 (1964) [*Aro II*] (stating that the "majority of the Court is of the view that § 271(c) does require a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing"). The contributory infringer must "knowingly have done some act without which the infringement would not have occurred." LIPSCOMB'S WALKER ON PATENTS, *supra* note 31, § 22:6, at 426-27.

44. Rohm & Haas Co. v. Dawson Chem. Co., 559 F.2d 685, 689 (5th Cir. 1979), *aff'd*, 448 U.S. 179, *reh'g denied*, 448 U.S. 917 (1980).

45. *Id.*

46. Aro Mfg. Co. v. Convertible Top Replacement Co., Inc., 365 U.S. 336 [*Aro I*], *reh'g denied*, 365 U.S. 890 (1961). The United States Supreme Court announced that "it is settled that if there is no *direct* infringement of a patent there can be no *contributory* infringement." *Id.* at 341.

47. Congress granted exclusive federal jurisdiction to all actions arising under the patent laws. "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents. . . . Such jurisdiction shall be exclusive of the courts of the states in patent . . . cases." 28 U.S.C. § 1338(a) (1948). *See supra* note 14 (explaining the Federal Circuit's exclusive jurisdiction of appeals from district courts for actions arising under patent law).

48. *See infra* notes 59-84 and accompanying text.

the corporate milieu. However, oscillation and evolution of the law have resulted from the need to reconcile two areas of established substantive law: patent law governed by federal statute and common law tort principles. The unique character of this combination may be attributed to several factors. First, explicit patent law statutes seemingly conflict with common law tort principles even though tort principles serve as the foundation for modern patent law.[49] While tort law requires "piercing the corporate veil" before corporate officers and directors are held liable,[50] patent infringement actions invoke statutory language that imposes liability on "*whoever*, without authority makes, uses or sells any patented invention"[51] or "*[w]hoever* actively induces infringement."[52]

Second, the issue of corporate director liability in patent infringement actions is a distant relative of the broader issue of corporate director liability. Infringement actions naming directors as defendants are initiated by third parties (parties other than a director's corporation or its stockholders), while more typical actions against directors are initiated by stockholders in the form of derivative suits. Introduction of third parties affects the protection afforded directors by state corporation laws and raises the issue of whether directors' fiduciary duties are owed to such third parties.[53]

Third, the focus on conduct, a necessity in finding personal liability, creates unique issues in infringement actions. The courts must categorize the conduct—in accordance with the provisions of

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49. *See supra* note 19.

50. "Disregard of corporateness," often referred to as "piercing the corporate veil," occurs when the courts' recognition of the corporate entity would "produce unjust or undesirable consequences inconsistent with the purpose" of incorporation. H. HENN, LAW OF CORPORATIONS 250 (2d ed. 1970). In terms of individual liability in tort,

> it can be said that a person who incorporates for convenience, being in reality the sole owner of the corporation, and who conveys the good will of that corporation, may not subsequently, in answer to an action resulting in damage by virtue of that person's personal wrongdoings, cloak the self behind the alleged corporate entity to shield against personal responsibility.

1 W. FLETCHER CYC. CORP. § 45, at 821-22 (rev. perm. ed. 1990). There are two distinct theories upon which the disregard of corporateness is based: the "alter-ego" theory and the "instrumentality" theory. L. SODERQUIST & A. SOMMER, JR., UNDERSTANDING CORPORATION LAW 134 (1990). The alter-ego theory focuses on the inability to distinguish between a corporation and its owners while the instrumentality theory focuses on an individual's use of a corporation for personal benefit. *Id.*

51. 35 U.S.C. § 271(a) (1952) (emphasis added). *See supra* note 24 (setting out the relevant provisions of § 271).

52. 35 U.S.C. § 271(b) (1952) (emphasis added). *See supra* note 24.

53. *See infra* text accompanying notes 162-79.

the Patent Act of 1952[54]—because direct infringement, inducement of infringement, and contributory infringement involve different types of conduct.[55] While activities necessary to establish personal liability for indirect infringement[56] are closely related to the ordinary role of corporate officers and directors as decision-makers,[57] the establishment of personal liability for direct infringement requires a connection between the director or officer and the making, using, or selling of the patented invention by the corporation.[58]

A. *Identifying Activities that Constitute Infringement*

Early opinions rendered inconsistent results concerning the issue of director and officer liability.[59] Some courts recognized the liability of corporate agents for their corporation's infringing activities,[60] while others subscribed to the view that corporate agents did not fall within

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54. *See supra* text accompanying notes 24-46.

55. *See supra* text accompanying notes 24-46 (defining and discussing direct infringement under 35 U.S.C. § 271(a); inducement of infringement under 35 U.S.C. § 271(b); and contributory infringement under 35 U.S.C. § 271(c)).

56. *See supra* note 25 (defining "indirect infringement" to include both inducement under § 271(b) *and* contributory infringement under § 271(c)).

57. Donsco, Inc. v. Casper Corp., 587 F.2d 602, 606 (3d Cir. 1978) (stating that liability as a participant in a wrongful act is "distinct from the liability resulting from the 'piercing of the corporate veil' as that term is commonly used [because] the effect of piercing a corporate veil is to hold the owner liable [based on] [t]he rationale . . . that the corporation is something less than a bona fide independent entity").

58. The Court of Appeals for the Federal Circuit recently acknowledged the difficulties encountered when the issue of direct infringement is raised in the corporate milieu: "To determine whether corporate officers are personally liable for the direct infringement of the corporation under §271(a) requires invocation of those general principles relating to piercing the corporate veil." *Orthokinetics*, 806 F.2d at 1579.

One commentator suggested that officers and directors are liable as actors as opposed to owners in infringement actions and, therefore, the finding of liability is not dependent on successfully piercing the corporate veil. Coolley, *supra* note 11, at 235-36. While this is true for inducement actions, a finding of personal liability for direct infringement invokes principles of piercing the corporate veil. To impose personal liability for direct infringement based on an individual's conduct, a patentee must establish a relationship between the individual and the infringing activity—the corporation's making, using, or selling of a patented invention—sufficient to allow the court to disregard the corporate entity. *See supra* note 50 (describing the bases for piercing the corporate veil).

59. CHISUM, *supra* note 30, § 16.06[2].

60. Morse v. Davis, 17 F. Cas. 852, 854 (C.C.N.D.N.Y. 1862) (No. 9855) (stating a general rule that "a party cannot claim that no action shall be sustained against him for a tort, on the ground that he committed the injury as the agent of another").

the intended reach of the statute.[61] These opinions created a split in authority.[62]

The rule most frequently applied in early decisions required a special showing before corporate officers and directors could be held personally liable.[63] In *Dangler v. Imperial Machine Co.*,[64] the Seventh Circuit announced this rule when it held that "unless they act outside the scope of their official duties," officers are not liable for their corporations' infringements "though committed under their *general* direction."[65]

> It is when the officer acts wilfully and knowingly—that is, when he personally participates in the manufacture or sale

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61. Delano v. Scott, 7 F. Cas. 378, 381 (E.D. Pa. 1835) (No. 3753) (stating that the relevant patent statute was not intended to embrace every person employed to make or sell a patented invention without authority and that the maker or seller intended by the act is the principal who employs and directs these agents and receives profits of the sale).

62. A three-way split was recognized in Cahoone Barnet Mfg. Co. v. Rubber & Celluloid Harness Co., 45 F. 582 (C.C.D.N.J. 1891). The circuit court identified a case which held that "an action at law for damages cannot be maintained against officers, directors, or shareholders of a corporation which infringes a patent, even where such persons personally conducted the business which constituted the infringement . . . based upon the principle that the artificial person, the corporation alone, is the guilty actor . . . ." *Id.* at 583 (summarizing United Nickel Co. v. Worthington, 13 F. 392 (C.C.D. Mass. 1882)). The *Cahoone Barnet* court then cited a case that adopted the conflicting doctrine that "all parties who participate in the infringement are liable, although some are simply acting as officers of a corporation." *Id.* (summarizing National Car-Brake Shoe Co. v. Terre Haute Car & Mfg. Co., 19 F. 514 (C.C.D. Ind. 1884)). The third class of cases recognized in *Cahoone Barnet* focuses on pecuniary or other benefit arising from the infringing activities: "All who derive such benefit are to be reckoned as guilty of the tortious act which makes it possible." *Id.* at 584. The *Cahoone Barnet* court adopted the second rule and held "directors and other officers who, in the conduct of the ordinary business of the corporation, authorize infringing acts" liable for corporate infringements

> based upon the rule that every voluntary perpetrator of a wrongful act of manufacture, use, or sale of a patented article becomes *ipso facto* an infringer, and is legally responsible; and it therefore regards officers, directors, and agents employing or authorizing or assenting to the use of the patented invention as infringers, and personally responsible to the patentee.

Id.

63. CHISUM, *supra* note 30, § 16.02[2].

64. 11 F.2d 945, 946 (7th Cir. 1926) (acknowledging that the authorities are not in accord with respect to "the liability of officers of a corporation for its infringements of letters patent" and recognizing that the "weight of authority . . . denies such liability in the ordinary case").

65. *Id.* at 947 (emphasis added).

> of the infringing article (acts other than as an officer), or when he uses the corporation as an instrument to carry out his own wilful and deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability—that officers are held jointly [liable] with the company.[66]

Therefore, the Seventh Circuit was willing to impose personal liability on an officer only when he or she (1) "personally participates" in the act of infringement, (2) "uses the corporation as an instrument" to cause an infringement, or (3) "uses an irresponsible corporation" as a shield against personal liability.[67] Numerous cases decided after *Dangler* adopted these criteria for finding personal liability.[68] The special showing required by *Dangler* is often summarized as *willful and knowing* conduct on the part of individual defendants.[69] Consistent with the criteria set forth in *Dangler*, the Seventh Circuit later held the president, director, and majority stockholder of an infringing corporation liable for promoting the sale of an infringing product and personally participating in the design of the product and its sales bulletin.[70]

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66. *Id.* The Seventh Circuit left the door open to other circumstances under which the officers may be held liable and stated that the exceptions to the rule of nonliability were intended to resolve the specific case under consideration. *Id.* In *Dangler*, the officers of the defendant corporation appealed from a district court decree enjoining Maxim Manufacturing Company; David Dangler, president; and Ralph Lapham, secretary, from manufacturing, using, or selling infringing vegetable paring or peeling machines. *Id.* at 945. This decree also rendered Maxim Manufacturing, Dangler, and Lapham jointly and severally liable for profits derived from the infringing activities. *Id.* The Seventh Circuit reversed the disctrict court decision for several fundamental reasons. First, the appellate court concluded that Maxim Manufacturing was a "substantial" company with adequate capital and that the officers were only "slightly interested financially." *Id.* at 947. Second, the officers had not advanced money for the purpose of enabling or perpetuating the infringement the patent. *Id.* Finally, the court considered Maxim Manufacturing's reliance, before proceeding with production, upon reputable counsel which opined that the machine did not infringe the patent. *Id.* at 948. The court held that "[t]his showing falls far short of establishing any one of the [three] situations for which the officer of the corporation may be held liable for the infringements of the corporation." *Id.*

67. *Id.* at 947.

68. *See* CHISUM, *supra* note 30, § 16.06[2] (providing an exhaustive annotation of relevant cases).

69. A. Stucki Co. v. Schwam, 634 F. Supp. 259, 265 (E.D. Pa.), *modified*, 638 F. Supp. 1257 (E.D. Pa. 1986) (stating that "a finding of willful or deliberate infringement by the officer or director supplies a valid basis for holding the officer or director jointly liable for infringement by the corporation").

70. Rex Chainbelt, Inc. v. General Kinematics Corp., 363 F.2d 336, 348

The popular tripartite rule of *Dangler* was expanded by another line of cases. These cases established an additional criterion which has been characterized as "a stricter rule derived from traditional principles of tort law: corporate officers and directors who specifically authorize infringing activity are liable individually for damages."[71] This criterion was clearly stated by the First Circuit in *National Cash-Register Co. v. Leland.*[72] After justifying its reasoning by analogy to tort law,[73] the court of appeals stated:

> [B]y the general principles of law, and by analogy with other torts, a director of a corporation, who, as director . . . *specifically commands* the subordinate agents of the corporation to engage in the manufacture and sale of an infringing article, is liable individually in an action at law for damages brought by the owner of the patent so infringed. As with other infringers, it is immaterial whether the di-

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(7th Cir. 1966). While employed by Carrier Conveyor Corporation, defendant Albert Musschoot was issued a patent for a "variable rate or controlled stroke vibratory feeder" which was assigned to Carrier pursuant to Musschoot's employment agreement. *Id.* at 337. The plaintiff, Rex Chainbelt, Inc., acquired rights to the vibratory feeder when it purchased the assets of Carrier. *Id.* After leaving Carrier, Musschoot founded the defendant corporation, General Kinematics Corporation, which manufactured the infringing product under Musschoot's direction as president and majority shareholder. *Id.* In addition to holding that Musschoot acted as a participant in the infringing activities, the court of appeals affirmed the district court's finding that the corporate defendant was Musschoot's alter ego. *Id.* at 348. Although the court focused on his direct participation, Musschoot's activities implicitly satisfy all three of the criteria set forth in *Dangler. See supra* text accompanying note 66.

71. CHISUM, *supra* note 30, § 16.06[2], at 16-78.

72. 94 F. 502, 507-08 (1st Cir. 1899) (specifically addressing the issue of "the liability of the directors and other officers of a corporation for infringements committed by the corporation under their direction" while recognizing that "the liability of the corporation for infringement and other torts physically committed by its subordinate agents and the liability of the corporation's director for these torts are not necessarily the same").

73. The court stated several principles of tort law as applied to corporations and corporate directors:

> The corporation may be liable, not only for the tort of its agent, committed in obedience to its orders, but also for a tort committed without orders, or even in direct disobedience to orders, if that tort is committed by the corporation's agent in the course of his employment. The director, on the other hand, is ordinarily liable only for those torts which he himself commits, or the commission of which he specifically commands.

Id. at 508.

rector knew or was ignorant that the article manufactured and sold did infringe a patent.[74]

In *Hitchcock v. American Plate Glass Co.*,[75] the Third Circuit adopted the *National Cash-Register* criterion and held an officer who "dictated and dominated the business acts" of the defendant corporation liable for its infringing acts.[76] With reference to *National Cash-Register*, the court embraced the view that "[w]here a director or manager of a corporation . . . himself commands the commission of a tort by the corporation, though he does it as an officer and in the name of the corporation, he is individually liable."[77]

In *Dean Rubber Manufacturing Co. v. Killian*,[78] the Eighth Circuit adopted the "well recognized statement of the rule" set forth in *National Cash-Register* when it held the defendant company and its "directing head" jointly and severally liable for infringement.[79] The

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74. *Id.* at 511 (emphasis added). Notably, the court clearly referred to principles of direct infringement by stating the immateriality of the director's knowledge. In contrast, "specifically commanding" implies inducement. *See supra* note 24 (indicating that inducement under § 271(b) was not codified until 1952, long after *National Cash-Register* was decided).

75. 259 F. 948 (3d Cir. 1919).

76. *Id.* at 954. In *Hitchcock*, Halbert Hitchcock named the American Plate Glass Company and James Cruikshank as defendants for the infringement of his patent for an apparatus used in the manufacture of plate glass. *Id.* at 950. The infringing apparatus was installed by Cruikshank under a contract between Cruikshank and American Plate Glass. *Id.* This contract was assigned to Glass Machinery Company, a corporation organized, owned, and controlled by Cruikshank. *Id.* The court first addressed Hitchcock's allegation that Glass Machinery was fraudulently used by Cruikshank as a "mere cloak to avoid personal liability for the injury he was doing the complainant by infringing his patents." *Id.* at 952. After rejecting this allegation, the court stated that

> this conclusion does not acquit Cruikshank of liability for the things he actually did, if those things were wrong, and it does not preclude the complainant holding Cruikshank liable on another ground, if it exists, such for instance as that of joint tortfeasor. . . . It may be well to consider . . . the question, whether, and if so, when, an officer of a corporation is personally liable for the infringing acts of a corporation.

Id.

77. *Id.* at 953.

78. 106 F.2d 316 (8th Cir. 1939), *cert. denied*, 308 U.S. 624 (1940).

79. *Id.* at 320. Frank Killian, as assignee of a patent for a "machine for manufacturing thin rubber articles," brought this infringement action against Dean Rubber Manufacturing Company and Wilbur Dean. *Id.* at 317. In *Dean Rubber*, the application of the *National Cash-Register* rule was justified by the fact that

> Dean was the active, directing head of the defendant company and was in charge of the operations of the plant and gave the orders for its operation; that he was a large stock holder and president of the defendant company;

court's ruling was based on the director's position as the "active, directing head of the defendant company . . . in charge of the operations of the plant," his status as a "large stock holder and president of the defendant company," and his role in giving orders concerning the plant's operation and supervising the manufacture of the infringing product.[80]

Although these earlier decisions were attempts to establish standards against which individual conduct could be judged, they manifested uncertainty with respect to director and officer liability for infringement. The cases distinguish between circumstances in which an individual's conduct can be characterized as participation in corporate activities[81] and circumstances that identify an individual as the corporation's alter ego.[82] The courts' treatment of this issue effectively created an informal common law distinction between direct infringement and inducement of infringement—long before the Patent Act of 1952 codified statutory classifications.[83] In fact, even after the Patent Act of 1952 created distinct infringement classifications, many courts continued to embrace the common law standards.[84]

> that he is the owner of the accused patent, and that the infringing machine was built and operated under his personal supervision.

Id. at 320.

80. *Id.*

81. *See Rex Chainbelt*, 363 F.2d at 348 (assigning liability to a director who "personally participated in the design of the accused devices and of the sales bulletin therefor"); *Dangler*, 11 F.2d at 947 (imposing personal liability on an officer or director "when he personally participates in the manufacture or sale of the infringing article"); *Hitchcock*, 259 F. at 954 (holding a director who "dictated and dominated the business acts of the [infringing company] including its infringing acts" personally liable); *National Cash-Register*, 94 F. at 511 (holding a director who "specifically commands the subordinate agents of the corporation to engage in the manufacture and sale of an infringing article" personally liable).

82. *See Dean Rubber*, 106 F.2d at 320 (imposing liability on a "large stock holder and president of the defendant company"); *Dangler*, 11 F.2d at 947 (recognizing liability where a director "uses the corporation as an instrument to carry out his own willful and deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability").

83. The House Judiciary Committee recognized that the doctrine of contributory infringement, used in its broad sense to include inducement, "has been part of our law for about 80 years" as of 1952. H.R. REP. No. 1923, 82d Cong., 2d Sess. 9 (1952). The purpose of 35 U.S.C. § 271 was to codify the existing principles of contributory infringement and eliminate the doubt and confusion which resulted from the doctrine's application. *Id.* at 5.

84. This practice continued in some courts well into the 1980s. *See, e.g.*, Wilden Pump & Eng'g Co. v. Pressed & Welded Products Co., 655 F.2d 984, 990 (9th Cir. 1981) (stating the rule that "high ranking individuals with personal control, supervision, and direction of both the company and the copying of the patent"

B. *Recognizing the Distinction Between Direct and Indirect Infringement*

Several courts tentatively acknowledged the distinction between direct infringement under section 271(a) and inducement under section 271(b) in the years subsequent to the Patent Act of 1952. Although courts continued to rely on the language of earlier decisions,[85] they began to apply the relevant provisions of section 271 to the issue of director and officer liability in patent infringement actions.

In *International Manufacturing Co. v. Landon, Inc.*,[86] the Ninth Circuit consolidated two district court appeals[87] and addressed the issue of whether the sole stockholder and president of the infringing corporation was personally liable. After accepting the district court's conclusion that the infringing company was the alter ego of the president, the Ninth Circuit discussed a second basis for the adjudication of personal liability.[88] The court stated that the foundation

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may be held liable); *A. Stucki Co.*, 634 F. Supp. at 264 (stating that "[w]here the officer or director has directed or ordered the infringing method of manufacture or has controlled the sale of the infringing goods, he is jointly liable with the corporation for patent infringement without regard to his specific intent or knowledge"); Max Daetwyler Corp. v. Input Graphics, Inc., 541 F. Supp. 115, 117 (E.D. Pa. 1982) (stating that when "corporate officers['] . . . acts are 'willful or deliberate'—they may be held jointly liable with the infringing corporation"); Pugh v. Roe, 440 F. Supp. 638, 646 (W.D. La. 1977) (holding an executive officer who "actively conducted the day-to-day affairs" of the infringing corporation liable); Superior Testers, Inc. v. Damco Testers, Inc., 315 F. Supp. 934, 935 (E.D. La. 1970) (holding the president of an infringing company liable as the "moving, active, conscious force behind the infringement"); Merck & Co. v. Chase Chem. Co., 273 F. Supp. 68, 93 (D.N.J. 1967) (enjoining officers "in active concert or participation" with defendant companies from manufacturing, using, or selling the patented products).

85. *See supra* notes 81-84 and accompanying text.

86. 336 F.2d 723 (9th Cir. 1964), *cert. denied*, 379 U.S. 988, *reh'g denied*, 380 U.S. 938 (1965). This case, decided 12 years after the Patent Act of 1952, was one of the first opportunities grasped by the courts to apply 35 U.S.C. § 271(b) in an action against a corporate officer.

87. *International Mfg.*, 336 F.2d at 724. In the first case, Landon, Inc. sued International Manufacturing Company and Rodolfo Jacuzzi, the sole stockholder and president of International, for infringement of two patents. *Id.* Both patents covered devices for skimming and filtering the water in swimming pools and vacuuming the walls of the swimming pools. *Id.* These patents were assigned to Landon. *Id.* In the second case, the Jacuzzi Brothers Corporation requested a judicial declaration that the patents were invalid and, therefore, not infringed. *Id.* In both cases, a judgement was entered holding the patents valid and infringed. *Id.* International and Rodolfo appealed from a judgment of joint liability in the first case and Jacuzzi Brothers appealed from the judgment in the second case. *Id.*

88. *Id.* at 728. This is the first indication that the court was willing to consider an officer's conduct and his status with respect to the company separately.

for this second basis was the district court's finding that the president "directed the manufacture and sale" of the infringing product.[89] Thus, "[i]n our view [the district court's] conclusion . . . called for application of 35 U.S.C. § 271(b). [H]ere, [the president] was the moving, active conscious force behind [the corporation's] infringement. Under 35 U.S.C. § 271(b) he is therefore subject to personal liability without regard to whether [the corporation] is his alter ego."[90] The *International Manufacturing* court distinguished between an officer's inducing conduct as a "moving, active conscious force" behind the infringement and his status with respect to the infringing entity. The court explicitly disavowed an alter ego analysis when considering whether an officer has induced infringement pursuant to section 271(b).

In *White v. Mar-Bel, Inc.*,[91] the Fifth Circuit considered an appeal from a district court decision in favor of the defendant corporation and its majority stockholder.[92] The circuit court remanded, having determined that there was sufficient evidence for a jury to find the defendant liable.

> He [Marshlack] was the incorporator, president, majority stockholder, and moving force which resulted in the manufacture of the accused device. He participated in the development and promotion of the sale of his [infringing] machine. [T]here was substantial evidence upon which the jury could find [him] liable for inducing [the defendant corporation's] infringement.[93]

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89. *Id.* This court also stated that "Rodolfo was in personal control of [I]nternational and acted as its guiding spirit and the active directing hand in full charge of its operations." *Id.*

90. *Id.* at 729.

91. 509 F.2d 287 (5th Cir.), *reh'g denied*, 511 F.2d 1402 (5th Cir. 1975).

92. *Id.* at 289. The suit was initiated by an infringement action brought by the patentee, Kenneth White, against the infringing corporation, Mar-Bel, Inc., and its majority stockholder, Dan Marshlack. *Id.* at 288. The district court granted a judgment notwithstanding the verdict in favor of Mar-Bel and Marshlack based on its finding of the patent's invalidity. *Id.* at 289. White's invention was a device or method for cutting rigid plastic laminate material leaving a smooth edge. *Id.*

93. *Id.* at 292 (citing 35 U.S.C. § 271(b)). *See also* Bewal, Inc. v. Minnesota Mining & Mfg. Co., 292 F.2d 159, 167 (10th Cir. 1961) (stating that corporate officers are liable for infringement if they "wilfully and knowingly participate in, induce and approve acts of infringement" and holding a majority stockholder, president, and general manager liable for inducement under 35 U.S.C. § 271(b) because he "aided, participated in, approved, ratified and induced the sale and distribution" of the infringing product).

Although the *White* court revisited the language of earlier decisions regarding participation, the characterization of the officer as a "moving force" behind the infringement indicates that court's focus on conduct which falls within the scope of inducement of infringement.

C. *The Court of Appeals for the Federal Circuit*

The opinions in *International Manufacturing* and *White* established a foundation for the application of section 271(b) to corporate officer and director liability. This issue was addressed for the first time by the Court of Appeals for the Federal Circuit[94] in *Power Lift, Inc. v. Lang Tools, Inc.*[95]

In *Power Lift*, the Federal Circuit considered an appeal from the district court's finding that Lang Tools, Inc. had infringed Power Lift, Inc.'s patent[96] and that Lang, the president, founder, majority owner, and director of Lang Tools, had "actively induced" the corporation's infringement of the patent.[97] After restating the purpose of section 271,[98] the court provided its interpretation of section 271(b) as it pertained to this issue: "[C]omments [from the legislative history] suggest a 'broad' reading of § 271(b) which, in our view, may include liability of corporate officials who *actively aid and abet* their corporation's infringements."[99] This statement reflected the Federal Circuit's acceptance of other circuits' focus on inducing

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94. *See supra* note 14 (explaining the Federal Circuit's exclusive jurisdiction over appeals from district courts for patent law actions).

95. 774 F.2d 478 (Fed. Cir. 1985). This case provided the Federal Circuit with an opportunity to clarify the scope of § 271(b), apply the inducement provision to corporate directors, and clarify the opinions of other circuit courts.

96. *Id.* at 479. The patent was for a device used to lift equipment located near the mouth of a well during oil and gas drilling operations. *Id.*

97. *Id.* Lang was not personally sued for direct infringement pursuant to § 271(a), and the case was tried solely on the theory that Lang Tool's infringement was induced by Lang under § 271(b). *Id.* Lang alleged that (1) "in order for a person to incur liability under section 271(b), [one] must actively induce *another* to infringe the patent," (2) Lang's actions as an officer of Lang Tools are the actions of Lang Tools and, therefore, "cannot be said to actively induce infringement of . . . *another*," and (3) "[i]n order to induce active infringement by another, there must be two separate entities." *Id.* at 480. Although this reasoning has been accepted in other areas of the law, the *Power Lift* court rejected this argument without offering any rationale. *Id.* at 481.

98. *Id. See supra* note 83.

99. *Power Lift*, 774 F.2d at 481 (emphasis added). Note the court's use of the language of the House of Representatives' Committee on the Judiciary. *See supra* note 34 and accompanying text.

conduct as well as a retreat to the language used by the drafters of the statute.[100] The court found the president of Lang Tools to have based the design of the accused lift system on an inspection of Power Lift's system which was already in field use.[101] The court affirmed the joint and several liability of Lang Tools and its president.[102]

The Federal Circuit further clarified its position in *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*[103] Orthokinetics, Inc., a manufacturer of products for the handicapped, was the assignee of two patents[104] for specially designed wheelchairs. After Orthokinetics introduced its patented wheelchairs into the market, Safety Travel Chairs (STC) began to sell a similar product manufactured by Entron, Inc.[105] Orthokinetics brought suit against STC, Entron, and three officers and stockholders of both STC and Entron, alleging willful infringement of the patents.[106] Orthokinetics appealed to the Federal Circuit from the district court's decision that the corporate officers were not liable.[107]

The *Orthokinetics* court began its analysis by reaffirming the rule adopted in *Power Lift*:

> The district court's opinion did not treat the [jury's] finding on inducement, but dealt only with general principles involved in imposition of personal liability for acts of a corporation. However, it is well settled that *corporate officers who*

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100. *See supra* note 34.

101. *Power Lift*, 774 F.2d at 482. Lang Tools designed and built its system without knowledge of Power Lift's patent application. *Id.* at 481. However, immediately after the patent issued, Power Lift contacted Mr. Lang and offered him a license under the patent. *Id.* at 482. Mr. Lang refused the license offer, and Power Lift filed suit for infringement. *Id.* The court held that Mr. Lang and Lang Tools had willfully infringed the patent because it was "done deliberately and intentionally, and with knowledge of the patent" and affirmed the district court's award of punitive damages and attorney fees. *Id.*

102. *Id.*

103. 806 F.2d 1565 (Fed. Cir. 1986). *See supra* note 19 (describing the courts' analogy to tort principles).

104. *Orthokinetics*, 806 F.2d at 1568. One patent disclosed a wheelchair for treating persons with curvature of the spine. *Id.* The second patent disclosed a collapsible pediatric wheelchair designed to help children in and out of automobiles. *Id.*

105. *Id.* at 1569.

106. *Id.*

107. The district court (1) affirmed STC's and Entron's liability for infringement, (2) held the three officers not personally liable, and (3) held all of the defendants not liable for acts of willful infringement. *Id.* at 1570.

> *actively aid and abet their corporation's infringement may be personally liable for inducing infringement under § 271(b) regardless of whether the corporation is the alter ego of the corporate officer.*[108]

In addition to accepting *Power Lift*'s language, the court explicitly adopted the view of *International Manufacturing*[109] by stressing the distinction between the two bases for personal liability: A finding of inducement is dependent upon an individual's acts of aiding and abetting infringement *without regard to the corporation's status as the individual's alter ego.*[110] By ignoring the corporation's characterization as either an individual's alter ego or an independent entity, the court dissolved the corporate veil that has traditionally protected corporate officers and directors under the limited liability theory of corporations.[111]

The *Orthokinetics* court clarified its position regarding willfulness—the requirement adopted by the Seventh Circuit in *Dangler* as an element necessary for finding individual liability for direct infringement.[112] After stating the presumption that officers are aware of what they are doing and can be said to act willfully, the Federal Circuit authoritatively settled the law by removing the willfulness requirement. The presumption that officers are aware of their actions

> does not mean that their acts must rise to the level recognized by the law as constituting willful infringement before they can be liable for [direct] infringement by their corporation. Hence the district court erred in positing willful infringement as a prerequisite for the imposition of personal liability for the corporation's direct infringement.[113]

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108. *Id.* at 1578-79 (emphasis added) (citing *Power Lift*, 774 F.2d at 481).

109. *See supra* notes 86-90 and accompanying text (discussing the holding in *International Mfg.*).

110. *Orthokinetics*, 806 F.2d at 1578-79. A determination that the corporation is the alter ego of the officer is only required in an action alleging personal liability of an officer for direct infringement. *See supra* note 58.

111. *Orthokinetics*, 806 F.2d at 1579.

112. *See supra* text accompanying note 66.

113. *Orthokinetics*, 806 F.2d at 1579. In *Power Lift*, the Federal Circuit did not address the willfulness issue because the court had found Lang's infringement to be willful and, therefore, had no need to determine whether inducement could occur in the absence of willful misconduct. *Power Lift*, 774 F.2d at 482. *See supra* note 101 and accompanying text (discussing Lang's conduct).

In support of its ruling, the court referred to (1) the status of infringement as a tort and the liability of corporate officers who personally participate in tortious activities or specifically direct others to commit tortious acts,[114] and (2) the abundance of cases in which corporate officers have been held liable for "participating in, inducing, and approving acts of patent infringement."[115]

The *Orthokinetics* court concluded its analysis by imposing personal liability on the officers for the infringements of STC and Entron.[116] The court emphasized the officers' direct responsibility for the design and production of the infringing products and their ability to benefit from the infringments as important factors.[117] The generality of the factors cited as elements of "aiding and abetting" indicates an acceptance of *Power Lift*'s broad reading of section 271(b).[118]

Another Federal Circuit case, *Water Technologies Corp. v. Calco, Ltd.*,[119] addressed the issue of officer or director liability for corporate infringements. *Water Technologies* helped to clarify another important aspect of inducement of infringement under section 271(b)—the knowledge requirement.[120] The court stated that "a person infringes by actively and *knowingly* aiding and abetting another's direct infringement. Although section 271(b) does not use the word 'knowing,' the case law and legislative history uniformly assert such a requirement."[121] In *Water Technologies*, Gartner, a consultant and licensor to the infringing company, argued that there was no proof of a specific, knowing intent to induce infringement.[122] The court re-

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114. *Orthokinetics*, 806 F.2d at 1579.

115. *Id.* (citing *White* and *Rex Chainbelt*).

116. *Id.*

117. *Id.* The court, however, stated several pertinent facts respecting the relationship between the officers and the infringing corporations: (1) one officer was, at all material times, the president and sole stockholder of Entron and elected its board of directors; (2) that same officer was the president of STC; and (3) the three officers held all of STC's directorships and all of STC's stock. *Id.*

118. *See supra* text accompanying note 99.

119. 850 F.2d 660 (Fed. Cir.), *cert. denied*, 448 U.S. 968 (1988).

120. *See supra* text accompanying note 36.

121. *Water Technologies*, 850 F.2d at 668 (citing CHISUM, *supra* note 30, §§ 17.04[2]-[3]). Note that this holding is not inconsistent with *Orthokinetics*. The *Water Technologies* court addressed the degree of knowledge required for *inducement* under § 271(b) while *Orthokinetics* removed the requirement of willfulness (introduced in *Dangler*) as an element for establishing an individual's *direct infringement* under § 271(a). *See supra* notes 66 & 113 and accompanying text.

122. *Water Technologies*, 850 F.2d at 668.

sponded by stating that "while proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice."[123] Based on a variety of circumstantial evidence,[124] the court found Gartner liable for inducement notwithstanding the lack of direct evidence of intent.[125]

Another recent case in which the Federal Circuit addressed this issue is *Fromson v. Citiplate, Inc.*[126] The court considered an appeal from the district court's decision allowing the plaintiff, Fromson, to amend his original complaint to add a corporation's principal officers and directors as defendants after Fromson learned that the corporate defendant, Citiplate, was having financial difficulties.[127] The court, in considering whether the individual defendants were prejudiced by the amendment,[128] restated the law concerning the liability of officers in infringement actions: "The cases are legion holding corporate officers and directors personally liable for 'participating in, inducing, and approving acts of patent infringement' by a corporation. . . . Here the district court expressly found that the [officers] 'plainly participated in and approved of the infringement of plaintiff's patent.'"[129] Thus, the court concluded that the officers "could not have been surprised" when Fromson moved to add them as co-defendants.[130] The Federal Circuit's application of the rule in this procedural context manifests the court's confidence in its settled law.

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123. *Id.*

124. The court relied on several pieces of circumstantial evidence, including Gartner's (1) provision of the manufacturing means to the infringing company, (2) assistance in manufacturing the infringing product, (3) preparation of consumer use instructions, (4) exertion of control over the infringing company's manufacturing process, (5) ownership of the trademark used by the company with the infringing product, and (6) approval of the infringing product's design. *Id.*

125. *Id.* Gartner argued that (1) he was unaware of the infringing company's sale of prototypes incorporating the infringing product, thereby precluding a finding of intent to induce infringement; and (2) he had a subjective belief that a modified product was noninfringing. *Id.* The court rejected these arguments and held that Gartner had not presented evidence sufficient to outweigh the circumstantial evidence. *Id.*

126. 886 F.2d 1300 (Fed. Cir. 1989).

127. *Id.* at 1302.

128. The officers argued that an amendment to the complaint would be prejudicial "because they were unaware that their own liability was a possibility." *Id.* at 1303. Therefore, they argued, the amendment should not be permitted to relate back to the date of the original pleading pursuant to Fed. R. Civ. P. 15(c). *Id.*

129. *Fromson*, 886 F.2d at 1304 (quoting *Orthokinetics*, 806 F.2d at 1579).

130. *Id.* Therefore, relation back of the amendment was not prohibited. *Id.*

The Federal Circuit's most recent evaluation of the personal liability issue is stated in *Manville Sales Corp. v. Paramount Systems, Inc.*[131] In *Manville Sales*, Manville Sales Corporation filed suit against Paramount Systems, Inc. alleging infringement of Manville's patent for a highway rest area lighting system.[132] Anthony DiSimone, Paramount's corporate secretary, and Robert Butterworth, Paramount's president, were added as party-defendants. The allegations of personal liability were based on a finding that DiSimone had obtained a copy of a Manville drawing, previously submitted for state approval, and had forwarded the drawing to Butterworth. Butterworth passed the drawing along to a Paramount designer for use in the design of the infringing lighting system. The district court found Paramount liable for direct infringement under section 271(a) and held DiSimone and Butterworth liable for direct infringement *and* inducement of infringement pursuant to sections 271(a) and (b).[133]

The Federal Circuit, while considering the allegations of personal liability for direct infringement, stated that "[f]or Butterworth and DiSimone . . . to be personally liable for Paramount's infringement under section 271(a), there must be evidence to justify piercing the corporate veil."[134] Despite the district court's finding that Butterworth and DiSimone had assisted in the duplication of Manville's design,

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131. 917 F.2d 544 (Fed. Cir. 1990).

132. *Id.* at 549. The patent disclosed a self-centering lighting assembly to be used on highway rest area lighting poles. The Manville design featured a lighting system capable of traveling up and down a pole which provided reliable access for maintenance and replacement. *Id.* at 547-48.

133. Manville Sales Corp. v. Paramount Systems, Inc., 14 U.S.P.Q.2d (BNA) 1291, 1298 (E.D. Pa. 1989). The court also held the patent valid and enforceable after rejecting allegations of inequitable conduct before the United States Patent and Trademark Office and statutory bar for premature sale or public use of the invention. *Id.* at 1299.

134. *Manville Sales*, 917 F.2d at 552 (citing *A. Stucki Co.*, 849 F.2d at 596). This is a restatement of the Federal Circuit's well established rule. *See Orthokinetics*, 806 F.2d at 1579, *quoted supra* at note 58. The court went on to summarize the limited circumstances under which the corporate entity should be disregarded:

> Often a party asking a court to disregard the corporate existence will attempt to show that the corporation was merely the alter ego of its officers. 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.

Manville Sales, 917 F.2d at 552 (citations omitted). However, the court recognized the general rule that the corporate entity should be upheld unless unusual circumstances demand an exception. *Id.*

the Federal Circuit held that such actions were insufficient to justify piercing the corporate veil: "Although these facts support the conclusion that the officers had knowledge of their acts, these acts were within the scope of their employment and thus were protected by the corporate veil."[135] Therefore, in light of the absence of a showing that Paramount was the alter ego of the officers, the court characterized the lower court's piercing of the corporate veil (and imposition of personal liability for direct infringement) as "an abuse of its equitable powers."[136]

The court then turned to the issue of the officers' active inducement of infringement, re-emphasized the broader reach of active inducement under section 271(b),[137] and expanded upon the knowledge requirement set forth in *Water Technologies*.[138] The infringer must be shown to have knowingly induced infringement *and* to have had specific intent to induce that infringement:

> It must be established that the defendant possessed *specific intent* to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts *and* that he knew or should have known his actions would induce actual infringements.[139]

Therefore, although the plaintiff need not convince the court to pierce the corporate veil (as required in actions against corporate

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135. *Manville Sales*, 917 F.2d at 553 (citing 10 FLETCHER CYC. OF THE LAW OF PRIVATE CORP. § 4877, at 323-24 (rev. perm. ed. 1986)).

136. *Id.* Specifically, the court cited Manville's failure to establish that the officers acted outside the scope of their employment *or* that the officers were attempting to avoid liability under the protection of the corporate veil. *Id.*

137. The court stated that:

> Under [§ 271(b)], 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.

Id. (citing *Orthokinetics*, 806 F.2d at 1578-79). *See supra* text accompanying note 108 (quoting *Orthokinetics*, 806 F.2d at 1578-79). *See also supra* text accompanying note 90 (quoting *International Mfg.*, 336 F.2d at 729).

138. *Manville Sales*, 917 F.2d at 553 (citing *Water Technologies*, 850 F.2d at 668). *See supra* text accompanying notes 119-25.

139. *Manville Sales*, 917 F.2d at 553 (emphasis added) (citing Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464, 1468-69 (Fed. Cir. 1990) (stating that "proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement")). *Cf. supra* notes 123-25 and accompanying text (allowing circumstantial evidence to prove intent).

officials for direct infringement), he or she must establish specific intent in order to impose personal liability for inducement.

However, in *Manville Sales*, Butterworth and DiSimone were unaware of Manville's patent and had encouraged Paramount's infringing acts in "good faith belief," based on the advice of counsel, that Paramount's product was not infringing.[140] Because the court made no findings of specific intent, it held Butterworth and DiSimone not personally liable.[141]

D. The Federal Circuit Rules and Their Impact

The Federal Circuit has substantially clarified the provisions of section 271 and the application of that section within the corporate context. While the Federal Circuit's resolution of this issue cannot be stated in a single, concise rule of law governing all infringement actions against corporate officers and directors, the rules set forth in recent decisions provide the means by which section 271 may be applied to various factual scenarios.

With respect to actions alleging direct infringement under section 271(a) by corporate officers and directors, the Federal Circuit has (1) disposed of willfulness as an element required for the imposition of personal liability,[142] (2) required evidence justifying piercing the corporate veil,[143] and (3) acknowledged protection from liability under "corporate veil" principles when conduct falls within the scope of an officer's employment.[144] While direct infringement under section 271(a) is less frequently alleged against individuals in a corporate context, the Federal Circuit's clarification precludes gross misapplication of that provision in the future.

In contrast, more uncertainty has developed when claims against corporate officers and directors allege inducement of infringement under section 271(b). The Federal Circuit has responded to this uncertainty with a series of interrelated rules. The Federal Circuit has adopted a "broad reading" of section 271(b)[145] which imposes

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140. *Manville Sales*, 917 F.2d at 553.
141. *Id.* at 554.
142. *Orthokinetics*, 806 F.2d at 1579. *See supra* text accompanying note 113.
143. *Orthokinetics*, 806 F.2d at 1579. *See supra* note 58.
144. *See supra* text accompanying note 135.
145. *See supra* text accompanying note 99.

personal liability on corporate officials who "actively aid and abet" their corporations' infringements.[146] Such liability may be found regardless of whether the corporation can be characterized as the corporate official's alter ego.[147] The Federal Circuit further clarified section 271(b) by stating that inducement of infringement occurs when direct infringement is "actively and *knowingly* aided and abetted."[148] This knowledge requirement, which demands proof of intent, is satisfied by circumstantial evidence.[149] However, the plaintiff must establish that the officer or director had a "specific intent to encourage another's infringement," as opposed to mere knowledge of the acts alleged to have induced infringement.[150] In other words, a claimant alleging inducement of infringement under section 271(b) must establish that the officer's or director's actions induced infringement *and* that the officer or director "knew or should have known his actions would induce actual infringements."[151]

Applying these rules, the Federal Circuit has imposed personal liability for inducement of infringement where (1) the president, founder, majority owner, and director of an infringing corporation based the accused product's design on an inspection of another product which he knew to be patented;[152] and where (2) the sole stockholders and officers of two infringing corporations had direct responsibility for the design and manufacture of the accused products and personally benefitted from sales of the accused products.[153] However, the Federal Circuit did not find "specific intent" and thus refused to impose personal liability where the president and corporate secretary of an infringing corporation, both assisting in the duplication of a patented product, had acted in good faith belief on the advice of counsel that the accused product was not infringing.[154]

The Federal Circuit's clarification of inducement of patent infringement by corporate officers and directors has been cited fre-

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146. *See supra* text accompanying notes 99 & 108.

147. *See supra* note 137.

148. *Water Technologies*, 850 F.2d at 668 (emphasis added). *See supra* text accompanying note 121.

149. *See supra* text accompanying notes 122-23.

150. *Manville Sales*, 917 F.2d at 553.

151. *See supra* text accompanying note 139.

152. *See supra* note 101 and accompanying text (discussing *Power Lift*, 774 F.2d at 478).

153. *See supra* note 117 and accompanying text (discussing *Orthokinetics*, 806 F.2d at 1579).

154. *See supra* text accompanying note 140 (discussing *Manville Sales*, 917 F.2d at 553).

quently in recent district court opinions.[155] While some courts have rephrased the Federal Circuit's statement of the rule,[156] others rely on the language which served as foundation for the Federal Circuit rules.[157] No matter what language is used to convey these principles, the use of the Federal Circuit rules to defeat a challenge to an amended complaint adding principal officers as defendants illustrates the settled nature of the Federal Circuit rules.[158]

Although the effect of the Federal Circuit rules remains speculative, it has been suggested that their application will render more officers and directors personally liable in infringement actions—especially when an infringing corporation is closely held by a few

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155. Because all circuit court appeals from district court decisions arising from patent-related issues have been channelled to the Federal Circuit since 1982, there are no recent, relevant decisions from the other circuits. *See supra* note 14.

156. In Amicus, Inc. v. Alosi, 723 F. Supp. 429 (N.D. Cal. 1989), the District Court for the Northern District of California adopted the "aid and abet" language of the Federal Circuit's decisions in *Orthokinetics* and *Power Lift* as well as the "moving force" requirement of *White* and *International Mfg. Id.* at 431-32. However, the court concluded with its own statement of the rule that "there is ample support for the position that liability should be imposed on an individual officer for the infringements of his corporation *when the individual is basically responsible for all the activities of the corporation.*" *Id.* at 432 (emphasis added). The court held the president and sole shareholder of the infringing company liable because he was the "individual responsible for making the everyday decisions of the corporation, and he was in complete control of the corporation." *Id. See also* Chisum v. Brewco Sales & Mfg., Inc., 726 F. Supp. 1499 (W.D. Ky. 1989) (officer held personally liable as the president and principal stockholder of the infringing corporation responsible for its total management and operation and his design of the infringing machines), *aff'd without opinion*, 915 F.2d 1583 (Fed. Cir. 1990).

Amicus also addressed the defendant's defense of reliance on the advice of counsel before engaging in what became infringing activities. The court followed the Federal Circuit rule that a duty exists to obtain competent legal advice before entering into activities that may be infringing. *Amicus*, 723 F. Supp. at 432 (citing Rosemount, Inc. v. Beckman Instruments, Inc., 727 F.2d 1540, 1548 (Fed. Cir. 1984)). The district court concluded that the officers should not be exonerated from liability based on their reliance upon the advice of counsel when said counsel was found by the court to have conflicting interests. *Id.*

157. *See, e.g.*, Whistler Corp. v. Autotronics, Inc., 14 U.S.P.Q.2d (BNA) 1885, 1889 (N.D. Tex. 1988) (holding individual defendant who "aided and abetted" the corporations' infringement personally liable); Stranco Inc. v. Atlantes Chem. Sys. Inc., 15 U.S.P.Q.2d (BNA) 1704, 1712 (S.D. Tex. 1990) (restating the rule that a corporate officer who "actively aids and abets or is the 'moving force' behind his corporation's infringement may be held liable for inducement of infringement under 35 U.S.C. § 271(b)").

158. *See supra* text accompanying notes 126-30 (discussing *Fromson*, 886 F.2d at 1304).

individuals who intimately control the corporation's activities.[159] However, the Federal Circuit rules also increase the potential for application of section 271(b) to officers and directors of larger corporations[160] as the focus shifts away from the character of the corporation and toward the conduct of the individual defendants. For these reasons, the Federal Circuit rules arguably favor plaintiffs who allege inducement of infringement pursuant to section 271(b).

Practitioners have prudently stressed the importance of seeking legal counsel and corporate committee approval in accordance with carefully designed procedures before corporations initiate potentially infringing activities.[161] However, despite the Federal Circuit's clarification of the type of conduct that constitutes inducement of infringement, the wide range of activities encompassed by the "aid and abet" language cannot be reduced to specific guidelines used to forewarn officers and directors.

IV. LIMITATIONS ON PERSONAL LIABILITY

As a result of substantial judgments rendered against corporate directors in recent years, directors have been demanding increased protection from personal liability.[162] The threat of exposure to personal liability in a wide range of actions,[163] including those for patent

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159. Kline & Fitzpatrick, *No Corporate Snug Harbor for the Pirate? Personal Liability of Directors and Officers for Corporate Patent Infringement*, 7 Del. Law., Mar. 1989, at 14.

160. *Id.* at 16.

161. *Id.* at 14.

162. Veasey, Finkelstein & Bigler, *Delaware Supports Directors with a Three-Legged Stool of Limited Liability, Indemnification, and Insurance*, 42 BUS. LAW. 399, 400 (1987). Reference is made to Smith v. Van Gorkom, 488 A.2d 858 (Del. 1985), in which the Delaware Supreme Court held that corporate directors were not protected by the business judgment rule under certain circumstances. *Id.*

163. Many states have adopted statutes which provide that corporate officers, directors, and stockholders may be held personally liable for the debts and liabilities of their corporation. Coolley, *supra* note 11, at 231. Such statutes are based on the general principle that "where a corporation is so managed that it cannot be made to respond to lawful claims based on its contracts or torts, those officers or directors who caused that inability, or those officers, directors, or stockholders who profited thereby, shall be made to respond in its place." LIPSCOMB'S WALKER ON PATENTS, *supra* note 31, § 23:29, at 149. It has been held that these statutes are broad enough to embrace liability for debt arising out of infringement of patents. *Id.* (citing Carver v. Braintree Mfg. Co., 5 F. Cas. 235 (No. 2485) (C.C.D. Mass. 1843)). The specific provisions which allow such liability may be found in corporate charters rather than in state statutes and often limit personal liability for corporate profits to situations where the corporation is insolvent and unable to respond to a claim for those profits. LIPSCOMB'S WALKER ON PATENTS, *supra* note 31, § 23:29, at 150.

infringement, has also resulted in a reduction in the number of competent directors willing to serve.[164] In response to this problem, state legislatures have enacted laws enabling corporations to limit directors' financial vulnerability by (1) limiting director liability, (2) broadening indemnification rights, and (3) providing directors' and officers' (D & O) insurance.[165] These protections are of great importance to corporate officers and directors faced with patent infringement actions. Therefore, corporate officials should be informed of their scope and limitations.

A. Charter Option Statutes

A majority of states have followed the example of Delaware by enacting "charter option" statutes.[166] These statutes authorize corporations to adopt charter provisions that eliminate or limit the liability of directors for monetary damages arising from a breach of fiduciary duty.[167] However, charter option statutes set forth explicit

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164. Veasey, Finkelstein & Bigler, *supra* note 162, at 400-01. This threat of liability has also impacted the cost and availability of directors' and officers' (D & O) insurance. *Id.*

165. These three means have been cleverly referred to as a "three-legged stool of director support." *Id.* at 401. Although most statutes focus on the liability of directors, several policy reasons have been stated as a justification for including officers: (1) there is no rational reason for allowing stockholders to limit director liability without allowing control over officer liability, (2) officers and directors are often treated identically with respect to indemnification, (3) many of the decisions approved by directors are implemented by officers who should also be protected, (4) plaintiffs will often name officers as defendants in order to reach proceeds from D & O insurance policies, and (5) permitting stockholders to decide upon officer liability enlarges the stockholders' role in corporate governance and broadens their right to protect the best interests of the corporation. Hanks, *Evaluating Recent State Legislation on Director and Officer Liability Limitation and Indemnification*, 43 BUS. LAW. 1207, 1241-42 (1988).

166. Hanks, *supra* note 165, at 1210. While so-called charter option statutes have been the most popular means for limiting director liability, legislative initiatives have been said to follow a total of six additional approaches: (1) "self-executing statutes" which change the standard of liability by requiring proof beyond gross negligence, (2) placement of caps on liability for money damages, (3) expansion of indemnification rights, (4) expansion of non-exclusivity provisions to broaden the reach of indemnification statutes, (5) "non-stockholder-constituency statutes" which add to the criteria that directors may consider in reaching decisions, and (6) authorization for reimbursement in addition to insurance. *Id.* at 1209-10.

167. W. KNEPPER & D. BAILEY, LIABILITY OF CORPORATE OFFICERS AND DIRECTORS § 7.04 (4th ed. 1988). Delaware's General Corporation Law provides in part:

> (b) [T]he certificate of incorporation may also contain any or all of the following matters:

exceptions which prohibit corporate charter provisions that restrict liability in certain circumstances.[168] Of particular interest to directors faced with patent infringement actions is the propriety of charter provisions that eliminate or limit third-party liability.[169] Several states have enacted charter option statutes that either explicitly or implicitly prohibit charter provisions which exculpate director liability to third parties.[170] However, even if such provisions are not forbidden and find their way into corporate charters, protection from third-party actions may not be honored by the courts.[171]

> (7) A provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director: (i) For any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under § 174 of this title; or (iv) for any transaction from which the director derived an improper personal benefit.

DEL. CODE ANN. tit. 8, § 102(b)(7) (1986 & Supp. 1990). At least 30 states have enacted such laws as of January 1, 1988. Knepper & Bailey, *supra*, § 7.04.

168. For example, the Delaware statute, which became effective July 1, 1986, prohibits charter provisions designed to eliminate or limit a director's liability for (1) breach of duty of loyalty to the corporation or its stockholders, (2) acts or omissions in bad faith or involving intentional misconduct or knowing violation of law, (3) willful or negligent conduct in payment of dividends or repurchase of stock out of unlawful funds, and (4) transactions from which the director derives an improper personal benefit. *See supra* note 167. Many of the states which have enacted Delaware-type charter option statutes include additional exceptions. *See* Hanks, *supra* note 165, at 1210-16 (discussing various state statutes).

169. Third-party liability may stem from actions brought by individuals or entities other than the corporation or its stockholders. *See supra* text accompanying note 53.

170. Most director liability statutes, such as the charter option statute enacted in Delaware, are limited to protection against claims initiated by stockholders' derivative or individual suits. Hanks, *supra* note 165, at 1240-41. The Arkansas charter option statute explicitly excludes the elimination or limitation of director liability in third-party suits. The Arkansas statute provides:

> B. The articles of incorporation may set forth:
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> . . . .
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> 3. A provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director:
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> . . . .
>
> (v) For any action, omission, transaction, or breach of a director's duty creating any third-party liability to any person or entity other than the corporation or stockholder.

ARK. STAT. ANN. § 4-27-202(B) (1987).

171. This is true for several reasons. First, widely adopted exceptions prohib-

B. *Indemnification*

Indemnification affords corporate directors, officers, and employees financial protection against expenses and liabilities arising from an alleged breach of duty to or on behalf of the corporation.[172] However, entitlement to indemnification is limited in order to comply with the "basic tenets of public policy" that disfavor the encour-

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iting exculpation of liability "for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law" may be broadly interpreted to include wrongs against third parties. DEL. CODE ANN. tit. 8, § 102(b)(7) (1986 & Supp. 1990). *See supra* note 167 (providing all of DEL. CODE ANN. tit. 8, § 102(b)(7) (1986 & Supp. 1990)). The Texas statute adds an exception for any statutory liability of a director. Hanks, *supra* note 165, at 1214. This could be construed to include liability to third parties for violations of the federal statutes governing patent law.

Second, protective provisions are specifically designed to shield against a director's liability for breach of fiduciary duties to "the corporation or its stockholders" which may render these charter option statutes inapplicable to third-party actions. DEL. CODE ANN. tit. 8, § 102(b)(7) (1986 & Supp. 1990). *See supra* note 167. This same language is used in the Arkansas statute which explicitly excludes protection from third-party suits. *See supra* note 170.

Finally, a consideration of the justifications for charter option statutes seems to indicate that "it would be unreasonable to bind third parties to liability-limiting provisions":

> First, these parties have no say in the adoption or maintenance of such provisions. Second, binding third parties to such provisions would impede business efficiency by requiring that potential creditors check for such a provision in the certificate of incorporation of every customer with whom it intends to deal. Third, the purpose of the Delaware provision, to attract directors into service, would be irrelevant in the case of a bankrupt corporation, a situation most likely to involve third-party litigants, especially when the firm is being liquidated.

Lee, *Limiting Corporate Directors' Liability: Delaware's Section 102(b)(7) and the Erosion of the Directors' Duty of Care*, 136 U. PA. L. REV. 239, 276-77 (1987). It has been suggested that the popularity of charter option statutes as a means of limiting director liability is because "the policy for allocating economic risk is left with the stockholders rather than the legislature" and "[p]ermitting stockholders to make this decision for themselves, *as long as it does not apply to suits by third parties*, eliminates the need for the legislature to make its own analysis of the benefits and costs of liability limitation." Hanks, *supra* note 165, at 1245 (emphasis added). It is also true that an enabling statute permitting the stockholders to authorize liability limitations for claims they initiated as well as third-party claims may violate state constitutional prohibitions that forbid delegation of legislative power to private groups. *Id.* at 1241.

172. MODEL BUSINESS CORP. ACT § 8(E) introductory comment (1988). This form of protection is a response to difficulties encountered in persuading individuals to serve as directors if those individuals were required to bear personally the expense of vindicating their conduct when challenged. *Id.*

agement of undesirable conduct.[173] Indemnification statutes are, therefore, designed to protect against expenses and liabilities arising only from conduct undertaken in good faith and reasonably believed to be in, or at least not opposed to, the corporation's best interests.[174]

The drafters of the Model Business Corporation Act (Model Act) have also addressed the issue of indemnification in third-party

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173. *Id.* Public policy would be frustrated by (1) the use of corporate funds by management to escape the consequences of wrongful conduct which would, in effect, act to encourage such conduct; and (2) shifting liability under civil or criminal statutes (which explicitly impose sanctions on officers and directors) from the individual to the corporation. *Id.*

174. Virtually all states have enacted indemnification statutes, the majority of which are similar to those of the Model Business Corporation Act. MODEL BUSINESS CORP. ACT § 8(E) introductory comment (1988). Paragraph (a) of the primary provision of the Model Act, section 8.51 ("Authority to Indemnify"), provides:

> (a) Except as provided in subsection (d), a corporation may indemnify an individual made a party to a proceeding because he is or was a director against liability incurred in the proceeding if:
> (1) he conducted himself in good faith; and
> (2) he reasonably believed:
> (i) in the case of conduct in his official capacity with the corporation, that his conduct was in its best interests; and
> (ii) in all other cases, that his conduct was at least not opposed to its best interests; and
> (3) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

MODEL BUSINESS CORP. ACT § 8.51(a) (1984). While the basic indemnification provision determines when directors may be indemnified voluntarily by the corporation, other provisions control mandatory indemnification, advancements for legal expenses, and court-ordered indemnification. *See, e.g.*, *id.* §§ 8.52, 8.53, 8.54. The Model Act also extends protection to corporate officers, employees, and agents. Section 8.56 ("Indemnification of Officers, Employees, and Agents") of the Model Act provides:

> Unless a corporation's articles of incorporation provide otherwise:
> (1) an officer of the corporation who is not a director is entitled to mandatory indemnification under section 8.52, and is entitled to apply for court-ordered indemnification under section 8.54, in each case to the same extent as a director;
> (2) the corporation may indemnify and advance expenses under this subchapter to an officer, employee, or agent of the corporation who is not a director to the same extent as to a director; and
> (3) a corporation may also indemnify and advance expenses to an officer, employee, or agent who is not a director to the extent, consistent with public policy, that may be provided by its articles of incorporation, bylaws, general or specific action of its board of directors, or contract.

Id. § 8.56. Section 8.56(3) expressly states that corporate officer, employee, and agent indemnification may be even broader than the indemnification rights afforded directors. These expanded rights may be derived from principles of agency, the doctrine of respondeat superior, or collective bargaining. *Id.* § 8.56 official comment.

actions. While acknowledging that some state statutes provide separate standards for indemnification in third-party and derivative suits, the drafters adopted a uniform standard: "The Model Act establishes a single uniform test to make clear that the outer limits of conduct for which indemnification is permitted should not be dependent on the type of proceeding in which the claim arises."[175]

Although recently enacted indemnification statutes (which discard the distinction between third-party and derivative suits) seem to unconditionally protect corporate officers and directors, entitlement to this protection is far from automatic.[176] The determination of such entitlement will be within the control of an appropriate body charged with the duty to decide whether the individual has met the "good faith" and "corporate interest" requirements.[177]

C. *Director and Officer Insurance*

Another possible source of personal protection for corporate officials faced with patent infringement actions is D & O insurance. Modern state corporation statutes provide corporations with the right to purchase liability insurance for the protection of their directors,

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175. MODEL BUSINESS CORP. ACT § 8.51(a) official comment (1984). In fact, the drafters of the code state that "[s]ection 8.51(c) applies expressly to indemnification expenses in derivative actions as well as to indemnification in third-party suits." *Id.* § 8.51(c) official comment. This view has been adopted in recent legislative changes which, in effect, have removed the distinction between the availability of indemnification in third-party and derivative suits. *See, e.g.*, 42 PA. CONS. STAT. ANN. § 8364 (Purdon 1986). The Delaware Code explicitly provides indemnification for attorneys' fees, judgments, and settlements in third-party actions—a degree of protection beyond that afforded corporate officers, directors, employees, and agents in derivative suits. Veasey, *supra* note 162, at 404-05. Section 145(a) of the Delaware Code provides:

> A corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (*other than an action by or in the right of the corporation*) by reason of the fact that he is or was a director, officer, employee or agent of the corporation . . . .

DEL. CODE ANN. tit. 8, § 145(a) (1983) (emphasis added).

176. Veasey, *supra* note 162, at 408.

177. *Id.* Section 145(d) of the Delaware Code delegates this duty as follows:

> Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

DEL. CODE ANN. tit. 8, § 145(d) (1983).

officers, employees, and agents against actions arising out of their corporate duties.[178] However, these policies are not permitted to cover "uninsurable events like self-dealing, bad faith, knowing violations of the securities acts, or other willful misconduct."[179]

D. *Scope of Limitations on Personal Liability*

Because no universal standards exist for the entitlement requirements under indemnification and D & O insurance provisions, and because such entitlement is decided on a case-by-case basis, the scope of protected conduct cannot be easily defined. However, a comparison between the conduct required for liability under sections 271(a) and 271(b) and the conduct which will exclude entitlement to indemnification and insurance suggests circumstances under which corporate officers and directors will remain financially liable.

The Federal Circuit's removal of willfulness as a requirement for personal liability for direct infringement means that an officer

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178. SODERQUIST & SOMMER, *supra* note 50, at 184. Section 8.57 ("Insurance") of the Model Act provides:

> A corporation may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee, or agent of the corporation, or who, while a director, officer, employee, or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against liability asserted against or incurred by him in that capacity or arising from his status as a director, officer, employee, or agent, whether or not the corporation would have power to indemnify him against the same liability under section 8.51 or 8.52.

MODEL BUSINESS CORP. ACT § 8.57 (1984). Delaware's statutory provision for D & O insurance is "largely intended to fill the gap" where indemnification cannot be provided by corporations. Veasey, Finkelstein & Bigler, *supra* note 162, at 417.

Although state D & O insurance policies may vary in form, they typically perform two functions: "They (a) reimburse the corporation for any indemnifiction payments to directors and officers and (b) make direct payments to covered officers and directors when they are not protected by the corporate indemnity." Kurtz, *The Duties and Liabilities of Officers and Directors, Including a Review of Indemnification and Insurance*, 1990 PRACTIC. LAW INST. 431, 480.

179. MODEL BUSINESS CORP. ACT § 8.57 official comment (1988) (citing Johnston, *Corporate Indemnification and Liability Insurance*, 33 BUS. LAW. 1993, 2034-35 (1978)). The list of specific exclusions typically includes: (1) suits alleging director action against the corporation's interest or for their personal gain; (2) suits for the return of unauthorized remuneration; (3) personal and property injury suits including defamation; (4) suits involving dishonest, fraudulent, or criminal acts; (5) suits alleging failure to obtain adequate insurance for the corporation's operations; (6) claims covered under other insurance policies; (7) suits for pollution damage; and (8) suits alleging violation of ERISA. Kurtz, *supra* note 178, at 484-85.

or director held liable under section 271(a) may still be entitled to indemnification so long as the challenged conduct meets the "good faith" and "corporate interests" entitlement requirements.[180] Insurance protection may also be unaffected by an adjudication of liability under section 271(a), unless the challenged conduct falls within the specific exceptions to entitlement.[181] Therefore, a corporate officer or director found liable for direct infringement pursuant to section 271(a) may still be entitled to corporate protection from financial liability.[182]

On the other hand, engagement in conduct encompassed by inducement of infringement under section 271(b)[183] will likely disqualify an officer or director from protection by corporate indemnification and insurance. A finding of specific intent, as required for section 271(b) liability,[184] will be sufficient, in most cases, to defeat both the "good faith" and "corporate interest" indemnification entitlement requirements. Proof of specific intent may also invoke a "bad faith" exception to D & O insurance coverage.[185] Therefore, if a corporate officer or director engages in conduct sufficient to invoke liability for inducement of infringement under section 271(b), that same conduct is likely to defeat entitlement to corporate protection from financial liability.

Corporate officers and directors should be aware that corporate charter provisions promising indemnification or insurance coverage, even if they do apply, can only protect from personal financial liability. Protective charter provisions cannot cure a civil action's adverse effects on personal or professional reputations, and they

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180. *See supra* note 174 and accompanying text.

181. *See supra* note 179 and accompanying text.

182. Such entitlement, of course, is dependent upon the particular state corporation law and the extent of protection adopted in corporate charters. Several practitioners have, however, made unequivocal statements regarding Delaware corporation law:

> While Delaware has taken steps to shield corporate directors from personal liability, which may arise in various general corporate situations, these efforts are ineffective with regard to patent infringement. . . . [N]o relief is afforded directors under Delaware law for violations of the federal statutes, which, of course, would include any patent infringement violations of 35 U.S.C. § 271.

Kline & Fitzpatrick, *supra* note 159, at 16.

183. *See supra* text accompanying notes 145-54.

184. *Id.*

185. *See supra* note 179 and accompanying text.

certainly cannot circumvent the disharmony likely to develop between the officer or director and his or her corporation.[186]

V. CONCLUSION

The struggle of the courts to define the circumstances under which corporate officers and directors will be held personally liable for their corporations' infringements has culminated in the Federal Circuit's adoption of several interrelated rules.

These recently adopted rules tip the scales in favor of plaintiffs seeking to impose personal liability upon corporate officers and directors for inducement of infringement. A corporate officer's or director's personal assets may be vulnerable whenever that individual's conduct falls within the broad range of activities encompassed by the "aid and abet" language. Although the plaintiff is burdened with establishing specific intent to induce infringement, the Federal Circuit will impose personal liability for inducement of infringement without regard to the principle of "piercing the corporate veil," a doctrine traditionally invoked to protect corporate officers and directors from personal liability.

Despite the Federal Circuit's clarification of the rules governing officers and director liability, it remains difficult for corporate counsel to formulate specific guidelines of prohibited conduct about which corporate officers and directors can be warned to avoid. Corporate officers and directors should, however, be warned that liability limiting provisions allowed by state corporation laws will often be inadequate protection from personal liability for their corporations' infringing activities.

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186. *See supra* note 12.