Veiled' Threats of Liability: Exploring Whether Patent Law Actually Sets a Different Standard for 'Piercing the Corporate Veil'

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“VEILED” THREATS OF LIABILITY: EXPLORING WHETHER PATENT LAW ACTUALLY SETS A DIFFERENT STANDARD FOR “PIERCING THE CORPORATE VEIL”

Piercing the corporate veil is one of the most difficult undertakings for litigators. Accordingly, it should come as no surprise that piercing the corporate veil is one of the most litigated issues in corporate law.1 Yet, according to some recent publications, the Federal Circuit made piercing the corporate veil even more difficult to grasp when it deviated from traditional standards in dealing with corporate officers accused of patent infringement.2 Many people in the patent litigation practice believe that the Federal Circuit is now willing to hold corporate officers personally liable for patent infringement, despite the fact that piercing the corporate veil is used for shareholder liability.3 Lynda Oswald and Steven Seidenberg lead this train of thought.4 While their conclusion illustrates a growing consensus regarding the Federal Circuit’s recent decision, the conclusion is misguided. In reality, the Federal Circuit’s decisions in patent infringement cases do not deviate from traditional corporate law rules regarding piercing the corporate veil.

Proponents of the idea that the Federal Circuit has created a new standard neglect to consider the full context of the cases they criticize. For example, proponents generally point to Orthokinetics, Inc. v. Safety Travel Chairs, Inc. as the origin of this supposed new standard applied to patent infringement cases.5 In Orthokinetics, the court had to decide whether to hold three stockholders and officers personally liable for their companies’ patent infringement.6 Reversing the district court’s dismissal of a jury verdict, the Orthokinetics judges held the stockholders and officers “personally liable for acts of direct infringement and for inducing infringement.”7 Oswald takes issue

4 See Oswald, supra; Seidenberg, supra. Lynda Oswald explores this issue in an article for the American Business Law Journal. Steven Seidenberg similarly discusses the issue in an article for Inside Counsel.
5 See generally Oswald, supra note 3 at 576; Seidenberg, supra note 4.
6 Orthokinetics v. Safety Travel Chairs, 806 F.2d 1565, 1569 (Fed. Cir. 1986).
7 Id. at 1578
with the Orthokinetics court’s assertion that, “evaluating the personal liability of officers ‘requires invocation of those general principles relating to piercing the corporate veil.’” On the surface, this proclamation seems strange because officers are typically not held liable through piercing the corporate veil. Accordingly, Oswald suggests that the court “confused doctrine relating to [shareholder] liability (piercing) with that relating to officer liability (personal participation).”

However, the phrase from Orthokinetics should not be considered in isolation, for the defendants at issue in the case were not solely officers. Instead, the defendant officers “held all of [the company’s] directorships and owned all of the stock in [the company].” This means the defendants were both corporate officers and shareholders. Consequently, to fully evaluate the defendants’ personal liability, the court decided it needed to use both a piercing the corporate veil analysis to determine the defendant’s liability as shareholders, and a personal participation analysis to determine the defendant’s liability as officers.

Later Federal Circuit cases followed the Orthokinetics decision when dealing with defendants who were both shareholders and officers. For example, ten years after Orthokinetics, in Hoover Group, Inc. v. Custom Metalcraft, Inc., the defendant was the “president, chief executive officer, and principal shareholder of [the accused company],” making him both a shareholder and an officer. When analyzing the defendant’s personal liability, the court first used a piercing of the corporate veil analysis to find that the defendant’s company was not “a sham . . . merely to shield [the defendant] from liability.” Next, the court used a personal participation analysis,

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8 Oswald, supra note 3 at 576 (citing Orthokinetics, 806 F.2d at 1579).
9 Id.
10 Under 35 U.S.C. § 271(a) and (b), a person can be held personally liable for direct infringement and inducement of infringement. This law opened the door to personal liability for corporate officers without needing to pierce the corporate veil. Lynda J. Oswald, The Personal Liability of Corporate Officers for Patent Infringement, 44 IDEA 115, 122 (2003)
11 Orthokinetics, 806 F.2d at 1579 (emphasis added).
12 The court had two separate sections in its opinion, one labeled “Personal Liability for Infringement,” where it discussed alter ego-esque concepts like control, and a second section labeled “Willful Infringement of the ’867 Patent,” where it separately analyzed liability from a personal perspective. Id. at 1578–79.
13 Hoover Grp., Inc. v. Custom Metalcraft, Inc., 84 F.3d 1408, 1410 (Fed. Cir. 1996). It is worth noting that Oswald called Hoover the Federal Circuit’s attempt “to correct its wrong decision on officer liability.” Oswald, supra note 3 at 578.
14 Hoover, 84 F.3d at 1411.
explaining that the corporate veil does not need to be pierced to find someone personally liable for inducing infringement.15 Oswald came closest to a correct perspective on the Federal Circuit’s approach when she observed that, “the [Hoover court] found that individual officer liability for direct infringement under section 271(a) could be based on either a piercing of the corporate veil or personal participation.”16 However, she then stated that this approach only gets “one-half of the analysis correct,” a conclusion she could only have reached if she did not recognize the defendant was a shareholder as well as an officer.17

It is true that the Federal Circuit could be clearer in articulating when it is using a particular analysis in these cases. The Federal Circuit tends to lump both analyses into one section of its opinion.18 However, it is inaccurate to say the Federal Circuit is unaware of the separate analyses.

In fact, proponents of the idea that the Federal Circuit created a new standard fail to cite a single case supporting the conclusion that someone who is a company officer, but not a shareholder, can be held personally liable for patent infringement by piercing the corporate veil. Given that the application of the alter ego doctrine is a common way to pierce the corporate veil19 and non-shareholders are unlikely to be held as alter egos of a company, this lack of support is to be expected. Indeed, this outcome is evidenced by Federal Circuit personal liability patent infringement cases where the defendants were only officers and not shareholders. For example, in Manville Sales Corp. v. Paramount Systems Inc. and Hall v. Bed Bath & Beyond Inc., cases where the defendants were only officers, the Federal Circuit court did not find the defendant officers personally liable under the pierced veil analysis, reasoning that they were not the companies’ alter egos.20 In Manville, the Federal Circuit said the district court committed an “abuse of its equitable powers” when it found two corporate officers personally liable despite finding the officers were

15 Id.
16 Oswald, supra note 3 at 577.
17 Id.
18 See e.g. Hoover, F.3d at 1411. (devoting one section to the analyses, entitled “LIABILITY,” which does not include any subsections or identifying divisions).
20 Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 553 (Fed. Cir. 1990) (“[t]he court’s findings preclude any inference that Butterworth and DiSimone were attempting to avoid liability under the protection of the corporate veil”); Hall v. Bed Bath & Beyond Inc., 705 F.3d 1357, 1365 (Fed. Cir. 2013) (refusing to pierce the corporate veil because the defendant did not show the requisite control over the company).
not the alter egos of their company.21 Accordingly, the Federal Circuit reversed the finding.22 Likewise, in Hall, the Federal Circuit did not find the Defendant, who was the Vice President and General Merchandise Manager, but not a shareholder, of a company, personally liable for that company’s patent infringement.23 The Federal Circuit did not give much explanation for its decision, and instead simply proclaimed that there was no “reversible error in the district court’s dismissal” of the personal liability claim when “applying the principles of New York law.”24 However, an examination of the relevant New York law makes the Federal Circuit’s decision more clear. New York law states, “to pierce the corporate veil . . . [one must show] that the owner exercised complete domination over the corporation . . . and . . . that such domination was used to commit a fraud or wrong.”25 Since the Defendant in Hall was not a shareholder or owner of the infringing company, he could not have been found personally through piercing the corporate veil.26

It is possible that the Federal Circuit is confused when it comes to piercing the corporate veil. Although the active inducement test is not traditionally part of veil piercing, the federal circuit seems to believe that every time an employee of a corporation is held personally liable, it is considered piercing the corporate veil.27 However, to think that this slight deviation actually creates a new standard for personal liability is to go overboard with a presumption. Fear not litigants, everything in patent personal liability is as it should be in the Federal Circuit. Though, if an officer or shareholder is still confused about when they might be liable for patent infringement, I suggest they try not to commit the infringement in the first place.

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21 Id. at 553.
22 Id.
23 Hall, 705 F.3d at 1364–65.
24 Id. at 1365.
25 Id.
26 Id.
27 See Id.; accord Manville, 917 F.2d at 553.
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