HOLDING PARENT CORPORATIONS LIABLE FOR ATTORNEYS' FEES UNDER 35 U.S.C. § 285 OF THE PATENT STATUTE

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I. INTRODUCTION

Over the past decade, there have been an increasing number of calls for patent reform, and the reason lies in the perceived inequities that have grown from the current system.[1] What started in the 1990s with a boom in the number of patents filed and the inability of the United States Patent and Trademark Office (USTPO) to keep pace with the demand, ultimately led to a decrease in patent quality and a corresponding increase in the number of improperly issued patents.[2] Add to this mix a plaintiff-friendly patent litigation system[3] and the result is a system that encourages aggressively seeking licenses and litigating questionable patents.[4] Put another way, the "enterprising patent holder is now driven—by a system of perverse incentives—away from mutually beneficial arrangements such as voluntary licensing agreements, and toward more profitable holdout positions anchored by judicial fiat."[5] At the fringe of this type of activity lie those

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[1] Viet D. Dinh & William Paxton, *Patent Reform: Protecting Property Rights and the Marketplace of Ideas*, Dec. 3, 2007, at i, http://www.bancroftassociates.net/patentreform.pdf.

[2] *Id*.

[3] For example, consider the Eastern District Court in Marshall, Texas where patent plaintiffs who go to trial win 88% of the time, compared with 68% nationwide. Sam Williams, *A Haven for Patent Pirates*, TECH. REV., Feb. 3, 2006, http://www.technologyreview.com/communications/16280/?a=f.

[4] Dinh & Paxton, *supra* note 1, at i–ii.

[5] *Id*. at ii; *see also* Ted Frank, *There Is a Role for Congress in Patent Litigation Reform*, AM. ENTERPRISE INST. FOR PUB. POL'Y RES., Feb. 2008, at 3, http://www.aei.org/docLib/20080221_no1FebLO_g.pdf ("With all these factors, individual defendants often find it economical to settle, especially if faced with an offer less than the cost of trying a case.").

persons or entities pejoratively referred to as "patent trolls."[6]

Originally, the term "patent troll" was a derogatory term used to refer to an entity that makes money from a patent solely through litigation or licensing rather than from manufacturing or developing the patented invention.[7] After arguments that this use was overbroad for encompassing small inventors (who cannot afford to risk the costs of manufacturing) and universities (who have no interest in manufacturing),[8] the meaning of the term changed to: "[H]olders of weak patents, often purchased in the open market and used solely for the purpose of litigation against successful companies."[9] Most recently, however, the term "patent troll" has become worn out, and efforts to drive patent reform have, instead, focused on more narrowly defined problems within the patent system, one of these being the increasing numbers of bad faith actors, including non-practicing entities[10] that abuse the patent system by engaging in bad faith patent prosecution[11] or vexatious litigation tactics in order to make a larger profit.[12]

Now consider a hypothetical. Imagine representing a manufacturing company that just received notice that a lawsuit has been filed against it for

[6] Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel "Cold Fusion" Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. 407, 407–08 (2007) ("Instead of commercializing products, patent trolls buy up patents (oftentimes older paper patents), wait for the technology and industry to grow up around the patent, and then use the patent as a holdup device for extorting money from would-be defendants wishing to avoid the exorbitant costs of defending against an overreaching broadly claimed invention.").

[7] Jennifer Kahaulelio Gregory, *The Troll Next Door*, 6 J. MARSHALL REV. INTELL. PROP. L. 292, 292 (2007). Peter Detkin, assistant general counsel at Intel, takes credit for use of the term patent troll. *Id*. Detkin defined it as "somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced." Brenda Sandburg, *You May Not Have a Choice. Trolling for Dollars*, RECORDER, July 30, 2001, at 1, http://www.phonetel.com/pdfs/LWTrolls.pdf.

[8] Marc Morgan, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves the Title* Patent Troll, 17 FED. CIR. B.J. 165, 171–72 (2008).

[9] Frank, *supra* note 5, at 1.

[10] A non-practicing entity (NPE) is a patent owner that does not manufacture or use the patented invention but, rather than abandoning the right to exclude, seeks to enforce its right through the negotiation of licenses and litigation. Miranda Jones, *Permanent Injunction, a Remedy by Any Other Name is Patently Not the Same: How* Ebay v. MercExchange *Affects the Patent Right of Non-Practicing Entities*, 14 GEO. MASON L. REV. 1035, 1036 n.6 (2007).

[11] Patent prosecution is the process of applying for a patent through the U.S. Patent and Trademark Office and negotiating with the patent examiner. BLACK'S LAW DICTIONARY 1341 (9th ed. 2009).

[12] Gregory, *supra* note 7, at 301.

patent infringement. The plaintiff is a small corporation[13] created for the purpose of purchasing patents and licensing them or suing potential infringers, rather than manufacturing the patented invention. The plaintiff is also a wholly owned subsidiary, and both it and the parent company are managed by the same officer, the individual sitting behind the plaintiff's bench. The developing lawsuit could cost anywhere from hundreds of thousands to millions of dollars,[14] and to make matters worse, the venue is set for the Eastern District of Texas, a.k.a. the "rocket docket," thereby adding a sense of urgency to developing a defense.[15] Now assume that evidence comes forth during discovery that the patent may be invalid or unenforceable. You now focus on that point which, if proven, could save millions in licensing fees or the costs of changing a business structure away from infringement. Towards the end of the lawsuit, the defense appears to be a success. Not only was the patent proven invalid or unenforceable, but it has also come out that the plaintiff knew it before he filed the lawsuit, making the case "exceptional."[16] At the judge's discretion, the patentee-plaintiff in this case may now be liable for attorneys' fees.[17] You quickly realize, however, that the plaintiff does not have the resources to cover the liability. The alternative is to collect the fees from the parent company or

[13] The same scenario could arise with a limited liability company.

[14] The American Intellectual Property Law Association 2001 report indicates the estimated cost through trial was $499,000 when the stakes are less than $1 million, $1.499 million when the stakes are between $1 million and $25 million, and $2.992 million when the stakes are over $25 million. The estimated cost through discovery was $250,000 when the stakes are less than $1 million, $797,000 when the stakes are between $1 million and $25 million, and $1.508 million when the stakes are over $25 million. James E. Bessen & Michael J. Meurer, *The Private Costs of Patent Litigation* 16–17 (Boston Univ. Sch. of Law, Working Paper No. 07-08, 2008); Frank, *supra* note 5, at 3 ("While it is an exaggeration to say that a defendant can never get summary judgment in Marshall, the exaggeration is only slight. Suits can be expected to go to trial, and a trial can be expected to cost $2.5 million on top of the millions of dollars in legal fees for pretrial proceedings.").

[15] Michael C. Smith, *Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases*, 69 TEX. B.J. 1045, 1046 (2006); Frank, *supra* note 5, at 3 ("The 'rocket docket' gives defendants little opportunity to engage in discovery that might invalidate weak patents. Moreover, the expedited procedural schedule increases the expense of complying with discovery, lest disproportionate sanctions be issued for technical failures to comply.").

[16] 35 U.S.C. § 285 (2006) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party."); *see also* Hughes v. Novi Am., Inc., 724 F.2d 122, 126 (Fed. Cir. 1984) (recognizing litigation of a patent known to be invalid may be sufficient to establish a finding of exceptional circumstances, permitting an award of attorney fees to the accused).

[17] 35 U.S.C. § 285 (2006).

from the individual sitting behind the plaintiff's bench, in his capacity as the officer of the subsidiary. The ability to collect from either is based on the legal theories put forth and the procedural requirements met so far. You may be able to hold the officer or the parent company directly liable or you may be able to hold the individual and parent company liable as owners, which would require piercing the corporate veil.

This comment addresses two theories of liability that would be available to the defendant in our hypothetical situation, direct liability and liability resulting from piercing the veil, and further discusses when and how these theories would apply. It begins with an overview of attorneys' fees under the patent statute[18] and then discusses issues relating to the scope of the attorneys' fees in order to measure the statute's ability to reach the actions of the officer and the parent company.[19] Next it discusses veil piercing in the context of patent law in an effort to extract some guidelines for applying the doctrine to attorneys' fees.[20] The last section addresses a procedural pitfall that defendants such as the one in our hypothetical should be aware of, namely the failure to join the proper defendant in a timely manner.[21]

II. ATTORNEYS' FEES UNDER 35 U.S.C. § 285

In 1946, Congress changed from the American Rule[22] for collecting attorneys' fees in a patent infringement action by enabling the court, in its

[18] *See infra* Part II. Note that when seeking fees for frivolousness under § 285, the moving party should probably also seek fees pursuant to Rule 11. Additionally, if the frivolousness is reflected in evasive discovery responses, fees pursuant to Rule 37 may also be available. *See* Breton August Bocchieri, *Obtaining Attorney Fees in Intellectual Property Cases: Rule 11 and Other Sanctioning Mechanisms*, 33 IDEA 211, 211–14 (1992); *see also* Richard P. Beem, *Recovering Attorney Fees & Damages When Defending Against Bad Faith Patent Litigation*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 81, 83–84 (1998) (exploring grounds for recovery of attorney fees and damages under Rules 11 and 68, 35 U.S.C. § 285, unfair competition law, and *Handgards*-type bad faith patent litigation, all generally requiring proof that the patent owner acted in bad faith, or at least recklessly, in filing and maintaining the infringement action).

[19] *See infra* Part III.

[20] *See infra* Part IV.

[21] *See infra* Part V.

[22] The general rule for collecting attorneys' fees is the "American Rule" which states that the prevailing party to a lawsuit is not entitled to attorneys' fees. Mach. Corp. v. Gullfiber AB, 774 F.2d 467, 471 (Fed. Cir. 1985) (citing Alyeska Pipeline Serv. Co. v. Wilderness Soc'y, 421 U.S. 240, 247 (1975)). A rationale for this rule is that one should not be penalized for merely defending or prosecuting a lawsuit. Fleischmann Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 718 (1967).

discretion, to award "reasonable attorney fees to the prevailing party."[23] This statute was interpreted,[24] and later amended,[25] to include a requirement of exceptional circumstances in order to award fees. The statute now reads: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."[26] For its analysis, the Federal Circuit addresses the statute in four parts: (1) the case must be exceptional; (2) the district court may exercise its discretion; (3) the fees must be reasonable; (4) and the fees may be awarded only to the prevailing party.[27]

Conduct that satisfies the "exceptional" requirement is particularly pertinent to this comment, as it can potentially overlap with the types of activities that a non-practicing entity might engage in that would expose its parent company or other owners to liability via veil piercing.[28] For example, a finding of exceptional circumstances may include:

> A finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his counsel fees which prevailing litigants normally bear.[29]

Exceptional circumstances normally involve either one of two things: inequitable conduct during the filing of a patent or bad faith litigation in an infringement action.[30] In order to recover attorneys' fees for inequitable conduct, there must be clear and convincing evidence that the patentee or its

[23] The statute was amended to provide that "[t]he court may in its discretion award reasonable attorney fees to the prevailing party." Act of Aug. 1, 1946, ch. 726, 60 Stat. 778 (1946) (codified as amended at 35 U.S.C. § 70 (1946)).

[24] Park-In-Theatres, Inc. v. Perkins, 190 F.2d 137, 142 (9th Cir. 1951) (applying the statute only if there was "a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear").

[25] 35 U.S.C. § 285 (2006).

[26] *Id.*; *Mach. Corp.*, 774 F.2d at 471 ("Allowance of fees only in exceptional cases is based on the premise that courts should attempt to strike a balance between the interest of the patentee in protecting his statutory rights and the interest of the public in confining such rights to their legal limits.").

[27] *Mach. Corp.*, 774 F.2d at 470.

[28] *See Park-In-Theaters*, 190 F.2d at 142.

[29] *Mach. Corp.*, 774 F.2d at 471 (quoting *Park-In-Theaters*, 190 F.2d at 142).

[30] Reactive Metals & Alloys Corp. v. ESM, Inc., 769 F.2d 1578, 1582 (Fed. Cir. 1985).

attorneys made a material misstatement or failed to disclose material information to the patent and trademark office during the process of filing for the patent, and the misstatement or omission was done with the intent to deceive to acquire an undeserved patent.[31] Engaging in inequitable conduct and later filing a lawsuit based on infringement of the inequitably obtained patent is also one way to create exceptional circumstances under the second typical situation, bad faith litigation.[32] Bad faith litigation exists when a case was brought subjectively in bad faith and it was objectively baseless.[33] Subjective bad faith can be inferred from proof that the patentee deliberately failed to investigate whether the alleged device infringed.[34] However, it should be emphasized that the focus of the exceptional circumstances inquiry is on the unjustness caused by excessive litigation, even though this often involves analysis of the conduct of the parties.[35]

Before discussing who can be held liable for attorneys' fees, consider the following example in order to better understand the types of conduct that can support exceptional circumstances. *Machinery Corp. of America v.*

[31] Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1379 (Fed. Cir. 2001); Kingsdown Med. Consultants, Ltd. v. Hollister, Inc., 863 F.2d 867, 872 (Fed. Cir. 1988).

[32] *See, e.g.*, Hughes v. Novi Am., Inc., 724 F.2d 122, 126 (Fed. Cir. 1984) (awarding attorneys' fees against plaintiffs, inventor, and assignee on the basis that the suit was brought in bad faith where plaintiffs knew of the inventor's invalidating on-sale bar activities, evidence of the on-sale activity came to light seven months prior to trial and the plaintiffs continued to press the suit).

[33] Eltech Sys. Corp. v. PPG Indus., Inc., 903 F.2d 805, 811 (Fed. Cir. 1990).

[34] *Id*. at 810.

[35] For a good example of when bad faith conduct rises to the level of unjustness consider the court's analysis in *Advanced Magnetic Closures, Inc. v. Rome Fastener Corp.*:

> Bauer [the president and owner of AMC] made a strategic business decision to preserve his economic investment in the magnetic snap industry, concealed the true identity of the [patented magnetic snap] inventor, and used AMC to bully the handbag industry with a sham patent. When one of AMC's targets finally stood up and challenged the bona fides of the [patent], AMC stubbornly persisted in litigation for almost ten years, burdening three separate district court judges with complex scientific arguments and concepts. Once engaged, AMC routinely obscured the origins of key documentary evidence and concealed that its expert's analysis was without foundation. . . . In a brazen demonstration of willfulness, AMC proceeded to trial without an expert, empanelling a jury for three days without even the remotest possibility of success on its infringement claim. In short, AMC's infringement claim was a colossal waste of time for everyone involved and it would be unfair to burden [the defendants] with the costs of litigating this claim.

No. 98 Civ. 7766(PAC), 2008 WL 2787981, at *15 (S.D.N.Y. July 17, 2008).

Gullfiber AB was a declaratory judgment action brought by Machinery Corporation of America (MCA) which sought a declaration that it had not infringed a patent belonging to Gullfiber AB and Gullfiber International (GINT).[36] The dispute had started when officers of GINT were allowed to investigate equipment at MCA's premises.[37] GINT determined, from the investigation, that the equipment was infringing and sent letters to MCA, stating that it was liable for infringement.[38] After failing to obtain a response, GINT sent letters to 162 customers of MCA informing them that the equipment used to manufacture their products was infringing.[39] The District Court found that MCA's equipment did not infringe GINT's patent.[40] MCA then argued that it was entitled to attorneys' fees because (1) GINT's officers acted in bad faith in concluding that the MCA equipment infringed GINT's patents, (2) GINT exercised bad faith in sending notices to the trade, and (3) GINT acted in bad faith by not consulting patent counsel prior to sending notices to the trade.[41]

To support a finding of bad faith litigation, the Federal Circuit required a showing of actual wrongful intent or of gross negligence.[42] It defined gross negligence as "willful, wanton, or reckless misconduct, or evidence of 'utter lack of all care.'"[43] Therefore, conduct short of fraud, but in excess of simple negligence, is sufficient to find a case "exceptional" under § 285.[44] The next issue, according to the court, was whether GINT recklessly concluded that MCA infringed, and whether it was grossly negligent for GINT to send the letters to MCA's customers based solely on the officer's conclusion of infringement.[45] To aid its decision, the court referenced three other cases where bad faith maintenance of a lawsuit was found to be a sufficient basis for awarding attorneys' fees.[46] In *Hughes v. Novi American*,

[36] Mach. Corp. of Am. v. Gullfiber AB, 774 F.2d 467, 468 (Fed. Cir. 1985).

[37] *Id.* at 469.

[38] *Id.*

[39] *Id.*

[40] *Id.* at 470 ("[T]he district court entered an order stating that . . . the claim for a declaration of non-infringement 'has been settled.'").

[41] *Id.*

[42] *Id.* at 473 (citing Reactive Metals & Alloys Corp. v. ESM, Inc. 769 F.2d 1578, 1583 (Fed. Cir. 1985)).

[43] *Id.* (citing PROSER & KEETON, THE LAW OF TORTS § 34 (4th ed. 1984)).

[44] *See id.*

[45] *Id.*

[46] *Id.*

Inc., the court awarded attorneys' fees against a patentee who made grossly negligent misrepresentations to the Patent and Trademark Office and could not in good faith believe that the defendant's device infringed "since even a cursory reading of the claim makes obvious the fact of noninfringement."[47] In *Loctite Corp. v. Fel-Pro, Inc.*, the court awarded fees where the patentee had initiated a suit with unconfirmed data to support its infringement claim, refused to produce any test results, and was proven to have conducted unreliable and tainted tests.[48] Finally, in *Maurice A. Garbel, Inc. v. Boeing Co.*, the court awarded fees where the patentee misled the Patent and Trademark Office during prosecution and had not made a reasonable assessment of the possibilities of infringement before suit.[49] All of these cases involved reckless misconduct or utter lack of all care.[50] Using these cases as a guide, the *Machinery* court ultimately remanded with an order to reconsider the facts of the case in light of the legal standard presented.[51] For purposes of this comment, however, the question from our hypothetical still remains: under what circumstances and to what extent can liability for filing a lawsuit with reckless misconduct or utter lack of all care can be imputed on the officers or owners of the patentee-plaintiff.

III. HOLDING THIRD PARTIES LIABLE FOR THE ACTIONS OF A NON-PRACTICING ENTITY

Having discussed the basis of attorneys' fees,[52] the rest of this comment will focus more on who can be held liable for fees and under what theory of liability.[53] First, there is a discussion on holding parties directly liable for their conduct, and later, a discussion on the availability of piercing the veil of limited liability.[54] This sequence of analysis is used because, given the importance of limited liability, courts are sometimes inclined to refuse to pierce the veil when it is unnecessary to resolve the case.[55] Avoiding

[47] 724 F.2d 122, 125 (Fed. Cir. 1984).

[48] 667 F.2d 577, 584 (7th Cir. 1981).

[49] 546 F.2d 297, 300 (9th Cir. 1976).

[50] *Mach. Corp.*, 774 F.2d at 473.

[51] *Id*. at 475.

[52] *See supra* Part II.

[53] *See infra* Parts III–IV.

[54] *See infra* Part III.A.

[55] *See, e.g.*, Taurus IP, LLC v. DaimlerChrysler Corp., 559 F. Supp. 2d 947, 960–61 (W.D. Wis. 2008) (refusing to pierce the veil using Texas law and hold the owner of a non-practicing entity liable for attorneys' fees absent evidence showing that the owner would or was likely to dry

piercing the veil would be particularly appropriate where the defendant can be found directly liable for § 285 attorneys' fees.[56] To conclude this section, this comment reconsiders the hypothetical and discusses what options are available to the defendant in our hypothetical, either the officer or the parent company, that would support a finding of direct liability.[57]

A. *Direct vs. Indirect (Piercing the Veil) Liability:* United States v. Bestfoods

In *United States v. Bestfoods*, the Supreme Court highlighted the difference between finding a parent company directly liable for the tort of a subsidiary and piercing the veil to hold the parent company indirectly liable.[58] Although the issues in *Bestfoods* related to liability under CERCLA,[59] by studying the Court's approach, inferences can be drawn about how a court should approach direct liability to collect attorneys' fees.

A specific issue in *Bestfoods* was how and when a company can be held liable under CERCLA for costs incurred by the United States during a cleanup of hazardous wastes.[60] More specifically, the question at issue was whether a parent company could be liable in a cost-recovery action brought by the United States for the clean-up costs of a facility that was owned by a subsidiary.[61] The Court considered two theories of liability.[62] First, the parent company could be held liable under a veil piercing theory.[63] Second, the parent company could be held liable as an "operator" of the facility. [64]

up the funds of the LLC in an attempt to avoid legal obligations); *see also* Int'l Mfg. Co. v. Landon, Inc., 336 F.2d 723, 728–29 (9th Cir. 1964) (holding that the owner was subject to personal liability without regard to whether the corporation was his alter ego because he acted as the corporation's "guiding spirit" and was therefore the "active conscious force behind [the corporation's] infringement").

[56] *See, e.g.*, *Int'l Mfg.*, 336 F.2d at 729.

[57] *See infra* Part III.B.

[58] 524 U.S. 51, 59–60 (1998).

[59] Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9607(a) (2006).

[60] *Bestfoods*, 524 U.S. at 55.

[61] *Id*.

[62] *Id*.

[63] *Id*.

[64] *Id*. Under CERCLA, an "owner and operator of a vessel or a facility . . . shall be liable for all costs of removal [of hazardous substances] or remedial action incurred by the United States Government . . . ." 42 U.S.C. § 9607(a) (2000).

The Court emphasized that there is a factual distinction between actions that expose a person to direct liability for a tort and actions that are part and parcel of shareholder ownership and thus do not expose a shareholder to liability incurred by the subsidiary absent evidence supporting piercing the veil.[65] If the parent company is found to have operated a corporate subsidiary's facility on behalf of the parent corporation, "the existence of the parent-subsidiary relationship under state corporate law is simply irrelevant"[66] and the parent company can be held jointly liable along with the subsidiary for cleanup costs.[67] If the actions are merely control over the subsidiary itself, then the parent company retains its shield of limited liability, and the corporate veil must be pierced in order to hold the parent company liable.[68]

In drawing the distinction between direct and derivative liability[69] when both parent and subsidiary have the same officers, the Court stressed the fact that "it is entirely appropriate for directors of a parent corporation to serve as directors of its subsidiary, and that fact alone may not serve to expose the parent corporation to liability for its subsidiary's acts."[70] Furthermore, "[t]his recognition that the corporate personalities remain distinct has its corollary in the 'well established principle [of corporate law] that directors and officers holding positions with a parent and its subsidiary can and do 'change hats' to represent the two corporations separately, despite their common ownership.''"[71] In order to overcome this presumption, and hold the parent company liable for the actions of its officers, evidence would have to show that the officers were acting in their capacities as officers of the parent company rather than officers of the subsidiary, when they committed the tortious acts.[72] Then, by footnote, the Court provides a sliding scale test to determine which entity the officers are

[65] *Bestfoods*, 524 U.S. at 55.

[66] *Id*. at 65.

[67] *Id*.

[68] *Id*. at 55.

[69] *Id*. at 64 (discussing liability resulting from having the corporate veil of the subsidiary pierced).

[70] *Id*. at 69 (citing Am. Protein Corp. v. AB Volvo, 844 F.2d 56, 57 (2d Cir. 1988)); *see also* HARRY G. HENN & JOHN R. ALEXANDER, LAWS OF CORPORATIONS 347 (3d ed. 1983) (noting that it is "normal" for a parent and subsidiary to "have identical directors and officers").

[71] *Bestfoods*, 524 U.S. at 69 (citing Lusk v. Foxmeyer Health Corp., 129 F.3d 773, 779 (5th Cir. 1997)).

[72] *Id*. at 70.

working for when engaging in a particular activity:

> [I]t is prudent to say only that the presumption that an act is taken on behalf of the corporation for whom the officer claims to act is strongest when the act is perfectly consistent with the norms of corporate behavior, but wanes as the distance from those accepted norms approaches the point of action by a dual officer plainly contrary to the interests of the subsidiary yet nonetheless advantageous to the parent.[73]

Next, the Court mentions two more situations where a parent company is exposed to direct liability.[74] First, "when the parent operates the facility in the stead of its subsidiary or alongside the subsidiary in some sort of joint venture,"[75] and second, when "an agent of the parent with no hat to wear but the parent's hat" manages or directs activities at the facility.[76] The actions indicating control over the operation of a subsidiary's facility must be distinguished from "activities that involve the facility but which are consistent with the parent's investor status, such as monitoring of the subsidiary's performance, supervision of the subsidiary's finance and capital budget decisions, and articulation of general policies and procedures . . . ."[77] The Supreme Court ultimately remanded the case with instructions to focus more on direct liability of the parent company rather than first attempt to pierce the veil.[78]

B. Direct and Indirect Liability for § 285 Attorneys' Fees: Hypothetical Revisited

Now reconsider the hypothetical given in the introduction where the same individual is the president of both a parent company and its wholly owned subsidiary.[79] Under his direction, the subsidiary fraudulently

[73] *Id*. at 70 n.13.

[74] Other than when a dual officer departs "so far from the norms of parental influence exercised through dual officeholding as to serve as the parent, even when ostensibly acting on behalf of the subsidiary in operating the facility." *Id.* at 71.

[75] *Id*.

[76] *Id*.

[77] *Id*. at 72 (quoting Lynda J. Oswald, *Bifurcation of the Owner and Operator Analysis under CERCLA: Finding Order in the Chaos of Pervasive Control*, 72 WASH. U. L.Q. 223, 282 (1994)).

[78] *Id*. at 73.

[79] *See supra* Part I.

obtained a patent and filed a lawsuit against your client. The subsidiary has no money to cover its liabilities incurred for attorneys' fees, but the parent company and the individual might. First, consider collecting from the officer. The first challenge in applying *Bestfoods* is that the court was interpreting a specific term used in CERCLA, "operator," that if found to encompass the defendant, imposed liability, and there is no parallel term in 35 U.S.C. § 285.[80] Rather, § 285 provides fees to the prevailing party with no mention about who is liable to pay these fees.[81] This leaves two possibilities. Either Congress intended only parties to the original infringement action (patentees or the accused patent infringers) to be subject to paying the fees, or they intended any person to be liable for creating exceptional circumstances in the pending infringement action, whether this person is a party in the original infringement action or not. The courts have taken the latter view, imposing attorney fee liability on any person who was responsible for creating exceptional circumstances in the case before it, even if the person was not an original party to the action, but rather was joined in his or her sole capacity as a third party § 285 defendant.[82] The result is that an individual can be assessed attorneys' fees

[80] *Compare* 42 U.S.C. § 9607(a) (2006) (an "owner and operator of a vessel or a facility . . . shall be liable for all costs of removal [of hazardous substances] or remedial action incurred by the United States Government"), *with* 35 U.S.C. § 285 (2006) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

[81] 35 U.S.C. § 285 (2006).

[82] 5 ROBERT A. MATTHEWS, ANNOTATED PATENT DIGEST § 33:20 (2009); *see also* Ohio Cellular Prods. Corp. v. Adams USA, Inc., 175 F.3d 1343, 1349 (Fed. Cir. 1999), *judgment rev'd on other grounds*, 529 U.S. 460 (2000) (affirming a district court decision making president/inventor jointly and severally liable to the accused infringer for attorney fees based on the finding that he had personally engaged in the acts of inequitable conduct, participated and controlled the litigation, testified at an evidentiary hearing on the inequitable conduct issue, and controlled or had constructive control over the letter sent to the accused infringer post-judgment in which the corporation threatened to liquidate if the amount of the attorney fees could not be negotiated); D.O.C.C. Inc. v. Spintech Inc., 36 U.S.P.Q.2d 1145, 1158–59 (S.D.N.Y. 1994) (awarding attorneys fees against patentee corporation and further finding individual, who served as the president, CEO, and major stockholder of patentee jointly liable for attorneys' fees because the individual was the decision maker during the litigation, and therefore personally undertook the tortious acts of refusing to drop the frivolous suit and seeking to enforce a patent that was procured with inequitable conduct); Mach. Corp. of Am. v. Gullfiber AB, 774 F.2d 467, 475 (Fed. Cir. 1985) ("This court has held that an individual may be assessed fees under § 285 if his conduct supports a finding that the case is exceptional."). Accordingly, the individual may be assessed fees individually only if the district court finds that the prevailing party has proved by clear and convincing evidence that his actions were in fact tortious or were undertaken in a personal capacity and not as agent of the plaintiff and otherwise met the requirements of bad faith

under § 285, so long as his conduct, and the resulting circumstances, supports a finding that the infringement action is exceptional.[83] In other words, an individual, including the officer in our hypothetical, can be held liable, even if he is an officer or a shareholder of a corporation or limited liability company, so long as he is found to have personally engaged in inequitable conduct in front of the patent and trademark office, and filed suit on the inequitably obtained patent, or if this person participated in or controlled the bad faith litigation against the defendant.[84]

The question that remains is whether the parent company can also be held directly liable under § 285 and if so, under what circumstances.[85] As discussed earlier, the Supreme Court in *Bestfoods* made note of at least three situations where a parent company could potentially be directly implicated by the actions of its subsidiaries.[86] Putting these in the context of attorneys' fees under § 285[87] means that the parent company can be liable when it directly participates in the inequitable conduct or bad faith litigation (e.g., participating in the control of the litigation, beyond what would be expected in a normal parent-subsidiary relationship), where the dual officers acted in their capacity as officers of the parent company rather than the subsidiary (e.g., where they behave in a manner contrary to the interests of the subsidiary yet nonetheless advantageous to the parent), and when an agent of the parent with no hat to wear but the parent's hat manages or directs the inequitable conduct or bad faith litigation.[88]

Proving one of these three situations could be difficult due to the evidentiary hurdles as well as the strong presumption, discussed in *Bestfoods*, that the officers of a company are acting for whom they say they

or gross negligence required by § 285. *Mach Corp.*, 774 F.2d at 475; Hughes v. Novi Am., Inc., 724 F.2d 122, 126 (Fed. Cir. 1984) (affirming § 285 fee award against plaintiffs, alleged inventor and president of former assignee, on the basis that the suit was brought in bad faith where the inventor and assignee knew of the inventor's invalidating on-sale bar activities, evidence of the on-sale activity came to light seven months prior to trial and the patentee and inventor continued to press the suit, the patentee and inventor gave false answers in their individual interrogatory responses, and relying on the fact that the inventor had committed inequitable conduct in procuring the patent).

[83] *Hughes*, 724 F.2d at 126.

[84] 5 MATTHEWS, *supra* note 82, § 33:20.

[85] United States v. Bestfoods, 524 U.S. 51, 71 (1998).

[86] *Id*.

[87] 35 U.S.C. § 285 (2006).

[88] *Bestfoods*, 524 U.S. at 71.

are acting.[89] However, in the absence of such evidence, there is an alternative for holding the parent company liable—piercing the veil.[90]

IV. VEIL PIERCING WITHIN THE PATENT LAW CONTEXT

In situations where there is insufficient evidence to hold a parent company directly liable for the actions which led to extraordinary circumstances, it may still be possible to hold it indirectly liable in its capacity as a shareholder by piercing the veil.[91] This requires overcoming a presumption based on a basic principle of American corporate law "deeply 'ingrained in our economic and legal systems'" that a shareholder is not liable for the acts of its subsidiaries.[92] This fundamental principle is particularly important when dealing with non-practicing entities.[93] Even the Supreme Court has recognized the fact that inventors and procurers of patents may find limited liability especially useful for taking the risks that developing technology particularly entails.[94] In order to overcome the important rule of limited liability, a defendant must pierce the veil, also commonly referred to as the "alter ego" or "mere instrumentality" doctrine.[95]

The rules for when the courts can pierce the veil are far from concrete. As Stephen Presser put it in his treatise on veil piercing, "the doctrine is never likely to be pinned down to rigid particulars", and "it will evolve and change as long as our conception of, and our goals for, the corporation remain changing."[96] Veil piercing in patent law is no different. While there are a number of cases addressing veil piercing within the context of patent law, few provide any strong guidance for how the courts will continue to

[89] *Id*. at 70.

[90] *Id*.

[91] *Id*. at 62.

[92] *Id*. at 61 (citing William O. Douglas & Carrol M. Shanks, *Insulation from Liability Through Subsidiary Corporations*, 39 YALE L.J. 193, 193 (1929)); *see also* STEPHEN B. PRESSER, PIERCING THE CORPORATE VEIL § 1:1 (2008).

[93] Nelson v. Adams USA, Inc., 529 U.S. 460, 471 (2000).

[94] *Id*. ("Indeed, where patents are concerned, the one-person corporation may be an altogether appropriate means to permit innovation without exposing inventors to possibly ruinous consequences.").

[95] *See* Am. Bell Inc. v. Fed'n of Tel. Workers of Pa., 736 F.2d 879, 886 (3d Cir. 1984); *see also* Chicago, Milwaukee & St. Paul Ry. Co. v. Minneapolis Civic & Commerce Ass'n, 247 U.S. 490, 501 (1918).

[96] PRESSER, *supra* note 92, § 1:2.

address piercing the veil, particularly when piercing the veil to collect attorneys' fees from the owner of a patentee-plaintiff. This section discusses several cases that address veil piercing in the patent law context in an effort to determine its applicability to our hypothetical situation.[97]

A. Choice of Law

As a preliminary matter, it is important to note that there are inconsistencies among the courts about which body of substantive law applies when attempting to pierce the veil.[98] When addressing this question in federal court, there are normally three options.[99] The first two options both involve looking to the law of the state of incorporation.[100] One looks at the state of incorporation of the entity which would be disregarded[101] (in our case the wholly owned subsidiary) and the other looks at the state of incorporation of the parent corporation which would be held liable.[102] The third option is to apply federal common law.[103] Even within the Federal Circuit, there is ambiguity about which substantive law applies.[104] The confusion has led some courts, after examining the substantive veil piercing principles that would potentially be applicable, to simply conclude that regardless of which law is applied the outcome is the same.[105]

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[97] *See infra* Part IV.B.

[98] *Bestfoods*, 524 U.S. at 63 n.9.

[99] Mobil Oil Corp. v. Linear Films, Inc., 718 F. Supp. 260, 267 (D. Del. 1989).

[100] *Id*.

[101] *Id*.

[102] *Id*.

[103] *Id*. For an argument in favor of applying federal common law, *see* Note, *Piercing the Corporate Law Veil: The Alter Ego Doctrine Under Federal Common Law*, 95 HARV. L. REV. 853, 853 (1982) (arguing that "federal common law should look to federal statutory policy rather than to state corporate law when deciding whether to pierce the corporate veil"); *see also* United States v. Diviner, 822 F.2d 960, 964–65 (10th Cir. 1987) (applying federal common law); Am. Bell Inc. v. Fed'n of Tel. Workers of Pa., 736 F.2d 879, 886 (3d Cir. 1984) (applying federal common law); Seymour v. Hull & Moreland Eng'g, 605 F.2d 1105, 1111 (9th Cir. 1979) (applying federal common law).

[104] *Compare* Insituform Techs., Inc. v. CAT Contracting, Inc., 385 F.3d 1360, 1380 (Fed. Cir. 2004) ("Because the alter ego issue is not unique to patent law, this court applies the law of the regional circuit.") *with In re* Cambridge Biotech Corp., 186 F.3d 1356, 1376 (Fed. Cir. 1999) (where the court looked to Seventh Circuit law to determine that the court applies the law of the state of incorporation to pierce the veil, even though the case was an appeal from a Massachusetts District Court and none of the parties were incorporated within the Seventh Circuit's jurisdiction).

[105] *Mobil Oil*, 718 F. Supp. at 268 ("In any event, the Court will not launch into a protracted

A complete study of choice of law for veil piercing is outside the scope of this article; however, it is important to note that subtle differences in substantive veil piercing law that sometimes exist between jurisdictions may play a role in how the courts decide issues relating to veil piercing for § 285 attorneys' fees.[106] Also note that, in *Bestfoods,* the Supreme Court addressed one other question pertaining to the scope of veil piercing: whether an important federal statute deserves broader veil piercing rules in order to further the goals of a strong federal policy behind a statute.[107] Even though *Bestfoods* was addressing CERCLA,[108] the Court's broad language can easily be applied to other federal statutes such as in our case, § 285 regarding attorneys' fees.[109] The rule established was that, without a congressional enactment giving indication that "the entire corpus of state corporation law is to be replaced simply because a plaintiff's cause of action is based upon a federal statute," there is no reason to assume that it is appropriate to apply broader veil piercing principles.[110] "In order to abrogate a common-law principle, the statute must speak directly to the question addressed by the common law."[111] There is no indication of congressional intent in § 285 to abrogate the common law doctrine of veil piercing,[112] so while it is unclear which body of law applies, it is at least clear that the applicable veil piercing law is not ipso facto modified to conform to the strong policy behind the patent statutes.

B. Veil Piercing to Collect from Parent Companies in Patent Infringement Cases

The doctrine of piercing the veil is an equitable rule used to attach liability to the owners of a business entity for the liability incurred by the

choice of law analysis because it is convinced that regardless of which law is applied to the alter ego question—whether federal, Delaware or Oklahoma common law—the outcome is the same. Fraud or something like it is required.").

[106] For a comparison of veil piercing in different jurisdictions, see Stephen Presser's informative treatise which has an overview of the rules for veil piercing in each state and in each circuit, including the Federal Circuit. *See generally* PRESSER, *supra* note 92.

[107] United States v. Bestfoods, 524 U.S. 51, 63 n.9 (1998).

[108] *Id*. at 55.

[109] *See id*.; 35 U.S.C. § 285 (2006).

[110] *Bestfoods*, 524 U.S. at 63 (quoting Burks v. Lasker, 441 U.S. 471, 478 (1979)).

[111] *Id*. (quoting United States v. Texas, 507 U.S. 529, 534 (1993)).

[112] 35 U.S.C. § 285.

entity itself.[113] The individual or corporate shareholder will be exposed to the liability of the owned entity "when a court determines that the debt in question is not really a debt of the corporation, but ought in fairness, to be viewed as a debt of the individual or corporate shareholder."[114] Generally, these situations arise when the corporate form would otherwise be misused to accomplish certain wrongful purposes, most notably fraud, on the shareholder's behalf.[115] The concepts of fairness, wrongful purposes, and fraud are what potentially overlap with the extraordinary circumstances requirement of § 285. This section studies how the courts have measured these inequities in the patent law context in order to see how much overlap really exists.

In an early Federal Circuit case addressing veil piercing, *Minnesota Mining & Manufacturing Co. v. Eco Chem, Inc.*, Minnesota Mining and Manufacturing Co. (3M), bought a small, family-owned business in order to acquire its patented electroplating technology.[116] The family subsequently established another company, Eco Chem, Inc. (ECI), which it used to perform substantially similar activities.[117] 3M sued ECI for infringement of the same patents that were the reason for buying the original company.[118] During the lawsuit, the family moved to Georgia and established another company, Eco-Chem, Ltd. ("ECL"), to which they transferred all of ECI's

[113] PRESSER, *supra* note 92, § 1:1.

[114] *Id.* (emphasis omitted). Limited liability typically applies the same whether the shareholder is another business entity or only one person; however, some commentators have observed that "courts are probably more willing to 'pierce the corporate veil' when the defendant is a corporation rather than an individual." Robert W. Hamilton, *The Corporate Entity*, 49 TEX. L. REV. 979, 992 (1971).

[115] *Bestfoods*, 524 U.S. at 62; *see also* Chicago, Milwaukee & St. Paul Ry. Co. v. Minneapolis Civic & Commerce Ass'n, 247 U.S. 490, 501 (1918) (stating that the principles of corporate separateness "have been plainly and repeatedly held not applicable where stock ownership has been resorted to, not for the purpose of participating in the affairs of a corporation in the normal and usual manner, but for the purpose . . . of controlling a subsidiary company so that it may be used as a mere agency or instrumentality of the owning company"); PRESSER, *supra* note 92, § 1:1 ("The 'veil' of the 'corporate fiction,' or the 'artificial personality' of the corporation, is 'pierced,' and the individual or corporate shareholder exposed to personal or corporate liability . . . when a court determines that the debt in questions *is not really a debt of the corporation*, but ought, in fairness, *to be viewed as a debt of the individual or corporate shareholder or shareholders*.").

[116] 757 F.2d 1256, 1258 (Fed. Cir. 1985).

[117] *Id.*

[118] *Id.*

assets.[119] 3M subsequently moved to join both the family and ECL as parties to the suit, which the district court granted.[120]

The Federal Circuit upheld the Minnesota district court's decision to pierce the veil to obtain personal jurisdiction[121] over ECL and the family involved.[122] The court began its analysis by observing that the corporate form is not readily brushed aside; however:

> When substantial ownership of all the stock of a corporation in a single individual is combined with other factors clearly supporting disregard of the corporate fiction on grounds of fundamental equity and fairness, courts have experienced little difficulty and have shown no hesitancy in applying what is described as the "alter ego" or instrumentality theory in order to cast aside the corporate shield and to fasten liability on the individual stockholder.[123]

The court then discussed the factors more specifically,

> One of the "other factors" to which courts have looked when "piercing the corporate veil" is whether insistence on

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[119] *Id*. at 1258–59.

[120] *Id*. at 1259.

[121] Note that there is a difference between piercing the veil to impose liability on a parent company and piercing the veil to obtain personal jurisdiction. This difference, however, lies in the degree of ownership and control, which does not affect our discussion of fraud or similar inequities. BMC Software Belg., N.V. v. Marchland, 83 S.W.3d 789, 799 (Tex. 2002) ("To 'fuse' the parent company and its subsidiary for jurisdictional purposes, the plaintiffs must prove the parent controls the internal business operations and affairs of the subsidiary. But the degree of control the parent exercises must be greater than that normally associated with common ownership and directorship; the evidence must show that the two entities cease to be separate so that the corporate fiction should be disregarded to prevent fraud or injustice."); *see also* City of Monroe Employees Ret. Sys. v. Bridgestone Corp., 399 F.3d 651, 667–68 (6th Cir. 2005) (refusing, in case involving jurisdictional allegations based on alleged "control person" under the securities laws, to "substitute our analysis of the securities laws' substantive bases for liability for the required, due-process based personal jurisdiction analysis . . . ."); AT&T Co. v. Compagnie Bruxelles Lambert, 94 F.3d 586, 591 (9th Cir. 1996) (concluding that "liability is not to be conflated with amenability to suit in a particular forum. Personal jurisdiction has constitutional dimensions, and regardless of policy goals, Congress cannot override the due process clause, the source of protection for non-resident defendants").

[122] *Minn. Mining*, 757 F.2d at 1258.

[123] *Id*. at 1264 (quoting 1 W. FLETCHER, CYCLOPEDIA OF LAW OF PRIVATE CORPORATIONS § 41.35 (2007)).

> the corporate form would enable the stockholder to avoid legal liability. "Posttort activity, when conducted to strip the corporation of its assets in anticipation of impending legal liability, may be considered in making the determination whether to disregard the corporate entity."[124]

The evidence considered in upholding the district court's decision to pierce the veil included the fact that one of the family members owned 80% of the stock and that ECI was operated without any formal board of directors, without consulting with the minority stockholders, and without adhering to the corporate formalities.[125] Furthermore, the court relied on the fact that the family purposely manipulated ECI so as to thwart 3M's recovery of its judgment, which is "precisely the situation in which courts feel most comfortable in using the equitable powers to sweep away the strict legal separation between corporation and stockholders."[126]

Minnesota Mining shows no intent by the Federal Circuit to make changes to the doctrine of piercing the veil in order to adapt it to the patent law context;[127] however, the question still remains as to how the circumstances that allow the court to pierce the veil fit into the framework of a § 285 exceptional circumstances analysis. The Delaware District Court provides insight into this question in *Mobil Oil Corp. v. Linear Films, Inc.*[128] Interestingly, the court in *Mobil Oil* chose the following language when beginning its veil piercing analysis: "Disregard of the corporate entity is appropriate only in exceptional circumstances."[129] While the decision to use the words "exceptional circumstances" is potentially just a coincidence, it at least raises the question as to whether a finding of exceptional circumstances for attorneys' fees is, by itself, sufficient for piercing the veil, and vice versa. A look at the rest of the *Mobil Oil* court's language

[124] *Id.* The court also cited one Tenth Circuit case for its analysis, which coincides with the choice of law rule that requires using the law of the circuit where the court would have gone absent a patent issue. *Id*. However, there is nothing to suggest that this was an intentional choice of law decision. *See id*.

[125] *Id*. at 1265.

[126] *Id*.

[127] PRESSER, *supra* note 92, § 3:15 ("[M]ost of the cases treating the issue suggest that the Federal Circuit's approach does not now differ significantly from that of the state courts. The Federal Circuit seems to require (1) proof of domination and control and (2) the exercise of that domination and control to perpetrate a fraud or similar inequity or injustice upon the plaintiff.").

[128] *See generally* 718 F. Supp. 260 (D. Del. 1989).

[129] *Id*. at 270.

suggests otherwise.

The court began its analysis by stating that "[a] subsidiary corporation may be deemed the alter ego of its corporate parent where there is a lack of attention to corporate formalities such as where the assets of two entities are commingled, and their operations intertwined."[130] This relationship may also exist where the "corporate parent exercises complete domination and control over its subsidiary."[131] Additionally, commingled operations or parental dominance is not alone sufficient; there must also be proof that the use of the corporate form works "as a fraud or something in the nature of a fraud."[132] In other words, a court can pierce the veil "only in the interest of justice, when such matters as fraud, contravention of law or contract, public wrong, or where equitable consideration[s] . . . are involved."[133] Next, the court answers our question by stating that any breach of contract or tort is, in some sense, an injustice and that these types of injustice are not what was meant by "fraud or something like fraud."[134] "The underlying cause of action does not supply the necessary fraud or injustice. To hold otherwise would render the fraud or injustice element meaningless, and would sanction bootstrapping."[135] The focus of the fraud or injustice inquiry is on the defendant's use of the corporate form, not the mere existence of it:

> Limiting one's personal liability is a traditional reason for a corporation. Unless done deliberately, with specific intent to escape liability for a specific tort or class of torts, the cause of justice does not require disregarding the corporate entity. The corporate form itself works no fraud on a [tort victim] who has never elected to deal with the corporation.[136]

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[130] *Id*. at 266.

[131] *Id*.

[132] *Id.* at 267.

[133] *Id.* at 268.

[134] *Id*.

[135] *Id*.

[136] *Id*. at 269 (quoting Zubik v. Zubik, 384 F.2d 267, 273 (3d Cir. 1967)); Operating Eng'rs. Pension Trust v. Reed, 726 F.2d 513, 515 (9th Cir. 1984) (stating that piercing the corporate veil requires "a fraudulent intent behind the incorporation"); Luckett v. Bethlehem Steel Corp., 618 F.2d 1373, 1379 (10th Cir. 1980) ("A court will disregard the corporate entity where fraud or illegal or inequitable conduct is the result of the use of the corporate structures."); *see also* Seymour v. Hull & Moreland Eng'g, 605 F.2d 1105, 1113 (9th Cir. 1979) ("While there was a substantial amount of evidence from which the bad faith of [the defendant shareholders] might be

The court, applying these rules, held that the plaintiff failed to provide the necessary evidence for piercing the veil.[137] There was no evidence that the defendant utilized the corporate form to perpetrate a fraud or to work an injustice upon the plaintiff other than the underlying cause of action;[138] furthermore, there was no evidence that the defendants used the corporate form "to operate a sophisticated shell game, shuttling assets between entities in an effort to escape the effect of any potentially adverse judgment."[139]

Again, reconsider the hypothetical.[140] The circumstance from our hypothetical where veil piercing applies arises when the defendant has joined the parent company as a third party defendant under the theory that the parent company should be held liable for the acts of the subsidiary because circumstances exist to warrant piercing the veil.[141] The acts of the subsidiary that would be imputed to the parent could include inequitable conduct, bad faith litigation, or any other actions giving rise to exceptional circumstances supporting § 285 attorneys' fees. However, the mere fact that the subsidiary engaged in this conduct is not enough by itself to support piercing the veil.[142] Rather, as *Mobil Oil* makes clear, piercing the veil requires more, such as evidence that the subsidiary was created "with specific intent to escape liability" for attorneys' fees or use of the subsidiary to "operate a sophisticated shell game, shuttling assets between entities in an effort to escape the effect of any potentially adverse judgment."[143] When faced with the situation addressed in the hypothetical, litigants should be careful to provide evidence of this nature, and similarly, the courts should be careful to require it.

inferred in disregarding their obligations to the [plaintiffs], no evidence of bad faith or fraudulent intent in forming the corporation was presented.").

[137] *Mobil Oil*, 718 F. Supp. at 271.

[138] *Id*.

[139] *Id*. at 270.

[140] *See supra* Part I.

[141] *See supra* Part I.

[142] *See Mobil Oil*, 718 F. Supp. at 270.

[143] *Id*. at 269–70.

C. Applicability of the Federal Circuit's Use of Veil Piercing Principles to Hold Officers Liable for Infringement by a Business Entity

In addition to the traditional doctrine of piercing the veil to hold owners liable for the actions of an entity, the Federal Circuit has its own unique application of veil piercing principles that it applies when determining whether to hold officers liable for patent infringement by the entity.[144] A series of cases has established a rule that holding a corporate officer jointly liable for the company's infringement under 35 U.S.C. § 271(a)[145] requires "invocation of those general principles relating to piercing the corporate veil."[146] While this use of veil piercing has been heavily criticized,[147] it warrants discussion for two reasons: first, it is important to note the different circumstances that developed this unique use of veil piercing so as not to confuse the court's language with language discussing traditional, ownership based, veil piercing, and second, it is important to note the reach of this doctrine and how it can potentially affect the analysis of direct liability of an officer for attorneys' fees. To accomplish these goals, this section first discusses the historical development of this doctrine, and then explains how it could potentially affect our hypothetical analysis, primarily concluding that it does not.

The Federal Circuit's analysis of corporate officer liability under 35 U.S.C. § 271(a) started in 1986 in *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*[148] The issue was whether three officer-owners of a company that was infringing the plaintiff's patent were liable for directing the company to manufacture the infringing product.[149] The court started its analysis by noting that § 271(a) is a strict liability offense, requiring no element of intent or knowledge.[150] It then, seemingly, had two options:

[144] *See* Hoover Group, Inc., v. Custom Metalcraft, Inc., 84 F.3d 1408, 1411–12 (Fed. Cir. 1996); Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 552–53 (Fed. Cir. 1990); Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565, 1579 (Fed. Cir. 1986).

[145] 35 U.S.C. § 271(a) (2008) (providing that "whoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent").

[146] *Orthokinetics*, 806 F. 2d at 1579.

[147] *See* Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 116 (arguing that the Federal Circuit should abandon the established precedent that holds officers liable for patent infringement committed by their corporations).

[148] *See generally Orthokinetics*, 806 F.2d 1565.

[149] *Id.* at 1578.

[150] *Id.* at 1579.

first, it could apply a traditional veil piercing analysis to determine the three defendants' liability as owners, or second, it could hold the defendants directly liable as officers of the corporation for personally taking part in the commission of the tort (which would require application of strict liability).[151] However, rather than following one of these paths, the court created the following test: "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."[152] The analysis then considers evidence of ownership of the entities by the three owner-officers in order to hold that they "were directly responsible for the design and production of the infringing chairs and that they were the only ones who stood to benefit from sales of those chairs."[153] The court never clarified the distinction between liability as an owner and as an officer; however, as we will see, later cases would interpret this language as establishing officer liability.[154]

The next case to address this rule was *Manville Sales Corp. v. Paramount Sys., Inc*.[155] In this case, the two individual defendants were merely officers rather than owners.[156] The court began its analysis by citing the rule from *Orthokinetics*, that in order to hold the officers liable for the company's infringement there must be evidence to justify piercing the corporate veil.[157] It next cited the traditional veil piercing analysis that would normally apply to holding owners liable for the acts of the entity: "[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."[158] The facts that the court focused on were the actions that the officers took in physically copying and passing forward the plaintiff's patented design.[159] However, ultimately the court chose not to find the officers liable because they "were [acting] within the scope of their employment and thus were protected by the corporate

[151] *See id*.
[152] *Id*.
[153] *Id*.
[154] *See id*.
[155] *See generally* 917 F.2d 544 (Fed. Cir. 1990).
[156] *Id*. at 552.
[157] *Id*. (citing A. Stucki Co. v. Worthington Indus., Inc., 849 F.2d 593, 596 (Fed. Cir. 1988)).
[158] *Id*. (citing Zubik v. Zubik, 384 F.2d 267, 272 (3d Cir. 1967)).
[159] *Id*. at 553.

veil."[160]

This distinction between acting within and outside of the scope of employment was further discussed in *Hoover Group, Inc. v. Custom Metalcraft, Inc*.[161] Like *Orthokinetics* and unlike *Manville*, the individual defendant in *Hoover Group* was the president, chief executive officer, and principal shareholder of the company.[162] The Federal Circuit began its analysis by citing *Orthokinetics* as a general rule, that officers of a corporation can be held personally liable for the infringement of a corporation under the "general principles relating to piercing the corporate veil."[163] The court then read *Manville* as providing an additional element to this rule, stating that "acts of a corporate officer that are within the scope of the officer's responsibility are not always sufficient grounds for penetrating the corporate protection and imposing personal liability."[164] Thus, the Federal Circuit created a distinction between commercial torts committed in the course of the officer's employment and negligent and other culpable acts.[165] The first of these requires the same grounds as piercing the corporate veil, such as inadequate capitalization, use of the corporate form for fraudulent purposes, or failure to comply with the formalities of corporate organization.[166] The Federal Circuit addressed the factors considered before imposing personal liability:

> When personal wrongdoing is not supported by legitimate corporate activity, the courts have assigned personal liability for wrongful actions even when taken on behalf of the corporation. . . . Thus when a person in a control position causes the corporation to commit a civil wrong, imposition of personal liability requires consideration of the nature of the wrong, the culpability of the act, and whether the person acted in his/her personal interest or that of the corporation.[167]

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[160] *Id*.

[161] 84 F.3d 1408, 1411 (Fed. Cir. 1996).

[162] *Id*. at 1410.

[163] *Id*. at 1411 (quoting Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F. 2d 1565, 1579 (Fed. Cir. 1986)).

[164] *Id*. at 1411 (citing *Manville*, 917 F.2d at 553).

[165] *Id*.

[166] *Id*.

[167] *Id*.

Since manufacturing falls within an officer's control over commercial activities, infringement by the manufacturing process would not necessarily be attributed to the officer; rather, holding the officer liable would require evidence of piercing the veil.[168] Since there were no allegations that the "corporate structure was a sham, or existed merely to shield [the owner-officer] from liability for 'fraud or wrong' or violation of any legal duty," the defendant could not be held personally liable under § 271(a).[169]

While the language in *Manville* appears broad, its use is becoming increasingly rare due to an alternative section of the patent statute, dealing with inducing infringement, which also allows for holding officers liable.[170] Also, while doubtful, there is an open question as to whether the Federal Circuit would extend this analysis to other contexts of patent law, such as to require the invocation of veil piercing principles in order to hold an officer liable for attorneys' fees. The Federal Circuit has had an opportunity to do this, has chosen not to, and is likely not to do this in the future.[171] Aside from the confusing nature of the analysis, a more practical difference between § 271(a) liability for infringement and § 285 liability for attorneys' fees is that the former is strict liability and the latter requires intent.[172] As a result, the defendant from our hypothetical does not need to rely on this line of cases to hold the individual liable as an officer or the parent company liable as an owner. The defendant's attention should be focused on finding an officer directly liable by one or more of the three methods discussed in *Bestfoods*,[173] or on holding the parent company liable under the traditional doctrine of piercing the veil. For these reasons, practitioners should be careful not to take this line of cases out of context to apply them to hold

[168] *Id*. at 1411–12.

[169] *Id*. at 1412.

[170] 35 U.S.C. § 271(b) (2008) ("Whoever actively induces infringement of a patent shall be liable as an infringer."); Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F. 2d 1565, 1578–79 ("It is well settled that corporate officers who actively aid and abet their corporation's infringement may be personally liable for inducing infringement under § 271(b) regardless of whether the corporation is the alter ego of the corporate officer"); Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 244–45 (2005) ("Officers can be liable for direct infringement if they themselves infringe a patent and for inducement if they intentionally take specific steps to cause another to infringe, but their status within the company does not seem to subject them to liability for the company's acts absent specific intent to infringe a patent.").

[171] *See Hoover Group*, 84 F.3d at 1408.

[172] *Compare* 35 U.S.C. § 271(a) (2008) (imposing strict liability), *with* 35 U.S.C. § 285 (2006) (requiring intent).

[173] United States v. Bestfoods, 524 U.S. 51, 70–71 (1998).

owners liable under the traditional theory of veil piercing.

V. PROCEDURAL ISSUES WHILE PIERCING THE VEIL

There is one additional item that warrants discussion: a pitfall that a defendant to a patent infringement suit can fall into when attempting to collect fees against the owner of a patentee-plaintiff. The problem arises when a defendant fails to join the owner as a party and claim attorneys' fees sufficiently before judgment to provide an opportunity to respond to the claim. Considering the complexity of these types of cases, it is understandable that this kind of mistake takes place. Consider our hypothetical where the sole shareholder of the parent company is also the president of both the parent company and the subsidiary.[174] This person has maintained a presence in the courtroom throughout the litigation and it is easy to see why a defendant could lose sight of the reason the person is there. Failure to realize that this person is present in his or her capacity as an agent of the patentee-plaintiff rather than as an agent of the parent company or in his or her individual capacity can prevent a judgment against this person.[175] This was the situation addressed by the Supreme Court in *Nelson v. Adams USA, Inc*.[176]

In *Nelson*, Ohio Cellular Products Corp. (Ohio Cellular) sued Adams USA, Inc. (Adams), claiming patent infringement.[177] The district court found that the patent was invalid because it was anticipated by another patent.[178] After appeal where the judgment of invalidity was affirmed, the district court granted Adam's motion for attorneys' fees and costs on the basis that the applicant had engaged in inequitable conduct before the Patent and Trademark Office.[179] After judgment on liability for fees was entered, Adams and Ohio Cellular attempted to negotiate the amount of

[174] *See supra* Part I.

[175] *See* Nelson v. Adams USA, Inc., 529 U.S. 460, 463 (2000).

[176] *Id*.

[177] *Id*. at 462.

[178] *Id*. at 462; 35 U.S.C. § 102(a) (2008) ("A person shall be entitled to a patent unless . . . the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for the patent."); Ohio Cellular Prods. Corp. v. Adams USA, Inc, 104 No. 96-1173, 1996 WL 732296, at *2 (Fed. Cir. Dec. 23, 1996) ("A patent claim is invalid as anticipated under 35 U.S.C. § 102(a) if a single prior art reference discloses each and every limitation of the claim.").

[179] Ohio Cellular Prods. Corp. v. Adams USA, Inc., 175 F.3d 1343, 1345 (Fed. Cir. 1999).

attorneys' fees.[180] During this time, a letter was sent by Ohio Cellular's counsel stating: "I am writing to potentially save you some time. The fact is that if the attorney fee award exceeds a very limited amount, you will not collect it because the company will be liquidated. If you wish to discuss a resolution on a nominal basis, please let me know."[181] Out of fear that Ohio Cellular would be unable to pay, Adams then moved to amend its pleadings pursuant to Rule 15 of the Federal Rules of Civil Procedure, to include Nelson, the president and sole shareholder of Ohio Cellular.[182] The district court granted the motion and simultaneously subjected Nelson to the judgment.[183] The Federal Circuit affirmed,[184] but the Supreme Court reversed, holding that Nelson was never afforded a proper opportunity to respond to the claim against him.[185] The Court stated that "[a]ppeal after judgment, in the circumstances this case presents, did not provide an adequate opportunity to defend against the imposition of liability."[186] It ultimately held that due process requires that the defendant "be given an opportunity to respond and contest his personal liability for the award after he was made a party and before the entry of judgment against him."[187]

In a more recent case, the Southern District of New York applied *Nelson* when it refused to find a shareholder liable under a veil piercing theory after the plaintiff was charged with inequitable conduct before the patent and trademark office and vexatious litigation.[188] The infringement plaintiff in this case was Advanced Magnetic Closures, Inc. (AMC).[189] Bauer was the president and sole shareholder of AMC as well as the alleged inventor of a specific type of magnetic snap used on ladies' purses.[190] During trial, it was discovered that AMC lied to the Patent and Trademark Office to obtain a patent over purse fasteners so that it could maintain its monopoly in the

[180] *Id*.
[181] *Id*. (original emphasis omitted).
[182] *Id*. at 1346.
[183] *Id*.
[184] *Id*. at 1352.
[185] Nelson v. Adams USA, Inc., 529 U.S. 460, 468 (2000).
[186] *Id*. at 466.
[187] *Id*. at 463.
[188] Advanced Magnetic Closures, Inc. v. Rome Fastener Corp., No. 98 Civ. 7766(PAC), 2008 WL 2787981, at *18 (S.D.N.Y. July 17, 2008).
[189] *Id*. at *1.
[190] *Id*.

market.[191] Romag, the defendant, moved for attorneys' fees from AMC alleging inequitable conduct and litigation misconduct.[192] After a lengthy discussion of the events spanning 10 years of misconduct,[193] the court awarded Romag attorneys' fees against AMC.[194] Realizing that AMC was nonoperational and without any assets other than the invalidated patent, Romag attempted to pierce the veil and hold Bauer liable as the owner.[195] The court refused to pierce the corporate veil on due process grounds:

> Romag offers no justification for its failure to name [Bauer] as [a defendant] before this case proceeded to trial. Romag was certainly aware of Bauer and the instrumental role he played in securing the [patent] and in driving the present litigation. While Bauer was present throughout the trial, his presence was in his capacity as the owner of AMC. Whether he might have pursued alternate strategies for defending against the inequitable conduct claim if facing personal liability is a matter of speculation. Such "predictions about the outcome of hypothesized litigation cannot substitute for the actual opportunity to defend that due process affords every party against whom a claim is stated."[196]

For practitioners, the lesson is simple: the moment a defendant to patent litigation discovers that there is a good faith claim for attorneys' fees against the plaintiff, its officers, or its parent company, it should join all potentially responsible parties making sure to identify each one in the capacity which it is intended that they be held liable.

VI. CONCLUSION

This comment addresses the two primary options that a defendant has when attempting to collect attorneys' fees under 35 U.S.C. § 285 when the patentee-plaintiff is unable to pay. First, the defendant should file a timely, good-faith claim against the other potentially liable parties, whether officers

[191] *Id*. at *6.
[192] *Id*. at *1.
[193] *Id*. at *15.
[194] *Id*. at *15–16.
[195] *Id*. at *18.
[196] *Id*. at *18 (quoting Nelson v. Adams USA, Inc., 529 U.S. 460, 471 (2000)).

or owners.[197] The underlying cause of action would be § 285,[198] but the liability can potentially attach through either of the theories discussed in this comment. The defendant can attempt to hold the parent company or the officer directly liable for taking part in the infringing activities. As discussed above, in a situation where the officer is able to change hats and represent the subsidiary without also representing the parent company, it is difficult to impute any actions of the officer to the parent company unless there is proof that the officer was acting only in the best interest of the parent company. Alternatively, the parent company or other owner can be held liable under a veil piercing theory. The court should only pierce the veil when evidence of direct liability is lacking, and when deciding to do so, the court should require more than a mere showing of § 285 "exceptional circumstances," such as requiring specific evidence that the plaintiff intentionally created the subsidiary for the purpose of avoiding § 285 liability. On the other hand, a practitioner should be careful when treading through all of the available options for collecting from a bad faith patentee-plaintiff, pursuing the applicable options carefully, and specifically articulating the different methods for attaching liability in order to be the most effective advocate for a defendant that is similarly situated to the defendant in our hypothetical.

[197] *See* Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565 (Fed. Cir. 1986).
[198] 35 U.S.C. § 285 (2006).