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IP Law

**Intellectual Property: Are you an “infringer?”**

**Gina Carter** • Published 01/09/07

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*Editor's note: This is part II of a four-part series on intellectual property law. In part I, attorney Gina Carter addressed how corporate officers can mitigate risk in copyright cases. In this presentation, she does the same for trademarks and patents.*

**Trademarks: Liability for officers and directors**



In the trademark context, in order for an officer or director to be personally liable, he or she must personally take part in infringing activities or specifically direct employees to do so. Mere corporate control of affairs is not sufficient to warrant personal liability. See *Sara Lee Corp. vs. Am. Leather Prods., Inc.*, 1998.

However, a corporate officer *may* be personally liable if he or she is an “active, conscious force behind the alleged infringement.” In the *Sara Lee* case, where an individual defendant was the owner and president of the infringing company but only spent one percent of his time on the company's activities, and did not oversee the buying, selling, marketing, or advertising of products, the court held he could not be personally liable for infringement.

**Patents: Contributory infringement and active inducement**

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In patent cases, the prevailing rule that permits liability to reach corporate officers and directors pertains to whether there is “a special showing” of the officer or directors' personal participation in the conduct. It stems from the 1926 *Seventh Circuit Court of Appeals* decision in *Dangler vs. Imperial Machine Co.*

In *Dangler*, the court refused to hold that the named officers (the corporation's president and secretary) were personally liable for the alleged patent infringement based solely on their grant of personal loans to the company when it was in danger of insolvency. The court focused on the fact that the officers infused the money into the corporation for the purpose of keeping the business afloat during appeal of the original patent lawsuit, not for the purpose of continuing manufacturing operations with the infringing machine.

They also stressed that the officers were acting under advice of counsel that their manufacturing process was not infringing on the plaintiff's patent. When the defendant's company filed for bankruptcy, the plaintiff added the officers as individual defendants to enforce their judgment based on the infringement found in the initial patent lawsuit against the corporation.

**Dangling legacy**

Since the *Dangler* case, numerous courts have followed its two key holdings: the general rule of nonliability and the “special showing” exceptions.

For example, the Federal Circuit, in considering the issue of corporate officer or director liability, has stated that:

*“[U]nless the corporate structure is a sham, as is not here asserted, personal liability for inducement to infringe is not automatic but must be supported by personal culpability. The district court did not find bad faith or fraud or culpable intent on the part of [the officer-owner]. The court erred in imposing liability, although the corporate*

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*veil was not pierced.*” (Hoover Group, Inc. vs. Custom Metalcraft, Inc., Fed. Cir. 1996)

The concepts of contributory infringement and induced infringement under patent law also are formally codified in the patent statutes. Section 271(b) states, “*Whoever actively induces infringement of a patent shall be liable as an infringer.*”

Meanwhile, section 271(c) states:

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

### Conclusion

In order to show that an officer or director is personally liable for copyright infringement, a plaintiff must show that the officer or director was involved in day-to-day operations or had the right or authority to supervise or control the infringing activity.

Similarly, in the trademark context, an officer or director, or even a managing employee who personally takes part in the infringing activity, or directs others to specifically do so, may be subject to liability.

In the patent context, the officer or director will not be held liable unless the plaintiff can provide a “special showing” that the officer acted willfully or knowingly, and is an active participant in the infringing activity, or uses the corporation as a sham to insulate him or herself from liability for the infringing activity.

Corporate officers and directors should be aware that their individual conduct that results in claims of infringement of intellectual property may expose them to liability, or at a minimum, entanglement in a lawsuit that will require substantial legal proceedings to secure dismissal of the individual claims against them.

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