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## Company Law & Intellectual Property Update: Directors' liability for intellectual property infringement

### Overview

There is an increasing trend for company directors to be sued personally, in cases involving alleged infringement of copyright, patents, designs and other intellectual property rights. Directors can minimise the risk of liability for intellectual property infringement of third party intellectual property, by having appropriate searches undertaken and obtaining legal advice before launching any new products.

This update provides an overview of two recent Federal Court decisions with different results. In the *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [1] the MDS company director was found to be personally liable for patent infringement in respect of the importation and sale of diagnostic testing devices for pregnancy detection. The court considered that the director was indifferent as to whether or not the products were protected by patents, and was personally involved in the importation and distribution process.

In *Keller v LED Technologies Pty Ltd* [2], the Full Court overturned the ruling of the trial judge and found that the directors were not personally liable for design infringement. In this case, although the directors had sought legal advice and were aware of the prior registered designs, the Court considered the directors' actions to be in the service of their companies, as they were not using the companies as instruments of their own conduct.

Despite the divergent outcomes in these two cases, it is evident that company directors will be unable to hide behind the corporate veil where they are closely and personally involved in the infringing acts of the company.

### 1. Liability for Patent Infringement: *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd*

#### Background

Inverness Medical owned four Australian patents relating to assays involving specific binding. The device described in the patents is an analytical device suitable for home pregnancy testing.

Inverness sought orders against five parties. One was deregistered and another entered into personal insolvency. The three remaining parties were the Australian company MDS Diagnostics Pty Ltd (MDS Aus), a New Zealand company MDS Diagnostics Ltd (MDS NZ) and a director of both MDS Aus and MDS NZ, Dr Appanna.

Inverness alleged that pregnancy devices QuickStream and QuickCard infringed various claims in the four patents. MDS Aus was the sponsor of the two devices under the *Therapeutic Goods Act 1989* (Cth) and MDS NZ was the Australian and New Zealand distributor of the devices. [3] MDS acquired the pregnancy tests from an overseas

manufacturer, and there was no evidence that the supplier informed MDS of any allegations of patent infringement by its products.

## Patent Infringement & Validity

The court extensively considered issues surrounding the validity of Inverness' patents, and the infringement claims against MDS. The court held that the QuickStream device infringed two Inverness patents, and the QuickCard device infringed one patent. [\[4\]](#)

## Director's Liability

Dr Appanna is a director of both MDS New Zealand and MDS Australia, was noted as the managing director and founder of MDS on the company's website, and was a controlling shareholder.

The Court held Dr Appanna to be liable for the infringement by MDS:

1. As a joint tortfeasor; and
2. On the basis that he had "authorised" the conduct of MDS, pursuant to s 13(1) of the *Patents Act 1990*.

### 1) Liability as a Joint Tortfeasor

Courts have previously adopted varying approaches in determining director's liability as a joint tortfeasor for acts committed by a company.

After examining the three leading tests, [\[5\]](#) Justice Bennett held that it was not necessary to determine the correct approach, but said that the question is whether the company director 'knowingly pursued a course of conduct which, judged objectively, led to infringement or was likely to constitute infringement, or reflected indifference to the risk of infringement'. [\[6\]](#)

Liability as either a joint tortfeasor or under s 13(1) of the *Patents Act* cannot arise purely on the basis that a company director controls a company as a shareholder, or is described as the Managing Director. [\[7\]](#) The Court emphasised that Dr Appanna's liability would be determined by reference to his personal involvement in the management and operations of MDS concerning the infringing products. [\[8\]](#) In analysing his conduct as managing director of MDS NZ, the court highlighted the following activities and responsibilities by Dr Appanna as a basis for establishing his liability:

- He was the person to whom the general manager reported within the organisational structure; [\[9\]](#)
- He prepared Board minutes and often did not distribute them to other Board members; [\[10\]](#)
- He was aware of competing products on the market, but was indifferent as to whether or not those products were protected by patents; [\[11\]](#)
- He was directly and personally involved in obtaining regulatory clearance of the MDS devices in Australia as Managing Director and in correspondence with the Therapeutic Goods Administration in Australia; [\[12\]](#)
- He was listed as one of the "responsible persons" in an application for a Medsafe licence under New Zealand's *Medicine Act 1981*. [\[13\]](#)
- He directly participated in the procurement and distribution of the MDS devices, by:
  - *Personally developing relationships with wholesalers and medical distributors on behalf of MDS NZ; and*

- Personally signing documents with Apothecary Sales Brokers which granted Apothecary Sales Brokers a right to obtain orders for the two devices from Australian customers on behalf of MDS NZ. [\[14\]](#)

This conduct by Dr Appanna led the Court to conclude that he was liable as a joint tortfeasor because he 'deliberately, wilfully or knowingly pursued a course of conduct that resulted in MDS selling products that infringed the Inverness patents. [\[15\]](#)

## 2) Liability for authorising conduct under s 13(1) of the Patents Act 1990

Pursuant to s 13(1) of the *Patents Act*, the "exclusive rights" of the patentee are to exploit the invention and to authorise another person to exploit the invention. The patentee therefore has the right to exclude others from exploiting the invention. Inverness contended therefore that Dr Appanna infringed this exclusive right of Inverness, in authorising MDS to exploit the invention which was the subject of the patents.

The Court considered that 'infringement of the right to authorise exploitation in s 13 looks to whether the product being exploited infringes the claimed invention and not whether the person authorising that conduct intends to authorise infringement or knows that the product will infringe'. [\[16\]](#)

The Court held that in order for a company director to have 'authorised' the company's infringement, it is necessary to show 'actions that demonstrate that [the company director] did sanction, approve or countenance the act of infringement'. [\[17\]](#) Dr Appanna was held to have authorised MDS to sell the infringing products as he knew that the infringing act (ie. the sale of the products) would occur and had the power to prevent those acts and some duty to interfere. [\[18\]](#) Furthermore, the Court indicated authorisation can be inferred from inactivity or indifference to the infringing acts by the company. [\[19\]](#)

## 2. Liability for Design Infringement: *Keller v LED Technologies Pty Ltd*

### Background

LED Technologies Pty Ltd (LED Technologies) held various LED light designs registered under the *Designs Act 2003* (Cth), which it claimed were infringed by the importation, sale and distribution of combination rear lights for motor vehicles (the Condor range). LED Technologies also led various claims under the *Trade Practices Act 1974* (Cth), alleging that the packaging of some of the lights in the Condor range contained misleading and deceptive captions, and failed to comply with a proscribed consumer product safety standard.

LED Technologies claimed injunctions and damages against Elecspeess Pty Ltd (Elecspeess), Advanced Automotive Australia Pty Ltd (AAA), Ren International Pty Ltd (Ren) and Olsen Industries Pty Ltd (Olsen), who offered for sale and sold the Condor range. The directors of Ren and Olsen (Mr Morrison, Mr Keller and Mr Armstrong) also faced actions for personal liability as joint tortfeasors for design infringement, as well as for involvement in contraventions by Ren and Olsen of s 75B of the *Trade Practices Act*. Claims against Mr Morrison were abandoned before this appeal.

### Design Validity & Infringement

This decision is the first case to outline the tests for validity and infringement under the *Designs Act 2003*. [\[20\]](#) The Full Court agreed with the findings of the trial judge, holding that LED Technologies' designs were valid and had been infringed by Elecspeess, AAA, Ren and Olsen. [\[21\]](#)

## Trade Practices Act Claims

The Condor products were marketed in packaging declaring that the lights complied with various Australian Design Rules (ADRs), as prescribed under the *Motor Vehicle Standards Act 1989* (Cth). LED Technologies claimed that the Condor products failed to comply with the vehicle standards, and that the marketing captions were misleading and deceptive under s 52 and 53 of the *Trade Practices Act*. LED Technologies also alleged that in supplying Condor products which failed to comply with the vehicle standards, Elecspeess, AAA, Ren and Olsen breached s 65C [22] of the *Trade Practices Act*. The primary judge found that the *Trade Practices Act* had been breached by the respondents, which was unchallenged on appeal.

## Directors' Liability

### Liability as Joint Tortfeasors

LED Technologies contended that Mr Keller and Mr Armstrong should be held personally liable for the infringement by Ren and Olsen on the ground that they had authorised, directed and procured the conduct of Ren and Olsen that constituted infringement of LED Technologies' monopoly in the Designs. [23] The Full Court held that neither Mr Keller nor Mr Armstrong were personally liable for the infringement by Ren and Olsen, however their Honours differed in their reasoning:

- Emmett J emphasised that when considering whether a director is a joint tortfeasor with a company, it is necessary to show that the director was doing something more than acting as a director. [24] Where a 'director can be shown to be making use of a corporation or company as an instrument whereby infringement is perpetrated, such that the director can be seen to be hiding behind the corporate veil, it may be thought that that director is going beyond actions performed merely in the capacity as director'.. [25]
- Besanko J agreed with the reasoning of Emmett J, adding that a director is more likely to be held personally liable where there is a 'close personal involvement in the infringing acts'. [26]
- Jessup J was of the opinion that a director's personal liability for a company's infringement should only arise where 'the director is effectively standing apart from the company and directing or procuring it as a separate entity'. [27]

Mr Keller was a director of Ren and Olsen, and accepted that 'he was the moving spirit in Ren and the person principally concerned with the day to day operations of Olsen'. [28] At trial, the primary judge found that Mr Keller was personally an actor invading the rights of LED Technologies, as he had personal knowledge of LED Technologies' designs, and was directly involved in creating the Condor products and arranging for their manufacture and importation into Australia. [29] The Full Court overturned this finding, holding that Mr Keller was not using Ren or Olsen as the instrument of his own conduct, and that his actions were done in service of Ren and Olsen. [30]

As a director of Olsen and Ren, Mr Armstrong assumed the position of Chairman and had little involvement in the day to day running of the businesses, and played no role in the selection, acquisition or design of specific products. [31] At trial, Mr Armstrong was found to be aware of the LED Technology designs and reflected a conscious indifference to the risk that the designs would be infringed by the Condor products. [32] In considering that Mr Armstrong's involvement in the company was even less than Mr Keller's, the Full Court rejected this finding, and failed to find Mr Armstrong personally liable for Ren and Olsen's infringement as he did not have 'such a close personal involvement in the infringing acts that it is proper to conclude that he directed or procured them'. [33]

### Liability for Trade Practices Act contraventions

LED Technologies also submitted that Mr Keller was involved in the contraventions of section 52 and 53 of the Trade Practices Act by Ren and Olsen, and that both Mr Keller and Mr Armstrong were involved in the contravention of s 65C. [34] In applying the definition of 'a person being involved in such a contravention' under s 75B, the Full Court upheld the trial judge's conclusion that Mr Keller and Mr Armstrong should not be liable under this section as they had no knowledge that any labelling on the Condor products was incorrect, and that they honestly believed the products to have complied with the Australian Design Rules. [35]

## Implications

Although these cases indicate that the law on director liability for company infringement remains unsettled, both cases highlight the potentially significant consequences faced by company directors who are directly and personally involved in the day-to-day operations of a company. In *Inverness*, in finding Dr Appanna personally liable, Bennett J placed heavy emphasis on his involvement and knowledge of the commercial activities by MDS which led to the patent infringement. However, the approach of the Full Federal Court in *Keller* suggests that directors will only be personally liable if they are attempting to 'hide behind the corporate veil', use the company as an instrument of their own conduct, or have a close personal involvement in the infringing acts.

Directors can minimise the risk of liability for intellectual property infringement of third party intellectual property, by having appropriate searches undertaken and obtaining legal advice before launching any new products.

**Stephens Lawyers & Consultants have a high level of expertise in intellectual property and company law, undertakes IP audits and develops strategies for the protection and management of IP assets.**

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[1] [2010] FCA 108. (22 February 2010).

[2] [2010] FCAFC 55 (9 June 2010).

[3] The three respondents were referred to in the judgment as MDS, unless the court needed to refer to them individually; the same approach will be taken in this newsletter.

[4] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, [205]. For a comprehensive discussion of the infringement and validity issues please see analysis by Patent Attorney Paul Kilborn:

<http://www.patentlawaustralia.com/Inverness%20Medical%20Switzerland%20GmbH%20V%20MDS%20Diagnostic.html>.

[5] 1. The test propounded by Lindgren J in *Microsoft Corporation v Auschina Polaris Pty Ltd* (1996) 71 FCR 231; FCA 1069 (6 December 1996), namely whether the director 'directed or procured the infringing act' (applying *Performing Right Society Ltd v Cyril Theatrical Syndicate Ltd* [1924] 1 KB 1 at 15 per Lord Atkin) ( *the Auschina test* ). 2. The test first suggested by Finkelstein J in an obiter remark in *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* (2000) 177 ALR 231; [2000] FCA 980 (1 August 2000 at [146], namely whether the director's conduct is 'such that it can be said of him that he was so personally involved in the commission of the unlawful act that it is just that he should be rendered liable' ( *the Root Quality test* ).3. The test propounded in the Canadian case *Mentmore Manufacturing Co Limited v National Merchandising Manufacturing Co In* (1978) 89 DLR (ED) 195, namely whether 'the director made the infringing conduct his own in the sense that the director deliberately, wilfully or knowingly pursue[d] a course of conduct that was likely to constitute infringement or that reflected indifference to the risk of infringement' (the Mentmore test).

[6] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [183].

[7] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [184].

[8] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [184].

[9] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [187].

[10] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [187].

[11] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [189].

[12] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [190].

[13] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [190].

[14] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [190].

[15] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [192].

[16] *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [193].

[\[17\]](#) *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [202].

[\[18\]](#) *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [203].

[\[19\]](#) *Inverness Medical GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, at [203].

[\[20\]](#) The Full Court dealt with these issues in detail, however these points will not be discussed in depth, as director liability is the focus of this update.

[\[21\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [65] (Emmett J).

[\[22\]](#) Section 65C(1)(a) provides that a corporation must not supply goods that are intended to be used by a consumer if the goods are of a kind in respect of which there is a prescribed consumer safety standard and which do not comply with that standard.

[\[23\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [66] (Emmett J).

[\[24\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [83] (Emmett J).

[\[25\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [84] (Emmett J).

[\[26\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [291] (Besanko J).

[\[27\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [404] (Jessup J).

[\[28\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [67] (Emmett J).

[\[29\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [87] (Emmett J).

[\[30\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [88] (Emmett J).

[\[31\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [72] (Emmett J).

[\[32\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [86] (Emmett J).

[\[33\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [297] (Besanko J).

[\[34\]](#) Under s 82 of the Trade Practices act, a person who suffers loss or damage by conduct done in contravention of sections 52, 53 and 65C may recover the amount of the loss or damage by action against any person involved in the contravention.

[\[35\]](#) *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, at [142] (Emmett J).