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## NOTE

# Imputed Liability: How to Determine When Parent Companies Should Be Held Liable for the Patent Infringements of Their Subsidiary Companies

Emma Tracy\*

### I. INTRODUCTION

The issuance of a patent allows the patentee the legal right to exclude others from manufacturing, using, selling, or importing the patented invention.<sup>1</sup> This legal right exists for as long as the patentee holds the patent.<sup>2</sup> Although most patents are not owned by their creators,<sup>3</sup> both inventors, who spend years laboring over an idea that comes to fruition, and those who obtain patent rights via other means may wish to profit from their patent. Consequently, infringements are not taken lightly. When a company in a subsidiary position infringes upon another company's patent, the victims of patent infringement are frequently not being compensated for harm caused by a subsidiary company's infringements. Subsequently, when a subsidiary company

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1. 35 U.S.C. § 271(a) (2012); Lauren Maida, Note, *Patent Claim Construction: It's Not a Pure Matter of Law, so Why Isn't the Federal Circuit Giving the District Courts the Deference They Deserve?* 30 *CARDOZO L. REV.* 1773, 1776 (2009).

2. See §§ 261, 271; *WIPO Intellectual Property Handbook: Policy, Law and Use*, WORLD INTELL. PROP. ORG. 27 (2008), [http://www.wipo.int/edocs/pubdocs/en/intproperty/489/wipo\\_pub\\_489.pdf](http://www.wipo.int/edocs/pubdocs/en/intproperty/489/wipo_pub_489.pdf). Patents issued before June 8, 1995, were valid for up to seventeen years from the date the patent was granted or up to twenty years from the filing date (whichever was longer). See *Frequently Asked Questions on Patents and Exclusivity*, FDA, <https://www.fda.gov/drugs/developmentapprovalprocess/ucm079031.htm#howlongpatentterm> (last updated Dec. 5, 2016).

3. Patents are typically either transferred by means of an employment agreement or assigned to a corporate owner. See Dennis Crouch, *AIA Shifts USPTO Focus from Inventors to Patent Owners*, PATENTLY-O (Aug. 14, 2012), <http://patentlyo.com/patent/2012/08/aia-shifts-usptos-focus-from-inventors-to-patent-owners.html>.

cannot pay the damages arising from its infringement, the liability is traditionally imputed to the parent company.<sup>4</sup>

This Note examines the theory and principles behind three traditional methods used to hold parent companies liable for the infringing actions of their subsidiaries. These methods include traditional agency principles of tort law, piercing of the corporate veil, and inducement principles outlined in § 271(b) of the Patent Act. This Note then discusses how these three methods differ in both the underlying theories they employ, and the subsequent outcomes they achieve, when it comes to fundamental issues of inducement liability. This analysis will include what type of conduct is required and what level of knowledge is necessary to impute liability under each theory.

Part II of this Note introduces the historical and legal background of the three traditional methods of imputing liability. Part III then highlights the recent developments with respect to these three methods and how they apply to patent infringement cases. Part IV of this Note examines the similarities and differences between the three traditional methods (paying special attention to inducement under § 271(b)) and analyzes them as they apply to both corporate business cases and patent law cases. Finally, this Note concludes in Part V with a brief comment on the future use of these methods and why the judicial system should try to adhere to bright line rules – as opposed to unpredictable balancing tests – whenever possible when determining imputed liability, leaving balancing tests only for the situations that demand increased flexibility and adjustability.

## II. LEGAL BACKGROUND

This Part traces the history of the three most common methods of imputing liability to parent companies and shows how and when courts decide which method to use. A common reason for creating a subsidiary company<sup>5</sup> is to limit the parent's potential liability.<sup>6</sup> However, these liability limitations may frustrate the parent company if the subsidiary is unable to remedy its own violations due to underfunding – when the subsidiary does not have enough assets to fulfill a judgment. When a subsidiary company infringes a patent, a plaintiff will often sue the parent company, in addition to the subsidiary company, in hopes of recovering a greater amount, even if the subsidiary

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4. See William A. Voxman, Comment, *Jurisdiction over a Parent Corporation in Its Subsidiary's State of Incorporation*, 141 U. PA. L. REV. 327, 327 (1992).

5. For most large companies, the standard structure of the business includes a parent company (or sole shareholder) of many smaller and “separately incorporated” smaller subsidiary companies. See John H. Matheson, *The Modern Law of Corporate Groups: An Empirical Study of Piercing the Corporate Veil in the Parent-Subsidiary Context*, 87 N.C. L. REV. 1091, 1094 (2009).

6. Bernard F. Cataldo, *Limited Liability with One-Man Companies and Subsidiary Corporations*, 18 L. & CONTEMP. PROBS. 473, 488 (1953).

is capable of providing relief on its own.<sup>7</sup> To be considered an infringement, a person or organization lacking authority to do so must “make[], use[], offer[] to sell, or sell[] any patented invention.”<sup>8</sup> Though there are other ways that liability can be imputed to a parent company, this Note will focus on the three traditional methods of holding parent companies liable for the infringements of their subsidiaries: imputing liability via agency law principles, imputing liability by means of piercing the corporate veil, and imputing liability through standard 271(b) inducement principles.

### A. *Imputing Liability Through Agency Principles*

One way to impute liability is through principles of agency law. As Justice Wiley Rutledge once said in a 1944 Supreme Court case, “Few problems in the law have given greater variety of application and conflict in results than the cases arising in the borderland between what is clearly an employer-employee relationship and what is clearly one of independent entrepreneurial dealing.”<sup>9</sup> To be deemed an “employee” or an “employer” within the context of agency principles, courts typically perform a “right to control” analysis.<sup>10</sup> Using this analysis, courts consider factors such as an employer’s desire to preserve control or the ability to manipulate the employee.<sup>11</sup> Courts use this employee-employer test when deciding whether a parent-subsidiary relationship exists and have noted that the “[d]ominion may be so complete . . . that by the general rules of agency the parent will be a principal and the subsidiary an agent.”<sup>12</sup>

When determining whether a subsidiary is considered an agent of the parent corporation, courts look to whether there exists “a close business relation between the two companies.”<sup>13</sup> If the subsidiary is an agent of the parent, the subsidiary must be conducting business for the parent on the parent’s behalf and under the parent’s control,<sup>14</sup> and the parent may therefore be held

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7. Voxman, *supra* note 4, at 327. There does not seem to be any obvious reason to neglect suing the parent company in addition to the subsidiary. As Voxman explains, one of the most important times to include the parent company as a defendant is when the subsidiary cannot financially provide complete recovery. *Id.*

8. 35 U.S.C. § 271(a) (2012).

9. NLRB v. Hearst Publ’ns, 322 U.S. 111, 121 (1944), *overruled in part*, Nationwide Mut. Ins. Co. v. Darden, 503 U.S. 318 (1992).

10. Mitchell H. Rubinstein, *Employees, Employers, and Quasi-Employers: An Analysis of Employees and Employers Who Operate in the Borderland Between an Employer-and-Employee Relationship*, 14 U. PA. J. BUS. L. 605, 617–18 (2012).

11. *Id.*

12. Berkey v. Third Ave. Ry. Co., 155 N.E. 58, 61 (N.Y. 1926).

13. Richard H. Burgess, *Liability of Parent Corporation for Tort of Subsidiary*, 12 CLEV.-MARSHALL L. REV. 176, 178 (1963).

14. *Id.*

liable for acts executed by the subsidiary that fall “within the scope of the agency.”<sup>15</sup> To impute liability using this method, courts have stated that:

When . . . it is charged that [a corporation] is a mere agency . . . of [another corporation] and is used as an instrumentality to perpetrate fraud, justify wrong[,] . . . or generally to escape liability for what are in substance its own acts, courts will put aside the screen and . . . determine affirmatively the truth and place responsibility where it actually belongs.<sup>16</sup>

Courts agree on many of the above-referenced factors, but courts have disagreed as to whether an element of fraud is required<sup>17</sup> or whether a simple injustice in the absence of fraud suffices.<sup>18</sup>

Claimants are permitted to proceed with their claims of infringement on a number of methods of agency law,<sup>19</sup> but the three most traditional methods discussed in this Note are actual authority, apparent authority, and ratification.<sup>20</sup> The *Restatement (Third) of Agency*, though not binding authority, is often referenced by the courts as persuasive authority.<sup>21</sup> These three theories are used to impute liability to a parent company by showing the parent had actual knowledge of an infringement.<sup>22</sup>

### 1. Actual Authority

Instances of actual authority arise when the principal, through its speech or conduct, objectively leads the agent to reasonably believe that he may act on behalf of the principal.<sup>23</sup> Actual authority is also referred to as “true au-

15. William J. Rands, *Domination of a Subsidiary by a Parent*, 32 IND. L. REV. 421, 443 (1999).

16. *Own Fumigating Corp. v. Cal. Cyanide Co.*, 30 F.2d 812, 813 (3d Cir. 1929).

17. *Miller v. Bethlehem Steel Corp.*, 189 F. Supp. 916, 918 (S.D. W. Va. 1960) (stating that “[t]he clue as to what is necessary to disregard corporate entity is . . . the element of fraud”).

18. *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990) (discussing that an element of fraud or injustice suffices).

19. Patent infringement agency claims can also be established via implied authority and inherent authority, but this Note focuses on the three most-seen methods of actual authority, apparent authority, and ratification. See *Liberty Ammunition, Inc. v. United States*, 835 F.3d 1388, 1402 (Fed. Cir. 2016) (discussing whether the employee for the government had implied authority as an agent).

20. RESTATEMENT (THIRD) OF AGENCY § 84 (AM. LAW INST. 2017).

21. Chad Flanders, *Toward a Theory of Persuasive Authority*, 62 OKLA. L. REV. 55, 63 (2009).

22. While direct infringement has no knowledge requirement, contributory infringement under § 271(c) does have an actual knowledge requirement. Robert O. Bolan & William C. Rooklidge, *Imputing Knowledge to Determine Willful Patent Infringement*, 24 AIPLA Q.J. 157, 161–62 (1996).

23. RESTATEMENT (THIRD) OF AGENCY § 2.01.

thority” or “express authority.”<sup>24</sup> When an agent follows through with an action on behalf of the principal, the agent’s consent is subsequently established.<sup>25</sup> The crux of deciding if an agent took action with “actual authority” centers around whether the agent had “reasonable understanding” that he had the authority “at the time the agent takes action” to then take the executed infringing action.<sup>26</sup>

## 2. Apparent Authority

The next theory by which claimants are usually allowed to proceed in infringement cases is apparent authority. Apparent authority, also known as “customary authority,”<sup>27</sup> arises when the principal’s speech or conduct objectively leads the claimant to reasonably believe that an actor is an agent of the principal and may act on the principal’s behalf.<sup>28</sup> Unlike actual authority, apparent authority does not have the same ramifications regarding the principal and agent’s relationship.<sup>29</sup> For example, if an agent acting under apparent authority, but without actual authority, acts on behalf of the principal, he would be breaching his duty owed to the principal by acting outside the scope of his authority,<sup>30</sup> and the principal would have the right to seek recovery from the agent of any losses.<sup>31</sup> The Second Circuit has gone so far as to say “a principal may be estopped from denying apparent authority [and will be held liable as if an agency relationship existed] where ‘the principal’s intentional or negligent acts, including acts of omission, created an appearance of authority in the agent.’”<sup>32</sup>

## 3. Ratification

The final theory of agency law discussed in this Note is ratification. Ratification arises when the principal affirms an act, which did not originally bind him, that then generates the same consequences that would have ensued if the agent had performed the act with actual authority.<sup>33</sup> Ratification has a knowledge element, and because the act of ratification requires conduct on

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24. *Id.* cmt. *b.*

25. *Id.* cmt. *c.*

26. *Id.*

27. *Id.* § 2.03 cmt. *b.*

28. *Id.* § 2.03.

29. *Id.* cmt. *a.*

30. *See id.* § 8.09(1).

31. *Id.* cmt. *b.*

32. Joseph Whitcomb, *Equitable Estoppel Defense in Intellectual Property Infringement Claim*, WHITCOMB, SELINSKY, MCAULIFFE PC: LEGAL BLOG (May 12, 2015, 8:38 AM), <http://blog.whitcomblawpc.com/equitable-estoppel-defense/> (quoting *Minskoff v. Am. Express Travel Related Servs. Co.*, 98 F.3d 703, 708 (2d Cir. 1996)).

33. RESTATEMENT (THIRD) OF AGENCY ch. 4, intro. note.

behalf of the principal that suggests consent, a principal cannot be held liable if the ratification was made without some form of knowledge of the material facts.<sup>34</sup> For example, in a patent case, it must be shown that the parent company, through its subsidiary, was aware of both the patent at issue *and* that the acts induced or products sold would have constituted an infringement.<sup>35</sup>

### B. *Imputing Liability by Piercing the Corporate Veil*

The phrase “pierc[ing] the corporate veil” refers to a procedural tool in which the judicial system overrides the intrinsic principles of limited liability to impute a subsidiary’s liability to a parent corporation.<sup>36</sup> The crux of corporate law is that corporations are legally distinct from the persons who manage and own them; therefore, a corporation’s directors and shareholders do not share the same liability as their subsidiaries.<sup>37</sup> With respect to parent-subsidiary relationships, one parent corporation often acts as the sole shareholder of many subsidiaries that operate independently from the parent.<sup>38</sup> It is economically pragmatic to have more effective “risk-bearers” receive liability in certain circumstances.<sup>39</sup> The reasoning behind this is that many investors would be discouraged from investing in a certain company if that company’s demise would permit creditors to gain access to the entirety of an investor’s assets.<sup>40</sup>

#### 1. Veil Piercing

Though the law generally protects parent corporations from the tortious acts of their subsidiaries through limited liability principles,<sup>41</sup> piercing the corporate veil is the court’s way of creating exceptions in certain circum-

34. *Id.* § 4.06.

35. Robert J. Yarbrough, *Inducement of Patent Infringement*, YARBROUGH L. (Mar. 2011), [http://www.yarbroughlaw.com/Publications/pubs\\_patent12\\_inducement\\_of\\_infringement.htm](http://www.yarbroughlaw.com/Publications/pubs_patent12_inducement_of_infringement.htm).

36. *Pierce*, MERRIAM-WEBSTER, <http://www.merriam-webster.com/dictionary/pierce#legalDictionary> (last visited Apr. 7, 2017).

37. Robert B. Thompson, *Piercing the Corporate Veil: An Empirical Study*, 76 CORNELL L. REV. 1036, 1039 (1991).

38. Matheson, *supra* note 5, at 1094.

39. Thompson, *supra* note 37, at 1039. For example, Thompson notes “[t]he possibility that the failure of a business would allow its creditors to reach all of an investor’s nonbusiness assets might deter a risk-averse investor from investing . . . . Limited liability encourages these investments.” *Id.*

40. *Id.*

41. See *TIP Sys., LLC v. SBC Operations, Inc.*, 536 F. Supp. 2d 745, 753–54 (S.D. Tex. 2008) (“In deciding whether to pierce the corporate veil, a court ‘must start from the general rule that the corporate entity should be recognized and upheld, unless specific, unusual circumstances call for an exception.’” (quoting *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F. 2d 544, 552 (Fed. Cir. 1990))).

stances.<sup>42</sup> Courts differ by state regarding the specific factors taken into account when deciding whether to pierce the corporate veil, but most courts agree on an established “two-pronged” test: (1) “there must be ‘such unity of interest and ownership that the separate personalities of the corporation and the individual no longer exist,’” and (2) “it must be true that, ‘if the acts are treated as those of the corporation alone, an inequitable result will follow.’”<sup>43</sup> Courts interpret the second prong differently, but most have held that the second prong is satisfied if “a corporation is so undercapitalized that it is unable to meet debts that . . . arise in the normal course of business or when a plaintiff has been misled by the corporate structure of an enterprise.”<sup>44</sup> When a court decides to override limited liability principles in these situations, it must do so with the Internal Affairs doctrine in mind.

## 2. Choice of Law (the Internal Affairs Doctrine)

Corporate veil piercing is an issue of state law<sup>45</sup> and thus involves a choice of law analysis in federal courts.<sup>46</sup> This can be difficult when dealing with multinational parent companies.<sup>47</sup> Many times, a multinational parent corporation will have multiple subsidiary companies incorporated in various locations throughout the United States.<sup>48</sup> Therefore, when a claim is filed against one of the subsidiary companies, the claimant often goes after the multinational parent company by attempting to pierce the corporate veil.<sup>49</sup>

The choice of law concept governing parent-subsidiary liability is known as the Internal Affairs doctrine.<sup>50</sup> The doctrine obtained its name from the idea that the relations between the owners, managers, and the entity itself (or between the parent and the subsidiary from an intellectual property stand-

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42. See Thompson, *supra* note 37, at 1041.

43. Note, *Piercing the Corporate Law Veil: The Alter Ego Doctrine Under Federal Common Law*, 95 HARV. L. REV. 853, 854 (1982) [hereinafter *Piercing the Corporate Law Veil*] (quoting *Automotriz del Golfo de Cal. S.A. v. Resnick*, 306 P.2d 1, 3 (Cal. 1957)).

44. *Id.* at 855 (footnote omitted).

45. See *Judson Atkinson Candies, Inc. v. Latini-Hohberger Dhimantec*, 529 F.3d 371, 378–79 (7th Cir. 2008) (noting that choice of state law applies when determining whether to pierce the corporate veil to impute a subsidiary’s liability to a parent corporation).

46. See generally *United States v. Bestfoods*, 524 U.S. 51, 63 (1998) (stating that federal law does not apply just because a federal statute is involved).

47. See generally Richard M. Buxbaum, *The Threatened Constitutionalization of the Internal Affairs Doctrine in Corporation Law*, 75 CAL. L. REV. 29 (1987).

48. See Matheson, *supra* note 5, at 1093–94.

49. *Id.* at 1094–95.

50. Buxbaum, *supra* note 47, at 43 (relating the choice of law principle to the Internal Affairs doctrine by noting that “the internal affairs of a corporation normally should be governed by the law of the state of incorporation”).



point) are “the province of the state[s] to govern.”<sup>51</sup> When early state courts were faced with situations that required finding relief for shareholders of foreign corporations, they did not know if they had the authority to bring these shareholders exhaustive relief due to a potential lack of jurisdiction over foreign entities.<sup>52</sup> These types of situations are what eventually led the courts to adopt the Internal Affairs doctrine.<sup>53</sup> The Internal Affairs doctrine, though different in each state, generally says that “the internal affairs of a corporation normally should be governed by the law of the state of incorporation.”<sup>54</sup>

Because the standard for piercing the corporate veil varies by state,<sup>55</sup> balancing tests are frequently used instead of bright-line rules.<sup>56</sup> The majority of courts agree that at least two elements must be shown:<sup>57</sup> (1) a domination of the subsidiary by the parent and (2) that the parent caused the subsidiary to act in some unjust way.<sup>58</sup> The U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”), which hears all patent appeals, considers many factors when deciding whether to pierce the corporate veil, but it has noted that “[t]he court . . . must ‘start from the general rule that the corporate entity should be recognized and upheld, unless specific, unusual circumstances call for an exception.’”<sup>59</sup>

51. *Id.* at 32.

52. *See id.* at 43–44 (giving the history of the internal affairs doctrine).

53. *See id.* at 44 (demonstrating the emergence of the “choice of law rule in the full faith and credit clause”). As Buxbaum notes, “[The internal affairs doctrine, i]n and of itself, . . . provides no direct guide for our particular problems of conflicting state law. The very weakness of a minimum ‘uniformity’ scrutiny, however, suggests that only procedural and remedial concepts . . . are at the heart of any . . . differentiation between truly intractable interstate conflicts and . . . problems of conflicting mandates.” *Id.* at 44–45.

54. *See id.* at 43.

55. *See, e.g.,* *Judson Atkinson Candies, Inc. v. Latini-Hohberger Dhimantec*, 529 F.3d 371, 378–79 (7th Cir. 2008).

56. *See* Michael Coenen, *Rules Against Rulification*, 124 *YALE L.J.* 644, 646 (2014) (providing an analysis of “bright-line rules and open-ended standards” and “with what degree of specificity should the [c]ourt[s] enunciate controlling principles of doctrine”).

57. *See* Thomas H. Clarke, Jr., *Under CERCLA, Piercing the Corporate Veil to Reach Shareholders of Corporate Owner/Operator Is Determined by State Law*, *LEXISNEXIS LEGAL NEWSROOM: ENVTL. L. BLOG* (Nov. 18, 2008, 8:33 PM), [https://www.lexisnexis.com/legalnewsroom/environmental/b/environmental-law-blog/archive/2008/11/18/under-cercla\\_2c00\\_-piercing-the-corporate-veil-to-reach-shareholders-of-corporate-owner\\_2f00\\_operator-is-determined-by-state-law.aspx?Redirected=true](https://www.lexisnexis.com/legalnewsroom/environmental/b/environmental-law-blog/archive/2008/11/18/under-cercla_2c00_-piercing-the-corporate-veil-to-reach-shareholders-of-corporate-owner_2f00_operator-is-determined-by-state-law.aspx?Redirected=true).

58. *See id.*

59. *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552 (Fed. Cir. 1990) (quoting *Zubik v. Zubik*, 384 F.2d 267, 273 (Fed. Cir. 1988)) (“[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.”).

### C. *Imputing Liability Through Standard Inducement Principles*

Finally, liability may be imputed to a parent corporation through standard inducement principles.<sup>60</sup> To impute liability through inducement, a parent company must either induce or contribute to the subsidiary's infringement by encouraging, selling, or importing an infringing component that was subsequently utilized in the subsidiary's manufacture, use, or sale of a patented product.<sup>61</sup> Courts tend to hold these parent companies indirectly liable, not because they themselves infringed, but because they "actively induce[d]" their subsidiaries to infringe.<sup>62</sup> The pertinent part of the Patent Act that covers inducement principles is § 271(b).<sup>63</sup>

In its entirety, the text of § 271(b) of the Patent Act states that "[w]hoever actively induces infringement of a patent shall be liable as an infringer."<sup>64</sup> But what exactly qualifies as "inducing" or "infringing"? Inducement means to encourage another party to take an action that it may not have taken had you not interfered.<sup>65</sup> With patents, one cannot be said to have infringed unless every aspect of the patent is infringed.<sup>66</sup> Courts have struggled to determine what conduct is required on behalf of the parent to "induce" infringing, as well as what the parent must "know and intend" to be held indirectly liable for the infringement.<sup>67</sup>

In an attempt to unveil the *intent* of the inducing parent company, courts have tried to look beyond simply selling a patented product to instances of advertising or instruction on how to use the product in a prohibited way.<sup>68</sup> In 1952, the Patent Act<sup>69</sup> became law, which finally disconnected the idea of

60. See Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 229–30 (2005).

61. See *id.* at 228–32.

62. See *id.* at 226, 230.

63. *Id.* at 226. See also 35 U.S.C. § 271(b) (2012).

64. § 271(b).

65. See Lemley, *supra* note 60, at 228 (using *Merriam-Webster's Dictionary* to define "induce").

66. See *Canton Bio-Med., Inc. v. Integrated Liner Techs., Inc.*, 216 F.3d 1367, 1370 (Fed. Cir. 2000).

67. See Lemley, *supra* note 60, at 226.

68. *Holly v. Vergennes Mach. Co.*, 4 F. 74, 82 (D. Vt. 1880) ("If all they did was to make and sell these pumps merely, probably they would not infringe by that alone. But the answer and proofs go beyond this. . . . The effect of the whole clearly is that they participated and concurred in putting in the whole by furnishing the pumps for that purpose, and this is sufficient to make them liable as infringers.").

69. See Patent Act of 1952, Pub. L. No. 593, 66 Stat. 792 (codified at 35 U.S.C. §§ 1–376 2012)). For a brief explanation, see *The Patent Act of 1952*, LAWS.COM, <http://patent.laws.com/patent-act-of-1952/patent-act-of-1952-main-sections> (last visited Apr. 7, 2017) (noting "the Patent Act of 1952 affirmed that patent rights from that time onward would be enforced according to federal statutes" and "also reordered the government agency responsible for patent rights").

inducement from contributory infringement<sup>70</sup> – a form of secondary liability for direct infringement – and separated the two offenses into two sections of the Act,<sup>71</sup> § 271(b), covering inducement, and § 271(c), covering contributory infringement.<sup>72</sup> This Note will focus on § 271(b) inducement.

### III. RECENT DEVELOPMENTS

The field of patent law has been remolded over the last few decades by decisions from both the Supreme Court of the United States and the Federal Circuit.<sup>73</sup> The Federal Circuit has led the way in developing the process for determining if an infringement exists and who should be held liable.<sup>74</sup> The following is a summary of how case law has evolved over the last few decades regarding this issue.

#### A. Infringement Liability Imputed via Agency Principles

Infringement imputed via agency principles rests upon an entirely different form of infringement – vicarious infringement.<sup>75</sup> Contributory infringement revolves around tort law and imputed intent, but vicarious infringement fixates on principles of agency law and the doctrine of *respondeat superior*.<sup>76</sup> *Respondeat superior* is a doctrine that holds “a master liable for the wrong of a servant.”<sup>77</sup> As it pertains to this discussion, *respondeat superior* includes the principles for holding a principal company liable for the infringement (or wrong) of its agent “if it [the infringement] was committed within the scope of . . . agency.”<sup>78</sup>

When attempting to impute vicarious infringement liability, the defendant can be held liable for the agent’s infringement when “the direct infringer is the defendant’s agent under common-law principles.”<sup>79</sup> Additionally, before an agency relationship can exist, it must have been agreed upon by the parties that the other shall “act on his behalf and subject to his control.”<sup>80</sup>

70. Lemley, *supra* note 60, at 227 (“[T]he earliest cases focusing on efforts to induce infringement did not treat it as a separate offense, but rather as evidence supporting the requisite affirmative intent for a case of contributory infringement.”).

71. 35 U.S.C. §§ 271(b)–(c) (2012).

72. *Id.*; see also Lemley, *supra* note 60, at 227.

73. Kristen Jakobsen Osenga, *Recent Developments in Patent Law*, 3 AKRON INTELL. PROP. J. 303, 304 (2009).

74. See generally *id.* at 312–15.

75. Irfan A. Lateef & Marko R. Zoretic, *Parent/Subsidiary Liability Issues in Patent Litigation*, 21 A.B.A. INTELL. PROP. LITIG. COMMITTEE 1, 11 (2010).

76. *Id.*

77. *Respondeat Superior*, MERRIAM-WEBSTER, <http://www.merriam-webster.com/legal/respondeat%20superior> (last visited Apr. 7, 2017).

78. *Id.*

79. Lateef & Zoretic, *supra* note 75, at 11.

80. RESTATEMENT (SECOND) OF AGENCY § 1(1) (AM. LAW INST. 2017).

Unlike contributory infringement, knowledge of the actual infringement is unnecessary with vicarious liability through agency principles.<sup>81</sup> In *Travel Sentry, Inc. v. Tropp*,<sup>82</sup> a 2012 infringement case, the Federal Circuit reiterated this principle when it required that § 271(b) standard inducement principles be used instead of agency principles to hold an infringer liable because the alleged inducer had knowledge of the patented material and “induced the performance of the steps.”<sup>83</sup> The court abandoned allegations of vicarious liability and instead found liability through standard inducement principles because the terms of the contract in question did not contain any “express or implicit agreement that TSA [would] act on Travel Sentry’s behalf or subject to its control,” as would be necessary for an agency relationship to exist.<sup>84</sup>

More recently, the Federal Circuit expanded its grounds for ruling in favor of plaintiffs on the basis of agency principles when it decided *Akamai Technologies, Inc. v. Limelight Networks, Inc.*<sup>85</sup> In *Akamai*, the plaintiffs alleged that Limelight infringed many of their patents.<sup>86</sup> It was decided at trial that the defendant’s customers, not the defendant itself, implemented the methods at issue in the case, but the jury still found Limelight responsible for its customers’ actions.<sup>87</sup> After post-trial motions, the district court denied Limelight’s motion “for judgment of noninfringement as a matter of law” but later granted its motion for reconsideration.<sup>88</sup> On appeal, the Federal Circuit reinstated the verdict against Limelight.<sup>89</sup> The Federal Circuit reasoned that not only could one be found liable for infringement under traditional agency principles, but one could also be found liable in cases where “an alleged infringer conditions participation in an activity [by some form of dominion, control,] or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance.”<sup>90</sup> Here, the Federal Circuit recognized that Limelight “condition[ed] its customers’ use of its content . . . and that Limelight establishe[d] the manner or timing of its customers’ performance.”<sup>91</sup> This case expanded the use of agency principles by recognizing that consumer infringement can be imputed to a company that substantially controls the consumers’ actions.<sup>92</sup> The Federal Circuit’s decision in *Akamai* is just one example of how courts have expand-

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81. Lateef & Zoretic, *supra* note 75, at 11.

82. *Travel Sentry, Inc. v. Tropp*, 497 F. App’x 958 (Fed. Cir. 2012).

83. *Id.* at 967.

84. *Id.* at 966.

85. *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 797 F.3d 1020, 1023 (Fed. Cir. 2015) (en banc) (per curiam).

86. *Id.* at 1024.

87. *Id.*

88. *Id.*

89. *Id.*

90. *Id.* at 1023.

91. *Id.* at 1024.

92. *Id.* at 1025.

ed their ability to find parent companies liable via traditional agency principles.<sup>93</sup>

### *B. Infringement Liability Imputed by Piercing the Corporate Veil*

According to the Federal Circuit, “[p]atent infringement is a tort,”<sup>94</sup> and, as with any other tort, “a corporate officer [may be held] personally liable for his tortious acts,” “even when taken on behalf of the corporation.”<sup>95</sup> To be held liable for direct infringement, “invocation of [the] general principles relating to piercing the corporate veil” is necessary.<sup>96</sup> The purpose of the corporate veil theory is to protect a company’s investors and officers from being held personally liable for infringement that is committed “in the name of the corporation, unless the corporation is the officers’ ‘alter ego.’”<sup>97</sup> The underlying theory behind the alter ego doctrine encompasses “the general idea of going behind the corporate form, either to hold an individual or corporate shareholder responsible for the acts or debts of a corporation, or to recognize a corporate family as a single economic enterprise.”<sup>98</sup> Additionally, the decision of whether to pierce the corporate veil and hold a parent company liable for subsidiary infringements is, because of the Internal Affairs doctrine, a matter of state law and therefore is not held to a uniform standard, though there has been evolution in the Federal Circuit’s approach to piercing the corporate veil in recent years.<sup>99</sup>

For example, in a 1988 case<sup>100</sup> involving a patentholder for a railroad car hydraulic device who successfully filed suit against a corporation that owned 50% of the infringing corporation’s stock,<sup>101</sup> the Federal Circuit ruled that simply owning a vast majority of stock does not, by itself, satisfy the prerequisite to pierce the corporate veil.<sup>102</sup> The Federal Circuit compared this

93. See generally *id.*

94. *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1365 (Fed. Cir. 2008), *mandate recalled and amended by* 557 F.3d 1377 (Fed. Cir. 2009).

95. *Hoover Grp., Inc. v. Custom Metalcraft, Inc.*, 84 F.3d 1408, 1411 (Fed. Cir. 1996).

96. *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986).

97. *Wordtech Sys., Inc. v. Integrated Networks Sols., Inc.*, 609 F.3d 1308, 1313 (Fed. Cir. 2010) (quoting *Wechsler v. Macke Int’l Trade, Inc.*, 486 F.3d 1286, 1295 (Fed. Cir. 2007)).

98. See *Piercing the Corporate Law Veil*, *supra* note 43, at 853 n.1 (explaining the underlying theory behind the alter ego doctrine).

99. See *supra* notes 43–46 and accompanying text.

100. *A. Stucki Co. v. Worthington Indus., Inc.*, 849 F.2d 593 (Fed. Cir. 1988).

101. *Id.* at 594–95.

102. *Id.* at 596 (citing *Milgo Elec. Corp. v. United Bus. Commc’ns, Inc.*, 623 F.2d 645, 662 (10th Cir. 1980) (*per curiam*)).

case to two other similar Federal Circuit cases in its holding.<sup>103</sup> In its *Stucki* analysis, the court mentioned that in *Eli Lilly & Co. v. Premo Pharmaceutical Laboratories, Inc.*, a company that “acquired [a] new drug application and nothing more” was not considered a “successor” that would be subsequently liable through the drug application’s previous owner.<sup>104</sup> However, the *Stucki* court also said that in the 1986 case of *Kloster Speedsteel AB v. Crucible Inc.*, a company was considered a successor when it bought a facility that it then used to manufacture “infringing products.”<sup>105</sup>

Over twenty years after *Premo* and *Kloster*, the Federal Circuit decided *Wordtech Systems, Inc. v. Integrated Network Solutions, Inc.* (“INSC”),<sup>106</sup> a case where the plaintiff alleged the defendant infringed its patent on a CD-duplicating technology.<sup>107</sup> Wordtech filed suit against INSC and its employees, and a jury found all defendants liable for infringement.<sup>108</sup> The defendant’s employees appealed, denying they were officers of INSC, challenging INSC’s corporate status, and claiming patent invalidity defenses they neglected to claim at trial.<sup>109</sup> A jury found that all defendants were liable for willful patent infringement,<sup>110</sup> although the case was later vacated on other grounds.<sup>111</sup> The court further recognized in the 2007 case *Wechsler v. Macke International Trade, Inc.*<sup>112</sup> that the alter ego doctrine is also not exclusive to patent infringement cases.<sup>113</sup>

### C. Inducement Liability Through § 271(b)

The § 271(b) principles governing infringement have remained similar over the years.<sup>114</sup> The Federal Circuit had not substantially altered its meth-

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103. *Id.* at 598. See also *Eli Lilly & Co. v. Premo Pharm. Labs., Inc.*, 843 F.2d 1378, 1382 (Fed. Cir. 1988); *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1582 (Fed. Cir. 1986), *as amended on reh’g* (Aug. 15, 1986), *overruled by* *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

104. *A. Stucki*, 849 F.2d at 597 (discussing *Eli Lilly & Co.*, 843 F.2d at 1380–82).

105. *Id.* (discussing *Kloster Speedsteel*, 793 F.2d at 1582).

106. *Wordtech Sys., Inc. v. Integrated Network Sols., Inc.*, 609 F.3d 1308 (Fed. Cir. 2010).

107. *Id.* at 1310.

108. *Id.*

109. *Id.* at 1311–12.

110. *Id.* at 1312.

111. *Id.* at 1314–15.

112. *Wechsler v. Macke Int’l Trade, Inc.*, 486 F.3d 1286 (Fed. Cir. 2007).

113. *Id.* at 1295 (“Since the alter ego issue is not unique to patent law, we apply the law of the regional circuit.”).

114. See generally Karthik Kumar, Note, *Of Deep-Fryers and (Semiconductor) Chips: Why Ignorance of a Patent Is No Excuse for Its Indirect Infringement*, 40 AIPLA Q.J. 727, 729 (2012) (providing a historical context of the cases prior to 2011).

ods of finding liability when determining the level of “knowledge and intent” necessary to realize § 271(b) liability until its most recent decisions in *Com-mil*<sup>115</sup> and *Global-Tech*.<sup>116</sup> *Broadcom Corp. v. Qualcomm Inc.*<sup>117</sup> noted that inducement “requires more than just intent to cause the acts that produce direct infringement.”<sup>118</sup> The court noted that inducement also requires that “the alleged infringer knowingly induced infringement and possessed specific intent to encourage another’s infringement.”<sup>119</sup> Finally, the Federal Circuit has consistently held that in order to recognize induced infringement under § 271(b), “all the steps of a claimed method must be performed.”<sup>120</sup>

For example, in the 1990 case of *Hewlett-Packard Co. v. Bausch & Lomb Inc.*,<sup>121</sup> the lower court held that the patent in question was valid and infringed upon but that the defendant “had not actively induced infringement” of the patent subsequent to the sale of business.<sup>122</sup> On appeal, the Federal Circuit expanded the breadth of § 271(b).<sup>123</sup> The Federal Circuit noted that before the Patent Act, “infringement” itself had not been defined by statute, but that case law had subdivided infringement into “direct infringement” and “contributory infringement.”<sup>124</sup> The concept of contributory infringement<sup>125</sup> was codified in § 271(b) and § 271(c).<sup>126</sup> Subsequently, the concept of “active[] induce[ment]”<sup>127</sup> emerged, which is another form of direct infringement.<sup>128</sup> Even though § 271(b) does not specifically state that any level of intent is required for active inducement,<sup>129</sup> the court recognized that § 271(b) was enacted simply as a codification of pre-Patent Act law and that the intent to perform the actions that led to the infringement at issue must still be proven in order to qualify as active inducement.<sup>130</sup> In the *Hewlett-Packard* case,

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115. See *infra* notes 152–57 and accompanying text.

116. See *infra* notes 144–51 and accompanying text.

117. *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008).

118. *Id.* at 699 (quoting *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006)).

119. *Id.* (quoting *DSU*, 471 F.3d at 1306).

120. *Travel Sentry, Inc. v. Tropp*, 497 F. App’x 958, 967 (Fed. Cir. 2012).

121. *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990).

122. *Id.* at 1466.

123. *Id.* at 1469.

124. *Id.* at 1468–69.

125. *Id.* at 1469 (defining contributory infringement as “any other activity where, although not technically making, using or selling, the defendant displayed sufficient culpability to be held liable as an infringer”).

126. *Id.*

127. *Id.* (quoting 35 U.S.C. § 271(c) (2012)) (stating that “proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement”).

128. *Id.*

129. *Id.*

130. *Id.*

the Federal Circuit could not overlook the absence of proof of intent to perform the infringing actions.<sup>131</sup>

Further, the knowledge requirement established in *Hewlett-Packard* was expanded in *Manville Sales Corp. v. Paramount Systems, Inc.*<sup>132</sup> In *Manville*, the plaintiff alleged infringement of a patent against a corporation.<sup>133</sup> The lower court ruled in favor of the plaintiff, and the appellate court held that, in this case, the officers of the corporation could not be held liable for the direct infringement or for causing the corporation to infringe through active inducement.<sup>134</sup> Also, the court stated that to be considered infringement by inducement, the “alleged infringer must be shown . . . to have *knowingly* induced infringement.”<sup>135</sup> The Federal Circuit ultimately decided that “specific intent to encourage another’s infringement” must be shown<sup>136</sup> and not just the plain knowledge of the acts leading to infringement.<sup>137</sup>

In *PB & J Software, LLC v. Acronis, Inc.*,<sup>138</sup> the U.S. District Court for the Eastern District of Missouri dealt with allegations of induced and willful infringement of a patented method for sharing storage space on a computer.<sup>139</sup> The patentee claimed that the defendant infringed by “offering services and licensing software implementing . . . ‘seed’ backup[s]” and willfully infringed upon the patent because the defendant knew of the patent’s existence yet still infringed.<sup>140</sup> The district court referenced the Federal Circuit’s requirement for inducement complaints to “contain facts plausibly showing that [defendants] specifically intended [others] to infringe the [patent-in-suit] and knew that [others’] acts constituted infringement.”<sup>141</sup> Regarding the willful infringement allegation, the district court again relied on precedent when it explained that, in order to approve willful infringement, the infringement must have been “with full knowledge of the . . . patents.”<sup>142</sup>

But what level of “knowledge” or “intent” is actually required to impute liability via § 271(b)? Is unawareness an adequate defense? Most recently, the Supreme Court of the United States decided two cases that affected judi-

131. *Id.*

132. *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

133. *Id.* at 549.

134. *Id.* at 549, 553–54.

135. *Id.* at 553.

136. *Id.* See also *Hewlett-Packard*, 909 F.2d at 1469.

137. *Manville*, 917 F.2d at 553.

138. *PB & J Software, LLC v. Acronis, Inc.*, 897 F. Supp. 2d 815 (E.D. Mo. 2012).

139. *Id.* at 817.

140. *Id.*

141. *Id.* at 821 (alterations in original) (quoting *R+L Carriers, Inc. v. DriverTech LLC* (*In re Bill of Lading Transmission & Processing Sys. Patent Litig.*), 681 F.3d 1323, 1339 (Fed. Cir. 2012)).

142. See *id.* (alteration in original) (quoting *Sentry Prot. Prods., Inc. v. Eagle Mfg. Co.*, 400 F.3d 910, 918 (Fed. Cir. 2005)).



cial interpretation of inducement law.<sup>143</sup> One of these cases was *Global-Tech Appliances, Inc. v. SEB S.A.*<sup>144</sup> In *Global-Tech*, the Supreme Court held that “induced infringement . . . requires knowledge that the induced acts constitute patent infringement.”<sup>145</sup> The patentee in *Global-Tech* had invented a deep fryer and sued a competitor’s foreign supplier for inducement.<sup>146</sup> The alleged inducer argued that he did not realize the fryer was patented and subsequently could not be held liable for inducement because he lacked the requisite mental state of an infringer.<sup>147</sup> The Federal Circuit affirmed the lower court’s decision that § 271(b) specifically requires that the infringer “knew or should have known that his actions would induce actual infringement” and, in this case, knew or should have known of the patent’s existence.<sup>148</sup> The Supreme Court decided that § 271(b) infringement does require knowledge<sup>149</sup> that the actions of the alleged inducer amount to patent infringement.<sup>150</sup> The Supreme Court subsequently affirmed the appellate decision, finding that the evidence was clear enough to support the argument that the alleged infringer had sufficient knowledge under the “doctrine of willful blindness.”<sup>151</sup>

In *Commil USA, LLC v. Cisco Systems, Inc.*, the Court affirmed *Global-Tech* and explained that its decision in *Global-Tech* should be interpreted as requiring knowledge of the infringement to support a finding of inducement liability.<sup>152</sup> Additionally, the Court abandoned the framework once holding that belief of a patent’s invalidity is a defense to infringement by induce-

143. See generally Kumar, *supra* note 114, at 730 (noting the change in law by the Supreme Court in 2011).

144. *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754 (2011).

145. *Id.* at 766.

146. *Id.* at 757–59.

147. *Id.* at 759–60.

148. *Id.* at 759 (quoting *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010)).

149. *Id.* at 766 (“[P]ersons who know enough to blind themselves to direct proof of critical facts in effect have actual knowledge of those facts.” (citing *United States v. Jewell*, 532 F.2d 697, 700 (9th Cir. 1976) (en banc))).

150. *Id.* at 765–66.

151. *Id.* at 766. The Court noted:

The doctrine of willful blindness is well established in criminal law. Many criminal statutes require proof that a defendant acted knowingly or willfully, and courts applying the doctrine of willful blindness hold that defendants cannot escape the reach of these statutes by deliberately shielding themselves from clear evidence of critical facts that are strongly suggested by the circumstances.

*Id.*

152. *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1926 (2015); Dennis Crouch, *Commil v. Cisco: Belief-of-Invalidity Not a Defense to Inducement*, PATENTLY-O (May 26, 2015), <http://patentlyo.com/patent/2015/05/invalidity-defense-inducement.html>.

ment.<sup>153</sup> The patentee in *Commil* claimed that the defendant had both directly infringed and induced others to infringe by selling others the patented equipment.<sup>154</sup> The lower court found the defendant liable, and the Federal Circuit remanded and held that the defendant should have been permitted to show its “good-faith belief” that the patent in question was invalid.<sup>155</sup> Upon review, the Supreme Court vacated the Federal Circuit’s judgment, reasoning that basing a defense to inducement on the belief that a patent is invalid would create a slew of bad consequences, such as allowing all accused inducers to come forward and state a “theory of invalidity,” likely accompanied by endless debates.<sup>156</sup> The Court in *Commil* ultimately decided that a “belief in invalidity is no defense to a claim of induced infringement.”<sup>157</sup>

*Commil* and *Global-Tech* have contributed to the understanding of inducement infringement under § 271(b) by making clear that, when dealing with patent infringement, ignorance is not bliss. Under *Commil* and *Global-Tech*, alleging that one is unaware of a patent’s existence or its validity when one should reasonably have knowledge of the fact will not protect oneself from liability under § 271(b).

The Federal Circuit has decided many recent cases regarding inducement liability, liability driven by agency principles, and situations involving corporate veil piercing. Part IV of this Note discusses and compares how the Federal Circuit applies the methods from its recent decisions to patent infringement cases.

#### IV. DISCUSSION

This Part will compare how, if at all, the Federal Circuit’s decision differs when applying the three traditional legal principles of holding parent companies liable for subsidiary infringements in patent infringement cases. Because the Federal Circuit’s decisions regarding the law of inducement are the most developed, the remainder of this Note will primarily focus on § 271(b) inducement liability. First, this Part of the Note discusses how, in some cases, there is no difference in how the judicial system interprets these three traditional methods when applying them to general business and patent infringement cases. Next, this Part discusses when and why the court deviates from traditional application of these methods when dealing with patent cases. Finally, this Part analyzes why the Federal Circuit sometimes decides to let defendants off the hook for infringement.

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153. See *Commil*, 135 S. Ct. at 1928–30.

154. *Id.* at 1924.

155. *Id.* at 1924–25.

156. *Id.* at 1929–30.

157. *Id.* at 1931.

### A. Similarities Between Traditional and Patent Law Application

In *Wordtech*, the Federal Circuit reaffirmed that when determining whether to pierce the corporate veil, “general principles” are considered.<sup>158</sup> As noted in Part II,<sup>159</sup> the corporate veil generally protects a company’s officers from liability for infringement committed by the officers “in the name of the corporation,” unless the alter ego doctrine applies.<sup>160</sup> The court in *Wordtech* recognized that these “general principles” that are considered apply not only to patent infringement cases, but to all corporate business questions that require an analysis of whether to pierce the corporate veil.<sup>161</sup> Generally, the Federal Circuit, bound by its own precedent and the Supreme Court’s, tends to apply general principles of law when hearing patent infringement cases.<sup>162</sup>

*Wordtech* was an anomaly in that the allegation of INSC’s lack of corporate status played a significant part in the Federal Circuit’s decision to ultimately dismiss the case.<sup>163</sup> However, despite the Federal Circuit’s ultimate decision in *Wordtech*, the court’s analysis of veil-piercing principles is noteworthy. The court recognized that in situations where an officer’s “personal wrongdoing” is in no way backed by justifiable corporate activity, courts have a history of assigning personal liability for an officer’s wrongdoings, regardless of whether the wrongdoings were committed in the name of the corporation.<sup>164</sup> Some scholars disagree with assigning personal liability to officers at any time and believe that the corporate veil theory of assigning liability should only apply to the shareholders of a corporation.<sup>165</sup> Until the Federal Circuit overturns any of the ingrained principles of corporate veil piercing *en banc*, or until the Supreme Court decides the issue, the Federal Circuit is bound by this traditional theory.

When deciding whether to override limited liability and impute liability by piercing the corporate veil, courts remain consistent in their application of veil-piercing standards, whether they be directed toward business law cases or patent infringement allegations. The largest interpretive mystery arises when the Federal Circuit interprets inducement law principles.

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158. *Wordtech Sys., Inc. v. Integrated Networks Sols., Inc.*, 609 F.3d 1308, 1314 (Fed. Cir. 2010) (citing *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1579 (Fed. Cir. 1986)).

159. See *supra* Part II.B.

160. *Wordtech*, 609 F.3d at 1313 (quoting *Wechsler v. Macke Int’l Trade, Inc.*, 486 F.3d 1286, 1295 (Fed. Cir. 2007)).

161. See *id.* at 1314.

162. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391–92 (2006).

163. See *supra* notes 106–11 and accompanying text.

164. *Wordtech*, 609 F.3d at 1314 (quoting *Hoover Grp. v. Custom Metalcraft, Inc.*, 84 F.3d 1408, 1411 (Fed. Cir. 1996)).

165. See Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 130 (2003).

### B. Deviations from Corporate Business Application

The traditional methods of holding parent companies liable for the acts of their subsidiaries remain relatively consistent, regardless of whether the court is dealing with typical corporate business law cases or handling a patent infringement case. However, there are inconsistencies when the court utilizes standard inducement principles to impute liability. When determining whether to hold a parent company liable for its subsidiaries' actions, courts struggle with determining what has been described as the "two fundamental issues" with inducement liability.<sup>166</sup> The first issue is what form of conduct or action is necessary, and the second issue is what level of knowledge or intent is required.<sup>167</sup> Since its creation in 1982, the Federal Circuit had not harmonized either of these issues<sup>168</sup> until the Supreme Court decided *Commil* and *Global-Tech*.<sup>169</sup>

Regarding § 271(b) inducement, unpredictable results led the Federal Circuit to three possible methods and definitions for "inducement" as it pertains to patent cases: (1) a *respondeat superior* theory of limitation, (2) an expansion of the term to include "efforts" to infringe (encouragement), and (3) virtually any action taken on behalf of the defendant to assist another party in its infringement.<sup>170</sup> This Part will discuss briefly the meaning of each and what the Federal Circuit should do to clarify the issue in future cases.

First, the cases of inducement resting upon a *respondeat superior* theory generally involve situations in which claims are brought against the officers of a corporation for authorizing their subsidiaries to take the actions that led to infringement.<sup>171</sup> These cases involve situations where the defendant operates in a controlling capacity and directs what is considered the "infringing behavior" of the subsidiaries, and the court subsequently holds the indirectly infringing defendants liable.<sup>172</sup>

Moving to the second definition of infringement, cases that involve efforts by parties to encourage infringement, courts have required "affirmative conduct encouraging independent third parties to infringe."<sup>173</sup> For example, it has been held that an independent sales representative could not be held liable when he attended trade shows to tell interested parties about the company's product and solicited customers because he "had no more than a pe-

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166. Lemley, *supra* note 60, at 226.

167. *Id.*

168. *Id.*

169. *See supra* notes 144–57 and accompanying text.

170. Lemley, *supra* note 60, at 229.

171. *See, e.g.,* Ferguson Beauregard/Logic Controls v. Mega Sys., LLC, 350 F.3d 1327, 1341–43 (Fed. Cir. 2003); Hoover Grp., Inc. v. Custom Metalcraft, 84 F.3d 1408, 1411–12 (Fed. Cir. 1996); Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 548–49 (Fed. Cir. 1990). However, these cases also involve methods of imputing liability by piercing the corporate veil.

172. *See* Lemley, *supra* note 60, at 229–30.

173. *Id.* at 230.

ripheral relationship with [the] direct infringement.”<sup>174</sup> When one does not directly instruct others to infringe, one falls under the second definition of inducement, as one is said to have *urged* others to take actions that led to infringement instead of expressly directing them to do so.<sup>175</sup>

Finally, the third definition involves simply assisting a third party in infringement devoid of any urging or encouragement.<sup>176</sup> For example, where a plaintiff had a series of patents for protein production and filed infringement charges against a pharmaceutical company,<sup>177</sup> the court held the act of buying a product that was deemed “infringing” was inducement if the defendant bought the product in a massive quantity that was produced specifically for the defendant.<sup>178</sup> Patent law is unclear as to exactly how engaged an infringing party must be to have liability imputed upon it, but it appears as if courts rule in favor of plaintiffs in cases of liability when the defendant’s conduct falls between “control over the infringer” and “any act that aids an infringer.”<sup>179</sup>

The decisions in *Commil* and *Global-Tech* have helped define what level of knowledge or intent is required to impute liability via § 271(b).<sup>180</sup> Under these two cases, a defendant in an alleged infringement case may no longer claim unawareness of a patent’s validity or existence as a defense to § 271(b) inducement infringement when it should have known of the facts.<sup>181</sup> By helping harmonize these three approaches, *Commil* and *Global-Tech* have aided the judiciary in reaching just outcomes. The Court essentially obliterated a set of inducement defenses by acknowledging squarely that a plaintiff must show that an inducer knew his acts would result in infringement.

### C. Should Someone Be Let Off the Hook?

For the last half of a century, the courts that handle patent cases have analyzed both parties’ positions in cases of induced or third-party patent infringement instead of solely directing its attention to the party who directly infringed on the patent.<sup>182</sup> In some cases, courts have held that the indirectly infringing party should be held liable.<sup>183</sup> However, as noted, the results of patent infringement cases have been unpredictable. Instead of asking the

174. *Ardco, Inc. v. Page, Ricker, Felson Mktg., Inc.*, No. 92 C 2927, 1992 WL 246862, at \*4–5 (N.D. Ill. 1992).

175. *See* Lemley, *supra* note 60, at 230.

176. *Id.* at 229, 231.

177. *Trs. of Columbia Univ. in City of N.Y. v. Roche Diagnostics GmbH*, 272 F. Supp. 2d 90, 95 (D. Mass. 2002).

178. *Id.* at 106–07.

179. Lemley, *supra* note 60, at 231.

180. *See supra* note 144–57 and accompanying text.

181. *See supra* notes 144–57 and accompanying text.

182. Lemley, *supra* note 60, at 226 (“Since 1952, this principle has been enshrined in Section 271(b) of the patent statute.”).

183. *Id.*

Federal Circuit to apply some form of a balancing test<sup>184</sup> that will continue to yield unpredictable results, the court should decide each infringement allegation on a case-by-case basis, utilizing bright line rules, therefore allowing for further inquiry into the level of specific intent required if the infringer's actions are less blameworthy than other cases.

Albert Einstein once described insanity as “doing the same thing over and over and expecting different results.”<sup>185</sup> Though Einstein surely did not have the Federal Circuit and its decisions in patent law in mind when he made that remark, he would likely agree that if the Federal Circuit uses unpredictable balancing tests that lack clear direction for determining when to impute liability in patent infringement cases, the same inconsistent results will be reached and the same confusion will remain. Instead of using inconsistent balancing tests that continuously produce variable results, the Federal Circuit should implement a bright line rule for the whole country that will hopefully prove far more consistent over time.

The late Supreme Court Justice Antonin Scalia consistently pressed for bright line rules that were easy for courts to understand and follow.<sup>186</sup> Former Solicitor General Paul Clement described Justice Scalia as always “look[ing] for bright lines in the Constitution wherever he can.”<sup>187</sup> Many other conservative Supreme Court Justices<sup>188</sup> defended balancing tests that lacked bright line rules, but Justice Scalia viewed these methods of assigning blame with disdain.<sup>189</sup> Even though Justice Scalia knew that balancing tests were a sometimes necessary evil, he avoided them whenever possible.<sup>190</sup>

Unfortunately, he was not always listened to. Consider the 2016 case of *Halo Electronics, Inc. v. Pulse Electronics Inc.* where the Supreme Court abolished the bright-line rule of “objective recklessness.”<sup>191</sup> The objective recklessness standard was a widely used criterion for proving that a patent

184. *Balancing Test*, MERRIAM-WEBSTER, <https://www.merriam-webster.com/legal/balancing%20test> (last visited Apr. 10, 2017).

185. Frank Wilczek, *Einstein's Parable of Quantum Insanity*, QUANTA MAG. (Sept. 10, 2015), <https://www.quantamagazine.org/20150910-einstein-insanity/>.

186. Nina Totenberg, *Justice Antonin Scalia, Known for Biting Dissents, Dies at 79*, NPR (Feb. 13, 2016, 5:37 PM), <http://www.npr.org/2016/02/13/140647230/justice-antonin-scalia-known-for-biting-dissents-dies-at-79>.

187. *Id.*

188. Namely, Justice John Marshall Harlan, Justice Lewis Powell, and Justice Sandra Day O'Connor. *Id.*

189. *Id.*

190. *See id.* at 1187 (“We will have totality of the circumstances tests and balancing modes of analysis with us forever – and for my sins, I will probably write some of the opinions that use them. All I urge is that those modes of analysis be avoided where possible.”).

191. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016).

was willfully infringed.<sup>192</sup> The Court reasoned that the standard allowed infringers to “avoid enhanced damages by simply presenting a reasonable defense to infringement at trial.”<sup>193</sup> Some believe that removing the application of bright line rules such as the objective recklessness rule will, in turn, remove a shield that infringers may use to avoid increased damages.<sup>194</sup> This may have been a preferable result in the particular case of *Halo*, but their complete removal will only add to confusion by omitting the easy-to-follow guidelines that judges rely on. Aside from reducing confusion among judges, bright line rules also decrease the number of cases heard on appeal, thus clearing up the judges’ dockets.<sup>195</sup>

Carefully thought-out rules should govern whenever possible. Though there exist some advantages to balancing tests, such as their flexibility in complex cases,<sup>196</sup> the benefits of utilizing rules that promote predictability outweigh their minimal advantages. The Federal Circuit should adhere to the deeply rooted principles of liability imputation to enhance predictability wherever possible. The judiciary should begin by seeking out the principles of law discussed in this Note as its first choice of authority, and only when these principles of law fall short should the judiciary turn to mechanisms such as balancing tests when seeking to allocate liability for patent infringements by subsidiaries.<sup>197</sup>

## V. CONCLUSION

The Federal Circuit has recently attempted to make clearer when parent companies should be held liable for the patent infringements of their subsidiaries, but there will likely always be some level of inconsistency with the courts’ decisions. It is tempting for a parent company to “use the corporate structure of the subsidiary to evade obligations” by letting liability fall onto the subsidiary, but as this Note discussed, the parent can often be held liable for its subsidiaries’ actions anyway.<sup>198</sup> The Federal Circuit is sometimes inconsistent regarding its opinions on the traditional methods of imputing

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192. *Id.* at 1930. See also Jim Singer, *No More Bright Lines: Supreme Court Overturns Test for Willful Patent Infringement*, IP SPOTLIGHT (June 15, 2016), <https://ipspotlight.com/2016/06/15/no-more-bright-lines-supreme-court-overturns-test-for-willful-patent-infringement/>.

193. Singer, *supra* note 193.

194. *Id.*

195. See Honorable Daniel T. Gillespie, *Bright-Line Rules: Development of the Law of Search and Seizure During Traffic Stops*, 31 LOY. U. CHI. L.J. 1, 3 (1999).

196. See James G. Wilson, *Surveying the Forms of Doctrine on the Bright Line-Balancing Test Continuum*, 27 ARIZ. ST. L.J. 773, 790 (1995).

197. See Scalia, *supra* note 190, at 1176 (quoting THE POLITICS OF ARISTOTLE 127 (Ernest Barker trans., 1946)).

198. Sam Elson, *Legal Liability of Holding Companies for Acts of Subsidiary Companies*, 15 ST. LOUIS L. REV. 333, 360 (1930).

liability, particularly with the theory of inducement liability.<sup>199</sup> The Federal Circuit implemented different standards in *Hewlett-Packard* and *Manville*, and, by avoiding a balancing test, the court reached fair and just results. Since then, *Commil* and *Global-Tech* have helped define the law with respect to inducement liability. Justice Scalia believed that the true example of invoking justice was straightforward – examining matters “one case at a time, taking into account all the circumstances, and identifying within the context the ‘fair’ result.”<sup>200</sup> Unless the court follows the late Supreme Court Justice’s lead and abandons the use of balancing tests whenever possible when deciding whether to impute liability in patent infringement cases, the confusion and unpredictable results we have seen in the past will continue.

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199. Tal Kedem, *Secondary Liability for Actively Inducing Patent Infringement: Which Intentions Pave the Road?*, 48 WM. & MARY L. REV. 1465, 1494 (2007).

200. Scalia, *supra* note 190, at 1176.



