IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

RONALD A. KATZ TECHNOLOGY LICENSING, L.P., Plaintiff,	:	CIVIL ACTION
v.	:	
VERIZON COMMUNICATIONS, INC., and CELLCO PARTNERSHIP d/b/a VERIZON WIRELESS, Defendants.	:	NO. 01-5627

Newcomer, S.J. December __, 2002

OPINION

Currently before the Court is Defendant Verizon Communication Incorporated's Motion for Summary Judgement of Non-Infringement. For the following reasons the motion will be granted.

I. Factual Background

This is a patent infringement case. The Plaintiff Ronald A. Katz Technology, Licensing ("RAKTL") holds several patents relating to automated telephone services. In November of 2001, RAKTL filed suit against Verizon Communications Incorporated ("VCI") and Verizon Wireless.[1] RAKTL claimed that the Defendants infringed on fourteen of its patents.[2] RAKTL

[1]RAKTL later amended its complaint to reflect that Verizon Wireless is a brand name of Defendant Cellco Partnership.

[2]RAKTL recently amended its complaint to include two additional patents bringing the total number of patents involved in this litigation to sixteen.

claims that the Defendants utilize the technology covered by these patents in providing automated customer service and prepaid telephone services.

On January 4, 2002, VCI moved for summary judgment. In its motion, VCI claims that it can not be liable for infringing on RAKTL's patents because it does not provide any goods or services. VCI claims that it is merely a holding company. RAKTL has not offered any evidence to refute the basic proposition that VCI does not provide any of the allegedly infringing services. VCI does, however, own literally hundreds of subsidiaries, several of which provide these infringing services. RAKTL claims that VCI is liable for the infringement of these subsidiaries because of the level of control it exercises over them.

From the exhibits produced by the parties it appears that VCI does indeed exercise some control over its legion of subsidiaries. It is a reasonable inference that VCI selects the majority of the board of directors of these companies, by virtue of its majority or total ownership of them. Specifically, it is known that VCI chooses a majority of the board of representatives of Defendant Cellco. It is also clear that VCI executives make strategic policy and pricing decisions for VCI's subsidiaries. VCI also maintains control over acquisitions and dispositions. In advertising and other public statements, Verizon does not delineate between its subsidiaries and the parent company.[3] Further, VCI includes information about its subsidiaries in forms it submits to the Securities and Exchange Commission.

The exhibits presented to this Court also show that VCI does not manage the day-to-day activities of its subsidiaries. Specifically, VCI does not manage the day-to-day provision of customer service or prepaid phone services. Moreover, VCI's officers are not aware of the types of technology that are used in providing the allegedly infringing services, nor does it decide what technology is to be used in providing these services. VCI has only twelve employees: a CEO, a CFO, a President, five executive assistants, and four employees in charge of administering the charitable contributions of the Verizon Foundation.

II. DISCUSSION

A. Summary Judgment Standard

Summary judgment is appropriate "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party

[3]Common experience as well as the exhibits produced exemplify this point. Verizon commercials shown in markets that cover several states do not point out that those people who live in Pennsylvania will actually be purchasing services through Verizon Pennsylvania Inc., while those living in New Jersey will be purchasing their services from Verizon New Jersey, Inc.

is entitled to a judgment as a matter of law." FED.R.CIV.P. 56(c)(2002). The party moving for summary judgment has the initial burden of showing the basis for its motion. See Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). Once the movant adequately supports its motion pursuant to Rule 56(c), the burden shifts to the nonmoving party to go beyond the mere pleadings and present evidence through affidavits, depositions, or admissions on file to show that there is a genuine issue for trial. See id. at 324.

A genuine issue is one in which the evidence is such that a reasonable jury could return a verdict for the nonmoving party. See Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). When deciding a motion for summary judgment, a court must draw all reasonable inferences in the light most favorable to the non-movant. See Big Apple BMW, Inc. v. BMW of N. Am., Inc., 974 F.2d 1358, 1363 (3rd Cir. 1992).

RAKTL argues that there are geniuine issues of fact that would allow a reasonable jury to find for the Plaintiff. Specifically it claims that two legal theories support holding VCI liable for the infringement of its subsidiaries.[4] First, it

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[4]In its complaint RAKTL also alleges that VCI is liable for contributory infringement under 35 U.S.C. § 271(c). Liability under § 271(c), however, can only be imposed if a defendant offers to sell, sells, or imports a component of a patented invention. 35 U.S.C. § 271(c)(West 2002). As stated above, it is undisputed that VCI does not sell any products or provide any goods and services. Moreover, RAKTL did not even discuss its contributory infringement claim in its opposition to VCI's motion. Accordingly, no further discussion of this claim is necessary, and summary judgment on the contributory infringement claim is granted.

claims that VCI may be liable for direct infringement under 35 U.S.C. 271(a).[5] Second, RAKTL alleges that VCI could be liable for inducing its subsidiaries to infringe in violation of 35 U.S.C. 271(c).[6]

B. Direct Infringement

In claiming that VCI can be liable for direct infringement, RAKTL asserts that a parent can be shown to have committed tortious acts of patent infringement if it exercises control over an infringing subsidiary. It further asserts that liability can be imposed on a parent without piercing the corporate veil. This Court finds no support for RAKTL's argument.

RAKTL alleges that a parent corporation can be liable for direct infringement because it exercises control over its infringing subsidiaries. RAKTL does not attempt to explain the degree of control it is referring to in its argument.

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[5]35 U.S.C. § 271(a) provides:

> Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

[6]35 U.S.C. 271(b) provides:

> Whoever actively induces infringement of a patent shall be liable as an infringer.

Certainly, liability cannot be imposed on a parent corporation if it exercises only basic directional control over a subsidiary. Every parent corporation, and indeed every majority stockholder in a corporation, exercises this degree of control. In fact, stockholder control over major decisions is required by law. See DEL CODE ANN. tit. 8 §§ 251(c)(West 2002)(requiring stockholder approval for a merger or consolidation); 271(c)(requiring stockholder approval for a sale of all or substantially all of a corporations assets). The Supreme Court has rejected holding parent corporations liable for merely exercising this basic level of control that is inherent in stock ownership. U.S. v. Bestfoods, 524 U.S. 51, 62 (1998).

To the contrary, a parent is only derivatively liable for the torts of its subsidiaries if it so dominates them as to warrant piercing the corporate veil. Bestfoods, 524 U.S. at 62. This principle applies to direct patent infringement under § 271(a), just as it would to any other tort. See Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565, 1579 (Fed. Cir. 1986)(holding that patent infringement is a tort). In A. Stucki Company v. Worthington Industries, Inc., 849 F.2d 593 (Fed. Cir. 1988), the Federal Circuit held that a parent could be liable for direct infringement only if there was sufficient evidence to justify piercing the corporate veil.

The case law does not support RAKTL’s argument that piercing the corporate veil is not necessary to impose liability for direct patent infringement. RAKTL relies on the case of Symbol Technologies, Inc. v. Metrologic Instruments, Inc., 771 F.Supp. 1390 (D. N.J. 1991). Symbol Technologies holds, quite correctly, that piercing the corporate veil is not necessary to hold officers of a corporation liable for patent infringement. Id. at 1403. Nothing in Symbol Technologies supports RAKTL's contention that piercing the corporate veil is not required to hold stockholders liable.[7] The confusion arises over a misunderstanding as to what is the "corporate veil." The term "corporate veil" refers to the protection from liability that stockholders receive by virtue of employing the corporate form. See 1 FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATION ("FLETCHER") §§ 41 & 1556 (stating that the primary purpose of a corporation is to limit liability of shareholders). It has never been the law that this principle of limited liability applies to officers of a corporation, who are directly involved in managing the corporation, and therefore, may be liable as joint tortfeasors for acts committed in the regular course of the corporation's

[7]It is noted that the party that the Plaintiff sought to hold personally liable for direct infringement in Symbol Technologies was both the president and owner of the infringing corporation. The reason the Court held the individual liable, however, was because his actions were taken in direct management of the corporation. Specifically he designed, manufactured, and sold the infringing device. These activities are not those typically taken by a stockholder-owner. The basis for liability in that case was solely his actions taken as a president and direct manager of the corporation, not as a stockholder.

business. See FLETCHER § 1135. We hold, in accordance with both A. Stucki and Symbol Technologies, that owners of the stock of a corporation are not liable under the theory of direct patent infringement unless the corporate veil is pierced.

As this Court stated in its early opinion in this case, RAKTL has not alleged facts in its complaint, nor could it find sufficient facts, to warrant piercing the corporate veil. Ronald A. Katz Tech. Licensing v. Verizon Communications Inc., 2002 U.S. Dist. Lexis 19691 (E.D. Pa. 2002). Nothing produced in RAKTL's opposition persuades this Court to change that earlier conclusion. No genuine issue of fact exists as to whether VCI has directly infringed, and summary judgement on that claim must be granted.

C. Inducing Infringement

RAKTL claims that VCI can be jointly and severally liable for its subsidiaries' infringement under the theory of inducing infringement. Inducing infringement requires proof of some affirmative act that causes, urges, encourages, or aids another to infringe. Tegal Corp. v. Tokyo Electron Co., Ltd., 248 F.3d 1376, 1379 (Fed. Cir. 2001)(quoting Fromberg, Inc. v. Thornhill, 315 F.2d 407, 411 (5th Cir. 1963)). Inducement cannot be premised on an omission or oversight by a defendant. Tegal, 248 F.3d at 1379.

In addition to an affirmative act, a plaintiff alleging inducement must prove that a defendant had specific intent to infringe on the patent. Specific intent is the intent "to accomplish the precise act which the law prohibits." BLACK'S LAW DICTIONARY 810 (6th ed. 1991).[8] Specific intent in the area of inducing infringement requires that a defendant know that it is inducing activity that infringes on a patent.

RAKTL argues § 271(b)does not require specific intent. However, after a review of the relevant authorities we must disagree. Federal Circuit case law supports a requirement of specific intent. See Water Technologies Corp. v. Calco, Ltd., 850 F. 2d 660, 668 (Fed. Cir. 1998)(holding that case law and legislative history uniformly assert a requirement that a party knowingly infringe); Manville Sales Corp. v. Paramount Systems, Inc., 917 F.2d 544, 553 (Fed. Cir. 1990)(requiring plaintiff to prove specific intent, i.e., that the defendant knew his actions would induce actual infringement); Hewlett-Packard Co. v. Baush and Lomb Inc., 909 F.2d 1464 (Fed. Cir. 1990)(requiring that the inducing party actually intends to cause the acts that constitute infringement). Further, District Courts have held that the a plaintiff must prove a defendant had knowledge that the conduct he was inducing actually infringed on a patent. See Young Dental Mfg. Co. v. Q3 Special Products Inc., 891 F.Supp. 1345 (E.D. Mo.

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[8]For example, common law larceny required that a defendant take "with the intent to steal." If a defendant thought that the property he was taking was his, then the requisite intent was missing.

1995); Davila v. Arlasky, 857 F.Supp. 1258 (N.D. Ill. 1994); Hughes Aircraft Co. v. National Semiconductor Corp., 857 F.Supp. 691 (N.D. Cal. 1994); Dynamis, Inc. v. Leepoxy Plastics, Inc., 831 F. Supp. 651 (N.D. Ind. 1993). Requiring specific intent for inducement of infringement is also consistent with the comparison that courts have made between inducing infringement and aiding and abetting a criminal offense. National Presto Indus., Inc. v. West Bend Co., 76 F.3d 1185, 1196 (Fed. Cir. 1996). The crime of aiding and abetting similarly requires that a defendant have the specific intent to forward the commission of the crime. U.S. v. Richards, 302 F.3d 58, 67 (2d Cir. 2002); U.S v. Garth, 188 F.3d 99, 113 (3d Cir. 1999); Conant v. Walters, 309 F.3d 629 (9th Cir. 2002). Accordingly, we hold that RATKL must show that there exists a material issue of fact as to whether VCI acted with knowledge that it was inducing infringing conduct.

RAKTL has failed to show that VCI performed an affirmative act sufficient to incur liability for inducing infringement. All of the evidence that RAKTL has produced proves only that VCI generally manages its subsidiaries. There is no evidence that VCI causes, encourages, or aids any of its subsidiaries in providing automated customer service or prepaid phone service. RAKTL claims that VCI could be liable for inducement because VCI chooses Cellco’s Board, which in turn, oversees procurement. This alone, however, is not an affirmative step that induces infringement. Just because infringing acts may have been taken by Cellco board members who ultimately are given their authority by VCI does not mean that VCI induced those actions. See Tegal, 248 F.3d at 1388 (refusing to find an affirmative act when one corporation allowed an affiliate to infringe). Rather, when viewed with all of the evidence in the case, it is clear that VCI does not take any affirmative steps that induce any of its subsidiaries to infringe.

RAKTL has also failed to show that VCI possessed the requisite intent to induce infringement. Affidavits from VCI executives make clear that VCI is not aware of the technology used by its subsidiaries, and does not direct them to use any certain technology. Because VCI is unaware of this technology, it could not know whether it was infringing on RAKTL's patents. Even if we could infer from RAKTL's evidence that VCI had required its subsidiaries to provide customer service, this would not show that VCI had the specific intent to infringe. There would have to be some evidence that VCI actually intended its subsidiaries to provide that specific type of automated customer service that infringes on RAKTL's patents. There is simply no evidence of this in the exhibits, nor could this conclusion be reasonably inferred from the facts produced. Based on this evidence no reasonable jury could find that VCI induced its subsidiaries to infringe.

RAKTL also argues that VCI is liable for inducement because it failed to seek the advice of counsel after it was placed on notice by RAKTL of possible infringement. VCI, however, never took steps that aided or abetted the use of certain technology. Had VCI sought the advice of counsel, that advice would have been that it was doing nothing to induce infringement. This Court will not hold a party liable for failing to call its lawyer, when that lawyer's advice would not have changed the party's conduct.

III. Conclusion

Because RAKTL has failed to produce evidence that would create a material issue of fact as to whether VCI is liable for the direct infringement of its subsidiaries or for inducing the infringement of its subsidiaries, the Summary Judgment Motion will be granted. An appropriate order will follow.

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v.	:	
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O R D E R

AND NOW, this day of December, 2002, upon consideration of Defendant Verizon Communications Incorporated's Motion for Summary Judgment of Non-Infringement, the Plaintiff's response thereto, Verizon Communications Incorporated's reply brief, and the oral arguments of counsel presented to this Court, said motion is GRANTED. Judgment is entered in favor of Defendant VCI and against the Plaintiff.

AND IT IS SO ORDERED.

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Clarence C. Newcomer, S.J.