

Parents are liable for their children - Does this also apply to companies?

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A recent decision of the Higher Regional Court (Oberlandesgericht) Düsseldorf now confirms that a holding company cannot easily dive away under the patent infringing activities of its subsidiaries.

Background

Many companies are designed in the form of a group, having a holding company at the top and a number of subsidiaries which are directly or indirectly owned by the holding company. Different working areas are split between the companies of the group.

If one of these subsidiaries infringes a patent, the question arises whether and to what extent the holding itself is responsible for the infringement. Is the holding liable to compensation of damages? Does the holding have to render account on past infringements, i.e. provide information about customers and pricing details?

The obvious defense of the holding would be to argue that its subsidiaries are independent legal entities so they should be the relevant parties to be held liable. On the other hand, effective protection of the patent owner's rights must be provided. Taking action against the holding is often times more feasible than gathering information about the structure of a group and suing all entities that are involved in the infringing activity.

Contrary to German trademark and unfair competition law, German patent law does not include any special provisions regarding the liability for "representatives" - which in most cases also cover subsidiaries. Hence, the general rule of sec. 831 BGB (German Civil Code) is applicable, which says that a principal is liable for the actions of a vicarious agent unless he can exonerate himself.

Decision of the Higher Regional Court (Oberlandesgericht) Düsseldorf

The decision we report on concerns the execution of a patent infringement verdict against a holding company which manufactured and sold the products at issue only through legally independent subsidiaries. In the main proceedings that led to the verdict it had been obvious that the defendant, i.e. the holding, was doing business only through its subsidiaries.

The holding company had been convicted, inter alia, to render account on past infringements. In the course of the execution of this verdict, the holding refused to provide the information, alleging that, contrary to its subsidiaries, it was not directly involved in any actual marketing activities. As far as the activities of its subsidiaries were concerned, the holding simply referred to their individual legal standing. If the plaintiff had wanted to receive information on their activities, it would have had to sue these companies instead of the holding.

The Higher Regional Court of Düsseldorf now confirmed a decision by the District Court which held the holding liable for its subsidiaries' activities, and imposed a fine on the holding for contempt of court. The subsidiaries acted as an extended arm of the holding company. This was clear already from the term "holding" which formed part of the name of the holding company. The objection that the holding company had not committed any acts of infringement itself should have been raised in the main proceedings. In the execution proceedings, this objection was held already inadmissible.

Defense strategy

In order to defend against claims for infringement as a holding company, the role of the holding needs to be pointed out in the main proceedings. Civil liability could be averted by convincing the court that the role of the parent company does not go beyond that of a pure holding that does not intervene with the daily business.

Criteria that oppose the idea of a pure holding might be an appearance of the holding in front of customers or pre-court negotiations with the opponent led by the holding. In addition, it is sufficient that the holding participated in the infringing activity, e.g. by instructing its subsidiaries correspondingly.

OLG Düsseldorf, decision of 23 Jan 2013, docket No. I-2 W 33/12 - Scheibenbremse (disc break)
Click [here](#) for the full German text of the decision.

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