

Intellectual Property Insights

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Navigating Patent Damages Part III: Statutory Indemnification - Implied Warranty Against Infringement

Tags: **84 lumber co v mrk techs ltd, chemtron inc v. aqua products inc, implied indemnification, implied warranty against infringement, inc v olaes enterprises, inc v sony electronics, inc., infringement claim, motorola inc v. varo inc, pacific sunwear of california, patent damages, patent infringement, patent litigation, phoenix solutions, rightful claim, sun coast merchandise corp v. myron corp, ucc, ucc § 2-3123, uniform commercial code**

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In this third article relating to patent damages, we explore the effects of implied indemnification provisions when evaluating who is responsible for litigation costs when faced with an infringement suit.

The Uniform Commercial Code (UCC) and California Commercial Code provide for an implied warranty against infringement (IWAI) that runs from the seller to the buyer in any contract for the sale of goods. See UCC § 2-312(3) (“Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like . . .”); Cal. Com. Code § 2312(3). Under this implied warranty, the seller assures the buyer that use of the goods as delivered will not infringe the intellectual property rights of a third party.

Although the statutory IWAI is a good thing to be aware of, especially where there is no negotiated indemnification provision, it is limited in its application. For example, the UCC only requires the seller to provide goods free of patent infringement claims *at the time of delivery*; it does not speak to the buyer's use of those goods, even if such use infringes a third party's patent rights. See, e.g., *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 718-19 (N.D. Tex. 1986); *Chemtron, Inc. v. Aqua Products, Inc.*, 830 F. Supp. 314, 315-316 (E.D. Va. 1993). Thus, the IWAI is essentially limited to claims of direct patent infringement against the buyer by a third party. If the buyer is accused of contributory infringement or inducement to infringe, any indemnification action by the buyer against the seller would generally be preempted by the federal patent laws and the IWAI would not apply.

Indemnification under the IWAI is evaluated under a breach of contract analysis and does not require the issue of infringement to be adjudicated at trial. *Linear Tech. Corp. v. Applied Materials, Inc.*, 152 Cal. App. 4th 115, 130 (“It is not necessary to determine whether [buyer] actually infringed the patent of [third party] . . . the central question will be only whether [sellers] breached the contract with [buyer] when they failed to defend and indemnify [buyer] upon [third party's] action against it.”); see also *84 Lumber Co. v. MRK Techs., Ltd.*, 145 F. Supp. 2d 675, 680 (W.D. Pa. 2001); *Sun Coast Merchandise Corp. v. Myron Corp.*, 393 N.J. Super. 55, 79-80 (N.J. Super. Ct. App. Div. 2007) (“a buyer must [only] establish that the infringement claim is *of a substantial nature* that is reasonably likely to subject the buyer to litigation, and has a significant and adverse effect on the buyer's ability to make use of the goods in question.”).

Courts in California have also expanded a “rightful claim” to mean any “nonfrivolous claim of infringement that has any significant and adverse effect on the buyer's ability to make use of the purchased goods.” *Pacific Sunwear of California, Inc. v. Olaes Enterprises, Inc.*, 167 Cal. App. 4th 466 (Cal. App. 4th 2008); see also *Phoenix Solutions, Inc. v. Sony Eletronics, Inc.*, 637 F. Supp. 2d 683, 696-97 (N.D. Cal. 2009) (same result for patent cases).

Because the terms of statutory indemnification are not flexible, many parties choose to draft their own indemnification provisions, the topic of the next article in this series, to override statutory indemnification.

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