

# What Should We Do About Intellectual Property Indemnification? -- Which Side Are We On?

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# Introduction: Three Contractual Perspectives for IP Should Balance

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- ❑ Indemnification Absent Contract Provisions
  - ❑ Indemnification Provisions in Standard Terms & Conditions
  - ❑ Indemnification Provisions in Negotiated Contract
  - ❑ All Three Balance Need, Knowledge and Power
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# Who and What Indemnification Relationships?

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- Buyer & Seller
  - Goods & Services
  - Combinations of Goods and Services
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# Three Traits of the Buyer, Seller, Designer Affect Indemnification

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- Who is closest to the creation?
  - Who has greater resources?
  - Who has the best knowledge about third parties' intellectual property?
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# Four Reasons We Care About IP Indemnification

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- ❑ Infringement Does Not Require Intent or Copying
  - ❑ Growth In Enforcement
  - ❑ Perceived Increase In Damages
  - ❑ Injunctive Relief Can Affect Ongoing Business
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# Three Types of Infringement: None Require Intent or Copying

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- ❑ Patent: Making, Using, Selling, Offering for Sale, Importing
  - ❑ Trademark: Likelihood of Confusion, Considering Similarity in Marks and Goods
  - ❑ Copyright: Copying Inferred From Access and Similarity
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# Three Features In the Growth In Enforcement

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- Greater Awareness, Ease in Discovery
  - No Longer Concentrated In Disputes Between Competitors
    - More Money Suing Downstream Users
  - Trolls or Non-Practicing Entities
    - Pop Out From Under The Bridge And Demand Toll
    - Licensing Revenue from Technology Transfer
    - Patents, But Also Copyrights & Trademarks
    - Your Client's a Troll, Mine's a Non-Practicing Entity
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# Four Factors in the Perceived Increase in Damages

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- ❑ Entire Market Value Rule – Damages as a Percent of Total Sales
  - ❑ Infringer's Profits – Total Sales and Burden Shifting on Cost Deductions
  - ❑ Statutory Damages
  - ❑ Increased Damages for Willfulness, Exceptional Cases
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# Five Situations Where Injunctive Relief Matters

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- Ex Parte Seizure of Counterfeit Goods
  - Temporary Restraining Order
    - Ex Parte
    - With Notice
  - Preliminary Injunction
  - Permanent Injunction Stops Sales, May Be No Damages
  - Will Indemnitor “Pay”?
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# Uniform Commercial Code 2-312

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Sec. 2-312. Warranty of title and against infringement;  
buyer's obligation against infringement.

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(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 but a **buyer who furnishes specifications to the seller must hold the seller harmless** against any such claim which arises out of compliance with the specifications.

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## Uniform Commercial Code 2-312

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“At the outset, this Court's research discloses very little case law regarding this specific section.”

*Bonneau Co. v. AG Industries, Inc.*, 116 F.3d 155 (5<sup>th</sup> Cir., 1997)

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## Three Variables In Sec. 2-312 Warranty ... Against Infringement

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- 1) Merchant Regularly Dealing in Goods of the Kind**
    - a) Warrants**
    - b) Delivered**
    - c) Free of Rightful Claim of Any Third Person by Way of Infringement**
  - 2) Buyer Who Furnishes Specifications to Seller**
    - Must Hold Seller Harmless**
  - 3) Unless Otherwise Agreed**
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# Four Common Sec. 2-312 Problems

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- 1) **Goods or Services**
    - a) **Goods, UCC Applies, Services No UCC**
    - b) **Software:**
      - i. **Yes, No, Maybe**
      - ii. **Depending on Issue and Jurisdiction**
      - iii. **Any Hardware Included?**
  - 2) **When Were Goods Delivered – Relative to Infringement**
  - 3) **Rightfulness and Ripeness of Claim of Infringement**
  - 4) **What Impact of Buyer specifications**
    - a) **Order?**
    - b) **Sketch?**
    - c) **Customization, modification?**
    - **Design and Specify?**
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## Five Variables Affect Indemnification Provisions in Standard Terms & Conditions

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- ❑ Buyer and Seller Interests Diverge
  - ❑ Needs Vary Based on Industry – hard goods, fashion, components, services, software
  - ❑ Negotiators May Draft as All or Nothing or be Reasonable
  - ❑ There May Be Differences in Bargaining Power
  - ❑ Legal and Commercial Needs and Perceived Needs Affect Willingness to Negotiate
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# Scenarios – Independent Designer, Specialist

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- Who is closest to the creation?
    - Designer
  - Who has greater resources?
    - Probably Buyer
    - Depends – is Designer IP Savvy? Does Buyer have an in-house Patent Dept. etc?
  - Who has the best knowledge about third parties' intellectual property?
    - Probably Buyer
  - Bargaining Power?
    - Probably Buyer
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# Scenarios – Manufacturer Who “Custom” Designs for Customers

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- Who is closest to the creation?
    - Designer
  - Who has greater resources?
    - Probably Manufacturer
  - Who has the best knowledge about third parties' intellectual property?
    - Manufacturer
    - Probably IP Savvy
  - Bargaining Power
    - Probably Manufacturer
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# Scenarios – Retailer

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- Who is closest to the creation?
    - Designer, Manufacturer, Distributor
  - Who has greater resources?
    - Depends – Boutique, Department Store, Manufacturer
  - Who has the best knowledge about third parties' intellectual property?
    - Designer, Manufacturer
  - Bargaining Power
    - Depends – Boutique, Department Store, Mass Merchant
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# Scenarios – Joint Development

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- Who is closest to the creation?
    - Each Party Brings Expertise
  
  - Who has greater resources?
    - Depends
  
  - Who has the best knowledge about third parties' intellectual property?
    - Each Party Brings Expertise
  
  - Bargaining Power
    - Depends
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# Four Features in Enforcing Copyright in Particular Forms of Expression

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- Registration
    - The “Right” Exists Without Registration
    - Prerequisite to Suit
    - Hard to Search
  - Ownership and Copying
    - Registration Presumes Ownership
    - “Copying” but Not “Intent”
      - Direct Evidence
      - Access Plus Substantial Similarity
      - Inference of Access from Striking Similarity
  - “Copying” of Protectable Expression
  - Independent Creation as Proof of Non-copying
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# Three Aspects of Trademark Infringement

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- Standard is Likelihood of Consumer Confusion
    - Comparing Similarities Between Marks, Goods
    - Weak Marks including Descriptive Terms
    - House Marks, Designs, Distinguishing Features
    - What Is The Consumer Thinking When Purchasing?
  - Strict Liability – Independent Creation Not a Defense
  - Remedies Include Actual Damages, Infringer's Profits, Injunctions
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# Five Aspects of Patent Infringement

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- Patents Have Drawings, Specification and Claims
  - Only Claims Matter
    - Written Specification Explains Terms
  - Claims Have “Elements”
  - All Elements Rule: If All Elements are Found In Accused, Then Infringement
  - Paper Patent v. Actual Conduct or Device
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# Patent Infringement: Three Types of Subject Matter, Combinations

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- Apparatus
    - Mechanical
    - Electrical or Electronic
  - Chemical
    - Compounds and Formulae
    - Lab Work, Production, Testing
  - Methods
    - Assembly Line
    - Processing Information
    - Logic or Steps Performed by a Machine
    - Logic or Steps That Transform “Matter”
  - Combinations of the Above
  - If Your Client Is Not a Philosopher, Patent Might Cover What They Do
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# Trade Secrets

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- Relate to “Trade”
  - Are Kept “Secret”
  - If Your Client Receives Them, or Uses Them, Could be Misappropriation
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# Four Types of IP -- Proving Noninfringement, Who Has Evidence?

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- Patent Claims
    - Do Not “Read” On Accused – How Does It Work?
    - Claims Are Invalid – What’s “Old”?
  - Trademarks – Whose Mark Is It?
    - Not Likely To Confuse
      - Differences
      - Weakness
      - Different Identifiers Like House Marks or Graphics
      - Disclaimers
    - Mark Generic, Abandoned
  - Copyright Expression Dissimilar – Who Created?
    - Independent Creation
    - Explain Abstraction To Idea and Recreation
    - Not Original, Only Idea
  - Trade Secrets – Who Knows Source and Circumstances?
    - Industry Knowledge
    - Reverse Engineering
    - Track To Permissible Source or Independent Creation
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# Five Aspects Regarding Trolls or Non-Practicing Entities

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- Trolls Jump Out From Under the Bridge and Demand a “Toll”
  - Non-Practicing Entities Research and Develop “Ideas”, License for Revenue
  - Used to be “Submarine” Patents, But Now Published
  - Highly Vulnerable Subject Areas:
    - Computer and Internet
    - Telephone and Telecommunications
    - Business Methods
    - Biotechnology
  - Fast Moving Industries, Slow Moving Prosecution, Poor Prior Art Libraries and Searching Permit Surprises and Broad Claims
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# Trolls -- Patent, Trademark and Copyright

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- Judge Rader: "any party that attempts to enforce a patent far beyond its actual value or contribution to the prior art."
  - Patent Infringement
  - Copyright – Spot Infringement, Register Quickly, Sue
  - Trademark – Register, Little or no "Use", Find Similarity, Sue
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# Five Reasons One Can Enforce a Patent Far Beyond Its Actual Value

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- ❑ A High “Nuisance Value” Case?
  - ❑ Cost of Defense High
  - ❑ Result Uncertain
  - ❑ High Damages Risk If You Lose on Liability
  - ❑ Reasonable Royalty Damages Even If No Actual “Injury” to Plaintiff
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# Four Types of IP -- Infringing Acts Show Why Indemnification Needed

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- ❑ Patent: Make, Use, Sell, Offer for Sale, Import
  - ❑ Copyright: Reproduce, Prepare Derivative Work, Distribute, Publicly Perform or Display
  - ❑ Trademark: In Commerce – Cause Likelihood of Confusion
  - ❑ Trade Secret: Receive and Use
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# Intellectual Property -- Indemnification Terms

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- Relation to 2-312
    - Fill Gaps
    - Preserve 2-312
    - Disclaim 2-312
  - Coverage for:
    - “making, using, selling”
    - “reproduction ... distribution ... display”
    - “in Commerce”
  - Retailer will offer for sale and display
  - User will use and often make a copy
  - Seller is making, selling, distributing, probably using
- Specification
    - Who Is Really Creating?
    - Who Should Undertake Burden?
    - Is the End Use “Customized”?
  - When?
    - When Delivered?
    - What if While Using or Selling
      - Patents Issue?
      - Provisional Patent Rights?
      - Copyright is Registered?
    - Statute of Limitations -- What Applies
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# Negotiating Indemnification – Subject and Obligations

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- Differentiate That Which Is Supplied To Buyer from What Buyer Does
    - Buyer Specifications
    - Buyer Activities After Purchase
    - Use for Intended Purpose
  - Put Financial Limits
    - Size of Contract
    - Arbitrary Number
  - Place Knowledge Limits
    - Awareness
    - Intent
    - Reasonableness
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# Intellectual Property – Five Defense Considerations

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- Who Pays to Defend?
  - Who Controls Defense – Sometimes Buyer Has Much Greater Risk
  - Legitimate Sellers' Goodwill To Customers Will Dominate Actions
    - “We’ll Take Care of Everything” – and Do
    - If Seller Is a “Copycat” Can They Be Trusted?
  - Settlement
    - Injunction Could Harm Buyer in Future
    - Past Infringement
    - License for Future
      - Paid up
      - Future Royalty
  - Payment –
    - Hold Accounts Payable
    - Setoff From Other Transactions
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# Negotiating Defense – Lawyers and Decisions

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- ❑ Clients Prefer Own Lawyer
  - ❑ Relationships and Business Familiarity Advantageous
  - ❑ Conflicts, Cross Claims
  - ❑ Lawyers Must Understand When Case Is About Money, When It Is About Competition
  - ❑ Fast Action Low Cost For All
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# Three Other Sources of Indemnification

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- UCC Merchantability – What if it Can't Be "Sold"
  - Insurance
    - Commercial General Insurance – Advertising Injury
    - What actions?
      - Bizarre Phraseology Inconsistent with IP
        - Ideas
        - Titles
      - Complex Case law
      - Exclusions
        - Cause of action
        - Intent
        - Contract obligation
    - Whose Advertising?
  - Common Law/Equitable Indemnification
    - State by State
    - Often Depends on Joint Liability, Contribution Principles
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# Any Questions?

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