

**Indemnity / Warranty /  
Limitation of Liability**

# + Why Discuss Together?

- Warranty of Title triggers indemnification
- Indemnification is a remedy for breach of warranty of title or non-infringement
- Limitation of Liability can limit that remedy
  - Often excludes Indemnification
  - A cap on Limitation of Liability can eviscerate indemnification
  - Unintended consequences



Warranty Under UCC § 2-312



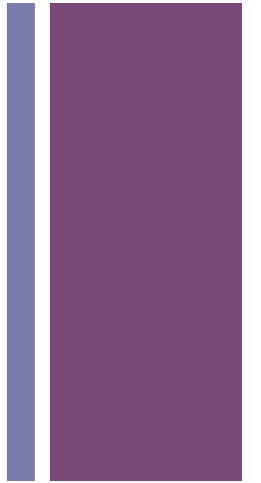
# UCC

## § 2-312 Warranty of Title and Against Infringement; Buyer's Obligation Against Infringement.

- (1) Subject to subsection (2) there is in a contract for sale a warranty by the seller that
  - (a) the title conveyed shall be good, and its transfer rightful; and
  - (b) the goods shall be delivered free from any security interest or other lien or encumbrance of which the buyer at the time of contracting has no knowledge.
- (2) A warranty under subsection (1) will be excluded or modified only by specific language or by circumstances which give the buyer reason to know that the person selling does not claim title in himself or that he is purporting to sell only such right or title as he or a third person may have.
- (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.



# Breach of § UCC 2-312 Warranty



- What are the remedies for breach?
- Consensus is that the remedy is indemnification
- Licensee's remedy arises immediately upon notice of an infringement claim § 2-312 (comments)
- A claim is "rightful" if it constitutes a "nonfrivolous claim of infringement that has any significant and adverse effect, through the prospect of litigation or otherwise, on the buyer's ability to make use of the purchased goods." §2-312 (comments)

# + Breach of § UCC 2-312 Warranty

## -- Notice

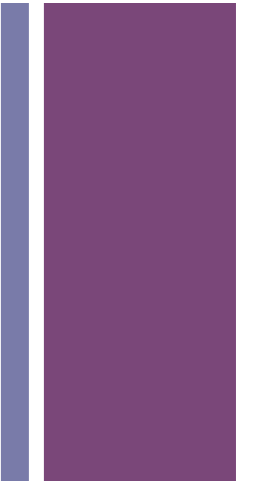
- Licensee must notify the Licensor within a reasonable time after receiving notice of the litigation
- Failure to timely notify the Licensor risks loss of remedies for Licensee



# + § 2-312 Warranty

## -- Control of Litigation

- Licensor has the right to take control of litigation (§ 2-607)
  - But, it is not required to do so
- If the Licensor does not take control, Licensee must proceed with litigation, incur the costs of its defense, and later seek recovery from the licensor for its expenses

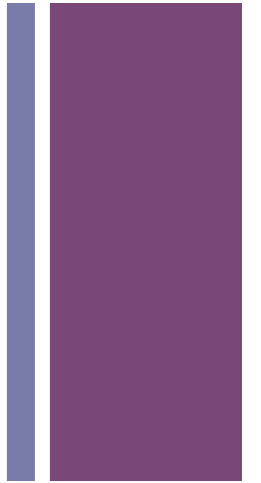


+ Non-UCC  
Indemnity / Warranty /  
Limitation of Liability





# Purpose of Indemnification / Warranty / Limitation of Liability



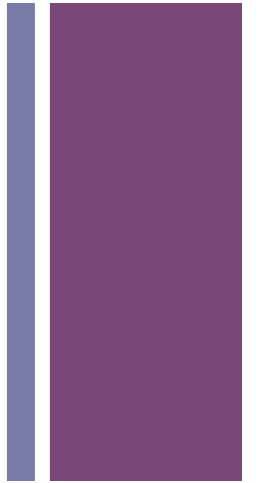
- IP Indemnification Clause
  - Allocation of risk of IP infringement
    - Which party in best position to know?
    - Which party in best position to defend?
    - Which party should bear risk?
- Warranty Exclusion
  - Express exclusion of warranty
    - Necessary for goods transaction under UCC
    - If warranties excluded, must carve out IP indemnity
- Limitation of Liability
  - Limits party's (or parties') liability for breach/tort



- Indemnity, Warranty Exclusion, and Limitation of Liability must work together
- Common example:
  - Warranty Exclusion excludes all warranty including warranties of title and fitness for an intended purpose
  - Indemnity may indemnify against IP infringement
  - Limitation of Liability may cap total liability at the amount of the contract



# SAMPLE CLAUSES



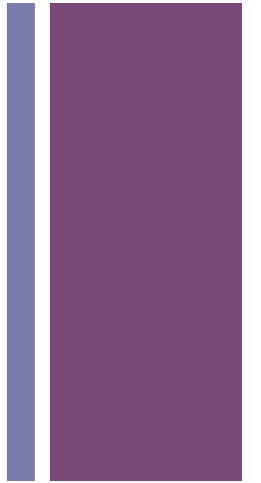
- **INDEMNIFICATION.** If a third party makes a claim against BUYER asserting infringement of a patent, copyright, trade secret, or similar right related to SELLER's goods provided under this Agreement, SELLER shall defend at its expense, indemnify and hold harmless BUYER against all loss, cost, expense, and liability arising out of such claim whether or not such claim is successful.
- **NO WARRANTY.** SELLER MAKES NO WARRANTIES, EXPRESS OR IMPLIED, RELATED TO CONFIDENTIAL INFORMATION, DELIVERABLES, OR SERVICES PROVIDED BY SELLER UNDER THIS AGREEMENT. SELLER SPECIFICALLY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY; FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT.
- **LIMITATION OF LIABILITY.** EXCEPT FOR EACH PARTY'S OBLIGATIONS ARISING UNDER THE CONFIDENTIALITY, LICENSING AND INDEMNIFICATION SECTIONS OR WHERE THIS EXCLUSION OR RESTRICTION OF LIABILITY WOULD BE VOID OR INEFFECTIVE UNDER APPLICABLE STATUTE OR REGULATION, IN NO EVENT WILL EITHER PARTY BE LIABLE FOR ANY DAMAGES WHATSOEVER (INCLUDING WITHOUT LIMITATION DIRECT, INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, LOST PROFITS, PUNITIVE OR LOST SAVINGS) WHETHER BASED ON CONTRACT, TORT OR ANY OTHER LEGAL THEORY, EVEN IF THAT PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR CONSEQUENTIAL DAMAGES.

# + IP INDEMNIFICATION

- **INDEMNIFICATION.** If a third party makes a claim against BUYER asserting infringement of a patent, copyright, trade secret, or similar right related to SELLER's goods provided under this Agreement, SELLER shall defend at its expense, indemnify and hold harmless BUYER against all loss, cost, expense, and liability arising out of such claim whether or not such claim is successful.



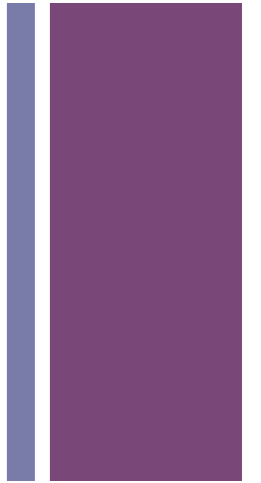
# WARRANTY



- **NO WARRANTY.** SELLER MAKES NO WARRANTIES, EXPRESS OR IMPLIED, RELATED TO CONFIDENTIAL INFORMATION, DELIVERABLES, OR SERVICES PROVIDED BY SELLER UNDER THIS AGREEMENT. SELLER SPECIFICALLY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY; FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT.



# LIMITATION OF LIABILITY



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**INDEMNIFICATION CLAUSE**

# + IP Indemnification

- Patent:
  - Knowledge not an element of infringement
  - Infringement search not realistic
  - Laws/courts vary from country to country
- Copyright:
  - Access to infringed work required, thus party likely to have knowledge of copying
  - Infringement search not necessary
  - Laws relatively consistent
- Trade Secret:
  - Misappropriation of trade secret requires . . . misappropriation
- Trademark:
  - Is a trademark a similar right?



# + INDEMNIFICATION

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+ . . . provided that you

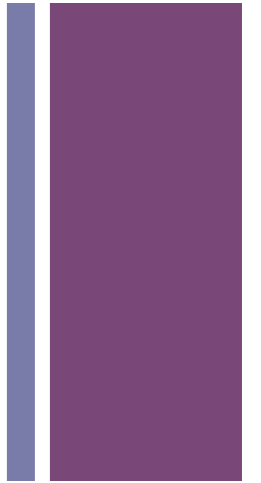
- (a) notify CORPORATION **promptly** in writing of the action;
- (b) provide CORPORATION all **reasonable information and assistance** to settle or defend the claim; and
- (c) grant CORPORATION **sole authority and control** of the defense or settlement of the claim.

# + Indemnity Safety Clause

- If an infringement claim is made, CORPORATION may, at its option and expense, either (a) replace or modify [goods] so that it becomes non-infringing, or (b) procure the right to continue using [goods]. If CORPORATION determines that neither of those alternatives is commercially reasonable, CORPORATION may require the return of [goods] and refund to you any fees paid.



# Carve Outs



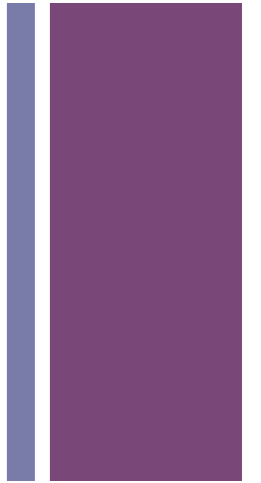
- CORPORATION has no liability to you if the alleged infringement is based upon:
  - (a) the combination of [goods] with any product not furnished by CORPORATION;
  - (b) the modification of [goods] other than by CORPORATION;
  - (c) the use of other than a current approved version of [goods]; (software)

# + Carve Outs

- CORPORATION has no liability to you if the alleged infringement is based upon: . . .
- (d) the use of [goods] as part of an infringing process;
- (e) a product that you design or market;
- (f) any [goods] provided by CORPORATION'S licensors which do not provide such indemnification to CORPORATION'S customers; or
- (g) knowing and willful infringement by BUYER.



# One Last Tweak



- Patent Infringement Indemnification
  - U.S. patents v. the world
  - Options:
    - U.S. only
    - U.S., EPO members
    - Signatories to PCT

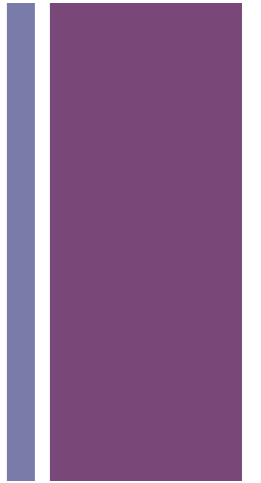


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WARRANTY CLAUSE



# WARRANTY



- Warranty Clause: usual purpose is to disclaim express and/or implied warranties
- Express Warranty
  - Why would buyer allow seller to disclaim express warranty?
- Implied Warranty
  - UCC
    - Warranty of merchantability
    - Warranty of fitness for a particular purpose
    - Warranty of title

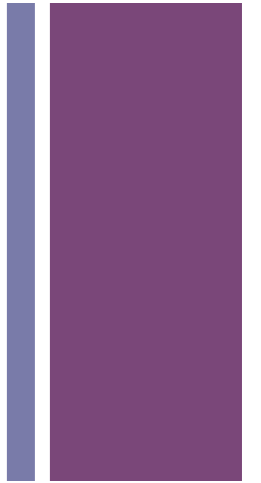


# + Example Warranty Clause

- **NO WARRANTY.** SELLER MAKES NO WARRANTIES, EXPRESS OR IMPLIED, RELATED TO CONFIDENTIAL INFORMATION, DELIVERABLES, OR SERVICES PROVIDED BY SELLER UNDER THIS AGREEMENT. SELLER SPECIFICALLY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY; FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT.



# WARRANTY



- WARRANTY
- SELLER represents and warrants that any materials, works, specifications or information it provides under this Agreement shall not infringe upon or misappropriate any patent, copyright, or trade secret of any third party. EXCEPT AS EXPRESSLY STATED ABOVE, SELLER MAKES NO WARRANTIES, EXPRESS OR IMPLIED, RELATED TO CONFIDENTIAL INFORMATION, SOFTWARE DELIVERABLES, OR SERVICES PROVIDED BY SELLER UNDER THIS AGREEMENT.

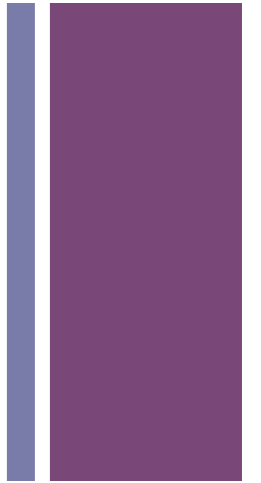


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**LIMITATION OF LIABILITY**



# LIMITATION OF LIABILITY



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# + Entire Liability

- THIS SECTION XX STATES THE ENTIRE LIABILITY OF SELLER AND YOUR SOLE AND EXCLUSIVE REMEDY WITH RESPECT TO ANY ALLEGED PATENT OR COPYRIGHT INFRINGEMENT OR TRADE SECRET MISAPPROPRIATION BY ANY GOODS LICENSED UNDER THIS AGREEMENT.

# + Damages for Breach of Agreement

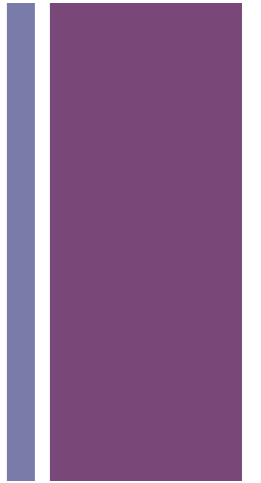
- Direct Damages (aka General Damages)
- Incidental Damages
- Consequential Damages
  
- General Rule: damages for losses caused by breach of a contract must be a reasonably foreseeable consequence of the breach

# + Damages

- ***Direct damages:*** Damages that one would reasonably expect to arise from the breach in question, without taking into account any special circumstances.
- ***Incidental damages:*** These are expenses incurred by a buyer in connection with rejection of nonconforming goods delivered by the seller in breach of contract, or by a seller in connection with wrongful rejection by a buyer of conforming goods delivered by the seller to the buyer.
- ***Consequential damages:*** These are best understood as including all losses sustained by the nonbreaching party that are attributable to any special circumstances of the nonbreaching party that the parties were aware of when they entered into the contract; in other words, consequential damages encompass all contractually recoverable damages that aren't either direct or incidental damages; also known as "special" damages



# Alternatives to Exclusion of Consequential Damages



- Neither party will be liable for breach-of-contract damages that the breaching party could not reasonably have foreseen on entry into this agreement.
- Cap on damages
  - Cap equal to amount paid under the agreement
  - Cap set at absolute value (e.g., \$5M)
- Liquidated damages
- Exclude consequential damages that are not reasonably foreseeable
- Exclude consequential damages but include specific risks (e.g., cost to recall goods, cost to install)