

ISSUE

Many prospective clients do not realize that they may be responsible for indemnifying others' patent, trademark or copyright- intellectual property (IP- infringement litigation expenses. In particular, patent infringement is statutorily defined at [35 U.S.C. 271](#) as "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 therefore, infringes the patent." **Manufacturers, importers, distributors, wholesalers, retailers, customers and users** alike are all potentially vulnerable to charges of IP infringement.

Under the Uniform Commercial Code (UCC) Warranty of Non-Infringement, unless the parties to a contract for the sale of goods have specifically agreed otherwise, a merchant may be liable for litigation expenses and damages incurred in IP infringement suits against downstream purchasers of their products. Many of these purchasers may be unknown to the merchant; consequently the risk is difficult for the merchant to budget or predict.

SOLUTION

Intellectual property litigation is expensive, and the frequency of litigation is growing. Increasingly, users and purchasers of goods are named as defendants. For economic reasons these smaller entities are forced to settle quickly and then seek indemnification from any available source higher- up the supply chain. Therefore, the UCC's implied warranty of non-infringement should factor directly into companies' risk management strategy.

IPISC offers an optional, **Additional Insured(s) - Indemnification and UCC** endorsement to its IP Defense Insurance Policy that extends coverage to Insureds' customers under Section §2-312(3) of the UCC. Accordingly, IP Defense Reimbursement Insurance is a practical and economical way for Insureds to manage the unpredictable risk of IP litigation brought against subsequent purchasers of their goods.

UNIFORM COMMERCIAL CODE

"§ 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.**

For additional information or questions on this or other IP insurance products, please contact Janet Zahnd, Sales/Marketing Manager, at 502-855-5314 or jzahnd@patentinsurance.com.