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Bijal V. Vakil
Roger Ross
Rew Ikazaki

Have You Looked At Your Indemnification
Clause Lately?
What *Quanta v. LG* Means For Your
Business Relationships

Agenda

- Current patent litigation environment.
- Doctrine of patent exhaustion and the Supreme Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*
- Effect of *Quanta* on business relationships.
- Indemnification strategies.

Introduction

- Patent litigation is a reality for technology companies.
- Indemnification issues address the balancing of risks between the supplier and its customers from claims arising out of the supplier's products.
- The recent United States Supreme Court case, *Quanta Computer v. LG Electronics*, 128 S. Ct. 2109 (2008) influences that balance, and as a result, both the supplier (upstream customer) and the end product manufacturer (downstream customer) need to scrutinize the language of the indemnity provisions in their contract to ensure their relative interests are not jeopardized.

Quanta Computer v. LG Electronics

- “The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta Computer v. LG Elec.*, 128 S. Ct. 2109, 2115 (2008).
- In *Quanta*, the Supreme Court held:
 - The patent exhaustion doctrine applies to method as well as utility patents.
 - When a product “substantially embodies” an apparatus or method patent, the authorized sale of the product for its “only and intended use” will exhaust the rights of the patent holder.
 - The sale of a product may, under certain circumstances, trigger the exhaustion of patents other than just the patents practiced by the product.

The Significance of *Quanta Computer v. LG Electronics*

- As a result of this decision, patent owners may not seek to license their technology to manufacturers and suppliers for fear that they will be excluded from recovering damages from all infringing downstream customers.
 - However, patent owners may “condition” their licenses with manufacturers and suppliers.
- This decision discourages patent owners from seeking royalties (via licensing or litigation) from upstream suppliers before they first pursue downstream customers.
- Since patent holders like LG are much more likely to assert their patent rights against downstream customers (where the royalty base is significantly higher), downstream customers will look to the upstream supplier for patent indemnification.
- This changes the dynamics of settlement negotiations: litigators frequently consider *Quanta* issues last.

Negotiating Supplier Agreements: Strategies Depend on Your Position

UPSTREAM SUPPLIERS

- Chip manufacturer
- Intel, in the *Quanta v. LG* case

DOWNSTREAM CUSTOMERS

- Flat-panel television manufacturer
 - Quanta, in the *Quanta v. LG* case
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Strategy 1: Presence of Indemnification Provision.

UPSTREAM SUPPLIERS

- Refuse to indemnify the customer if the transaction can be consummated without it.
- Expressly disclaim in the agreement all indemnification obligations and warranties of title and non-infringement of intellectual property rights.

DOWNSTREAM CUSTOMERS

- Refuse to enter into an agreement without an indemnification provision requiring the upstream supplier to indemnify you for any and all costs and damages associated with their products.
- Ensure the provision is express in the agreement.

Strategy 2: Liability Limits

UPSTREAM SUPPLIERS

- Limit liability under indemnification obligation.
- Require either a liability cap, or restrict your liability to a percentage of your customer's total purchase.

DOWNSTREAM CUSTOMERS

- Ensure there are no limits on your supplier's liability.

Strategy 3: Liability Triggers

UPSTREAM SUPPLIERS

- Narrow the events that trigger your indemnification obligation.
- Require that claims fully ripen before your indemnification obligation arises. Waiting can help you avoid making any payments at all if a claim never ripens into a suit.

or

- Set a short, fixed time frame in which you are notified of any asserted claims.
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DOWNSTREAM CUSTOMERS

- Expressly permit indemnification obligations to be triggered as soon as you get notification of a claim.

Strategy 4: Combinations, Modifications, and Fulfilled Requirements

UPSTREAM SUPPLIERS

- Permit indemnification for activities completely under your control only.
- Expressly disclaim liability resulting from combinations, modifications, or your compliance with contractual obligations or requirements from the customer.

DOWNSTREAM CUSTOMERS

- Confirm that the indemnification agreement cover combinations and modifications, for example, those that are reasonably contemplated.

Strategy 5: Notification of Infringement Claims

UPSTREAM SUPPLIERS

- Require prompt notification of any potential or threatened claim of patent infringement, e.g., notification letter or court complaint.

DOWNSTREAM CUSTOMERS

- Have a generous (or non-existent) time frame in which to notify the supplier of asserted claims.

Strategy 6: Control and Payment of Defense

UPSTREAM SUPPLIERS

- Don't agree to pay for customer's defense fees or costs.
or
- Require customer to tender defense early.
- Retain as much control over the patent infringement suit as possible.

DOWNSTREAM CUSTOMERS

- Oversee your own defense, select your own counsel and require supplier to pay for defense fees and costs.
or
- Retain as much control over the patent infringement suit as possible.

Strategy 7: Control of Settlement

UPSTREAM SUPPLIERS

- Require customers to secure your consent before settling any claim.
- Require your customers to involve you in all settlement negotiations.

DOWNSTREAM CUSTOMERS

- Retain the ability to negotiate and settle with patent holders as you see necessary to suit your business needs without any supplier involvement.

Strategy 8: Timing of Reimbursement

UPSTREAM SUPPLIERS

- Postpone reimbursement until the litigation is complete and all appeals are exhausted.

DOWNSTREAM CUSTOMERS

- Seek complete reimbursement as soon as fees and costs are incurred.
- Do not wait to receive payment until all appeals are exhausted; this could take years.

Strategy 9: Indemnification of Third Parties

UPSTREAM SUPPLIERS

- Disclaim the activities of your customer's customers and affiliates, and any third parties.

DOWNSTREAM CUSTOMERS

- Confirm that the indemnification agreement covers your customers, affiliates, and the activities of related third parties.

Strategy 10: Standards

UPSTREAM SUPPLIERS

- Expressly disclaim liability for patent infringement for patents that may be deemed required or essential by an industry standard.

DOWNSTREAM CUSTOMERS

- Have the indemnification agreement broadly cover all claims which might be asserted.

Strategy 11: Cooperation between the Parties

UPSTREAM SUPPLIERS

- Require that the customer cooperate and give the assistance and authority necessary to defend the claim.
- Require that the customer will not take any actions to prejudice the defense of the claim.

DOWNSTREAM CUSTOMERS

- Ensure that the agreement does not contain any restrictions, such as cooperation provisions, that the supplier could use to potentially limit its liability.

Practice Pointers

- Educate your business team.
- Read all “agreements” (i.e.: purchase orders, invoices, etc.) and counsel your business team to do the same. An indemnification provision can be located anywhere.
- Remember: an indemnification is only as strong as the indemnifying party.

Rew Ikazaki

- Rew Ikazaki is a Director/Associate General Counsel with Sun Microsystems, Inc. Since joining Sun approximately 10 years ago, Rew has held both individual contributor and management positions, supporting business and engineering teams, including hardware servers (SPARC and x64); microprocessors; manufacturing; software; and services; and providing strategic advice and counsel to Executive Vice-Presidents and senior management.
- Rew currently has a dual role, covering products, technology and IP due diligence and post-close integration in M&A transactions and managing a “SWAT” team of attorneys supporting complex transactions across all product groups. Earlier in his career, Rew lived in Tokyo for a total of five years where he initially served as foreign counsel at a Japanese law firm and later joined the legal department of Japan’s second largest diversified ink and chemical manufacturer.

Roger Ross

- Roger Ross, Via's Vice President of Legal, is responsible for oversight of all legal matters affecting Via and its various patent programs as well as managing Via's legal and compliance teams. Prior to joining Via, Roger was a partner in the Silicon Valley office of McDermott, Will and Emery. Roger has spent more than 15 years representing technology and media companies such as Matsushita/Panasonic, Netscape, Cisco, Applied Materials, Intel, MovieLabs, RealNetworks, Yahoo, and Universal Studios. Roger served as the founding General Counsel of Liberate Technologies. Prior to studying law, Roger worked in the data processing industry for a decade.
- Roger is a frequent speaker on the topics of intellectual property licensing and standards-based patent pools. He earned his J.D. from the University of Kentucky College of Law and his bachelor's degree in information systems from the University of Colorado. During law school he was managing editor for the *Kentucky Law Journal*.

Bijal V. Vakil

- Bijal V. Vakil is an intellectual property partner in White & Case LLP's Palo Alto office. His practice focuses on intellectual property litigation, strategic counseling, and technology licensing. He has represented clients in intellectual property cases in numerous district courts, the International Trade Commission, and before the Federal Circuit. Mr. Vakil has litigated patent cases involving a variety of technologies, including plasma television, digital and analog integrated circuits, semiconductor manufacturing, software, computer systems, consumer electronics, and telecommunications. Mr. Vakil handles significant matters for entities of all sizes ranging from Fortune 500 companies to Silicon Valley start-ups. He also represents clients in patent negotiations and licensing.
- Companies around the world frequently call upon Mr. Vakil to assist with overall intellectual property strategy and litigation in the United States. He has also been asked to initiate global strategies relating to intellectual property.
- Mr. Vakil is very active in community, charitable, and civic organizations. He has been named among the "40 Under 40 People to Watch in 2008" by the Silicon Valley/San Jose Business Journal. He also serves as a Judge Pro Tem for the Superior Court of Santa Clara and also served on the State Bar Committee on Federal Courts (2005-2008).
- He also works on pro bono matters, including submitting an amicus brief to the California Supreme Court on behalf of the successful parties in the consolidated Marriage Cases.
- Mr. Vakil served as a judicial extern to the Honorable Alex Kozinski of the U.S. Court of Appeals for the Ninth Circuit and to the Honorable James N. Barr of the U.S. Bankruptcy Court for the Central District of California. Mr. Vakil is a member of the bar of the Supreme Court of the United States, the Supreme Court of the State of California, the U.S. Court of Appeals for the Federal Circuit and all of the U.S. district courts in California.

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