



**MORRISON
FOERSTER**


ACC Association of
Corporate Counsel
— SAN FRANCISCO BAY AREA —

Association of Corporate Counsel IP Symposium

Negotiating Intellectual Property Indemnification Provisions

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Examples

Software licensor indemnifies its licensees or users



SaaS provider indemnifies its subscribers



Chip manufacturer indemnifies its customers



Video game developer indemnifies its publisher or distributor



Agenda

How Coverage Works

- Overview & Basic Structure
- Indemnifying vs. Defending
- Procedures for Indemnification

What is Covered

- Products and Activities
- Types of Claims
- Geographic Scope
- Combinations
- Other exclusions

Who is Covered

- Indemnified Parties
- Anticipating Claims Against Customers

Indirect Infringement

Liability Limitations

Mitigation Options

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How Coverage Works: Basic Structure

EXAMPLE

Pro Customer

Vendor shall **defend, indemnify, and hold harmless** Customer from any and all demands, claims, damages, losses, expenses, and other liabilities (including attorneys' fees) arising from any claim ...

Pro Vendor

Vendor shall (a) **defend** Customer from any suit or proceeding brought by a third party to the extent based on a claim that the Product infringes an intellectual property right of such third party, and (b) **pay** any damages finally awarded to such third party against Customer as a result of, and to the extent attributable to, such third party claim (or pay any settlement of such claim agreed to by Vendor) ...

- Two basic types of indemnity provisions
 - “Indemnify and hold harmless” for all losses
 - “Defend and pay” damages awarded to IP rights holder
- Differences and implications
 - First party losses/damages vs. obligations to third parties
 - Whether limited to damages payable to IP rights holder
 - May affect control of defense

How Coverage Works: Indemnifying vs. Defending

- Agreement to indemnify can imply offer to defend, at least in California
 - “Unless a contrary intention appears . . . [t]he person indemnifying is bound, on request of the person indemnified, to defend actions or proceedings brought against the latter in respect to the matters embraced by the indemnity, but the person indemnified has the right to conduct such defense, if he chooses to do so.” (Cal. Civ. Code § 2778(4))
- Explicit defense clause may give vendor more control, including control of:
 - Defense costs
 - Strategy (e.g., theory of infringement, claim construction)
 - Settlement scope and costs

Vendor Beware: Risks of Denying Defense



- Loss of control over defense
- Strategy
- Costs
- Indemnitor that declines to provide requested defense is subject to adverse judgment suffered by indemnitee. See, e.g., (Cal. Civ. Code § 2778(5))
- Denial treated as a contract breach and may result in liability for cost of defense plus any judgment or settlement. See, e.g., *Pfizer, Inc. v. Stryker Corp.*, 348 F. Supp. 2d 131 (S.D.N.Y. 2004)

Procedure: Steps in Seeking Defense / Indemnification

Step 1: Accrual of indemnified claim

- Demand letter
- Lawsuit

Step 2: Notification of indemnification claim / tender of defense

Step 3: Acceptance or denial of duty to defend / indemnify

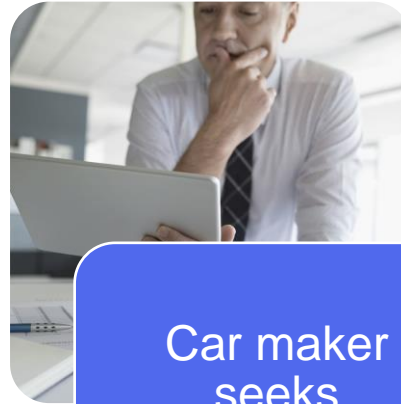
- May require further negotiation



Example Part 1



Car maker sued
by NPE for
artificial voice
patent



Car maker
seeks
indemnification
from software
developer



Software
developer says
we love your
license fees but
it's not clear this
is our problem

How Coverage Works: Negotiation Considerations

EXAMPLE

Pro Customer

Customer shall promptly **notify** Vendor of any suit or proceeding brought against Customer or any other Indemnified Party based on a claim that Customer **requests** Vendor to defend. Customer and any other Indemnified Party shall (**at Vendor's expense**) provide any information reasonably requested by Vendor to assist in defending such claim.

Pro Vendor

Vendor will (a) defend ..., and (b) pay ..., **provided that** Customer: (x) promptly notifies Vendor of the claim (in any event, **within thirty (30) days** after Customer becomes aware of the claim or reasonably should have known of the claim), (y) authorizes and allows Vendor to have **sole control of the defense** and/or settlement of the claim, and (z) provides (**at Customer's expense**) any information, assistance and other cooperation requested by Vendor in connection with the claim.

- Notification
 - Timing
 - Effect of delay (only if actual prejudice because of the delay?)
- Right to control response, defense, and settlement
 - Right / obligation / option
 - Customer's right to control, participate, or assume control (conflict of interest)
 - Defense costs & other costs
 - Settlement: Scope, approval, and “unconditional release” for customer
- Cooperation
- Procedures as covenants or conditions to coverage obligations

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What is Covered: Products and Activities

EXAMPLE

Pro Customer

... claim that **any Product**, or any component, technology, or service provided by Vendor, or the **manufacture, sale, resale, importation, reproduction, distribution or use** thereof, **whether by itself or in combination** or for use with other products or components or as part of a system or in practicing any method, infringes (directly or indirectly) ...

Pro Vendor

... claim that the Product **in the form delivered to Customer** hereunder directly infringes ...

- Application of indemnity
 - Product as and in the form delivered
 - Use, sale, etc. of product
- Consider customer's role and contemplated use:
 - End user
 - Reseller, OEM, integrator
 - Service provider

What is Covered: Types of Claims

EXAMPLE

Pro Customer	Pro Vendor
... defend, indemnify, and hold harmless customer from and against any demands (including any notice or invitation to license), claims, suits, actions, proceedings...	... defend Customer against any suit or proceeding brought by a third party to the extent based on a rightful claim ...

- Types of claims
 - Only court actions? Other assertions? Invitations to license?
 - Only “rightful” claims or any claims?
- Parties
 - Claims by third parties
 - Claims against whom (indemnatee, customers, etc.)?
- Note effect of basic structure
 - Third party claims or all losses?
 - Defend, control, and pay or indemnify and hold harmless?

What is Covered: Covered Rights and Territory

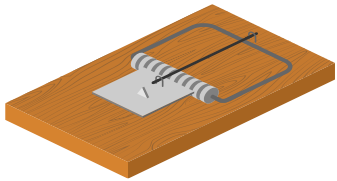
EXAMPLE

Pro Customer	Pro Vendor
direct or indirect infringement (including inducement, contributory, and vicarious infringement), misappropriation, or other violation ... of any patent, copyright, trade secret, mask work, trademark, or other intellectual or industrial property right anywhere in the world ...	direct infringement or misappropriation of any copyright or trade secret or direct infringement of any valid U.S. patent

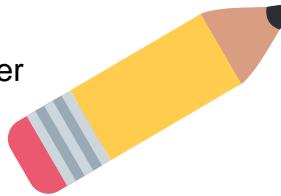
- Covered claims
 - Patents
 - Copyrights and trade secrets
 - Trademarks
 - Other intellectual property rights
- Territory
 - US and other specified countries
 - Worldwide
- Validity

What is Covered: Combination Claims

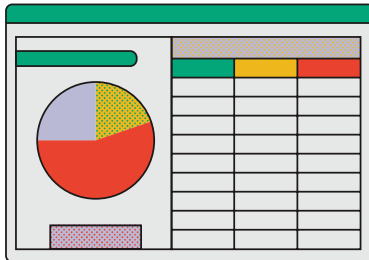
A patent can include multiple claims and each claim can include multiple elements - i.e., the individual steps or components of the patented invention.



An apparatus for catching mice, comprising a base, a spring member coupled to the base, and a trigger mechanism.



A hand-held writing instrument comprising a wooden casing, a graphite core, and an eraser



Method for computing future life expectancies, said method comprising gathering data including X, Y, Z; analyzing the data; and comparing the analyzed data result.

What if an indemnifying party provides only one component of a larger product and the larger product is accused of infringement?

What is Covered: Combination Exclusions

Vendor will typically try to exclude combination claims from the indemnity:

- “Vendor has **no obligation** to indemnify Customer with respect to the **combination of the Product with other hardware, software, services or materials** not provided by Vendor where the infringement or misappropriation would not occur but for such combination.”

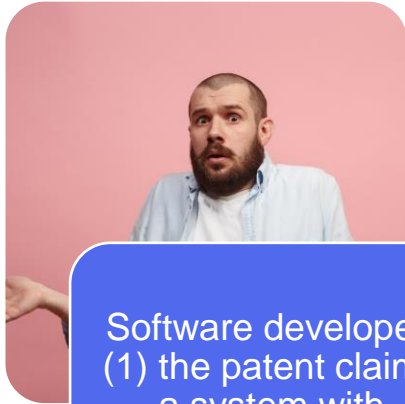
Customer may push for at least some coverage of combination claims:

- Vendor product substantially embodies the patent
- Vendor product includes all or substantially all the inventive elements of the patent
- There is no reasonable non-infringing use

Possible compromise:

- Vendor will indemnify for a “... claim that a Product, as in and **in the form provided** to Customer hereunder, **or the use of the Product for its intended purpose** in accordance with and as shown in Vendor’s documentation accompanying the Product, infringes...”

Example Part 2



Software developer:
(1) the patent claims
a system with
software & hardware;
(2) the complaint
does not mention
developer



Car maker replies:
(1) heart of the
claims is software;
(2) developer's
software was used
on hardware listed in
developer manual



Software developer
agrees to defend...
but wants to control
defense

Other exclusions

- Unauthorized use by customer
- Modifications by or for customer
- Vendor's implementation of detailed, customized requirements or specifications of customer
 - Shouldn't necessarily apply to performance specifications, high-level functional requirements, etc.
- Use in manner not specified in vendor's documentation
- Failure to implement updates and other modifications
- Embedded third-party software or components

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Pro Customer	Pro Vendor
Vendor shall defend, indemnify, and hold harmless Customer and its affiliates, and its and their suppliers, distributors, and customers (in each case, whether direct or indirect)	Vendor shall defend Customer from any suit or proceeding brought by a third party against Customer...

- Indemnified parties
 - Party
 - Affiliates
 - Distributors, resellers, customers, etc.
- Considerations
 - Customer’s own indemnification obligations to its customers
 - Secondary liability (inducement, contributory infringement)
 - Lack of contractual relationship, ability to obtain cooperation and control, etc.
 - Different measures of damages

Anticipating Claims Against Customers



- Patent holder pressures customers
- If plaintiff sues customers:
 - Supplier can intervene
 - Customer suit doctrine: seek to stay case against customers pending supplier litigation
- If no lawsuit against customers
 - Supplier may seek declaratory judgment against patent holder. *See Arris Group, Inc. v. British Telecomms. PLC*, 639 F.3d 1368, 1375 (Fed. Cir. 2011) (jurisdiction based on indemnification or threat of indirect infringement allegations)

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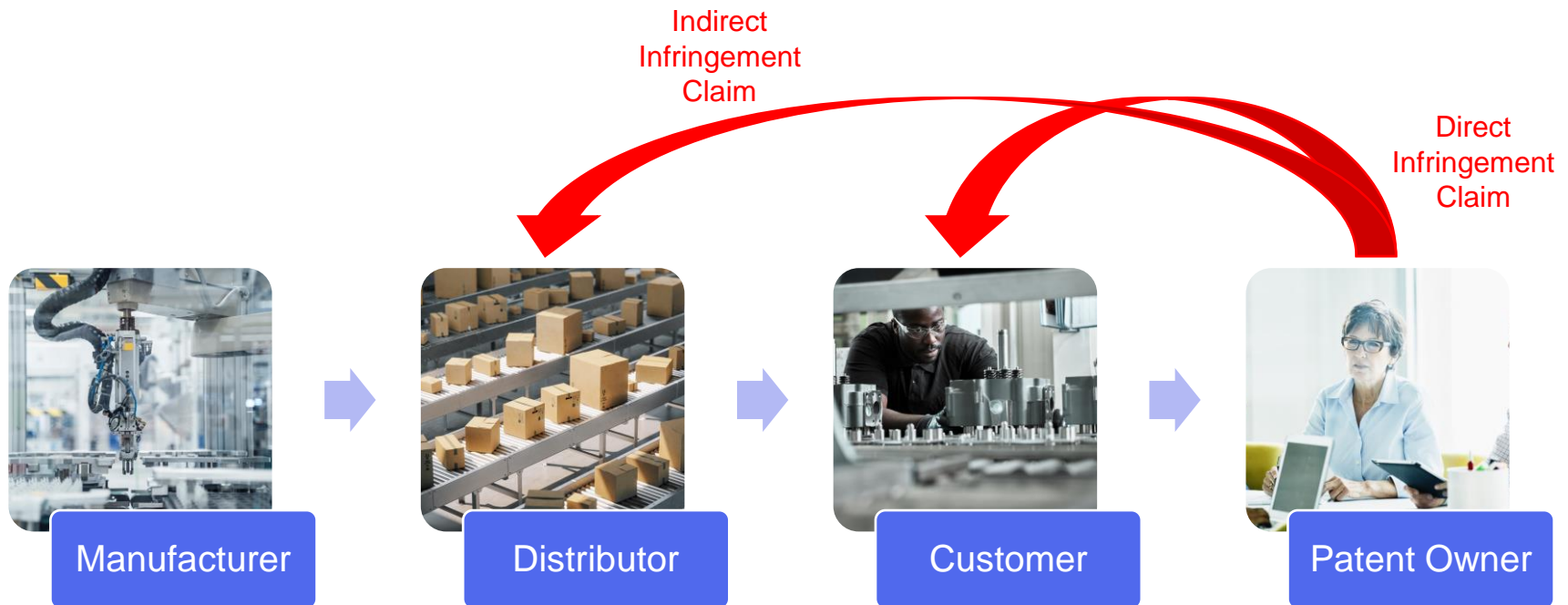
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Indirect Infringement Example



Example: A manufacturer sells a component to a distributor, and the distributor resells the component to a customer who incorporates the component into a larger product. A third party alleges that the larger product infringes the third party's patent, and that the distributor contributed to that infringement by supplying the component to the customer.

Indirect Infringement

EXAMPLE

Pro Customer

“**direct or indirect** infringement (including inducement, contributory and vicarious infringement), misappropriation, or violation of any patent, copyright, trade secret, trademark, or other intellectual or industrial property right . . .”

Pro Vendor

“**direct** infringement or misappropriation of any copyright, trade secret, or patent. . .”

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Liability Limitations

Limitations on indemnity itself

- Use after assertion of claim
- Use after provision of replacement or modification
- Use after notification by vendor of infringement risk
- Notification and control of claim as conditions

Relationship to overall contractual limitations of liability

- Carveouts from disclaimers and damages caps

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Mitigation Options / Obligations

- Vendor's mitigation options
 - Procure license
 - Modify product (consider possible impact on features, functionality, performance, compatibility, compliance with standards, etc.)
 - Termination/discontinue supply
- Optional / mandatory
 - Customer's option
 - Vendor's option
 - Possible compromises
- Consequences
 - Refund / pro-rated refund
 - Relief from obligations
- Other rights and remedies
 - Termination?
 - Recall, redesign, procure alternate technology?

Mitigation Examples

EXAMPLE

Pro Customer

“If an applicable Claim is made or appears likely to be made, Vendor will, at **Customer’s option** and Vendor’s expense, (i) **procure** for Customer the right to continue using or reselling the Product; (ii) **modify** or replace the Product to make it noninfringing while continuing to provide the **same features, functionality, and performance** and otherwise remaining in compliance with all applicable specifications; or (iii) **refund** to Customer **all amounts paid** for the Products that are the subject of the Claim.”

Pro Vendor

“If an applicable Claim is made or appears likely to be made, **Vendor may, at its option** and expense, **modify** the Product so that it is noninfringing, or replace it with a **substantially functionally equivalent** product. If Vendor determines that neither option is reasonably feasible, Vendor may terminate the license and **refund** Customer any **prepaid but unused** license fees.”

Thank You!



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