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Joseph J. Schwerha IV

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WARRANTIES AGAINST INFRINGEMENT IN THE SALE OF GOODS: A COMPARISON OF U.C.C. § 2-312(3) AND ARTICLE 42 OF THE U.N. CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS

*Joseph J. Schwerha IV**

INTRODUCTION

It is Friday afternoon and you are about to call it quits for the day when a certified letter lands on your desk. You immediately discover it is from a company (Company X) which you have never heard of. Company X is demanding that your client stop using an expensive piece of technical equipment that your client has recently purchased, but has not yet used. The letter further states that if your client begins using the machinery, your client will be in serious jeopardy of being sued for infringing upon several intellectual property rights belonging to Company X.

Suddenly, your phone rings. It is your client complaining that he received the same letter, and he immediately wants your advice about this problem. You wrote the sales contract which your client used to purchase the machinery in question. You know that your client has invested a substantial amount of capital in this new machinery and that your client cannot afford to leave the machinery idle for more than another few days, let alone through a lengthy court proceeding. What are the legal ramifications of using the equipment? Who is responsible for your client's current predicament? If the machinery does infringe on someone else's intellectual property rights, does your client have a cause of action against the company that sold the machinery to your client? If so, under what theory? What advice do you give your client?

As intellectual property rights become an everyday concern in commercial transactions, situations similar to the hypothetical above are occurring more frequently. Gone are the days of simple sales contracts. Today's corporate lawyers must have not only a substantial understanding of basic commercial law, but also of the related intellectual property law. Because of the shrinking global economy, such knowledge must rise to an international level.

* J.D., University of Pittsburgh; M.S., Carnegie Mellon University; B.S., Carnegie Mellon University. All inquiries concerning this article should be directed to the author at the following address: 560 Sugar Camp Road, Venetia, PA 15367.

Though there are many issues in the opening example, the most pressing is the question of warranty against infringement. Generally, a seller of a good warrants that a buyer will not be sued by a third party on the basis that the relevant good infringes upon that third party's intellectual property rights.¹ Though the courts have not yet been inundated with cases arising under this theory, there has recently been a marked increase in their frequency.² This trend should be reinforced by the increase in international transactions and the nature of modern commercial goods.

The following article compares two provisions: § 2-312(3) of the Uniform Commercial Code (U.C.C.) and Article 42 of the United Nations Convention on Contracts for the International Sale of Goods (Convention). Each of these sections specifically sets forth a warranty against infringement in the sale of goods. This article is organized into three parts, each addressing a major issue involved in invoking the warranty against infringement under both the U.C.C. and the Convention. This article culminates with a summary of the major points to consider when representing a seller or buyer. It provides a substantive understanding of the warranty against infringement under both the U.C.C. and the Convention, as well as a framework for deciding when to use each set of laws for the purposes of invoking this warranty.

U.C.C. § 2-312(3)³ states that unless the parties agree otherwise, certain merchants warrant that the goods which they sell will be delivered free of any rightful claims based upon a third party's intellectual property rights. Simultaneously, buyers warrant that they will hold sellers harmless from any claims which arise out of the seller's compliance with the buyer's specifications.

Though this section of the U.C.C. appears fairly straightforward, a close examination leaves the practitioner with many unanswered questions. One commentator has gone so far as to state that § 2-312(3)

1. See U.C.C. § 2-312(3) (1990); United Nations Convention on Contracts for the International Sale of Goods, *opened for signature* Apr. 11, 1980, art. 42, S. TREATY DOC. NO. 9, 98th Cong., 1st Sess. 22-43 (1983), U.N. Doc. A/CONF.97/18, Annex I (1980), *reprinted in Official Records*, U.N. Conference on Contracts for the International Sale of Goods 178-90, U.N. Doc. A/CONF.97/19 (1981) [hereinafter C.I.S.G.].

2. Many of the cases discussed in this article have been brought within the last decade.

3. The complete language of § 2-312(3) is:

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.

“provides little more than a broad statement of policy which will have to be delimited by judicial construction.”⁴ Although § 2-312(3) leaves several significant gaps unfilled, it does provide some guidance for interpreting the U.C.C. This article will evaluate § 2-312(3) in more detail below.

Although the U.C.C. is the usual law in a purely domestic context, when one enters the international arena the controlling law becomes much more difficult to ascertain. In order to facilitate international trade, a treaty was needed to provide a single neutral law that countries could use in the international sale of goods. Accordingly, the United Nations Commission for International Trade Law (UNCITRAL) established the project from which emerged the Convention in 1980.⁵ Though drafted in 1980, the Convention did not come into force until 1988 when the necessary number of countries had ratified it.⁶ The Convention consists of 101 articles which are grouped into four different parts. Unlike the U.C.C., the Convention specifically sets forth its scope at the outset.⁷ Article 1 dictates that the Convention will apply to contracts for the sale of goods between parties residing in different countries where: 1) those parties' places of business are in countries that have ratified the convention; or 2) when the rules of private international law lead to the application of the law of one of the countries that has ratified the Convention.⁸ Therefore, if two parties reside in the same country, they must specify in the contract if they want the Convention to apply. There are

4. William F. Dudine, Jr., *Warranties Against Infringement Under the Uniform Commercial Code*, 36 N.Y. St. B.J. 214, 218 (1964).

5. See C.I.S.G., *supra* note 1.

6. See *id.* art. 99.

7. Article 1 reads:

(1) This Convention applies to contracts of sale of goods between parties whose places of business are in different States:

(a) when the States are Contracting States; or

(b) when the rules of private international law lead to the application of the law of a Contracting State.

(2) The fact that the parties have their places of business in different States is to be disregarded whenever this fact does not appear either from the contract or from any dealings between, or from information disclosed by, the parties at any time before or at the conclusion of the contract.

(3) Neither the nationality of the parties nor the civil or commercial character of the parties or of the contract is to be taken into consideration in determining the application of the Convention.

C.I.S.G., *supra* note 1, art. 1.

8. *Id.*

pitfalls to applying the Convention,⁹ but a full discussion of these shortcomings is outside the scope of this article.

Article 42, located within Part III of the Convention, provides for a warranty¹⁰ against infringement as follows:

(1) The seller must deliver goods which are free from any right or claim of a third party based on industrial property or other intellectual property, of which at the time of the conclusion of the contract the seller knew or could not have been unaware, provided that the right or claim is based on industrial property or other intellectual property:

(a) under the law of the State where the goods will be resold or otherwise used, if it was contemplated by the parties at the time of the conclusion of the contract that the goods would be resold or otherwise used in that State; or

(b) in any other case, under the law of the State where the buyer has his place of business.

(2) The obligation of the seller under the preceding paragraph does not extend to cases where:

(a) at the time of the conclusion of the contract the buyer knew or could not have been unaware of the right or claim; or

(b) the right or claim results from the seller's compliance with technical drawings, designs, formulae, or other such specifications furnished by the buyer.¹¹

Article 42 must be read in context with Article 4 which states that the "Convention governs only the formation of the contract of sale and the rights and obligations of the seller and the buyer arising from such a contract."¹² Specifically, Article 4 states that "except as otherwise expressly provided in this Convention, . . . [the Convention is not concerned with: (1)] the validity of the contract or of any of its provisions or of any usage; [and (2)] the effect which the contract may have on the

9. See Richard M. Lavers, *CISG: To Use, or Not to Use?*, 21 INT'L BUS. LAW. 10, 12 (1993) (discussing general areas of question in the application of the Convention).

10. The Convention does not use the word "warranty."

11. C.I.S.G., *supra* note 1, art. 42.

12. *Id.* art. 4.

property in the goods sold."¹³ Finally, it is noteworthy that there is no case law construing Article 42; therefore, all interpretations of Article 42 must be taken from the language of the provision itself.

At first glance, the above warranties may look simple, but slightly more study reveals several significant ambiguities within the provisions themselves. Further, though both the U.C.C. and the Convention provide for a warranty against infringement, there are advantages and disadvantages to using either one. This article provides an in depth analysis of the major points and concerns in invoking the warranty against infringement under the U.C.C. and the Convention.

I. THE SCOPES OF THE WARRANTIES

The most important aspect of these warranties is their scope. Although they are substantially similar, there are some very important differences. This section is separated into three subsections covering: 1) to whom the warranties apply; 2) at what point they go into effect; and 3) the type of assertions that are covered under the warranties.

A. To Whom does the Warranty Apply Under the U.C.C.?

Depending upon whether one uses the U.C.C. or the Convention, the warranty against infringement applies to different people. Under the U.C.C., the seller's warranty against infringement is conditioned on the seller being a "merchant regularly dealing in goods of the kind."¹⁴ This is a significant barrier to the blanket enforcement of the warranty because it places a substantial burden on the plaintiff to prove that the seller was not only a merchant, but also that he regularly dealt in goods of the kind.¹⁵

For the purposes of this warranty, the definition of a merchant regularly dealing in goods of the kind is unsettled.¹⁶ For example, classifying a large manufacturing company that usually produces high-powered fans to the specifications of their customers, but that has received an order for a water pump, using the same general type of mechanism would cause problems under the U.C.C. Since this is the

13. *Id.*

14. U.C.C. § 2-312(3) (1990). The buyer has no such requirement for his warranty against claims arising from specifications given to the buyer.

15. The requirement for being a merchant is new to § 2-312. Until § 2-312(3) was added to § 2-312, there was no merchant-regularly-dealing-in-goods-of-the-kind requirement. The warranty of title, as set forth in § 2-312(1) and § 2-312(2), does not include such a requirement.

16. See Dudine, *supra* note 4, at 214.

first pump the manufacturer constructed, the manufacturer may not be deemed a merchant regularly dealing with the goods of the kind even though the manufacturer may be a very sophisticated party.¹⁷

Commentators have discussed various definitions of this problem. In his article on § 2-312(3), William F. Dudine, Jr. presents the following argument:

[C]learly, the casual buyer and seller transaction is not within the scope of this limitation. It is equally clear that a dealer who deals in a specific type of goods regularly and repeatedly is within the scope. The parties that lie between these extremes present the problem.¹⁸

Sometimes it is profitable to look for definitions elsewhere in the U.C.C. Section 2-104(1) defines merchant as:

a person who deals in goods of the kind or otherwise by his occupation holds himself out as having knowledge or skill peculiar to the practices or goods involved in the transaction or to whom such knowledge or skill may be attributed by his employment of an agent or broker or other intermediary who by his occupation holds himself out as having such knowledge or skill.¹⁹

Section 2-312(3) limits merchants to those regularly dealing in goods of the kind. Indeed, at least one commentator has stated that the § 2-104 definition "was developed to meet traditional sales warranty situations and may be too broad when applied to infringement situations."²⁰ Alphonse M. Squillante and John R. Fonseca, in *Williston on Sales*, take this discussion further. They urge that the two definitions of merchant be taken as the same.²¹ They also imply that the two definitions should be taken as the same only to avoid confusion and that "if taken in the context in which it was offered, merchant, as employed in § 2-312, is one who sells from his normal stock and in his normal course of business."²²

Still others have defined merchant differently. William D. Hawkland

17. Intuitively, one might think that such a sophisticated party should be held to the warranty, but the drafters of the U.C.C. specified that not all sellers would be held to the warranty.

18. See Dudine, *supra* note 4, at 218.

19. U.C.C. § 2-104 (1990).

20. Dudine, *supra* note 4, at 218.

21. 2 ALPHONSE M. SQUILLANTE & JOHN R. FONSECA, *WILLISTON ON SALES* § 16-5(4) (4th ed. 1974).

22. *Id.*

adopts the § 2-104 definition, but exempts those merchants who are deemed as such solely because of their "knowledge or skill peculiar to the practices or goods involved, or to whom such knowledge or skill may be attributed."²³ Hawkland reasons that the § 2-312(3) "warranty is made only by merchants who deal in the goods of the kind because they are the ones who know, or should know, of possible patent or trademark violations."²⁴

Thus, defining a merchant regularly dealing in goods of the kind remains a problem. Recognizing this quandary in borderline cases, Dudine suggests the following:

[T]he underlying basis of the warranty should control. In the case of the seller two questions should be asked. Is it reasonable to presume that the seller by reason of the extent of his dealing in the goods has superior knowledge of the patents relating to the goods? Secondly, does it comport with the public policy to impose the risk of this warranty on this seller; would it "preserve flexibility in commercial transactions and encourage continued expansion of commercial practices" (sec. 1-102) to apply the warranty against this particular seller? If these questions can be answered affirmatively, the warranty should apply. Otherwise, the rule of *caveat emptor* is the better rule.²⁵

Dudine looks first to the extent of the seller's knowledge of the intellectual property involved, and second, to whether imposing liability on this particular seller would comport with general principles espoused in U.C.C. § 1-102. Each of these definitions and suggested solutions, however, leaves something to be desired. If courts or practitioners assume that merchant is used in § 2-403 the same way and for the same purposes as it is used in § 2-312(3), then only Hawkland's analysis is accurate. But, that line of thinking is questionable because § 2-403 does not include the word "regularly." There is a significant difference between someone who merely deals in the goods of the kind and someone who "regularly" deals in goods of the kind. The latter merchant is probably more familiar with those goods and presumably also has a better knowledge of the intellectual property rights involved. Thus, it appears that the authors of the U.C.C. had a higher level of knowledge

23. 2 WILLIAM D. HAWKLAND, UNIFORM COMMERCIAL CODE SERIES § 2-312:04, at 395 (1992). Apparently, Hawkland makes his exemption based upon Comment 2 to § 2-312 which exempts essentially the same parties as Hawkland analogizing to those merchants "who deal in the goods of the kind" under 2-403(2).

24. *Id.*

25. Dudine, *supra* note 4, at 218.

in mind for § 2-312 than for § 2-403. This "level of knowledge" appears to be the key indicator in this murky area. Accordingly, Hawkland's exemptions are probably unwarranted.

Based on the authorities cited above and an analysis of the U.C.C., the following is proposed as a definition of merchants regularly dealing in goods of the kind for the purposes of § 2-312(3):

A merchant regularly dealing in goods of the kind is one who: (1) has the item in his normal stock and/or²⁶ sells said item in his normal course of business; or (2) by his general experience or special knowledge of the goods, through past experience or otherwise, should be imputed with a comparable or higher level knowledge of the goods as said person defined in subsection (1).²⁷

This definition, which is essentially a standard followed by an exception thereto, addresses most of the concerns set forth above while setting a fairly clear rule to follow. First, a merchant regularly dealing in goods of kind includes those people who have the goods in their normal stock or who sell the goods in question in their normal course of business. Second, the above standard recognizes that there exists some parties that have enough knowledge or sophistication that it would be unjust to exclude them from the warranty; therefore, the standard creates an exception for those parties.

What constitutes "normal" in the proposed definition has to be determined on a case-by-case basis. The following example illustrates this point. Suppose that the owner of a retail book store chain, Buyer A, decides that he wants to introduce computer programs into the line of goods which he sells.²⁸ Buyer A decides to call the wholesaler whom he usually deals with, Seller B, to order the programs. Seller B does not deal in computer programs, but because Buyer A is such a good customer, Seller B makes an exception and arranges the transaction. Unknowingly, Seller B buys the computer programs from an un reputable manufacturer whose products infringe upon a third party's copyright. Buyer A accepts the goods and is promptly sued by the owner of the copyright. What claim does Buyer A have against Seller B? A court

26. The author of this article uses "or" in addition to "and" to make explicit that normal stock not only includes the items the seller physically possesses, but also any goods that the merchant sells in his normal course of business. For example, a carpenter who special orders an air conditioner for a customer may not fall within this definition.

27. This definition combines parts of all of the theories already mentioned into a novel, concise standard. It does not represent any single authority's version.

28. For the purposes of this example, the author has assumed that these programs are goods.

could easily read § 2-312(3) to require frequent sales. Thus, if the court merely questions how frequently *B* sold those goods, it would probably not hold him to the warranty because this was the only time he ever sold this type of good.²⁹ However, under the standard proposed, Buyer *A* would have an enforceable claim against Seller *B* because of Seller *B*'s past knowledge from his wholesale business of copyright law and commercial transactions.

B. *To Whom does the Warranty Apply Under the Convention?*

Under the Convention, there are no qualifications concerning the type of seller to which the warranty will apply. Article 42 merely states that "[t]he seller must deliver goods which are free from any right or claim of a third party"³⁰ The Convention does not define seller, nor are there any cases that give insight into the definition of "seller" within Article 42. Therefore, it is probable that this warranty will apply to any seller in a transaction that comes within the Convention.

While the U.C.C. puts a restriction upon the seller to the extent that he must be a merchant regularly dealing in goods of the kind, the Convention has no such requirement. This is a significant difference because it creates a large loophole for sellers under the U.C.C. For example, suppose a Canadian company wants to buy widgets from a U.S. company that does not qualify as a merchant regularly dealing in goods of the kind. Under the U.C.C., the Canadian company does not have a warranty against infringement claim against the U.S. company; however, under the Convention, the Canadian company could bring a valid warranty against infringement action against the U.S. company.

C. *The Period of Time that the Warranties Apply*

Even if one recognizes that he is in the class of people to which the warranty applies, one must still know the period of time the warranty will be in effect. The language of both Article 42 and § 2-312(3) implies that the goods must only be *delivered* free of a claim.³¹ Therefore, the rights or claims present at the time of delivery are very important. On the other hand, sometimes goods may be delivered without an actual claim having been made against such goods even though a third party

29. This assumes that books are not the same "kind" of goods as computer programs.

30. C.I.S.G., *supra* note 1, art. 42.

31. What sort of claim is not yet determined. In fact, it is probably the most hotly contested point about this whole warranty. See discussion *infra* part I.D.

has valid grounds to assert a claim.³² The question is what "delivered free of" should mean in light of this ambiguity. The theory that the buyer should not be disturbed in his use of the goods relates back to the general principles of quiet possession. However, the seller should not be responsible for claims which he could not have foreseen at the time of sale. This is further supported by principles under finality of contract.³³

Based on the above arguments and the lack of relevant case law, the modern business lawyer should be cautious and interpret "delivered free of" to mean delivered free from any potentially colorable claims present at the time of sale, not merely that no actual claim had been asserted. Those practitioners who advise their clients that the goods must merely be delivered free of any claims that have actually been asserted may well later be surprised if a judge were to hold that "delivered free of" means delivered free of the basis for a claim, not just free from an actual and present third party claim.³⁴

After the warranty goes into effect, there is no technical limitation on how long it stays in effect. The only limitations that control whether the warranty may be invoked are the respective limitations periods for actions based upon the warranties, and the question of whether the claims may be based upon the buyer's use. These last two points, however, are better suited to be discussed in the next section of this article.

D. The Types of Assertions that Are Included Within the Warranties

This is the most complex part of the scope of the respective warranties against infringement. In order to make this section as simple as

32. The problem usually appears when a buyer accepts the goods and then, after the buyer has used the goods for a while, a third party gives notice that the buyer has been infringing on that third party's intellectual property rights. It is especially troublesome when such a claim is based upon intellectual property rights which have only been acquired after the original sale of the goods.

33. If buyers could sue sellers for third party claims on the basis of rights of which the seller could not have known, sellers could never be sure whether their efforts satisfied the warranty.

34. The above definition works to the benefit of both sellers and buyers. Sellers will not be held to warrant against claims that they could not have foreseen at the time of the contract, while buyers will be confident that sellers will not be able to avoid the warranty on the basis that the claim was not made until a date sometime after the contract was formed.

The courts could read § 2-312(3) so as to warrant against only claims that have been made upon the goods at the time of contract formation, but that reading would be unnecessarily narrow because unsophisticated buyers depend upon the sellers' expertise in determining whether the goods are marketable. It would be inequitable for sellers to be able to avoid providing buyers with a remedy under this warranty on claims which sellers knew could arise, but of which they simply did not inform the buyer.

possible, the article separates this issue into four separate parts: 1) the kind of right or claim which must exist; 2) whose right or claim must be present; 3) the subject matter upon which the claim or right must be based upon; and 4) the limitations on such rights or claims.

1. What Constitutes a Right or Claim that will give rise to a Cause of Action?

Both § 2-312(3) and Article 42 provide a warranty against infringement if certain conditions are met. These conditions are different under the U.C.C. and the Convention. Under § 2-312(3), the seller warrants that the goods will be delivered free of rightful claims for infringement or the like. However, a controversy has arisen over what sorts of claims should be considered rightful. Since the drafters of the U.C.C. created ambiguity when they limited § 2-312(3) to only rightful claims, a seller may very well try to escape liability by urging that the claim made on the buyer was not "rightful." It appears obvious that a claim for patent infringement which is litigated successfully by the patent holder is a rightful claim; however, anything less than a court order may not constitute a rightful claim.³⁵

Some authors have commented that there is definitely a point where the claim becomes so attenuated that it no longer represents the type of claim against which the seller has warranted.³⁶ James J. White and Robert S. Summers argue that there are two alternatives available for determining that point. First, it suggests that a "court might hold a seller liable for expenses incurred in successfully defending against an inferior claim only if the seller knew or had reason to know that such a claim was likely to be asserted."³⁷ Alternatively, these scholars suggest that "a court could analogize to the standards used to determine whether title to real property is marketable, specifically, whether the claim is of such a substantial nature to subject the buyer to serious litigation."³⁸

35. On one side, any claim whatsoever, even if it would not have any chance of being upheld in court, would be a rightful claim. On the other side is the situation where the claim has been litigated and a court has ruled that the goods infringed upon an already existent patent. In between are a multitude of situations including where: (1) the claim is made by letter, but seems to have support in the law; (2) the claim is brought in court, but the buyer reasonably believes that the third party will be successful; and (3) the complaint is filed against the buyer, and the buyer successfully defends the action.

The spectrum is easy to discern, but finding where in the spectrum lies the rule is the difficult task. It does not help that leading commentators and the courts are split on this issue.

36. JAMES J. WHITE & ROBERT S. SUMMERS, *UNIFORM COMMERCIAL CODE* § 9-11, at 363 (2d ed. 1980).

37. *Id.*

38. *Id.*

White and Summers' first alternative brings out one of the catch 22 situations arising from determining whether the claim is "rightful." The warranty only covers rightful claims. The only definition of "rightful" which everyone agrees upon is that which has been upheld by a court. In the real world, however, the buyer cannot let the claim for infringement go undefended because the buyer is using those goods in his business. Provided the buyer goes through the notice procedures in § 2-607 and successfully defends against the suit for infringement, possibly at great expense, the buyer might not have a remedy under § 2-312(3) because the court, in essence, determined that the claim was "unrightful." This scenario could lead to even more litigation for the buyer.

In his article, Dudine spoke of this series of events and included a possible solution:

[I]f after receiving notice the seller undertakes to defend, the buyer's problems are solved. If seller refuses to defend, the buyer is faced with a difficult decision. If he fights diligently and wins, he simply proves that there was no "rightful claim" and thereby forfeits any claim to his litigation costs. If he loses, then under section 2-607(5)(a) this precludes seller from denying that the claim was rightful, but the seller may still refuse to pay on the grounds that there was no warranty in the first place, e.g., seller can still argue that he was not a "merchant regularly dealing in the goods," and thereby subject the buyer to a second action in order to collect for losses incurred in the first action. To avoid this, buyer should force the issue in or at least combine the two actions in one by impleading the seller in the first action.³⁹

Dudine's solution is viable, but a better alternative is for courts to adopt a more reasonable definition of "rightful claim." Several commentators have offered help on this issue. Though Dudine does not offer it for the purpose of solving the above quandary, his definition is a good example: "A rightful claim is one where the buyer or seller reasonably believes that a third party's infringement charge would probably be upheld by the courts."⁴⁰

Hawland describes a related but slightly different approach: "The warranty of no infringement is breached if the buyer is reasonably exposed to the patent or trademark claims of third persons, even though

39. Dudine, *supra* note 4, at 219.

40. *Id.*

his use or quiet enjoyment of the goods is not disturbed.”⁴¹ Later in his article, Hawkland hints at how “reasonably exposed” should be interpreted:

A curious statement in comment 4 to the effect that “the buyer’s remedy arises immediately upon receipt of notice of infringement” should not be read literally but in the context of the broader statement that eviction is not a condition precedent to maintaining an action for breach of warranty of infringement. Normally, of course, the buyer will not pursue this remedy unless a third party has notified him of an alleged infringement, because, in the nature of things, the buyer usually will be unaware of that possibility until so notified. If he should discover on his own that reasonable grounds for claim of infringement exist, however, he should be able to revoke his acceptance *or sue for damages* even though no claim has been made by a third party. This viewpoint is consistent with the general thrust of 2-312(1) . . . and with the idea that disturbance of quiet possession (“eviction”) is not required as a basis for an action for warranty against infringement.⁴²

Thus, Hawkland’s “reasonably exposed” includes: (1) any claim for infringement actually made by a third party; and (2) knowledge or reason to know that a third party has reasonable grounds to bring a suit for infringement or the like. This notion that no claim should have to actually be made in order for a “rightful claim” to exist finds support⁴³ in other commentators and the courts.⁴⁴

There are some authorities that go even further towards protecting the buyer’s interests. Under their point of view, the “mere casting of a shadow” over the buyer’s right to enjoy the goods without having to enter into a lawsuit to defend those rights is sufficient to breach the warranty against infringement.⁴⁵ Citing an earlier New Jersey Superior Court case concerning § 2-312(1) warranty of title, the court in *Yttro*

41. 2 HAWKLAND, *supra* note 23, § 2-312:04, at 395.

42. *Id.* at 396 (emphasis added).

43. *But see* Gates Energy Prods. v. Yuasa Battery Co., 599 F. Supp. 368, 375 (D. Colo. 1983) (ruling that “actionable controversy” under the Declaratory Judgment Act, which was necessary for jurisdiction in the case, was not present when claim had not been made on buyers goods under § 2-312(3)).

44. *See* RONALD A. ANDERSON, ANDERSON ON THE UNIFORM COMMERCIAL CODE § 2-312:44 n.9 (3d ed. 1982) (“It is thus not necessary that the buyer show that he has been prevented from using the goods.”); *Yttro Corp. v. X-Ray Mktg. Ass’n*, 559 A.2d 3, 6 (N.J. Super. Ct. App. Div. 1989) (quoting Comment 4 of the U.C.C. in ruling that a direct claim for infringement is not required but “merely one way of establishing the fact of breach”)

45. *See* WHITE & SUMMERS, *supra* note 36, § 9-11, at 363.

Corp. v. X-Ray Mktg. Ass'n adopted the following standard in a § 2-312(3) scenario:

The purchaser of goods warranted as to title has a right to rely on the fact that he will not be required, at some later time, to enter into a contest over the validity of his ownership. The mere casting of a substantial shadow over his title, regardless of the ultimate outcome, is sufficient to violate a warranty of good title.⁴⁶

This standard probably goes further than the Hawkland "reasonably exposed" standard, because the "mere casting of a substantial shadow" seems to be an easier standard for the buyer to meet. But, the two standards could be very similar if the courts hold that the buyer will only be able to claim that a "substantial shadow" was cast if a third party had reasonable grounds to bring suit.⁴⁷

In accordance with the reasoning espoused by Hawkland and the holding in *Yttro*, an actual claim for infringement should not be necessary to find that a "rightful claim" exists. If such claim occurs in the form of a complaint, it should be deemed rightful in all but the most extraordinary cases. In any other case, § 2-312(3) should not be breached unless the buyer has reasonable grounds to believe that his enjoyment of the goods will actually be disturbed. Reasonable grounds means that the buyer had an objectively supportable belief that a third party had a claim⁴⁸ against his goods.⁴⁹

a. Does the Warranty Against Infringement Include the Buyer's Use of the Goods?

Section 2-312(3) dictates that the goods shall be free of a rightful claim of a third party. It is unclear whether the warranty encompasses situations where such claims arise because the buyer used the goods in a particular manner. Under common law on warranty of title, the seller passed title with no restrictions on its use,⁵⁰ but today it is still

46. *Yttro*, 559 A.2d at 3 (quoting *American Container Corp. v. Hanley Trucking*, 268 A.2d 313, 318 (N.J. Super Ct. Ch. Div. 1970)).

47. It is more likely that the "mere casting of a substantial shadow" is an easier standard to meet than a "reasonably exposed" standard, because the so-called shadow may not have to be firmly grounded in law, whereas it appears that to be "reasonably exposed," the buyer must believe that a third party has grounds for a lawsuit.

48. Such a claim would have to be based upon infringement or the like.

49. In the cases where the claims arose from the buyer's infringing use of goods that would not otherwise be infringing, the seller should be exonerated.

50. 2 SQUILLANTE & FONSECA, *supra* note 21, § 15-15.

questionable whether the warranty against infringement covers the buyer's use of the goods. In fact, White and Summers note this is one of two issues concerning § 2-312(3) which merits attention:

First, the provision only requires that goods "be *delivered* free" of infringement claims. It could be argued that this language does not protect the buyer against claims arising out of his use or resale of the goods. Although the comments do not help clarify the matter, it has been suggested that the drafters probably did not intend such a meaning and that "where the normal, anticipated use of the product infringes a patent, the buyer is entitled to protection."⁵¹

Though White and Summers state a logical argument in favor of inclusion, no courts have held that the buyer's use is encompassed within the § 2-312(3) warranty.

In *Motorola, Inc. v. Varo, Inc.*,⁵² the defendant Varo filed third-party complaints against the sellers of photosensitive material used in a patented process to produce semiconductors.⁵³ The court stated it could "be readily seen . . . [that] Varo does not complain that the chemical . . . itself, violates any part of [Motorola's] patent. The allegation is purely that Varo was induced to use the [chemical] in a process that violates the teachings of the [patent]"⁵⁴ The court held:

This sort of allegation, that the buyer was induced by the seller to purchase the good and then use it to infringe a process patent is wholly outside the language of § 2.312. The delivery of a good is warranted to be free of all claims of infringement. There is no warranty that a buyer's use of the good will be free of all infringement This would be a warranty as to conduct, not as to goods.⁵⁵

Further, the court determined that any other interpretation would be unconstitutional, because recognizing such a warranty would create a state law cause of action for patent infringement in violation of Congress's monopoly power concerning legislation on patents.⁵⁶

Recently, a federal court has reaffirmed the *Motorola* ruling. In

51. See WHITE & SUMMERS, *supra* note 36, § 9-11, at 364 (quoting the remarks of Professor Pasley in 1 N.Y. ST. L. REVISION COMM'N, 1955 REPORT 740 (1955)).

52. 656 F. Supp. 716 (N.D. Tex. 1986).

53. *Id.* at 717.

54. *Id.* at 718.

55. *Id.* at 718-19.

56. *Id.* at 719.

Chemtron, Inc. v. Aqua Products,⁵⁷ Chemtron filed a complaint against Aqua Products (Aqua) alleging that Aqua had infringed upon Chemtron's patent.⁵⁸ Chemtron produced a device which dispensed dish washing detergent in commercial dishwashers.⁵⁹ Aqua distributed a similar device some of the parts for which it regularly bought from Viking Injector Company (Viking).⁶⁰ Based on the § 2-312(3) warranty against infringement, Aqua brought a third party complaint against Viking.⁶¹ Stipulating that the "warranty against infringement serves to provide assurances that the goods sold to the buyer are not subject to third party claims,"⁶² the court condemned Aqua's attempt to assert a cause of action under § 2-312(3):

This language, however, should not be construed to mean that the buyer, after receiving a clean title to purchased goods, can subsequently incur a lien or liability on the purchased goods by his own actions, and then impose such liability on the seller. Accordingly, a buyer, such as Aqua, should not be entitled to purchase goods from a seller, such as Viking, which are not subject to any infringement action, use the non-infringing component goods in an infringing device and incur liability to a third party patentee, Chemtron, and then turn around and attempt to impose liability on the original seller of the component parts.⁶³

Analogizing this case to *Motorola*, the court held that the U.C.C.'s warranty against infringement should not apply in Aqua's case⁶⁴ and that Aqua's interpretation of § 2-312(3) would likely render it unconstitutional.

Based on *Motorola* and *Chemtron*, it is clear that if the buyer uses noninfringing goods in an infringing manner he will not be entitled to relief. However, it is ambiguous whether the buyer would be able to avail himself of § 2-312(3) where the buyer purchases noninfringing goods which infringe on a third party's intellectual property rights during their intended use. According to a literal reading of *Motorola*, any such situation would not be within § 2-312(3), because the warranty only applies to goods and not to conduct associated thereto.

57. 830 F. Supp. 314, 315 (E.D. Va. 1993).

58. *Id.*

59. *Id.* at 316.

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

This reading is contrary to common sense, however, because any party that could take advantage of this warranty will have already accepted the goods before being notified of any third party claim. In effect, a literal reading of *Motorola* concludes that this warranty would be unavailable after the buyer had accepted the goods. If the drafters had wanted such a restriction, they could have easily included it within § 2-312(3). Although *Chemtron* took *Motorola* into account, *Chemtron* implied that the buyer's use may be encompassed within § 2-312(3) by not totally excluding conduct. In other words, it can be argued that *Chemtron* took a more reasonable reading of *Motorola* and would extend the § 2-312(3) warranty to the buyer's noninfringing use; therefore, practitioners and courts faced with this issue should extend the warranty to the buyer's noninfringing use. But, if the buyer uses otherwise noninfringing goods in an infringing manner, the buyer should not be given any remedy under § 2-312(3).

Alternatively, under Article 42 of the Convention, the goods must be free from "any right or claim."⁶⁵ This apparently broad language guards against the buyer's being disturbed in his possession of the goods by any right or claim of a third party. There appears to be no validity requirement for such claims, but one should read into this provision that such claims should be made in good faith. Otherwise, a party could easily claim breach by convincing someone to make a claim on the goods even though such claim was meritless and in bad faith.

Further, the obligation warrants against any *right or claim*. Based upon the drafters inclusion of this alternate language, it is evident that no claim has to be made in order for breach to occur. Article 42 is breached if the seller delivers good in which anyone else merely has a right. Finally, there is no reference to the buyer's use of the goods in Article 42 nor is there any relevant case law. Thus, in order to determine whether the warranty includes the buyer's use, one should probably analogize to the § 2-312(3) interpretation on the subject.

An explanation for why the Convention allows for the buyer to invoke the warranty on the basis of either a right or claim could lie in the ways in which attorney fees are paid. In the common law system, each party pays his own attorney and it is in rare circumstances that the judge may order one party to pay the other's attorney fees.⁶⁶ In contrast, in most civil law systems, the losing party will usually be ordered to pay the winning party's attorney fees. The drafters of the Convention

65. C.I.S.G., *supra* note 1, art. 42.

66. For example, Rule 11 sanctions in federal court. *See* FED. R. CIV. P. 11.

may have intentionally made it easier for the buyer to have a winning claim under the Convention because few lawsuits would be brought if prospective claimants were unsure of the validity of their assertions. Thus, the "rightful claim" designation may well be more important in the U.C.C.

In summary, under the U.C.C. the seller only warrants against a rightful claim, as opposed to the Convention where the seller is obligated to protect against almost any rights or claims. Although the language is different, the two provisions may well be very similar in the final analysis. It all depends upon the definition of a rightful claim. If the courts take a strict view of the U.C.C., the buyer will possess a broader range of protection under the Convention. If the courts take a broader view of rightful claim, there probably will not be much of a difference in the amount of protection available to the buyer under either the U.C.C. or the Convention.

2. Whose Right or Claim is it?

It is clear from the language of both provisions that the right or claim must be held or made by a third party.⁶⁷ Even if one overlooks the quandaries involved with proving a "rightful" claim under § 2-312(3), it is unclear whether either provision means that the rights or claims themselves must be based upon a third party's intellectual property rights or that such claims must be actually made (i.e., suit filed, letter sent, etc.) by the third party.⁶⁸

Article 42 is a little clearer than § 2-312(3) on this subject. The Convention provides that the scope of warranty goes to both a right or claim of a third party.⁶⁹ This usage of both a right or claim in the language of the provision implies that no claim has actually to be made, but rather that the buyer could correctly invoke the warranty based solely on the grounds that a third party has a right in the goods in question. This seems like the best interpretation, because it would avoid the unfortunate situation where a buyer learns that a third party has a right in goods but has yet to make an actual claim. Further, adopting this procedure would encourage commercial transactions because buyers would know they could invoke the warranty at any time.

Even with this supposed increased latitude in invoking the warranty, Article 42 imposes another significant restraint which would make it

67. U.C.C. § 2-312(3) (1990); C.I.S.G., *supra* note 1, art. 42(1).

68. See *supra* part I.D.1 for a full analysis dealing with the definition of a "rightful claim."

69. C.I.S.G., *supra* note 1, art. 42.

very difficult to invoke the warranty. Not only must the right or claim belong to a third party, but it must also be one "which at the time of the conclusion of the contract the seller knew or could not have been unaware."⁷⁰ This phrase in particular modifies and restricts the rights or claims of third parties. First, the claim or right is limited to those of which the seller knew or could not have been unaware. This provision allows two ways in which the seller may be held to have some sort of knowledge of the transaction, one subjective and the other objective. The buyer could prove that the seller knew by demonstrating actual knowledge. On the other hand, the buyer could prove that the seller could not have been unaware of the right or claim. Second, the requirement probably exists because it would be unfair to impose liability on the seller unless the seller was at fault in some manner. In other words, the drafters chose not to impose strict liability for such rights or claims, thereby giving the buyer two methods of proving fault. Third, the knowledge, either imputed or actual, must be possessed "at the time of conclusion of the contract." This requirement refers to time and implicitly prohibits bringing a claim based upon the knowledge that seller obtained or could not have been unaware until after the contract was concluded.⁷¹

3. The Legal Grounds upon which the Right or Claim Must be Based

The warranty against infringement is very specialized. Generally, the transaction must involve goods that could give rise to claims under intellectual property law. Since neither the U.C.C. nor the Convention provide any substantive intellectual property rights, the types of rights or claims covered by the respective provisions must be inferred from their language.

Under § 2-312(3), these rightful claims are restricted to those arising from "infringement or the like." The warranty traditionally arose under claims for infringement of a patent or trademark.⁷² However, in recent times, this warranty has been applied in a broader range of claims

70. *Id.* art. 42(1).

71. This second avenue may provide a reason to keep the copyright notice on copyrighted goods. See Arthur Fakes, 3 SOFTWARE L.J. 559, 580 (1990). Some other commentators may read the conclusion of the contract to mean after the obligations thereunder have been completed.

72. For a discussion of pre-U.C.C cases involving warranties against infringement, see Dudine, *supra* note 4, at 214.

including those arising under copyright.⁷³ Theoretically, it could extend to many types of claims because the drafters used the phrase "or the like." At least one court has implied that the only requirement for a claim to fall within § 2-312(3) is that it must comply with the policy underlying § 2-312(3).⁷⁴ The court determined such policy to be "that a merchant who regularly deals in like goods has a duty to insure that no claim of infringement by a third party mars the buyer's title"⁷⁵ It is still unclear how far the phrase "or the like" extends. Commentators have presented various interpretations. For example, Hawkland subscribes to a broad view:

The warranty stated in section 2-312(3) is broader than patent and trademark infringement because it applies to such infringements "or the like." The exact scope of the warranty is not indicated by the section or its comments, but the language "or the like" suggests that it is limited to things like patent and trademark protective arrangements.⁷⁶

These related claims may be limited to "other proprietary rights,"⁷⁷ but such like claims could possibly be based on anything from copyright and trade secret to antitrust and possibly unfair competition laws. In his article, Dudine adds one more restriction by limiting such claims to "those rights which are issued and in being at the time of the sale."⁷⁸ This theory seems reasonable, but unrelated to the grounds from which the claim was derived.

Pursuant to Article 42 of the Convention, such a right or claim is limited to those "based on industrial property or other intellectual property."⁷⁹ It is implied that industrial property is included within the definition of intellectual property by the inclusion of the phrase "or other." This may have been included because people elsewhere in the world use "industrial property" to describe certain subject matter that Americans consider to be encompassed within intellectual property. However, the exact definition of intellectual property is unclear. Though no dominant view exists, the most reasonable way of defining what constitutes "industrial property or other intellectual property" would be

73. *Photofile v. Graphicomp Sys.*, 1992-1994 Copyright L. Dec. (CCH) ¶ 27,161 (N.D. Ill. Sept. 17, 1993) (mem.).

74. *Dolori Fabrics v. The Limited*, 662 F. Supp. 1347, 1358 (S.D.N.Y. 1987).

75. *Id.*

76. 2 HAWKLAND, *supra* note 23, § 2-312:04.

77. *See* Dudine, *supra* note 4, at 220.

78. *Id.*

79. C.I.S.G., *supra* note 1, art. 42.

to analogize to the U.C.C. definition of intellectual property. This analogy makes sense, because even though the two provisions use different language, they are probably meant to encompass similar subject matter.

When someone uses the Convention, it is by definition an international transaction; therefore, unlike most transactions involving the U.C.C.,⁸⁰ it will not always be clear upon which country's intellectual property laws that said right or claim must be based. It would also seem to be unfair to force the seller to have knowledge of the intellectual property laws of every country in which the goods could be sold, since the seller does not have control over the goods once they are tendered to the buyer.⁸¹ Article 42 states that the right or claims must be based upon only certain countries' rights.⁸² Article 42 puts forth two alternatives: 1) under subsection (a), the right or claim could be based upon the law of the country where the parties contemplated the goods would be resold or otherwise used,⁸³ but only if such was contemplated by the parties;⁸⁴ or 2) in any other case such right or claim must be based upon the law where the buyer has his place of business.⁸⁵ This distinction is very important because the Convention does not include any causes of action arising from intellectual property infringement.

4. The Buyer's Duties under the Warranty Against Infringement

Both Article 42 and § 2-312(3) provide limitations on the kinds of assertions permitted under the respective provisions even if the rest of the requirements are met. Under the U.C.C., this limitation takes the form of a sort of "buyer's warranty." Section 2-312(3) places an affir-

80. Although parties in to an international transaction may contractually provide that the U.C.C. will be the governing commercial law, the vast majority of transactions in which it is applicable are those in U.S. states, because a version of the U.C.C. is probably the ordinary governing law. Also, since intellectual property law in the United States is almost exclusively based in federal law, claims under the U.C.C. almost always invoke federal intellectual property laws.

81. See GRANT R. ACKERMAN, U.N. CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS ANNOTATED 42-2 (1993).

82. C.I.S.G., *supra* note 1, art. 42.

83. *Id.* art. 42(1)(a). This distinction is important, because jurisdiction chosen could be that of the place where the parties contemplated the goods would be resold or otherwise used, even if that ends up being a different country from that where the goods were actually sold or otherwise used.

84. *Id.* It is important to note that by extending the warranty to rights or claims of the country where the goods would be resold, Article 42 implicitly recognizes that claims may be made upon the persons to which the "buyer" sells. This is an expansion of the scope of this type of warranty which is not permitted under the U.C.C.

85. *Id.* art. 42(1)(b). Article 9 discusses where the buyer has his place of business. *Id.* art. 9.

mative duty on the buyer to hold the seller harmless from any claims which arise from the seller complying with specifications that the buyer had furnished to the seller.⁸⁶ This is essentially a new type of warranty which protects the seller. The exact language of the buyer's warranty against infringement is as follows: "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."⁸⁷ Basically, the buyer warrants that if the buyer furnishes specifications to the seller, the buyer will hold the seller harmless against any claim that arises out of the seller's compliance with those specifications.

There are three main points of concern about the buyer's warranty which remain unclear. First, it is noteworthy that no qualifications have been put on the buyer to fall within this warranty provision.⁸⁸ Presumably, any person who sells a good regardless of education, experience, or sophistication must hold the seller harmless in these situations. This seems contrary to common sense.⁸⁹ Surely the authors of the U.C.C. did not want an unwary consumer to hold the seller harmless in this situation. Therefore, one should define a "buyer" as a person: 1) who regularly deals in the goods in question; or 2) if the circumstances dictate, a sophisticated buyer who deals in goods similar to those in question. Buyers who would fall under the first option are those that regularly deal in their goods and thereby should be held to the buyer's warranty. The second option is provided to encompass common situations where a buyer will be very sophisticated, but might be purchasing a particular good for the first time. Even though these buyers are not very experienced in buying that particular good, they should be held to the buyer's warranty because their general sophistication eliminates the need to protect them. This standard would eliminate the aforementioned problems because the only buyers that would have to satisfy the buyer's warranty would be the ones in a position to understand their obligations.⁹⁰

86. U.C.C. § 2-312(3) (1990).

87. *Id.*

88. This is especially relevant, because the only sellers that must provide the § 2-312(3) warranty are those who are merchants regularly dealing in goods of the kind.

89. U.C.C. § 2-312(3) (1990). For example, Joe Consumer walks in off the street into Custom Manufacturing Shop A and shows Sally Seller a picture of a machine that Consumer wants Seller to manufacture for him. Seller builds Consumer the machine which requires using a process that violates manufacturer B's patent. B promptly sues for infringement thereof. Consumer is quite unsophisticated and has no knowledge about intellectual property law. Unsophisticated Consumer should not be held liable because Seller is generally in a much better position to know of any potential infringement.

90. The buyers in the first option do not have to be sophisticated. Buyers' experiences in

Second, under § 2-312(3), the definition of “specifications to the seller” is brutally ambiguous.⁹¹ Comment 3 to § 2-312 states that the seller’s warranty is not effective:

[W]hen the buyer orders goods to be assembled, prepared or manufactured on his own specifications There is, under such circumstances, a tacit representation on the part of the buyer that the seller will be safe in manufacturing according to the specifications, and the buyer is under an obligation in good faith to indemnify him for any loss suffered.⁹²

*Park-Ohio Industries v. Tucker Induction Sys.*⁹³ is one of the only cases that explicitly deals with the buyer’s warranty against infringement. The controversy in *Park-Ohio* commenced when General Motors (GM) purchased several large induction hardening machines from Park-Ohio Industries (Park-Ohio).⁹⁴ When a certain part of these machines failed, namely the valve seat inductors, GM sent them to Tucker Induction Systems, Inc. (TIS) for repairs.⁹⁵ Park-Ohio promptly sued TIS for patent infringement arising from TIS’ contract to repair the machines.⁹⁶ TIS impleaded GM, claiming that GM had breached its § 2-312(3) warranty against infringement.⁹⁷ The court characterized the situation as follows:

TIS/Tucker contends that TIS is the seller and GM the buyer for the purposes of this statute⁹⁸ and that GM violated § 2-312(3) by refusing to deal with TIS after TIS/Tucker brought this suit. In other words, plaintiffs contend GM did not honor its warranty to

regularly dealing in those goods gives the buyers the expertise to be held to the higher standard. However, note that there is no case law on this issue; therefore, the above definitions are only suggestions to those who may have to define such provision in the future.

91. For example, it would seem just for a sophisticated buyer to be liable for indemnification to a small printer who is being sued for infringement of a third party’s copyright, where the buyer had furnished the printer with a book knowing it did not own the copyright. However, if a buyer asks a seller to manufacture a machine that performs a certain function and the seller infringes on someone else’s patent in manufacturing the machine, the buyer intuitively does not seem responsible for the violation and thereby should not be held liable under this warranty.

92. U.C.C. § 2-312(3), cmt. 3 (1990).

93. No. 82-2828, 1987 U.S. Dist. LEXIS 15642 (E.D. Mich. Oct. 21, 1987).

94. *Id.* at *2.

95. *Id.* Jerome E. Tucker was also individually named to the suit, but it is unnecessary to include him as a party to discuss the court’s holding.

96. *Id.*

97. *Id.* at *3. GM objected to the application of § 2-312(3), but the court never got to the merits of this objection. *Id.*

98. It is apparent that the court is referring to § 2-312(3) from the context of this particular commentary. *Id.* at *6.

hold TIS/Tucker harmless because GM refused to send TIS business after it filed this claim.⁹⁹

The court disposed of the claims on the basis that the parties had "agreed otherwise" through a clause in the contract¹⁰⁰ indicating that TIS expressly indemnified GM for any patent infringements.¹⁰¹ However, the court stated in dictum that "even if TIS/Tucker did not 'agree otherwise' GM has held TIS/Tucker harmless. GM entered into a settlement with Park-Ohio wherein Park Ohio [sic] agreed to release TIS/Tucker for damages arising from the GM contracts."¹⁰² Further, the court concluded that GM did not breach § 2-312(3) because it had no duty under the contract which allowed GM to hire TIS on an discretionary basis.¹⁰³ Thus, in this case, the court recognized a very broad definition of specifications within § 2-312(3). Essentially, the court held that the specifications furnished by the buyer could include a mere direction to repair a piece of machinery, with no additional specific instructions.¹⁰⁴

Beyond the case law, at least one commentator has tried to define "specifications furnished to the seller." After considering that the task was "indeed difficult,"¹⁰⁵ Dudine provided the following analysis:

[s]ince this warranty is clearly an exception carved out of the 'caveat emptor' doctrine, in fact the opposite of the doctrine, it would seem to accord more reasonably with the underlying purposes of the Code specified in section 1-102 to apply this half of the warranty provision most sparingly. The Code warranty is not intended to apply in all sales transactions, that is, the warranty does not have to fall on either the buyer or the seller. There is a vast middle ground where neither is liable, the seller not being a merchant regularly dealing in the goods and the buyer not being one who furnishes specifications. *Therefore, unless it is clear that the buyer actually caused the infringement by explicitly specifying an infringing formula, product or process, he should not be liable.*¹⁰⁶

99. *Id.* at *6-7.

100. See *infra* note 151 and accompanying text for a further discussion of this case.

101. *Park-Ohio*, 1987 U.S. Dist. LEXIS 15642, at *7.

102. *Id.* at *8.

103. *Id.* In other words, TIS was not damaged because GM was not under any contractual duty to continue dealing with TIS. *Id.*

104. *Id.* at *7-8 (failing to mention any specific instructions that were necessary for the purposes of the § 2-312(3) warranty). The author assumes that since no instructions for repair were mentioned in the opinion, the court did not rely on any in making its decision.

105. Dudine, *supra* note 4, at 220.

106. *Id.* (emphasis added).

Dudine thinks that the buyer should be liable under his warranty against infringement only if "it is clear" such specifications "actually caused" the infringement. Intuitively, this makes a lot of sense and would solve the problems demonstrated in the examples noted above. However, it would be imprudent to adopt the "unless it is clear" standard, because if the buyer's warranty only applies to certain buyers, there would be no need to meet the "clear" standard. Also, it is unnecessarily narrow to limit the buyer's warranty solely to situations where the buyer provides an "infringing formula, product or process."¹⁰⁷

Finally, the warranty should explicate that the seller should not know nor have reason to know that complying with such specifications would infringe upon a third party's intellectual property rights. To allow the seller to sue on the basis of the buyer's specifications, where the seller knew or had reason to know that by complying the seller would or reasonably may infringe upon a third party's intellectual property rights, would be rewarding the wrongdoer for his own wrongdoing. At the very least, the seller should have a good faith duty to inform the buyer of the possibility of infringement. An equitable definition of specifications is: any specification furnished by a "buyer" that caused the seller to act in such a manner as to give rise to a third party's rightful claim for infringement or the like, but if and only if the seller at the time of delivery did not know nor had reason to know that complying with said specifications of the buyer could give rise to such a claim.

Third, the language of the buyer's warranty is unclear as to what "hold harmless" means. At least one court has recognized that hold harmless could require the buyer to indemnify the seller against any claims by third parties as well as any consequential or exceptional damages.¹⁰⁸ Furthermore, the Official Comment to § 2-312(3) has characterized the buyer's warranty as a good faith obligation to indemnify the seller for "any loss suffered."¹⁰⁹ Thus, the definition of hold harmless is murky.¹¹⁰

107. *Id.*

108. *Park-Ohio*, 1987 U.S. Dist. LEXIS 15642, at *7; see *infra* notes 151-52 and accompanying text; see also *supra* note 93 and accompanying text.

109. U.C.C. § 2-312, cmt. 3 (1990).

110. Hold harmless should be read to not only indemnify against all rightful claims for infringement or the like, but also to include all other damages normally available for a breach of contract. For example, a large car manufacturer contracts with a very small plant to make all the widgets for its cars. At great expense, the small plant retools all of its machines to make these widgets. Suddenly, the small plant is served with a letter requesting them to stop making the widgets, because the plant is violating a third party's patent. If the claim is rightful, the large manufacturer should not only be liable for the cost of the widgets, but also for all the small plant's other damages arising from the breach.

There are two less significant discrepancies which can be handled summarily. The

Under the Convention, there is no buyer's warranty, but the Convention nevertheless addresses this problem. It provides that the seller's obligations under 42(1) do not "extend to cases where . . . the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer."¹¹¹ This provision does not put a duty on the buyer, but rather limits the situations under which he can make a claim under Article 42.

II. THE PROCEDURES NECESSARY TO INVOKE THE WARRANTIES

In order to take advantage of the warranty against infringement, the buyer or seller must go through a certain procedure, the contents of which are determined by: 1) whether it is buyer or seller trying to invoke the warranty; and 2) whether the U.C.C. or the Convention applies.¹¹²

A. Under U.C.C. § 2-312(3)

In order for the buyer to recover on the seller's warranty against infringement, the buyer must notify the seller in accordance with § 2-607. The relevant language of section 2-607 is as follows:

- (3) Where a tender has been accepted
 - (a) the buyer must within a reasonable time after he discovers or should have discovered any breach notify the seller of breach or be barred from any remedy; and
 - (b) if the claim is one for infringement or the like (subsection (3) of Section 2-312) and the buyer is sued as a result of such a breach he must so notify the seller within a reasonable time after he receives notice of the litigation or be barred from any remedy over for liability established by the litigation.
- (4) The burden is on the buyer to establish any breach with respect to the goods accepted.
- (5) Where the buyer is sued for breach of a warranty or other obligation for which his seller is answerable over
 - (a) he may give his seller written notice of the litigation. If the

buyer's warranty is effective against "any such claim." It would be reasonable to assume that "any such" refers to claims for infringement or the like. In the buyer's warranty, it is also stated that the claims must arise out of compliance with the specifications. What "arises out of compliance" means is somewhat unclear. The phrase probably should be interpreted to mean all commercial actions necessary to meet the specifications.

111. C.I.S.G., *supra* note 1, art. 42(2).

112. Generally, notice must normally be given to the party making the warranty in order to take advantage of it under both provisions.

notice states that the seller may come in and defend and that if the seller does not do so he will be bound in any action against him by his buyer by any determination of fact common to the two litigations, then unless the seller after reasonable receipt of the notice does come in and defend he is so bound.

(b) if the claim is one for infringement or the like (subsection (3) of Section 2-312) the original seller may demand in writing that his buyer turn over to him control of the litigation including settlement or else be barred from any remedy over and if he also agrees to bear all expense and to satisfy any adverse judgment, then unless the buyer after reasonable receipt of the demand does turn over control the buyer is so barred.

(6) The provisions of sections (3), (4) and (5) apply to any obligation of a buyer to hold the seller harmless against infringement or the like (subsection (3) of Section 2-312).¹¹³

Shortly stated and oversimplified, the comments to § 2-607 note that “[s]ubsections (3)(b) and (5)(b) give a warrantor against infringement an opportunity to defend or compromise third-party claims or be relieved of his liability Subsection (6) makes these provisions applicable to the buyer’s liability for infringement under Section 2-312.”¹¹⁴ A thorough analysis leads to the conclusion that the above quoted language gives rise to more complex requirements.

Section 2-607(3) establishes when a buyer must notify the seller in the event of breach regardless of whether a direct claim has in fact been made. If the buyer discovers the breach, by being named as a defendant in a suit or otherwise, he must notify the seller within a reasonable time or be barred from any remedy. This § 2-607(3)(a) breach could occur by any means that would fall within a “rightful claim” under § 2-312(3). In the case of § 2-312(3), § 2-607(3)(b) specifically establishes that failure to notify the seller within a reasonable time after the buyer received notice of the litigation will result in the buyer being barred from recovering any remedy from “liability established by the litigation.”¹¹⁵

Section 2-607(5)(b) provides notice procedure in the event that the buyer is actually sued. Under § 2-607(5)(b), the seller must complete two tasks. First, the original seller must demand in writing a letter stating that the buyer must assign the litigation to him, including the right to undertake settlement negotiations, or else the buyer will be

113. U.C.C. § 2-607 (1990).

114. U.C.C. § 2-607, cmt. 7 (1990).

115. U.C.C. § 2-607(3)(b) (1990).

precluded from seeking a remedy.¹¹⁶ Second, if the seller agrees to bear both the expense of the litigation and to satisfy any adverse judgments, the U.C.C. dictates that the buyer be barred from remedy against the seller if he does not assign the litigation to the seller.¹¹⁷ Furthermore, § 2-607(6) creates a converse to the previous rules, applying those rules to the buyer's warranty.¹¹⁸ The strict adherence to the above procedures is highly recommended, since it is painfully obvious that divergence presents a distinct possibility of harsh consequences.

B. Under Article 43 of the Convention

Under the Convention, the buyer must notify the seller of such claims pursuant to the requirements set forth in Article 43:

(1)The buyer loses the right to rely on the provisions of article 41 or article 42 if he does not give notice to the seller specifying the nature of the right or claim of the third party within a reasonable time after he has become aware or ought to have become aware of the right or claim.

(2)The seller is not entitled to rely on the provisions of the proceeding paragraph if he knew of the right or claim of the third party and the nature of it.¹¹⁹

There are several points deserving of commentary within Article 43. First, the buyer must generally give notice of the right or claim to the seller in order to rely upon Article 42.¹²⁰ Second, such notice must specify the "nature" of the claim.¹²¹ Exactly what specificity fulfills this requirement is murky, but it would probably be satisfied if said notice included: the parties making the claim, the grounds for the claim (i.e. claim for infringement of copyright, etc.), and the goods against which the claim is made. Third, such notice must be given within a reasonable time after such claim was made.¹²² What reasonable time may mean will be different depending on the countries involved. Because of this, reasonable time should be determined by the facts and circumstances of

116. U.C.C. § 2-607(5)(b) (1990).

117. *Id.*

118. *See* U.C.C. § 2-607(6) (1990).

119. C.I.S.G., *supra* note 1, art. 43.

120. *Id.*

121. *Id.*

122. *Id.*

each case in light of the relevant countries' legal systems.¹²³ Fourth, such "reasonable time" must be judged from the point in time where the buyer became aware of such right or claim, or where he "ought" to have become so aware.¹²⁴ Though proving it may not be easy, the point where the buyer became aware is self-explanatory; however, where the buyer "ought" to have become aware could be quandary. A notable contribution to this confusion is the drafters' failure to use the "could not have been unaware" standard. It is this author's contention that the drafter's may have used "ought" to signal that it would depend upon the buyer's actions. Thus, if the buyer, through reasonable diligence or the like, should have become aware of the claim at point in time "A," then the court will judge whether notice was given within a reasonable time from "A." Again, however, the standard such as "reasonable diligence or the like" would have to be determined by the facts and circumstances of each case in light of the legal requirements of the country whose law applies. Fifth, Article 42 provides an exception to Article 43 to the extent that the seller shall not rely on Article 43(1) when the seller had actual knowledge of both the right or claim of the third party and its nature.¹²⁵ Noticeably omitted from Article 43(2) is the "reason to know" standard.¹²⁶ Therefore, the seller cannot be exonerated from liability under Article 42 solely because of the buyer's failure to fulfill his notice obligations required by Article 43. Finally, it is uncertain when exactly the seller must obtain his knowledge for the purposes of Article 43(2).¹²⁷ For the sake of consistency, such knowledge should probably be measured at the conclusion of the contract.¹²⁸

Both the U.C.C. and the Convention provide that the buyer must notify the seller within a reasonable time after he receives notice of the litigation or be barred from recovery under the warranty against infringement; however, the similarities end there. Under the U.C.C., if the seller notifies the buyer in writing that he will pay all costs and satisfy all adverse judgments against the buyer, the buyer will lose any remedy under the warranty against infringement if the buyer does not assign all

123. Note that if the goods were sold in different countries, and it was contemplated as such, the applicable law, for the purposes of notice, would be the law under which the claims were made or rights arose.

124. C.I.S.G., *supra* note 1, art. 43.

125. *Id.* arts. 42 & 43(1).

126. *Id.* art. 43(2).

127. *Id.*

128. Though the author would define conclusion of the contract for this purpose as when the goods were tendered, an installment contract brings up problems which are not discussed for purposes of economy.

control of the defense to the seller.¹²⁹ Depending upon the situation, this mandatory assignment of control could either be to the buyer's benefit or detriment. It could be good for the buyer, because he will be absolved from costs from the litigation including any possible adverse judgment; however, it could be troublesome to the buyer where his lack of control over the litigation translates into an inconvenience in running the business.

The Convention, on the other hand, has several provisions which are absent from the U.C.C. First, if the seller knew of the right or claim and the nature of it, he can never deny his obligation under Article 42 on the basis that the buyer did not fulfill his notice obligations.¹³⁰ Second, Article 43(1) includes a provision which puts a duty on the buyer to notify the seller not only from the time where the buyer has actual knowledge of the right or claim, but also from when the buyer "ought to have become aware" of it.¹³¹ As previously discussed, this imposes a sort of implied duty on the buyer to be reasonably aware of any possible claims that could arise. Depending upon how this standard is defined by the courts, it could provide a potential loophole for the sellers to deny their obligation under Article 42. Third, under Articles 44 and 50, the buyer may unilaterally reduce the price owed to the seller if the goods tendered were nonconforming.¹³² Such reduction in price must be based upon the difference between the value of the goods as tendered and their value had they conformed. This unilateral decision can be made even though the notice provisions of Article 43 were not fulfilled.¹³³

III. EXCLUDING THE WARRANTY

The U.C.C. and the Convention both provide methods to escape this warranty including disclaimers and defenses. In almost all cases, however, the means to the ends are very different.

A. Disclaimers

At the beginning of § 2-312(3) lies evidence of the primary disclaimer method. This section begins with the phrase "[u]nless otherwise agreed,"¹³⁴ therefore, anyone who wishes to avoid this warranty may just "agree" that the warranty will not apply. Precisely how these parties to the contract are

129. U.C.C. § 2-607(5)(b) (1990).

130. C.I.S.G., *supra* note 1, art. 42.

131. *Id.* art. 43(1).

132. *Id.* arts. 44 & 50.

133. *Id.*

134. U.C.C. § 2-312(3) (1990).

to agree on a disclaimer is still a mystery. There is no express disclaimer provision for § 2-312(3). To the extent it does not have to be expressly included in the contract, § 2-312(3) is an implied warranty.¹³⁵ But, it does not fall within the implied warranties which can be disclaimed under § 2-316¹³⁶ because § 2-312(3) is not mentioned anywhere in that section. If the drafters wanted to include warranties against infringement within the gambit of § 2-316, they could have easily added such a phrase to § 2-316. This notion that the § 2-312(3) warranty does not fall under § 2-316 is further supported by Article 2A, dealing with leases, wherein the drafters of the U.C.C. specifically included a provision that encompassed warranties against infringement:

To exclude or modify a warranty against interference or against infringement (Section 2A-211) or any part of it, the language must be specific, be by a writing, and be conspicuous, unless the circumstances, including course of performance, course of dealing, or usage of trade, give the lessee reason to know that the goods are being leased subject to a claim or interest of any person.¹³⁷

Nothing similar to the above quotation appears in Article 2. There is a disclaimer provision within § 2-312,¹³⁸ but it is unclear whether it applies to § 2-312(3), since § 2-312(3) was added after § 2-312(2). Also, § 2-312(2) limits itself to modifying subsection one. White, Summers, and others believe that § 2-312(2) applies to § 2-312(3) as well as § 2-312(1).¹³⁹ If one adopts this view, a disclaimer may be made through § 2-312(2) which states:

[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.¹⁴⁰

135. See *D. Klein & Son v. Giant Umbrella Co.*, 179 U.S.P.Q. (BNA) 34 (S.D.N.Y. 1972) (presuming middleman may be protected by implied § 2-312(3) warranty); see also WHITE & SUMMERS, *supra* note 36, at 363.

136. Further, a review of the relevant portion of the Official Comments to § 2-316 tends to refute the notion that the section applies to the buyer's warranty. Comment 9 explicitly states that "the situation in which the buyer gives precise and complete specifications to the seller is not explicitly covered in this section . . ." U.C.C. § 2-316, cmt. 9 (1990).

137. U.C.C. § 2A-214 (1990).

138. U.C.C. § 2-312(2) (1990).

139. WHITE & SUMMERS, *supra* note 36, at 363; see also 2 SQUILLANTE & FONSECA, *supra* note 21, § 16-5(5).

140. U.C.C. § 2-312(2) (1990).

Regardless of whether § 2-312(2) specifically applies to § 2-312(3), the warranty against infringement can only be disclaimed in one of two ways: (1) by specific language in the contract,¹⁴¹ or (2) by the circumstances surrounding the transaction.¹⁴²

Two cases hold that § 2-312(3) can be disclaimed by specific language in the contract. In *MAS Corp. v. Thompson*,¹⁴³ the owner of a motel, MAS Corporation (MAS), was stripped of its Holiday Inns franchise and was forced to change the motel's signs.¹⁴⁴ MAS contracted with Thompson to make two signs for the motel.¹⁴⁵ The contract, which was drafted by Thompson, contained the following sentence: "It is understood that sections of the above described sign will be from former sign, used so as not to infringe on [the] Holiday Inns trademark."¹⁴⁶ Almost as soon as the signs were installed, Holiday Inns, Inc. sued MAS for a violation of its trademark. MAS then filed suit against Thompson for the alleged trademark violation.¹⁴⁷ On appeal, one of the MAS's arguments was that its motion for directed verdict should have been granted at trial, because Thompson had an alleged duty to deliver the signs free of infringement under § 2-312(3).¹⁴⁸ The court denied this argument, ruling that:

it is clear that [§ 2-312(3)] does not apply in this case. Thompson's evidence tends to show that the parties agreed [that MAS] would be liable for any infringement. Even if it was unclear what, precisely, was "otherwise agreed," the statute only applies if nothing was said as to liability, and the other conditions are fulfilled. In this situation, where the parties thought they had agreed to something, what their agreement actually was is a question of fact for the jury.¹⁴⁹

Thus, *MAS Corp.* recognizes that the parties may disclaim the warranty against infringement by simply agreeing otherwise in the contract and that such an agreement does not necessarily have to be clear so long as it is apparent that some other agreement was formed. *MAS Corp.* also supports the notion that § 2-312(3) can be avoided by the circumstances of the situation, since the court significantly relied upon the parties'

141. *MAS Corp. v. Thompson*, 302 S.E.2d 271 (N.C. Ct. App. 1983); *Park-Ohio Indus. v. Tucker Induction Sys.*, No. 82-2828, 1987 U.S. Dist. LEXIS 15642 (E.D. Mich. Oct 21, 1987).

142. 2 SQUILLANTE & FONSECA, *supra* note 21, § 16-5(5).

143. 302 S.E.2d 271 (N.C. Ct. App. 1983).

144. *Id.* at 272.

145. *Id.* at 272.

146. *Id.* at 273.

147. *Id.*

148. *Id.*

149. *Id.* at 275.

description of the circumstances of the case in making its ruling.¹⁵⁰

A few years after *MAS Corp., Park-Ohio*¹⁵¹ was decided. In *Park-Ohio*, the repair contract contained the following clause:

Patents: By accepting this order, seller agrees to defend and save harmless Buyer, its successors and customers against all suits and from all damages and claims for actual or alleged infringement of, or inducement to infringe, any domestic or foreign patent by reason of the manufacture, use or sale of the material ordered, including infringement which may arise out of compliance with specifications furnished by Buyer.¹⁵²

Though GM argued § 2-312(3) was generally inapplicable, the court held that "resolution of the applicability of the statute is unnecessary; assuming the provision applies, TIS/Tucker has failed to demonstrate that GM violated the statute."¹⁵³ Applying this rationale, the court found that the parties did otherwise agree "by expressly covenanting to indemnify GM for any patent infringements."¹⁵⁴ From studying the clause, it is apparent that the court upheld a rather standard contractual clause. Thus, although the patents clause in *Park-Ohio* was a little more formally written than in *MAS Corp.*, the courts are still not applying a very strict standard to avoid § 2-312(3). For example, the courts could require that the parties explicitly mention the words "rightful claim of a third person by way of infringement or the like." Today, the only apparent legal requirement which must be fulfilled in order to avoid the warranty is that the party trying to avoid the warranty must demonstrate, through the circumstances or by language of the contract, that some sort of other agreement exists, even if the exact terms of that agreement are ill-defined.

The same sort of reasoning applies to disclaimer of the warranty against infringement under Article 42 of the Convention. As with § 2-312(3), the parties may agree to exclude the warranty. Though there is no express disclaimer provision in the Convention, Article 6 of the Convention expressly allows contracting parties to agree that the

150. More support for this "circumstances" approach can be found in the dissent in *Jones v. Linebaugh*, 191 N.W.2d 142, 145 (Mich. Ct. App. 1971) (Quinn, P.J., dissenting) (stating that circumstances could give rise to effective disclaimer).

151. *Park-Ohio Indus. v. Tucker Induction Sys.*, No. 82-2828, 1987 U.S. Dist. LEXIS 15642 (E.D. Mich. Oct 21, 1987). *Park-Ohio* was the case in which GM sent parts to be repaired. The repairer, TIS, was sued for patent infringement, so TIS impleaded GM on the basis of a breach of § 2-312(3). See *supra* notes 93-104 and accompanying text.

152. *Park-Ohio*, 1987 U.S. Dist. LEXIS 15642, at *7.

153. *Id.*

154. *Id.* at *8.

relevant agreement will not include a warranty against infringement.¹⁵⁵ Article 6 provides that “[t]he parties may exclude the application of this Convention or, subject to Article 12, derogate from or vary the effect of any of its provisions.”¹⁵⁶ Article 12 of the Convention further informs this analysis in that it allows certain countries to dictate that a “contract of sale or its modification or termination by agreement or any offer, acceptance or other indication of intention to be made in any form *other than in writing does not apply*”¹⁵⁷ where 1) one of the parties has his place of business in a contracting state; and 2) that party had formally availed themselves of the option under Article 96.¹⁵⁸ But, even if a party satisfies the above conditions, parties may still be able to avoid the warranty without having a written agreement if the applicable domestic law permits avoidance. Thus, if the parties agree in writing that the warranty against infringement will not apply, *ceteris paribus*, the warranty will probably not be effective. If the parties agree in some form other than in writing, however, the warranty may or may not apply, depending upon: 1) the method by which the parties had agreed; 2) whether either of the contracting parties had made a declaration under Article 96 of the Convention; and 3) the applicable domestic law.¹⁵⁹

B. Defenses

Though parties may agree that the warranty does not apply, sometimes both parties will not be in agreement on the subject. In those cases, the person seeking to avoid the warranty against infringement will

155. C.I.S.G., *supra* note 1, art. 6.

156. *Id.*

157. *Id.* art. 12 (emphasis added).

158. *Id.*

159. Although the buyer's warranty may be waived both through the circumstances surrounding the contract and by the language of the contract itself, buyers who put the disclaimer in the language of the contract are naturally in a better position. Toward that end, it is suggested that those buyers who wish to disclaim the buyer's warranty put the following clause in their contracts of sale:

Buyer and seller hereby AGREE that seller waives any and all claims, rights, and causes of action it may, now or in the future, have against buyer arising out of compliance with any specifications buyer furnishes to the seller. To wit, seller hereby waives and relinquishes any claim, right, or cause of action it may have against buyer deriving from buyer's duty, under statute or otherwise, to hold the seller harmless against claims for infringement or the like which arise out of compliance with said specifications.

The above clause should convincingly disclaim the buyer's warranty because it clearly establishes that: 1) the parties have explicitly agreed to exclude the buyer's warranty; and 2) the seller has waived any right it may have against buyer arising from specifications furnished to the seller by the buyer. Any buyer who puts the above clause in a sales contract should be confident that he has excluded the buyer's warranty from the contract.

have to provide a valid defense. Though one may also defend on the basis that the suit was not filed within the requisite time period, the easiest defenses to identify are those contained in the face of the provision.¹⁶⁰ The language of § 2-312(3) is structured so that the warran-

160. U.C.C. § 2-312(3) (1990). Normally, when a seller delivers goods which do not conform to the contract, the seller has a right to cure the nonconformity subject to a few conditions. In claims arising under the warranty against infringement, the right to cure could be slightly more difficult to ascertain, since the buyer will not likely learn that § 2-312(3) was breached until after he gets notice from a third party that the goods are infringing. Presumably, this will occur long after the goods were originally tendered.

Ytiro interpreted this exact question. See *supra* notes 46-49 and accompanying text; see also *supra* note 151 and accompanying text. In *Ytiro*, the Ytiro Corp. brought suit for breach of contract against X-ray Marketing Association, Inc. (XMA) based upon XMA's failure to accept the goods and fulfill its other contractual duties. *Ytiro*, 559 A.2d at 4. XMA defended on the basis of patent infringement. *Id.*

There is some question as to whether the goods were originally rejected solely on the basis of patent infringement, but that was the defense raised. *Id.* Ytiro Corp. produced certain x-ray filters that would reduce a patient's exposure to radiation when x-ray pictures are taken. *Id.* at 3. Under the contract, XMA was supposed to purchase and market a certain number of Ytiro Corp's filters each year for three years. Though XMA ordered 1,000 filters in the first year of the contract, it refused to accept 738 of them and later wrote Ytiro Corp. to repudiate the contract for a number of reasons, none of which included patent infringement. *Id.* Soon thereafter, Ytiro Corp. commenced the lawsuit. *Id.*

In *Ytiro*, the court ruled upon points relevant to the statute of limitations. The main issue on appeal was whether Ytiro Corp. had the right to cure the defects in the goods. *Id.* In the first year of the three year contract, XMA accepted some of the filters, rejected others, and essentially repudiated the contract before the time for delivery of the rest of the installments. *Id.* The court rejected the lower court's ruling in favor of XMA because that court had not followed the *Ramirez* analysis concerning the seller's delivery of nonconforming goods:

The court there held that the UCC's remedies replaced "recission," and that a buyer may reject non-conforming goods . . . without necessarily having a right to cancel the contract. Before acceptance a buyer may reject the goods for nonconformity If the rejection occurs within the time set for delivery, the seller's right to cure is unconditional until that time occurs If rejection occurs after the time set for delivery, the seller has a further reasonable time to cure if the seller reasonably believes that the goods would be acceptable with or without a money allowance After acceptance the buyer may revoke acceptance only if the non-conformity substantially impairs the value of the goods.

Id. at 6 (citations omitted).

The court found that XMA never argued that the defect in the goods substantially impaired their value and that even if the value was substantially impaired, Ytiro Corp. still had a reasonable time to cure under the *Ramirez* standard. *Id.* The court concluded by holding that Ytiro Corp. was entitled to a hearing to interpret its right to cure according to the *Ramirez* analysis, and that "[r]especting goods actually delivered in violation of the warranty against infringement, the reasonableness of Ytiro's cure must be judged in light of the absence of loss, risk or inconvenience to XMA." *Id.* at 8.

This ruling establishes a definite procedure for right to cure cases. It adopts the framework of § 2-508. If the goods are rejected before the time set for delivery as established by the contract, the seller has the unconditional right to cure if the seller can do so before that time. On the other hand, if rejection occurs after time for delivery, the seller may have further reasonable time to cure provided that: (1) the seller reasonably believed that the goods would be acceptable with or without money allowance; and (2) the requested cure does not subject the buyer to any loss, risk, or inconvenience. Because *Ytiro* is the only decision on this topic and its standard conforms with the procedure established under the U.C.C., this author endorses the standard for future courts to follow.

ty only applies if certain conditions are met. In order for the seller of goods to be required to provide the warranty, the following conditions must be met: 1) that seller must be a merchant regularly dealing in goods of the kind; 2) the transaction must be in terms of goods; 3) the claim made on the goods must be rightful; 4) the claim must be that of a third person; and 5) such rightful claim must be by way of infringement or the like.¹⁶¹ In addition, § 2-312(3) provides two more limitations: 1) the goods must only be delivered free of such rightful claim; and 2) the rightful claim must not arise out of specifications furnished to the seller by the buyer.¹⁶² A violation of any of the above conditions or limitations will probably be held to be a valid defense against a buyer's § 2-312(3) claim. One should note, however, that although these defenses are identifiable, proving them could be tricky. For instance, it is plain from the language of the provision that actions may only be brought on the basis of *rightful* claims. But, the U.C.C. does not define what constitutes a "rightful" claim.¹⁶³

Similar reasoning applies to Article 42 of the Convention. Besides proving that the parties "agreed otherwise," the party trying to avoid the warranty may make several defenses. Some of the defenses are stated in Article 42. Article 42(2) includes two situations where the seller will be relieved of his obligations under subsection (1).¹⁶⁴ First, the seller is absolved from responsibility where the buyer "knew or could not have been unaware" of the right or claim.¹⁶⁵ But such exception ceases to exist the moment after the contract is concluded. Presumably, the same standard of "knew or could not have been unaware" would apply to the buyer as applied to the seller in subsection (1). Second, the seller's obligation also does not extend to situations where such right or claim "results from" the seller's "compliance" with certain specifications.¹⁶⁶ The Article gives a noninclusive list of examples of such specifications as being "technical drawings, designs, [and] formulae."¹⁶⁷ Thus, it appears that where the right or claim results not from the seller's misgivings, but from situations where the buyer had asked the seller for something in accordance with his specifications, the seller will be absolved from all responsibility for breach of the Article 42 obligation.

161. U.C.C. § 2-312(3) (1990).

162. *Id.*

163. *See supra* notes 35-49 and accompanying text as to the definition of "rightful claim."

164. C.I.S.G., *supra* note 1, art. 42.

165. *Id.*

166. *Id.*

167. *Id.*

However, it is still unclear what sorts of claims or rights would occur solely on the basis of the seller's "compliance."¹⁶⁸

The rest of the major defenses arise from Article 42(1). Article 42(1) provides several conditions that must be fulfilled before the warranty will go into effect: 1) the right or claim must arise under the applicable law; 2) the seller must have known or could not have been aware of such a right or claim; 3) the transaction must be for goods; and 4) such right or claim must be based in industrial property or some other sort of intellectual property.¹⁶⁹

Sometimes a party seeking to invoke the warranty will be precluded from doing so because such claim will have been made at a time beyond the statute of limitations. Usually the statute of limitations is simply derived from the general law of the relevant jurisdiction. However, determining the statute of limitations in a § 2-312(3) action is potentially problematic. One can easily imagine a situation where the holder of intellectual property rights does not discover the possible infringement until a few years after the original sale. This waiting period could be longer than the relevant statute of limitations. If the statute were to start to run when the goods were tendered, a number of claims may be precluded on this basis. Alternatively, if the statute were to start to run when the buyer discovers the breach, by being named as a defendant in a suit or otherwise, very few suits, if any, would be precluded by a statute of limitations defense. Under § 2-725, "an action for breach of any contract for sale must be commenced within four years after the cause of action has accrued."¹⁷⁰ The cause of action accrues when the breach occurs, regardless of whether the aggrieved party has any knowledge of such a breach.¹⁷¹ Such breach occurs when the goods are tendered. But, where a "warranty explicitly extends to future performance of the goods and discovery of the breach must await the time of such performance[,] the cause of action accrues when the breach is or should have been discovered."¹⁷² Though the language of

168. *Id.* There are the easy cases where the buyer furnishes the blueprints for a machine which the buyer does not possess the patent for and the seller has no idea that the buyer does not own the patent. Equally clear are the cases where the buyer specifies a machine, and the seller then provides that machine knowing that someone else holds the patent for it and that he has no license to sell it. It is the situations in between these two different scenarios that present the problems.

169. *Id.* art. 41(1).

170. U.C.C. § 2-725(1) (1990). This subsection also allows the parties to provide that the statute be reduced down to a period of not less than one year and prohibits the parties from extending the statute beyond four years.

171. U.C.C. § 2-725(2) (1990).

172. *Id.*

§ 2-312(3) only states that the goods must be delivered free of a rightful claim, as this article earlier stipulated, "delivered free" may reasonably be taken to mean *delivered free from the reasonable basis of such a claim*.¹⁷³ Since the buyer would normally only receive notice of this rightful claim later, it appears that a § 2-312(3) warranty extends to future performance. In other words, the seller may not only warrant that the goods be delivered free of any rightful claim, but also that no rightful claims may later be brought that *could* have been brought at the time the goods were tendered.

Motorola directly considered this question.¹⁷⁴ Citing § 2-725, one of the third party defendants raised a statute of limitations defense.¹⁷⁵ After establishing that the third party complaint was filed after the statute would have normally run, and that the third-party defendants' had given Varo no warranty beyond that contained in § 2-312(3), the court held the following:

Varo would like for an implied extended warranty to be found in their favor. The [highest state court] . . . concluded that the words of the statute mean what they say. Warranties as to future performance must be explicit. Therefore, the [third-party defendant's] Motion for Summary Judgment based on statute of limitations shall be granted.¹⁷⁶

Thus, the court refused to interpret the § 2-312(3) warranty as one which requires future performance.¹⁷⁷ Additionally, the court imposed the new requirement that any warranties as to future performance must be "explicit." Taken together, these two requirements substantially limit the operation of the warranty against infringement because so many suits for infringement may fall outside the statute of limitations.¹⁷⁸

Ytiro is the only other case that considers when the statute of limitations begins to run in a § 2-312 action.¹⁷⁹ The court made two holdings

173. See *supra* notes 39-49 and accompanying text.

174. 656 F. Supp. 716 (N.D. Tex. 1986); see *supra* notes 52-56 and accompanying text. *Motorola* was the case where a patent owner brought an action against an alleged infringer, who in turn brought a third party complaint against the sellers of certain material used in a patented process to make electrical equipment. *Motorola*, 656 F. Supp. at 718. The third party plaintiff's (Varo) second cause of action was for breach of the warranty against infringement. *Id.*

175. 656 F. Supp. at 718.

176. *Id.* (court interpreting § 2-725).

177. *Id.*

178. The court passed up the opportunity to allow the statute to toll where the party in alleged breach was not the defendant, but the third-party defendant. *Id.*

179. *Ytiro Corp. v. X-ray Mktg. Assn.*, 559 A.2d 3 (N.J. Sup. Ct. App. Div. 1989). While in the initial portions of the litigation in *Ytiro*, XMA received a letter from the University of

applicable to the statute of limitations under § 2-312(3) actions. First, the breach of a § 2-312(3) warranty occurs when the product delivery is required by the contract,¹⁸⁰ therefore, under § 2-725 the statute begins to run at that time. Second, a direct claim for infringement is not the only method by which breach may be established.¹⁸¹ The combination of these two rulings, if followed by later courts, could be troublesome for the buyer. Under the *Yttro* analysis, a buyer could purchase the goods, possess them for a period beyond the relevant statute of limitations, be sued for infringement, but yet be without remedy under § 2-312(3) even though he did not learn that the warranty was breached until after the statute had run. The implications are that the buyer should either include a clause within the contract which provides the buyer with some remedy in the above situation or just be very careful about using goods that could be the subject of a lawsuit for infringement.¹⁸²

There is no specific statute of limitations for Article 42 of the Convention, but the limitations period set forth in Article 39 may apply to goods that breach Article 42 which are "nonconforming."¹⁸³ Article 39 states that the buyer loses the right to rely on the lack of conformity if he does not notify the seller thereof within two years from when the goods were tendered.¹⁸⁴ Article 39, however, provides an exception by allowing for a different statute of limitations if the "time-limit is inconsistent with a contractual period of guarantee."¹⁸⁵ Therefore, depending

Virginia Patents Foundation (UVA) which demanded that XMA stop selling Yttro Corp.'s filters in violation of UVA's patent. *Id.* at 3; *see supra* notes 46-49 and accompanying text; *see also supra* note 160 and accompanying text. The letter also disclosed that UVA had sent a letter to Yttro Corp. prior to delivery of goods, making a similar request. *Yttro*, 559 A.2d at 4. The court addressed two claims Yttro Corp. made concerning when the breach occurred. First, the court held that it was "satisfied that Yttro may not assert that its breach did not occur until the patent infringement notice to the buyer. Section 2-312(3) provides specifically that the warranty against infringement attaches at the time of delivery." *Id.* at 5 (citations omitted). Further, the court supported its ruling by quoting § 2-725(2) and stating that "Yttro's breach of warranty occurred when its product delivery was required by the contract." *Id.* at 5-6. Second, the court held that Yttro's assertion that the § 2-312(3) warranty can only be breached by a direct claim of infringement to be "similarly meritless . . . [and that the] mere casting of a substantial shadow over [the buyers enjoyment of the seller's warranty against infringement], regardless of the ultimate outcome, is sufficient to violate a warranty . . . [against infringement]." *Id.* at 6 (quoting *American Container Corp. v. Hanley Trucking*, 268 A.2d 313, 318 (N.J. Super. Ct. Ch. Div. 1970)). Finally, the court quoted Comment 3 to § 2-312(3) for the proposition that the buyer does not have to be precluded from using the goods in order to breach the warranty against infringement, but rather being prevented from using the goods "is merely one way of establishing the fact of breach." *Id.*

180. *Yttro*, 559 A.2d at 5.

181. *Id.* at 6.

182. *See* discussion *supra* part I.D.4.

183. C.I.S.G., *supra* note 1, art. 39.

184. *Id.*

185. *Id.*

upon a court's interpretation of Article 39, there may be a limitations period of two years. But that period may be extended if the courts determine it to be inconsistent with "a contractual period of guarantee."¹⁸⁶

CONCLUSION: IMPLICATIONS FOR THE PRACTICING LAWYER

The purely domestic practitioner will be faced with situations in contract drafting and, perhaps, in litigation where interpretation and avoidance of the U.C.C. warranty will be important. More importantly, being involved in today's increasingly global market, the domestic practitioner should be aware of the implications involved in using the warranty against infringement as stated within the convention. The following discussion provides several points of concern to take into account when making the choice to use either the U.C.C. or the Convention.

A. General Points

Several general points should be taken into account when deciding how to draft the choice of law clause in an international contract, given the differences between § 2-312(3) and Article 42. First, there is no case law on Article 42, whereas, at least some authority exists on § 2-312(3). If the practitioner represents a sophisticated party which would like assurances that his actions will not breach the warranty, the practitioner should opt to use the U.C.C. Second, if the buyer obtains knowledge that a third party may have an intellectual property right in the relevant goods, the buyer should notify the seller of the claim and the nature of it as soon as possible. Third, make sure you know where the businesses are located for the purposes of each provision.¹⁸⁷ This is important because it determines which law could apply. For example, if both parties' places of business are in the United States but one of them actually has his place of business in France, the Convention would apply instead of the U.C.C. Fourth, make sure the subject matter is encompassed in either the Convention or the U.C.C.¹⁸⁸ For example, if a client sells software programs via modem, neither law may apply since the software may not qualify as a good. Fifth, if the practitioner decides to use the Convention, he should specify in the contract which country's law will be applied for times when the Convention does not address the

186. *Id.*

187. *See id.* art. 1.

188. *See generally* discussion *supra* parts I.A & I.B.

issue at hand.¹⁸⁹ This should be done by stating where it has been contemplated that the goods will be sold. If the parties have not contemplated that the goods will be sold or otherwise used in a specific country, that omission should be affirmatively noted. The contract should then recite both: 1) the state where the buyer has his place of business; and 2) that the law of that state will apply. Sixth, the parties should specify in the contract what constitutes "infringement or like" and/or "industrial property or other intellectual property," depending upon which law will be in effect.¹⁹⁰ This will avoid litigation of marginal subject matters. Finally and most importantly, specify any other ambiguous standards, requirements, or provisions in the contract itself.¹⁹¹ For example, using the U.C.C. to specify what constitutes a "rightful claim."

B. Representing the Seller

Representing the seller will cause several distinct concerns. First, as there is an express provision in § 2-312(3) which allows the parties to agree otherwise, and because there are at least two cases which support this option, a practioner should specify in the agreement that the parties agree to exclude any warranty against infringement.¹⁹² Beware, however, because exclusion of the whole warranty against infringement would also exclude the so called buyer's warranty. One may want to specifically include such provision in the contract if a client does a lot of business based heavily upon the buyer's specifications. Second, under the Convention, if the seller knows of the right or claim and the nature of it, the seller will not be able to rely upon lack of notice to deny the existence of the seller's obligation.¹⁹³ Third, where it is possible, the seller should specify that claims for infringement of intellectual property rights arising from the buyer's infringing use will not be valid claims under either Article 42 or § 2-312(3).¹⁹⁴ Fourth, the seller may avoid this warranty under the U.C.C. by specifying that the seller is not a merchant regularly dealing in goods of the kind for the purposes of § 2-312(3). This method should be used in combination with an express disclaimer

189. One should also designate a "fall back" jurisdiction so that if a problem arises which is not covered by the Convention, the practioner will know which law applies.

190. See discussion *supra* part I.D.3.

191. In general, in order to avoid litigation, the contract should include as few ambiguities as possible.

192. See discussion *supra* part I.D.

193. See C.I.S.G., *supra* note 1, art. 42.

194. See discussion *supra* parts II.A & II.B.

of the warranty because the court will determine whether the seller is a merchant regularly dealing in goods of the kind as a matter of law. Fifth, if using the U.C.C., the seller should specify what constitutes a "rightful claim."¹⁹⁵ If both parties can agree on a definition, a lot of potential confusion and litigation may be avoided. Sixth, if the seller is selling a good which was produced in accordance with the specifications of the buyer, the seller should specify this in the contract. This will make it easier for the seller to assert a valid claim under the buyer's warranty.

Fundamentally, the seller should try to disclaim any warranty against infringement provision. If the seller must include such a provision and has a choice between the Convention and the U.C.C., the seller's counsel should choose the U.C.C. for the following reasons: (1) the U.C.C. includes the buyer's warranty provision; (2) the possible liabilities are more clearly established through available case law; (3) the seller must be a merchant regularly dealing in goods of the kind; and (4) the U.C.C. includes harsh notice provisions towards the buyer which could possibly exclude the seller from liability. The only significant problem with using the U.C.C. is that it may be difficult to determine the definition of a "rightful claim."

Even though the seller is better off using the U.C.C., two points make the Convention attractive: (1) the "knew or could not have been unaware" standard of notice in the Convention is hard for the buyer to satisfy;¹⁹⁶ and (2) the liability of seller under the Convention is limited to those situations where he knew or could not have been unaware of the right of claim.¹⁹⁷

C. Representing the Buyer

When representing the buyer, the practitioner will want to make sure that the client has the best possible remedies in case a third party has a claim or right in the goods. First, take note of the points made under the two aforementioned sections. Several will be very helpful. Second, make sure that the seller is notified whenever it is suspected that a third party may have a right or claim to the goods in question.¹⁹⁸ It is a recurring theme that the buyer must keep the seller notified of all possible claims. The more the buyer keeps the seller informed, the less chance the seller

195. See discussion *supra* part I.D.1.

196. See C.I.S.G., *supra* note 1, art. 42.

197. *Id.* art. 42(1).

198. See discussion *supra* part I.D.4.

may avoid the warranty due to lack of notice. Second, if the buyer furnishes anything which could be interpreted to be specifications to the seller, the buyer should put a clause in the contract that attempts to: (1) state that such specifications were not "specifications" for the purposes of § 2-312(3); (2) that the seller did not rely thereon in producing said goods; and (3) that the seller indemnifies the buyer for any liability under § 2-312(3) which arises from seller following the buyer's specifications.¹⁹⁹

If given the choice between using the Convention or the U.C.C., buyer's counsel should clearly choose the Convention for the following reasons: (1) the U.C.C. includes the buyer's warranty provision; (2) under certain situations, the buyer may unilaterally reduce the amount owed to the seller under the Convention; (3) there is no express disclaimer provision in Article 42 so the buyer may always argue that it was not effectively disclaimed; and (4) the seller may not deny Article 42 liability based upon the buyer's failure to fulfill his notice obligations under Article 43, if the seller knew of the right or claim at the time of the conclusion of the contract. Pitfalls for the buyer in using the Convention include: (1) ascertaining when the buyer ought to have been aware of the right or claim; and (2) the notion that the seller's liability for providing goods which are free from such rights or claims is contingent upon proving that the seller knew or could not have been unaware of the right or claim at the time of the conclusion of the contract.

Both the U.C.C. and the Convention generally provide that the seller shall furnish goods which are free from claims or rights of third parties; however, these laws provide almost as many questions as they do solutions. International practitioners will have a choice of whether to apply the Convention, the U.C.C., or neither. Those representing sellers generally should try to disclaim the warranty against infringement or, if that is not practical, to adopt the U.C.C. provision. Alternatively, those practitioners who represent the buyer generally should choose the Convention. Under either situation, practitioners should realize that making an uninformed decision may result in grave consequences.

199. Meeting this recommendation may be hard in practice because of the mutual compromises inherent in negotiations.

