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Recommended Citation
Louis Robertson, IMPLIED WARRANTIES OF NON-INFRINGEMENT, 44 Mich. L. Rev. 933 (1946).
Available at: https://repository.law.umich.edu/mlr/vol44/iss6/3

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IMPLIED WARRANTIES OF NON-INFRINGEMENT

Louis Robertson*

I

Introduction

When a manufacturer or dealer sells a product, is there an implied warranty that the product does not infringe adversely-owned patents? In other words, does the purchaser who is successfully sued for infringement have the right, without an indemnity clause, to be indemnified by the seller?

Many lawyers, especially patent lawyers, who are accustomed to advising the insertion of express patent warranties in sales contracts to take care of the matter, have answered this question instantly and positively in the negative, and it is quite possible that according to fundamental principles of implied warranties they are right, and yet all of the decisions on the point except one British decision have decided otherwise, and hence many who know of such decisions would probably answer the question with an equally positive affirmative.

The purpose of this paper is to set forth some of the considerations on both sides in the hope that future decisions on the point will at least be more thoroughly considered than those of the past so that their holdings can be more authoritative.

Merely as an early indication of how difficult a determination of the question will be, it may be mentioned at the outset that the words of the Uniform Sales Act mentioning a warranty that the seller "has a right to sell the goods" seem to provide quite clearly for a warranty of non-infringement, but the only decisions as to the intent behind this wording are in England,¹ the earlier decision deciding that the words of the Sales Act provide a warranty of non-infringement and the later holding to the contrary. At the time the Uniform Sales Act was first adopted in this country, the former decision was apparently the law in England and hence may have represented the intention of our legislators, although we now know (by the later decision) that the law in England was not really what our legislators may have thought it was. Furthermore, when our legislators adopted the wording from England, they put it under a heading "Implied Warranties of Title" which might

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¹ Cited and analyzed below.
negative any intention that such warranties apply to patent infringement, which, after all, is not a matter of title.

Because of the difficulties of interpreting the Uniform Sales Act in this respect, it seems probable that the court which is first forced to make such an interpretation will have to legislate on the matter one way or the other. A proposed clarification of the point in the proposed new Uniform (Revised) Sales Act\(^2\) will not help except where it may be in force. Accordingly, it seems advisable to consider the underlying fundamentals of the implied warranties.

II

Warranties of Title and Warranties of Non-Infringement

A. Purchaser's Knowledge. When a person sells personal property, he knows something which the purchaser ordinarily cannot know first-hand, namely, the source of his title. In other words, the seller knows where he bought the goods, but the purchaser cannot know where the seller bought the goods. Accordingly, it is impossible for the purchaser to be sure of the validity of the seller's title. Even more clearly, it is impossible for the purchaser to make sure that the seller has not in some manner encumbered the personal property. None of this is true, however, as to patents. The seller of a machine is theoretically no more able to determine whether or not it infringes an adversely-owned patent than is the purchaser. Each one must follow exactly the same routine of having an infringement search made in the public records of the Patent Office. The public records are equally available to each of the parties. The secret records of the Patent Office, showing what adverse patents may be about to issue, are not ordinarily available to either of the parties.

Of course, it is true that a purchaser of a ten-cent item can hardly be expected to spend perhaps several hundred dollars for an infringement search and, therefore, he must rely on the dealer or the manufacturer as to the question of freedom from patent infringement. On the other hand, if a large manufacturer, chain store, or mail-order house orders by specification, the supplier can reasonably assume that the purchaser has made the search, probably having carried the item before, or that the purchaser is willing to take its chances as to adverse patents. In some instances, the purchaser might be a manufacturer of a machine,

\(^2\) Uniform Revised Sales Act: Proposed Final Draft No. 1, American Law Institute (1944), and proposed revision of section 36 from letter from Professor Karl Llewellyn. Discussed below.
and surely the seller who sells a part for the machine cannot be ex­pected to warrant that the part, as converted by use in the machine, will not infringe a patent.

It is clear, therefore, that the equities of the situation which require and justify an implied warranty of title do not always justify or require an implied warranty of non-infringement. An implied warranty of non-infringement would seem to be just under some circumstances and would seem to be unjust under other circumstances, and therefore neither set of circumstances can be utilized wisely for giving the Uniform Sales Act a single interpretation which would necessarily be applicable to both types of circumstances.

B. Seller’s Right to Indemnification. Another justification for im­plied warranties of title is that when the seller has to indemnify the purchaser who is dispossessed, the seller in turn (if he was honest) has a claim against the prior seller from whom he bought the property so that, theoretically, the only person who ultimately suffers by the im­plied warranty is the initial wrongdoer who sold the personal property knowing that he had no right to sell it. But, again, this is not the case with respect to patents because, although the dealer who indemnifies the customer may have a redress against the manufacturer, the manu­facturer although selling with no knowledge of the patent infringement has redress against no one.

Indeed, the patent might have issued subsequent to the original sale by the manufacturer, in which case the manufacturer sold lawfully and could not have determined that a patent would be granted. From the mere standpoint of fairness, it is of no help to say that the manufac­turer probably would not be liable under this circumstance because then the dealer, if he is liable because the patent issued while he held the goods, would have no redress. In the case of defects of title, the person who is ultimately responsible had knowledge of the defect. In instances of patent infringement, the person who is ultimately responsible may not and often does not have knowledge of the infringement.

In short, the basis of an implied warranty at common law is re­liance by the buyer on knowledge which the seller can have more readily than can the buyer. Common law ordinarily found no warranty otherwise. Thus, if the buyer bought by sample, there was no warranty of quality or merchantability other than that the merchandise would be like the sample. Likewise, when the buyer had the opportunity to in­spect, the well-known doctrine of “caveat emptor” applied.

8 Hoe v. Sanborn, 21 N.Y. 552 (1860).
4 Jac Bokenfohr Co. v. Gross, 177 App. Div. 768, 164 N.Y.S. 887 (1917);
C. Where Purchaser Relies on Seller's Special Knowledge. Possible exceptions to the foregoing are instances in which the buyer and seller theoretically have equal opportunity to know the facts, but it appears that the buyer, having informed the seller of the purpose for which he is buying the product, relies on the seller's skill or judgment, the situation usually being one where the seller is a dealer in the particular product and should know its limitations. Here there may be an implied warranty that the product is reasonably fit for the particular purpose.\(^5\)

This doctrine comes close to indicating the possible justification for and limitations to any doctrine establishing an implied warranty of non-infringement. Where the manufacturer is commonly selling a particular product, it is reasonable to assume that he has looked into the question of infringement of outstanding patents. Certainly an occasional buyer is justified in relying on the manufacturer's judgment.

The decisions would be much more satisfactory if they had been based on these broad considerations and established a separate classification of warranties of non-infringement rather than attempting to fit such warranties into existing pigeonholes not equipped with the proper limitations for rejecting such implied warranties when they would not be fair.

III

Common Law Decisions as to Implied Warranties of Non-Infringement

A. In Ordinary Sales of Goods. All of the decisions at common law found to have considered the question of implied warranties of non-infringement in the ordinary sale of goods hold, imply, or assume that there is an implied warranty of non-infringement, but each of them is unsatisfactory because of an apparent misunderstanding of patent law or a lack of consideration of the fundamentals of implied warranties or because of special circumstances which might raise an unusual warranty.

For the benefit of those who wish to consider these decisions individually, the following digest is included:

Carman v. Trude.\(^6\) The substance of this case is given in The Electron, discussed below, as follows:

Hight v. Bacon, 126 Mass. 10 (1878).
\(^5\)McCaa v. Elam Drug Co., 114 Ala. 74, 12 S. 479 (1896); Jones v. Just, L.R. 3 Q.B. 197 (1868).
"... the plaintiff had sold a patent meat safe to the defendant, who paid the full price therefor, less $25, which the plaintiff told him was owing to the person having the patent right thereon, and whom the vendee assumed to pay. It appeared, however, that the $25 reserved was the price owing to the patentor for the use of the safe for a single year only; and that $25 more was required for the perpetual use of it. The supreme court of this state on appeal held that the sale carried an implied warranty of both the article and the right to use it, that the vendee was entitled to the additional $25, and that this was his only proper damage in the case. The decision was based, not upon the ground of fraud, but on the ground that the plaintiff was not the full owner of that which he had undertaken to sell and of what he had impliedly warranted; and that he must, therefore, pay as damages such an amount as was required to make the sale good."

It should be noted that in this case there was apparently a special circumstance, namely, that the seller definitely represented that the full sale price included the right to use. Furthermore, there might be a warranty as to the particular patentee whose rights were specifically included in the sale even though there would be no warranty as to unknown outstanding patents.

In the light of the special facts, the language of the court's opinion in Carmen v. Trude is quite strong, but would not necessarily be general in its application:

"The sale being an absolute and unqualified one, there was an implied warranty by the vendor of title in himself, both of the property and of the right to use it."

That much seems general, but the court may have been well aware that a paid-up license under a particular patent was part of the deal. The court stated:

"When it was conceded by the plaintiff [Seller] that he owned only the right to use the safe for a single year, the breach of his warranty was shown. . . ."

The Dresser case given by the court as its authority does not relate to infringements or patents; nor, apparently, do any of the other cases cited in it.

7 (D.C. N.Y. 1893) 56 F. 304 at 309.
Pacific Iron Works v. Newhall. In this case the seller contracted to build and install a boiler including "Green's patent cut-off" for the buyer, representing that it would be valuable to the buyer in saving coal. The court stated:

"... a purchase shown to have been made for a particular purpose, communicated at the time to the vendor, implies a warranty that the goods furnished for such a purpose shall be reasonably fit for and shall answer the object for which they are purchased." 10

This basis here stated for the holding would usually be outlawed by the Uniform Sales Act, section 15, clause (4), which states:

"In the case of a ... sale of a specified article under its patent or other trade name, there is no implied warranty as to its fitness for any particular purpose." 11

However, apparently the decision relied partly on the question of title, since it further stated:

"It now appears that Green was not the inventor of the cut-off, and the respondent has been enjoined against using it by ... one Corliss, who appears to be the inventor and the rightful patentee. ... The equitable right of the respondent ... is quite obvious. ... There was, in point of law, a warranty that the respondent would have the right to use Green's 'patent cut-off'. ..."

The value of this passage is doubtful, since the court apparently labored under the misimpression that a representation that Green was the inventor amounted to a representation that there was no prior outstanding patent that would be infringed.

American Electric Construction Company v. Consumers' Gas Company. 12 In this case the court held that there had been no eviction, and so no breach of the implied warranty. However, the court stated:

9 34 Conn. 67 (1867).
10 Id. at 77.
11 1 U.L.A. (1931). The quoted language probably is not intended to bar an implied warranty of merchantable quality in the case of sale by trade name. Colella v. Smith-Fredenburg Corp., 239 App. Div. 274, 267 N.Y. S. 462 (1933). But the line between merchantable quality and fitness for a particular purpose is vague and seems easily crossed. In Ellen v. Heacock, 247 App. Div. 476, 287 N.Y. S. 740 (1936), remedy under warranty was denied as to an oil burner which did not function properly, on the ground that having been sold under the trade name "Delco" there was no warranty for its particular purpose! The fact that this may have been its ordinary purpose instead of a "particular" purpose was not discussed.
“By the original agreement for sale there arose an implied warranty on the part of the plaintiff of title to the property sold. Assuming that this included a warranty that it had the right to manufacture and sell appliances and machinery...”

In this case there was the special circumstance in that the seller had orally agreed to indemnify the buyer against patent infringement.

*The Electron.* The facts of this case are a little more clear from the decision of the lower court. The contract was for the supply of a definite battery, namely “23 M accumulators” which were manufactured by a company not involved in the suit, but which, according to the lower court decision, was controlled by the seller. At the time of the sale, this company manufacturing the batteries had been sued but no final adjudication had been made. The buyer testified that he knew nothing of the controversy. The court of appeals held that there was no eviction, but Judge Shipman for the court stated:

“Upon the sale of personal property in the possession of the vendor, there is an implied warranty of the purchaser’s uninterrupted right to use an article which the vendor sells to him; especially when, as in this case, its use is indispensable to the continuance of the business for which it was purchased. If the purchaser is prevented from the use of the purchased property,—in other words, if he is evicted,—he has a defense to an action for the purchase price. Bigler was not evicted, for a mere notice of the claim of infringement by the owner of the patent is not an eviction...and in view of the condition of the original order of injunction against the Electrical Accumulator Company, it is not probable that an injunction would have been issued against him pending the appeal. But he offered to return the equipment, and had attempted to rescind the contract, and therefore could have an action upon the implied warranty, and, of course, a defense to an action for the purchase price.” He was entitled at least to a reduction from the purchase price by reason of the breach of warranty of the right to uninterrupted use.

It should be noted that the seller’s knowledge of a patent suit involving his production is a special circumstance. There might be an implied warranty that the seller does not know of any claims of in-
fringement not communicated to the buyer, even though there be no general implied warranty of non-infringement.

In the lower court, it was held that the buyer must pay for such use as he had of the goods prior to eviction, and the court of appeals apparently agreed with this.

_National Metal Edge Box Company v. Gotham._ This is the latest case in the United States found directly on the subject and is the only one in which the buyer sued the seller. The seller had sold screens to the buyer with knowledge of their intended use. The buyer was sued for infringement and, on advice of the seller, settled. The seller had lost a suit on the same patents and infringing structure, but it is not clear whether suit against the seller had been brought before the sale or not. The court stated:

"... the court ... properly found as conclusions of law that defendant on the sale of these screens to plaintiff impliedly warranted the title thereto, and the right to use the same. ... that actual eviction by process of law from the use of the screens was not necessary to give the plaintiff a right of action against defendant, it being sufficient, if there was a paramount outstanding title or patent, covering the use of said articles. ... Plaintiff's duty ... to minimize by reasonable effort the actual damage ... is well recognized. It would seem to follow that a plaintiff in such cases would not be warranted in increasing the amount of damages ... by futilely resisting an action brought to establish a paramount title, to which a successful defense was plainly impossible."

_General Chemical Company v. Stanford Wholesale Phosphate and Acid Works, Inc._ Although this case was decided subsequent to the general adoption of the Uniform Sales Act, it is included under the common law decisions because no mention is made of the Uniform Sales Act and the only authority relied on was the _Electron_ case, which was prior to the Uniform Sales Act. The court did not analyze the question of implied warranty at all but accepted the _Electron_ case as sufficient authority. Correspondence indicates that the question of an implied warranty was neither raised nor discussed by counsel, the court apparently finding its own law on the subject. Since the _Electron_ case is the only pertinent case in the Federal Reporters or cited in _Corpus Juris_ and since the court in any event may not have considered the doctrine of implied warranty necessary, the acceptance of the _Electron_

19 Id. at 452.
21 Discussed p. 939, supra.
case as authoritative was natural, but the lack of due consideration leaves the question as unsettled as before. The question of implied warranty was brought in quite incidentally. In a previous suit, the patentee had sued a manufacturer whose articles were held not to infringe. Here the patentee was held to be estopped from recovering from persons purchasing said articles from the manufacturer. Judge Parker stated:

"... It was stated at the bar of the court that the Selden Company had indemnified defendant against loss on account of patent infringement and that the Selden Company was defending this suit in behalf of defendant; but, irrespective of this, the implied warranties involved in the sale of personal property include a warranty of the right to use, upon which the purchaser may rely if sued for patent infringement. The Electron, 56 F. 304, 309-310; 55 C. J. 783. In the event of a recovery by plaintiff against defendant, therefore, defendant would have the right, if plaintiff's position is correct, to sue the Selden Company on this implied warranty; and the unseemly spectacle would be presented of permitting a patentee by indirection to recover damages for infringement from a manufacturer who, in a suit brought against him directly by the patentee, had been held not to infringe the patent.

"... Since the customer can hold the manufacturer from whom he has purchased for any damage which he may be required to pay because the article infringes the patent, he should be held to be subrogated to the right of the manufacturer under the judgment against the patentee adjudging that there is no infringement with respect to such article." 22

Horne v. Hoyle. 23 This case is noted to give others an opportunity to find in it an incidental denial of the implied warranty in question, although the existence of such warranty does not seem to have been considered. The court stated, in its first opinion on a motion to strike part of the answers, 24 that if no provision was made in the contract, it is immaterial whether the buyer had been sued or not. But it is clear from the opinion on the merits 25 that there had been an express provision. Hence, the question of an implied warranty probably was not given any serious consideration.

The Computing Scales Company v. Long. 26 In view of the fact that the court in this case held that there was not yet any claim for breach

23 (C.C. Mo. 1886) 27 F. 216, 28 F. 743.
24 Id. at 216.
25 28 F. 743.
26 66 S.C. 379, 44 S.E. 963 (1903).
of warranty in view of the fact that there was no eviction but only a dispute as to the patent question, the following statement, which seems to indicate clearly that there is an implied warranty of non-infringement, must be considered to be merely dicta:

“If the defendant had alleged and proved that the plaintiff had sold to him scales in infringement of the patent of a third party without giving notice of such infringement, he could have rescinded the sale without waiting for suit and judgment against himself.”

The extent of the confused thinking on the subject may be indicated by the following quotation from the Encyclopedia of Law and Procedure:

“On the sale of a patented article, there is an implied warranty of title, or of the right of the buyer to use the same without eviction.”

Note that this statement is limited to the sale of a patented article by which presumably was meant an article sold as a patented article. Inasmuch as a patent is not even intended to indicate that there is no prior, more basic patent which would be infringed by the improvement of the instant patent, the fact that the article is sold as patented should have nothing to do with the existence of an implied warranty. Nothing has been found in the cases to suggest that if there is any such warranty, it should be limited to situations in which the article is sold as a patented article. Note also that the quotation blithely treats the warranty of non-infringement as synonymous with the warranty of title.

B. Sale of Business or Sale of Patent. There are two types of cases which are closely related to the ordinary sale of goods but which are sufficiently different in underlying theory so that they should not be regarded as controlling with respect to the ordinary sale of goods. One situation involves the sale of a business and the other involves a sale or license of a patent. Because such cases would not be controlling, no attempt is made here to treat them exhaustively.

An underlying reason why they should not be regarded as controlling is that anyone who is purchasing a business or a patent would certainly be expected to be much more likely to investigate the question of infringement of prior patents for himself than would the ordinary purchaser of goods.

In the case of the sale of a patent, it is so common for manufacturers to buy patents even when they know that there are outstanding patents

27 35 Cyc. 396.
which may be infringed, that it is hard to believe that there could be any general rule that there would be an implied warranty in any such situation. Indeed the manufacturer who buys a patent usually knows very much more about the existence of outstanding prior patents than does the private inventor who sells the patent.

The decisions in these general classes of cases are somewhat confused, as may be illustrated by those given below:

_Dillman v. Nadlehoffer._ The seller and the buyer had been partners, the contribution of the seller being mainly patents. The seller sold out his share of the business to the buyer, including the patents which the seller alleged did not constitute infringements of outstanding patents. The court refused to rescind the contract, either on this ground or other grounds. The contract of sale expressly stated that the seller does not warrant non-infringement, so this decision merely represents a buyer's unsuccessful attempt to override such a provision.

_Arrighi v. Renwick._ In this case, it was held that the sale of a business included no implied warranty that a formula used in the business would not infringe an outstanding patent. A court decree had required the buyer to discontinue. An alternative process had proved too expensive. The court stated:

"... There could be no implied warranty that the use of the formula would not infringe upon the right of others. _Leese J. Gloehler._ .."

This case, here cited by the court, holds as follows, quoting from Encyclopedia of Law and Procedure:

"The assignment of a patent creates an implied warranty of title in the assignor, but no warranty that the patent is valid or that the inventor does not infringe prior patents."

The next two cases differ with _Arrighi v. Renwick_ holding or indicating that in the sale of a business, there is an implied warranty of non-infringement:

_Geist v. Stier._ In this case, the seller of a business using a particular process, sued the purchaser for the purchase price, and the court held that there was no breach of warranty because the purchaser had not been evicted, having merely been notified of infringement and threatened with suit. Nevertheless, the court states:

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28 119 Ill. 567 (1886).
30 Id. at 510; citing _Leese v. Gloekler Co._, 287 Pa. 295, 135 A. 206 (1926).
32 134 Pa. 216, 19 A. 505 (1890).
“If Stier's story is correct, and he was forbidden to carry on the business, and so notified Geist, and he failed to do anything, Stier was not bound to pay... If Mr. Geist undertook to sell this business, he was bound to guarantee the title to what he sold, and, if the title is not good, he is responsible.\(^{38}\)

*Sanborn v. Jackman*.\(^{34}\) In this case, there was a written contract for the sale of a business, the principal value of which lay in a process. Before making the contract, the buyer had inquired of the seller if the device or process infringed the Corey patent, and the seller had said it did not. In holding that evidence of this oral inquiry was admissible since it did not alter the written bill of sale, the court stated:

“It was an incumbrance on the right to use the machine, constituting a defect in the title, if it was an infringement of Corey's patent. In the sale of chattels, there is ordinarily an implied warranty of title.”\(^{35}\)

The admission of the evidence casts some doubt on the general application of the above wording because if a warranty of non-infringement were normal, evidence of the oral inquiry as to infringement would not be necessary. However, the court, though admitting the evidence, did not hold that it was necessary, and part of the evidence which it ruled to be admissible was evidence of eviction which, of course, is necessary if the implied warranty was to be relied upon. In any event, the facts did include a special circumstance (seller's statement) justifying the raising of an implied warranty which would not ordinarily exist.

*Independent Harvester Company v. Tinsman*.\(^{36}\) This case involved the sale of a patent. The circuit court of appeals reversed a decision dismissing the buyer's suit for restitution. This could be taken as sustaining the doctrine that in the sale of a patent, there is an implied warranty of non-infringement. It should be noted, however, that the court found that the seller was experienced in the art and knew that the buyer was not experienced, and stated as a fact, not as a mere opinion, that the invention could be used without infringement. The seller had himself previously sold a prior dominating patent. This case could, therefore, be more properly treated as a case of fraud rather than a case of implied warranty.

*Lowman Bros. v. Excelsior Stove Pattern Company*.\(^{37}\). This case

\(^{38}\) Id. at 224.

\(^{34}\) 60 N.H. 569 (1881).

\(^{35}\) Id. at 571.

\(^{36}\) (C.C.A. 7th, 1918) 253 F. 935.

\(^{37}\) 104 Ala. 367, 16 S. 17 (1893).
is one that is difficult to classify. It involved the sale of goods, but it was not the goods themselves which infringed an outstanding patent. The seller was a pattern manufacturer who sold patterns used in casting the various metal parts making up a stove. In the course of his business, he displayed photographs of various different styles of stoves, for any one of which he would furnish the necessary patterns. The court held that in the sale of these patterns, the seller did not warrant that the stoves made by the patterns would be free of infringement.

Examining the logic underlying the case, but not in the decision, it may be recognized that the buyer was in the business of making stoves and could as reasonably be expected to look into the question of infringement as the seller of the patterns. In fact, the situation could be such that some manufacturers would be licensed to make the stoves and others not licensed. The buyer claimed that it was generally known in the industry that the particular stoves were patented, the inference perhaps being that he had a right to assume that the member of the industry purchasing from him knew what he was doing.

Mention should be made here that there are numerous decisions holding that in the case of a license for continuing royalties, there is an implied warranty that the licensee shall not be evicted from its enjoyment. There is a well established doctrine that a licensee cannot deny validity of a patent while he operates under it. But when a licensee is evicted from enjoyment of his license, perhaps by being enjoined from infringement, he can at least stop paying royalty. Unless there is something which amounts to actual eviction, it is difficult if not impossible for the licensee to escape the payment of royalties, without some cancellation clause or the like in his contract. This question is discussed at length in Walker on Patents. The doctrines in this matter seem particularly anomalous in view of the fact that the cases do not seem to provide for any remedy in the case of an eviction except the escape from continuing royalties. It is quite possible that normal doctrines of remedies for breach of warranty would often give rise to considerably higher recoveries if the point were pressed. The question of remedies is treated below.

In various patent infringement cases in which the sale of a patented machine by the patentee is involved, courts have used language which is broad enough to cover the present situation. For example, in Henry

88 Rhodes v. Ashurst, 176 Ill. 351, 52 N.E. 118 (1898); Walker on Patents, Deller ed., 1492 (1937).
v. A. B. Dick Company\textsuperscript{41} the Supreme Court states that the purchaser “has a right to assume, in the absence of knowledge, that the seller passes an unconditional title to the machine, with no limitations upon the use.”\textsuperscript{42} The possibility of adverse patents was not considered, and it is clear that the language was not intended to have any reference thereto but only to patents of the seller under which the device was sold. This line of decisions is mentioned chiefly to guard against its being misinterpreted.

IV

 IMPLIED WARRANTIES OF NON-INFRINGEMENT BY STATUTE

A. \textit{Under the Uniform Sales Act}. No decision has been found with respect to the doctrine of implied warranty of non-infringement under the Uniform Sales Act in this country. Except for the General Chemical Company case\textsuperscript{43} which did not mention the act, all of the cases cited were prior to the act. The identical wording of the pertinent portions of our Uniform Sales Act is found in the British “Sale of Goods Act.” It should be noted that, although the wording is identical, the British Act was not subdivided by headings as is the Uniform Sales Act. Accordingly, the heading “Implied Warranties of Title” in the Uniform Sales Act is one factor adverse to the implied warranties of non-infringement which are not present in the two British decisions on the point.

\textit{Monforts v. Marsden.}\textsuperscript{44} This case involved a patented medicine, the use of which had been enjoined as infringing another patent. Without any very satisfactory discussion, the court held that the implied warranty of the right to sell was controlling and that there was a breach of warranty in view of the infringement of an adverse patent. It should be noted that this case, though later overruled, was the only case interpreting the statutory wording in question at the time that this wording was adopted in the United States.

\textit{Niblett, Limited v. Confectioners\textsuperscript{3} Materials Company, Limited.}\textsuperscript{45} In this case, the goods in question bore an infringing trade-mark brand which the buyer had to remove before he could get the goods from the customs, the goods having been imported. It was held that the implied warranty of a right to sell the goods did not imply that they would be free of infringement of trade-marks, even though the contract of sale mentioned the particular brand names in question. It should be

\textsuperscript{41} 224 U.S. 1, 32 S.Ct. 364 (1912).
\textsuperscript{42} Id. at 26.
\textsuperscript{43} Discussed p. 940, supra.
\textsuperscript{44} 12 Pat. Cas. 266 (1895).
\textsuperscript{45} [1921] 3 K.B. 387, 90 L.J.K.B. 984.
noted that although this case seems to be a clear authority against the doctrine of implied warranty of non-infringement of patents, there is one weak point. This is that, after all, the seller did have the right to sell the goods (without the trade-mark), but if a patent had been infringed instead of trade-mark rights, the seller would not have had the right to sell the goods. However, the decision does not seem to rest so much on this distinction as on the theory that the implied warranty set forth in the Uniform Sales Act was not intended to be anything but an implied warranty of title.

B. Under the Proposed Uniform Revised Sales Act. Due to the able efforts of Professor Karl N. Llewellyn, to whom much of the foregoing analysis had been submitted, the question has been greatly clarified in the proposed official Uniform Revised Sales Act by which the Commissioners on Uniform State Law propose to revise completely the old Uniform Sales Act. The provisions, with respect to infringement, have been combined with those respecting title, but a special wording is used which in the case of warranty against infringement gives the necessary flexibility to take care of the different situations. The wording is as follows:

"SECTION 36. WARRANTY OF TITLE AND AGAINST INFRINGEMENT.

"(1) Unless otherwise agreed there is in a contract for sale a warranty by the seller that . . .

"(b) the goods shall be delivered free from any mortgage, lien, or encumbrance of which the buyer at the time of contracting has no knowledge and also except in cases where the circumstances place such risk upon the buyer free from any rightful claim of any third person by way of infringement or otherwise." 45a

It is probable that the foregoing wording will be completely adequate in the great majority of instances when the question of warranty of non-infringement arises. It would appear to cover both patent infringement questions and trade-mark infringement questions. All previous dangers resulting from the effort to include warranties of non-infringement with warranties of title have been completely avoided by adding, with respect to infringement questions, "except in cases where the circumstances place such risk upon the buyer."

There are at least two defects in the foregoing wording, and quite possibly the project has progressed too far for these inadequacies to be overcome. It should be noted, however, that these inadequacies are in

45a The language of this proposed section is quoted from a letter written by Professor Karl Llewellyn and has not heretofore been published. Other quotations from the act are from Uniform Revised Sales Act: Proposed Final Draft No. 1, American Law Institute (1944).
the nature of gaps not covered by the wording rather than being any unsatisfactory results caused by the wording.

The first gap which is not covered relates to patents issued after the sale. The proposed wording merely states that the goods shall be delivered free from claims of infringement. Hence, if a patent issues subsequent to delivery, this would not appear to be a breach of warranty although it will be just as painful to the purchaser as if the patent had issued prior to delivery. With the Patent Office understaffed and far behind, this question may be of tremendous importance in the next few years, although even in ordinary times the more important patents are likely to be granted only after at least two or three years of prosecution in the Patent Office.

It might seem at first that a seller cannot be expected to warrant that no patents will issue covering his product, inasmuch as he has no way of knowing what patents are about to issue, the patent applications being strictly secret. The further warranty is at least controversial and probably should not be added now. On the other hand, someone must take this risk. In instances where express warranties of non-infringement are required by purchasers, they commonly include a warranty against patents which may issue after delivery. Inasmuch as someone must take the risk, it probably should be borne by the seller when he is in the business of regularly manufacturing a particular product. To the same extent that he is the one who should be expected to bear the expense of infringement search and legal advice, it is also more reasonable to expect him to be the one to calculate the chances which he is taking with respect to infringement of future patents. Usually, he cannot be sure, but often he does know that he is coming quite close to a competitor's development which is recent enough so that patents may be about to issue.

At the very least, there should be an implied warranty that he does not know of any circumstances not known to the buyer indicating the likelihood of the issuance of patents which would be infringed.

The other inadequacy of the proposed wording of the Uniform Revised Sales Act is that it does not take care of the situation in which the product is especially designed for one particular purpose. If a manufacturer sells a fuel-saving attachment with instructions describing how to apply it to an automobile, there is probably just as much reason for his warranty that when installed it will not infringe as his warranty that when he delivers it it does not infringe. The two questions do not necessarily have the same answer. For technical reasons, it is quite often necessary that the claims of the patent, which determine the scope of the patent, be combination claims. In the example mentioned,
they would be infringed only by the combination of an internal combustion engine and the fuel-saving device. Hence, the attachment as delivered would not infringe the claims, but the combination, once the attachment was installed, would infringe the claims.

Perhaps these questions arise rarely enough so that it is better not to encumber the Uniform Revised Sales Act by a wording which would be sufficiently complex to cover all situations. On the other hand, it is probable that unless the act clearly provides for a warranty against infringement of subsequently issued patents, careful purchasers will quite commonly decide it is necessary to include an express warranty. It obviously would be desirable for the act to be such that the addition of express warranties would rarely be necessary. Perhaps it is even more clearly desirable that the act protect the casual purchaser to the same extent that a prudent purchaser having adequate legal advice finds it necessary to protect himself.

C. Suggested Statutory Provision. As a starting point for any who may, in the future, work on the problem of a suitable wording, the following provision is suggested:

To the extent that the sale of the goods is, in all material respects, a part of the regular business of the seller and does not represent a departure therefrom at the buyer’s instigation, the seller warrants, except as the contrary may appear, that the goods as sold and any uses for which they are peculiarly designed and regularly sold by the seller will, at the time of delivery be free from patent and trade-mark infringement, and that he knows of no material circumstances not known to the buyer which are likely to give rise subsequently to such infringement.

D. Statutory Remedies for Breach of Warranty of Non-Infringement. Closely related to the question of whether or not there is a warranty is the question of the extent of remedy provided when the warranty turns out to have been unfounded, generally referred to as remedies for breach of warranty. Perhaps the extent to which these remedies go can best be indicated by quoting from the Proposed Uni-

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46 This wording is intended to preserve the warranty if a change made at the instigation of the buyer has no bearing on the question of infringement.
47 The departure could be a change in construction or a change in territory of sale. The device or trade-mark which is legal here might be an infringement in a foreign country.
48 I am somewhat doubtful about including any uses. If included, they must be very narrowly defined.
49 Although manufacturers quite often agree to indemnify customers even as to patents issuing subsequent to the delivery, it is believed that would be going too far for an implied warranty, especially when most patent lawyers think there has been no implied warranty of non-infringement heretofore.
form Revised Sales Act of 1944 as published by the American Law Institute.

“SECTION 103. REMEDIES TO BE LIBERALLY ADMINISTERED.

“(1) The remedies provided by this Act shall be liberally administered to the end that the aggrieved party may be put in as good a position as if the other party had fully performed.”

“SECTION 116. BUYER’S DAMAGES FOR BREACH IN REGARD TO ACCEPTED GOODS.

“(1) Where goods have been accepted and notice has been given under subsection 3 of Section 97 the buyer may recover damages for any non-conformity. The measure of such damages shall be the loss resulting in the ordinary course of events from the seller’s breach as determined in any manner which is reasonable.

“(2) In the case of breach of warranty the measure of damages is the difference at the time and place of acceptance between the value of the goods accepted and the value they would have had if they had been as warranted, unless special circumstances show proximate damages of a different amount.

“(3) In a proper case any incidental and consequential damages under Section 117 may also be recovered.”

“SECTION 117. BUYER’S INCIDENTAL AND CONSEQUENTIAL DAMAGES.

“(1) Incidental damages resulting from the seller’s breach include expenses reasonably incurred in inspection, receipt, transportation and care and custody of goods rightfully rejected, any commercially reasonable charges, expenses or commissions in connection with effecting cover and any damages from delay or otherwise resulting from the breach.

“(2) Consequential damages include

“(a) any loss resulting from general or particular requirements and needs of which the seller at the time of contracting had reason to know if the loss cannot be reasonably prevented by cover or otherwise....”

“SECTION 120. IMPLEADER BY BUYER. A buyer sued for any

50 This subsection reads as follows:

“(3) When a non-conforming tender has been accepted the buyer must within a reasonable time after he knows or should have known of the breach give the seller notice of breach or be barred from any remedy. The burden is on the buyer to establish any breach with respect to the goods accepted.”

It is to be hoped that the official comments will make clear that this is intended to require giving the seller prompt notice of a claim of infringement and also prompt notice of any subsequent developments, such as a filing of a suit. The official comments are made almost a part of the act by a reference thereto in section 1.
breach against which his seller has warranted to hold him harmless under Section 40 may implead his seller (in like manner and with like effect as is or may be provided in the Federal Rules of Civil Procedure) and any person so impleaded may in turn implead his warrantor."

Probably the most interesting question which arises from the foregoing is the question of whether the quoted section 117 (2) (a) would permit the recovery by the buyer of lost profits which might be many times the purchase price paid for the goods. Perhaps the question will not arise too frequently because in such situations it is often possible to make some other arrangements. Indeed, the section referred to would permit the recovery only if the loss "cannot be reasonably prevented by cover or otherwise." The word "cover" includes buying substitute products which meet the requirements.

In the case of a notice of infringement, the buyer may be in a ticklish position. He cannot readily determine whether the notice of infringement is well founded or not. If he yields to the claim of infringement and puts himself to expense either by paying the patentee for release or by buying the patentee's products, he will then be unable to recover from the seller without proving that the patentee's charge of infringement was well founded. If the buyer decides to defend himself and loses, he can include the cost of defense, including reasonable attorney's fees, in his suit against the seller under the warranty. But if he wins the suit, perhaps as a result of even greater expense for attorney fees and the like, it is doubtful if he can recover anything because there has been no breach of warranty. He has proved that the claim which he has thus expensively resisted was not a "rightful claim."

The buyer's dilemma will not usually be as bad as it sounds because he will usually be able to put the problem up to the seller and act accordingly. In communicating with the seller, it would be on the side of caution to make clear to the seller the loss which would be involved for such influence as this may have on a court in deciding that the seller at the time of contracting had knowledge of the "general or particular requirements and needs."

A case which fairly indicates the nature of the buyer's rights is McConkey Realty Corporation v. Wildermuth. In this case the court stated:

"Possession may be surrendered to a paramount title, in which case, however, the plaintiff, in seeking to recover on the warranty, must prove that the title to which he yielded was superior to that which he received from the defendant [citing cases]."

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"... if after giving the vendor the opportunity to defend him, he defends himself in good faith, he may collect any costs awarded against him as an element of damage in the action on the breach of warranty.

"... Applying the principles to a warranty in the assignment of a chose in action, we find that the assignee, in case he resorts in good faith to legal proceedings to collect the assigned claim and is defeated, may recover his expenses from his assignor in the action for breach of the warranty."

An example of an instance in which the buyer's attorney's fees were included in the damages for defending himself against a third party, which he recovered from the seller, is the case of *St. Anthony & Dakota Elevator Company v. Dawson* involving implied warranty of title to grain. Here the court held:

"For these reasons, the appellant is entitled to recover from the defendants the amount of the judgment recovered against it . . . together with the sum of $150 as attorney's fees, with interest thereon from the date of said judgment."

That the courts will not confine the damages awarded a buyer to the purchase price seems clear. It is quite common to award damages for physical injury due to condition of food, relying on an implied warranty for merchantability.

In *Austin Company v. Tillman Company* the buyer was allowed a total of over $10,000. He had paid only about $1,400. It should be noted, however, that the award here was not several times the contract price because this price was $8,700 even though the buyer had paid but a small part of it.

Lest it be assumed that the courts are quite ready to grant such high damages, it should be noted that with respect to loss of profits, it has been said that "... where the damage greatly exceeds the purchase price, it must clearly appear that the parties contemplated that the seller would be responsible for such loss... or it will not be allowed."

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52 Citing Schnurmacher v. Kennedy, 88 N.Y.S. 943 (1904); 35 Cyc. 480.
54 20 N.D. 18, 126 N.W. 1013 (1919).
55 Id. at 25.
56 For example, see-Ganoung v. Daniels Reeves, Inc., 149 Misc. 515, 268 N.Y.S. 325 (1933).
57 104 Ore. 541, 209 P. 131 (1922).
In view of the possible recovery by the buyer from the seller of profits greatly in excess of the selling price and many times in excess of the seller’s possible profits from the sale, the seller may quite frequently desire to limit his possible liability. Some sellers have already had clauses expressly indicating the extent of their liability in regard to warranties for non-infringement. Before relying on such clauses to accomplish the desired purpose, consideration should be given to the following section in the Proposed Uniform Revised Sales Act:

“SECTION 123. CONTRACT TERMS LIMITING REMEDY. A contract term substantially limiting the buyer’s remedies to the return of goods and repayment of the price or to the repair or replacement of non-conforming goods or parts is valid except when and to the extent that it deprives the buyer of the substantial value of the goods contracted for or of the use and disposition for which the seller at the time of contracting had reason to know they were being procured."

It is quite possible that there will be many instances in which such a limitation would be deemed to deprive the buyer of the substantial value of the goods contracted for so that under this section the attempted limitation on the seller’s liability would be invalid, if governed by the proposed act.

E. Effect of New Act on Interpretation of Old. Perhaps it is so impossible, from a logical standpoint, for a new act to affect the interpretation of the old that this discussion will seem entirely unjustified. However, it appears that the interpretation of the old act is likely to be more of a psychological than a logical problem inasmuch as a court is likely to find itself completely lost or unsatisfied from a logical standpoint. Psychologically, if not logically, it would seem that the fact that the Uniform Commissioners have included the word “infringement” in the heading of section 36, now that they have intentionally brought infringements within this section, might be some indication that in the old Uniform Sales Act where the heading of the corresponding section has no reference to infringement, there was no intention that it should have any bearing on infringement.

This might seem to leave a court completely powerless to find a warranty under the act where it believes a warranty should be found. The logical consideration that an interpretation of this rigid section to provide implied warranties of non-infringement would produce a lack of flexibility which would be very unjust in some instances would also lead the court to look elsewhere than under warranties of title for a warranty of non-infringement.
Under the old Uniform Sales Act, it is probable that a better place to read such a warranty into the act is under section 15, Implied Warranties of Quality. Paragraph 2 of this section reads as follows:

“(2) Where the goods are bought by description from a seller who deals in goods of that description (whether he be the grower or manufacturer or not), there is an implied warranty that the goods shall be of merchantable quality.”

It will be observed that if a warranty of non-infringement is found within this clause, it applies only to a seller who deals in “goods of that description.” With respect to warranties of non-infringement, these words should probably be interpreted very strictly. If the goods sold differ from the goods regularly sold by the seller in any manner which is significant with respect to the question of infringement, the paragraph could be held not to be applicable.

By this suggestion, it is not intended to indicate that this would be a fit solution to the problem. There may be many instances in which a warranty of non-infringement should be enforced which do not come within the terms of the quoted paragraph. Furthermore, from a logical standpoint, it is very unsatisfactory to stretch this paragraph to include warranties of non-infringement. The paragraph clearly refers to the quality of the goods, not to legal questions. It is quite awkward to say that a particular product which clearly would be of merchantable quality if it had been sold by one person, namely the patentee, is not of merchantable quality when it is sold by someone else.

**Conclusion**

From the standpoint of a reasonably satisfactory determination of this question, it may be hoped that the proposed Uniform Revised Sales Act will be generally adopted quickly for there at last will be an express provision for an implied warranty of non-infringement with the flexibility necessary to prevent its application in improper cases. In the meantime, we have the dangerous precedent of cases which state no limits on the warranty, are ill considered, and stem from *Carmen v. Trude* which showed no consideration of the problem except to rely on a case having no real bearing on it.

60 See p. 936, 937, supra.