



UCC SECTION 2-312 WARRANTY AGAINST INFRINGEMENT

RKO-Stanley Warner Theatres, Inc. sold some equipment to the lessees of the basement of its building. Included in the Bill of Sale were the following terms:

“It is expressly understood and agreed that the Seller shall in nowise be deemed or held to be obligated, liable, or accountable upon or under guaranties [sic] or warranties, in any manner or form including, but not limited to, the implied warranties of title, merchantability, fitness for use or of quality.”

When the purchasers of the equipment discovered that they did not have good title to the equipment, they sued the theater company for breach of warranty of title and for fraudulent misrepresentation of the nature of the interest in the equipment. In a jury trial, the plaintiff was awarded \$13,500. The Superior Court of Pennsylvania affirmed, since it found that the contractual language was not sufficient to disclaim the warranty of title.

This article analyzes the Uniform Commercial Code provisions that address the issue of noninfringement. Part I examines the applicable sections and analyzes how they work together. Part II discusses what is covered through the implied warranty of noninfringement. Part III then analyzes what is not covered under the implied warranty. Part IV addresses how to draft around the Code. Practical considerations for both buyers and sellers are discussed in Part V.

PART I THE UNIFORM COMMERCIAL CODE— APPLICABLE PROVISIONS

The Uniform Commercial Code, (“U.C.C.”), where adopted by individual states, covers the sale of goods, both by merchants and by other types of sellers. The specific provisions of the Code lay out guidelines—which generally are the default rules unless they are contracted around—for various sales-related issues, such as terms of the contract, writing requirements, and implied warranties. Two sections that are especially relevant to intellectual property related liability in the sale of goods are § 2-312 and § 2-316.

A. § 2-312(3)

One of the key sections to both parties in a contract for the sale of any intellectual property is U.C.C. § 2-312, which addresses the issue of infringement. § 2-312(3) states that:

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.

The drafters, in the comments following this section, specifically included patents and trademarks in the scope of the coverage.

Although copyrights are not mentioned, it is likely that they would be included as well. In fact, the court for the Southern District of New York held that “[t]he policy underlying [§ 2-312(3)]—that a merchant who regularly deals in like goods has a duty to ensure that no claim of infringement by a third party mars the buyer’s title—applies equally well to claims of copyright infringement.”¹ Because of the broad scope of § 2-312, it is important to consider what contracts for the sale of any intellectual property fall within the scope of the U.C.C. If the sale is covered, then the issues associated with an implied warranty of noninfringement must be addressed.

B. § 2-316

To make matters more confusing, § 2-316(3)(a) of the U.C.C. states that “unless the circumstances indicate otherwise, all implied warranties are excluded by expressions like ‘as is,’ ‘with all faults,’ or other language which in common understanding calls the buyer’s attention to the exclusion of warranties and makes plain that there is no implied warranty.” This section seems to suggest that “as is” disclaims all implied warranties—including the implied warranty of noninfringement, unless “circumstances indicate otherwise.”

C. Combining the Two Sections

These two sections are the only guidance throughout the Code as to how to address the issues of noninfringement and how to disclaim any implied warranties made through § 2-312(3). Read together, they suggest that “as is” would be an easy way to disclaim any implied warranties, including noninfringement warranties. However, that is not the case.

Rather, sellers must specifically exclude any liability for claims of potential infringement in order to be protected. How exactly to achieve an effective disclaimer, therefore, is a crucial consideration and must be examined carefully before the drafting of any contracts, whether they are for patents, trademarks, or copyrights.

PART II WHAT IS COVERED

¹ *Dolori Fabrics, Inc. v. The Limited, Inc.*, 662 F. Supp. 1347, 1358 (S.D.N.Y. 1987).



Generally, the U.C.C. provisions apply to all transactions relating to the sale of goods. However, the section on the implied warranty of noninfringement does not apply to all sellers. Rather, § 2-312(3) only applies to sellers who are merchants, who do not receive specifications from the buyer, and who have not otherwise agreed as to who is the responsible party in any third-party infringement claims. Although the provision seems straightforward, courts have provided little guidance as to how the Code would impact the sale of intellectual property.

A. Merchant

The first requirement is that the seller must be a “merchant.” A merchant is defined as one 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.”² This means that, for example, a neighbor selling a car would not be a merchant but a used car dealer would be under the definitions laid out in U.C.C. § 2-104.

B. Goods of the Kind

The merchant must further be selling “goods of the kind.” He, therefore, must be selling products out of his regular inventory.

C. Not Specified By Buyer

All goods within the meaning of Article Two of the U.C.C. are covered unless they are designed according to the buyer’s specifications. It is important, therefore, to carefully document how much instruction is given in order to determine whether or not the buyer provided the specifications.

D. Not “Otherwise Agreed”

Another key requirement is that the buyer and seller must not have “otherwise agreed.” Courts have not been clear on the wording that is required for the parties of the contract to circumvent § 2-312(3). Since § 2-207 of the U.C.C. allows for additional terms to be part of the contract between merchants (commonly referred to as the “battle of the forms”), any extra terms can greatly affect the outcome in a third-party lawsuit. So far, courts have not addressed additional terms, which would be part of a contract between merchants unless promptly objected to. It is, therefore, important to have clients respond quickly to any additional terms, so as to prevent the new provisions from being incorporated into the contract.

PART III WHAT IS NOT COVERED

² § 2-104(1).



The Code provisions are somewhat clearer as to what is not covered. The U.C.C. provisions do not affect any sales not involving goods. Moreover, the parties can “otherwise agree” to provisions. Since the U.C.C. is a set of default rules, if the seller and buyer so agree, then the provisions laid out in the contract will govern. Moreover, under § 2-316, “circumstance” can affect the impact of the U.C.C. on the contract. The Code further specifies that buyer specifications will, in effect, counter any implied warranty of noninfringement. Also, subsequent infringing use by the buyer will not be covered under the auspices of § 2-312.

A. Anything Other than Goods

Because the U.C.C. only applies to transactions involving the sale of goods, services are not covered. It is potentially uncertain whether or not software would be covered in all circumstances, since the majority of courts have applied the U.C.C. to situations where the service component is incidental.³ Assuming that software falls within the province of the U.C.C., then contracts for the sale of computer code must also address the implied warranties of noninfringement.

B. “Otherwise Agreed” in the Contract

The courts have sparsely addressed the circumstances under which parties have “otherwise agreed” regarding liability for potential infringement. In *Bonneau Co. v. AG Industries, Inc.*, the Fifth Circuit addressed such a provision.⁴ Bonneau, Inc., (“Bonneau”), a manufacturer and distributor of non-prescription reading glasses, wanted to use a “hang-tag” system to display the frames in its stores. AG Industries, Inc., (“AGI”), constructed the display stand for Bonneau. When Bonneau got sued for patent infringement related to the hang-tag system, the company, in turn, sued AGI for breach of warranty, alleging that AGI warranted that the goods were delivered free of any rightful claims of infringement.⁵

³ Toedt, D.C., *Software Licensing*, 507 PLI/Pat 9 (1998). “Most courts have a strong inclination to deem software licenses as being governed by Article 2 of the U.C.C. Applying a ‘predominant element’ test, they examine the transaction in its entirety to identify its most significant element.” *Id.* See, e.g., *Advent Systems Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991); *RRX Industries, Inc. v. Lab-Con, Inc.*, 772 F.2d 543 (9th Cir. 1985); *Neilson Business Equipment Center, Inc. v. Monteleone*, 524 A.2d 1172 (Del. 1987); *I.Lan Systems, Inc. v. Netscout Service Level Corp.*, 183 F. Supp. 2d 328 (D. Mass. 2002). See also Stephen J. Sand, *Annotation, Validity, Construction, and Application of Computer Software Licensing Agreements*, 38 A.L.R. 5th 1 (1996). For a contrasting holding, that custom software development contracts were services and not within the provinces of the U.C.C., see, for example, *Micro-Managers, Inc. v. Gregory*, 434 N.W.2d 97, 100 (1988).

⁴ 116 F.3d 155 (5th Cir. 1997).

⁵ *Id.* at 156.



The Northern District of Texas Court granted summary judgment for AGI based on two theories: first, that the parties “otherwise agreed” to a different warranty provision; and second, that Bonneau furnished the specifications.⁶ The Fifth Circuit, however, rejected the lower court’s determination that the parties “otherwise agreed.”⁷ In making its decision, the Fifth Circuit analyzed a clause of the contract that was relied on heavily by the district court. The price quotations submitted by AGI to Bonneau explicitly stated that the “Purchaser assumes liability for patent and copyright infringement when goods are made to Purchaser’s specifications.”⁸ Applying the standard it thought the Texas Supreme Court would follow,⁹ the Fifth Circuit court determined that “the mere recitation of the statute is insufficient to alter the parties’ relationship with respect to limitation of liability for patent infringement.”¹⁰ The court, therefore, rejected the district court’s decision regarding the “otherwise agreed” aspect.¹¹

The Court of Appeals of North Carolina, however, reached a somewhat different conclusion in its decision regarding an “otherwise agreed” provision. In *MAS Corp. v. Thompson*,¹² Mr. Siddiqui, (“Siddiqui”), owner of a Holiday-West motel, hired Mr. Thompson, (“Thompson”), to manufacture two new signs for the Holiday-West motel. The signs, however, looked similar to those of Holiday Inn’s signs. Holiday Inn subsequently sued Siddiqui for trademark infringement. When Siddiqui was found to infringe on Holiday Inn’s trademark, he stopped making the payments he owed Thompson under the contract, claiming that the contract had been breached.¹³ The trial court granted Thompson’s motion for directed verdict, but denied Siddiqui’s motions

⁶ *Id.* at 156.

⁷ *Id.* at 159.

⁸ *Id.* at 157. The district court further relied on the fact that the purchase orders sent by Bonneau to AGI did not dispute the language included in the price quotations.

⁹ “Because we sit in diversity, we must apply Texas law, mindful that in making an *Erie* rule guess, ‘we are emphatically not permitted to do merely what we think best; we must do that which we think the [Texas] Supreme Court would deem best.’” *Id.*, citing *Jackson v. Johns-Manville Sales Corp.*, 781 F.2d 394, 397 (5th Cir. 1986).

¹⁰ *Id.*

¹¹ The Fifth Circuit, however, upheld the district court’s granting of summary judgment to AGI on the grounds that Bonneau provided AGI with the specifications for the reading glass display case.

¹² 302 S.E.2d 271 (N.C. App. 1983).

¹³ *Id.* at 273.



for summary judgment and for directed verdict. The appellate court upheld the lower court's decisions.¹⁴

In affirming the grant of a motion for directed verdict to Thompson, the court of appeals considered a contract that included as one of its terms: "It is understood that sections of the above described sign will be from former sign, used so as not to infringe on Holiday Inn trade-mark."¹⁵ The North Carolina appellate court held that the U.C.C.-based statute did not apply because "the parties agreed that Siddiqui would be liable for any infringement. Even if it is unclear what, precisely, was 'otherwise agreed,' the statute only applies if nothing was said as to liability, and the other conditions are fulfilled."¹⁶ Based on this reasoning, the appellate court determined that Siddiqui and Thompson had addressed the issue of infringement and, therefore, that the U.C.C. provision did not apply.¹⁷

Based on these two cases, it is clear that parties can "otherwise agree," thereby avoiding an implied warranty of noninfringement. However, what wording is required is a quagmire that courts have not resolved.

C. Circumstances

It is important to note that there may be an important difference between "circumstances" in noninfringement cases and in warranty of title cases. *American Jurisprudence 2d* suggests that, unlike title cases, noninfringement cannot be excluded by "circumstances," as suggested by § 2-312(3).¹⁸ "The warranty against infringement may be excluded by agreement. Unlike the warranty of title, it is not indicated by the Code as capable of being excluded by circumstances, unless such circumstances are part of the agreement."¹⁹

The Illinois Appellate Court briefly addressed the issue of circumstances that could exclude the warranty of title of a sale of goods in *Rockdale Cable T.V. Co. v Spadora*.²⁰ Rockdale Cable T.V. Co., ("Rockdale"), contracted with Mr. Spadora, ("Spadora"), to buy a cable television site, including the cable equipment. A dispute

¹⁴ *Id.* at 273-74.

¹⁵ *Id.* at 275.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ 18 Am. Jur. 2d *Sales* § 840 (1985).

¹⁹ *Id.*

²⁰ 423 N.E.2d 555 (Ill. App. 1981).



arose over precisely what headend electronic equipment was included in the bill of sale.²¹ A conversation between Spadora and Mr. Kraus, (“Kraus”), the agent for Rockdale, allegedly occurred before the contract was formed, in which Spadora told Kraus that the equipment sold to Rockdale under the terms of the contract would only be the equipment not bought by other parties. The circuit court, relying on this conversation that was unobjected to during trial, found that Rockdale was on notice that it was only getting leftover equipment. The appellate court agreed.²²

“Specific language is not the only method of excluding a warranty of title from the sale of goods.”²³ The appellate court looked, instead, to the circumstances giving rise to Rockdale’s knowledge as to what rights Spadora had as the seller. “If there are ‘circumstances which give the buyer reason to know that the person selling . . . is purported to sell only such right or title as he . . . may have,’ then the buyer cannot be heard to complain that he received less than he bargained for.”²⁴ Based on this analysis, the appellate court found that the conversation regarding the sale of the equipment “clearly put[] Rockdale on notice that Community was selling only such right and title in the headend equipment as it had after the sale to City.”²⁵ The appellate court, therefore, found that the circumstances surrounding the sale put Rockdale on notice and the contract was, accordingly, not breached.

D. Buyer Specifications

Courts have not really addressed what constitutes specifications from the buyer. In *Bonneau*,²⁶ the court addressed the issue of which party provided the specifications for the display system for reading glasses. The court relied heavily on the fact that solely Bonneau employees participated in the creation of the initial design.²⁷ Moreover, that design ultimately became the display system.²⁸ “[W]ithout the hang-tag specification

²¹ *Id.* at 557. Headend electronic equipment is “that equipment necessary to make the cable television tower functional.” *Id.*

²² *Id.* at 558. The appellate court found that the bill of sale was not specific enough to disclaim the warranty of title.

²³ *Id.*

²⁴ *Id.* The appellate court cited Ill. Rev. Stat. 1979, ch. 26, par. 2-312(2).

²⁵ *Id.*

²⁶ *Bonneau*, 116 F.3d at 155.

²⁷ *Id.* at 158.

²⁸ *Id.*



Bonneau furnished to AGI, Bonneau’s Slide-Hook system would be nonexistent.”²⁹ The court, therefore, concluded that Bonneau’s design “contain[ed] sufficient specificity for a competent manufacturer to construct the product, and thus, constitute[d] a ‘specification’ pursuant to § 2-312(c).”³⁰

The Southern District of New York court addressed the extent of specificity required by the buyer to waive § 2-312 in *Jack Frost Labs., Inc. v. Physicians & Nurses Mnfg. Corp.*³¹ Jack Frost Laboratories, Inc., (“Jack Frost”) sued Physicians & Nurses Manufacturing Corporation, (“P&N”) for the infringement of the patents associated with microwavable hot/cold gel packs. P&N, in turn, filed a third-party complaint against Pfizer, Inc., (“Pfizer”), and Prescribed Marketing, Ltd., (“Prescribed”), for contribution and indemnification.³² The New York court granted summary judgment to Pfizer and Prescribed.

P&N based its claim for indemnification on N.Y. U.C.C. § 2-312(3), since Pfizer and Prescribed specified the size and color of the gel packs and that the gel packs be microwavable.³³ Because “[n]o state or federal court has addressed the issue of what degree of ‘specification’ by a buyer is necessary to trigger a buyer’s indemnity against a claim of infringement,”³⁴ the court looked to the plain language of the statute. Regarding the specifications of color and size, the court found that “Jack Frost’s claim against P&N for patent infringement does not arise from the color or size of the gel packs. Therefore, the fact that Pfizer and Prescribed furnished those specifications does not require the buyers to indemnify the seller under Section 2-312(3).”³⁵ Furthermore, the specification of microwavability did not give rise to liability because it was P&N that chose the composition of the film for the gel packs, which was the issue in the patent infringement suit.³⁶ Because Pfizer and Prescribed were in no better position to know about Jack Frost’s patents, the court held that “Pfizer and Prescribed cannot be

²⁹ *Id.* The court noted that determining otherwise “would nullify the import of § 2-312(c), and allow buyers to avoid liability by simply employing another party to build the specific product and subsequently assert that, because the other party constructed the product, the buyer must always be indemnified.” *Id.* at 158-59.

³⁰ *Id.*

³¹ 35 U.S.P.Q. 2d (S.D.N.Y. 1995).

³² *Id.* at *1-2.

³³ *Id.* at *6-7.

³⁴ *Id.* at *7.

³⁵ *Id.*

³⁶ *Id.* at *8.



viewed as buyers who must hold the seller harmless against the infringement claim of a third person under N.Y. U.C.C. § 2-312(3)."³⁷

E. Subsequent Use

§ 2-312 of the U.C.C. does not cover subsequent use by the buyer. In *Chemtron, Inc. v. Aqua Products, Inc.*,³⁸ the Eastern District Court of Virginia addressed a case involving infringement through the subsequent use of detergent dispensers and disposable plastic caps. When Chemtron, Inc., ("Chemtron"), sued Aqua Products, Inc., ("Aqua"), for patent infringement, Aqua claimed that Viking Injector Company, ("Viking"), the seller of component parts, was responsible for contribution and indemnification to Aqua.³⁹ The court granted Viking's motion to dismiss, since Viking's components were themselves non-infringing.⁴⁰

The court stated that § 2-312 "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 . . . should not be entitled to purchase goods from a seller, . . . which are not subject to any infringement action, use the non-infringing device and incur liability to a third-party patentee . . . and then turn around and attempt to impose liability on the original seller of the component parts."⁴¹ Because Viking's components were "delivered free from any third party complaints against infringement,"⁴² the court granted the 12(b)(6) motion to dismiss.⁴³

The Northern District of Texas court reached a similar decision in *Motorola, Inc. v. Varo, Inc.*⁴⁴ Motorola, Inc., ("Motorola"), sued Varo, Inc., ("Varo"), for patent infringement of Motorola's process for making germanium semiconductor devices.⁴⁵ Varo, however, claimed it was entitled to indemnification from Hunt Chemical

³⁷ *Id.*

³⁸ 830 F. Supp. 314 (E.D. Va. 1993).

³⁹ *Id.* at 315.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.* at 316.

⁴³ *Id.*

⁴⁴ 656 F. Supp. 716 (N.D. Tex. 1986).

⁴⁵ *Id.* at 717.



Corporation, (“Hunt”), and Eastman Kodak Company, (“Kodak”), third-party suppliers of the photoresist, based on an implied warranty of infringement.⁴⁶

In its defense against claims of infringement by Motorola, Varo claimed that Hunt, as a seller of the photoresists, induced Varo to infringe in a process that violated the process patent.⁴⁷ Varo alleged in its complaint that “[a]s a proximate result of HUNT’S specific instruction and inducement, VARO relied upon those instructions and used the resins manufactured, sold, and distributed by HUNT in the process of forming photoresist patterns specifically described by HUNT in both of its oral and written instructions.”⁴⁸ In considering Varo’s argument, the court noted that “Varo does not complain that the chemical, the photoresist, itself, violates any part of the ‘550 patent. The allegation is purely that Varo was induced to use the photoresist in a process that violates the teachings of the ‘550 patent, a process patent.”⁴⁹ According to the court, however, “[t]his 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.”⁵⁰ “There is no warranty that a buyer’s use of the good will be free of all infringement.”⁵¹ Accordingly, the court granted the motions for summary judgment.⁵²

PART IV DRAFTING AROUND § 2-312

Courts have not specifically addressed the issue of the wording that would be necessary in a contract to disclaim the implied warranty of noninfringement that is, under certain circumstances, inherent in U.C.C. § 2-312. They have, however, addressed a similar issue regarding the implied warranty of title. Courts have considered some of the requirements that are necessary in order to disclaim the warranty of title.

⁴⁶ *Id.* at 717-18. The court granted Kodak’s motion for summary judgment based on the statute of limitations. Varo had not delivered any photoresists to Kodak in over four years. Since the statute of limitations was four years and there were no future warranties provided, Varo’s claim against Kodak was improper.

⁴⁷ *Id.* at 718.

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.* at 719. The court, moreover, noted that these claims were separate and apart from the claims for infringement and invalidity between Varo and Motorola. Accordingly, the judge ruled that the judgments for Hunt and Kodak would be final judgments.



A. Specificity in the Language

1. What is NOT Specific Enough

The language must be specific and unambiguous. In *Jones v. Linebaugh*,⁵³ for example, the Court of Appeals of Michigan found that disclaimer language was inadequate to disclaim the title of warranty implied in the contract for the sale of a Bugatti, an antique automobile.⁵⁴ Mr. Linebaugh, (“Linebaugh”), told Mr. Jones, (“Jones”), that Linebaugh did not have title to the car at the time. Jones, nevertheless, requested that Linebaugh get title before the completion of the sale. Jones later received a bill of sale for the car. He was sued two and a half years later by a third party who claimed title to the car. Jones, in turn, sued Linebaugh. The trial court granted summary judgment and dismissed the complaint to the Seller. The appellate court reversed, although it found that the bill of sale was not specific enough to exclude the warranty of title.⁵⁵

The appellate court looked to the wording in the bill of sale that was given to Jones when he purchased the car. The bill of sale stated that “to the ‘best of [the seller’s] knowledge there [was] no title in existence by way of registration with the State of Michigan or with any other State or with any Nation.”⁵⁶ The court relied on a dictionary definition of “specific,” which defined it to mean: “characterized by precise formulation . . . free from such ambiguity as results from careless lack of precision or from the omission of pertinent matter.”⁵⁷ Based on this definition, the court determined that the applicable language did not meet § 2-312(3)’s specificity requirement because the bill of sale was “not precise and free from ambiguity. Indeed, it would appear to convey to a reader an ambiguous connotation.”⁵⁸ The court held that “very precise and unambiguous language must be used to exclude a warranty so basic to the sale of goods

⁵³ 191 N.W.2d 142 (Ct. App. Mich. 1971).

⁵⁴ *Id.* at 143.

⁵⁵ *Id.* at 144. The appellate court held that summary judgment was not proper as to whether the buyer had “reason to know” the seller did not have title. Instead, the court remanded this issue as one of fact that could not be resolved through summary judgment.

⁵⁶ *Id.*

⁵⁷ *Id.*, quoting Webster’s Third New International Dictionary (Unabridged Edition, 1966).

⁵⁸ *Id.*



as is title.”⁵⁹ Because the bill of sale was not specific enough, Linebaugh was not excused from the implied warranty of good title.

The Superior Court of Pennsylvania addressed a warranty of title lawsuit over the sale of some recreational equipment in *Sunseri v. RKO-Stanley Warner Theatres, Inc.*⁶⁰ RKO-Stanley Warner Theatres, Inc., (“RKO-Stanley”), owner of a local theater in Johnstown, Pennsylvania, sold some equipment, which it received through the assignment from a former renter, to Mr. Sunseri, (“Sunseri”).⁶¹ When Sunseri lost the equipment in a claim of ownership suit, he in turn sued RKO-Stanley for breach of warranty of title.⁶² The trial court found for Sunseri, since it determined that there was no disclaimer of the breach of warranty of title.⁶³ The appellate court upheld the finding, stating that the language used in the contract was not sufficient to disclaim the warranty of title.⁶⁴

Relying on the *Jones* analysis, the appellate court analyzed the attempted disclaimer of the warranty by looking to the wording of the Bill of Sale. The document stated that the Seller “does hereby sell, assign, convey, transfer and deliver to Buyer any right, title and interest Seller may have in the following good and chattels. . . .”⁶⁵ The court found that “[t]he provision for sale of ‘any right, title, and interest’ is clearly not a positive warning or exclusion in regard to the status of title, and would be unlikely to offend or even catch the eye of an unsophisticated buyer.”⁶⁶

Moreover, the court determined that the language in the disclaimer of warranties was not specific enough.⁶⁷ Rather, the wording used was “couched in negative

⁵⁹ *Id.* at 144-145.

⁶⁰ *Sunseri*, 374 A.2d. at 1344.

⁶¹ *Id.* at 1343-44.

⁶² *Id.* at 1344.

⁶³ *Id.* at 1343-44.

⁶⁴ *Id.* at 1344.

⁶⁵ *Id.*

⁶⁶ *Id.* at 1345.

⁶⁷ As noted at the beginning of this article, the disclaimer stated that “It is expressly understood and agreed that the Seller shall in nowise be deemed or held to be obligated, liable, or accountable upon or under guaranties [sic] or warranties, in any manner or form including, but not limited to, the implied warranties of title, merchantability, fitness for use, or of quality.” *Id.* at 1344.



terminology, expressing what the seller will not be liable for rather than what the buyer is or is not receiving.”⁶⁸ RKO-Stanley’s “attempt to disclaim the warranty of title in its transaction with [Sunseri] was ineffective in that it failed to comply with the requirement, under the Uniform Commercial Code, that such a disclaimer be made in ‘specific language.’”⁶⁹ Accordingly, RKO-Stanley was liable to Sunseri.

Similarly, the appellate court of Illinois found that a disclaimer was too vague to exclude the warranty of title because of the language in the contract. In *Kel-Keef Enterprises, Inc. v. Quality Components Corp.*,⁷⁰ the lawsuit involved a disclaimer of title in a contract for the sale of some blueprints that were part of a printing press business. The blueprints were later found to belong to a third party.⁷¹ Kel-Keef Enterprises, Inc., (“Kel-Keef”), was found by the jury to have breached its contract. On appeal, the appellate court found that the lower court’s ruling was not against the manifest weight of the evidence.⁷²

The appellate court held that the language in the disclaimer referred exclusively to issues related to an ongoing lawsuit related to the blueprints. Although the wording effectively disclaimed warranties related to that suit, it was completely ineffective as a means to generally exclude title liability.⁷³ Because the agreement did “not focus on the title to any of the assets which the purchaser may or may not be receiving in the transaction, but rather focus[ed] on the liability of the seller,”⁷⁴ the court found that it was too vague and, accordingly, insufficiently specific.⁷⁵

2. What is Specific Enough

⁶⁸ *Id.* at 1345.

⁶⁹ *Id.*

⁷⁰ 738 N.E.2d 524 (Ill. App. 2000).

⁷¹ *Id.* at 527-28.

⁷² *Id.* at 530, 536.

⁷³ *Id.* at 536.

⁷⁴ *Id.*

⁷⁵ *Id.* See also *Rockdale Cable T.V. Co. v. Spadora*, 97 N.E.2d 555 (Ill. App. 1981). In *Rockdale Cable*, the court addressed the specificity requirement in the sale of some cable television tower equipment. The court found that language in the bill of sale stating that Seller only transferred the “right, title, and interest” he possessed was not enough to disclaim the implied warranty of title. “Precise and unambiguous language must be used to exclude a warranty of title, and the language in the bill of sale *sub judice* fails that test.” *Id.* at 558.



One court has relied on the issue of whether or not the disclaimer was conspicuous.⁷⁶ In *Landis and Staefa (UK) Ltd. v. Flair Intl. Corp.*,⁷⁷ the court for the Eastern District of New York analyzed a contract with a provision covering the potential patent infringement of heating valves. Landis and Staefa (UK) Ltd., (“Landis”), purchased some resold motorized heating valves from Flair International Corporation, (“Flair”). Landis was sued for patent infringement regarding the valves. After settling the lawsuit against it, Landis sued Flair for indemnification, in part based on a theory of implied indemnification as addressed in the New York Uniform Commercial Code.⁷⁸

The court first noted that the provision was on the back of the Order Acknowledgment. However, the acknowledgement itself specifically stated on its front that terms were “on face and reverse side.”⁷⁹ On the reverse side of the Order Acknowledgment, in larger and darker type, the limited warranty stated: “There are no warranties, expressed or implied, written or oral, including but not limited to any implied warranty of merchantability or fitness for use or for a particular purpose, with respect to any device.”⁸⁰ Similarly, the reverse side of the invoice in larger and darker print stated: “There are no warranties, expressed or implied, written or oral, including but not limited to any implied warranty of merchantability or fitness for use or for a particular purpose, with respect to any device manufactured or sold by Flair, except as herein set forth.”⁸¹

The court acknowledged that this was a close case as to whether or not the implied warranty of title was effectively disclaimed. “The printed material on the front

⁷⁶ The Eastern District of New York Court used an older definition of conspicuous used in § 1-201(2) of the U.C.C., which stated: “A term or clause is conspicuous when it is so written that a reasonable person against whom it is to operate ought to have noticed. . . . Language in the body of a form is ‘conspicuous’ if it is larger or other contrasting type or color. . . . Whether a term or clause is ‘conspicuous’ or not is for decisions by the court.” *Id.* at 22.

Note that the current definition, found at § 1-201(10) states that “A term of clause is conspicuous when it is so written that a reasonable person against whom it is to operate ought to have noticed it. A printed heading in capitals (as: Non-Negotiable Bill of Lading) is conspicuous. Language in the body of a form is ‘conspicuous’ if it is in larger or other contrasting type or color. But in a telegram any stated term is ‘conspicuous.’ Whether a term or clause is ‘conspicuous’ or not is for decision by the court.”

⁷⁷ 60 F. Supp. 2d 14 (E.D.N.Y. 1999).

⁷⁸ *Id.* at 15.

⁷⁹ *Id.* at 21.

⁸⁰ *Id.*

⁸¹ *Id.* at 22-23.



of the order of acknowledgment referring to the reverse side is not large or dark.”⁸² The court nevertheless found that, based on all the circumstances, the disclaimer was conspicuous and complied with the requirements of the New York version of the U.C.C.⁸³

In making its determination, the court considered the larger and darker type, the fact that Landis was experienced in purchasing heating equipment, and the sophistication of the purchasers. Based on a careful analysis, the court held that the “Landis ‘reasonable person’ would, therefore, notice the disclaimer in all the key Flair sales documents.”⁸⁴ The court, therefore, found that Flair “sufficiently disclaimed any liability to Landis for patent infringement claims.”⁸⁵

B. The Effect of “As Is” Disclaimers

A crucial consideration in the issues surrounding the disclaimer of the implied warranty of noninfringement is the effect of an “as is” disclaimer. Such a disclaimer explains that “the goods sold pursuant to the contract are sold as is [and with all faults].”⁸⁶

Although the language in § 2-316 seems to suggest that such a disclaimer would be effective against the implied warranty of noninfringement, it is unlikely that it would in fact disclaim liability based on infringement. According to the comments in *American Jurisprudence 2d*, “ ‘as is’ . . . relates only to the quality of the goods and does not exclude warranties of title and rightful infringement, and against encumbrances and infringement.”⁸⁷

⁸² *Id.* at 23.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ 18 Am. Jur. 2d Legal Forms *Uniform Commercial Code* § 253:633. Note that there is further debate over whether or not the “as is” provision needs to be conspicuous. For cases that require the provision to be conspicuous, *see, for example, Gindy Mnf. Corp. v. Cardinale Trucking Corp.*, 268 A.2d 345 (N.J. Super. 1970); *Lumber Mutual Insurance Co. v. Clarklift of Detroit, Inc.*, 569 N.W.2d 681 (Mich. App. 1997); *Fairchild Industries v. Maritime Air Service, Ltd.*, 33 A.2d 313 (Ct. App. Md. 1975); *White v. First Federal Savings & Loan Assn. of Atlanta*, 280 S.E.2d 398 (Ga. App. 1981). For cases that hold that the disclaimer need not be conspicuous, *see, for example, DeKalb Agresearch, Inc. v. Abbott*, 391 F. Supp. 152 (N.D. Ala. 1974); *Gilliam v. Indiana Nat’l Bank*, 337 So. 2d 352 (Ala. Civ. App. 1976).

⁸⁷ 18 Am. Jur. 2d *Sales* § 835 (1985).



Because there are no cases specifically addressing the “as is” provision in relation to infringement claims, it is again useful to look at how courts addressed the issue in implied warranty of title cases.

In *Moore v. Pro-Team Corvette Sales, Inc.*,⁸⁸ the Ohio appellate court addressed the issue of an “as is” clause in the sale of an automobile. Mr. Moore, (“Moore”), bought a 1974 Chevrolet Corvette from Pro-Team Corvette Sales, Inc., (“Pro-Team”). However, when Moore tried to register the car, the police confiscated it because the car had previously been reported stolen.⁸⁹

Moore brought suit against Pro-Team, alleging a breach of the implied warranty of title associated with the purchase of his car. Pro-Team, however, relied on its “as is” clause, claiming that the disclaimer excluded all warranties, including the warranty of title.⁹⁰ The sales contract stated: “All warranties pursuant to O.R.C. 1302.25 (U.C.C. 2-312) (warranty of title and against infringement) are hereby excluded from this transaction.”⁹¹ Relying on this language, the trial court dismissed the lawsuit, since it thought that the “as is” provision was sufficient. The appellate court, however, reversed and found for Moore.

The appellate court found that “warranty of title may be excluded or modified only by specific language giving the purchaser reasons to know that the vendor is only selling what title he possesses.”⁹² Relying on the Michigan appellate court’s analysis in *Jones*—emphasizing the necessity of specific language—the Ohio court felt that “[s]pecific language is necessary to relieve the buyer of the idea that any disclaimer of warranty relates only to quality.”⁹³ Here, the “as is” provision was “akin to that which expresses how the seller liability will be limited, rather than what title the seller purports to transfer.”⁹⁴ The Ohio Supreme Court, therefore, reversed the lower court’s judgment and remanded.⁹⁵

⁸⁸ 2002 Ohio App. LEXIS 4233 (Ct. App. Ohio Aug. 20, 2002)

⁸⁹ *Id.* at *2.

⁹⁰ *Id.* at *4.

⁹¹ *Id.* at 14.

⁹² *Id.* at *12.

⁹³ *Id.* at *13.

⁹⁴ *Id.* at *14.

⁹⁵ *Id.* at *15.



Similarly, the Supreme Court of Montana found an “as is” disclaimer in the form of a sign was not sufficient.⁹⁶ In *Brokke v. Williams*, the court addressed whether or not a seller disclaimed warranty of title in the sale of a stolen camera.⁹⁷ Mr. Brokke, (“Brokke”), bought the camera at a pawnshop on layaway. Shortly after paying the entire price, Brokke’s camera was confiscated as stolen property.⁹⁸ Brokke tried to get a refund on the purchase price, claiming that Williams had breached the implied warranty of title under Montana Uniform Commercial Code § 30-2-312. Williams, however, refused, and asserted that he had disclaimed any warranty with respect to title.

Williams relied on the facts that he had posted large fluorescent signs alerting buyers that the merchandise was sold “as is”⁹⁹ and had written “as is” on his sales receipts.¹⁰⁰ The lower court held that the “as is” disclaimer in the form of posted signs was inadequate and, accordingly, awarded damages to Brokke. The Montana Supreme Court affirmed.¹⁰¹

Agreeing with the trial court, the supreme court found that “Williams had a duty to deliver clear title to the property, that he could not do so because it was stolen and that simply placing ‘as is’ signs in his store does not defeat that duty nor relieve him of liability for defects.”¹⁰² Moreover, Williams, “as a merchant, is held to a higher standard of dealing than ordinary consumers.”¹⁰³ As such, Williams was responsible for Brokke’s damages.

⁹⁶ *Brokke v. Williams*, 766 P.2d 1311 (S. Ct. Mont. 1989).

⁹⁷ *Id.* at 1312.

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² *Id.* at 1313. Regarding the “otherwise agreed” provision of § 2-312(3), the court noted that “there could have been no agreement to that effect between Williams and Brokke when Brokke denies ever seeing the signs which Williams claims were up in his premises on the date of the transaction. Brokke further testified to having no conversations with Williams regarding the title of the camera.” *Id.*

¹⁰³ *Id.* at 1312. The court never addressed the issue of the writing of “as is” on the sales receipt. Presumably, however, this would not be enough to disclaim the implied warranties under § 2-312 either.



In *Crown Cork & Seal Co. v. Hires Bottling Co. of Chicago*,¹⁰⁴ the Northern District of Illinois addressed an “as is” clause that was incorporated into the security agreement of assets sold in the context of a bankruptcy proceeding. Hires Bottling Company of Chicago, (“Hires”), bought some bottling equipment from Crown Cork & Seal Company, (“Crown Cork & Seal”). The two parties entered into a security agreement conditional sales contract to purchase the assets, since they had been reclaimed during the bankruptcy proceeding.¹⁰⁵

Hires, after making several payments, defaulted. Under the contract terms, Crown Cork & Seal accelerated the payments and sued Hires for the complete amount of money due. Hires, in turn, counterclaimed. Hires alleged that it had been induced by fraud and that Crown Cork & Seal had breached warranties included and implied by the contract.¹⁰⁶ Because the court found that the parties were bound by the written contract terms, it granted summary judgment to the plaintiff.¹⁰⁷

In reaching its decision, the Illinois court focused on the wording used in the agreement. First, the security agreement, which involved extensive negotiations before an agreement could be reached, stated explicitly that property sold to the debtor was sold “as is, where is.”¹⁰⁸ “Plaintiff refused to enter into the contract or accept the notes executed by the Defendant unless the ‘as is, where is’ term appeared in the agreement.”¹⁰⁹ The court relied heavily on this fact, surmising that it supported the contention that U.C.C. § 2.316(3)(a) applied.¹¹⁰ Moreover, the defendant had the opportunity to discuss the equipment with third parties before entering into the agreement. And the defendant had an employee with knowledge of the operating abilities of the machinery, since the employee was a former officer of the company that

¹⁰⁴ 254 F. Supp. 424 (1966). Note, however, that the 7th Circuit reversed the district court’s grant of summary judgment in *Crown Cork & Seal Co. v. Hires Bottling Co. of Chicago*, 371 F.2d 256 (1967). The 7th Circuit did not address the “as is” provision. Rather, it found that summary judgment was inappropriate because of the conflicting information regarding the reliance on representations by Crown Cork & Seal Company.

¹⁰⁵ *Id.* at 425.

¹⁰⁶ *Id.* at 426.

¹⁰⁷ *Id.* at 425, 427.

¹⁰⁸ *Id.* at 425.

¹⁰⁹ *Id.* at 426.

¹¹⁰ *Id.*



had previously owned the equipment.¹¹¹ Combining all these factors, the court determined that 2-316(3)(a) of the Illinois Commercial Code applied.¹¹²

The court held that “[a]ll implied warranties were excluded by the ‘as is, where is’ term of the security agreement because the circumstances indicate that the ‘as is, where is’ term was a term of the contract which was the subject of the negotiation.”¹¹³ Accordingly, Crown Cork & Seal was not liable for any breaches of implied warranties of title regarding the equipment.

PART V PRACTICAL CONSIDERATIONS

A. Seller Viewpoint

For the seller, it is very important to address three issues: 1) whether or not the seller is a merchant; 2) whether or not the buyer gives the specifications in the design of the product; and 3) what language should be included in the contract to specifically address the issue of the implied warranty of noninfringement.

1. The Seller as a Merchant

Because § 2-312 applies only to merchants, a seller should be clear on whether or not he is a merchant. A seller who wants to fall within the province of the U.C.C. should specify that he is a merchant, by using language such as “Seller is a merchant regularly dealing in goods of the kind.” In that way, it is clear to all parties that § 2-312 will govern the contract and any implied warranties.

2. Buyer Specifies the Design

When the buyer is going to specify the design, the contract should specifically state that. One way is to include a provision explaining that “Buyer hereby agrees to specify all designs regarding the manufacture of the product. Seller shall follow these designs.”

To protect against possible liability when the buyer specifies the product design, a seller should include language limiting his liability. An example is: “Buyer shall indemnify seller against any damages for patent or trademark infringement for which seller becomes liable as a consequence of manufacturing the goods covered by this

¹¹¹ *Id.*

¹¹² *Id.* The court also relied on the fact that the equipment was purchased used, although it did not explain why this was a factor in determining whether or not § 2-316(3)(a) applied.

¹¹³ *Id.*



agreement in conformity with specifications furnished by buyer.”¹¹⁴ In this way, the seller can be protected from any possible claims against him when it is the buyer’s instructions that caused the infringement to occur.

3. Language to Disclaim the Implied Warranty of Noninfringement

The language used to disclaim infringement warranties is crucial, especially since the courts have been unclear as to what precisely should be included. *American Jurisprudence Legal Forms 2d* provides some sample clauses:

“Seller makes no warranty, and no warranty shall be deemed to exist, that buyer holds the goods free of the claim of any third person that may arise from patent or trademark infringement.”¹¹⁵

“Seller has no knowledge as to trademark or patent rights that third parties may claim in the goods. Consequently, seller makes no warranty whatsoever with respect to the freedom of the goods from claims of infringement by third parties arising from trademark, patent or other property rights in the goods covered.”¹¹⁶

Whatever language is used, a seller must specifically and unambiguously disclaim any liability with respect to infringement.

B. Buyer Viewpoint

The buyer must carefully examine the contract to determine whether or not the U.C.C. applies. If the seller has specifically stated that he is not a merchant, then the buyer is not protected by the implied warranties associated with § 2-312. It is necessary, therefore, for a buyer to include such a provision if the seller meets the qualifications necessary to be categorized as a merchant.

The buyer also needs to carefully and thoroughly read the language disclaiming liability in actions of possible infringement. A buyer needs to be fully cognizant of where precisely any responsibility will fall. Moreover, if the buyer gives the specifications to the seller, then the burden of liability will inevitably shift to the buyer. In that case, the buyer needs to take pro-active steps to ensure that his design is not infringing or be aware of the possible consequences.

¹¹⁴ 18 Am. Jur. 2d Legal Forms *Uniform Commercial Code* § 253:556 (1999).

¹¹⁵ § 253:554.

¹¹⁶ § 253:555.