March 11, 2011

Warranting Rightful Claims

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Abstract

Damage awards for patent infringement have sky-rocketed and sparked significant debate in recent years. A part of this patent damage debate focuses on non-practicing entities, or so-called “patent trolls.” A patent troll is a patent owner that demands a royalty based on patented technology, yet does not actually make use of the technology to provide an end product or service. Patent trolls are known for their aggressive and opportunistic behavior. Their strategy is simple: create nuisance and inflict fear. Often, patent trolls employ this strategy against the buyers of goods that use the patented technology. Increasingly, those buyers are availing themselves of the “warranty against infringement” (“WAI”) implied by the Uniform Commercial Code in sales contracts when sued by patent owners, notably patent trolls, for alleged patent infringement. The WAI provides a guarantee that goods bought or sold in a given transaction are free from a “rightful” third-party infringement claim when delivered. A party protected by the WAI can receive an indemnity of sorts from the other party for costs and damages associated with expensive and high-risk patent infringement suits.

Under the current definition of “rightful,” the mere threat of litigation is sufficient to trigger protection under the WAI. As damage awards for patent actions continue to fall consistently in the million dollar-plus range, and patent trolls target hundreds of companies at one time, this low threshold for determining when a “rightful claim exists is opening the door for unprecedented abuse. Scholars have overlooked the significance of the WAI because of the unique blend of two areas of law: intellectual property and commercial law. This Article corrects this oversight. It argues that courts should adopt a new framework for determining when a “rightful claim” has been made against a buyer or seller, therefore providing it protection under the WAI. This Article also argues that the main theoretical justification for warranty law—asymmetrical information between the parties—often does not apply in cases involving the WAI. Consequently, this framework will promote a realistic “symmetry” between the buyer and seller and protect companies from opportunistic patent trolls.

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INTRODUCTION

Damage awards for patent infringement have sky-rocketed and sparked significant debate in recent years.\(^1\) Congress has tried to pass a Patent Reform Act to reign in damage awards five consecutive times and is

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currently considering another iteration of the bill. A part of this patent damage debate focuses on the non-practicing entity (NPE), or so-called “patent troll.” 

“A favorite villain,” the patent troll is a patent owner that demands a royalty based on patented technology, yet does not actually make use of the technology to provide an end product or service. This lack of personal investment enables the troll to be less risk-averse than patent owners who rely on using the technology and, therefore, more likely to take risks in alleging patent infringement. Patent trolls are known for their aggressive and opportunistic behavior. Their strategy is simple: create nuisance and inflict fear. A common response upon receiving a cease-and-desist letter from a patent troll is to in essence pay the troll to go away; this is accomplished through a license-based settlement. One of the most notable patent licensing campaigns resulted in a patent owner receiving $1.5 billion in licensing fees for patents that were ultimately deemed invalid and enforceable.

In the shadows of the controversy surrounding high damage awards, aggressive patent trolls, and patent reform proposals, defendants in patent infringement actions are seeking indemnification-type protection under contractual provisions and sales warranties. Increasingly, buyers of goods using patented technology are availing themselves of the “warranty against infringement” (“WAI”) provided by the Uniform Commercial Code (“UCC”) when sued by patent owners, notably patent trolls, for alleged patent infringement.

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4. Golden, Patent Trolls, supra note 3, at 2112 (trolls charge a “price for authorizing the work of others”); see also Mark A. Lemley & Carl Shapiro, Patent Holdup and Royalty Stacking, 85 TEX. L. REV. 1991, 2009 (2007) (“Defining a patent troll has proven to be a tricky business, but that does not mean the problem does not exist.”).


6. “Patent troll” was apparently coined after “patent extortionist” invoked an action for libel. Golden, Patent Trolls, supra note 3, at 2112 n.7. Another account states the term “patent troll” was first used by Peter Detkin of Intel Corporation to describe small companies suing Intel for patent infringement and achieving “nuisance-value settlements.” Steve Seidenberg, Troll Control, A.B.A. J., Sept. 2006, at 51, 53.

7. The infamous “Lemelson suits” are discussed in Part I.B. and illustrate the type of abuse states should seek to avoid by adopting my framework for enforcing the WAI.

8. I say “indemnification-type” here because these actions are not strictly limited to indemnification or cover of litigation/ settlement costs; consequential damages may be recoverable as well. See infra Part 1.
The WAI provides a guarantee that goods bought or sold in a given transaction are free from a “rightful” third-party infringement claim when delivered. The party protected by the WAI can receive an indemnity of sorts from the other party for costs and damages associated with expensive and high-risk patent infringement suits.

For example, suppose Big-MP3 Co. (“Big”), a designer and manufacturer of widgets, buys one-fourth of the microchips it uses in these widgets from Sal’s Supply Co (“Sal’s”). Big spends roughly one million dollars purchasing these microchips and incorporating them into the widgets. A year after buying and incorporating these microchips, Big receives a cease-and-desist letter from TP-Chip (“TP”), an unknown third party. TP asserts that the microchips used in Big’s widgets infringe patented technology that it owns. TP demands that Big either stop using the microchips and pay it damages for infringement up to that point, or enter a license agreement with it so that Big may continue using its current microchips without risk of suit. If Big refuses both options, TP threatens to file a patent infringement suit.

What should Big do? Risk expensive litigation and a potentially devastating damage award or hope that TP is bluffing and will not file suit? Or should Big just settle and avoid the expense and risk of patent litigation? Either way, Big may be entitled to damages under the WAI against Sal’s if a court finds that TP has or had (if settled) a “rightful claim” against Big. Of course, Big would also need to demonstrate in this case that the allegedly infringing microchips were in fact the ones that Sal’s sold it. Before Big makes a decision about which option it will take, Big will want to know what it means to have a “rightful claim” under the WAI. Without a “rightful claim,” the WAI will not be breached and Big will not be able to recover from Sal’s.

Unfortunately, there is little guidance as to the meaning of a “rightful claim” under the WAI. There is no definition of “rightful” in the UCC, and scholars have overlooked this area for two simple reasons. First, prior to the late 1990s courts were not faced with many WAI claims and so the WAI did not draw much attention from scholars or practitioners. Second, the WAI is a

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9. See U.C.C. § 2-312 (3) (2002). The WAI also provides a cause of action for a seller when a buyer gives the seller “specifications” for the goods that it wants manufactured. See id. Further, the WAI covers claims of trademark and copyright infringement claims. See id.; see also Dolari Fabrics, Inc. v. Limited, Inc., 662 F. Supp. 1347, 1358 (S.D.N.Y. 1987) (stating WAI protects against patent, trademark, and copyright claims). This Article focuses on third-party claims of patent infringement, but it will address trademark and copyright claims in Part IV.

10. See U.C.C. § 2-312 (3). Note that the definition of goods as defined by U.C.C. § 2-105(1) does not include intellectual or intangible property. The goods being sold here are physical, tangible goods thereby placing the sale under the jurisdiction of the U.C.C.; yet, it is the fact that these goods also potentially infringe an intellectual property right that invokes the protection of the WAI.

unique hybrid of two different areas of law: intellectual property and commercial law. Patent scholars focus on issues that arise under patent law, and patent law is almost exclusively dealt with on the federal level. Conversely, commercial law scholars are primarily focused on issues arising under state law. They may also be deterred from the WAI because of the specific focus on intellectual property law, an area of law that not many commercial law scholars are concerned with in their scholarship. Due to this lack of guidance, courts have failed to reach consistent results when faced with WAI claims.

For example, a federal court declined to define “rightful claim” formally, yet stated that a plaintiff’s “subjective belief and representation” that a claim against it by a third-party is “rightful” is not sufficient. Rather, a court must determine whether a claim is “rightful” by “comparing the scope of the patents at issue with the allegedly infringing products.” Under this standard, a court will analyze the merits of TP’s infringement claim. By contrast, a state court recently stated that a “rightful claim” is a “nonfrivolous claim of infringement that has any significant and adverse effect, through the prospect of litigation or otherwise, on the buyer’s ability to make use of the purchased goods.” This “prospect of litigation” may come in the form of a cease-and-desist letter. In other words, this state court held that if a buyer or seller believes the third-party claim against it is “rightful” and “voluntarily ceases to use purchased goods” upon receipt of a cease-and-desist letter, then it is entitled to damages under a WAI claim. There is little if any analysis of the merit of the third-party’s claim.

Thus, under a broad definition of “rightful,” the threat of litigation is enough to trigger protection under the WAI. As damage awards for patent actions continue to consistently fall in the million dollar-plus range, this low threshold for determining when a “rightful claim” has been made (thereby invoking the WAI) is opening the door for new abuses on the state level. A company in Big’s position has little to no incentive to determine if it really does infringe a third-party’s patent. All Big has to do is receive a cease-and-desist letter, either purchase a license from the third party or stop using the

12. Section 1338 of the United States Code vests exclusive original jurisdiction with the district courts “of any civil action arising under any Act of Congress relating to patents...” 28 U.S.C. § 1338(a) (2006). Section 1295(a) grants the Federal Circuit Court of Appeals with exclusive jurisdiction over appeals from a district court “if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title.”
14. Id. For a more detailed discussion, see infra Part II.
allegedly infringing goods and pay past damages, and then sue the seller of the goods to recover these expenditures.\textsuperscript{17}

Let’s say, as happens in many instances, that TP does not send just one cease-and-desist letter to Big, but instead sends similar letters to hundreds of companies that use microchips in their end products. Further, TP’s sole business purpose is to enforce and collect royalty payments based on its microchip patent portfolio. TP is a patent troll. What is troubling here is that TP’s patent may not in fact cover the specific microchips used by Big or there may be a meritorious defense available to Big; yet, TP is betting that Big as well as many of the other targeted companies will not take the time to evaluate the merits of the infringement claim and strength of the asserted patent. TP hopes that Big will, among other things, fear the cost of defending a patent suit and risk of a high damage award and decide to meet its demands.

So why do we have this type of warranty on the state level, despite the fact that patent law is usually under the exclusive jurisdiction of federal courts?\textsuperscript{18} How do we define “rightful claim” so that patent trolls are discouraged from initiating near-frivolous infringement actions and buyers like Big have incentives to investigate the merit of the infringement claim before being fully reimbursed for expenses by the warrantor? These questions drive this project, and are magnified by the reality that just one suit for infringement may cause a company to close its doors.

This Article argues that courts should adopt a more rigorous standard for determining when a third party has made a “rightful claim” against a buyer, thereby entitling a buyer like Big to receive damages from its seller under the WAI. This stricter standard of “rightful” will provoke buyers to take more time when evaluating the value and strength of the third-party claim against them, and it will deter opportunistic patent troll behavior. I also argue a deeper problem exists with the WAI. A warranty is a risk-allocation device that places the risk on the party in the best position to manage it.\textsuperscript{19} This risk-bearing party is said to have superior information, a premise that much of warranty law is based upon. The WAI then assumes asymmetrical or imperfect information between buyer and seller, but I argue this is often unrealistic in the patent context.

\textsuperscript{17} While Big will incur transactional costs in bringing a suit against Sal’s, this cost is avoidable only if Sal’s agrees to pay TP directly. Very few sellers will admit this liability upfront to a buyer, let alone to a third party who will then target the seller as well. My proposed framework does however encourage more upfront collaboration between buyers and sellers. This collaboration will also encourage buyers to be more thorough and to bargain harder with third parties when they know what a seller may not be able to cover.


\textsuperscript{19} For a more thorough discussion, see infra Part III.
I propose a framework that attempts to correct this fundamental problem with the WAI. This framework also interprets “rightful” more narrowly and gives courts a method for conducting intellectual property specific analyses. In short, a third-party claim should be deemed “rightful” only if it would have a reasonable likelihood of success on the merits at trial. If the buyer settles the infringement claim with the third party and then looks to the seller to recover its costs, it should further demonstrate that it acted in good faith in entering the settlement. This requires the buyer to demonstrate it was honest and that the process used in negotiating the settlement terms was objectively reasonable. When there is both extreme money and highly sophisticated technology at issue, a court should award a presumption that the third party had a “rightful claim.” Even in those instances, the buyer must still demonstrate it acted in good faith in reaching the terms of the settlement with the third party.

This Article proceeds in four parts. Part I will discuss the WAI and highlight what happens when a patent troll targets hundreds of companies, specifically buyers of patented technology (like Big) instead of the manufacturers who are closer to the technology (like Sal’s). Further, Part I discusses the consequences of the buyer “playing” with the seller’s money. Part II analyzes recent cases where courts have been faced with defining “rightful” as used in the WAI. This Part illustrates the competing definitions of “rightful” and tracks the current trend to require less of the plaintiff, in this case, Big the buyer.

Next, Part III will discuss three separate theoretical justifications of warranty law and demonstrate how the unifying thread of these justifications—informational asymmetry between the parties—does not always exist with the WAI. Part III will then argue that the current justifications of warranty law are too general to provide a realistic response for why we should shift liability to the seller under the WAI. Part IV proposes a new framework for courts to employ in determining whether a “rightful claim” exists. The proposed framework will promote a realistic “symmetry” between the buyer and seller and protect companies from opportunistic patent trolls.

I. WARRANTY OF TITLE AND AGAINST INFRINGEMENT

A. The Warranty Against Infringement

The WAI is an implied warranty that “rides with” a contract for a sale of goods under the UCC.20 In general, an implied warranty is a guarantee that

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20. Section 2-312 of the U.C.C. is entitled the “Warranty of Title and Against Infringement; Buyer’s Obligation Against Infringement. This section has three subsections. The first subsection, the warranty of title, states that: “(a) the title conveyed shall be good,
is read into the contract even though the contract itself does not explicitly contain such a provision.\textsuperscript{21} The WAI is a default term, meaning parties are free to contract around it if they so desire. The WAI states:

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.\textsuperscript{22}

Unless specifically disclaimed, the WAI attaches to every sale of goods regardless of the parties’ implicit understanding, and guarantees that there is no “cloud” on the goods transferred in the form of a potential third-party patent, trademark, or copyright infringement suit.\textsuperscript{23} Unique to the WAI is that the guarantee runs not only from seller to buyer, but also from buyer to seller.\textsuperscript{24} The WAI requires the buyer to “hold the seller harmless” when it gives “specifications” to the seller.\textsuperscript{25} For example, if a lighting company (buyer) gives detailed instructions to an insulation manufacturer (seller) for a particular type of insulated part it needs, and then the manufacturer gets sued for patent infringement based on these custom-designed parts, the lighting company is responsible under the WAI to pay any costs the manufacturer incurs in defending itself against the third party.\textsuperscript{26} This has been coined the “customization exception.”\textsuperscript{27} For purposes of clarity in this Article, I default

\begin{itemize}
\item and its transfer rightful; and (b) the goods shall be delivered free from any security interest or other lien or encumbrance of which the buyer at the time of contracting has no knowledge.”
\item The second subsection describes how parties may disclaim this section. The third subsection, the WAI, is the focus of this Article.
\item 22. U.C.C. 2-312(2) (2002).
\item 23. While Official Comment 3 of § 2-312 (2002) only states that patent and trademark infringement claims are covered here, courts have extended § 2-312 to also include copyright infringement claims. \textit{See, e.g.}, Dolari Fabrics, 662 F. Supp. at 1358 (“The broad language... applies to claims of copyright infringement although the Official Comment explicitly refers only to ‘claims of infringement of a patent or trademark by a third party.’ ”). It is unclear whether other intellectual property rights may be covered by § 2-312, such as misappropriation of trade secrets or violations of data privacy rights.
\item 24. \textit{See} U.C.C. § 2-312 (3) (2002).
\item 25. \textit{Id.}
\end{itemize}
to the *buyer* as the party bringing the breach of WAI claim.\(^{28}\) This is the most common use of the WAI.\(^ {29}\)

Although the WAI is a promise made by a seller that its goods do not infringe a third-party’s patent, trademark, or copyright, it is not a promise insuring against *any* claim of infringement.\(^ {30}\) Rather, the WAI provides relief for only “*rightful*” third-party claims. To establish a breach of the WAI, “a party must show the seller was a merchant regularly dealing in the goods of the kind, the goods were subject to a *rightful* infringement claim of any third party upon delivery, the buyer did not furnish specifications to the seller, and the parties did not form another agreement.”\(^ {31}\)

Courts began to face the issue of how to determine when a “*rightful claim*” had been made by a third party relatively recently.\(^ {32}\) There is little guidance in the statute itself, so courts have turned to treatises, scholarly articles, early cases involving the warranty of title, and statutory interpretation for direction.\(^ {33}\) Curiously, these courts are not referring to the Patent Act. This has caused courts to fashion varying standards for determining what “*rightful*” entails, making it difficult for buyers and sellers to anticipate the full effects of the WAI. The uncertainty over the application of the WAI also undermines one of the main purposes of the UCC—to create “uniform” standards for parties across the nation.\(^ {34}\)

When faced with defining what constitutes a “*rightful claim*” giving rise to an action under the WAI, courts initially recognized a need for a comparison of the third-party’s patented technology and the allegedly

\(^{28}\) Yet as demonstrated with the lighting company and insulation manufacturer, the burden may switch to the buyer anytime it gives “specifications” to the seller.

\(^{29}\) See infra Part II for illustrating cases.

\(^{30}\) The U.C.C. defines a merchant as a “person who deals in goods of the kind or otherwise by his occupation holds himself out as having knowledge or skill peculiar to the practices or goods involved in the transaction or . . . who by his occupation holds himself out as having such knowledge or skill.” § 2-312 Official Cmt. 2 (2002). This definition captures manufacturers, retailers, and wholesalers, even with the extra layer requiring a merchant to be one that deals “regularly” with the particular goods being sold. See McGowan, *supra* note 16, at 6.

\(^{31}\) *Phx. Solutions*, 637 F. Supp. at 693 (emphasis added) (citing 84 Lumber Co., 145 F. Supp. at 687-79). The U.C.C only requires notification to the seller of a breach of the WAI within a reasonable time if “the buyer is *sued* as a result of such a breach.” U.C.C. § 2-607(3)(b) (2002) (emphasis added). Because of the high settlement rates in patent litigation as well as the lack of incentives on buyers to not settle quickly, both discussed infra, the seller is most often unlikely to have the opportunity to ascertain the rightfulness of the claim and the reasonableness of the settlement terms.

\(^{32}\) See *Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1391-92 (Fed. Cir. 1996).

\(^{33}\) See generally *id.* at 189-192 (using case law, treatises, law review articles, and policy arguments as extrinsic aids used to properly define “*rightful claim*”).

\(^{34}\) See generally Larry T. Garvin, *Uncertainty and Error in the Law of Sales: The Article Two Statute of Limitations*, 83 B.U. L. REV. 345, 345-49 (highlighting the intent of the U.C.C. to promote certainty but noting that is has provoked must litigation).
infringing good.\textsuperscript{35} A court proceeding under this standard would need to analyze the merit of the infringement claim in deciding whether it was a “rightful claim” invoking WAI liability.\textsuperscript{36} Recently, courts have broadened this standard. For example, a state court found a “rightful claim” is any nonfrivolous claim that causes the buyer to voluntarily give up use of the goods.\textsuperscript{37} Accordingly, as little as a cease-and-desist letter may establish a WAI claim.\textsuperscript{38}

This recent standard for determining whether a “rightful claim” has been made is not only troubling because patent trolls often threaten litigation, but also because it demonstrates that courts are not prepared to evaluate WAI claims in light of the relevant underlying infringement claim. Parties accused of patent infringement do not want to give up use of the goods, rather, they want to continue using the allegedly infringing goods. The patent holder and potentially infringing party most often negotiate a price for continued use of the patented technology.\textsuperscript{39} This negotiation results in a “licensing settlement.”\textsuperscript{40} This settlement is reached in a familiar pattern: a patent holding company sends a letter to a potential infringer proposing a “discussion” of its patent portfolio and inviting it to participate in its “licensing program.”\textsuperscript{41} Even if the buyer voluntarily gives up its use of the goods or purchases a right to continue using the goods, it is not using its own money. Instead, the buyer under the current interpretation of “rightful” is in essence using the seller’s money.\textsuperscript{42} As soon as the buyer settles with the third party, it turns around and holds seller financially responsible under the WAI.

The potential damages under the WAI may include settlement costs and traditional warranty damages including losses occurring “in the ordinary course of events from the seller’s breach.”\textsuperscript{43} If any incidental and consequential damages occur because of the seller’s breach the court may award those as well.\textsuperscript{44} If the buyer does not settle and the third party wins at

\textsuperscript{35} See 84 Lumber Co., 145 F. Supp. at 680. For a more detailed discussion, see infra Part IV.
\textsuperscript{36} Id.
\textsuperscript{37} Id. Pac. Sunwear of Cal. Inc., 84 Ca. Rptr. 3d at 194. For a more detailed discussion, see infra part IV.
\textsuperscript{38} See id.
\textsuperscript{40} See id.
\textsuperscript{41} See id.
\textsuperscript{42} An odd dichotomy is created here: the buyer is arguing to the third party that it does not infringe, and then, alternatively to the seller that it does likely infringe. This type of two-hat approach is inherent in the WAI, and although perhaps unsettling, presumed from the lack of discussion, it is something courts are not concerned about.
\textsuperscript{43} U.C.C. § 2-714(1) (2002).
\textsuperscript{44} See id. The specific damages formula 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
trial, the damage award in the patent infringement suit will be added to the buyer’s claim under the WAI.45

B. The First Problem: “Legalized Extortion”

As illustrated above, the vast majority of patent infringement suits will not make it to trial. The high costs of litigation where discovery alone is estimated at $1.25 million for a case with $1 million-plus at stake, and the risk of an exorbitant judgment motivates parties toward an early settlement.46 Most often, this settlement results in a licensing transaction, whereby the alleged infringer in essence pays the patent holder for the right not to be sued for infringement.47 These licensing transactions have been such an enormous financial success for patent owners that a new company structure has emerged—the “non-practicing entity” (NPE).48 In less favorable terms, an aggressive NPE is known as a “patent troll.”49 NPEs gather and administer patents that are assigned to them by individuals or companies.

These “fiendish figures”50 use their patent portfolios to wage a licensing campaign against any possible infringer in the hopes that these parties will simply get rid of the “nuisance” and buy a license to “use” the patented technology.51 Recall that NPEs currently average three times greater

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45. For example, if a patent infringement suit results in an infringement verdict, these damages easily run in the millions. See PWC PATENT LITIGATION STUDY, at 7.

46. Harkins, supra note 5, at 435 (listing average costs of discovery in 2005 as $350 thousand, $1.25 million, and $3 million for patent cases where $1 million, $1 million-plus, and $25 million-plus are at stake, respectively).

47. A license in the intellectual property context is often described as a “mere covenant not to sue.” RAYMOND T. NIMMER, LICENSING OF INTELLECTUAL PROPERTY AND OTHER INFORMATION ASSETS, p. 12 (2d ed. 2007) (cases omitted).

48. These entities are also sometimes more broadly referred to as “patent holding” entities or companies.

49. “Patent troll” was apparently coined after “patent extortionist” invoked an action for libel. Golden, Patent Trolls, supra note 3, at 2112 n.7. Another account states the term “patent troll” was first used by Peter Detkin of Intel Corporation to describe small companies suing Intel for patent infringement for “nuisance-value settlements.” Steve Seidenberg, Troll Control, A.B.A. J., Sept. 2006, at 51, 53.

50. Harkins, supra note 5, at 410-11 (drawing the imagery of Scandinavian folklore of trolls that lived under bridges that they had not actually built yet still prevented passersby from crossing it if they did not pay a toll).

51. See id.
damage awards than practicing entities.\textsuperscript{52} The reasoning may be simply that NPEs are less risk-averse than practicing entities. If a practicing entity goes to trial and loses not only its infringement case but also has its patent invalidated,\textsuperscript{53} the result is devastating. The practicing entity, the one who has a personal investment in the patented technology, just lost its ability to enforce the patent. The patent troll does not have this deterrent. An invalidated patent simply means the troll moves on to enforcing another patent in its portfolio.\textsuperscript{54} Accordingly, a patent troll is much more likely to “roll the dice and ‘game’ the patent system in court.”\textsuperscript{55} It has also been said that NPEs are choosing stronger patents to litigate, and that they target certain jurisdictions that have a reputation of producing big damage awards.\textsuperscript{56}

The late Jerome Lemelson has been called everything from “the most prolific inventor of our time”\textsuperscript{57} and “an honest and courageous man,”\textsuperscript{58} to “one of the great frauds of the 20th century.”\textsuperscript{59} Lemelson and a team of attorneys, notably Gerald Hosier, pulled off the most significant “legalized extortion,”\textsuperscript{60} collecting an estimated $1.5 billion dollars in licensing fees for patents that were ultimately invalidated.\textsuperscript{61}

It started in the 1950s when Lemelson filed patent applications for an “early machine vision and bar code system.”\textsuperscript{62} One of these early patent applications was 150-pages and claimed a robot that could perform tasks such as riveting, welding, transporting, and playing the role of quality control inspector due to a built-in camera.\textsuperscript{63} This patent application took nine years to get through the Patent and Trademark Office (PTO), resulted in sixteen new patents, and had continuation applications tacked on throughout

\textbf{\textsuperscript{52}} See PWC PATENT LITIGATION STUDY, supra note 1, at 7-8.

\textbf{\textsuperscript{53}} Patents are commonly challenged on validity grounds under obviousness, lack of enablement and anticipation. 35 U.S.C. §§ 102, 103, 112. For a thorough discussion of patent validity, see ROBERT PATRICK MERGES AND JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS (3d ed. 2002).

\textbf{\textsuperscript{54}} See Harkins, supra note 5, at 443.

\textbf{\textsuperscript{55}} Id. at 433 (footnote omitted).

\textbf{\textsuperscript{56}} See PWC Litigation Study at 10.


\textbf{\textsuperscript{61}} See MSNBC, supra note 59.

\textbf{\textsuperscript{62}} Id.

\textbf{\textsuperscript{63}} Id.
Lemelson’s lifespan. Prior to 1995, a patent term was seventeen years from the date of issuance.\(^6^4\) This “date of issuance” was the key to Lemelson’s licensing success. He would “file a ‘continuation in part’ application, which added additional drawings and text to the applications, in order to extend the time.”\(^6^5\) Two specific characteristics of many of Lemelson’s hundreds of patents are noteworthy: they were “paper patents” as well as “submarine patents.”

A paper patent describes an invention that the inventor never commercially used.\(^6^6\) Often times, this signifies that the inventor is a theorist and not a practitioner. This was Lemelson. He did not have a lab or a manufacturing plant—he never built most of the technology that earned him his $1.5 billion empire. He did not practice his patents. Although paper patents may be viewed as the step-children of patents, the PTO requires only that an applicant demonstrate conception and reduction to practice, and reduction to practice does not require a prototype or representation that the applicant has actually used the invention.\(^6^7\) Rather, the required reduction to practice may be constructive. So long as the written description of the patent “enable[s] any person skilled in the art . . . to make and use” the invention, it may pass muster.\(^6^8\)

A submarine patent, no longer at issue because of the 1995 changes to patent law, is a patent that remains pending in the PTO for years until, ultimately, the technology captured in the patent comes into widespread commercial use.\(^6^9\) The pending application will then be published, dated back to the time of filing, and the patentee will have the power to collect heavy

\(^6^4\) See 35 U.S.C. Section 154(a); 35 U.S.C.A. Section 271(a). A patent term is now twenty years.


\(^6^7\) W. Samuel Niece & Robert E. Krebs, Prosecution Laches: Lemelson Bar Code and Machine Vision Patents Held Unenforceable, INTELL. PROP. & TRADE REG. J., Spring 2004, at 12, 12. See 35 U.S.C. § 102(a) (2006) (entitling a person to a patent, unless “the invention was known or used by others in this country . . . before the invention thereof by the applicant”) (emphasis added). In the United States, “invention” may be reduction to practice. U.S. PATENT & TRADEMARK OFFICE, U.S. DEP’T OF COMMERCE, MANUAL OF PATENT EXAMINER PROCEDURE § 2138.04-.05 (8th ed., 2d rev. 2010) [hereinafter MPEP]. Generally, the first inventor to conceive the invention and, either actually or constructively, ultimately reduce it to practice is credited with the earlier dated patent application. But see 35 U.S.C. § 102(g); MPEP § 2138.06 (requiring reasonable diligence on the part of the first conceiver (but second reducer) from just prior to the first reducer’s entrance into the field to the first conceiver’s reduction to practice for the first conceiver to be entitled to a patent).

\(^6^8\) See id.

\(^6^9\) Niece & Krebs, supra note 67, at 12
royalties and licensing fees from all the companies that now use this technology. Lemelson’s machine vision technology (bar code scanner) was a submarine patent. The patent application was filed in 1956 and by the time the patent was finally approved in 1989 similar bar code technology was widely used by Japanese, European, and American companies. Lemelson collected hundreds of millions of dollars in licensing fees for his submarine patent.

The Lemelson suits demonstrated an extreme licensing strategy that many NPEs emulate today. Hosier, Lemelson’s main attorney and strategist, focused his efforts on corporations with deep pockets, the customers/buyers of the manufacturers, and had one simple premise for getting them to pay: fear. As he stated, “ ‘[t]his business is not based on what’s right or what’s wrong . . . [i]t’s based on fear. Nobody would pay you for a patent unless they feared the consequences of not paying you vastly exceed the consequences of paying.’ ” These “fear” tactics were successful. No company would take the risk of an infringement suit. Almost every company chose to participate in the licensing program instead of challenging the validity of Lemelson’s patents or infringement claims.

Lemelson died in 1997 believing his patents were safe and enforceable. After already receiving hundreds of millions of dollars in licensing fees, Hosier and the Lemelson Medical, Education & Research Foundation, LP (“Lemelson Foundation”) continued the licensing campaign, suing more than 400 companies in 1999. Again, his enforcement strategy was simple: “if a company developed a product that might in some way resemble one of his patents, Lemelson would take them to court.” Companies again started to buy into the licensing program out of fear even though people in the industry recognized that the bar code scanner was likely not enabled—i.e., the supporting patent would likely be declared invalid and unenforceable for failing to meet patentability requirements. Simple, an

70. Id.
74. Id. Although this statement makes it hard to be compassionate for Lemelson, he spent his life battling the big companies and fighting for what he thought was his. He set up a not-for-profit organization to give back to his community, to individual inventors like himself, and he gave generously. See Don Costar, *A Special Tribute to Jerome Lemelson*, America’s Inventor Online Edition, Dec. 1997, http://www.inventionconvention.com/americasinventor/dec97issue/section16.html#Friday.
75. See id.
76. See id.
78. See id. For a thorough discussion of patent validity, see MERGES ET AL., supra note 53.
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ordinary person skilled in the art could not read the claims and written
description to build a bar code scanner—at least one that would recognize “a
bar code from a piece of tree bark.”

Cognex Corporation, a leading manufacturer of bar code scanning
systems, and Symbol Technologies, Inc., a leading producer of bar code
scanning devices, had a line of customers that were demanding
indemnification and damages, presumably through both individual contracts
and the WAI. Because Cognex and Symbol Technologies were never
personally targeted, they filed a declaratory judgment action against the
Lemelson Foundation challenging the machine vision and bar code patents on
the grounds of noninfringement, validity, and enforceability. These two
“manufacturers [ ] literally couldn’t afford to settle or lose.” In the end, a
federal district court decided in favor of Cognex and Symbol Technologies,
ruling the asserted patents were invalid and enforceable, and that Cognex and
Symbol did not infringe.

Hosier had been defeated, but not before scores of companies paid
over $1.5 billion to “license” Lemelson’s technology—technology based on
patents that likely should have never been valid or enforceable. The
Lemelson suits show the value of challenging dubious infringement
assertions, as well as the ability of weak patents to withstand decades of
threatened litigation.

Patent trolls and other aggressive patent holders will bring suit against
any company that appears to be using the claimed technology. This pattern of
“legalized extortion” is traditionally seen on the federal level under the Patent
Act as demonstrated by the Lemelson suits. The problem is exacerbated by
the increased use of the WAI and the low threshold to establish a “rightful
claim.” Protected by the WAI, infringement defendants (buyers) have
stronger incentives to settle a claim than to defend themselves against
possibly frivolous suits. Because the WAI continues to be used more
frequently in commercial transactions and the definition of “rightful claim”
broadened in courts, patent trolls will continue to seize the opportunity to

79. Id.
80. A notable example is 84 Lumber Co. v. MRK, Techs., Ltd, a case that will be
discussed in Part II.
82. Id.
83. Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found., 301 F. Supp. 2d
1147, 1167 (D. Nev. 2004), aff’d, 422 F.3d 1378 (Fed. Cir. 2005). Specifically, the court
found the patents “unenforceable under the equitable doctrine of prosecution laches; that the
asserted patent claims as construed by the Court [were] not infringed by Symbol or Cognex
because use of the accused products [did] not satisfy one or more of the limitations of each
and every asserted claim; and that the claims [were] invalid for lack of written description
and enablement . . . . Id.
84. Hosier stated: “These were eyes-open deals . . . ‘You pay your money and you take
your chances.’” Hansen, supra note 77.
target even more companies. This “legalized extortion,” unprecedented on the state level, is precisely why we should care whether a claim is “rightful.”

C. The Second Problem: Buyer Playing with Seller’s Money

The problem of patent trolls sending hundreds of cease-and-desist letters and waiting for licensing royalties to roll in is more troubling because of the WAI’s currently low standard for what constitutes a “rightful claim” entitled to protection. In order to recover under the WAI, a buyer only needs to be threatened with an infringement suit. The threat of litigation brings with it the risk of suffering damages through the loss of the goods or a forced payment to continue using the goods sold to it by a seller. Instead of exposing its business to the substantial risk posed by protracted litigation over the validity or potential infringement of a patent, the buyer will settle with the threatening third party and proceed directly to the seller to recover the settlement costs in the form of licensing fees.

In order for the patent system to work as intended, we expect a party to put forth maximum effort in determining the weaknesses of a patent infringement claim. Parties responsible for paying their own infringement damages or licensing fees will work to defend themselves in court or at least drive down potential licensing fees. A company protected by the WAI lacks the incentives necessary to defend itself against an infringement claim. A low threshold for establishing that a third party has a “rightful claim, thereby entitling a party to WAI damages, worsens the problem. Sellers forced to pay on WAI claims believe, of course, that the amount paid to appease the patentee is unreasonable. To keep patent trolls from adding unjustified costs to the productive commercial use of technology, we need parties like Cognex and Symbol to take a stand and challenge the validity and enforceability of the asserted patent(s). Only after the type of overreaching demonstrated in the Lemelson suits, where manufacturers must either challenge or go out of business, are sellers willing to take on the risk of patent litigation.

II. CONTRASTING DEFINITIONS OF “RIGHTFUL”

Recall that the WAI states that “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 . . . .” Importantly, there is no definition of “rightful” in the UCC and the statutory language itself

85. See, e.g., Acushnet Co. v. G.I. Joe’s, Inc., No. CV05-764-HU, 2006 WL 2729555, at *5-6 (D. Or. Sept. 22, 2006) (finding a genuine issue of fact existed regarding whether the $25,000 settlement between buyer and third party was unreasonable based on seller’s argument that the damages of an infringement suit would likely have been $2,500 under the Lanham Act).
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That said, we do have some clear parameters. For starters, we know that “rightful” does not mean “valid.”

The National Conference of Commissioners on Uniform State Laws and the American Law Institute originally proposed the following language for the WAI: “any rightful claim of any third person by way of infringement or otherwise unless the circumstances at the time of contracting place the risk of such claim upon the buyer.” After the publication of this definition, various bar groups were invited to offer testimony and written memoranda on the proposed draft of the UCC. The New York Patent Law Association (“NYPLA”) wanted the WAI to protect against “valid claims.” The NYPLA argued for the term “valid” to be used because it believed “rightful” was not only too ambiguous, but that “patents, trademarks and copyrights are presumably valid and therefore practically any colorable claim under them could be a rightful claim.” The NYPLA further argued that a standard of eviction, either actual or constructive, should be adopted. Thus, a buyer would be required to prove “he or she had been precluded from using the purchased goods as a prerequisite to a warranty claim.”

Despite strong support for the NYPLA’s proposed change, the UCC drafters rejected the recommendation. Comment 4 to the WAI states that the case law requiring eviction is not adopted, and, moreover, that “‘eviction’ is not a necessary condition to the buyer’s remedy since the buyer’s remedy arises immediately upon receipt of notice of infringement . . . .” After the defeat of the proposed “valid claim” language many questions remain unanswered for NYPLA supporters, such as:

Must the claim be one which is ultimately vindicated by a judgment of validity and infringement, or need it only be one which reasonable men would agree is rightful? Would it include a colorable claim which reasonable businessmen would settle rather than fight? Whose responsibility is it and what are the criteria to test whether the claim is “rightful”?

88. Id. at 217.
89. Id.
90. Id.
91. Id.
93. Dundine, supra note 87, at 218.
95. Dundine, supra note 87, at 219.
These questions are ones the judiciary continues to struggle to answer and, despite the expressed desire for there to be “national uniformity in the area of commercial law,”96 the answers vary from one jurisdiction to another.

A. The Early Definitions Created by Federal Courts

Although earlier courts applied the WAI, there was practically no discussion of what constituted a “rightful claim” before the 1996 Federal Circuit case Cover v. Hydramatic Packing Co.97 In that case, plaintiff patentee Cover sued Sea Gull for direct infringement and Hydramatic for contributory infringement based on U.S. Patent No. 4,605,992 (‘992 patent).98 The claims of the ‘992 patent describe “a lighting fixture system having a batt [fabric] of thermal insulation to protect the wiring from heat produced by a bulb.”99 Hydramatic is an insulation products manufacturer that builds its products to the specifications of its customers.100 Sea Gull, a lighting fixture manufacturer, hired Hydramatic to create specific insulation parts for its light fixtures. Hydramatic purchased these parts from Pacor, the exclusive licensee of Cover’s ‘922 patent.101 Hydramatic settled with third-party patentee Cover for $175,000,102 and then filed a cross-claim against Sea Gull seeking to recover that settlement amount under the WAI.103 Sea Gull settled with Cover, but Hydramatic’s cross-claim went to trial.104

Although the Federal Circuit did not ultimately need to define “rightful claim,”105 it did find that there does not need to be an absolute

98. Direct infringement occurs when anyone “makes, uses, offers to sell, or sells any patented invention, within the United States . . . .” 35 U.S.C. § 271(a) (2006) (including “imports into the United States any patented invention” within the class of acts that constitute direct infringement). Direct infringement of a patented invention is a necessary condition for the imposition of contributory infringement. 17 AM. JUR. 2D Patents § 784 (2010). Additionally, contributory infringement requires an “offer[] to sell [] within the United States . . . a component [of a patented invention] or apparatus for use in practicing a patented process” when the offering or selling person knows that such component or apparatus is “especially made or especially adapted for use in an infringement of such patent . . . .” 35 U.S.C. § 271(c) (2006). Specifically exempted from this class of components or apparatuses are “staple” goods which are “suitable for substantial noninfringing use . . . .” Id.
99. Cover, 83 F.3d at 1391.
100. Id.
101. Id. at 1391-92.
102. See id.
103. Id.
104. Id.
105. This case involved a preemption issue, namely whether the marking statute, 35 U.S.C. 287(a), preempted the WAI. Id. See also 35 U.S.C. § 287(a) (2010) (stating that a
finding of patent infringement for a rightful claim to exist. The Federal Circuit reasoned that to require such a high burden would “eschew settlement and . . . force[] [parties] to go to trial to discern whether a ‘rightful claim’ exists under federal patent law.”

In 2001, a Pennsylvania district court took a closer look at what a “rightful claim” might be in *84 Lumber v. MRK Techs., Ltd.* Plaintiff 84 Lumber purchased hand-held laser devices to use in its bar code scanning system from defendants. Shortly after making this purchase from defendants, 84 Lumber found itself as one of the 400 companies sued by Hosier and the Lemelson Foundation (together, “Lemelson”) for infringing the bar code scanning patent. 84 Lumber settled with Lemelson for $40,000 and then filed a suit in state court against the defendant manufacturers for breach of the WAI. Defendants filed a timely removal to the federal district court, and the court ordered briefs and heard argument on whether the litigation was in the correct forum. It is in these briefs and oral arguments that a dispute between the parties arose regarding the definition of “rightful claim.”

Plaintiff 84 Lumber argued that a “rightful claim” does not require a determination of actual liability to the third party, rather, that a reasonable belief that the third party would be successful in its action is sufficient. The defendants argued that “rightful claim” is “a just or legally established claim,” and, therefore, 84 Lumber did not have a valid breach of warranty claim over it. The district court determined that “[i]f claims of patent infringement are seen as marks on a continuum, whatever a ‘rightful claim’ is would fall somewhere between purely frivolous claims, at one end, and claims where liability is proven, at the other.” Thus, the district court disagreed with the plaintiff’s own “reasonable belief” definition, reasoning this personal belief is really a “subjective belief and representation” that the third party would likely win. This “subjective belief and representation” is insufficient to impose liability on the defendants, yet the court also disagreed...
with the defendants’ argument that the claim had to be “legally established.”

Overall, the 84 Lumber court found that the determination of whether a “rightful claim” was made by a third party, entitling the accused infringer to recover any losses under the WAI, should be addressed by “comparing the scope of the patents at issue with the allegedly infringing products.” Although the federal court did not offer guidance on how this comparison should be made, it did recognize the need for a patent specific analysis. It lit the path for future courts faced with delimiting “rightful,” yet state courts have not followed it. Instead, state courts have set a new standard in the opposite direction. There is little, if any, analysis performed comparing the asserted patent with the allegedly infringing good before a determination is made that the third-party infringement claim is “rightful” and deserving of protection under the WAI.

B. The Recent Definitions Created by State Courts

A New Jersey court in 2007 was the first state court to be faced with determining the boundaries of “rightful claim.” The Sun Coast Merchandise Corp. v. Myron Corp. opinion commences the quick departure from the patent specific analysis adopted in 84 Lumber. The dispute in Sun Coast began when the third-party patentee sued the seller manufacturer (Sun Coast) for patent infringement of a flip top calculator. Because of this patent infringement suit against Sun Coast, Myron (buyer) refused to pay for the calculators as well as other products ordered and received from Sun Coast. Myron withheld payment because it was concerned that the patentee would sue it for infringement for its use of Sun Coast’s calculators. Further, Sun Coast allegedly implied that it had a licensing agreement with the patentee that would allow Myron to use the technology if it contributed a per-item royalty fee. In fact, there was no such royalty fee arrangement between Sun Coast and the patentee, so when Sun Coast sued Myron for breach of contract, Myron counter-claimed for breach of the WAI because, it claimed, Sun Coast could not deliver the product free from a “rightful claim” for infringement.

117. See id.
118. Id.
120. See id. at 787.
121. See id. at 790.
122. Id. at 786. In fact, the patentee informed Myron to “be careful” as it would be “suing all those that violated its patent.” Id.
123. See id.
124. See id. There are other claims involves, such as negligent misrepresentation of fraud, but none that are important to this Article.
The court began its discussion by noting the difficulty with the WAI in determining when a third-party “claim” develops into a WAI action.\textsuperscript{125} It then highlighted that the statutory language of the WAI only protects “rightful claims.”\textsuperscript{126} New Jersey state courts had not been faced with this issue before, and so the \textit{Sun Coast} court looked to an earlier New Jersey opinion that had determined the scope of the warranty of title.\textsuperscript{127} This earlier case involved an allegedly stolen truck.\textsuperscript{128} The court found there that a “mere casting of a substantial shadow” over the title of the truck was sufficient to show the warranty of good title was breached.\textsuperscript{129} The \textit{Sun Coast} court adopted this “substantial standard,” finding it appropriately suited for the “rightful claim” requirement under the WAI.\textsuperscript{130} Consistent with prior analyses the court stated that a showing of validity and infringement of the patent is not needed—“only that [the patentee’s] claim had sufficient substance to unduly disturb [defendant’s] ownership and disposition of the goods in question.”\textsuperscript{131}

The \textit{Sun Coast} court cited \textit{84 Lumber} in its discussion on “rightful claim” and ultimately found it is one “of a substantial nature that is reasonably likely to subject the buyer to litigation, and has a significant and adverse effect on the buyer’s ability to make use of the goods in question.”\textsuperscript{132} Implicit in this definition is that no actual litigation is necessary for a party to invoke the protection of the WAI. Myron was never sued by the patentee. \textit{Sun Court’s} definition does not include the patent specific language used by \textit{84 Lumber}—“comparing the scope of the patents at issue with the allegedly infringing products”\textsuperscript{133}—although in determining whether the third-party claim will likely expose a buyer to litigation a court will need to address the merit of the claim. This departure from the patent specific language led future courts to stray further from the path set by \textit{84 Lumber}.

Shortly after the \textit{Sun Coast} opinion, a California state court found that the standard set in \textit{Sun Coast} was not clear and that a “substantial” claim was more than the WAI required.\textsuperscript{134} In \textit{Pacific Sunwear of California, Inc. v. Olaes Enterprises, Inc.}, the California court found that “‘substantial nature’

\begin{footnotes}
\footnote{125. Id. at 795 (emphasis omitted).}
\footnote{126. Id.}
\footnote{127. The warranty of title is like the WAI in that there is strict liability for any “cloud” on the title. \textit{See supra}, Part I and accompanying notes.}
\footnote{128. Sun Coast, 922 A.2d at 795.}
\footnote{129. Id. (emphasis omitted) (quoting American Container Corp. v. Hanley Trucking Corp., 268 A.2d 313, 331 (N.J. Ch. 1970)).}
\footnote{130. Id.}
\footnote{131. Id.}
\footnote{132. Id. at 797.}
\footnote{133. \textit{84 Lumber}, 145 F. Supp. at 680.}
\end{footnotes}
should be understood to mean a nonfrivolous claim.”135 Only claims “devoid of merit” are excluded.”136 The court also clarified the Sun Coast holding and stated that litigation is not necessary. The mere possibility of litigation may be sufficient.137 Under this broader interpretation of “rightful,” a buyer can maintain a WAI claim even if it “voluntarily ceases” the use and ownership of its goods upon receiving a patent holder’s threat of an infringement suit.138 Although the court only gives an example of a buyer who decides to stop using the goods, this standard presumably includes a buyer’s decision to pay a licensing fee to settle the potential infringement suit with the patent holder.139 Because a patent is presumed to be valid,140 a nonfrivolous standard means little here. As demonstrated by the Lemelson suits, it is not frivolous or sanctionable to target a company that has developed a product that “in some way [might] resemble” the patented technology.141

This low threshold standard of “rightful claim” was recently adopted by a California district court in Phoenix Solutions, Inc. v. Sony Electronics, Inc.142 The court there held that Sony had met its burden of showing a “rightful claim” was made against it because the third-party infringement claim had a “significant and adverse effect on Sony’s ability to make use of [the goods].”143 Overall, the “early standard” for determining whether a third party asserted a “rightful claim”—one that required a comparison of the allegedly infringing goods to the scope of the patent claims—has been

135. Id. (citations omitted) (quoting Sun Coast, 922 A.2d at 797). The Pacific Sunwear court also explained that it chose “nonfrivolous” over Sun Coast’s “substantial nature” test because “‘nonfrivolous’ is a term that can be readily applied to the evaluation of legal claims and is thus more conducive to concrete application.” Id. (citing Cal. Code Civ. Proc. § 128.5(b)(2) (defining “‘frivolous’ in the context of attorney or party sanctions to mean, inter alia, ‘totally and completely without merit’ ”)).

136. Pac. Sunwear, 84 Ca. Rptr. 3d at 194 (finding “the warranty against rightful claims applies to all claims of infringement that have any significant and adverse effect on the buyer’s ability to make use of the purchased goods, excepting only frivolous claims that are completely devoid of merit”).

137. See id. (“The existence of litigation is neither necessary nor, in itself, sufficient to establish that a claim is ‘rightful.’ A claim of infringement may be rightful under section 2312(3) whether or not it is ultimately pursued in litigation.”) (italics omitted).

138. Id.

139. See generally Golden, Patent Trolls, supra note 3, at 2124 (stating the “overwhelming majority of patent disputes are resolved out of court”); Lemley & Shapiro, supra note 4, at 1992 (finding many patent disputes are resolved by licensing arrangements instead of litigation).

140. See 35 U.S.C § 282 (“A patent is presumed valid.”).

141. Hanson, supra note 77.


143. Id. at 697. In adopting the Pacific Sunwear court’s definition, the California district court noted that it did not matter whether the underlying third-party claim is a trademark claim, as was the case in Pacific Sunwear. See id. “[T]here is no reason to construe section 2312(3) of the California [Commercial] Code any differently for patent cases.” Id.
severely limited by state courts. Under the more recent standard, there is little analysis of the third-party patent holder’s infringement claim. Instead, courts will focus on whether the threat of litigation had an adverse effect on the buyer’s use of the purchased goods (e.g., purchase of a license). This is the type of “subjective” belief that 84 Lumber found insufficient. Under the current regime patent trolls will be free to continue their aggressive behavior and buyers will be able to respond with money other than their own. The potential for abuse should not cause us to discard the WAI entirely. Instead, we should be motivated to look at the theoretical underpinnings of warranty law, examine why the UCC shifts liability to the seller under the WAI, and determine if these justifications are still applicable in today’s technologically-driven economy. If not, change is needed.

III. Theoretical Justifications of Warranty Law

Calls for patent reform have included arguments that “patent damages are not properly tied to economic function of patents.”\textsuperscript{144} Similarly, the incentives on parties arising from the current enforcement of the WAI are not “properly tied” to the intended purpose and economic function of the WAI.\textsuperscript{145} This problem may be linked in part to the low threshold for determining a “rightful claim,” yet is caused by a deeper, more fundamental problem with the WAI. The theoretical justifications of warranty law do not distinguish the WAI from other warranties. This approach creates an unrealistic and overgeneralized response to the unique demands of the intellectual property infringement claims invoking the protection of the WAI.

\textsuperscript{144} Opderbeck, supra note 1, at 187 (stating patent reformers are correct in their “intuition” that patent damages and the economic function of patents are at odds). Finally, recall that the WAI may also run from the buyer to seller if the buyer gave the seller specifications of design for the goods it wanted manufactured. U.C.C. § 2-312(3) (2002).

\textsuperscript{145} There are three driving questions under economic theories of warranty law that help shape the issues. First, economists ask how an articulated law will resolve a given dispute and how will that law affect future behavior of similarly situated parties. See Cooter & Ulen, supra note 21, at 7 (recognizing that a court-determined allocation of loss both “resolves the dispute between” the parties to the litigation and “guides future parties who are in similar circumstances about how courts might resolve their dispute”). Second, whether that is the type of behavior that is desired from an economic efficiency standpoint. See id. And third, whether economics provides a useful method for courts to use in deciding how a law should be interpreted for the present behavior, and again for future behavior of similarly situated parties. See id. Accordingly, this first principle in reference to warranty law aims at analyzing how a particular warranty incentivizes parties to change their behavior, and the second at whether the behavior is “desirable.” The third, and most important for the discussion here, aims at asking whether courts should be looking through the lens of economics in determining when a “rightful claim” should be found and, conversely, when the WAI is not breached.
A. Theories of Warranty Law

Contracts involve risks, and warranties are risk-allocation devices. Warranty law attempts to provide uniform and predictable mechanisms by assigning this risk to one of the parties to the underlying contract. The purpose of the WAI is seemingly straightforward: create a default rule that places the risk of infringement on the party in the best position to manage it. This approach protects the good-faith expectations of the buyer, as the buyer is generally viewed as the party with the least amount of information and least amount of ability to assess risk. A party expects to purchase goods, not also a lawsuit.

Under the WAI, where a merchant is one that “regularly” deals in the goods being sold, this risk allocation may seem reasonable. Some scholars opine that the burden of anticipating and defending infringement claims is most judiciously born by the seller who generally has superior knowledge as to the potential existence of any such claims and, thus, the seller has the stronger incentive to take measures to discover and prevent any potential infringement claims prior to sale. The WAI is premised, then, in substantial part on theories of asymmetric information.

Theories of asymmetric or imperfect information posit that sellers, because of their position in the market as repeat players with ownership and oversight of the goods involved, will have more information than buyers about the quality or title of the goods. Literature on economic informational asymmetries explains that market failure may occur when there are several “imbalance[s] of information between parties to an exchange.” These asymmetries can be corrected by actions in the law against those that do not disclose certain information or misrepresent information. With cases where there is concern about parties’ willingness to give up superior bargaining power, the government may even step in and mandate certain disclosures.

These informational imperfections or asymmetries may also be corrected by warranties. Under warranty law there is no mandatory disclosure but rather an implicit guarantee that the good will perform the ordinary  

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148. Pac. Sunwear of Cal., Inc., 84 Cal. Rptr. 3d at 190.

149. See COOTER & ULEN, supra note 21, at 46.

150. GILLETTE & WALT, supra note 146, at 317.

151. COOTER & ULEN, supra note 21, at 46.

152. Id.

153. Id. at 46-47. An example of a mandatory disclosure is when a party sells its home and must disclose any terminate infestation. Id.
intended use,¹⁵⁴ a use for a particular purpose that is specifically expressed, ¹⁵⁵ or that the party selling the goods has full rights and title to the good and no third party will claim otherwise.¹⁵⁶ Both warranties of quality and warranties of title seek to place an incentive on the party who is in the best possession to know about the quality and title of the goods to disclose important information.¹⁵⁷ This disclosure of information helps to avoid, insure, or at least minimize risks of loss and the harm caused by the sale of goods.¹⁵⁸

Avoiding harms and insuring against the risk of loss also justifies the use of strict liability to enforce warranty law. Although the buyer must prove a causal relationship between the breach of a warranty and injury suffered,¹⁵⁹ holding a party strictly liable for breach of a warranty is defended on the grounds that “the seller, as an enterprise, is in the best position to bear and distribute losses through market insurance, self-insurance, or pricing.”¹⁶⁰ It does not matter if the seller tried its best to manufacture quality goods or sell a car with clean title. If the seller fails to meet the standards of the implied warranty of merchantability or warranty of title, it will be liable for its breach.¹⁶¹ Good faith is not a defense.¹⁶² This is because strict liability theories of warranty law are not premised on culpability, but rather comparative advantage.¹⁶³ Strict liability “allocates losses to merchant sellers not because they are wrongdoers, but because they have a comparative advantage as against their buyers at reducing or insuring against a risk of nonconformity in the goods sold.”¹⁶⁴ This allocation of risk places the

¹⁵⁷. GIllete & WAlt, supra note 146, at 358-59.
¹⁵⁸. Id. at 359.
¹⁵⁹. Id. This causal relationship is implicit in § 2-714(2)’s measure of buyer’s damages for breach. See U.C.C. § 2-714(2) (2002) (measuring buyer’s damages as “the difference at . . . acceptance between the value of the goods accepted and the value [the goods] would have had if they had been as warranted”).
¹⁶¹. And, remember, although the party with the most information is usually the seller, the WAI contemplates that the buyer may be in the superior position when it gives the seller designs and specifications to create its own custom goods.
¹⁶³. GIllete & WAlt, supra note 146, at 317.
¹⁶⁴. Id.
incentive on the party in the best position to produce the most efficient result.\textsuperscript{165}

Representational theories likewise focus on problems of asymmetrical information between parties.\textsuperscript{166} For example, under the implied warranty of merchantability “the goods are, at the very least, described in the agreement and sold at some price in a context where the relevant community’s expectations of ordinary use can be determined.”\textsuperscript{167} The implied warranty of merchantability “has a strong representational component,” and no proof of reliance on the representation is needed due to the implied nature of the promise.\textsuperscript{168} Similarly, the WAI has a representational component based on reasonable interpretations of sales contracts. Simply, if I sell you a widget, I am implicitly representing that I own the widget. My sale to you represents our expectation that no other party has rights to or in the widget.

Whether couched as economic, strict liability, or representational theories, warranty law is commonly understood as a risk-allocation device.\textsuperscript{169} Warranty law places the risk of loss on the parties who are in the best position to avoid or at least minimize the risk.\textsuperscript{170} Although this structure makes sense as a general matter, when it is applied to the specialized field of intellectual property, it fails to provide the same justifications that much of warranty law is based upon.

B. The Breakdown

Because the WAI gets lumped together with warranties of quality and title in the literature, it is likewise defended on notions of informational asymmetries. So like warranties of quality, the WAI is seen as a tool to induce parties to act in a certain way. In particular, the WAI places the burden on the seller to take action to avoid potential loss or increased costs due to third-party infringement suits.\textsuperscript{171} Yet the WAI is often applied “to

\begin{itemize}
\item \textsuperscript{165} See Cooter & Ulen, supra note 21, at 3-4. Efficiency can generally be defined as fulfilling the condition that “it is not possible to produce the same amount of output using a lower-cost combination of inputs . . . .” Id. at 17. Specific to the warranty context, efficiency mandates placing the costs of breaching the WAI on the party most capable of reducing the risk and severity of infringement (here, the reduction of risk and severity of liability can be seen as the output) at the lowest cost.
\item \textsuperscript{166} See Speidel, supra note 160, at 14.
\item \textsuperscript{167} Id. at 15.
\item \textsuperscript{168} Id.
\item \textsuperscript{169} Gillette & Walt, supra note 146, at 317.
\item \textsuperscript{170} See id.
\item \textsuperscript{171} Recall that the current standard of the WAI requires a buyer to have a “rightful claim” against it by a third party before it has the ability to claim resulting damages from an infringement action from the seller. Likewise, the WAI imposes a duty on buyers to hold sellers harmless when the buyer provides the specifications for the goods to be manufactured, and the seller has a “rightful claim” made against it by a third party. See U.C.C. § 2-312(3) (2002).
\end{itemize}
situations where it is sheer imagination to presume that the seller has knowledge of his title superior to that of the buyer.” 172 In those situations, the problem of asymmetrical information between parties is greatly reduced.

For example, assume Dr. Smith obtains a process patent for growing a crystal semiconductor that is used to produce blue light emitting diodes (LEDs). This patented technology is widely used in consumer electronic products, most notably in blu-ray players. Dr. Smith is a theorist, and does not manufacture or sell any products that use his patented technology. Before Dr. Smith’s patent expires he launches a cease-and-desist licensing campaign targeting all the major producers of consumer electronics. Dr. Smith believes he put in significant time and effort in discovering this crystal-growing process first, and wants others who use the same process or substantially similar process to pay him royalties. 173 Dr. Smith’s attorney sends letters to all the major blu-ray technology users, such as Sanyo, Mitsubishi, Motorola, and Sony. None of these buyers have ever heard of Dr. Smith or his patent, and even though the companies may have doubts regarding the validity of the patent or merit of the infringement claim asserted by Dr. Smith, they all succumb and participate in the “licensing program.” Simply, the risk of having an entire line of production stalled, products recalled, and loss of market position is too much. Within just a few years of building his license portfolio, Dr. Smith obtains over $30 million dollars for a dubious patent.

Upon reaching a license-based settlement, the buyers that purchased the crystal semiconductors that were allegedly created using Dr. Smith’s patented process have a WAI action against their supply manufacturers. 174 Because the buyers all received a threat of litigation and were adversely affected when they put money into Dr. Smith’s licensing program, under current interpretations of “rightful” they will have a WAI claim against the manufacturers. These manufacturers have likewise never heard of Dr. Smith or his patented process, and, moreover, insist they have been using the same or the substantially similar crystal-growing process years before Dr. Smith received his patent. There is no informational asymmetry problem here, and yet the WAI is supposed to correct these assumed asymmetries thereby placing an incentive on the seller to avoid these patent infringement suits.

The manufacturers in this situation must bear the entire burden of aggressive patent trolls like Dr. Smith. Further, these manufacturers are often not given a meaningful opportunity to participate in the settlement process between the third-party patentee and buyer. Even though a buyer must give notice to its seller, it only is obligated to do so upon being “sued” by a third

173. The same or substantially different language is from the doctrine of equivalents, which “allows patentees to claim those insubstantial alterations that were not captured in drafting the original patent claim but which would be created through trivial changes.” Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 535 U.S. 722, 726 (2002).
174. This assumes the parties did not contract around the WAI.
party. In many instances the buyer is never sued, just threatened with suit. Further, the manufacturer may never have an opportunity to be involved in the settlement process because of other reasons. For example, in the semiconductor and software industries companies often “aggregate hundreds of thousands of different components to make an integrated product.” More complicated is that these different components are often patented by many different inventors. How does Sony know which seller is responsible for an allegedly infringing component? Conversely, how does a seller know if it is his component that caused the threat of litigation? With a more rigorous structure of the WAI, the burden of information gathering and aggressive patent trolls would be carried by both buyer and seller. The buyer would have an incentive to evaluate the merits of the infringement claim before quickly agreeing to participate in a licensing program. The seller would have an incentive to support its buyers and help decide whether the infringement allegation has merit in the face of potential liability under the WAI.

These licensing campaigns that threaten costly infringement suits are a daily struggle for many corporate legal departments. Patent law is vulnerable to this problem for two noteworthy reasons. First, priority is given on a first-to-invent rule; second and more important for the discussion here, patent law is strict liability. “Patent infringement is a strict liability tort in the sense that a defendant may be liable without having had any notice, prior to the filing of an infringement action, that her conduct was infringing.” So unlike copyright law that grants defendants a defense based on independent discovery, patent law has no good-faith defense to an

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175. See § U.C.C. 2-607 (2002) (requiring notification to the seller of a breach of the WAI within a reasonable time if “the buyer is sued as a result of such a breach”).
176. Mark A. Lemley, Ignoring Patents, 2008 Mich. St. L. Rev. 19, 19 (2008) (stating also that in the past 20 years more than 2.5 million U.S. patents have been issued).
177. Id. at 19-20.
178. See Sudarshan, supra note 39, at 160 (stating “nuisance-value patent suits are a daily fact of life for most corporate legal departments”).
179. See 35 U.S.C. § 102(a) (2006) (entitling a person to a patent, unless “the invention was known or used by others in this country . . . before the invention thereof by the applicant”) (emphasis added). The problem with this first-to-invent rule in this context is that there may not be the same public disclosure and therefore notice of patented technology that would be seen in a first-to-file jurisdiction. This is one of the reforms proposed on the Patent Reform Act of 2011—a move towards a first-to-file rule. See Patent Reform Act of 2011: An Overview, PATENTLY-O (Feb. 10, 2011, 2:06 PM), http://www.patentlyo.com/patent/2011/02/patent-reform-act-of-2011-an-overview.html.
182. Id. at 801 n.7.
infringement claim. Thus, there is no defense for defendants based on unintentional or inadvertent infringement.

Most troubling here is that parties like Lemelson and Dr. Smith are garnering licensing fees in exorbitant amounts on infringement claims that are dubious at best. A main purpose of warranty law, to correct informational asymmetries between parties, as applied generally to the WAI is not always a realistic response given the factual circumstances. Sellers in many instances do not have any more information about potential infringement suits than their buyers, and so do not possess greater information than buyers that would enable them to avoid or minimize risk. With over 2.5 million U.S. patents issued in the last 20 years and numerous patents covering extremely similar technology, it is unrealistic to have this expectation of sellers.

The unifying theoretical thread of warranty law does not properly apply to the WAI. As a consequence of the misfit, patent trolls like Lemelson and Dr. Smith are not discouraged from engaging in overly-aggressive and opportunistic behavior. With the low threshold for determining “rightful” under the WAI, patent trolls can send targeted letters to buyers, counting on them to fear a costly patent infringement suit and to therefore decide to participate in licensing programs. Patent trolls understand that buyers like Sony are more likely than manufacturers to enter license-based settlements because of their higher financial risk. The tendency to settle is bolstered by the fact that buyers are not as familiar as manufacturers are with the intricacies of the numerous components that comprise their products.

My proposed structure for determining when a “rightful claim” has been made by a third party, thereby invoking protection for the accused buyer under the WAI, will help states decrease current and future problems with the WAI. If buyers are encouraged to take a deeper look at the infringement claim asserted by opportunistic patent holders in the cease-and-desist letters, and to actively seek the involvement of the potential manufacturers and responsible parties for a breach of the WAI, patent trolls would be forced to support and defend their massive licensing campaigns. The resulting incentive for buyers to require a more rigorous determination of the third-party claim will help spread the burdens of the liability-shifting WAI on both the seller and buyer, force buyers to internalize more of the ultimate costs of settlement, and deter patent trolls from targeting more buyers.

183. Id. at 801.
184. Id.
185. Of course, this is not always the case and when it is not, the same concern about holding the seller responsible for something that it could not have prevented any better than the buyer does not exist.
186. See Lemley, supra note 176, at 19.
187. Sudarshan, supra note 39, at 160.
IV. A “Uniform” Framework

Patent disputes are overwhelmingly resolved by parties out of court. Because licensing terms are “negotiated in the shadow of litigation,” we must analyze how patent law and commercial law affect parties when they are bargaining for the terms of their settlements. The interaction between patent law and commercial law is a relatively new issue. Federal courts have encountered aggressive and litigious behavior from patent holders for years, yet state courts have been immune to the demands and intricacies of patents because of the federal courts’ exclusive jurisdiction over matters arising under patent law. Although this exclusivity means state courts will never be faced with third-party patent infringement claims, state courts will be tasked with sorting out the resulting WAI disputes between buyer and seller. As scholars have noted, there is an increasing awareness of intellectual property implications in commercial transactions, as well as calls for more use of the WAI as a mechanism to recover losses for clients. The door is opening on the state level to the leftovers of aggressive patent troll behavior for the first time, and the unrealistic asymmetry between the buyer and seller further complicates the use of the WAI.

The easy solution here may seem to simply have the buyer and seller contract around the WAI. But while this solution may seem straightforward, it will only work if both parties agree to the explicit removal of the WAI in their transaction. In many instances, this is not possible. The buyer often has more bargaining power than the seller and, therefore, the ability to demand that the WAI apply to the sales transaction. Although it might be preferred for sellers to not sign an agreement, such as when they are aware that a multiple patents cover similar technology to what it is selling, this is not in the buyers’ best interests. The buyers’ interests will often be protected first because of their deep pockets.

189. Lemley & Shapiro, supra note 1, at 1992 (“[S]ince far more patents are licensed or settled than litigated to judgment, the primary economic effect of rules governing patent litigation arises through the effect of those rules on the licensing terms that are negotiated in the shadow of litigation.”).
This solution is not only unrealistic in many transactions, it is also undesirable. It may result in the buyer getting nervous and demanding a more secure WAI-type provision from sellers. This negotiation around the default rule will also lead to increased transaction costs. Parties will need to separately draft their own WAI, or otherwise draft a no-WAI provision. In this sense, implied warranties are beneficial is that they avoid these extra transaction costs and also instill some level of uniformity and expectation management for parties across the nation.

I suggest a better solution than striking the WAI from every sales contract. Instead, courts should adopt a new framework for determining what constitutes a “rightful claim.” Because courts are altering this structure with almost every case, I believe this is both a practical and implementable solution to a problem that is only going to get bigger with time. Put simply, a “rightful claim” should be one that has a reasonable likelihood of success on the merits. This means that a buyer must have a claim against it by a third party that will, or would if it went to trial, be reasonably expected to succeed on the merits at trial before the buyer is entitled to damages under the WAI from the seller. This is similar to courts’ initial interpretations of “rightful,” but here I also offer a structured analysis for making this determination.

The structure for determining the reasonable likelihood of success on the merits of the third-party’s claim must be tailored to the specific intellectual property infringement claim asserted: patent, trademark, or copyright.

One area of law that has been conducting this type of tailored analysis for decades is in civil litigation with the preliminary injunction motion. State courts should look to how federal courts conduct these intellectual property specific analyses when they examine the first factor parties must demonstrate to be awarded a preliminary injunction: likelihood of success on the merits. Accordingly, when a buyer brings a breach of a WAI action because of a third-party patentee infringement claim against it, the state court should mimic how federal courts handle the first factor of a preliminary injunction motion for a patent infringement suit. This analysis focuses on the meaning and scope of the claims of the asserted patents. It involves claim construction, although notably at an early stage in a patent infringement suit. After interpreting the claims of the patent, at least on a preliminary level, courts use this interpretation and compare it to the allegedly infringing good


194. Of course, the parties will be switched if the buyer gives specifications to the seller for custom-made goods.

195. See infra Part II.

that the seller sold to the buyer.\textsuperscript{197} Further, and consistent with transactions under the UCC, all settlement agreements must be entered into with good faith. This is of particular importance when liability is easily established and the buyer has little to no bargaining power. Good faith should be analyzed by looking at the process used by a party in deciding how much it was willing to pay for a right not to be sued by the third-party patentee.

There is one exception to this proposed structure when a presumption of “rightful” should inure to the buyer. The settlement amount, however, should still be analyzed with a standard of good faith that focuses on the process taken in reaching the terms of the settlement—i.e., the amount of money paid to obtain a license. Claims that receive this presumption are ones where the realistic value of the infringement suit is so high that the risk of going to trial leads the reasonable businessman to settle despite potential weaknesses in the infringement claim. These claims must also involve highly sophisticated technology to fit into this exception. Although I will not delineate what is and what is not highly sophisticated technology, or what balance of money and sophistication is needed, in practice I believe this is a relatively easy determination. For example, technology that involves introducing particular combinations of dopants with chemical elements in vats at extreme temperatures in order to grow layers of semiconductor crystals,\textsuperscript{198} versus technology involved in flip top calculators or sheets of insulation.\textsuperscript{199}

The following subparts discuss the underpinnings of the preliminary injunction motion and the type of analysis a federal court performs when faced with patent infringement claims. I also offer shorter discussions on trademark and copyright infringements claims as these analyses are substantially different than with patent infringement claims and may invoke the WAI. Although the troubling issue of aggressive NPEs does not often arise with trademarks or copyrights, the buyer “playing” with seller’s money does. I then illustrate how these intellectual property tailored analyses will provide relief for the aggrieved buyer and also encourage it to be diligent and thorough with the settlement process. This in turn will provide a new level of deterrent for the aggressive licensing campaigns employed by patent trolls.

A. Preliminary Injunctions: Reasonable Likelihood of Success

The purpose of the preliminary injunction is to preserve the status quo of the parties and to halt any further actions that may cause damage to the plaintiff.\textsuperscript{200} Thus, this motion is filed early on in the litigation.\textsuperscript{201} Generally,

\textsuperscript{197} See id. at 1358-61.
\textsuperscript{199} See Sun Coast Merch. Corp., 922 A.2d at 785-86; Cover, 83 F.3d at 1391.
\textsuperscript{200} See Abbott Labs. v. Sandoz, Inc., 544 F.3d at 1345 (quoting Univ. of Tex. v. Camenisch, 45 U.S. 390 (1981)).
there are four factors that a plaintiff must prove to the court in order to have a preliminary injunction granted: 202 “(1) that he is likely to succeed on the merits, (2) that he is likely to suffer irreparable harm in the absence of preliminary relief, (3) that the balance of equities tips in his favor, and (4) that an injunction is in the public interest.” 203 Similar to a buyer not needing to establish a “valid” claim under the WAI, a party defending a preliminary injunction need not show actual invalidity or noninfringement of the patent. Rather, “[v]ulnerability is the issue at the preliminary injunction state, while validity [and/or noninfringement] is the issue at trial.” 204 Courts balance these four factors and allow for variations within the facts as well as the law involved. Here, I am only concerned with this first factor—likelihood of success on the merits—and how courts conduct this analysis in regard to patents, trademarks, and copyrights.

1. Patent

For a patent preliminary injunction, a federal court compares the scope of the asserted patent with the allegedly infringing conduct. 205 This comparison requires courts to interpret the meaning of the claims of the patent. This process is most often termed “claim construction.” 206 The scope and the meaning of a patent are “indeterminate until interpreted by a

201. See, e.g., Abbott Labs. v. Andrx Pharms., 452 F.3d 1331, 1339 (Fed. Cir. 2006).
202. While there are several modifiers used by courts other than reasonable, such as “some” or “substantial,“ commentators agree that this is merely a distinction without a difference. See Titan Tire Corp. v. Case New Holland Inc., 566 F.3d 1372, 1376 (Fed. Cir. 2009) (“We note in passing that some cases state the first factor as requiring a ‘reasonable’ likelihood of success on the merits. It is not clear whether the addition of ‘reasonable’ adds anything substantive to the test, but in any event, for our purposes the Supreme Court’s current statement of the test is the definitive one.”) (footnotes omitted). See also Abbott Labs., 452 F.3d at 1332 (requiring “substantial likeliness”); Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc., 565 F. Supp. 931, 935 (D.C.N.J.) (requiring “reasonable probability of eventual success in the litigation”).
204. Abbott Labs, 544 F.3d at 1364. Similarly, “[t]he correct standard is not whether a substantial question has been raised, but whether the patentee is likely to succeed on the merits . . . [t]o hold that a defendant may defeat a preliminary injunction by raising a ‘substantial question’ that may render the patent ‘vulnerable’ would conflict with Supreme Court precedent and with the precedent of every regional circuit.” Id. at 1364-65.
205. Note, that this is the type of analysis the 84 Lumber court stated should be performed when determining whether a “rightful claim” has been made by a third party—a comparison of the “scope of the patents at issue with the allegedly infringing products.” 84 Lumber Co, 145 F. Supp. 2d at 680.
The federal district court will interpret, or “construct,” the claims that makeup a patent and decide where the “metes and bounds” of the patent lie. During claim construction, the district court will first look to so-called “intrinsic” evidence, including the patent claims, specification, and prosecution history. If needed, as is common, the court will then look to “extrinsic” evidence for guidance, such as dictionaries, cases where courts have construed the same or similar terms contained in the patent at issue, published literature, and expert testimony. Claim construction is reserved for a judge, not a jury.

Claim construction has a significant impact on the likelihood of success factor of the preliminary injunction motion even though the court still has three more factors to consider. For a preliminary injunction the patent holder must also show that “it will likely prove [the defendant’s] infringement, and that it will likely withstand challenges, if any, to the validity of the patent.” This analysis takes into consideration the presumption of validity that is inherent in a patent, and if the patent holder moves for a preliminary injunction and the defendant does not challenge validity, then the “very existence of the patent with its concomitant presumption of validity satisfies the patentee’s burden of showing a likelihood of success on the validity issue.”

207. OPDERBECK, supra note 1, at 159 n.226.
208. See id.; see also MERGES ET AL., supra note 53, at 131 (describing claims as the “heart of patent law” and that claims “define the boundaries of the property right that the patent confers”); Dan L. Burk & Mark A. Lemley, Fence Posts of Sign Posts? Rethinking Patent Claim Construction, 157 U. PA. L. REV. 1743, 1744 (“In modern American patent doctrine we define that the patentee owns . . . by what she claimed. Courts and commentators regularly analogize patent claims as akin to the ‘metes and bounds’ of a real property dead, defining the outer boundaries conferred by the patentee.”).
209. Chen, supra note 206, at 1173.
210. Id.
212. Titan Tire Corp., 566 F.3d at 1376.
213. A defendant may challenge the validity on a patent on the grounds of patentability requirements, such as nonobviousness and enablement, as well as inequitable conduct before the PTO. MERGES ET AL., supra note 53.
214. Titan Tire Corp., 566 F.3d at 1377. Also, the court will view the “matter in light of the burdens and presumptions that will inhere at trial.” Id. at 1376. Accordingly, the patentee need not, at this stage, prove invalidity by clear and convincing evidence. Instead, the patentee just needs to show that through the evidence available at this early stage that there is a reasonable chance that he will succeed at trial. Id. Importantly, here, validity is not at issue. The WAI has not been extended to validity, presumably because of the actual language of the statute itself limiting itself to “infringement.” Consequently, the only question for the court to evaluate in the WAI context is whether the third-party’s infringement claim will likely hold at trial.
An example of this type of “likelihood” analysis paired with a claim construction is demonstrated in *Abbott Labs. v. Sandoz, Inc.* Plaintiff patentee, Abbott Laboratories, brought an action for patent infringement against its competitor Defendant, Sandoz, based on its patents relating to extended release formulations of the antibiotic drug clarithromycin. In order to prevent any actual damage, as Sandoz had not yet started to market or sell its version of the extended release clarithromycin, Abbott Labs moved for a preliminary injunction. On the infringement portion of the motion, the Federal Circuit stated that the issue of infringement could be substantially resolved by the claim construction of one term: “pharmaceutically acceptable polymer.” This term of art is found in the written specification of patent at issue, which lists only water-soluble hydrophilic polymers. Accordingly, if the term was construed to strictly include only the polymers named in the specification, then there could be no literal infringement because Sandoz’s generic version of clarithromycin did not use one of the identified polymers. If the court decided that other, unnamed pharmaceutically acceptable polymers would be covered by the construction of “pharmaceutically acceptable polymer,” then literal infringement would be likely. Consequently, Sandoz argued to limit the construction to those named polymers—water-soluble hydrophilic polymers.

In briefing of how the term should be construed, parties often identify for the court other times when the term has been defined in meaning and scope. This is what happened here. “Pharmaceutically acceptable polymer” had been discussed in previous litigations, and twice in the Federal Circuit. The Federal Circuit court here agreed with the district court in “the fact that some methacrylic acid copolymers are water-insoluble does not require limiting ‘pharmaceutically acceptable polymer’ to the named polymers.” Overall, and after similar claim constructions of “matrix” and an analysis of the difference between “polymer” and “excipient” were conducted, the district court’s ruling that Abbott Laboratories had demonstrated a reasonable

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216. *Id.* at 1343.
217. Defendant Sandoz objected to the preliminary injunction motion by also challenging the validity of the patent, yet I will not discuss this here as it is not relevant to what a court would be faced with in a WAI action. Only infringement is at issue under the WAI.
218. *Id.* at 1358.
219. *Id.*
220. *Id.*
221. *Id.* at 1359. Sandoz’s drug contains water-insoluble polymers. Because infringement requires that every claim limitation is present in the allegedly infringing product, companies will often try to design around the patent. Here, that may have been the case and, if so, Plaintiff Abbot did a good job of ferreting out the argument that the polymers identified were merely examples of the type that could be used, instead of an exhaustive list.
222. See *id* at 1359.
223. *Id.*
likelihood of proving infringement at trial was upheld by the Federal Circuit.\textsuperscript{224}

While this type of analysis to determine whether a “rightful claim” exists may seem burdensome, this is precisely what a patent attorney is trained to do. Charts are created, words are defined, and comparisons made.\textsuperscript{225} Because a patent holder must prove, for a literal infringement claim, that every single element of a claim is infringed by the product, defining the boundaries of the patent and the alleged infringing product often gives the parties insight into whether infringement is likely. Because of this insight, claim construction is considered “outcome determination” and “often the first and last step in patent disputes.”\textsuperscript{226}

2. Trademark & Copyright

The first factor of preliminary injunctions—whether there is a likelihood of success on the merits—is also context-specific for trademark and copyright infringement claims. For trademark infringement, the plaintiff’s probability of success on the merits depends on the strength of the trademark infringement claim, which in turn requires a showing that the plaintiff’s “mark was used in commerce by the defendant without the registrant’s consent and that the unauthorized use was likely to deceive, cause confusion, or result in mistake.”\textsuperscript{227} The party moving for a preliminary injunction in a trademark infringement case must initially demonstrate that it was the first to use the mark in commerce. The plaintiff must demonstrate that “(1) its case has some likelihood of success on the merits; (2) that no adequate remedy at law exists; and (3) it will suffer irreparable harm if the injunction is not granted.”\textsuperscript{228}

This determination may be simple when the facts show, for example, a near exact imitation or clearly unlawful use of a mark by a holdout licensee.\textsuperscript{229} Other times this determination will require a more in-depth look at the nature and use of the similar trademarks. The question for the court acting as factfinder in these cases is one of proximity. The court will employ

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\item \textsuperscript{224} Id. at 1361.
\item \textsuperscript{225} Depending on the technology involved, these comparison/contrast charts may be completed in just a few days, or if a more in-depth analysis is needed (either because the technology is highly sophisticated or the value of the patented technology so substantial), a few weeks.
\item \textsuperscript{226} Chen, supra note 206, at 1169.
\item \textsuperscript{227} Montana Professional Sports, LLC v. Leisure Sports Management, Inc., 422 F. Supp.2d 1271, 1277 (M.D. Fla. 2006) (quoting McDonald’s Corp. v. Robertson, 147 F.3d 1301, 1307 (11th Cir. 1998)).
\item \textsuperscript{228} Ty, Inc. v. Jones Group, Inc., 237 F.3d 891, at 895. Although various circuits have slightly different wording of these factors and different requirements, this is not important for this limited preliminary injunction discussion.
\item \textsuperscript{229} 35 AmJur Pof 3d 255, at 16.
\end{itemize}
some or all of the following factors: the strength of the trademark, the degree of similarity between the two trademarks, the proximity of the products in the marketplace, the likelihood that the prior owner will move into the junior user’s market, instances of actual consumer confusion, the degree of the junior user’s good faith in adopting its trademark, and, finally, the sophistication of the purchasers. When two products are competing in the same market, a simple side-by-side comparison is not sufficient. Rather, an analysis “focusing on actual market conditions and the type of confusion alleged” is required.

An example of this analysis in the preliminary injunction context is Ty, Inc. v. Jones Group, Inc. This trademark infringement suit involved the plush toys under the trademark name “Beanie Babies.” Ty began selling the plush toys in 1993 and quickly became a smashing success—selling over 1 billion Beanie Babies by the time of this trial. The Jones Group, a licensee of NASCAR, began manufacturing and selling bean-filled replicas of NASCAR racing cars in 1998—named Beanie Racers. After an unsuccessful cease and desist letter, Ty filed suit and shortly thereafter moved for a preliminary injunction against Jones that would prohibit it from selling anymore of its Beanie Racers until the outcome of the suit determined the parties respective rights.

Keeping the focus on the first factor here, likelihood of success on the merits at trial, the Seventh Circuit began its analysis on the issue of whether consumers would likely be confused as to the origin or source of the Beanie Racers. The seven factors listed to aid in this determination are very similar to the traditional Polaroid factors, yet the court here utilized the following factors the most: similarity of the marks and products, and the area and concurrent use of the products.

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232. Ty, 237 F.3d at 891.
233. Id. at 895.
234. Id.
235. Id.
236. The Seventh Circuit uses the following seven factors to determine whether a likelihood of confusion to a consumer exists: “(1) the similarity of the marks in appearance and suggestion; (2) the similarity of the products; (3) the area and manner of concurrent use; (4) the degree of care likely to be used by consumers; (5) the strength of the plaintiff’s mark; (6) whether any actual confusion exists; and (7) the defendant’s intent to palm off its goods as those of the plaintiffs.” Id. at 897 (citing Helene Curtis Indus., Inc. v. Church & Dwight Co., Inc., 560 F.2d 1325, 1330 (7th Cir. 1977)).
237. See generally id., at 898-901 (discussing the similarity of marks, similarity of products, and the area and manner of concurrent use in the majority of the opinion on whether plaintiff had shown a likelihood of success at trial). More commonly, similarity of the marks, intent of the defendant, and evidence of actual confusion are the three most important factors. Id. at 898 (citing G. Heileman Brewing Co. v. Anheuser-Busch, Inc., 873
In regards to similarity of the marks, the court noted that the confusion between the two marks “Beanie Babies” and “Beanie Racers” was in the word “Beanie.” The court did find that the tags on the plush toys were distinctive—consumers would likely notice in a side-by-side comparison. Yet the court was not convinced that consumers would be able to recognize the different sources if the two toys were not side-by-side. The court found that “Beanie” was a “salient aspect of Ty’s product” and that the other features on the tags were diminished because of that aspect. Likewise, the similarity of the products themselves weighed in favor of Ty, as both products are made from velvet boa-type fabric, are eight to nine inches in size, and are filled with pellet-like materials. As to the area and manner of concurrent use, the court found it needed to determine “whether ‘there is a relationship in use, promotion, distribution, or sales between the goods or services of the parties.’”

The evidence showed that both parties sold their plush toys to specialty-gift shops, that they were likely sold in the same spot in the majority of stores, that they advertised in many of the same magazines, and yet the target audiences are likely at a bit of odds (with younger females being the target audience of “Beanie Babies” and the NASCAR fan base historically consisting of men, not women or children). Although not all the factors weighed in Ty’s favor, the Seventh Circuit still upheld the magistrate judge’s opinion that Ty demonstrated “some likelihood of succeeding on the merits.” After considering the other factors, such as the balancing of harms, the Seventh Circuit affirmed the grant of the preliminary injunction to Ty.

The preliminary injunction factors in a copyright infringement suit are similar to those of the patent and trademark infringement, requiring the plaintiff to demonstrate a likelihood of success on the merits (that will then create a presumption of irreparable harm), or a “fair chance of success on the merits” with the relative hardships factor weighing strongly in the movant’s favor. Specific to copyright infringement, the plaintiff must first show that it has registered its work with the U.S. Copyright Office and then prove that

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F.2d 985, 999 (7th Cir. 1989)). Yet as this case shows, this is a very individual, fact-intensive analysis, and sometimes other factors are more important because of unique facts.

238. See id at 898.
239. Id. at 899.
240. Id.
241. Id.
242. Id. at 900. (quoting Forum Corp. of N. Am. v. Forum, Ltd., 903 F.2d 434, 442 (7th Cir. 1990)).
243. See id. at 900-01.
244. Id. at 902.
245. Id. at 903.
the alleged infringer has copied original elements of the work.\textsuperscript{247} This requirement of actual copying is often broken down into two separate inquiries. “First, the copyright holder must show that, as a factual matter, the putative infringer copied the protected work. Second, the holder must show that the copying was so egregious as to render the allegedly infringing and infringed works substantially similar.”\textsuperscript{248} Actual copying is best demonstrated by proving the alleged infringer had access to the original work and that direct copying was not only plausible, but that there is substantial similarity when the two expressions are compared together. When the works are “so alike that the later (unprotected) work can fairly be regarded as appropriating the original expression of the earlier (protected) work,” the works will be deemed substantially similar.\textsuperscript{249}

Accordingly, for the first step in a motion for a preliminary injunction in a copyright infringement suit, the movant must demonstrate to the court that it has a registered copyright. Second, that it has either a probability or fair chance of success on the merits. This is accomplished by arguing actual, unauthorized copying has occurred.\textsuperscript{250} This copying of original elements will show that the unauthorized copying created two substantially similar works.

**B. The Standard Applied**

We know from Part II that a “rightful claim” should “fall somewhere between purely frivolous claims, at one end, and claims where liability is proven, at the other.”\textsuperscript{251} We also know that state courts have recently broadened the definition of “rightful,” finding that a “rightful claim” is any nonfrivolous third-party claim that causes some voluntarily adverse affect.\textsuperscript{252} This may be proven by as little as a cease-and-desist letter.\textsuperscript{253} This broad interpretation and lack of structured analysis fails to provide the right incentives for both buyers and third parties. To change these incentives, yet retain the benefits of the WAI for buyers, I propose that courts adopt a new and more rigorous framework for determining when a “rightful claim” has been made by a third party. This new framework with accompanying analysis will create a unified understanding of the WAI, thereby enabling parties to better manage expectations.

\begin{itemize}
\item \textsuperscript{247} Id.
\item \textsuperscript{248} Coquico, Inc. v. Rodriguez-Miranda, 562 F.3d 62, 66 (1st Cir. 2009) (citations omitted).
\item \textsuperscript{249} Id. at 67.
\item \textsuperscript{250} The most used route is to show likeliness of success, so that the presumption of irreparable harm attaches and the motion granted. See Jacobsen, 535 F.3d at 1378-79.
\item \textsuperscript{251} 84 Lumber Co., 145 F. Supp. 2d at 680.
\item \textsuperscript{252} See supra Part II.B.
\item \textsuperscript{253} See id.
\end{itemize}
1. **Reasonable Likelihood of Success**

The question analyzed by courts when encountering a WAI claim under this new framework is whether the third-party infringement claim has (or had) a reasonable likelihood of success on the merits at trial. A court should ensure that any settlement entered into with a third party was done in good faith as required by the UCC. This framework requires an intellectual property specific analysis. Because both federal courts, with patent, trademark, and copyright infringement claims, and state courts, trademark infringement claims, perform this type of intellectual property specific analysis in preliminary injunction motions, state courts should use these established analyses as guidance.

For third-party claims of patent infringement, the analysis is aimed at determining the scope of the patent claims, and then determining whether the allegedly infringing product or process falls within those limitations. The first step upon receipt of a cease-and-desist letter is to have patent counsel look at the asserted patent and compare it with the client’s good(s). This early form of claim construction is most often manifested in claim charts, which will break down each claim of the patent and even further break down that claim into the various limitations given in the particular claim. These claim charts may be developed to the depth required by the potential value of the patent, and are useful for any number of responses to the cease-and-desist letter. These claim charts will ultimately determine, along with the particular level of risk a company is willing to bear, what response may be warranted. For example, a letter back to the patent holder identifying particular limitations of the patent that are not existent in the allegedly infringing product or process, or, conversely, a phone call to the patent holder to set up a meeting to discuss licensing options.

This informal claim construction will roughly identify the strength of the infringement action. If the buyer decides to settle, these claim charts will be the foundation of a claim construction brief to the court in a WAI action. The court assessing the viability of the WAI action will go through the same claim construction analysis that federal courts do with patent preliminary injunction motions. The claim construction will not be at the level of a Markman hearing (final claim construction in a patent infringement suit); it will be at a more informal level.

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254. This patent and product comparison is also key for those complex products where the buyer needs to determine which seller, if any, may be responsible for the third-party infringement claim.

255. Another common answer is that the patent is likely invalid based on obviousness or non-enablement. If the buyer chooses to not settle based on these grounds, even though it may likely infringe, a seller is not responsible for the cost or outcome of this defense to a patent infringement suit. Simply, the WAI only covers assertions of noninfringement, not challenges to a patent.

instead a more shallow analysis of the technology at issue will be conducted. If the patent infringement suit has a reasonable likelihood of success on the merits, as determined by comparing the construed claims to the allegedly infringing good, then the court may award relief under the WAI. While the WAI may still result in seemingly unfair results for sellers that were unaware their manufactured goods potentially infringe a patent, it nevertheless provides a more fair and judicious process for all parties involved in the WAI.\(^\text{257}\)

With this stricter standard for determining when a “rightful claim” has been made, the buyers will still be protected under the WAI from meritorious infringement actions, and the massive, impersonal and overly-aggressive licensing campaigns suits that are targeting easy settlements will be discouraged. No longer will a buyer have the right to settle without assessing whether the claim against it is likely to succeed or not. Instead, the buyer has the burden to prove it should be accorded relief from the seller.

For a third-party trademark or copyright infringement claim, the process is a bit simpler. The trademark infringement analysis turns on whether the consumer will be confused by the junior users mark. This analysis is highly factual and involves a court evaluating any number of the traditional Polaroid factors (for example, similarity of the marks and products sold by the companies, and intent of the junior user). This analysis is performed exactly like that in the preliminary injunction process, and, will therefore be familiar territory for a state or federal court determining whether a “rightful claim” of trademark infringement was brought against a buyer.

For a third-party copyright infringement claim, the first step in determining whether the third party made a “rightful claim” against a buyer is verifying that the asserted copyright is registered with the U.S. Copyright Office. Second, that the buyer/seller copied original elements of the third-party’s registered copyright. Recall that a “valid claim” is not the standard here. Instead, the standard is that the claim is reasonably likely to succeed on the merits. Factual determinations such as exposure to source code by a former employee or competitor will help substantiate a copyright infringement claim. If the works are substantially similar, the reasonable likelihood of success mark may be achieved without a huge endeavor into the origins and creation of the source code.

Overall, this more rigorous standard for determining when a claim is “rightful” is in-line with the current case law, as well as the initial parameters that were set with the WAI. There does not need to be a determination that there is in fact infringement, or a “valid” third-party claim. Rather, only whether there is a reasonable likelihood that the third party would (or would have if it settled) succeed on its infringement claim at trial.

\(^{257}\) This is also consistent with the representational theories of warranty law. See supra Part III.
2. Settled with Good Faith

Further, when faced with a WAI claim where a settlement has already been entered by the buyer and third party, and, therefore the buyer is suing the seller to recover its losses, the court should ensure that any settlement agreement was entered in good faith. Under the UCC, good faith for sales transactions requires “honesty in fact and the observance of reasonable commercial standards of fair dealing.”\(^\text{258}\) The first part, honesty in fact, is “often referred to as the subjective component of good faith,” while the second part, reasonable commercial standards “is referred to as the objective component of good faith.”\(^\text{259}\) This “subjective” part of the good-faith obligation has been referred to as the businessperson who may be “empty of head but good of heart.”\(^\text{260}\) Under this first part, a party must show that it had an “honest belief in the legitimacy of the transaction.”\(^\text{261}\) This honesty requirement is in contrast to the reasonable or objective standard where a party must not only have been honest in its transaction and conduct, but also knowledgeable in its specific trade and with behavior typical to those in its field.\(^\text{262}\) A party may meet this requirement by demonstrating to the court the legitimacy of its actions and reasonableness of its settlement. This can be analyzed by looking at the terms of the settlement, namely the amount of licensing fees in comparison to the strength of the infringement claim and value of the patented technology.

This good-faith requirement is especially important in the cases where liability of infringement is easily provable. This occurs more frequently in the trademark and copyright arenas, where actual copying or use of a registered trademark or copyright, or counterfeiting of goods is easily determinable. In these cases, the infringing buyer is left with little to no bargaining power for settlement negotiations. It is also conceivable that the buyer will be upset at the seller for selling them goods that are so obviously in violation of another’s rights. Because of this, good faith is necessary to show the reasonableness of the settlement.

A recent example of this is Apple reportedly paying approximately $1 million to settle a trademark infringement suit against it for the use of the term “iAds.”\(^\text{263}\) This trademark, “iAds,” was first used in 2006 by an online ad agency based in Los Angeles, Innovate Media, who then received two

\(^{258}\) U.C.C. § 1-201(20) (2010).


\(^{262}\) Kozolchyk, supra note 260, at 374.

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trademark registrations for the mark in October 2008. When Steve Jobs announced on behalf of Apple® on April 8, 2010 the new “iAds” program, Innovate Media sued just one month later. Reportedly, the two companies settled quietly in July. Having deep pockets to go after and clear infringement of a registered trademark, it was in the best interests of Apple to settle quickly with Innovate Media. If Apple had licensed another to use this “iAds” trademark and had, therefore, been liable for any resulting losses from an infringement claim, the buyer would need to demonstrate if challenged by Apple that the settlement amount was reasonable.

Like with the preliminary injunction body of law, employing the well-established doctrine of good faith under the UCC gives courts parameters and existing law to look to for guidance. A case where this would have been helpful is Acushnet Co. v. G.I. Joe’s, Inc. This case involved G.I. Joe’s, a seller of golf balls, who purchased “Titleist” golf balls from Cam Golf. Acushnet is the actual manufacturer of the “Titleist” golf ball and brought an infringement suit against G.I. Joe’s after it discovered it was selling counterfeits. G.I. Joe’s first discovered the golf balls it bought from Cam Golf were counterfeits when a customer complained about the laminate on the balls coming off after just one round of golf. G.I. Joe’s quickly pulled its remaining stock of the “Titleist” golf balls, but not before another customer of G.I. Joe’s had complained to Acushnet. Acushnet promptly filed suit based on the Lanham Act against G.I. Joe’s, who then filed a third-party complaint against Cam Golf for breaching the WAI.

Subsequently, Acushnet and G.I. Joe’s settled for $25,000. G.I. Joe also incurred $19,350 in attorney’s fees defending itself against Acushnet. G.I. Joe’s then sought damages pursuant to Oregon’s equivalent of the WAI from Cam Golf, and Cam Golf argued that the settlement was not reasonable. G.I. Joe’s asked the district court for: “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 [as well as] consequential damages.” The consequential damages would cover the settlement amount as well as the attorney’s fees incurred.

The district court had very little guidance on how to determine whether the settlement was reasonable and whether the settlement should be assessed under the Lanham Act or the WAI. Because these issues were before the court on a summary judgment motion, the court simply found that material issues of dispute were present and denied G.I. Joe’s motion. Instead of floundering for what law to apply, a similarly situated court should follow my proposed framework.

264. Id.
265. Id.
267. Id.
268. Id. at *3.
First, the court should determine whether the third-party’s claim had a reasonable likelihood of success on the merits. In the case above, this would be done by establishing that the golf balls were counterfeit and that the golf balls came from the accused seller. Second, the court should determine whether the buyer’s settlement was entered into with good faith. This determination is made by analyzing the process used in reaching its financial obligations under the settlement with the third party. Would a knowledgeable party make a similar decision based on the value of the goods and potential liability under the Lanham Act for trademark infringement? If so, then the court can rest assured that the buyer has established a “rightful claim” under the WAI and that the amount it is requesting to be awarded in damages by the seller is reasonable (in this case, costs and fees associated with the settlement).

3. The Exception: Money and Sophistication

A predictable situation may arise that justifies an exception to the reasonably likely to succeed standard. This is where the potential liability is substantial and the technology is highly sophisticated making it difficult to determine the merit of the infringement claim. If both of these requirements are met then the buyer should receive a presumption that it has a “rightful claim,” therefore shifting the burden to the defendant-seller to show otherwise. The seller may succeed in meeting this burden if it shows that the buyer did not enter into the settlement with good faith. For example, if the seller could demonstrate to the court that other similarly situated parties that are reasonably knowledgeable in the same industry would have settled for significantly less than the buyer did, then it has made a case for the court holding the buyer did not use good faith in entering the licensing settlement. Therefore, the buyer would not receive the amount of relief it had requested, but only the amount that would have been reasonable in a similar situation as demonstrated by the experts that defendant called.

A recent example of a high-dollar and sophisticated technology case is Boston Scientific’s reported settlement with Johnson & Johnson for an astounding $1.725 billion. This settlement concerns patents describing coronary stents, and is the second high-dollar settlement Boston Scientific has reached with Johnson & Johnson. The first settlement was for $716.3 million to the Cordis division of Johnson & Johnson just months earlier. Although these settlements are on the extreme end of the spectrum, high dollar settlements are frequently reached, and this remains true even when the

270. Id.
271. Id.
infringement claim may not be as strong as others. When the potential losses are extreme, a more conservative approach is preferred.

Like the coronary stents above, these cases involve complicated technology that is difficult to assess at an early stage. In fact, it is expected in these cases that the parties would need to go all the way to the Markman hearing (the final claim construction in a patent litigation trial where experts opine on the potential infringement) before having an honest understanding of whether infringement has occurred.

CONCLUSION

Overall, courts need to tighten their standard for determining when a “rightful claim” has been made, thereby entitling a party to relief under the WAI. I argued here that courts should adopt a new and more rigorous framework that is accompanied with an intellectual property specific analysis. A party asserting a breach of the WAI action must demonstrate that the infringement claim against it had a reasonable likelihood of success on the merits. Further, this party will need to show that if it settled with the third party it did so with good faith. Establishing this new standard will cut down on two troubling aspects of the current standard. One, it motivates the party accused of infringing to play the settlement game with more internalized notions of the consequences and outcomes of its actions. Two, patent trolls and other aggressive patentees will be deterred in their licensing campaigns when the buyers they sue no longer make a quick and under-reasoned decision to buy a license. Instead, these aggressive and often-abusive parties will be forced to defend their infringement claims.