

Analysis of an indemnity clause

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Codemasters v Automobile Club de l'Ouest

English High Court decision

- **The Codemasters Software Co. Ltd** (**'Codemasters'**) and
- **Automobile Club de l'Ouest ('ACO')**
- **[2009] EWHC 2361 (Pat), 17th September 2009**
 - Mr Justice Arnold
 - Hugo Cuddigan (Bird & Bird)
 - Michael Hicks (Wragge & Co)

The indemnity clause in dispute

- **Each party (the 'Indemnifying Party') will indemnify, defend and hold harmless the other party and its affiliates, parent companies, subsidiaries, and their respective directors, officers and employees, from any and all claims, causes of action, suits, damages or demands whatsoever, arising out of any breach or alleged breach of any agreement or warranty made by the indemnifying Party pursuant to this Agreement.**

Some background

- **ACO is organiser of “Le Mans” car race series**
- **Codemasters designs and sells computer games, including:**
 - “Race Driver: Grid”
- **Codemasters wanted to incorporate Le Mans races into the game**
- **Parties entered into agreement to allow this.**

Key terms of agreement

- **ACO hereby grants to Codemasters the non-exclusive right and licence to use and reproduce the Endorsements**
- **Codemasters will be entitled to use for the Game photographs and still images of cars...logos and trade marks associated with such cars ...and sponsors who participated in the 2006 races and Championship**

Definition of Endorsements

- **Definition includes the items referred to in Schedule A**
- **Schedule A includes:**
- **“Car manufacturers names, marks and car designs for all participants in the Championships”**

And some warranties...!

- **ACO warrants that it has the legal right to grant all rights and licenses which it is granting under this Agreement, free, clear and unencumbered, and without violating or breaching the legal equitable or contractual rights of any person anywhere in the world;**

Codemasters becomes concerned

- **Promotional video; told that infringed car manufacturers' rights**
- **Codemasters contacts Ferrari, Lamborghini and Porsche**
 - Enters into licence agreement with Lamborghini
 - Is in settlement negotiations with Porsche
 - Ferrari issued proceedings in Paris Commercial Court, settlement with limited right to use 3 cars online (but at later hearing, Codemasters say they dropped Ferrari from game – licence too expensive)

Codemasters seeks indemnity

- **ACO denies liability**
- **Judge must now decide on interpretation of indemnity clause and whether ACO is liable under it**
- **Preliminary application in litigation, but is accepted by counsel that it is hearing to construe contract terms**
- **Judge: clause 10.3 is “not felicitously drafted”**

That clause again

- **Each party** (the 'Indemnifying Party') will **indemnify, defend** and hold harmless the other party and its affiliates, parent companies, subsidiaries, and their respective directors, officers and employees, from **any and all claims**, causes of action, suits, damages or demands whatsoever, arising out of any breach or **alleged breach** of any **agreement** or warranty made by the indemnifying Party **pursuant to** this Agreement.

Preliminary point

- 1. Codemasters must prove that any settlements with Ferrari, Lamborghini and Porsche are on reasonable terms**
 - Established English case law on this point
 - Claim must be of sufficient strength reasonably to justify a settlement ***and*** the amount paid in settlement is reasonable
 - Codemasters accepted this; to be proved at trial

ACO arguments

2. **“agreement” made “pursuant to this Agreement” means other agreements: indemnity only applies to claims made under separate agreements, not under the agreement itself**
 - Example: ACO contract with sponsor; image used at wrong place on race track; breach of contract; join Codemasters as defendant as they reproduced wrong image

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Judge's response

- **Distinctly unimpressive – best you can do?**
 - That contract not made “pursuant to” Codemasters licence
 - “Pursuant to” means simply “in”
- **Purpose of clause is reasonably clear – indemnity against claims arising out of Codemaster's exploitation of the rights under this agreement**
- **ALSO: Should be read as indemnity against **third party** claims arising from ACO's breach**

More ACO arguments

3. Claims by Ferrari et al are not for breach of the agreement or warranty

- Judge agrees that wording not ideal
- But is clearly intended to cover third party claims that, in effect, raise allegation of breach of warranty under this agreement (ie infringement of third party IP)

More ACO arguments

4. “Alleged breach” means a breach which is presently alleged and subsequently established

- Judge: untenable interpretation, since it effectively reduces “alleged breach” to “breach”

More ACO arguments

5. **“any and all claims... [etc]” refers to claims by Codemasters**

- Judge: already dealt with this point – is “third party” claims

More ACO arguments

6. **“defend” means Codemasters must entrust defence of claims by Ferrari et al to ACO**

- Judge: untenable interpretation, although unhappily worded clause
- “Defend” means merely “protect from”
- Right to request ACO to take over defence of proceedings
- Not obligation to hand over defence; if this were intended, need detailed mechanism

More ACO arguments

7. In the absence of detailed wording covering how to defend, clause is void for uncertainty or is agreement to agree

- Judge: fallback argument for ACO. Don't accept; meaning of defend is as in last slide

Other judicial comments

- **Risk of confusion as to meaning of indemnity**
 - It may mean simply damages awarded for tort or breach of contract.
 - Alternatively, “it may refer to all loss suffered which is attributable to a specified cause, whether or not it was in the reasonable contemplation of the parties. There is precious little authority to support such a meaning, but I do not doubt that the word is often used in that sense.”
 - Quoting Staughton LJ in *The Eurys* [1998] 1 Lloyd's Rep 351

More judicial comments

- **It is common ground, in my judgment rightly so, that clause 10.3 is not felicitously drafted. It is easier to accept apparently uncommercial consequences if a clause is clearly drafted than if it is not.**
 - Seems to be saying this gives more leeway in interpretation
- **In my experience, it is common in IP licence agreements, though by no means universal, for the licensor to indemnify the licensee against claims by third parties [of infringement]**

Other issues

- **Codemaster wins, but does it get its legal costs?**
 - Codemasters' costs = £150,000 (approx)
 - ACO's legal costs = £75,000 (approx)
- **Discussion of whether costs strictly related to this application, or were incurred for the larger case**
- **£70,000 awarded now; rest “costs in cause”**

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That clause again

- **Each party** [not ideal, making it 2-way] (the 'Indemnifying Party') will **indemnify** [ie all loss, not just in reasonable contemplation], **defend** [= 'protect from'?; not an obligation to hand over defence to ACO] and hold harmless the other party and its affiliates, parent companies, subsidiaries, and their respective directors, officers and employees, from **any and all claims**, causes of action, suits, damages [covers amounts reasonably paid in settlement] or demands whatsoever [made by third parties], arising out of [?
unclear; add 'or relating to'?] any breach or **alleged breach** [✓, but not if inter-parties claims] of **any agreement** [undertaking?] or warranty made by the indemnifying Party **pursuant to** [in, under?] this Agreement.

Alternative approach (simplified)?

- ACO shall indemnify Codemasters against all Third Party Claims that may be made against Codemasters to the extent that they arise directly or indirectly from:
 - a. Any breach by ACO of its obligations under this Agreement; or
 - b. any claim or allegation that the Game constitutes an infringement of any Third Party Intellectual Property.
- [Plus conditions for indemnity, eg who has conduct of claims]

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Stark: Negotiating and Drafting Contract Boilerplate

- ACO shall indemnify and defend Codemasters against all Indemnifiable Losses arising out of or relating to:
 - a. Any breach by ACO of any warranty set forth in this Agreement; or
 - b. Any breach by ACO of any covenant set forth in this Agreement.

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Is it possible to draft so clearly that the court will not criticise?

- **Always get some criticisms?**
- **Key concerns in Codemasters case:**
 - “pursuant to” (odd wording, easily fixed)
 - “third party” (omission, easily fixed)
- **Arnold J prepared to look at commercial intent**
 - Persuaded of common sense meanings
 - But grumbles about “infelicitous drafting”