

IP Issues in Contracts: Beyond Ownership & Infringement

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- Residual Knowledge Clauses



Introduction

- **Context and Perspective**
 - Protecting intellectual property in commercial contracts
 - IP protection may not be the primary *business* objective – but the protections are critical to the long term success of the business
- **Purpose and Objective**
 - Discuss some IP protections that are frequently used (and are frequently problematic) in commercial contracts
 - Discuss the typical business and legal issues with these protections
 - Present practical options and recommended approaches for addressing these issues



Introduction

- **Provisions Covered**
 - Non-Disclosure Agreements/Provisions
 - Anti-Reverse Engineering Restrictions
 - Residual Knowledge Clauses

- **Disclaimer**
 - *Every transaction is unique. Advice and sample provisions are provided for general informational purposes only. These do not constitute legal advice. Any views expressed in this article should not be attributed to Gibson, Dunn & Crutcher LLP or UnitedHealth Group or their respective attorneys or clients.*



Non-Disclosure Agreements/Provisions

- The Issue: Protecting IP through NDAs / Confidentiality Provisions in Commercial Contracts
- Three Contexts:
 - Long-Term Commercial Arrangements (e.g., outsourcing or complex services arrangements)
 - Short-Term/One-Off Transactions (e.g., M&A deals)
 - Business Development Arrangements (e.g., discussions re. potential new products)
- Four Issues:
 - Scope of Obligation
 - Scope & Exceptions
 - Marking Requirements
 - Duration



Non-Disclosure Agreements/Provisions

- Scope of Obligation
 - “You will not disclose...” vs. “you will use reasonable efforts not to disclose...”
 - When is a disclosure a breach, and when is it not?
 - Can a breach of either of these be cured?
 - Case in point: the very bad vendor
 - Negotiation Tips / Recommendations
 - If at all possible, stick to your guns on the “bare obligation”
 - Consider language re. “deemed to be incapable of cure”
 - Remember how your options will look to your business, if a disclosure occurs



Non-Disclosure Agreements/Provisions

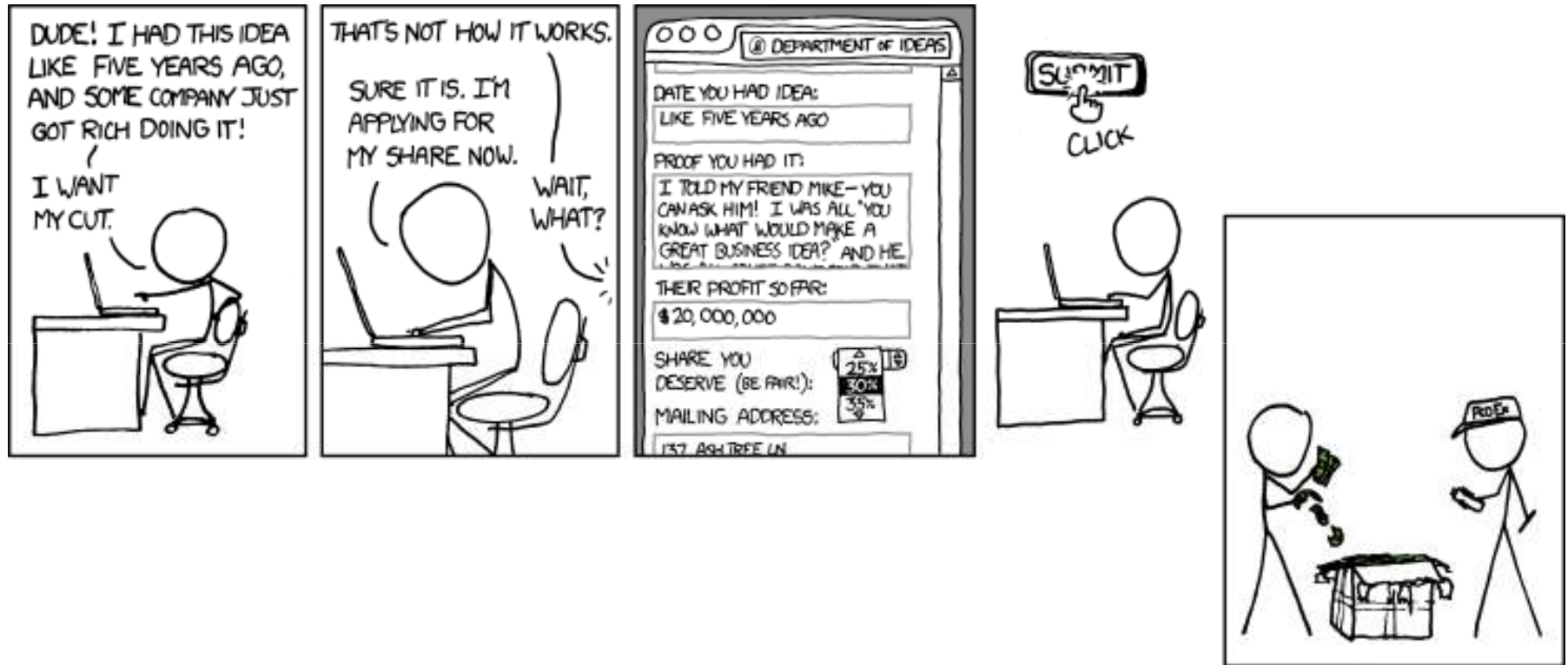
- Long-Term Commercial Arrangements (e.g., outsourcing or complex services arrangements)
 - Scope & Exceptions
 - Customer data vs. service provider confidential information
 - Successor supplier issues
 - Third party issues
 - Marking Requirements
 - Completely unfeasible for the customer
 - Possible for the service provider, but potentially challenging
 - Mutuality not necessarily appropriate
 - Duration
 - Vast amount and various types of information to which the service provider is exposed make putting time limits on the non-disclosure obligation very difficult
 - Sometimes possible to identify categories of information



Non-Disclosure Agreements/Provisions

- Short-Term/One-Off Transactions (e.g., M&A deals)
 - Scope & Exceptions
 - Exceptions can be more narrow
 - Third-party issues can be dealt with case-by-case
 - Marking Requirements
 - Can be practical for discrete exchanges of information
 - Alternatively, can be limited to a set of defined sources
 - Duration
 - With limited scope, can evaluate which information is “stale” with passage of time.

Non-Disclosure Agreements / New Development



We didn't believe you at first, but we asked like three people who were at that party. They not only corroborated your story, but even said you totally mentioned wanting to start a company someday. Sorry! If this isn't enough money, let us know.

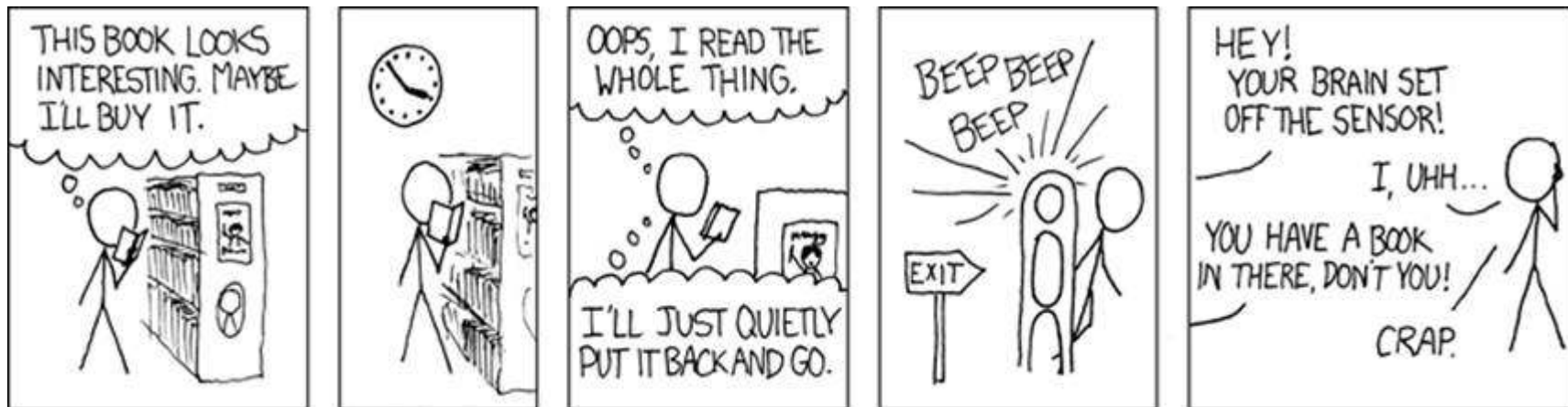
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Non-Disclosure Agreements / New Development

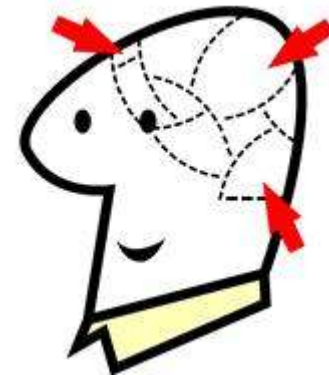
- Business Development Arrangements (e.g., discussions re. potential new products)
 - Scope & Exceptions
 - What happens to mutually developed information?
 - Most important exception: Independent (or prior) knowledge
 - Marking Requirements
 - May be desirable (with certain exceptions)
 - Doesn't work for “brainstorming” type arrangements.
 - Duration
 - Time limits possible (often desirable)
 - Exceptions must apply (regulatory issues, trade secrets)
 - Client coaching is critical

Residual Knowledge Clauses



Residual Knowledge Clauses / Overview

- Basic concept: People can *use* what's in their heads, but can't *communicate* it.
- Supplier perspective:
 - Keeps customer from blocking future assignments for supplier personnel
- Customer perspective:
 - Helps reduce supplier lock-in





Residual Knowledge Clauses / Examples

- Narrow :

“Each Party and its Affiliates may use the general ideas, concepts, know-how and techniques relating to data processing and computer programming that are learned and retained in the unaided memory of such Party.”

- Broad:

“Residuals” shall mean ideas, information and understandings retained in the unaided memory of Recipient’s employees.



Residual Knowledge Clauses / How Preserved

- Beyond “unaided memory”
- No memorization:

“The term “residuals” shall mean generalized knowledge in nontangible form * * * including ideas, know-how, or techniques contained therein, *but not as a result of any deliberate effort to memorize the information.*”

- Not deliberate:

“The term “Residuals” means any general learning, skills, know-how or information in non-tangible form, which may be *inadvertently retained*”



Residual Knowledge Clauses / Other Rights

- Consider flowing through third-party obligations:
“... except to the extent such use infringes the intellectual property rights of third parties or breaches its confidentiality or other obligations with any third party.”
- Consider making clear that there’s no copyright or patent license granted:
“For the avoidance of doubt, no patent or copyright license to Residuals is granted to either Party.”



Anti-Reverse Engineering Restrictions

- Original focus: protect object code from falling outside trade secret framework.
- Standard covenant approach:

“Customer shall not alter, decompile, reverse engineer or disassemble the Software.”
- License restriction approach:

“This license does not permit Customer to exercise any of the rights granted for the purpose of reverse engineering, disassembling, decompiling or altering the Software.”



Anti-Reverse Engineering Restrictions / SaaS

- What if no software is delivered?
- What can still be protected?
 - Restrictions on scope of use, e.g.:

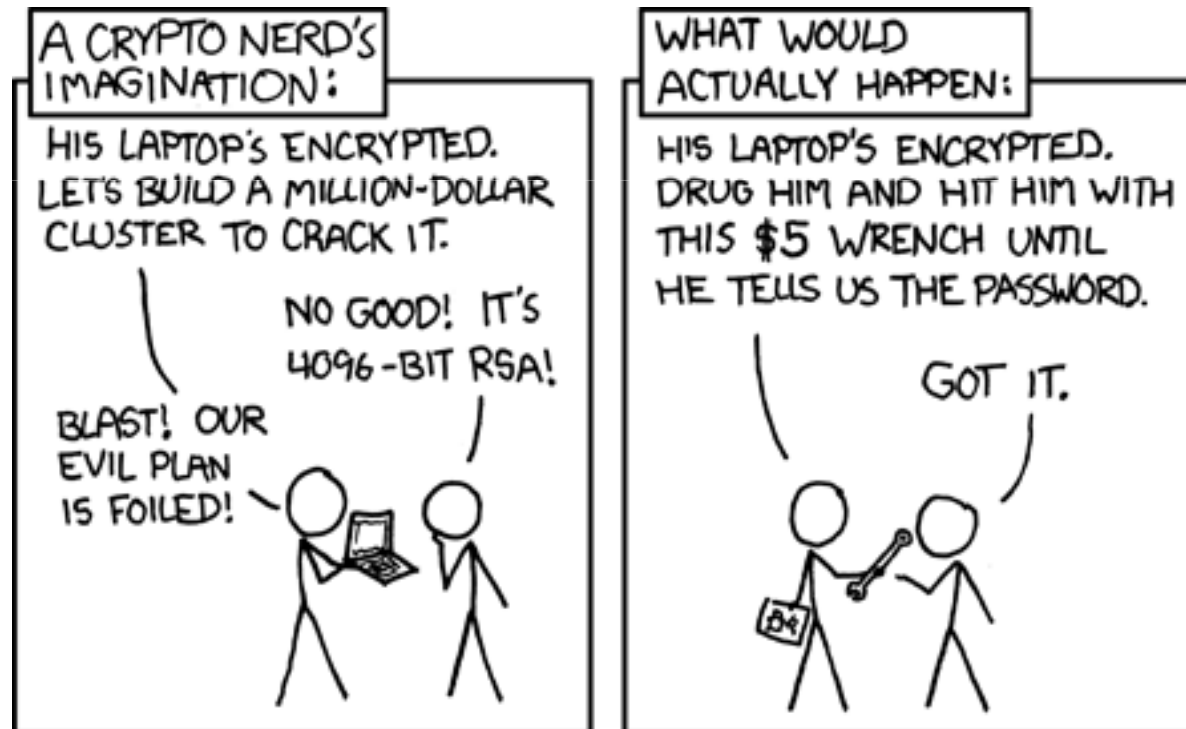
“This license does not permit Licensee to use Supplier’s software to assist others in the development of a competitive product.
 - Restrictions on deriving algorithms:

“This license does not permit Licensee to explain to third parties how the algorithms in the Supplier’s product works or to test the operation or result of Supplier’s product against the operation or results of a competitor.
 - Restrictions on sharing output, e.g.:

“Licensee shall not make use of, disclose, or describe Supplier’s software, its constituent parts, or its output in any way except as expressly authorized.”

A final word...

on due diligence and the limits of contractual protections...



Thank You, and Questions

