

# IP Issues in Contracts: Beyond Ownership and Infringement

## Sample Provisions

### 1. Introduction.

This article includes a number of sample provisions to address intellectual property issues that frequently arise in commercial technology transactions. These sample provisions are generally written from a pro-customer perspective, i.e., favoring the purchaser of the technology products or services, and generally represent pre-negotiation provisions.

*Please note that every transaction is unique, and that the sample provisions provided below are for general informational purposes only. Any sample provision would need to be heavily customized for use in any particular transaction.*

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### 2. Reverse Engineering Clauses.

#### 2.1 Basic Approach.

Reverse engineering clauses provide an explicit contractual remedy where trade secret law does not, by eliminating the presumption that by making something available to your customers, you are no longer keeping it a secret. Most typically this is expressed as a covenant, for instance:

Customer shall not alter, decompile, reverse engineer or disassemble the Software.

Although covenants in license agreements are often read as limitations on a license, the following approach removes any doubt that reverse engineering is a copyright infringement as well as a breach of contract:

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.

#### 2.2 SaaS Challenges

Increasingly, software and the trade secrets embodied by and embedded in that software are not delivered in object code, but instead across a network. The risk of decompilation is gone, but for certain types of sophisticated software, it may be worthwhile to protect other aspects of the software's operation.

This license does not permit Licensee to use Supplier's software to assist others in the development of a competitive product. This restriction includes, but is not limited to, explaining to third parties how algorithms work and providing assistance in testing the operation or result of Supplier's product against the operation or results of a competitor.

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. Such use does not include any use on behalf of or for the benefit of a third party except solely as necessary to perform the Computations.

### 3. Residual Knowledge Clauses.

#### 3.1 Overview.

Residual knowledge clauses permit the *use* of confidential information by individuals, within a *limited scope*, but do not allow the *communication or preservation* of confidential information. The following is a typical clause:

Notwithstanding anything to the contrary in this Agreement regarding Confidential Information, neither Party nor its Affiliates shall be prohibited or enjoined from utilizing any general knowledge, skills and experience and any ideas, concepts, know-how and techniques retained in the unaided memory of an individual and acquired during the course of the performance of the Services.

From the service provider perspective, residual knowledge clauses are typically proposed to prevent the customer from claiming that exposure to the customer's confidential information prevents the provider from continuing to provide similar services to others.

From the customer perspective, a residual knowledge clause may also be desirable, as it can head off a service provider's claim that exposure to the provider's confidential information limits customer's ability to provide the services for itself in the future.

#### 3.2 Limits on Scope

Residual knowledge clauses typically don't apply across the entire scope of confidential information. Instead, they typically set out a scope that implicitly or explicitly excludes the use of particular information that would be damaging to the owner of the confidential information. Rather than focusing on explicitly excluding areas from scope, most such clauses approach this by narrowly drafting the range of applicability. For instance, in this example from an IT outsourcing agreement:

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 and its Affiliates' personnel involved in performance of the Agreement who have had access to Confidential Information or materials of the other Party and its Affiliates \* \* \*

The following is an example of a definition that is likely too broad for most uses, as it includes all "information":

"Residuals" shall mean ideas, information and understandings retained in the unaided memory of Recipient's employees.

By retaining the full application of applicable trade secret law, the scope of this provision is likely too narrow for service provider to obtain much relief:

“Residual Information” means intangible generic knowledge, ideas and techniques that can be retained in the unaided memory of an employee or other personnel of the Receiving Party exposed to Confidential Information of the Disclosing Party in connection with this Agreement, without any specific or intentional memorization that is not protected as a trade secret or by any other Intellectual Property Right.

And in this example, the scope is narrowed to such an extent that any relief for residual information is illusory:

In the case of Company’s employees who do access and/or use Supplier’s Confidential Information, other than non-proprietary general information and non-proprietary industry know-how that does not constitute Supplier’s Confidential Information that may be retained in the unaided memory of such employee, they shall in all cases comply with the confidentiality obligations set forth in Section 3.

### 3.3 Limits on Communication and Preservation

One of the most common aspects of a residual knowledge clause is that it is limited to the “unaided memory” of the recipient. This is to clearly prohibit the retention of notes or other materials that embody the confidential information. Some provisions take this a step further and limit the scope to knowledge “inadvertently retained in the memory”, such as in the following:

The term “Residuals” means any general learning, skills, know-how or information in non-tangible form, which may be inadvertently retained in the memory of persons who have had access, as authorized herein, to Client’s non-confidential information.

The language above was probably intended to address the issue of deliberate memorization. However, if this type of clause is taken seriously, it doesn’t leave much left in the scope of the provision as presumably most “learning, skills and know-how” is deliberately acquired. Another example addresses this same concern in a more reasonable fashion:

The term "residuals" shall mean generalized knowledge in nontangible form (i.e. not written or other documentary form, including tape or disk), which may be retained by employees of either party who have had access to the confidential information, including ideas, know-how, or techniques contained therein, but not as a result of any deliberate effort to memorize the information.

Ultimately, though, it’s not clear that these limitations add much – it is probably best to use the limitation of scope to exclude information that can simply never be used, rather than raising hard-to-prove questions about whether someone “inadvertently” learned something or made a “deliberate effort to memorize”.

### 3.4 Interaction with Other Rights

In many cases the parties to an agreement may not have fully back-to-back arrangements concerning the confidential information being shared; the following provision is one example of an approach to addressing that issue:

Nothing contained in this Agreement will restrict either Party from the use of any general ideas, concepts, know-how or techniques regarding information technology which either Party, individually or jointly, develops or discloses under the Agreement to the extent retained in the unaided memory of such Party's personnel 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.

Parties often seek to clarify that permission to use residual information does not create implied rights with respect to IP generally:

For the avoidance of doubt, no patent or copyright license to Residuals is granted to either Party.

Although a well-drafted residual knowledge clause would not permit activity that would breach copyright law, the concern about a potential overlap is more well-founded, as the grant is typically the right to "use" the residual knowledge.

### 3.5 Residual Information and Restrictions on Assignment of Employees

One of the main purposes of a residual information clause is to enable a service provider to reallocate employees between customers that may be in competing businesses. Sometimes this is made more explicit, as in the following clause:

Each Party acknowledges that the other Party's receipt of its Confidential Information under this Agreement shall not create any obligation in any way limiting or restricting the assignment of employees within such Party.

At the same time, it may be necessary to pull back from the effect of either a residual information clause or an express clause like the one above. Many service providers will entertain time-limited restrictions on the assignment of employees, such as in the following clause:

Supplier shall not assign any Key Person to the account of any Customer Competitor without Customer Party's prior consent (1) while such Key Person is assigned to the Customer account and (2) for a period of one year following the date that such Key Person or member of the Service Delivery Organization, as the case may be, is removed from, or ceases to provide services in connection with, the Customer account.