ASSOCIATION OF CORPORATE COUNSEL

TITLE: **Information Sharing Agreements Confidential Information and Feedback: Two Sides of the Coin**

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PRESENTED BY: **ACC's Information, Technology & eCommerce Committee**

SPONSORED BY: **Hunton & Williams**

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MODERATOR: **John Thomas**, Technology Counsel, Thomson Reuters

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Operator: Just a reminder, today's conference is being recorded.

John Thomas: Welcome to our Webcast, two sides of the information coin. Serving as your host and moderator, I'm John Thomas, Technology Counsel at Thompson Reuters and this year's Chair of the ACC Information Technology Law and eCommerce Committee which, along with the law firm of Hunton and Williams, is sponsoring this Webcast.

You will shortly have the pleasure of our hearing from our two very knowledgeable speakers, but let me first take a few minutes to tell you about them. Hunton and Williams is the IT and eC committee sponsor and Karen Sanzaro is a partner in their global technology and sourcing group concentrating on large scale complex information technology and business practice outsourcing transactions, including strategic offshore and multi shore initiatives involving mission critical technology.

Those of us who have been active in this practice area for a while have benefited from our numerous articles in Computer and Internet Lawyer, Privacy and Information Law Report, the Computer and Internet Litigation Journal to name just a few. At the end of today's program, I'm sure you'll see, as I have, why Karen was recently named one of George's legal elite.

Jeffrey Ross Stern is an Executive Director at Morgan Stanley practicing in its technology, intellectual property and e-commerce law group in New York City. And he's an active member of the IT and eCommerce Committee. In addition to negotiating large scale IT and BPO transactions and keeping track of Morgan's electronic trading, market data, index licensing and copyright activities, Jeff also ((inaudible)) on Morgan Stanley's use of open source software. Jeff did his undergrad at Harvard and obtained his JD from Virginia Law School, where he was member of the Virginia Law Review.

Now, I need to mention a couple of housekeeping points before turning to our program. First, I recommend you print out a hard copy of the standard form master feedback agreement. As the slides will continue rolling while Karen and Jeff slice, dice, and otherwise pretty much maim it later in the program. The link is on the left side of your screen at the fifth document. So if you double click on that, you'll be able to get it and print it out.

If you wish to ask questions or need us to clarify a comment that was made just type your question in the chat box located on the lower left corner of your screen and click send. If from among the questions posed, yours is not selected, you may feel free to e-mail our speakers after the program and you will find their e-mail addresses on slide number 25 at the end.

Also, at the end and before signing off, please complete the Webcast evaluation. That is number one in the links box. Your ratings and comments are most important to the selection and presentation of future Webcasts.

Now, to our presentation. Every our clients are bombarded with information from all sides. How can we help them figure out what needs to be kept under wraps? And how, if at all, they're allowed to use somebody else's information?

At this risk of new meaning to the term "groaner," I'm prompted to ask what happened to the minuet? Everybody had the steps down pat and no proprietary information was exchanged. Heck, how could it be if they didn't even hold hands?

Well, fast forward to Web 2.0 and social networking. Talk about nothing being kept under wraps, if you get my drift. While we've been happily doing the CDA cha-cha, and the non-compete tango day-after-day it seems that two ugly step sisters feedback and residual knowledge are regularly sneaking past the bouncers. Karen, Jeff, you need a hand, do we have to dance with them?

Jeffrey Ross Stern: Well, thank you very much for that generous introduction, John. And let me commend everyone on the phone to participating in John's eCommerce group for ongoing and regular discussions around topics like these.

Today, we're going to start by setting the stage covering some of the basics and drafting confidentiality agreements that we should get through that portion, hopefully, within about 10 minutes. And then spend the bulk of our presentation on discussing residual knowledge clauses, and followed by feedback agreements. So we invite while we cover each one of these sections to submit your questions and then we will stop at the end of each section and John will pick out some of your questions for us to address.

Karen Sanzaro: Starting off with confidentiality agreements we just wanted to frame up the discussion by giving a brief background. Confidential information as everyone knows constitutes vital corporate assets, important corporate assets that are deserving of protection. Confidential information may include trade secrets, trade secrets of third parties that are in your environment, non-public information, as well as personal information or customer data. And the purpose of confidentiality agreements is to protect information that you disclose to a thirty party, information that a third party may disclose to you in contemplation of a business relationship or a mutual exchange information.

Jeffrey Ross Stern: So confidential information yours and others can have a real impact on your business. Sometimes it gets treated kind of casually on a day-to-day level. We've probably all heard the, "Can you send me an NDA?" And training the business to understand, first of all, when one is needed and what it should look like and which form they should use is critical. Otherwise, you may find that your organization is agreeing to keep confidential information which is doesn't need to, it shouldn't, not understanding the consequences of receiving confidential information when your organization may be working on something that is similar and the presumption that will attach when you have access to information and you're doing something that looks similar and the same people are looking at both information.

Karen Sanzaro: Now, just to go through some additional key practice pointers. One, you want to tailor the scope of your obligations and this is important if you're the receiving party of the disclosing party. You don't want to undertake additional confidential agreements beyond the scope of the project that you're contemplating requires. Unnecessarily broad obligation can lead to confusion and additional liability on the part of the receiving party. And it also poses the risk of the provision not being enforceable. So you really want to think about the context in which you're providing or receiving confidential information and limit the scope accordingly.

Also, consider if you're the receiving party, what do you need this information for? Make sure you, as a lawyer, understand what your business unit is contemplating and what they're looking for in the transaction. Do you need the ability to share the agreement with your affiliate, with other contractors or potentially with advisors or other third parties?

The last point, don't agree that your trade secrets need not be kept confidential after a period of time. You can to distinguish your trade secrets from other aspects of confidential information. And there's typically a termination, a survivability of the confidentiality for a period of time after termination of the agreement. But you don't want your trade secrets to be lumped into that, so be sure to carve them out.

Jeffrey Ross Stern: So when you get to the point where you've established that you do – that it is appropriate and you do need to agree to keep confidential information that a counter party or a vendor is going to disclose and oftentimes, you may not need to get to that point. There have been many times, I'm sure, when many of us have said to our business folks, well, do we need to se the vendor's confidential information at this stage? Can they just disclose to us at a high level what they're doing? And then if we're interested we can enter into an NDA as things progress? I'm sure many of us has experienced that the issue kind of goes away and never comes back after that point.

But assuming that we really – you really need to enter into one of these agreements and you agree to protect somebody else's confidential information or they agree to protect yours, you need to disclose to them. It's important to think about the issue of personal information and this sometimes gets forgotten. We have standard carve-outs. The first standard that carve-out that probably everyone is familiar with when you look at an NDA is that, "By the way, there's no obligation with respect to publicly available information." Well, personal information is in the phone book. So it's publicly available information yet you – it is vitally important that these confidentiality agreements protect personal information that is disclosed under them. It's actually – it's in the interest of both sides for that to be the case. So you want to be sure to exclude personal information, personally identifiable information from each of the carve-outs. And that's point number one.

Now, we've just listed here, the rest of the carve-outs. You want to make sure information – that you have the ability when you're the recipient to continue to develop independently from the information that you receive and that it's understood that you maintain that right. When you're disclosing information, you want to be sure that the recipient is under the obligation to document when it is doing something that is independent of the information you receive and that will give you some additional measure of comfort.

Karen Sanzaro: Other carve-outs are information that you may, as the receiving party, receive from a different third party that is not provided to you under an obligation of confidentiality in which case you should have the right to disclose that.

Residuals clauses, we've listed here, add an additional layer of protection as the receiving party and we'll go into those in more detail in the next section. The other typical carve-out that you see and should think about are carve-outs for subpoenas or where you've got to provide information pursuant to a requirement of law or process of law. And you just want to make sure there that you're thinking about including appropriate protections to allow the disclosing party to seek a protective order or otherwise, narrow the scope of what's required to be disclosed.

Jeffrey Ross Stern: So John, at this point, are there any questions?

John Thomas: There has been one question, Jeff. It's an interest in explaining the residuals clause a little bit additional and a little bit better, and I think that's where we are right now. So let's just move along.

Jeffrey Ross Stern: That's a great segue, as we continue the two-step here. The residuals class, as Karen said, provides an additional measure of protection for the party receiving confidential information. And the history behind these clauses is that some of our foremost technology companies like Intel and Microsoft in the '90s era realized that they were being exposed to a wide range. Their employees were being exposed to a wide range of confidential information from different sources every day. And it was impossible. It's not possible to keep track of the source of all of the different information that we're all exposed to. And to sort that from our own original ideas. So keeping track of where an idea comes from it's just – it's not feasible.

So what these companies developed is something called a residual knowledge clause which is as it intended to sound, something that is sort of not documented as we'll get into in the back of your head. And more in the nature of an idea than copying a large portion of information from a document or written material.

Karen Sanzaro: Here, we've provided a sample of a residual clause. This is fairly favorable to a receiving party and it's the starting point. We've got some slides a little bit later that will show you some negotiations points. But it's, as you'll see, when you read through you want to preserve as a receiving party the right to continue to use residual knowledge that you may have obtained in the course of your access to confidential information of the other party. And it serves as a counterpoint to a broad confidentiality clause.

Jeffrey Ross Stern: So when you are the party that is disclosing the information and the recipient whether it's the Intel, the Microsoft, or whoever else says, "I want residuals protection," and presents you with a clause that looks something like the one that Karen just spoke about on the preceding slide, you know, what are some things you can do to protect yourself? I mean, you may think from the vantage point of the discloser, "Gee, does that mean that if I disclose what I think is a wonderful idea, that I want to use in my business, and that I don't want anyone else to get the jump on, does that mean that they can just use it if it's sort of in the nature of an idea and it pops into my head? And if I'm trying to apply for a patent on that idea? Have I just given them a license to – a patent license to use whatever happens to get disclosed under the course of a confidentiality agreement?"

So there are things that you can do to protect yourself in those instances. And the first bullet point, the first sentence here is to expressly provide that you're not granting a license to your patents, your trademarks, or your copyrights. Now, this also raises the issue of whether you want to, as a discloser go as step further and say, well, I'm not going to grant a right to my trade secrets, either.

Now, from the recipients' standpoint, they may say, "Well, that's going to far because the confidential information that you're disclosing to me largely consists of trade secret. I mean a trade secret is nothing more than a secret that you use in trade. So what – so this doesn't give me any rights at all." So, you know, this is not a perfect science. And depending on the leverage or the context or the content of what's being disclosed you may or may not be able to negotiate for these protections.

Karen Sanzaro: Another protection that I'm going to look for as a disclosing party is – and we've provided some sample language here is to clarify that the residuals are general information or technology or ideas that you learn as a result of having had access to confidential information. They're not the confidential information themselves, but just generalized ideas that you can't really separate out.

This – the idea behind this clarification would be just to give the disclosing party another argument that the idea or the aspect that you're talking about was a specific trade – excuse me – trade secret that the receiving party did not have the right to use or disclose. In other words, did not fall within the residuals clause. As Jeff said, it's not a perfect science. You really need to think about the context and what you're trying to protect. And then, put it in the context of the negotiations.

Jeffrey Ross Stern: Right. So there's another clause that you would typically see when you see a residuals clause or you'll often see this clause, which is related. And, again, this is a protection from the receiver standpoint. So in this particular clause, the receive, the recipient said that you the discloser understand that I'm going to continue to pursue my business. And the mere fact that I've entered into a confidentiality agreement with you, or that I'm receiving confidential information under this agreement is not going to prevent me from pursuing my business objectives or investments or representing third parties, for example, if there are customers involved.

So what this does is it opens the lines a little bit more of the residuals clause to provide a little bit more protection from the receiver's standpoint. And it provides the receiver with more protection around its knowledge that it will be able to continue to conduct its business, which ultimately is what a lot of what we're talking about, is tracks back to.

Karen Sanzaro: Further to Jeff's point, consider the context always when you're negotiating confidentiality agreements and any carve-outs or residuals clauses. You want to consider the party's relationship, and then the overall – the context of the overall agreement. Quite often, you're not negotiating a separate NDA. You're negotiating confidentiality and residual clauses as part of a larger agreement and so you want to think about other protections that may be in the agreement.

One, to Jeff's earlier point, are you as the receiving party possibly in a competitive business with the party that's disclosing the information. Consider, I guess, a retailer agreement. If you are a reseller and you are entering into an agreement with a software provider, well, there's naturally some connection there with your products. You're entering into that relationship for a reason. Your products are compatible in some way, shape, or form. And it's very likely that you may have a similar development path or a competitive product on your roadmap and you want to make sure that you're not unwittingly agreeing not to compete in an aspect of your industry.

You also want to think about other measures that you can use to protect yourselves. If you are the disclosing party and you want to preserve some protection, think about, you know, whether you can place restrictions on the right to reassign key employees. In the context of a large services agreement where you've got a dedicated account and you're the customer, you may ask the vendor to designate key employees and to prevent them from working on competitive accounts for a period of time. It's another way to think about protecting your information and your competitive advantage. And just an example of how to think about all of this in the context of your larger relationship.

John Thomas: Well, we've got a pretty hot audience here today, folks. And here's one real good question, "unaided" memory should mean that the user does not refer to any tangible confidential information of the party when making use of residual information. Plus, "intentionally memorized" is an exceedingly difficult proved situation. Please comment.

Jeffrey Ross Stern: Well, I think that the questioner has a great point. And as we mentioned, this is not an exact science. The whole concept of a residuals clause I can use your information if it pops into my head. It's pretty vague. How do you define when something pops into your head? And this goes to the last part of our presentation. In effect, something becomes feedback. If it happens to pop into the recipients head, and they don't specifically remember or there's no way to prove that they remember for all intents and purposes it's the same thing because a lot of this goes to intent, you know, unaided memory. And the only one who knows that is the person who's memory it is. So this is really almost an intent standard.

Some people have better memories than others. I mean it's not even an objective, reasonable person standard.

John Thomas: Which leads to another could question, don't residual clauses give parties more reason to litigate? Under what circumstances does it make sense to add residuals clause?

Karen Sanzaro: I'm sorry, John, could you repeat the first part of the question?

John Thomas: Right. Don't residual clauses give parties more reason to litigate?

Karen Sanzaro: I think they're designed to provide a clarification although, I think, in most instances, a court is going to protect some measure of residual information. So the idea is to forestall litigation by trying to include this clarification up front.

John Thomas: Right.

Karen Sanzaro: I think the irony here is as the questioner is pointing out, these clauses may be intended to reduce the exposure of the recipient but in effect may be increasing in some cases the chance of litigation. And as Karen mentioned, it's kind of like, an "I know it when I see it standard," you know, the standard for pornography? I mean it's impossible to say – to come up with a better way to define what residuals consist of than unfortunately the vague language the other questioner pointed out about unaided memory, and so where does that leave you?

Now, in fact, somehow these clauses have taken hold and survived and people continue to use them. And I'll speak for myself. I have not seen a lot of litigation arising out of whether a residuals clause does or does not apply and therefore the recipient is allowed or is not allowed to use the confidential information. So they seem to against all odds serve the purpose.

John Thomas: One listener comments, "I think it should be emphasized that the context of working with close competitors is arguably the context where a residuals clause is more needed."

Karen Sanzaro: I think that's a fair point, absolutely. I mean there can be all sorts of issues when you're dealing with a competitor. I mean one objective of the residuals clause is to really foster discussions among the parties. I think it's important for both sides to understand the relationship and to hash out any issues in advance of signing anything, really so that you're not agreeing to something that's going to damage your business ultimately or prevent you from moving into a space that you want to move into. So absolutely, that's a good point?

Jeffrey Ross Stern: And this also tracks back to the point we were discussing earlier about the importance of not disclosing more than you really need to, controlling the disclosure. So hopefully, especially in a context where it's a close competitors are disclosing information to one another, they've thought carefully about what it is they're disclosing and they're not going to disclose their secret formula for Coca-Cola to each other. They're going to disclose the things that where there's a real need-to-know on the other side, they're going to have a need-to-know provision within the confidentiality agreement, which is another important point. And it's all part of a bigger picture where the residuals clause is one component.

And to Karen's point earlier, this comes up not just in the context of standalone NDAs. These clauses will be in other types of agreements where confidential information is exchanged. And you may see them in everything from services and outsourcing agreements to complex technology agreements like software agreements, hardware agreements, and that, I think, is where Karen and I probably see them deal with these issues most often.

Karen Sanzaro: That's right.

John Thomas: OK. One last one before we move along, how do you carve-out scope for confidentiality especially when companies are interested in partnering together? Discussions pretty much could cover anything. Is there a danger of having the confidential information defined as everything shared between the parties?

Jeffrey Ross Stern: Well, what I would typically discuss with a businessperson who comes to me and says, "Hey, I need an NDA." You know, once we get past the point of information really – establishing that information really does need to be exchanged, the question becomes what do we need to disclose? What kind of access will there be? So if you're, for example, at a company where you are an end user and there's a technology provider that is going to share some technology with you and look at your environment to see how it could be implemented, you would want to be sure that anything the provider had access to in your environment would be deemed to be confidential information unless it was subject to one of these carve-outs or potentially one of these residuals clauses if the other side insists on it.

From – also from the end user perspective, you would want the provider to list any schedule, and we have these in our standard form agreements, the scope of confidential information that the provider is going to disclose. So in this particular case that I'm discussing the access to each other's information would not be mutual. The provider would basically come in and have access to a broad range of your information and it would be hard to control what information of yours the provider is going to see because they're going to look at your environment to see how the technology could be implemented.

On the other hand, we would not have access to the provider's environment and we would only be able to see the information that the provider decides to disclose to us. So in that case, I would want to know what software module is that we're looking at. If there's additional information like, for example, the provider's financials because we want to do due diligence on the financials. We can add that to the list. I would not want the scope to include anything under the sun the provider decides to show us at any point in time.

Karen Sanzaro: And just to add something to one of the points Jeff made earlier, there may be situations along those lines where you don't want the vendors to provide you with any confidential information. And I have put that in agreements before. And, you know, provision that nothing a vendor provides shall be deemed confidential information. So it's just another point to think about.

Jeffrey Ross Stern: Yes, and I think that's a great point. Once you have access to the vendor's confidential information you are tainted. So you have promised that you are going to keep this information confidential and in all likelihood use it for no other purpose than to do business with a particular vendor. So if you end up doing something that the vendor doesn't like, the vendor feels wronged, you develop something yourself that looks similar, you enter into a relationship with another vendor where the subject matter is basically the same and it looks pretty similar. The vendor may presume that you copied the information and under the last probably the burden is going to be on you to establish that you didn't copy it.

And the question that I have whenever we're in that kind of situation where there could be that kind of exposure is do we need to agree to confidentiality? Can the vendor just describe at a high level before we make – we jump in and make the commitment? Can we separate out the people that are looking at the vendor's technology versus the people that are exploring other solutions and try to create like a clean room type environment so that people that pursuing one thing don't have access to the information of the people that are pursuing on another thing? So we can basically rebut this presumption that we wrongfully copied the information. That also, this is when a residuals clause is helpful because sometimes it's just not feasible and you have to do it. And the same person is going to be exposed to different confidential information from different sources. And, you know, they are really going to try to pull their hair out if they try to remember where every single idea came from that they're working on during the course of the day. That's where the residuals clause becomes more important.

John Thomas: OK. Let's move on to the other side of the coin.

Jeffrey Ross Stern: OK. So feedback. Feedback is really – I like to think of it as the opposite of confidential information. When information is disclosed under a confidentiality agreement the recipient is obligated not to use the information except for a very narrow purpose of furthering whatever the particular relationship is with the person who disclosed the information. When information is disclosed as feedback and it is classified as feedback the purpose for the recipient to use the information in their products to disclose it, in effect. The opposite of keeping it secret to the world. And if you get this wrong, it could be very ugly. You may end up disclosing what used to be a trade secret that then gets disclosed to the world and it's going to be hard to unwind that one.

Or on the vendor side, you may think something is feedback put it into a product, only to find out that you've breached a confidentiality obligation and built a product around something where you're in breach of another agreement.

Karen Sanzaro: So I'm sure by now, you're thinking to yourself, why in the world would you ever agree to enter into a feedback agreement? And there are some advantages. I'm increasingly seeing feedback agreements or feedback clauses in service agreements with vendors that have an offer of service that's based on a common technology platform. And so they want to take the feedback from all of their customers and develop a product that's more useful and can be more efficient across a wide customer base.

In that regard, as well, it becomes less costly for the customer because you are taking advantage of input from a wide range of customers similarly situated. And the vendor is able to offer a product at a lower price point than it would otherwise be able to. And then, it allows the vendor to maintain a standard version rather than a forked version or a unique version for each customer.

It also can build the vendor customer relationship, build goodwill among the parties, give us the customer access to beta products, the product planning, they can be part of the roadmap and influence the development of the product and just overall has the ability to improve communications among the parties. It also provides for some learning and development opportunities for employees of both the customer and the vendor in this situation. So the vendor gets the benefit of ideas and feedback from those people that are actually using the products on a day-to-day basis. And the employees that are using the product on a day-to-day basis get an opportunity to influence that and to learn more about the products and to be more productive in using the products.

Jeffrey Ross Stern: So we've seen to just follow up for a minute on what Karen mentioned before getting to this slide. We've seen a shift, I believe, over the past decade or so from the trend of customization and trying to obtain a competitive advantage through IT and back office technology to a new recognition that that's a waste of time and money. And it's not efficient for an individual company to go and try and build a better mousetrap that does the same thing as the mousetrap that a software vendor or a technology provider has built and is receiving revenues from hundreds of your competitors from.

So the way to use the vendor's mousetraps versus building your own is to get feedback. And to try to get – change the direction of the product so that it's most useful to you. So it really – feedback is – can be vital to your technology strategy as well as your strategy in other areas.

Now, that said, it's not always vital and there is a cost, and you'll see – the lawyers won't see this as much but the technology people can end up spending a lot of their time giving direction to the vendor and these days in the cost cutting pressure of cost cutting environment, it's not exactly like we have that time to spend, anyone in our companies has that time to spend. As we went over the – we just discussed the consequences of having a feedback arrangement and then accidentally disclosing your confidential information if you say you're a customer as feedback. Just having these arrangements in place can be risky if you get the scope wrong or you make a mistake in disclosing something which you think is confidential information and basically just giving away a trade secret or you've giving away the right to something that you want to charge royalties for.

And you also could have liability as a customer giving feedback. If you tell the vendor, "I'd like your product to have special feature, X, Y, Z" and there happens to be a patent just issued that covers special feature X, Y, Z you may – it may come out in discovery if the vendor gets sued that you're the one that old the vendor to do it that way. Then there are thousands, millions of customers across the customer using a product with feature X, Y, Z and the theory would be that you've contributed to that. And so therefore, because you directed the vendor to do it that way you should have some liability.

Now, are you really going to get an indemnity from the vendor in the event that happens? It's unlikely, given at least how these agreements have played out in the marketplace to date. It's not in our standard form that I've distributed. And it's unusual for a vendor to agree to indemnify a customer in the event that feedback that the customer provides infringes the third party patent and then the customer gets sued for that. It's just unlikely.

The vendor itself could sue you and we have protected against that in our standard form feedback agreement that we're going to discuss later. You as a customer may decide that you want to change your mind. You can't. This is one egg that you may not be able to unscramble. And you probably – if you're a customer, to avoid some of these issues, you may want to fly a little bit under the radar screen and not have the vendor advertise to the world that hey, the feedback came from your company.

There can be an IP issue for the vendor in all of those cases that it just described. OK. So at that point, what Karen and I have done is we've picked out particular provisions from the feedback agreement that John directed you to at the beginning of the presentation. And we're going to have a little negotiation over this and I'll be the customer and Karen has extensive experience representing both sides, so she's kindly agreed to play the role of the vendor receiving the feedback.

So my goal in drafting the scope provision 1A on this slide is to contain this scope of the feedback in a way where it's least likely that my company is going to goof and misclassify something as feedback when it doesn't intend for that to be feedback. So this is almost like the equivalent of two people having to turn the key in the nuclear silo here. And Karen, I'll let you explain why – how you've revised this.

Karen Sanzaro: Sure. As the vendor, I'm looking really for the flip side of that. I want feedback to be crafted as expansively as possible because as the vendor I want to have the best product out there. And my employees need to be able to take all of the feedback they're getting, whether it's in response to a support call or formally provided. In whatever fashion, we need to be able, as a vendor, to take that and to not be worried about confidentiality or use restrictions.

So anything – any information or feedback that's provided about or product or the service, we really need to be able to take and incorporate and without having to worry about parsing it out. This came from customer XYZ, or this wasn't specifically labeled as feedback. I mean that's really going to hamper our business and to get a market competitive product out there and to enhance it on a timely basis.

Jeffrey Ross Stern: So the way that this clause ends up looking in practice is going to depend, again, on the context. So if you have a deep relationship with a technology provider, where there's a level of trust that's been built up over time, and you want to fundamentally impact the direction of the product, this clause is going to be potentially broader than if you've got a technology provider where you don't have a long history of dealing with them or you really want to just direct a narrow slice of technology that may have a tangential impact on your environment.

So this next slide addresses the scope of the license. And as the customer providing feedback I want the vendor to have a broad license to the feedback because I want them to use it. That's why I'm giving them the feedback. I want to influence the direction of their product so it is more useful to me.

Now, on the other hand, I want to sort of hedge my bets a little bit in the event that I goof and one problem that can arise is you provide something as feedback and it turns out, not only might it infringe a third party's intellectual property rights, but it also might infringe another confidentiality agreement that you have. It is increasingly hard and as we become more technology intensive to sort out which information came from where in our environment and you've got to be really careful that you don't disclose as feedback another vendor's confidential information. And I want to sort of keep the scope of the feedback to the vendor that I know as opposed to some undetermined – indeterminate vendor in the future.

Karen Sanzaro: As the vendor, my initial position is going to be to push for ownership of the feedback. That would be, obviously, the best case. And depending on leverage you may or may not push for that point. As my fall back, I'm going to look for as broad a license as possible. So while respecting Jeff as a customer what he's looking to do I am looking to have a broad license and I don't want to – if it's feedback that's going to be incorporated into my product, I don't want to have to worry about being able to sell my business or license it to affiliates or to continue to offer the product to third party of my choosing.

I really don't want to be hampered in any way. So I want a license that's not going to restrict me in that regard. And, you know, my argument is going to be to the customer, look it's in your discretion as to what you tell me, but once you tell me something, I really need the flexibility to build it in and provide you with a better product and I can't be hamstrung in operating my business thereafter just because you've offered me some feedback.

Jeffrey Ross Stern: And Karen mentioned an excellent point, which is that some vendors will ask that they own the feedback that a customer may provide. From a customer perspective, that is very problematic and presents a whole host of issues that are just as bad or worse than the one we've discussed.

So, in effect, when you grant as a customer – you grant the vendor ownership of the feedback what you've done is you've taken something, you've given the vendor the right to use it and you've, on top of that, taken away your right to continue to use it unless the vendor grants you a license back to it. So to keep track it becomes very problematic, especially if you have something that you want to continue to use or you want to continue to provide to another – you want to have the flexibility to provide to another vendor in the event you replace a vendor or you want to use an alternative vendor's products, you can't even suggest the idea that you came up with if you've assigned ownership to the feedback to the first vendor.

And this is a point, which I have hashed through a lot of the major technology vendors. I think was more in the early part of the decade that a lot of the technology vendors had in their agreements that they would own the feedback. And us customers, sort of rose and united and said, you know, "That just can't work, because if we give it to one of you then the other ones can't get it and it just ties up everyone's intellectual property."

So dealing with the point of the customer warranties this is the issue where as a customer you're trying to limit your disclosure. You think you're being pretty generous all ready in giving the vendor essentially free advice. In some agreements, by the way, in some variations of feedback agreements, you may end up paying, believe it or not, the vendor to incorporate your feedback into the product with the vendor being free to use the feedback in the new version of the product to sell to its other customers. So the vendor, in effect, just makes money off of you. In fact, that's the way you want it because you don't want a fork.

So regardless, you're being pretty generous in providing this advice. And you don't want to be faced with a lawsuit from the vendor in return. So that's the purpose of the disclaimer of warranties.

Karen Sanzaro: And from the vendor's perspective, as a vendor I'm taking advantage of feedback that I'm getting from a wide range of customers, but I don't want to run the risk that something someone has provided me is going to infringe in third party's intellectual property rights. And so I'm looking to the customer's that are providing me the feedback, those that are in control of what they're sending to me or disclosing to me to do the necessary diligence. How awful would it be to incorporate feedback into a product that becomes a core part of your technology platform and the service offering that you provide and it turns out that that was based on feedback that was infringing. So as a vendor, I'm going to look for appropriate protections from the customer and that may include an infringement indemnity. And that's always going to – that's, of course, going to be my going in position.

And, I think, where this ends up may depend somewhat on where you end up on the scope of the feedback. So if the feedback is very narrow and it's limited to things that are disclosed in writing and labeled as feedback, perhaps the customer in that event is going to be expected to provide some measure of protection. If it's broad – if it's a broad catchall for anything that the customer tells me, perhaps as a vendor, I'm going to be willing to back off of this position a little bit.

Jeffrey Ross Stern: So this next slide addresses the way that the feedback agreement operates. Again, it's sort of a scope issue. So what our companies will do is we will have many different what's called EULAs, end user license agreements, software agreements, a whole series of agreements may exist with any particular provide and particularly with software. And a lot of them may have feedback causes and a lot of them may vary and it's impossible as an in house lawyer to keep track of all of them and to look at each one. So that's why you might want a cause. And depending on the context the vendor might be happy to grant this where you agree that look, if there's an agreement between us as a feedback clause it's going to be superseded by this master feedback arrangement.

Karen Sanzaro: And, I think, that's a good point. I think this may also be a provision that gets negotiated depending on where you end up in terms of what the scope of the feedback is. If you've got a broad feedback provision I, as a vendor, may be willing to put this back in. It's – to Jeff's point, it's a very – and the flip side of that, Jeff may not be willing to include this provision if he's not able to get a narrow definition of feedback.

John Thomas: Yes, if you can just wrap up with one or two points and then we can get to some of these fabulous questions.

Karen Sanzaro: Just, one point on this in the last provision there, watch out for the "got you's" because the customer form feedback agreement notes that the current disagreement survives with respect to any feedback exchange prior to the determination. Except that the license granted will not include any rider license to any patents, copyrights or other IP that the customer acquires after the data termination.

So, I think, what that says is if the customer provides me as a vendor an idea or an invention and grants me a broad license to it but later after the termination gets a patent on than, then I may be infringing at that point and would have to pay royalties or come up with some other arrangement with the customer.

John Thomas: OK. And one of the listeners said, as is the case if done with residual information qualifying the rights granted regarding feedback with any patents the discloser later obtains is number one, arbitrary, number two at odds with the very purpose of the grant, to permit use by the recipient without fear of later claims or litigation. Note, not so qualifying these grants with the patents does not wipe out the patient, just grants or license right under it.

Jeffrey Ross Stern: Yes. And, I think, the intent of this clause, which is admittedly customer favorable and I am in that position, the reason that I drafted it that way is because we don't know what our future business plans are. And we may end up acquiring a company, which has a patent license in place with the vendor receiving the feedback. So what happens to that patent license? It's no longer necessary, the vendor doesn't need to renew it because they're licensed because of feedback we happened to give them once? So, I think, as in all things, there are two sides to this story and there's not a perfect one size fits all solution.

And John, this last point here is just on this last slide or two it's just more scope issues, so I think, we should jump to more questions given that we've only got four minutes.

John Thomas: OK. Does the common law protect any residual knowledge at all or do you need a cause to effect this kind of protection?

Karen Sanzaro: I think, generally, in doing a little bit of research for this presentation the court – most courts will imply a residuals clause, even if there's not a contractual expression of it.

Jeffrey Ross Stern: And then the question there becomes what is it? What jurisdiction is this going to fall under? And aren't you better off defining what it is, so you know what it is, rather than relying on some amorphous common law.

Karen Sanzaro: I think you're always better off agreeing to it up front and contractually agreeing what the scope of it is.

Jeffrey Ross Stern: Well, yes, with the caveat that, on the other hand, if you are the discloser, you may want to specify there is no residuals knowledge clause depending on the context.

John Thomas: Right. And with respect to feedback isn't the vendor in a better position to determine if feedback infringes a third-party patent between the two parties.

Karen Sanzaro: That's certainly what I would argue as the vendor – or as the customer, sorry.

Jeffrey Ross Stern: Yes, I think, that right as the customer that's why we would – that would be the argument in favor of disclaiming the warranty and the liabilities. As the vendor, you're going to say gee, you're giving me some pretty specific directions here in consulting type arrangements, development agreements. It is typical, for example, for there to be almost a cross indemnity for intellectual property in some cases where the customer directs the vendor to develop something a certain way. The vendor's indemnity will not apply. IP indemnity will not apply. And the customer will have to indemnify to the vendor.

But, I think, the distinction here is we're giving something – the customer is giving something freely to the vendor for the pure benefit of the vendor arguably.

John Thomas: Right. Wow, what a fabulous presentation. And Jeff, Karen, thanks so much. We've got lots of valuable information that we'll put to use on a daily basis, I'm sure.

As we close folks, please, remember to fill out the Webcast evaluation. That's the number one on the links. It's very important. And the program has been presented by the IT and ET – IT and eCommerce committee in cooperation with Hunton and Williams our sponsor. I'd like to put in a shameless plug for membership or the IT and eC committee. It's a fun place, and really where the cutting edge of our day-to-day practice, I believe rests.

There are info packs regarding confidentiality and trades secrets other matters available on the virtual library. So I urge you to fill out your knowledge with those resources as well. With that, thank you for joining us today and I hope you folks got as much out of this as I did.

Jeffrey Ross Stern: Thank you.

Karen Sanzaro: Thanks, John.

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