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

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Abstract: Getting the legal framework for information sharing right is a key to success in the global, information driven economy. This presentation covers recent developments with which in-house counsel should be well-versed. The presenters will focus on the interplay between confidentiality agreements, residuals clauses and feedback agreements. A failure to properly employ these provisions could result in the loss of valuable trade secrets or other material loss. The presenters will provide best practices, legal language and a standard form feedback agreement.

The views of the presenters are their own and not necessarily those of their employers.

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Agenda – Two Sides Of The Coin

- Confidentiality Agreements
  - Key Practice Pointers In Drafting And Negotiating
- Residuals Clauses
  - Purpose
  - Practice Pointers/Pitfalls
- Feedback Agreements
  - Avoiding Fatal Error – Sending Confidential Information As Feedback
  - Key Practice Pointers In Negotiating And Using
  - Mock Negotiation
- Your Feedback - Questions and Comments
Information Sharing Agreements
Confidential Information and Feedback: Two Sides of the Coin

Introduction
Confidentiality Agreements

- Confidential Information Constitutes Vital Corporate Assets
  - Your trade secrets
  - Third party trade secrets in your environment
  - Material non-public information
  - Personal information
  - Other non-public info

- Purpose
  - Protect Confidential Info You Disclose
  - Protect Confidential Info Others Disclose To You
  - Bilateral Exchange of Confidential Info
Confidentiality Agreements – Key Practice Pointers

- Train Business To Use Appropriate Form
  - Have the right forms ready
  - Sending, receiving, bi-lateral
  - Standalone NDA, confidentiality provision in an agreement
  - Consequences of using wrong form
    - Failure to protect confidential information
    - Unnecessary confidentiality obligations
Key Practice Pointers (cont’d)

- Tailor the scope of your obligations
  - First line of defense (residuals clause = last line)
  - Unnecessarily broad confidentiality obligation = unnecessarily broad potential breach liability

- Consider carefully necessary scope of use
  - Confirm with your receiving business unit that scope is sufficient for their purposes
  - Affiliates, Contractors, Advisors

- Do not agree that your trade secrets need not be kept confidential after a period of time
Key Practice Pointers (cont’d)

The Standard Carve Outs

- Publicly available – exclude personally identifiable info from carve outs and specify use restrictions and applicable privacy laws apply (e.g., GLB, HIPAA, foreign data protection laws)
- Independently developed – as documented and/or without reference to or reliance upon the Confidential Information
Key Practice Pointers (cont’d)

- The Standard Carve Outs (cont’d)
  - Received from a third party – not under obligation of confidentiality
  - Residuals clause adds a layer of protection for receiving party

- Subpoenas
  - Should provide the disclosing party with notice and opportunity to object where permissible
  - Where regulators request the information
Residuals Clause: Purpose

- Residuals clause is in the nature of a “safe harbor” for the receiver of confidential information designed to prevent frivolous litigation
  - Provides a stronger defensive posture to a claim of misuse or improper disclosure of information
- Hard to distinguish where “ideas” came from
  - Business people are exposed to a broad range of information from many sources
  - May not fall squarely under a carve out, e.g. independently developed
Sample Residuals Clause

The Discloser acknowledges that the Recipient and/or its affiliates and its and their Representatives [to be defined] may from time to time use Residuals, as defined below, for any purpose, including without limitation, in the development, manufacture, promotion, sale and maintenance of any products or services. The term “Residuals” means any Confidential Information [to be defined] retained in the unaided memories of any of Recipient, its affiliates, or Recipient’s or its affiliates’ Representatives who had access to Confidential Information pursuant to the terms of this agreement. One’s memory is unaided if one has not intentionally memorized the relevant Confidential Information with the intention of retaining and subsequently using or disclosing it for purposes unrelated to the proposed transaction.
Sample Residuals Clause (cont’d)

- Negotiation point in favor of the Discloser
  Add to end of paragraph:
  - “Notwithstanding the foregoing, this paragraph does not grant any license under patents, trademarks or copyrights of the Discloser.” [trade secrets?]
  - As drafted, the above clause preserves the right of the disclosing party to sue based on its public intellectual property
    » Private intellectual property: trade secrets
Sample Residuals Clause (cont’d)

- Negotiation points in favor of Discloser
  Replace:
  - “The term “Residuals” means any Confidential Information…”
  With:
  - “The term “Residuals” means any general information, technology, ideas, concepts, know-how and techniques contained in the Confidential Information…”

  » Gives the disclosing party another chance to argue that an idea was a specific trade secret that should not have been copied
  » Residuals clauses do not reflect perfect science
Sample Residuals Clause (cont’d)

Additional language:
The Discloser acknowledges that Recipient and/or any of its affiliates may be considering, and may in the future consider, business ideas, products and technologies similar to or the same as those of the Discloser. Nothing in this agreement shall prevent Recipient or any of its affiliates from pursuing any such ideas or pursuing businesses similar to or related to the Discloser’s, either internally or through investments in or representation of third parties.

- Addresses proximity of alleged misuse of information to preserve flexibility in the recipient’s ability to conduct business.
Residuals Clause: Practice Pointer
Consider the Context

- Similar development planned?
  - Clean room environment possible?
  - Possibility of resale? Competition?
  - Possibility of avoiding receipt of confidential information?

- Possibility of disclosure to competitors?
  - RFPs?

- Other business activities which could create an issue?
Feedback: The Other Side of the Coin

Feedback: purpose of disclosing the information is for use in widely available products, i.e. for non-confidential purposes

Confidential Information: purpose of disclosing is for use in confidence to further a private relation

Get it wrong and it could be ugly
- Company may inadvertently disclose a trade secret as feedback
- Vendor may inadvertently misuse confidential information as feedback in breach of confidentiality obligation
Advantages To Giving Feedback

- Product becomes more useful/efficient
- Less costly for customer to steer development of standard version than to maintain “forked” customizations
  - core versus non-core IP
- Build vendor-customer relationship / Goodwill
  - Access/input to betas and product planning
  - Improved communications/sales opportunities
- Learning and development for employees
Disadvantages To Giving Feedback

- Time spent
- Vendor or customer loss of IP or potential royalties
- Customer could be subject to infringement liability
  - Customer may have secondary liability to third parties under inducement or contribution theory
  - Unless the feedback agreement contains a disclaimer, Customer may be liable to Vendor
  - Customer may not be able to withdraw feedback
  - Customer may want to require that Vendor not attribute feedback to Customer
- IP issue for Vendor if feedback agreement is not properly structured or if feedback infringes other IP
Sample Master Feedback Agreement and Mock Negotiation Including Practice Pointers
Scope of Feedback

1. Scope

(a) The scope of this Agreement covers only specific written comments or suggestions made, or information disclosed, in response to regarding those Vendor products or services identified in a schedule in the form set forth in Exhibit A below disclosed by Customer to Vendor which is clearly labeled by Customer as follows: “[INSERT CUSTOMER NAME] Feedback Supplied Pursuant To Terms Of Feedback Agreement Between [INSERT CUSTOMER NAME] and [INSERT VENDOR NAME]” (“Feedback”). For the avoidance of doubt, no other information is licensed covered hereunder and any disclosures outside the scope of this Agreement may be subject to a confidentiality agreement. Any information within the scope of this Agreement may be disclosed only as expressly permitted herein. The parties may vary the scope of Feedback in connection with particular projects by executing a schedule in the form set forth in Exhibit A below.
2. License to Feedback

(a) Customer grants Vendor and its majority owned affiliates a non-exclusive, perpetual, worldwide, non-transferable, or sublicensable (except as set forth below), royalty-free license to make, use, copy, modify, create derivative works of, display, distribute, offer to sell, sell, or lease the Feedback as an integral component of any Vendor product or service. The foregoing license expressly excludes any Feedback for which Customer does not have the right to grant such a license.

(b) If Vendor sells a business unit that provides a product or service that uses the Feedback, Vendor may sublicense the Feedback on the terms described in Section 2(a) above to the buyer so that the buyer may continue to use the Feedback as part of such product or service, provided that the buyer agrees in writing to comply with the terms and conditions of this Agreement.

(c) No license is granted under this Agreement except the foregoing express license in Section 2(a) of Feedback which is properly marked as such. Subject to the license in Section 2(a), Customer retains all its intellectual property rights in and to the Feedback.
Customer Warranty?

3. **Customer Disclaimer of Warranties and Liability**

(a) **Customer hereby represents and warrants that it is the owner of or otherwise has the full legal right to grant to Vendor the right to use the Feedback in accordance with the license granted in Section 2 and that the Feedback does not infringe upon any patent, copyright, trade secret or other proprietary right of any third party** EXCEPT FOR THE WARRANTY SET FORTH IN THE PRECEDING SENTENCE. **FEEDBACK PROVIDED TO VENDOR IS ON AN “AS IS” BASIS WITHOUT ANY WARRANTY OF ANY KIND, INCLUDING WITHOUT ANY WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, OR MERCHANTABILITY OR NON-INFRINGEMENT.**

(b) **CUSTOMER AND ITS AFFILIATES, AND ITS AND THEIR OFFICERS, DIRECTORS, EMPLOYEES, CONTRACTORS AND AGENTS, DISCLAIM ALL LIABILITY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY FEEDBACK LICENSED HEREUNDER, INCLUDING ANY DIRECT, INDIRECT, CONSEQUENTIAL, SPECIAL, PUNITIVE OR OTHER FORMS OF DAMAGES (INCLUDING LOST PROFITS), EVEN IF CUSTOMER OR ANY AFFILIATE HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. Customer will indemnify, defend and hold harmless Vendor and its Affiliates [and its and their customers] for any third party claim to the extent attributable to a breach of the foregoing warranty.**
(c) The terms and conditions of this Agreement will supersede and override any provision addressing feedback in any other agreement between the parties, whether existing or entered into in the future, including feedback agreements, beta testing agreements, trial agreements, advisory council agreements, EULAs and other types of agreements that provide for feedback ("Other Agreement"), and except as specified herein Customer grants no right or license to any feedback or Feedback herein or under any such Other Agreement unless such Other Agreement specifically references this Agreement and expressly states that it overrides the terms and conditions of this Agreement regarding feedback.

(d) If any one or more of the provisions of this Agreement shall for any reason be held to be invalid, illegal or unenforceable by a court of competent jurisdiction, the remaining provisions of this Agreement shall be unimpaired and shall remain in full force and effect.

(e) Vendor shall not assign its rights or obligations under this Agreement without the prior written consent of Company and any attempt to do so without such consent shall be null and void.

(f) The terms of this Agreement will survive with respect to any Feedback exchanged prior to the date of termination, except that the license granted in Section 2(a) will not include any right or license to any patents, copyrights or other intellectual property that Customer acquires or first licenses after the date of termination.
I. Project

The scope of Feedback as defined in the Agreement will apply to Feedback provided by Customer regarding the following Vendor materials be modified as set forth below solely in connection with information from the persons identified working on the project set forth below:

Project:
Vendor Materials:

Customer Personnel: [enter names or business unit]

II. Modification To Scope Of Feedback

Solely for purposes of the foregoing individuals providing information and suggestions to the Vendor Materials in connection with the Project, Feedback is redefined from specific written information in response to Vendor products or services disclosed by Customer to Vendor which is clearly labeled by Customer as follows: “[INSERT CUSTOMER NAME] Feedback Supplied Pursuant To Terms Of Feedback Agreement Between [INSERT CUSTOMER NAME] and [INSERT VENDOR NAME]”, to also include:

[written information, including emails, regarding Vendor Materials from Customer Personnel which are not so marked or oral information which is [reduced to writing by the sender or recipient within 10 days of disclosure] and/or [closely related to feedback disclosed in writing].

III. Duration
Comments or Questions

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