MORRISON FOERSTER

2023
IP Symposium

AI Considerations in Technology Transactions

MATT CASTLE, SENIOR COMMERCIAL
COUNSEL, OPENAI

JOE GRATZ, PARTNER,
MORRISON & FOERSTER

TESSA SCHWARTZ, PARTNER,
MORRISON & FOERSTER

OCTOBER 12, 2023

Generative AI in Action

✦ GPT-4

JG Write engaging introductory remarks of no more than 200 words for a Continuing Legal Education presentation to the Association of Corporate Counsel on "AI Considerations in Technology Transactions."

Ladies and gentlemen,

In a world rapidly transformed by technological innovation, the lines between human expertise and artificial intelligence are blurring. As members of the Association of Corporate Counsel, you're on the frontline, ensuring that businesses navigate this paradigm shift with legal acumen and foresight. Today, we delve into the ever-evolving landscape of "AI Considerations in Technology Transactions." From determining the IP rights of an AI's output to assessing liability when an AI system goes awry, we are venturing into uncharted territories. But, as with every great journey, preparation and knowledge are key. This presentation aims not only to spotlight the critical considerations of today but to arm you with the insights needed for the unpredictable challenges of tomorrow. Let's embark on this journey together and ensure that as AI reshapes the business world, the legal profession remains a beacon of guidance and expertise. Welcome to the forefront of the AI revolution in technology transactions!

The AI Data Puzzle

Input/Prompt

Training Data

AI Model

Metadata

Output
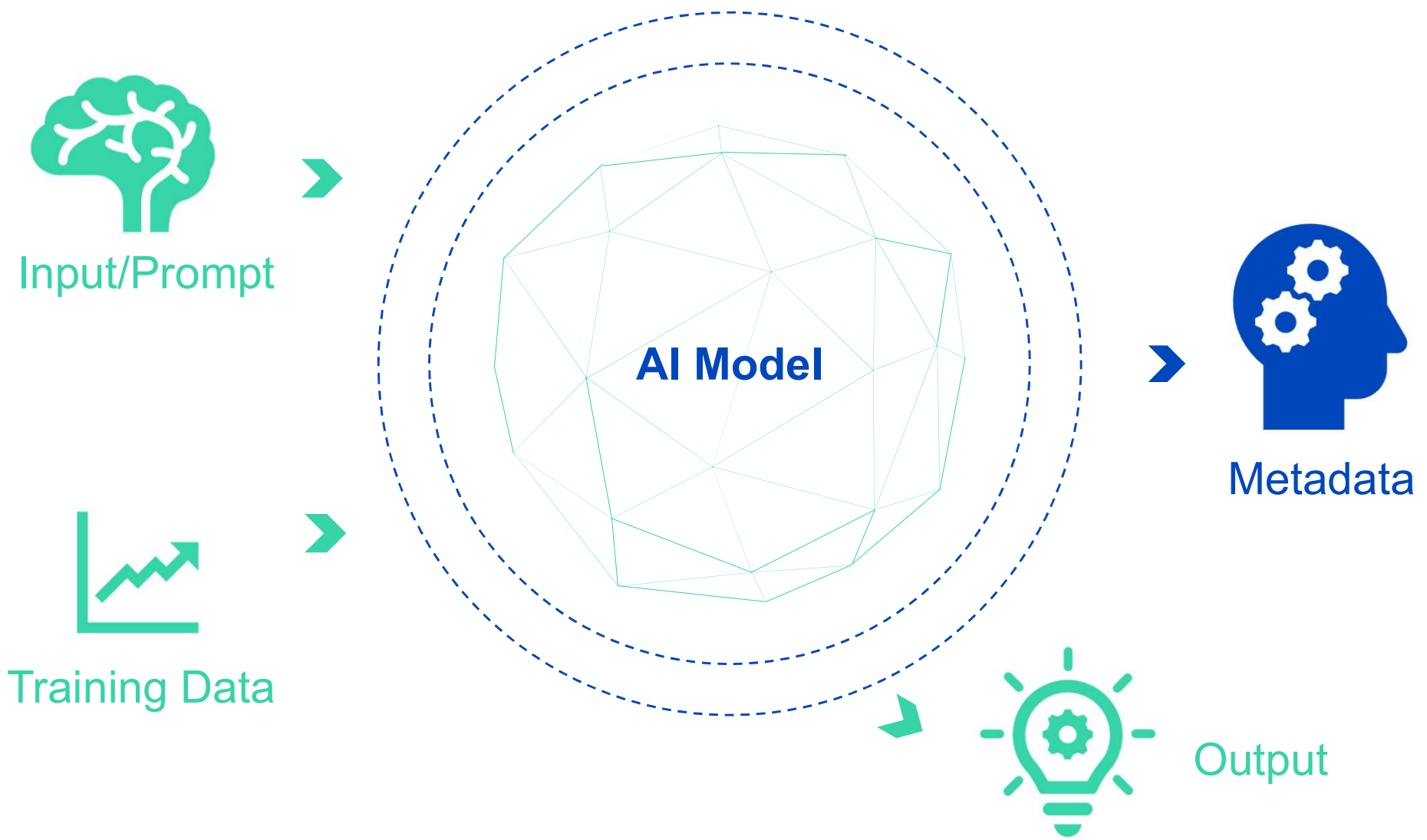
Context is Key

vendor vs. customer

preexisting agreement vs. starting from scratch

vendor form vs. customer form

negotiating leverage

timing and innovation vs. risk

Key Provisions in AI Transactions

1 **Confidentiality**

2 **Ownership**

3 **Indemnification**

4 **Limitations on liability**

MORRISON
FOERSTER

Keeping Trade Secrets Secret

(3) the term "trade secret" means [various types of information] **if**—

(A) the owner thereof has taken

reasonable measures

to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information;

Confidentiality – Drafting and Negotiating

"**Confidential Information**" means any business, technical or financial information, materials, or other subject matter disclosed by one party ("Discloser") to the other party ("Recipient") that is identified as confidential at the time of disclosure or should be reasonably understood by Recipient to be confidential under the circumstances. For the avoidance of doubt, Confidential Information includes Customer Content. Recipient agrees it will: (a) only use Discloser's Confidential Information to exercise its rights and fulfill its obligations under this Agreement, (b) take reasonable measures to protect the Confidential Information, and (c) not disclose the Confidential Information to any third party except as expressly permitted in this Agreement.

"**Customer Content**" means Input to the Services together with Output from the Services.

You and End Users may provide input to the Services ("**Input**"), and receive output from the Services based on the Input ("**Output**").

Use of Content – Drafting and Negotiating

We will only use Customer Content as necessary to provide you with the Services, comply with applicable law, and enforce OpenAI Policies. **We will not use Customer Content to develop or improve the Services**.

"A beautiful, realistic, whimsical flurry of contractual papers with the Golden Gate Bridge". *Who owns this?*

Ownership of Content – Drafting and Negotiating

You and End Users may provide input to the Services ("**Input**"), and receive output from the Services based on the Input ("**Output**"). We call Input and Output together "**Customer Content**." As between you and OpenAI, and to the extent permitted by applicable law, you (a) ==retain all ownership rights in Input== and (b) **own all Output**. **We hereby assign to you all our right, title, and interest, if any, in and to Output**.

Defining Customer Content

"**Your Content**" means Content that you or any End User transfers to us for processing, storage or hosting by the Services in connection with your AWS account and any computational results that you or any End User derive from the foregoing through their use of the Services.

"**Content**" means software (including machine images), data, text, audio, video, or images.

Indemnification and Infringement Risk

DMCA 512(c)

A service provider shall not be liable for monetary relief…for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider:

(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material…

Vendor Indemnification – Example 1 (General)

"Vendor will defend Customer against any third-party claim to the extent it alleges that **a Product or Services Deliverable made available by Vendor for a fee and used within the scope of the license granted under this Agreement** (**unmodified** from the form provided by Vendor and **not combined** with anything else), misappropriates a trade secret or **directly infringes** a patent, copyright, trademark, or other proprietary right of a third party…"

"**Product**" means all Software and Online Services that Vendor offers under this Agreement as identified in the Product Terms, including previews, prerelease versions, updates, patches, and Fixes from Vendor.

"**Services Deliverables**" means any computer code or materials (including without limitation proofs of concept, documentation and design recommendations, sample code, software libraries, algorithms, and machine learning models), other than Products or Fixes, that Vendor leaves with Customer at the conclusion of Vendor's performance of Professional Services

Vendor Indemnification – Example 2 (Output)

Subject to the limitations in this Section, Vendor will defend you and your employees, officers, and directors against any third-party claim alleging that the **output generated by [the AI tool] infringes or misappropriates that third party's intellectual property rights**, and will pay the amount of any adverse final judgment or settlement."

Vendor will have no obligations or liability with respect to any claim: (i) arising from Content that differs from output generated by [the AI tool]; (ii) arising from Content that was generated in connection with **inputs or other data provided by you that, alone or in combination, infringes or misappropriates another party's intellectual property rights**; (iii) if you **intentionally generate** Content that infringes or misappropriates another third party's intellectual property rights; (iv) if you have not **enabled all filtering features** made available for [the AI tool]; (v) if you **disregard an indication** by the Service of the output's similarity to other data; (vi) if your use of [the AI tool] **violates the Agreement**; or (vii) **arising after you receive notice** to stop using the output or **become aware** of the output's potential infringement or misappropriation.

Customer Indemnification

You will defend Vendor, its affiliates, and their respective employees, officers, and directors **against any third-party claim alleging that any of Your Content infringes or misappropriates** that third party's intellectual property rights, and will pay the amount of any adverse final judgment or settlement.

"**Your Content**" means Content that you or any End User transfers to us for processing, storage or hosting by the Services in connection with your AWS account and any computational results that you or any End User derive from the foregoing through their use of the Services.

Limitations on Liability – Drafting and Negotiation

Except for **(i) a party's gross negligence or willful misconduct, (ii) your breach of Section 2 [usage and license restrictions], (iii) either party's breach of confidentiality, or (iv) our breach of Section 5 [information security]**, neither you nor OpenAI or our respective affiliates or licensors will be liable under this Agreement for any indirect, punitive, incidental, special, consequential, or exemplary damages (including lost profits) even if that party has been advised of the possibility of those damages.

Except for a party's gross negligence or willful misconduct, **each party's total liability under the Agreement will not exceed the total amount you have paid to us in the twelve (12) months** immediately prior to the event giving rise to liability. The foregoing limitations will apply despite any failure of essential purpose of any limited remedy and to the maximum extent permitted under applicable law.

Questions and Discussion?

🌐   in   🐦   📷   f

Today's Presenters

Joseph Gratz
Morrison Foerster
Jgratz@mofo.com

Tessa Schwartz
Morrison Foerster
Tschwartz@mofo.com

**Matthew
Castle**
OpenAI

AI Insights

- **When Can Human Input Render AI Work Copyrightable?**

- **District Court Rules that AI-Generated Works Cannot Be Copyrighted**

- **High Walls and Small Gardens: Biden Administration Unveils Outbound Investment Screening**

- **AI Leaders Commit to White House Supported Guidelines**

- **Enterprise Use of Early-Stage Generative AI: Risks and Guardrails**

- **The Legal and Regulatory Landscape Evolving with AI in Life Sciences**

- **Unique Issues To Look Out For in Generative AI Transactions**

- **Generative AI and Copyright: Roundtable Series Recap**

- **New York City AI Law: Trials, Tribulations, and Uncertainties**

- **Top 10 Considerations When Licensing AI for Use in Drug Discovery**

- **Key Issues in Generative AI Transactions**

- **Responsible AI as Part of a Company's ESG Framework**

- **Risky Business: NIST Releases New AI Risk Management Framework**

MORRISON FOERSTER

MORRISON FOERSTER

🌐 in 🐦 📷 f