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IP ESSENTIALS

A Toolkit for Entrepreneurs, Innovators, and Business Owners

CONFIDENTIALITY AGREEMENTS

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Confidentiality agreements are important business tools and are often precursors to further agreements and business relationships. For most businesses, their intellectual property is their most valuable asset, and must be protected.

Q&A SERIES

When there is a disclosure or potential disclosure of confidential information at the beginning of a business relationship or if discussions discontinue, a confidentiality agreement sets reasonable boundaries for behavior. As such, putting an agreement in place should be viewed as a significant and necessary activity and should be treated accordingly.

Q ***What is a confidentiality agreement?***

A A confidentiality agreement, also called a non-disclosure agreement (NDA) or secrecy agreement, is a legal contract between two (or more) parties stating that they will not share or profit from confidential information. This type of agreement may be useful in many different situations such as when a company has confidential and proprietary information, or even trade secrets, where the value is maintained by their secrecy, or in the case of a business merger, material R&D, vendor sourcing, a potential investor, or a joint venture between companies.

While all agreements should be tailored to the specific needs of the parties involved, there are some typical components that should be included in any confidentiality agreement or confidentiality clause:

- Identification of the parties who have access to the confidential information;
- An outline of the confidential information included in the agreement;
- Exclusions to the confidential information;
- How long the information should remain confidential;
- Examples of appropriate and inappropriate uses of the confidential information;
- What to do in case of a breach by a party receiving the confidential information.

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Q *What are the different types of confidentiality agreements?*

A There are two types of confidentiality agreements:

1. One-way (or Unilateral) Confidentiality Agreements
2. Two-way (or Mutual) Confidentiality Agreements

A one-way confidentiality agreement is common between businesses and suppliers, vendors, and consultants. Typically, a one-way confidentiality agreement provides obligation of confidentiality and non-use only to the recipient of the information. One-way agreements provide maximum flexibility and no reciprocal obligations of confidentiality or limited use.

Often the default because of the "mirror image" terms, two-way confidentiality agreements anticipate both parties sharing confidential information. These agreements should be reviewed with care. They should not be offered or accepted if information should only flow in one direction because it may place an undue burden on a party that has no legitimate interest to receive or protect the other party's information.

When determining the correct type of confidentiality agreement for a particular situation, it is important to remember that inaccurate or inadequate identification of a party may result in an unenforceable agreement or leave a party without recourse under the agreement.

Q *What are the other types of agreements that that typically contain confidentiality, limited use, and/or intellectual property provisions?*

A Besides confidentiality agreements, there are several types of legal agreements and clauses within such legal agreements that can be put in place to secure intellectual property rights. These include, but are not limited to:

- Consultant Services Agreements
- Research Agreements
- Analytical Services Agreements
- Evaluation Agreements
- Joint Development (Collaboration) Agreements
- Manufacturing Agreements
- License Agreements
- Employee/Contractor/Temporary Worker Agreements

All of these different types of agreements have specific uses for certain types of relationships and subject matter. For example, for manufacturing agreements, the owner of confidential information should be mindful of potential improvements made by the manufacturer as a result of being exposed to the confidential information. In such an agreement, the owner of the confidential information may want to consider a clause requiring the manufacturer to assign the rights in any improvements to the owner.

Q ***What are some things that should be considered when deciding whether to have a confidentiality agreement or another type of agreement to protect intellectual property rights?***

A A confidentiality agreement is often the gateway for targeted discussions that lead to business relationships. As such, it is vital that the agreement is written with consideration of the context of the specific relationship, the information being disclosed, and how it may be used. Beware of "boilerplate" agreements with overly broad terms. A strong and well-written confidentiality agreement can prevent potential partners (and competitors) from mishandling and/or misappropriating valuable intellectual property rights.

The most important consideration is a balance between the discloser's need for protection and the recipient's need for the information prior to making a business commitment. Even with a confidentiality agreement the level of disclosure should be limited to only the necessary confidential information for the related matter.

Some common areas of concern involve issues as simple as identifying the correct legal parties to more strategic decisions around what level or type of information will be disclosed and received and by whom. It is necessary to conduct proper due diligence and consult a legal advisor prior to entering into any type of agreement.

Q ***Why is it important to define the "confidential information" in a confidentiality agreement?***

A The definition of confidential information in the agreement should be specific, understood by the parties, and relevant only to the use of the information within the purpose of the agreement. Of course, a broader definition would be preferable to the disclosing party, while the recipient would benefit from a narrower description.

Similar positions are typically held by discloser and recipient regarding the need to mark or otherwise identify disclosed information as being confidential. The disclosing party has the burden to identify which information is confidential. This can be done one of two ways:

- Written disclosures – marking "CONFIDENTIAL"; and
- Oral disclosures – memorialize in a follow-up disclosure within some time period.

Consideration should also be given to information that was or is independently developed by the receiving party without any use of the disclosing party's confidential information. This may be especially important to allow a company to exploit developments that may be technically related to the confidential information that was disclosed.

Some **exceptions** to confidentiality include:

1. information that is generally known or publicly available
2. in possession of the receiving party,
3. lawfully received on a non-confidential basis from third parties

Q *Why would I need a confidentiality agreement to protect my invention?*

A To seek patent protection, it is not necessary to have actually implemented the invention before filing a patent application. In fact, it is often better to file a patent application prior to implementation, when there is less risk of public disclosure. When there is a need for disclosure of confidential information before a patent application has been filed, such as when presenting an invention to potential investors, having a strong confidentiality agreement in place *before any disclosure* is critical. Even after a patent application is filed, a confidentiality agreement may help to preserve the confidential nature of the invention, thereby preventing third parties from developing and commercializing the invention prior to the owner.

In the U.S., patent rights are forfeited if a patent application is not filed within a one-year grace period from the date of first publication, public use, sale, or offer for sale of the invention. Many other countries are less forgiving and will not allow a patent on any invention that was publicly disclosed before filing the patent application. A confidentiality agreement places an obligation on the recipient to maintain the information in confidence, thereby potentially preserving the owner's ability to file a patent application prior to any publication, public use or sale of the invention.

Q *How can a confidentiality agreement help to protect my trade secrets?*

A Proprietary information, in the nature of trade secrets and knowhow, provides a business advantage over competitors. It is important to protect proprietary information from reaching your competitors, the media, and the general public to maintain your competitive advantage.

For such information to be legally protected as a trade secret, the information must be *secret* (not generally known); *valuable*; and *subject to reasonable efforts to safeguard and maintain its secrecy.*

Confidentiality agreements help establish that these "reasonable efforts" are made.

Examples of proprietary information that would be important to protect include:

- Scientific, technical, engineering data and results;
- Engineering drawings and designs;
- Specifications;
- Customer and supplier lists;
- Processes and production methods;
- Equipment;
- Recipes;
- Unpublished patent applications; and
- Business operation and financial information.

Q ***If I have signed a confidentiality agreement and received confidential information, what are my obligations and how long am I beholden to this agreement?***

A Recipients of confidential information, under a one-way agreement, are required to:

- Preserve the confidentiality of the materials received;
- Use the information solely for the agreed upon purpose;
- Not make disclosures of the confidential information to anyone beyond those with a need to know the material; and
- Limit access to the confidential information.

The term of confidentiality agreements typically includes two time periods: first defining a time limit for one or both parties to exchange confidential information, usually running from the effective date; and second defining the period of the confidentiality obligation on the recipient(s) that may run concurrently with the agreement term or continue after the expiration of the agreement. In situations involving disclosure of confidential information protectable as trade secrets, the obligation of confidentiality on the receiving party should be indefinite (without time limit) or until the trade secret becomes available to the public. Limiting the confidentiality obligation to a shorter period opens the trade secret up to potential public disclosure and an inevitable loss of rights.

There may be provisions within some agreements that allow for limited disclosure of information or the option to license the information, but it is up to the discloser to determine whether certain provisions are included in a particular agreement.

Q ***What happens if a former employee violates a confidentiality agreement?***

A A best practice is to have employees who are in a position to conceive and develop inventions for the company to have employment agreements that obligate them to assign inventorship rights to the company. In addition to a confidentiality provision, the employment agreement may include a non-compete provision, especially for employees who are critical in the development of new products for the company.

While the law may vary depending on your state, most jurisdictions consider confidentiality agreements to be enforceable as long as they are written and executed properly. Some states prohibit or limit non-compete provisions. If you have a signed confidentiality agreement with someone who discloses your confidential information without authorization, you can ask a court to order the violator to stop making any further disclosures. You can also file a lawsuit for monetary damages for all losses related to the breach of the confidentiality agreement.

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This IP Essentials Topic is one of a series:

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