

## Chapter 3

### -- Non-Disclosure Agreements --

In Chapter 2, we discussed some events that can prevent an inventor from receiving a patent. For example, if previous publications describe the invention, those publications will prevent a patent from being awarded. Additionally, if the inventor makes the invention public, this can have an effect on the patentability of the invention. Specifically, if the inventor publicly demonstrates or describes the invention, or offers the invention for sale, it will start a one-year clock running. If the inventor does not file a patent application on the invention within that one year, the public disclosure of the invention by the inventor will bar the award of a patent on that invention under 35 U.S.C. § 102(b).

This may present a significant dilemma for the inventor. Assume, for example, that the inventor is not positive that the invention will work and needs the assistance of some other person to test the feasibility of the invention. If the inventor describes the invention to a third party, even to get help testing the invention, the inventor may inadvertently start the one-year clock running in which a patent application must be filed. Similarly, suppose the inventor needs an investor to provide funds to commercialize or further develop the invention. Again, the inventor cannot disclose the invention to potential investors without potentially starting the one-year clock.

Similar situations arise in the context of a trade secret. As we noted in the Introduction, to receive legal protection, a trade secret must be kept a secret. It cannot be disclosed outside the organization that owns the trade secret. If the secret becomes publicly known, it is no longer a trade secret and protected by law.

Suppose, however, that the trade secret must be disclosed to an outside party. Perhaps, the company that owns the trade secret is looking for investors. Perhaps, the trade secret must be used to produce parts needed by the company and which the company cannot manufacture for itself. In such circumstances, the company that owns the trade secret will have to find a supplier to make the desired part and will have to disclose the trade secret to that supplier in order to enable the supplier to make the desired part.

Unfortunately, in any of these scenarios, the disclosure of the invention or the trade secret has negative legal consequences. In the case of an invention, the one-year clock starts to run, the expiration of which will bar receipt of a patent if no application has been filed. In the case of a trade secret, the owner may lose all legal protection for the secret and may also lose all the advantages that the secret provided.

The solution to all these problems is the non-disclosure agreement, also sometimes referred to as an NDA or confidentiality agreement. If an invention is disclosed under a non-disclosure agreement, the one-year clock that potentially bars the award of a patent does not start ticking. If a trade secret is disclosed under a non-disclosure agreement, all

the legal protections afforded a trade secret are maintained. The non-disclosure agreement allows the inventor or the trade secret owner to disclose the invention or trade secret for legitimate purposes without adverse legal consequences.

In essence, a non-disclosure agreement stipulates that: (1) Party A has information that is confidential and is to be kept confidential. This information could be a trade secret or an invention that will, perhaps, someday be patented. (2) Party A has a need to disclose the confidential information to Party B. This need could be any of the examples given above, e.g., B is a potential investor or B is a potential supplier. Any legitimate need for A to provide the confidential information to B will do. (3) Party B understands that the information is confidential and agrees, in return for disclosure of the information, to keep the information confidential and only use the information for the purpose intended by A.

Obviously, even with a non-disclosure agreement in place, B, the part receiving the confidential information may breach the agreement and disclosure or improperly use the confidential information. In such a case, party B will be liable to party A for breach of the non-disclosure agreement and will have to compensate A for the damage done by the disclosure. Additionally, as noted, a patent may still be sought or trade secret protection claimed for the confidential information, even though the information may no longer be confidential.

### -- Common Provisions of Non-Disclosure Agreements --

As indicated, a non-disclosure agreement has certain elements. At a minimum, a non-disclosure agreement can simply provide that confidential information is being disclosed and that the receiving party recognizes and accepts an obligation to maintain the confidentiality. Because non-disclosure agreements are relatively simple agreements that are used in similar situations, it is worthwhile to note some common provisions that may be found, in some form, in a non-disclosure agreement.

(1) A statement of the reason why the confidential information is being disclosed and the purpose for which it can be used by the receiving party.

The purpose of the disclosures hereunder shall be for discussions in anticipation of a business relationship between Receiving Party and Disclosing Party. The parties agree to use the Confidential Information only for such purpose and only in accordance with the terms of this Agreement.”

(2) A definition of what constitutes the confidential information being disclosed.

The term ‘Confidential Information’ shall mean and refer to all information, whether oral, visual, or written, which is seen by Receiving Party, given to Receiving Party, or received by Receiving Party from Disclosing Party or any

other source authorized by Disclosing Party during the course of or in connection with the meetings on any Disclosing Party information.

(3) A statement of the obligation the receiving party has to keep the disclosed information confidential

Receiving Party hereto agrees to safeguard and hold in confidence and to neither directly nor indirectly disclose nor use same, other than for purpose for which such disclosure is being made, any of the Confidential Information

1. disclosed by Disclosing Party, its agents or employees hereunder; or
2. obtained from Disclosing Party as a result of the activities contemplated hereunder.

Receiving Party agrees to use the same degree of care and scrutiny to avoid disclosure, publication or dissemination of the Confidential Information as it would use with respect to its own confidential and/or proprietary information, but the use of such efforts shall not constitute a defense in the event that the Confidential Information of Disclosing Party is not kept confidential in accordance with the provisions of this Agreement. Receiving Party shall take all reasonable measures including, but not limited to, court proceeding, at their own expense, to restrain their employees or former employees from unauthorized disclosure or use of the Confidential Information of Disclosing Party.

(4) An agreement as to who owns any invention that may result from the disclosure of the confidential information. Obviously, the disclosing party will want to retain ownership of any such inventions, if the receiving party will agree.

All of the Confidential Information disclosed, delivered to, or acquired by Receiving Party from Disclosing Party, and all inventions and developments which arise therefrom, shall be and remain the sole property of Disclosing Party.

(5) A statement that the disclosure does not give the receiving party any right in or to the confidential information.

Disclosure of the Confidential Information disclosed shall not constitute any option, grant or license to Receiving Party under any patent, know-how or other rights heretofore, now or hereinafter held by Disclosing Party.

It should be noted that it is not necessary to place your patent attorney under a non-disclosure agreement before disclosing an invention or other confidential information. Under the ethical rules of all states, an attorney is legally required to maintain the confidence of any and all information provided by a client to protect the interests of that client or in accordance with the expressed or implied wishes of that client.

Consequently, providing an attorney with confidential information does not start the one-year clock running against a possible patent on an invention or compromise the

integrity of a trade secret. The disclosure to the attorney is under an obligation of confidentiality.

Following this dissection of common non-disclosure agreement provisions, a complete sample of a non-disclosure agreement follows. This sample can be used, with suitable modification, to address any of the scenarios, described above, where the confidential nature of information must be maintained despite disclosure to a third party.

-- Sample Non-Disclosure Agreement --

CONFIDENTIALITY AND NON-DISCLOSURE AGREEMENT

THIS AGREEMENT, is made and entered into as of \_\_\_\_\_  
("Effective Date") between \_\_\_\_\_  
("Disclosing Party") and \_\_\_\_\_  
("Receiving Party")

WITNESSETH:

WHEREAS, Disclosing Party is willing to disclose to Receiving Party certain "Confidential Information" (as hereinafter defined) subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration for the mutual promises and conditions contained herein, Disclosing Party and Receiving Party agree as follows:

1. The purpose of the disclosures hereunder shall be for discussions in anticipation of a business relationship between Receiving Party and Disclosing Party. The parties agree to use the Confidential Information only for such purpose and only in accordance with the terms of this Agreement.
2. The term "Confidential Information" shall mean and refer to all information, whether oral, visual, or written, which is seen by Receiving Party, given to Receiving Party, or received by Receiving Party from Disclosing Party or any other source authorized by Disclosing Party during the course of or in connection with any meetings on any Disclosing Party information or in the course of said business relationship.
3. The term for disclosure of Confidential Information shall be from the Effective Date to one (1) year from the Effective Date ("Disclosure Period"). During the Disclosure Period and for a period of \_\_\_\_\_ years after the expiration of the Disclosure Period, Receiving Party hereto agrees to safeguard and hold in confidence and to neither directly nor indirectly disclose nor use same, other than for purpose for which such disclosure is being made, any of the Confidential Information that has been:
  - (i) disclosed by Disclosing Party, its agents or employees hereunder;
  - (ii) obtained from Disclosing Party as a result of the activities contemplated hereunder.
4. Receiving Party agrees to use the same degree of care and scrutiny to avoid disclosure, publication or dissemination of the Confidential Information as it would use with respect to its own confidential and/or proprietary information, but

the use of such efforts shall not constitute a defense in the event that the Confidential Information of Disclosing Party is not kept confidential in accordance with the provisions of this Agreement. Receiving Party shall take all reasonable measures including, but not limited to, court proceeding, at their own expense, to restrain their employees or former employees from unauthorized disclosure or use of the Confidential Information of Disclosing Party.

5. The parties agree that, with respect to Disclosing Party Confidential Information, Receiving Party will:
  - (i) disclose such Confidential Information to only those employees, subcontractors or agents whose duties justify a “need-to-know” and who have executed a confidentiality agreement in which such employees, subcontractors or agents agree to hold confidential and not to disclose or use, all Confidential Information and materials (inclusive of those of third parties) which may be disclosed to them or to which they may have access during the course of their duties;
  - (ii) ensure that each document containing the Confidential Information made available to any employee, subcontractor or agent of a receiving party bears a legend to the effect that the information contained therein is proprietary to the disclosing party.
6. The parties hereby represent to each other that the disclosure of the Confidential Information by Disclosing Party will not violate any proprietary rights of third parties, including, without limitation, confidential relationships, patent and copyright rights, or other trade secrets, and that the disclosure by Disclosing Party to Receiving Party will not violate any contractual obligations which Disclosing Party may have to any third party.
7. All of the Confidential Information disclosed, delivered to, or acquired by Receiving Party from Disclosing Party, and all inventions and developments which arise therefrom, shall be and remain the sole property of Disclosing Party. Upon termination of this Agreement or at Disclosing Party request, any and all portions of the Confidential Information disclosed under this Agreement (including copies forwarded to subcontractors and/or agents), together with all copies thereof, shall be returned promptly to Disclosing Party, provided that Receiving Party may retain one copy thereof in its confidential, restricted access files for use only in the event a dispute arises between the parties hereunder and only in connection with that dispute. Receiving Party agrees to maintain any such copy in accordance with the provisions of this Agreement.
8. Disclosure of the Confidential Information disclosed shall not constitute any option, grant or license to Receiving Party under any patent, know-how or other rights heretofore, now or hereinafter held by Disclosing Party. It is understood and agreed that the disclosure shall not result in any obligation on the part of either party to enter into any further agreement with the other with respect to the subject matter hereof or otherwise.

9. Receiving Party expressly agrees not to compete with or circumvent Disclosing Party in the planning, development, manufacture, distribution or sales of Disclosing Party products or business affairs, and all subunits and parts thereof.
10. No modification to this Agreement shall be effective unless in writing and signed by both parties hereto.
11. Either party's waiver of any breach or failure to enforce any of the provisions of this Agreement at any time shall not in any way effect, limit or waive such party's right thereafter to enforce and compel strict compliance with every provision hereof.
12. This Agreement shall be construed and enforced in accordance with the local law of the State of \_\_\_\_\_. The parties hereby consent to and submit to the jurisdiction of the federal and state courts located in the State of \_\_\_\_\_, and any action or suit under this Agreement shall only be brought by the parties in any federal or state court with appropriate jurisdiction over the subject matter established or sitting in the State of \_\_\_\_\_. The parties shall not raise in connection therewith, and hereby waive, any defenses based upon the venue, the inconvenience of the forum, the lack of personal jurisdiction, the sufficiency of service of process or the like in any such action or suit brought in the State of \_\_\_\_\_. Disclosing Party and Receiving Party each waive any right they may have to a trial by jury in any action, proceeding or counterclaim arising hereunder or relating hereto.
13. This Agreement constitutes the complete agreement between the parties hereto and supersedes and cancels any and all prior communications and agreements between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto by their duly authorized representatives have executed this Confidentiality and Nondisclosure Agreement upon the date first set forth above.

Disclosing Party

Receiving Party

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_