

# LITIGATORS CORNER: Non-Disclosure Agreements for Trade Secrets

## KEEP THEM SHORT AND SIMPLE

BY JOSEPH N. HOSTENY, OF  
NIRO, SCAVONE, HALLER & NIRO



*Regular IP Today columnist Joseph N. Hosteny is an intellectual property litigation attorney with the Chicago law firm of Niro, Scavone, Haller & Niro. A Registered*

*Professional Engineer and former Assistant US Attorney, his articles have also appeared in Corporate Counsel Magazine, The Docket (American Corporate Counsel Association), American Medical News, Inventors' Digest, Litigation Magazine and Assembly Engineering Magazine. Listed in Who's Who, Mr. Hosteny was recently named to the Board of Editors of Patent Strategy & Management (a monthly publication of American Lawyer Media), for which he will also be writing periodic guest columns. Mr. Hosteny can be reached at (312) 236-0733, or by e-mail at [jhosteny@hosteny.com](mailto:jhosteny@hosteny.com), or by visiting his web site at <http://www.hosteny.com>.*

Lots of entrepreneurs and inventors decide to submit their ideas to someone – usually a company – for licensing. They must do this, because often they themselves do not have sufficient means to manufacture or market the new product. So how can an inventor's ideas best be protected? One technique is a written confidentiality agreement, sometimes called a non-disclosure agreement, or NDA. I did a little surfing to see what kinds of agreements are out there; I checked several websites, including the Small Business Administration's, to see what help it offered entrepreneurs, but didn't find anything useful. Of course, there are privately owned sites that will sell you form agreements.

NDA's are usually used to protect a trade secret from being misappropriated, but they

can also be useful if an inventor is sharing an idea or invention with a potential licensee before the patent has been issued. In this column, I will discuss NDA's as they relate to trade secrets.

Actually, as long as you protect your trade secrets, the law does not require that you use a written agreement. There are decisions to the effect that a confidentiality agreement is only evidence of a trade secret, not a prerequisite.

You can rely on an oral agreement – which I do not recommend – or any other form of communication you might like. One of my partners argues that one should simply rely on the protection of the Uniform Trade Secrets Act, or UTSA, which is enacted in most states, and does not require written confidentiality agreements. The defendant in his case tried to use the written agreement to narrow the applicability of the UTSA; it argued, for example, that anything covered by a contractual agreement was not a trade secret under the UTSA. But most people prefer written agreements, and many recipients insist on them. Consequently, here are some factors you need to think about and address before entering into such an agreement.

Some standard non-disclosure agreements are lop-sided: they protect only one side – usually the larger or more powerful side. In one of our cases, the development of the product was going to be joint: both sides would disclose confidential information to the other as development progressed. But the agreement in question was largely focused on protecting the larger of the two parties. So, be sure that you use an agreement that is equitable. It should provide comparable protection to both parties' confidential information.

Many confidentiality agreements provide an exception to confidentiality for information which is in the public domain, or which is already known to the recipient. Some also include a third exception, to the effect that there is no further obligation of confidentiality for information once it enters the public domain, so long as that didn't occur through the fault of the party that received another's confidential information.

## Facets, Inc.

### Intellectual Property Support Services & Consulting

- Evaluate internal IP processes & provide efficiency recommendations;
- Manage docket conversions;
- Data entry & update of hard copy files;
- Audit & clean-up of data files;
- Docket software customization;
- Foreign filing & docket staff training;
- Docket vacation/vacancy coverage;

**Toll Free: 1-866-4-FACETS**

**E-mail: [marcym\\_facets2k1@msn.com](mailto:marcym_facets2k1@msn.com)**

These provisions are useless and potentially dangerous in trade secret situations. They are unnecessary, given the UTSA, and are an attempt to redefine what is confidential, potentially to your disadvantage. First, remember that a trade secret can be a compilation; that is, the trade secret can be composed of items which individually are all in the public domain. The Uniform Trade Secrets Act expressly refers to a "compilation." We made just such an argument in one of our trade secret cases. Our client had compiled a valuable technical library about fluid flow and materials used in its highly specialized products. Much of that library had been compiled from other sources over the years, while our client's engineers were researching various aspects of the subject. Collecting this information required time, expertise and money. The library became a unique source of technical information, which, when combined, was not public domain information. A trade secret misappropriator might argue that you've agreed that anything that is in the public domain isn't a trade secret. While I don't think this argument about a compilation is correct, it will nevertheless create another obstacle to be overcome if you have to go to court because your trade secrets were stolen.

Second, remember that as a matter of law, two parties can have the same trade secret. That is one of the differences between a trade secret and a patent. If the two parties are working in the same technical area, it is quite possible that both will have trade secrets involving common, similar, or overlapping subject matter. That doesn't give one the right to use the other's trade secrets, simply because they are similar. Yet an agreement which makes an exception for information already known to the recipient might be used to support a

defense that your trade secrets fall within this exception. This defense doesn't have merit, but it is another obstacle for you to overcome.

Third, trade secrets can enter the public domain; this does not mean, however, that another party to an agreement is automatically free to use them in any way it might choose. The party submitting the confidential information may have opted to get a patent. If so, much or all of the confidential information may no longer be confidential. That something was ultimately disclosed isn't a defense in a trade secret case, either. A party which misuses trade secrets cannot defend itself on the ground that it might have been able to get them legitimately from the public domain.

Negotiations may require that you accept some or all these provisions. But avoid them if you can; all of them potentially cut back on the scope of your trade secrets or create defensive arguments. There isn't much point in including provisions like these in a confidentiality agreement because the Uniform Trade Secrets Act is in effect nearly everywhere, and its provisions will govern what is or is not a trade secret. You want the protection to be as broad as you can make it, if you are the party doing the bulk of the disclosing. Let the law of trade secrets govern these issues.

Confine the use of your confidential information. The first way to do that is to control its use: insure that your information is used only for evaluation. Prohibit its use for any other purpose without your express permission. Limit the disclosure of your information within the other side's organization. Your trade secrets should not be available to everyone – only to those who have a need to see them as part of the evaluation process.

Confine the use of your information temporally, as well. Require the return of all the materials you disclosed upon demand, at the completion of evaluation, or at a specific time. Don't let your agreement be open-ended.

Do not employ slavish marking provisions. People often slip up, as happened in one of our cases several years ago. In this case, the agreement included a strict requirement: all documents were to be labeled "confidential." Our client sent some confidential documents, but they were not marked. Instead, the cover letter stated that they were confidential. Fortunately, we were able to rely on the

relationship of the parties. Their course of dealing with each other over a period of time allowed us to rely upon our client's trust in the defendant. That relationship allowed our jury to find the defendant liable for trade secret misappropriation, even though some documents had not been labeled as the agreement required.

These days, communication has gotten very informal in, for example, e-mail. Simply rely on written or oral notice to the other party, and do not specify its exact form. Parties almost always slip up. Some lawyers like to draft complicated documents simply because they can; they have what I like to call "whereas- hereinafter-itis." What they write looks like the order of battle for the invasion of Normandy. That's ridiculous. Keep it simple.

You may want to have a patent application on file before you make any disclosure to someone under a confidentiality agreement. You might eventually want a patent, and a good application is evidence of the value of your idea. And, if you decide to rely exclusively on trade secrets as your mode of protection, you can abandon your application later on. So long as you have not requested publication, the application will remain secret unless and until a patent issues. See 35 USC §122(b)(1)(B)(i).

Do not include any provision that the written agreement is the sole and exclusive agreement between the parties. This kind of requirement, often called an "integration clause," can cut off other potential bases for relief if your trade secrets are misused. The dealings you have with another party form a course of conduct that can be the basis for relief, just as occurred in the case I described above. The course of conduct between the parties may give rise to a level of trust, which causes people to rely on each other. You may convey information that is confidential without expressly saying it is, because you know you've said so before. Thus, the recipient knows it's confidential from the previous course of conduct. But, if the situation deteriorates, an integration clause just gives your adversary technical arguments to say you didn't comply, and that therefore your secrets aren't secret anymore. The adversary's lawyer will say that the integration clause means that the whole relationship is controlled by the written agreement, and that you cannot offer any evidence of a course of conduct or reliance apart from the agreement.

Another common problem with these agreements results from confusion between trade secrets and covenants not to compete. The latter are construed narrowly, since they affect a person's right to find employment. Covenants not to compete are limited in time, as well as geography. The time limitation is sometimes erroneously adopted by courts dealing with trade secrets. For whatever reason, there are cases out there that are bad law. They confuse covenants not to compete with trade secrets and impose temporal limitations on both. This is not right. Trade secrets are indefinite in duration; the prime example is the formula for Coca-Cola, which has been a trade secret for over one hundred years.

Nevertheless, some confidentiality agreements do have termination provisions. They should not. Once again, negotiation may dictate a less than optimum result, but do not terminate a confidentiality agreement simply by the calendar. Terminate it by requiring the return of confidential information you have provided, and the destruction of any documents the other party has that contain your trade secrets.

Lawyers – at least those working on an hourly basis – love definitions. I don't. There is simply no point whatever in defining confidential information when the UTSA is so broad and provides its own definitions. Don't bother with defining "party" or "information" or "public," or other terms, unless there is a positive reason to do so. The wish of some lawyers to make documents look more "legal" is not a positive reason.

There are other miscellaneous provisions that people use in their NDAs. Most of them are worthless. Many are simply copied from earlier agreements. Don't let boiler-plate overtake real thinking. My view is that an agreement should be short. After all, you may have to show it to a jury or a judge in a trial. The simpler your case is, the better off you are.

So keep an NDA short. Don't agree to provisions that vary the legal consequences of the UTSA unless you must do so for business reasons. Be sure the protection is balanced. Don't employ complicated and overly specific marking and labeling requirements for confidential documents. Limit the use of your trade secrets to evaluation by a limited number of persons and for a limited time. Finally, keep track of what you provide, and what you receive, so it can be returned once the evaluation has been completed. 