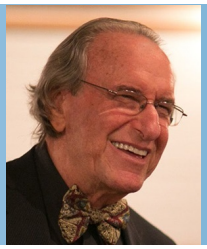
THE NDA: A VALUABLE IP TOOL

Paul J. Sutton
Sutton Magidoff LLP



The NDA

One of the most commonly used contracts covering intellectual property is the nondisclosure agreement. Commonly known under the acronym NDA, it is also referred to as a confidentiality agreement, a confidential disclosure agreement, a proprietary information agreement and a secrecy agreement. While NDAs will vary in length and complexity, their most basic function is to create a confidential relationship between parties, such that shared confidential and proprietary information will not be disclosed to third parties without prior authorisation. NDAs can be mutual, or they may restrict only one of the signatories.

Purpose and scope

Parties to NDAs are often companies and/or individuals who are contemplating working or doing business with one another, by way of making investments or entering into manufacturing or licence arrangements. They typically require access to certain of the other's confidential information in order to decide whether to proceed with further discussions or a definitive business agreement. As observed by Melissa C. Marsh in her 2009 article *California Confidentiality and Nondisclosure Agreements*, typical circumstances where an NDA would be appropriate include: protecting a non-patented invention or idea that requires presentment to a potential investor, business partner or manufacturer to develop a prototype; presentation of sensitive financial and other business records and information to a prospective purchaser or investor in your business; presentation of a new product not yet available to the public to a prospective customer, buyer or licensee; presentation of sensitive business information to an independent contractor, or outside business, for the purpose of having them provide a service; or disclosure, on an as-needed basis, of sensitive business information required for an employee to effectively perform his or her duties.

NDA content

Every NDA should: specifically define the nature of the confidential information to be disclosed and whether such information must be labelled as confidential; identify the ownership rights to the information to be disclosed; describe the purpose behind the disclosure of the confidential information; list information that is not to be considered confidential, such as information already in the public domain; specify how the receiving party must protect the confidential information, limit its use or disclosure, and return or destroy the confidential information provided; set forth the duration of the agreement and the obligations; and identify remedies in the event of a breach, or threatened breach.

NDA versus patent rights

Importantly, NDAs provide owners of IP and confidential information with a type of protection that is quite distinct from and can be additional to patent protection. The rights of parties to NDAs arise out of contract law, an entirely distinct field from patent law. When disputes arise under contracts such as NDAs, they are interpreted under state law, which varies from state to state. Disputes involving patents, on the other hand, are governed by federal statutes that are interpreted uniformly by federal courts throughout the US.

It is not widely appreciated how important the NDA can be as a tool to augment patent protection. As observed by Richard Goldstein at Goldstein Patent La, there are some scenarios where the NDA provides inadequate protection when compared to patents, while other scenarios enable the NDA to provide superior protection. For example:

- Many forms of confidential information and data do not rise to the level of an 'invention' capable of being patented. Accordingly, business concepts, marketing and advertising ideas that can never be protected by patent rights need to be safeguarded by way of NDA.
- The owners of ideas that may be patentable sometimes choose to keep them as trade secrets and not pursue patents for them. Here, again, the NDA will serve a useful purpose.
- NDAs serve the purpose of establishing a party's actual receipt of confidential information, thereby setting the stage for later proving derivation in a theft of trade secret dispute. However, the NDA will not provide protection except as against signatories and those in privity with them.

Conclusion

The wisest approach when exposing confidential information and ideas to others is to pursue both patent protection, where meaningful protection is available, as well as an NDA to safeguard this information. If a patentable idea is 'stolen' by a party with whom you have entered into an NDA, you will have recourse both for breach of contract under state law and will be able to recover for patent infringement under federal patent statutes. And you will have protection for non-patentable ideas and information. ■

Paul J. Sutton is a founding partner of Sutton Magidoff LLP. He can be contacted at: paul@suttonmagidoff.com.