



IP ESSENTIALS

A Toolkit for Entrepreneurs,
Innovators, and Business Owners

Q&A SERIES



CONFIDENTIALITY AGREEMENTS

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.

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.

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.
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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.



TRADE SECRETS

Trade secrets can include any and all technical or business proprietary information that gives the holder an advantage over competitors who do not possess the information. For example, trade secrets may include technical formulas, manufacturing techniques processes, programs, business methods, customer and supplier lists, and other business information.

Q ***What makes something a trade secret?***

A The information has independent economic value, actual or potential, and it is not readily known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.

Q ***In which cases may trade secret protection be beneficial?***

A This varies on a case-by case basis, but trade secrets may generally be beneficial in the following circumstances:

- the subject matter of the trade secret cannot be protected by patents, copyrights, and/or trademarks;
- the time frame that the secrets may have value is either shorter than the time required to obtain a patent or longer than the 20 years of protection available under patent law;
- the likelihood is high that the information can be kept secret;
- the subject matter is not readily ascertainable;
- the secret is related to a manufacturing process.

Q ***Can a trade secret lose its value?***

A Yes. The protectability of a trade secret may easily be lost if steps are not taken to maintain proprietary information as confidential. Trade secrets require the use of “reasonable efforts” under their unique circumstances to maintain secrecy.

Q ***What are some reasonable procedures for protecting a trade secret?***

A Standard agreements and procedures include the use of confidentiality, non-competition, and non-disclosure clauses in employee, and consultant and independent contractor agreements. Exit policies should be in writing and remind departing employees of their specific confidentiality obligations. Other reasonable procedures to protect trade secrets include letters to the new employer of a departing employee, labeling documents accordingly, providing access only on a need-to-know basis, and creating an unsolicited idea policy.

Q ***How do I formulate a trade secret protection plan?***

A Some considerations when developing a trade secret plan include

- creating a written trade secret policy;
- informing and educating employees about the plan;
- identifying and restricting access to trade secrets;
- maintaining computer secrecy;
- eliminating all disclosure of trade secret information to the public;
- using confidentiality and non-disclosure agreements when dealing with employees and third parties; and
- appointing a custodian of trade secrets to monitor policy and communications.

Q ***Do I need to register or file my trade secret with the government for protection?***

A No. Unlike patents, trademarks, and copyrights, trade secrets need not, and indeed cannot, be filed or registered with any government body or agency for protection. A trade secret is protectable based on the fact that it is not known to anyone who is not required to maintain it in confidence. And a trade secret remains protected as long as it remains unknown to others.

"Unlike patents, trademarks, and copyrights, trade secrets need not, and indeed cannot, be filed or registered with any government body or agency for protection. "

Q ***What kind of laws protect trade secrets?***

A Forty-eight states, including Massachusetts, have enacted the Uniform Trade Secrets Act (UTSA), as has the District of Columbia and Puerto Rico. North Carolina has its own trade secret statute that is similar to the UTSA, while New York still applies common law. The Defend Trade Secrets Act enacted in 2016 allows an owner of a trade secret to sue in federal court when its trade secrets have been misappropriated.

Q *Should I worry about trade secret misappropriation?*

A Yes. Trade secrets may give a competitor an unfair advantage or head start if the competitor improperly accesses the secret information. In most instances, this information comes from former employees including key personnel such as directors, officers, and key employees (engineers, scientists, managers, and sales professionals).

Q *What if my trade secret can be reverse engineered?*

A Trade secret law does not prevent discovery by fair and honest means in business competition. Reverse engineering must be well documented to defend against a future claim of trade secret misappropriation (likewise, for independent development). Owners of trade secrets should consider patent and/or copyright protection, or contractual prohibitions on reverse-engineering, if the information may be reversed engineered from your product or service.

Q *Can I license/sell my trade secret?*

A Yes. You can freely transfer your trade secret to others in any way you choose. This is because a trade secret is viewed as a piece of property in the eyes of the law – just like patents, trademarks, and copyrights. In other words, a trade secret owner owns the rights to sell, license, lease, or otherwise transfer the asset to others for commercial reasons.

Q *How long does a trade secret last?*

A *Trade secrets can last as long as the information is properly maintained and protected – potentially forever.*

HOW CAN WE HELP?



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Peter Lando is Co-Founding Partner of Lando and Anastasi, LLP, a mid-sized IP Boutique based in Boston but representing clients worldwide. Peter's practice involves all areas of intellectual property and related transactions. He is routinely involved in due diligence investigations for acquisitions and divestitures of IP portfolios, involving new businesses to companies valued at more than \$1 billion, and he has been the primary negotiator or lead counsel in dozens of licensing and related business transactions. He frequently prepares patentability and freedom-to-operate opinions, and has prosecuted a significant number of patents that have been successfully enforced in court and/or licensed. Peter is active in the IP community, speaking to general industry, client and student groups on a wide variety of intellectual property topics.



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Andrea Reed is Of Counsel at Lando & Anastasi, LLP, where she represents clients in patent infringement, trademark infringement, and other complex intellectual property litigation. She counsels clients in a variety of industries, including petrochemical, biotechnology, food technology, medical devices, and consumer products, through all stages of litigation. Additionally, she advises on IP agreement enforceability, breach, termination, risk analysis, and related business considerations. Andrea has represented clients in Federal District Courts throughout the country and on appeal to the U.S. Court of Appeals for the Federal Circuit. She also has experience working with mediators and negotiating technology license and settlement agreements. Andrea regularly presents at CLE programs and serves as a moderator for panel discussions on a variety of IP issues, including for the New England Corporate Counsel Association, The Association of Corporate Counsel, and Startup Boston.

WHO WE ARE IS WHAT MAKES US DIFFERENT

Lando & Anastasi's dynamic intellectual property attorneys work alongside inventors, scientists, and business owners to secure their innovations, *helping to build a better world*. Our firm's practice combines deep expertise in cutting-edge technology and industry experience with a proven ability to deliver innovative and strategic solutions for protecting and expanding our clients' intellectual property assets.

Since our beginnings in 2003, we have adhered to a clear set of principles. We place our clients' business goals at the forefront. We focus on the technologies that drive innovation and growth. We collaborate across practices to achieve synergies of knowledge that produce creative approaches to complex issues. This approach has made a real difference for our clients and has helped L&A to be consistently acknowledged as one of the leading intellectual property boutique law firms in the country. Our growth and recognition are a direct reflection of the trust that clients place in the firm for advice and guidance with IP transactions, prosecution, and litigation.

Select Awards and Recognition

- *IAM Patent 1000*: The World's Leading Patent Practitioners
- *IAM 250*: The World's Leading Patent & Licensing Lawyers
- *World Trademark Review 1000*: The World's Leading Trademark Professionals
- *Managing Intellectual Property* "IP Stars"
- *U.S. News & World Report* The Best Lawyers in America® and Ones to Watch™
- *U.S. News & World Report* Best Law Firms®
- *Massachusetts Super Lawyers*
- BTI Consulting Group "Most-Favored IP Boutiques"
- *Boston Business Journal* Largest Law Firms in Mass.

These *IP Essentials* topics are part of a series:

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