

The Limited Monopoly®

The NDA - A Key Agreement in Business Operations

by John Hammond, PE and Robert Gunderman, PE

A Healthy Paranoia

Protection of intellectual property can be a critical task for an enterprise. This is often the case from the earliest gestation of a business when a new invention is conceived, through the start-up phase, and later in ongoing research, development, and manufacturing operations.

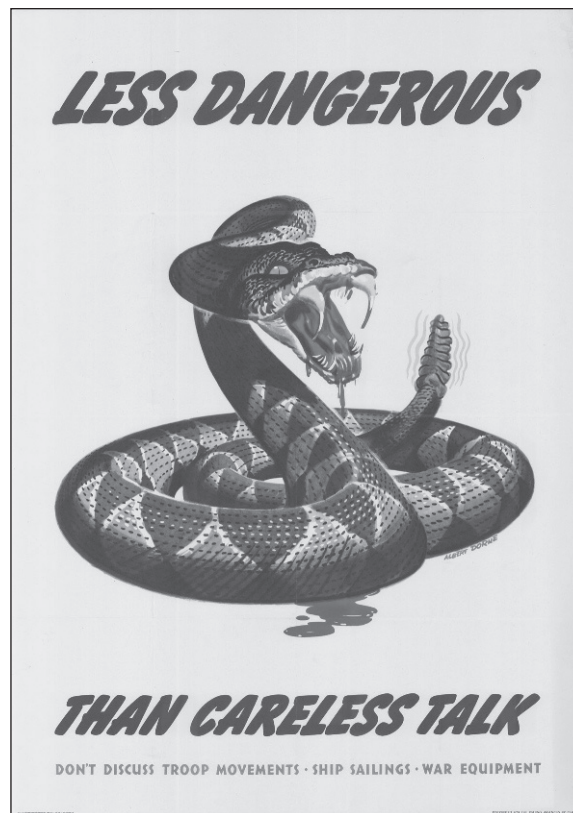
Invariably, in order for a business to grow and operate, it becomes necessary to share confidential information, including information that is intellectual property, with third parties who are “outsiders.” Thus business owners, managers, and the engineers and scientists who are “in the trenches” doing the inventing should all develop a sense of caution when engaging with such third parties. A little paranoia is a good thing – there should be instinctual consideration of certain questions in any given situation, such as, “Is it necessary to share confidential information with this person? To what extent? What are the benefits and risks?” And lastly, “If we must disclose confidential information to achieve an objective, are we protected? Is our intellectual property secure?”

The NDA as a Tool

In the latter case, when it is clearly necessary to disclose confidential information to a third party in order to achieve a business objective, a Non-Disclosure Agreement is a standard tool that is used to protect business interests. The NDA should be executed between the parties prior to any sharing of confidential information.

The premise of an NDA is simple: Third Party X agrees to keep confidential all information provided by Company Y. However, an NDA is a contract, and there are important legal aspects to the protection that it provides to Company Y. An NDA should cover aspects of confidential information including terms pertaining to its definition, limitations of disclosure, use by the third party, possible compelled disclosure (such as by a court order), term (i.e., length of time the NDA is in effect), notice of breach, remedies for breach, return or destruction of confidential information, warranty, and jurisdiction where the NDA shall be interpreted and any future disputes adjudicated.

“The need to share confidential information is a necessity in almost any business engaged in inventing, and in product research, development, and manufacturing. But you can protect your interests if you take the proper steps.”



Although a single “generic” NDA might cover most opportunities in dealing with third parties, it is also important to understand that use of an NDA is often situation dependent. It could well be that for a given interaction with a third party, a Non-Disclosure Agreement should be customized for that interaction; or at the very least, a generic NDA should be reviewed to be certain that key business interests are adequately covered.

It is easy to see that although simple in principle, an NDA has important and complex legal considerations. Thus an NDA should be drafted by a qualified attorney¹, who fully understands the client’s situation(s) that the NDA will need to cover.

Patent Aspects of the NDA

Although we encourage you to consult an attorney regarding the preparation and use of a Non-Disclosure Agreement, we can comment on a few aspects of NDAs

that are patent-specific. A first aspect pertains to patentability of an invention. If you disclose information regarding an invention to a third party without an NDA in place and prior to filing a patent application, that disclosure could be construed as a public disclosure. That action starts the clock on a “one year grace period,”^{2,3} before which you must file a patent application if you wish to pursue patent protection of your invention. Third parties include ones that you may not know, like readers of a blog or participants in social media.⁴

In contrast, if you have an NDA executed and in place with the third party before disclosing confidential information on your invention, such a disclosure cannot be construed as a

public disclosure, and the one year grace period does not start. Additionally, having the NDA in place can lower risk in another way. If the third party were unscrupulous, and upon receiving your confidential information, filed his own patent application in the USPTO on your invention, you would have an opportunity to recover by taking possession of that application through a derivation proceeding^{5,6} before the Patent Trial and Appeal Board. The NDA could be valuable evidence that the third party obtained the invention disclosed in his patent application from you. The derivation proceeding would not be easy, fast, or cheap, but you would at least have some recourse in trying to obtain a patent. (You would also have considerable other legal recourse as advised by your attorney.)

A second aspect of an NDA pertains to ownership of your intellectual property. If you are hiring a third party to provide services in areas such as product research and development, product design, and/or product manufacturing, it is quite possible that the third party might make a patentable invention related to your product in the course of providing such services. Of course, you want to own the patent rights to that invention, since you are paying for the work being done by that third party. In that situation, your NDA should include language by which the third party assigns “all right, title, and interest” in the invention and any patent application and patents to your company. Absent that language, in accordance with U.S. law, the third party inventor owns the rights to that invention.⁷ Obviously, that’s not a situation you want to negotiate after the fact due to lack of a proper NDA that includes assignment terms.

The NDA as a Non-Necessity

When approached by a prospective client who is interested in possibly pursuing a patent on an invention, we are sometimes asked to sign a non-disclosure agreement prior to receiving confidential information from the prospective client. In view of the above information on NDAs, such a request is completely understandable. However, for communications with patent practitioners admitted to practice before the United States Patent and Trademark Office, it is also entirely unnecessary.

As a condition of being admitted to practice before the USPTO, all patent agents and patent attorneys, as members in good standing with the federal patent bar, have sworn an oath to keep confidential all information provided by a client or prospective client.⁸ (Of course, patent attorneys are also subject to similar requirements of their respective state bar admission(s).) Thus the broad terms of this oath provide the confidentiality necessary for a client to discuss his invention with a patent practitioner, be it agent or attorney.

We also note that as patent practitioners, we have been advised by attorneys to not sign an NDA with a client or prospective client if one is proffered, for a number of reasons. As noted above, a non-disclosure agreement is often a complex document. The terms of an NDA, as well as the overall quality of its language, can vary widely. Thus an NDA must be carefully considered before execution, and it is not unusual to find something objectionable in any given draft. As in any contract, negotiation of the terms of an NDA may be done. However, if a patent practitioner were

to negotiate the terms of an NDA, that could be construed as a violation of another of the rules of patent practice, which states that, “A practitioner shall not attempt to exonerate himself or herself from, or limit his or her liability to, a client for his or her personal malpractice.”⁹

Knowing the oath that patent practitioners take to establish and maintain their livelihood, as well as the numerous other ethics rules we are bound by, confidential information is safe to disclose to a licensed patent agent or attorney. No ethical practitioner would violate these critical rules of patent practice; and from a self-preservation standpoint, no responsible practitioner would risk disbarment from the USPTO and the subsequent loss of livelihood for lack of proper safeguarding of a client’s confidential information.

Proceed With Caution

In summary, you should always get a proper Non-Disclosure Agreement in place before disclosing confidential information to a third party, with the exception of a licensed patent practitioner. The need to share confidential information is a necessity in almost any business engaged in inventing, and in product research, development, and manufacturing; however, you can protect your interests if you take the proper steps.

1. Readers may contact either of the authors if a referral to a qualified attorney is needed.
2. 35 U.S.C. § 102(b)(1).
3. See also *The Limited Monopoly*® March 2013.
4. See *The Limited Monopoly*® March 2014.
5. 35 U.S.C. § 102(b)(2).
6. 37 C.F.R. §§ 400-412.
7. See *The Limited Monopoly*® April 2006.
8. 37 C.F.R. §§ 10.56-10.57.
9. 37 C.F.R. § 10.78.

GRAPHIC CREDIT: World War II motivational poster by illustrator Albert Dorne, issued in 1944 by the United States Office of War Information. The authors thank The Historical Museum at Fort Missoula, Missoula, MT for historical details and poster image published at <http://fortmissoulamuseum.org/WWII/detail.php?id=469>.

Authors John M. Hammond P.E. (Patent Innovations, LLC www.patent-innovations.com) and Robert D. Gunderman P.E. (Patent Technologies, LLC www.patentechnologies.com) are both registered patent agents and licensed professional engineers. They offer several courses that qualify for PDH credits. More information can be found at www.patenteducation.com. Copyright 2014 John Hammond and Robert Gunderman, Jr.



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