

US LEGAL, INC.

**US LEGAL PRACTICAL GUIDE
TO
CONFIDENTIAL
INFORMATION, TRADE
SECRETS AND
NON-DISCLOSURE
AGREEMENTS
(NON-DISCLOSURE AGREEMENT INCLUDED)**

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Confidential Information

Confidential means secret. If an owner has information that gives the business a competitive advantage, and if the owner keeps that information secret (such as by restricting access to the information and by requiring all employees and contractors and consultants to sign nondisclosure agreements, then the business has trade secrets. Most businesses have confidential information that, if disclosed, would put the business at a competitive disadvantage; most businesses, therefore, have trade secrets. Trade secrets comprise two basic categories of information: business information and technical information. Examples of business information protectable as trade secrets include: bid proposals, budgets, customer lists, employee salaries, financial statements, income statements, marketing plans or strategies, price lists, and supplier information. Examples of technical information protectable as trade secrets include: chemical formulas, computer programs, manufacturing procedures.

Trade Secrets

A business owner may disclose trade secrets to another and maintain legally enforceable protection of those trade secrets by requiring all persons to whom the owner grants access to sign a non-disclosure agreement. Note that only business information may be a trade secret. Trade secrets exist only in a business context, either actual or potential.

Nondisclosure Agreements (NDA's)

Businesses keep confidential information secret by concealing it and by restricting its disclosure to those who have signed a non-disclosure agreement. Businesses use non-disclosure agreements to keep information secret when an owner elects to share the business's trade secrets with some individual or entity, whether a consultant, an employee, an independent contractor, or a prospective purchaser or joint venturer. The conflicting business goals of protecting trade secrets and of sharing trade secrets with non-owners when necessary to accomplish a business purpose have generated the need for confidentiality and non-disclosure agreements as well as the body of law known as trade secrets law. Trade secrets law on a nationwide basis comprises two statutory schemes: first, the Uniform Trade Secrets Acts ("UTSA"); second, the Economic Espionage Act of 1996 ("EEA"), 18 U.S.C. Chapter 90 - Protection of Trade Secrets. The Economic

Espionage Act is a federal criminal statute, which means that the FBI investigates and the US Justice Department prosecutes alleged violations of the EEA.

Economic Espionage Act (EEA)

The focus in this guide is on protection of trade secrets through use of the UTSA as it has been adopted in most of the states and the District of Columbia, and not on the EEA. A reader of this guide, however, should know that the EEA creates two separate crimes: first, under § 1831, the crime of economic espionage, and second, under § 1832, the crime of theft of trade secrets. The federal crime of economic espionage (18 U.S.C. § 1831) occurs when the actor knows or intends for his theft, misappropriation, or concealment of a trade secret to benefit any foreign government, foreign instrumentality, or foreign agent. The federal crime of theft of trade secrets (18 U.S.C. § 1832) occurs when the actor, with the intent to convert a trade secret that is related to or included in a product that is produced for or placed in interstate or foreign commerce, steals, misappropriates or conceals a trade secret for the benefit of anyone other than the owner of the trade secret. Both crimes carry significant penalties: for commission of economic espionage, individuals may be fined not more than \$500,000 or imprisoned not more than 15 years, or both, and organizations may be fined not more than \$10,000,000; for commission of theft of trade secrets, individuals may be fined not more than \$500,000 or imprisoned more than 10 years, or both, and organizations may be fined not more than \$5,000,000. Only the U.S. Department of Justice may initiate a criminal proceeding in the federal courts under the EEA. The EEA does not apply to civil litigants in state or federal courts, whether the claim arises under the UTSA or under the law of one of the states that has not adopted the UTSA.

Non-UTSA States

As of June 2009, forty-six states and the District of Columbia have adopted the UTSA. The four states that have not adopted the UTSA are: Massachusetts, New Jersey, New York, and Texas; those four states protect trade secrets either under the common law or under laws unique to the individual state.

The Uniform Trade Secrets Act (UTSA)

Trade secret means information. The UTSA defines the term trade secret as:

“Trade secret means information, including a formula, pattern, compilation, program device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily accessible by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” UTSA, Section 1. (4).

A trade secret is separate from a patentable invention, and trade secret law is separate from the law of copyrights, trademarks, and patents, which are frequently referred to as intellectual property. Trade secrets include, among others, business assets such as financial data, customer lists, marketing strategies, and information and processes not known to the general public.

The UTSA is a comprehensive and detailed legislative scheme designed both to protect trade secrets and to make uniform throughout the United States the law regarding trade secrets. The UTSA was initially suggested to the state legislatures in 1965 and then amended in 1985; a substantial body of case law now exists regarding the UTSA.

The UTSA is organized as follows:

- **Definitions.** The UTSA defines the terms—
 - o "**Improper means**" includes theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means.
 - o "**Misappropriation** " means: (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of a trade secret of another without express or implied consent by a person who (A) used improper means to acquire knowledge of the trade secret; or (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was (I) derived from or through a person who has utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.
 - o "**Person**" means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.
 - o "**Trade secret**" means information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
- **Injunctive Relief.** The UTSA authorizes injunctive relief by a court for actual or potential misappropriation of a trade secret as follows:
 - o Actual or threatened misappropriation may be enjoined. Upon application to the court an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
 - o In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.

Exceptional circumstances include, but are not limited to, either a material and prejudicial change of position prior to acquiring knowledge or a reason to know of misappropriation that renders a prohibitive injunction inequitable.

- o In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.
- **Damages.** The UTSA authorizes the recovery of damages by a complainant for misappropriation of the complainant's trade secrets.
- **Attorney's Fees.** The UTSA authorizes the award of reasonable attorney fees, which are in addition to injunctive relief and damages, to the prevailing party, if—
 - o a claim of misappropriation is made in bad faith,
 - o a motion to terminate an injunction is made or resisted in bad faith, or
 - o willful and malicious misappropriation exists.
- **Preservation of Secrecy.** The UTSA requires a court to preserve the secrecy of an alleged trade secret during any court proceeding under the UTSA by reasonable means, which may include:
 - o granting protective orders in connection with discovery proceedings,
 - o holding in-camera hearings,
 - o sealing the records of the action,
 - o ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.
- **Statute of Limitations.** The UTSA requires that any litigation for misappropriation of a trade secret must be commenced within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.
- **Scope of the UTSA.** The UTSA:
 - o displaces conflicting tort, restitutionary, and other law of the State providing civil remedies for misappropriation of a trade secret;
 - o does not affect—
 - contractual remedies, whether or not based upon misappropriation of a trade secret;
 - other civil remedies that are not based upon misappropriation of a trade secret;
 - criminal remedies, whether or not based upon misappropriation of a trade secret.

- **Uniformity of Application and Construction.** The UTSA shall be applied and construed to carry out its general purpose and to make uniform the law regarding trade secrets among the states of the United States.
- **Short Title.** The UTSA may be cited as the Uniform Trade Secrets Act.
- **Severability.** The provisions of the UTSA are severable, that is, a judicial finding that a part of the UTSA is invalid shall not invalidate the UTSA as a whole.
- **Time of Taking Effect.** The UTSA takes effect within a state on the day provided by law, and the UTSA following enactment by a state does not apply to misappropriation occurring prior to the effective date, nor, with respect to a continuing misappropriation that began prior to the effective date, does the UTSA apply to the continuing misappropriation that occurs after the effective date.

Intellectual Property

Trade secrets—as well as copyrights, patents, and trademarks—are a form of intellectual property. But trade secrets differ from patents, another form of intellectual property, in several important ways. Unlike patents, trade secrets are an inexpensive form of intellectual property. Unlike patents, trade secrets need not be disclosed: information about a patent must be revealed in the patent application.¹ A non-disclosure agreement, therefore, is essential to the maintenance and preservation of a trade secret as the property of its owner, and, therefore, to the maintenance and preservation of its owner's competitive position in the marketplace.

Nondisclosure Agreements (NDA's)

The nondisclosure agreement is the business owner's legal tool box: the nondisclosure agreement should be a coherent set of written identifications, definitions, obligations, and legal remedies that enable a business owner who discloses confidential information to use the trade secret laws and courts of a selected state to preserve and protect his confidential information. A nondisclosure agreement may have may contractual provisions because of the range of possible outcomes that can arise from entrusting a business's confidential information to another.

¹ If the Patent Office approves a patent application and grants a patent, and if a third party later successfully challenges that grant of patent in court, and if the court reverses that grant, then the applicant's information as published in the patent application becomes a matter of public record, and thereafter is available to the public, forever.

An effective nondisclosure agreement is one that imposes a legally enforceable obligation of confidentiality upon the recipient as well as any persons to whom the recipient discloses confidential information in the course of conduct under the agreement. A nondisclosure agreement may be either an independent or a complementary agreement. Every nondisclosure agreement exists to achieve a business purpose. When that purpose is a focused, well-defined goal, then the nondisclosure agreement may complement a separate written agreement; when, however, as in the case of employees who are employed at will and without a written employment agreement, the purpose is the continuation of a legal relationship for which there is no written agreement, then the nondisclosure agreement may be an independent agreement.

Contractual Provisions for Nondisclosure Agreements

The forms of nondisclosure agreements are many and varied because the business owner must anticipate and try to have available a judicial remedy for any misappropriation of confidential information. Some appropriate provisions frequently found in nondisclosure agreements, especially provisions that disclosers (business owners) want to see in a nondisclosure agreement, are provisions that :

1. Identify the parties.
2. State the consideration (the value exchanged between the parties) for the nondisclosure agreement.
 - a. Please note that to be legally binding as a contract, a promise must be exchanged for adequate consideration. Adequate consideration is a benefit or detriment that a party receives in exchange for the promise. Adequate consideration could be a payment of money for services, a promise or continuation of employment, an exchange of services, or other acts that involve an exchange of value between the parties to the agreement.
3. State the purpose for disclosure of confidential information.
4. Restrict the recipient's use of confidential information to the authorized purpose only.
5. Define the term "confidential information."
6. State ownership of the confidential information.
7. Describe the exclusions from the restrictions on disclosure.
8. Describe the obligations of confidentiality that the agreement imposes upon the recipient.
9. State the Commencement Date.
10. State the period (in terms of years or months) of the agreement.
11. State the survivability of the recipient's obligations.

12. State the legal relationships not created by the nondisclosure agreement.
13. State that the provisions of the agreement are severable, that is, independent.
14. State that inaction is not waiver.
15. Authorize injunctive and other forms of equitable relief.
16. Identify the state whose laws will govern the agreement.
17. State parties agreement regarding jurisdiction and venue.
18. State that agreement binds each party's successors and assigns.
19. State that agreement was executed by authorized representatives of each party.

Review of NDA. The owner or owner's lawyer should compare the provisions of the nondisclosure agreement with the trade secret laws of the governing state to ensure that the agreement is both compatible and complete with regard to the selected state's trade secrets law.

Form of NDA. These provisions are fully expressed in the form of nondisclosure agreement that follows as Appendix A.

APPENDIX A:

Form of Nondisclosure Agreement

[Parties]

This Nondisclosure Agreement (the “Agreement”) is entered into by and between [Name of Discloser] with its principal offices at [Address, City, State] (herein “Discloser”) and [Name of Recipient], located at [Address, City, State] (herein “Recipient”) for the purpose of preventing the unauthorized disclosure or misappropriation of Confidential Information as defined below.

[Statement of Consideration]

In consideration of the mutual undertakings of the Discloser and the Recipient under this Agreement, the parties agree to enter into a confidential relationship with respect to the disclosure of certain proprietary and confidential information (“Confidential Information”), and further agree as follows:

- 1. Purpose for Disclosure of Confidential Information.** Discloser’s purpose in disclosing Confidential Information to Recipient is to _____ .
- 2. Recipient to Use Confidential Information for Authorized Purpose Only.** Recipient agrees to use the Confidential Information solely and exclusively for the above-described purpose, and further agrees to refrain from using the Confidential Information in any manner or for any purpose other than for the above-described purpose.
- 3. Definition of Confidential Information.** For purposes of this Agreement, “Confidential Information” shall include all information or material that has or could have commercial value or other utility in the business in which Discloser is engaged including all Trade Secrets as defined in the Uniform Trade Secrets Act in effect in the Governing State.
- 4. Ownership of Confidential Information.** All Confidential Information shall remain the property of Discloser; Discloser may use such Confidential Information for any purpose without obligation to Recipient. Nothing in this Agreement shall be construed as granting or implying any transfer of rights to Recipient in the Confidential Information, or any patents or other intellectual property protecting or relating to the Confidential Information.
- 5. Exclusions from Confidential Information.** Recipient’s obligations under this Agreement do not extend to information that: (a) is publicly known at the time of disclosure or subsequently becomes publicly known

through no fault of the Recipient; (b) was discovered or created by the Recipient before disclosure by Discloser; (c) is learned by the Recipient through legitimate means other than from the Discloser or Discloser's representatives; or (d) is disclosed by Recipient with Discloser's prior written approval.

6. **Obligations of Recipient.** Recipient shall hold and maintain the Confidential Information in strictest confidence for the sole and exclusive benefit of Discloser. Recipient shall carefully restrict access to Confidential Information to Recipient's employees, contractors and third parties as is reasonably required. Recipient shall require those persons to whom Recipient discloses Confidential Information to sign nondisclosure restrictions at least as protective as those in this Agreement. Recipient shall not, without prior written approval of Discloser, use for Recipient's own benefit, publish, copy, or otherwise disclose to others, or permit the use by others for their benefit or to the detriment of Discloser, any Confidential Information. Recipient shall return to Discloser any and all documents, records, books, papers, contracts, memoranda, correspondence, notes, studies, reports, photographs, drawings, charts, maps, graphs, other writings, recording tapes, recording discs, and mechanical or electronic information or recordings in its possession pertaining to Confidential Information immediately if Discloser requests it in writing.

7. **Commencement Date.** This Agreement shall commence on [Date].

8. **Period.** This Agreement shall be for a period of [number] months/years.

9. **Survival and Termination.** The obligations of this Agreement shall be continuing and shall survive the termination of this Agreement. Recipient's obligation to hold Confidential Information in confidence shall remain in effect until the Confidential Information disclosed to Recipient is no longer confidential, or until Discloser sends Recipient written notice releasing Recipient from the obligations of this Agreement, whichever occurs first.

10. **Relationships.** Nothing contained in this Agreement shall be deemed to constitute either party a partner, joint venturer or employee of the other party for any purpose, unless any such relationship is explicitly stated and the parties and roles in any such relationship are specifically identified in this Agreement.

11. **Severability.** If a court finds any provision of this Agreement invalid or unenforceable, the remainder of this Agreement shall be interpreted so as best to effect the intent of the parties.

12. **Integration.** This Agreement expresses the complete understanding of the parties with respect to the subject matter and supersedes all prior

proposals, agreements, representations and understandings. This Agreement may not be amended except in a writing signed by both parties.

13. **Waiver.** The failure to exercise any right provided in this Agreement shall not be a waiver of prior or subsequent rights. This Agreement and each party's obligations shall be binding on the representatives, assigns and successors of such party. Each party has signed this Agreement through its authorized representative.

14. **Governing Law.** This Agreement shall be governed by the laws of the State of [Name of State] (herein "Governing State"), except for its choice-of-law provisions.

15. **Jurisdiction; Venue.** Recipient consents to the exclusive jurisdiction of the federal and state courts located in the Governing State over any action upon or regarding this Agreement. Venue for any action in either state or federal court upon or in regard to this Agreement shall lie solely in the County of [Name of County] of the Governing State.

16. **Successors and Assigns.** This Agreement shall be binding upon, and shall inure to the benefit of, and be enforceable by Discloser, its successors, and assigns; and by Recipient, its successors and assigns.

17. **Authorized Representatives.** The authorized representatives have executed this Agreement on behalf of each party.

DISCLOSER:

RECIPIENT:

(Signature)
(Typed or Printed Name)
Date:

(Signature)
(Typed or Printed Name)
Date:

Links:

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