Confidentiality Agreements: A Basis for Partnerships

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ABSTRACT

Confidentiality agreements (also called nondisclosure agreements, confidential disclosure agreements, and secrecy agreements) are contracts that govern the disclosure of confidential information by one party (the disclosing party) to another party (the receiving party). Confidential information is exchanged for a promise of secrecy. The disclosure may be unilateral, bilateral or multilateral. Confidential information disclosed in a confidentiality agreement might pertain to scientific research results and data, chemical compositions and formulas, software development information, recipes, laboratory methodology, and manufacturing techniques trade secrets (in the form of valuable know-how and/or show-how). The confidential information has value precisely due to the fact that is known to only a few, that is, open disclosure will be injurious to this value. Confidentiality agreements often precede licensing negotiations or the acquisition of IP (intellectual property) rights and serve to strike an appropriate balance between the needs of the disclosing and receiving parties. A confidentiality agreement can either stand alone or be included as part of a broader agreement. An appropriately drafted confidentiality agreement should contain a list of standard provisions and exceptions. In special cases, where the disclosing party wishes to carefully protect the confidential information, the agreement might also include extra strong clauses and articulated security provisions.

1. INTRODUCTION: BUILDING TRUST

Before entering into a relationship, a level of trust between the parties must be established. This trust is the basis for a confidentiality agreement, which is often the first step in developing a mutually advantageous relationship. For example, a confidentiality agreement often precedes licensing negotiations or the acquisition of intellectual property (IP) rights.

Depending on the perspective, whether a person or party is disclosing or receiving confidential information, the disclosing party will want the receiving party to maximize protection whereas the receiving party will want to minimize constraints. However, the disclosing party often wants to disclose information, for example, as a first step in licensing negotiations or other business development activities, or as required by a know-how licensing agreement. But even the receiving party may see problems in terms of future constraints imposed by the agreement and its ability to use the received information. In the end, a confidentiality agreement is intended to strike an appropriate balance between the needs of a disclosing party and the needs of a receiving party.

Confidential information is often passed from one party to another when materials are transferred, during collaborations, and in some types of licensing agreements. A confidentiality agreement is the simplest form of almost any agreement, and confidentiality clauses generally form an integral part of most other agreements. But confidentiality agreements are also entered into separately for the sole purpose of disclosing confidential information, although perhaps they

Kowalski SP and A Krattiger. Confidentiality Agreements: A Basis for Partnerships. In *Intellectual Property Management in Health and Agricultural Innovation: A Handbook of Best Practices* (eds. A Krattiger, RT Mahoney, L Nelsen, et al.). MIHR: Oxford, U.K., and PIPRA: Davis, U.S.A. Available online at www.ipHandbook.org.

are used less often for that purpose. It is important to note that obtaining third-party confidential information may not always be a good option. The knowledge could block important future research or otherwise adversely affect the business of a receiving party.

2. CONFIDENTIALITY AGREEMENTS DEFINED

Confidentiality agreements (also called nondisclosure agreements, confidential disclosure agreements, and secrecy agreements) are contracts that govern the disclosure of confidential information by one party (the disclosing party) to another party (the receiving party). The disclosure may be unilateral, with one party disclosing confidential information to only one other party; bilateral, with two parties mutually disclosing information; or multilateral, with three or more parties disclosing information among themselves.

With regard to a confidentiality agreement, confidential information is exchanged for a promise of secrecy. Confidential information is information that is of value precisely because it is not generally known to competitors or to the public. Such information might pertain to scientific research results and data, chemical compositions and formulas, software-development information, recipes, laboratory methodology, manufacturing-techniques trade secrets (in the form of valuable know-how and/or show-how), and so on. What matters, within the context of the confidentiality agreement, is that the information is of value due to its state of being relatively unknown, and, therefore, open disclosure would be injurious to this value.

3. KEY PROVISIONS

As stated above, confidentiality agreements come in many different forms and lengths and should be adapted to the particular circumstances and legal environment.But they all have the same essential components and purpose: to ensure that a privileged communication to a third party is treated as confidential. But, along with the standard terms of any agreement, such as boilerplate contract terms, confidentiality agreements include a number of terms that are important. Box 1 provides a fairly typical confidentiality agreement used by a university.

The following agreement is a sample of a one-way, or unilateral, confidentiality agreement. Two-way agreements, through which two parties mutually disclose confidential information follow the same approach in principle, except that both parties usually have the same obligations to each other. Specific samples of unilateral and bilateral agreements from different organizations are available for download on the *Handbook's* Web version.

3.1 *Disclosing party*

It should be noted that the disclosing party does not necessarily need to be the party who actually owns the confidential information. The disclosing party may instead be a party that lawfully possesses the information and is legally permitted to disclose it.

3.2 *Receiving party*

Receiving parties, particularly in large organizations, are parties to a confidentiality agreement. The receiving party may thus be a series of individuals, depending on the complexity of the disclosure. In such cases, confidentiality agreements, and disclosures, are made at different stages whereby, initially, one individual or a small department receives the confidential information. For example, if the receiving party is not confident that the information is really worth binding the entire large institution to an agreement, an individual may be nominated to receive the confidential information as a first step before subsequent agreements are executed. Unless otherwise articulated in the confidentiality agreement, every person within the organization that is named as a party may share the confidential information with every other person within the same organization. However, as per specific disclosure provisions in the agreement, disclosure may be limited to persons who "need to know," or to certain departments, or to only scientists within a specific research group, for example.

Box 1: Unilateral Confidentiality Agreement

This Agreement, effective on _____ ("Effective Date"),
is by and between _____("Disclosing Party"),
with offices at _____, and
_____ ("Receiving Party"),
with offices at _____.

The Disclosing Party intends to disclose certain Confidential Information to the Receiving Party for the following purpose (the "Purpose"):

Now, therefore, in consideration of the Disclosing Party making such confidential information available to the Receiving Party, the Receiving Party hereby agrees as follows:

1. As used in this Agreement, the term "Confidential Information" means any technical or business information furnished by the Disclosing Party to the Receiving Party in furtherance of the Purpose in connection with the Purpose, regardless of whether such information is specifically designated as confidential and regardless of whether such information is in written, oral, electronic, or other form. Such Confidential Information shall include, without limitation, trade secrets, know-how, inventions, technical data or specifications, compilations of information, records, testing methods, business or financial information, research and development activities, product and marketing plans, and customer and supplier information.

2. Confidential Information shall not include disclosed information to the extent that the Receiving Party can demonstrate that such disclosed information:

   (a) was in the public domain prior to the time of its disclosure under this Agreement;

   (b) entered the public domain after the time of its disclosure under this Agreement through means other than an unauthorized disclosure resulting from an act or omission by the Receiving Party;

   (c) was independently developed or discovered by the Receiving Party without use of the Confidential Information;

   (d) is or was disclosed to the Receiving Party at any time, whether prior to or after the time of its disclosure under this Agreement, by a third party having no fiduciary relationship with the Disclosing Party and having no obligation of confidentiality with respect to such Confidential Information; or

   (e) is required to be disclosed to comply with applicable laws or regulations, or with a court or administrative order, provided that the Disclosing Party receives prior written notice of such disclosure.

3. The Receiving Party agrees that it shall:

   (a) maintain all Confidential Information in strict confidence, except that the Receiving Party may disclose or permit the disclosure of any Confidential Information to its directors, officers, employees, consultants, and advisors who are obligated to maintain the confidential nature of such Confidential Information and who need to know such Confidential Information for the purposes of this Agreement;

   (b) use all Confidential Information solely for the purposes of this Agreement; and

   (c) upon the conclusion of the Purpose, or earlier at the request of the Disclosing Party, return to the Disclosing Party all originals, copies, and summaries of documents, materials, and other tangible manifestations of Confidential Information in the possession or control of the Receiving Party.

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Box 1 (continued)

4. The term of this Agreement is for the duration of one (1) year from the Effective Date ("Termination").

5. The obligations set forth in this Agreement shall remain in effect for a period of five (5) years after Termination, except that the obligation of the Receiving Party to return Confidential Information to the Disclosing Party shall survive until fulfilled.

6. The Receiving Party acknowledges that the Disclosing Party claims ownership of the Confidential Information disclosed by the Disclosing Party and all intellectual property rights in, or arising from, such Confidential Information. No option, license, or conveyance of such rights to the Receiving Party is granted or implied under this Agreement.

In Witness whereof, the Parties hereto have caused this Agreement to be executed.

DISCLOSING PARTY	RECEIVING PARTY
Signature: _____	Signature: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

3.3 *Purpose of the confidentiality agreement*

As with any agreement the definition and description of the purpose are important for any confidentiality agreement, with the aim of avoiding confusion and later disagreement. The text could read:

… to evaluate XXX technology of the Disclosing Party, or

… to evaluate entering into a sponsored research agreement, or

… to evaluate the information to assess entering into a license agreement

Such language provides an additional caveat as to how the confidential information may be used within the context of the confidentiality agreement. That is, in addition to who may be a receiving party and what the confidential information entails, purpose further specifies, or restricts, how the information may be used.

3.4 *Limitations on disclosure*

Information received under a confidentiality agreement cannot be disclosed to a third party that is not a party to the agreement, even if such disclosure takes place under a separate agreement. There are also examples when a receiving party believes that the disclosing party has a separate confidentiality agreement with a third party. This might tempt the receiving party to disclose the confidential information to this third party, perhaps mistakenly believing that the third party might already have had access to the particular confidential information from the disclosing party. Such disclosures to third parties are not permitted (unless specifically allowed).

3.5 *Important exceptions*

Confidentiality agreements usually contain exceptions to the receiving party's obligation to maintain the confidence of the confidential

information. These clauses are not generally points of negotiation. Different agreements may include different exceptions, though the following five are fairly typical:

1. The information that was in the public domain prior to the time of its disclosure.
2. The information was already known by the receiving party.
3. The information entered the public domain after the time of its disclosure under the agreement through means other than an unauthorized disclosure resulting from an act or omission by the receiving party.
4. The information was independently developed or discovered by the receiving party without use of the confidential information.
5. The information is or was disclosed to the receiving party at any time by a third party having no fiduciary relationship with the disclosing party and having no obligation of confidentiality with respect to such confidential information.
6. The information is required to be disclosed to comply with applicable laws or regulations, or with a court or administrative order, for example, a subpoena for production of the information pursuant to a grand jury proceeding.

The fourth point is particularly important for academic research establishments. The following example serves to illustrate the point: Yuri works at a university in the biochemistry department. He has no connection with, nor knowledge of, a particular set of confidential information. Yuri independently develops an innovation that relies on the same general knowledge as that of another researcher, Irina, at the same university but in the department of physical chemistry. With that general knowledge, Yuri developed his invention that concurrently leads to valuable data. Nearly identical data had been obtained by Irina under a confidentiality agreement from the BioChem company. That confidential data has been previously obtained by Irina.

Evidently, both professors, Yuri and Irina are employed at the same university but in different departments. Yet Irina's confidentiality agreement is between BioChem and the university as a whole since the Office of Sponsored Programs signed it on behalf of the university. Since Irina never shared the data with Yuri, Yuri may be under no obligation of confidentiality in regard to the specific data he developed himself.

Referring now to the fourth point in the list above, if a provision is included in the confidentiality agreement such that information independently developed or discovered by the receiving party (someone at the university) without the use of the confidential information will be an exception to confidentiality, then Yuri is under no obligation to keep the information secret. If this exception were not included in Irina's confidentiality agreement with the BioChem company, then Yuri would not be able to publish information about his innovation without placing Irina at risk of breach of the confidentiality agreement with BioChem. Once Yuri made his data public, Irina likewise is no longer under an obligation to keep her data secret (providing it is identical) since the data is now public. This is perhaps the single most important exception to keep in mind when drafting confidentiality agreements for research institutions.

4. OTHER POSSIBLE CLAUSES

Nongrant of rights. In some confidentiality agreements, the disclosing party will state that there is no confusion about the intent in disclosing confidential information. This is to prevent the receiving party from later claiming that, by disclosing the confidential information, the disclosing party implied the granting of, to the receiving party, additional rights or licenses. This limitation could read:

Nothing contained in this Agreement shall be construed as an obligation to enter into any further agreement concerning the Project or Confidential Information, or as a grant of license to the Confidential Information, other than for the Project.

Limitations to disclose. Certain limitations may apply to the amount of information to be disclosed. Language such as the following can be included in specifying such a limitation:

The amount of Confidential Information to be disclosed is completely within the discretion of the discloser.

Limitations on the use of the information. Certain agreements contain a specific clause that states certain limitations on the receiving party's use of the confidential information, for example:

The receiving Party may not use the Confidential Information for commercial or noncommercial research (or for the production of prototypes; or for obtaining regulatory approvals) without the prior written approval of the disclosing Party.

Representation. In some cases, a receiving party may demand representation. Language such as the following can be included to address this issue:

Discloser of Confidential Information represents that the disclosure of information is not in violation of any commitment or obligation to any former employer, present employer, or any other party and that discloser has the right to make such a disclosure and to make the promises and agreements expressed herein.

Such representations are sometimes used when individuals disclose information.

Requirements for documentation. There are no standards as to whether disclosed confidential information should be documented. Especially in an academic setting, where disclosing and receiving parties are scientists and converse by phone and e-mail, such a requirement would, in many cases, be ignored or forgotten. However, if included, the following clause may be used:

To the extent practical, Confidential Information shall be disclosed in documentary or tangible form marked "Proprietary" or "Confidential." In the case of disclosures in nondocumentary form made orally or by visual inspection, the discloser shall have the right or, if requested by the recipient, the obligation to confirm in writing the fact and general nature of each disclosure within a reasonable time after it is made.

Extra strong clauses.[1] Occasionally the disclosing party may want the confidentiality agreement to provide as much protection as possible. This will be the case when information to be disclosed is of great value and importance to the disclosing party. Under such circumstances, the disclosing party can include extra strong clauses in the agreement. These provisions will not alter basic obligations articulated in the agreement, but rather clarify and emphasize the gravity of said obligations. Examples of extra strong clauses could include:

- The receiving party is forbidden to use the disclosed confidential information to make inventions or other valuable developments.
- If the receiving party uses the disclosed confidential information to make inventions or other valuable development, then all rights to such shall be assigned to the disclosing party.
- The receiving party will not attempt to replicate the disclosed confidential information.
- The receiving party will not engage in detailed research for the purpose of investigating the details and aspects of the disclosed confidential information.
- The receiving party will not use the disclosed confidential information in a manner that either confers commercial benefit on the receiving party or places the disclosing party at a commercial disadvantage.

Security.[2] Security is, naturally, a critical consideration in any confidentiality agreement. Common provisions in agreements state that the receiving party must treat the disclosed confidential information with the same degree of security as it does its own confidential information, or there can be a clause that specifies reasonable and proper measures to safeguard and ensure security. However, if the disclosing party wants to make certain that a specific level of security is established and maintained, then the following types of provisions might be included in the confidentiality agreement:

- Disclosed confidential information must be stored in designated, locked storage spaces.
- Only designated individuals can have access to the disclosed confidential information.

- Copying the disclosed confidential information is strictly prohibited.
- Disclosed confidential information cannot be taken from the premises.
- Any viewing of the disclosed confidential information must be duly recorded in a log.
- All disclosed confidential information documents have unique identifier numbers and all are marked, in red, "CONFIDENTIAL."

5. CONCLUSIONS

There are two simple rules to keep in mind when dealing with confidentiality agreements (and, in fact, with any agreement): First, if there is no trust between the parties, then perhaps it is best not to proceed with the agreement, no matter how simple the agreement may be. On the other hand, a confidentiality agreement may be a rational first step in developing the trust needed to build a relationship that may lead to further collaboration and new opportunities. Second, by entering into a confidentiality agreement with another party to receive their confidential information, it is important to ensure that everyone in the organization who has access to the confidential information is well informed of the obligation to keep it confidential. ■

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1 This section is based on UNICO. 2006. UNICO Guides: Confidentiality Agreements. UNICO; Cambridge, U.K. www.unico.org.uk. The UNICO Guide provides additional and valuable discussions on confidentiality agreements, including a range of template agreements.

2 Ibid.