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The Manager's Guide to Intellectual Property

SECOND EDITION

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CHAPTER 6

Agreements

Introduction

It is possible to protect ideas and inventions by having someone agree not to disclose or use them. This is true even if the idea does not qualify for patent, trade secret, trademark, or copyright protection.

For example of use of an agreement to provide protection, I had a client that made specialty chemicals. Frequently a potential customer asked them to develop a chemical for a particular application. My client made its money selling chemicals, not from developing them. So to keep the potential customer from going to a third party with the developed chemical and having the third party manufacture it, the development contract included a "no reverse engineering" clause. In other words, the customer was not allowed to determine the chemical structure of the product. Such a no reverse engineering clause is common in software license agreements.

Examples of Restrictive Agreements

Examples of agreements that restrict the right of a third party with regard to an idea or invention include:

- **Confidentiality agreements**. These are commonly used when submitting an idea to a

potential manufacturer, licensee, investor, or the like. They can be used when submitting scripts, treatments, and book outlines to a publisher. They are almost always included in employment agreements to protect the employer's trade secrets. An exemplary confidentiality agreement is provided below.

- **No reverse engineering.** These are commonly included in software license agreements and custom chemical development agreements.
- **No competition.** These can be used to prevent a distributor or licensee from selling a competitive product, or to keep the owner of a business from competing after selling the business. Care must be used with noncompetition clauses. They can raise antitrust issues and in some states, are illegal in many circumstances. For example, as a matter of public policy, California prohibits noncompetition clauses, except in limited circumstances.

Indemnity

In many agreements, such as a product sales agreement or software license agreement, an indemnity provision often fails to get enough attention. An indemnity provision determines who is responsible for paying for the costs of a lawsuit and damages if a claim for intellectual property infringement, such as patent infringement, occurs. The purchaser should also be concerned with what happens to the product if an injunction against infringement issues.

The purchaser, of course, wants broad indemnity protection, and the seller wants a narrow indemnity provision. It is surprising how often a purchaser sees

the word *indemnity* in the seller's agreement and assumes there is meaningful indemnity from the seller. However, often that is not the situation.

For example, when buying software, it is typical that the indemnity provision excludes any claim based on the combination of the software with hardware not provided by the seller. Well software is always used with hardware, and only rarely with hardware provided by the same software seller. In that situation, the indemnity provision is almost worthless.

Also of concern is the financial strength of the seller. Can the seller make good on an indemnity claim? An indemnity provision is akin to an insurance policy. An insurance policy is worthless *if* the insurance company does not have the resources to pay. Likewise, indemnity protection is worthless if the seller cannot afford to uphold its indemnity obligation.

Accordingly, the executive needs to pay attention to indemnity clauses whenever making a significant purchase with a potential risk of intellectual property infringement.

Representative Confidentiality Agreement

Exhibit 6-1 is a representative confidentiality agreement. It is not recommended that it just blindly be used. It should be modified depending on the particular circumstances involved. Moreover, it is always desirable to have a skilled attorney involved in preparing such an agreement. The text in bold is optional.

Exhibit 6-1: Example of a Confidentiality Agreement

CONFIDENTIALITY AND NONDISCLOSURE AGREEMENT

THIS IS AN AGREEMENT entered into and effective as of_____, between _____ an individual, residing at_____ (hereinafter referred to as DISCLOSER"), and (referred to below as "DISCLOSEE").

RECITALS

A. DISCLOSER has expended substantial time and money in developing _____(hereinafter referred to as "Product").

B. DISCLOSEE may be interested in acquiring rights to the Product, and/or DISCLOSEE may be interested in entering into a business relationship, such as a manufacturer, distributor, or designer, with DISCLOSER regarding the Product.

C. DISCLOSEE desires to fully evaluate the Product for the purpose of deciding whether to acquire rights therein or enter into a business relationship with DISCLOSER.

D. Thus, it is necessary that DISCLOSER disclose to DISCLOSEE confidential information. This confidential information is deserving of suitable precautions against indiscriminate dissemination and use. In order that the disclosure of information to DISCLOSEE by DISCLOSER may be properly protected, it is agreed as follows:

AGREEMENT

1. "Confidential Information" means all documents, Product, parts, devices, business or marketing plans, present and future Products and policies, ideas, outline, scripts, writings, or other information provided to DISCLOSEE by DISCLOSER **[which is conspicuously marked "Confidential"]**.

2. DISCLOSEE agrees that, subject to the provisions of Paragraph 3 below, DISCLOSEE will treat all confidential information received by DISCLOSEE from DISCLOSER as proprietary to DISCLOSER, that DISCLOSEE will not use such confidential information in any way, nor disclose such confidential information to any party, including affiliates, associates, agents, employees, representatives, subordinates, and subcontractors of DISCLOSEE, that are not specifically authorized by DISCLOSER to receive it. **[The DISCLOSEE agrees that the improper use or disclosure of confidential information will cause irreparable harm to the DISCLOSER.]**

3. DISCLOSEE shall not be subject to the restrictions imposed by Paragraph 2 with respect to any confidential information obtained by DISCLOSEE from DISCLOSER if the confidential information:

   a) was known to DISCLOSEE, or had been independently developed by DISCLOSEE, when received from DISCLOSER, and such fact is established by written records;

   b) was or becomes publicly known such as by patenting through no violation of this Agreement by DISCLOSEE;

c) was or is obtained by DISCLOSEE from another source not under an obligation of confidentiality to DISCLOSER, in which case DISCLOSEE agrees to notify DISCLOSER promptly.

4. The release pursuant to Paragraph 3 of this Agreement will not and does not operate to grant DISCLOSEE a license to use the subject matter claimed in any patent.

5. The term of this Agreement shall be for ____ ( ) years, commencing on the date of execution of this Agreement. During this term, this Agreement shall be binding on and inure to the benefit of all heirs, successors, assigns, and representatives of the parties.

6. Upon request by DISCLOSER, DISCLOSEE will promptly return to DISCLOSER the original and all copies of any documents and tangible objects furnished by DISCLOSER, and DISCLOSEE will destroy all notes and copies thereof.

7. If one or more of the provisions of this Agreement is invalid or otherwise unenforceable, the enforceability of the remaining provisions shall be unimpaired.

8. This Agreement contains the complete and entire understanding with respect to the protection of the confidential information covered by this Agreement, and supersedes all prior and collateral communications, reports, and understandings, if any, between the parties regarding such confidential information and may not be modified or supplemented except in a writing executed by both parties.

9. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California. All proceedings to resolve disputes relating to this Agreement shall be brought in the County of Los Angeles, State of California.

10. Any disputes between the parties shall be settled by Arbitration under the Commercial Rules of the American Arbitration Association, at Los Angeles, California, before a single arbitrator, who shall render a decision within three months of initiation of the arbitration proceedings. Discovery can be had by the parties only on the issue of violation by DISCLOSEE of section 2 of this Agreement.

11. DISCLOSEE agrees that for _____ years after disclosure of confidential information to it, it will not manufacture, cause to be manufactured, market, or sell any item competitive with the Product.

FOR DISCLOSER:

Dated: _____   _____

Name: _____

Title: _____

FOR DISCLOSEE:

Dated: _____   _____

Name: _____

Title: _____

Employment and Consulting Agreement

Employment and consulting agreements need clauses dealing with intellectual property. For example, an outside advertising agency owns the copyright in any ad it created in the absence of a written agreement to the contrary. All the company gets for paying for the creation of the ad is a license. This means if there is an infringer, the company needs the involvement of the ad agency in bringing suit.

Therefore employment and consulting agreements should have the following clauses:

1. Assignment and disclosure of inventions to the employer;
2. Copyright assignment/work for hire clause giving copyright ownership to the employer;
3. Protection and non-disclosure of trade secrets;
4. Promise not to use trade secrets of others; and
5. No use of open source software without the consent of the employer (Open source software is discussed in Chapter 5.).