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Interpretation of a Nondisclosure Agreement: How Much Protection Does It Provide?

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Lawrence J. Udell is founder and Executive Director of the California Invention Center created in 1995 at California State University. He has taught for over 40 years at universities throughout the United States and in foreign countries for WIPO (United Nations). A member of the Licensing Executives Society since 1982, he founded the Silicon Valley Chapter in 2000. Mr. Udell provides consulting to both start-ups and Fortune 500 companies, and lectures frequently at inventor, corporate, and government functions throughout the United States. He is the founder and chairman of Intellectual Property International, and Vice President of American Innovators for Patent Reform and Senior Consultant to General Patent Corporation.

Anyone involved with any type of invention, creative concept, or innovative design that is potentially valuable at some point will have to sign a nondisclosure agreement, otherwise known as an NDA. Just about any inventor who submits an idea or any type of product or creation to a corporation to determine if that company would be interested in buying or licensing the property will be asked to sign an NDA. Anytime a discussion involves a type of proprietary technology or information that is to be shared, one or more parties will either ask or be asked to sign an NDA. NDAs are an inevitable part of the negotiation process, and if used properly, serve to protect all of the parties involved in the possible transfer or licensing of a creative or proprietary concept.

If a dispute or litigation occurs down the road, the NDA will become an integral part of the legal defense of the litigation and can be used in any number of ways. There are various types of NDAs, and these agreements can be one page or twenty pages. Regardless, the aim is simple: The NDA is a document that allows the owner of proprietary information or technology to tell the other party in detail about his or invention and explain in detail how it operates or is to be used.

Over the last half-century I have probably signed a thousand or more NDAs. I always review them carefully to make sure there is no incriminating words or paragraphs that could come back to haunt me, even years later. So, is an NDA worth signing under any and all conditions? In many cases, the inventor will not have a choice.

Proper Protection before Disclosure

It is important to take a deeper look into the NDA and its purposes. As stated, it provides the disclosure of confidential information to one party by the other party, not to be divulged without permission. So what is the interpretation of "confidential information?" Confidential information can include proprietary information, details, drawings, etc. The other party, of course, by signing, is agreeing not to divulge the information to anyone without written permission of the other signer to the NDA.

Now that the interpretation is clear, let's take a look at what the NDA covers. During the course of negotiation, it is not uncommon for the proprietary information that is being disclosed and/or accepted to change in the process of innovation and improvement, almost always for the better. The question for both parties to the NDA then becomes: At what point does the technology leave the confines of the NDA? Let us assume that the inventor has filed a Provisional Patent Application. In many cases, the inventor is anxious and wants to file as-soon-as-possible so that the inventor neglects to incorporate specific detailed information into the application document. It is issued to the inventor with a date allowing one year for the inventor to say "My patent is filed". However, because the inventor omitted pertinent information within the application, the inventor is now confronted with questions by a company that may be interested in licensing and/or purchasing the invention.

What often happens next is that the inventor's excitement overrules logical thinking and the inventor starts divulging to the interested company the particulars of the idea being disclosed without remembering that in the Provisional Application the invention was not actually defined in detailed engineering terms. This often is the case when an inventor files his/her own application rather than pays for the advice and services of an intellectual property attorney. In the situation described here, the inventor is not protected by the signed NDA. So, what is the true value of the signed NDA?

In this hypothetical, further down the line, let's assume that the individual inventor's success has grown, but is now being challenged by a company filing an injunction that the inventor has violated its IP rights. The inventor consults an attorney, but then is shocked to learn that the provisional filing date and lack of specific details has now possibly voided the inventor's rights to the invention that was the subject of the NDA and provisional application.

Turning a provisional into a full application should be considered initially, especially if the inventor believes the technology is of potential value. The original filing date of the provisional application, which many believe to be the start date of protection, is of very little value. In the rush to file, many inventors ignore details that should have been in the provisional that would have avoided a legal dilemma down the line.

In my experience, I have seen many inventors make this avoidable mistake, and it can play out in the worst possible way. For example, an inventor believes that his/her new toy will be a big seller and researches and finds a company that is willing to take a look at the idea. The inventor, or in some cases, the inventor's attorney, contacts the company; however, the company does not want any information divulged until the inventor signs the company's NDA. This automatically voids the inventor of any future liabilities, because in most NDA's the inventor basically gives away rights to any potential legal action. However, what the inventor does not know, is that the company may have been secretly working on a very similar product for some time and may have invested a great deal of money to develop and perfect it. At the meeting with a corporate executive, there is no way to know this, nor will the executive tell you.

So the meeting was not successful from the inventor's point of view, having failed to produce a licensing deal, but a short time later the company introduces to the market a very similar product. Many inventors in this situation immediately think: They stole my invention, never realizing that the company already was perfecting a similar invention/product. The inventor then contacts and consults with an attorney thinking all this time that a law suit against the big company will pay big dividends and compensate the inventor for the time, energy, and money spent on his invention. Ultimately, inventors in this situation do not actually have a case because they signed the NDA before the first meeting with the company. Unfortunately, I have witnessed "inventor anger" many times and saw the disheartening results of bad judgment on the part of the inventor. Falling in love with your "brain-child" is not unique among the inventor community, especially when other inventors, family members, neighbors, and co-workers offer encouragement. Inventors become so enthralled with their ideas that they lose sight of the various requirements that are necessary to achieve success to any degree, whether it be money and/or recognition.

The signed NDA suddenly becomes very important and could cost the inventor a great deal of money, time and effort, with nothing to show for it.

Conclusion

My entire premise in this brief article is to alert potential inventors as to what can and does happen continually in the big-wide-world of inventing. I am not saying that an NDA is not of value, but unless the invention/product is significantly and specifically defined within the detailed information that is being shared with the company, it really is of no value and will not protect the inventor from infringement. In conclusion, it is unwise for an inventor to totally rely on an NDA as protection from those who may steal or otherwise infringe upon the invention.