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Nondisclosure Agreements

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Introduction

- ◆ NDAs restrict a recipient's disclosure (and use) of information acquired in a business relationship
 - No difference between standalone NDA and "confidentiality" clause
- ◆ Common perception: NDAs have limited enforceability in WI
 - Limited definition of trade secrets
 - NDAs treated like non-competes
 - ◆ Must be reasonably limited in time and geography



Introduction

- ◆ This perception may be true in employment context due to §103.465

Restrictive covenants in employment contracts.

A covenant by an *assistant, servant or agent* not to compete with his or her *employer or principal* during the term of the employment or agency, or after the termination of that employment or agency, within a specified territory and during a specified time is lawful and enforceable only if the restrictions imposed are reasonably necessary for the protection of the employer or principal. Any covenant, described in this subsection, imposing an unreasonable restraint is illegal, void and unenforceable even as to any part of the covenant or performance that would be a reasonable restraint.



Introduction

- ◆ But business-to-business NDAs aren't covered by §103.465
 - “The parties have not cited, and we have not found, any Wisconsin statute or decision subjecting non-disclosure agreements between suppliers and users of intellectual property to the rules that govern non-competition clauses between employers and employees.”
 - “No Wisconsin decision of which we are aware requires temporal or geographic limits as a condition to the enforcement of a non-disclosure agreement for intellectual property.”

IDX Systems Corp. v. Epic Systems Corp., 285 F.3d 581 (7th Cir. April 1, 2002)



Discloser's Perspective

◆ Why do NDAs?

- Preserve trade secret status
 - ◆ Plus, create property-like protections for non-TS info
- Preserve eligibility for patenting
- “Feel-good” moment

◆ But...

- Hard to determine breach
- Expensive to enforce
- Remedies may be incomplete

Best Legal Practices (Discloser's Perspective)



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- ◆ Get broad prophylactic NDAs from everyone
- ◆ Create an inventory/"hierarchy" of trade secret assets
- ◆ Make disclosures based on hierarchy
 - "Unimportant" assets = disclose freely
 - Important assets = disclose with care
 - Crown jewels = never disclose



Recipient's Perspective

- ◆ Any breach, even inadvertent, creates remedies
 - To avoid breach, need operational procedures...
 - ◆ Intake
 - ◆ Storage
 - ◆ Use/disclosure
 - ...and cognitive compartmentalizing
- ◆ Future R&D may be affected
 - May require cleanroom procedures
 - Best employees may be tainted

Best Legal Practices (Recipient's Perspective)

◆ Avoid signing NDAs

- Try to interact without trade secret disclosure
 - ◆ Exception: when recipient wants to preserve information as a trade secret
 - ◆ Ex: exclusive licensee to source code
- Where trade secret disclosure is unavoidable, do cost-benefit analysis
- Restrict signature authority

Best Legal Practices (Recipient's Perspective)



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- ◆ Draft NDAs to minimize their effect
 - Narrow confidential information definition
 - ◆ Only enumerated items
 - ◆ By category
 - ◆ Only material disclosed in writing
 - Limit scope of protections
 - ◆ Restrict disclosure, not use
 - ◆ Finite duration
 - ◆ Residuals clauses
- ◆ Train employees how to intake, segregate and manage confidential information