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GVP Non-Disclosure Agreement

AL Limited v. Glass Glo Corporation

United States Court of Appeals for the Fifteenth Circuit (1995)

Per Curiam: This interlocutory appeal was certified by the district court after it dismissed, for failure to state a claim, one of the claims in a suit by AL Limited against Glass Glo Corporation.

AL Limited, a United Kingdom corporation, owns the worldwide rights to the "Aluglas Process," a coating system by which a thin layer of metalized aluminum is applied to products such as greeting cards, gift wrapping, and labels. Part of the Aluglas Process is patented, but major portions of the process are trade secrets. AL has consistently taken great care to protect its trade secrets, principally by the use of non-disclosure agreements between it and its licensees.

AL licensed the Aluglas Process to Prodicom, a Mexican company that used the process to manufacture its products and was familiar with all aspects of the process, including AL's patent and trade secret information. The licensing agreement between AL and Prodicom contained a non-disclosure provision that prohibited Prodicom from disclosing any "confidential information," which was defined in the agreement, to any person or entity without the express, prior written consent of AL. Moreover, any such disclosures were to be made under terms at least as restrictive as the non-disclosure terms of the AL/Prodicom agreement.

Robert Faris, chief executive officer of Glass Glo Corporation, a Franklin corporation, was interested in evaluating whether the Aluglas Process could be applied beneficially to the products manufactured by Glass Glo. He met with officials of Prodicom and requested that he be permitted to examine Prodicom's manufacturing methods using the Aluglas Process. Prodicom communicated with AL and received approval to allow Faris to receive formulas, documentation, and other information vital to the use of the process. All the information Faris sought fell within the definition of "confidential information" as defined in the AL/Prodicom agreement. The condition upon which AL agreed to let Prodicom disclose to Faris, however, was that Faris and Glass Glo first enter into a non-disclosure agreement with Prodicom restricting Faris' and Glass Glo's right to disclose information relating to the Aluglas Process to the same extent that Prodicom was prevented from disclosing such information.

Consequently, Prodicom and Faris, on behalf of Glass Glo, entered into a written agreement defining "confidential information and trade secrets" consistent with the definitions in the AL/Prodicom agreement and containing a non-disclosure clause that stated: "Prodicom reveals the confidential information and trade secrets ('information') relating to the Aluglas Process upon the express undertaking of Glass Glo Corporation that it receives the information from Prodicom in confidence and that it will not disclose any of the information to any person or entity [other than certain specified scientific and engineering personnel of Glass Glo] for any purpose whatsoever without first obtaining the written consent of Prodicom." The Prodicom/Glass Glo agreement did not mention or otherwise refer to AL Limited.

Faris later concluded that the Aluglas Process was not suited to Glass Glo's purposes and decided not to use it. However, one of the members of Glass Glo's board of directors was the chief executive officer of Shining Light, Inc., a manufacturer of ornamental papers. Believing that Shining Light might be able to use the Aluglas Process and without getting Prodicom's approval, Faris turned over to Shining Light the files and materials he had obtained from Prodicom.

When AL discovered Faris' disclosure to Shining Light, AL sued Glass Glo on a number of claims, including one for breach of the Prodicom/Glass Glo nondisclosure agreement. AL asserted that it was an intended beneficiary of the Prodicom/Glass Glo agreement.

It is ancient law in Franklin that, to succeed on a third-party beneficiary theory, a non- party to an agreement "must be the intended beneficiary of the contract, not merely an incidental beneficiary to whom no duty is owed." *Lawrence v. Fox* (Franklin Supreme Court, 1895). More recently, the Franklin Supreme Court, applying principles declared in the Restatement (Second) of Contracts, stated, "essential to the status as an intended beneficiary are circumstances indicating that the promisee intends to give the beneficiary the benefit of the promised performance." *Goldman v. Belden* (Franklin Supreme Court, 1995).

The non-disclosure agreement that Faris signed makes no reference to a licensing agreement between AL and Prodicom, nor does it purport by its terms to run to the benefit of AL. Mere mention of the Aluglas Process in the Prodicom/Glass Glo agreement does not satisfy the requirement that the contract must expressly identify the intended third-party beneficiary and provide that the promises of the promisee run to that intended beneficiary.

The contract upon which AL sued Glass Glo does not satisfy these requirements. Accordingly, the court below did not err in dismissing this cause of action for failure to state a claim.

We affirm.

Celeritas Technologies v. Rockwell International Corporation

United States Court of Appeals for the Fifteenth Circuit (1998)

In July 1993, Michael Dolan filed a patent application for a "de-emphasizer" apparatus to increase the rate of data transmission over analog cellular telephone networks. The resulting patent, assigned to Celeritas, was issued in January 1995.

In September 1993, Dolan and other officials of Celeritas met with representatives from Rockwell to demonstrate their proprietary de-emphasis technology. Rockwell entered into a non-disclosure agreement (NDA) with Celeritas which provided that Rockwell "shall not disclose or use any Proprietary Information except for the purpose of evaluating possible business arrangements between Celeritas and Rockwell."

The agreement also provided that proprietary information "shall not include material which . . . was in the public domain on the date hereof or comes into the public domain other than through the fault or negligence of Rockwell . . . or information independently developed by Rockwell or Rockwell's employees who had no access to the Information disclosed hereunder."[1]

In March 1994, AT&T began to sell a modem that incorporated de-emphasis technology. In that same month, Rockwell informed Celeritas it would not license the use of Celeritas' proprietary technology and concurrently began a development project to incorporate de-emphasis technology into its modem chip sets. In January 1995, Rockwell began shipping its first prototype chip sets that contained de-emphasis technology.

Celeritas' subsequent suit against Rockwell on breach of contract resulted in a jury verdict in its favor and a judgment in excess of $57 million.[2] Rockwell's motion for judgment as a matter of law was denied by the district court. Rockwell appeals.

Rockwell argues the de-emphasis technology disclosed to Rockwell was already in the public domain before Rockwell used it, specifically when AT&T began selling its modems. Rockwell asserts that the technology

[1] The full text of the clause setting forth the exclusions from proprietary information reads as follows:

"Such Information shall not include material which Rockwell can by reasonable proof: (1) Show was in the public domain on the date hereof or comes into the public domain other than through the fault or negligence of Rockwell; (2) Show was contained in a written record in Rockwell's files prior to the date of receipt from Celeritas; (3) Show was lawfully obtained under circumstances permitting its disclosure and use; (4) Show was disclosed by Celeritas to others on an unrestricted basis; and (5) Demonstrate was independently developed by Rockwell or Rockwell's employees who had no access to the Information disclosed hereunder."

[2] The term of the confidentiality agreement was designated "perpetual" as opposed to a set number of years in duration. Permanent confidentiality signifies that the parties assigned high value to the information that was to be disclosed to Rockwell and supports the amount awarded to Celeritas by the jury. *See Stamats v. Concord Tech* (Franklin Supreme Court, 1991).

was "readily ascertainable" because "any competent engineer could have reverse-engineered the AT&T modem." Rockwell further argues that any confidentiality obligation under the NDA regarding de-emphasis technology was extinguished once the Celeritas patent was issued in January 1995. Substantial evidence supports the jury's conclusion that Rockwell breached the NDA. The jury implicitly found the information given to Rockwell by Celeritas was covered by the NDA. Unrebutted testimony established that Celeritas disclosed to Rockwell implementation details and techniques that went beyond the information disclosed in the patent. Accordingly, Rockwell's reliance on the issuance of the Celeritas patent is misplaced.

There was substantial evidence on which the jury could find that Rockwell used Celeritas' proprietary data to develop its modem chip sets. Significantly, when Rockwell initiated its de-emphasis development program it did not erect an organizational barrier to protect the confidential information of Celeritas. In place of a "clean room,"[3] Rockwell assigned the same engineers who had learned of Celeritas' technology under the NDA to its own de-emphasis development project.

The jury also found that the technology had not been placed in the public domain by the sale of the AT&T modem. Franklin law appears somewhat unsettled regarding whether a trade secret enters the public domain when it is "readily ascertainable" or whether it must also be "actually ascertained" by the public. Because the judgment is supportable under either standard, we need not attempt to resolve this issue of state law. Suffice it to say that substantial evidence supports a finding that the technology implementing the de-emphasis function in the modem was not "readily ascertainable."

Accordingly, the court did not err in denying Rockwell's motion for judgment as a matter of law regarding its breach of the NDA.

Affirmed.

[3] A "clean room" involves a development team working under a set of strict written procedures to control the transfer of data from other research efforts to the team, thereby protecting the development team from exposure to confidential information or trade secrets of third parties. *See* K. Copenhaver, *Structuring, Negotiating & Implementing Strategic Alliances* (PLI 1997).

Nilsen v. Motorola, Inc.

United States District Court (D. Franklin 1997)

In mid-1987, Joseph Nilsen, the president of Innovation Center, Inc., approached Motorola about an alliance to produce electronic ballasts, devices used to power fluorescent lamps. Nilsen offered Motorola an "exclusive licensing of proprietary technology that permits the development of electronic ballasts at substantially reduced cost as compared with the least costly of presently available electronic ballasts."

In September 1987, Nilsen and Motorola executed a non-disclosure agreement (NDA) to establish the terms under which Nilsen would provide confidential information to Motorola. Essential provisions of the NDA included these:

• "Confidential Information" was defined as "any device, graphics, written information, or information in other tangible forms that is disclosed, for evaluation purposes, to Motorola by [Nilsen] relating to [electronic ballasts] and that is marked at the time of disclosure as being 'Confidential' or 'Proprietary.'"

• Information disclosed orally or visually and identified at the time of such disclosure as "Confidential" was to be considered as "Confidential Information" only if reduced to tangible form, marked "Confidential," and transmitted to Motorola within 30 days of such oral or visual disclosure.

• "Confidential Information" was explicitly defined to exclude "any information which: (a) is or becomes publicly known through no wrongful act on Motorola's part; or (b) is, at the time of disclosure under this Agreement, already known to Motorola without restriction on disclosure; or (c) is, or subsequently becomes, rightfully and without breach of this Agreement, in Motorola's possession without an obligation restricting disclosure; or (d) is independently developed by Motorola without breach of this Agreement; or (e) is furnished to a third party by [Nilsen] without a similar restriction on the third party's rights; or (f) is explicitly approved for release by written authorization of [Nilsen]."

• Motorola undertook "to apply to all 'Confidential Information' the same degree of care with which it treats and protects its own proprietary information against public disclosure but no less than reasonable care."

• Motorola also agreed that "Disclosure of confidential information is limited to Motorola employees and Motorola is not to disclose the 'Confidential Information' to any third party" nor was it to "use the 'Confidential Information' for any purpose" other than "evaluation purposes, which evaluation is to be completed within two months from [September 1, 1987]."

• In the event of termination, Motorola undertook to deliver to Nilsen all of the 'Confidential Information' it had received from

Nilsen, or to certify its destruction, at Nilsen's option.

Within a short time after executing the NDA, Motorola wrote to Nilsen "to confirm the various 'to-dos' that you agreed to address during our meeting last Monday. . .

> 2. Review your documents and determine whether any of them should have been stamped 'confidential.' Our mutual intent is to specifically identify confidential information."

Motorola reminded Nilsen of this "to do" item a number of times.

From September 1987 to May 1988, Motorola personnel evaluated its possible entry into the electronic ballast business. Nilsen provided Motorola personnel with a prototype ballast in a "black box"[4] that Motorola used as a test device. He later built another prototype based on a set of Motorola performance specifications.

During that same period, Motorola engaged two non-Motorola employees as consultants. David Bergman, a marketing specialist, and William Alling, an electronics specialist, were asked to prepare a report detailing financial and technical objectives for Motorola's potential entry into the electronic ballast industry. Motorola shared with Bergman and Alling all the material Nilsen had provided to Motorola from the onset of their relationship. Based on the Bergman- Alling report, Motorola decided to "put on hold" the decision whether to enter the electronic ballast business and wrote to Nilsen informing him of that decision.

In 1990, Motorola reconsidered the Bergman-Alling report and concluded that Motorola should go forward with the business, using Nilsen's technology.

Over the next several months, Nilsen and Motorola engaged in what can only be described as "arm's-length bargaining." Motorola offered Nilsen several compensation packages and business models. Nilsen rejected all of them as inadequate. In light of the "significant gap" between them, Motorola sent Nilsen a letter in November 1990 terminating their discussions. Motorola later returned to Nilsen all documents that Motorola had received, but retained an "archive copy" for Motorola's files that included documents that Nilsen had failed to mark "confidential."

Once discussions with Nilsen were terminated, Motorola communicated with Carl Stevens, an engineer who had developed his own "Super Ballast," a design that he had earlier licensed to Calmont Technologies. Motorola hired

[4] A "black box" is a unit whose internal structure is unknown but whose function can be documented. The internal mechanics of a device do not matter to the engineer who uses the unit to evaluate the device's function. A memory chip, for example, can be viewed as a black box so that its function can be ascertained without disclosing its structure. Many people use memory chips and even design them into computers, but generally only the memory chip designer needs to understand the chip's internal operation.

Stevens as its chief engineer and executed a Licensing Agreement for the exclusive use of his electronic ballast technology. Stevens and other Motorola engineers participated in the improvement of electronic ballast design until December 1993, at which time Motorola completed its final design and proceeded to production.[5] Nilsen thereafter filed suit, claiming Motorola breached the non-disclosure agreement it had with him.

Before this case proceeds to a jury trial, one matter that must be decided is whether, as a matter of law, Motorola breached its contractual obligations of limited disclosure under the NDA when it revealed confidential information provided by Nilsen to third parties. Construction of the parties' written agreements is, of course, a question of law for this Court and not one of fact for the jury.

As a preliminary matter, however, this Court concludes that there was no implied duty imposed on Motorola to maintain the confidentiality of any of Nilsen's documents that he himself had failed to designate as "confidential." The "to-do" list *(supra)* afforded Nilsen the full opportunity to stamp his documents as "confidential." Since he failed to stamp a number of documents, he cannot now contend that the trade secret concept extends to any implied duty stemming from his delivery to Motorola of any information that had not been marked as "confidential."

Franklin courts have repeatedly held that any disclosure believed to be proprietary—including previous disclosures that had not been so marked—must be in written form and stamped "confidential" *(e.g., In re Andrea Dumon* (Franklin Supreme Court, 1994)). Motorola, therefore, was under no duty to maintain the confidentiality of any of Nilsen's disclosures (whenever made) that were not so marked.

Nilsen also contends that, as a matter of law, Motorola violated the NDA when it provided information marked as "confidential" to Alling and Bergman, who were not employees of Motorola. Motorola presses the view that the section of the NDA that reads "Disclosure of Confidential Information is limited to Motorola employees" and "Motorola is not to disclose the 'Confidential Information' to any third party" should be interpreted expansively. It contends that customary business practice in situations where companies are evaluating technologies and commercial opportunities includes passing the information on to non-employee consultants and experts for review and analysis. Therefore, argues Motorola, the clause in the NDA must be read to allow it to share the confidential information it received from Nilsen with non-employees who had a "need to know" in order to provide Motorola with essential advice.

[5] Discovery during the course of this litigation has uncovered several of Nilsen's disclosures, designated as "confidential" per the NDA, in Stevens's files.

Courts have traditionally held that nondisclosure agreements restricting dissemination of confidential information to employees of the receiving party permitted disclosure to legal counsel *(Matters v. Siddown Corporation* (Franklin Court of Appeal, 1980)), and other professionals normally engaged by the receiving company (e.g., technical consultants, *Otone, Inc. v. Chambers* (Franklin Supreme Court, 1984)). More recently, however, the Franklin courts have concluded that an NDA clause restricting disclosure of information to employees "is a very clear expression that the intent of the parties was employees only and not employees and others to whom the Disclosing Party might have foreseen that the Receiving Party would make disclosures." *Den-Tal-Ez, Inc. v. Siemens Capital Corp.* (Franklin Supreme Court, 1993). That interpretation is all the more appropriate here, where the clause not only restricts disclosure to employees but goes on to explicitly prohibit disclosure "to any third party."

The parties had the opportunity to craft conditions under which confidential information could have been revealed by Motorola to third parties who were providing assistance in the evaluation of the data it received from Nilsen. They could have, for example, allowed disclosure to those with "a need to know"; or to those individuals specifically identified; or to third parties who were under a confidentiality agreement the terms of which were at least as restrictive as the terms of the Nilsen-Motorola agreement; or, on an *ad hoc* basis, to those third parties approved in advance by Nilsen. These options and more were available to the contracting parties and would have permitted at least some disclosure to third parties.

Motorola and Nilsen, however, did not avail themselves of such options. Instead they agreed to a flat ban on the disclosure of "'Confidential Information' to any third party." Therefore, the Court concludes, as a matter of law, that Motorola breached its duty under the NDA when it disclosed confidential information to the third parties identified above.