

**PROTECTION OF INTELLECTUAL PROPERTY WITH THE HELP
OF A NON-DISCLOSURE AGREEMENT**- Kabeer Jaiswal¹**1. Abstract-**

This article will provide you with information regarding Intellectual Property Rights and Non-Disclosure Agreements. The importance of a non-disclosure agreement in protecting intellectual property rights. The provision included in a non-disclosure agreement and the things to remember while drafting to make it ironclad. This article has also discussed the post-employment restrictive covenants that can be included in a non-disclosure agreement and their enforceability under Section 27 of the Indian Contract Act 1872.

2. Introduction-

The word 'Intellectual Property' can be defined as any product, process, idea, or anything else that is created with a person's own intellect or intellectual understanding. Intellectual Property Rights are the rights that are conferred upon the individuals which give them exclusive rights over the use of their creation for a certain period of time². Intellectual Property Rights include any patents, copyrights, trademarks, trade secrets, service marks, database rights, and design rights. Many companies while trading with each other disclose their trade secrets to increase their power or profit in the market. Hence, sometimes sharing of confidential information might not be common but can be necessary. Therefore, Non-Disclosure Agreements come into play to protect this confidential information.

3. What is a Non-Disclosure Agreement?

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² B.L. Wadehra, Law Relating to Intellectual Property, 65 (5th ed.).

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A non-Disclosure Agreement is a legally enforceable contract that preserves the confidentiality of information between the contractual parties. It is governed under the Indian Contract Act 1872. The parties agree to protect confidential information disclosed by any party to the other and undertaking not to disclose, publish, distribute, divulge, release, copy or use such information without the consent of the disclosing party. NDAs prevent candidates, employees, and potential business partners from revealing confidential information about your company.

A Confidentiality Agreement can be signed between-

- i. **Two or more Companies** – When there is a merger or negotiations between companies or when a company is trying to acquire another entity, they share confidential information in the process. The sharing of confidentiality information makes the company vulnerable as the other company can use the confidential information against them.
- ii. **Employer and its Employees** – Every time an employee leaves a company, he takes some amount of confidential information with him. It can be a trade secret, software program, food recipe, or anything that is very sensitive to a company's growth and earnings. Therefore, the employees are made to sign a confidentiality agreement before recruiting them so that the company can protect their confidential information during and even after the course of employment.
- iii. **Company and Individuals** – Companies and various start-ups share their ideas, strategy, product design, and process with potential investors to generate capital. It is a possibility that the investor can steal the company's idea or use the idea/strategy for his profit. This situation can be prevented by signing a non-disclosure agreement with the potential investor or any individual.

4. Why does a Non-Disclosure Agreement play an important part to protect Intellectual Property Rights?

Protection of trade secrets is the most important aspect in this business-driven world. A "Trade Secret" is a type of Intellectual Property or Proprietary Information that consist of

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either any formula, method, device, or any information that gives your business a competitive advantage over your competitors.³ Anything that gives you an economic competitive advantage is extremely valuable and must not be slipped away easily.

Examples of a trade secret –

1. Google's Search Algorithm.
2. Kentucky Fried Chicken's secret recipe/ingredients.
3. Coco-Cola instead of getting a patent for its recipe branded it as a trade secret so that they don't have to reveal its recipe to anyone.

As you can see confidential data is highly sensitive information for a company. If leaked it can ruin the company itself as it will give the other companies a competitive advantage over you. Therefore, it is very important to protect your Intellectual Property by signing a Non-Disclosure Agreement with the other party which makes it a legally binding and enforceable contract. There are various legal ramifications for the breach of confidentiality agreement as mentioned below:

5. Breach of Non-Disclosure Agreement –

If there is a breach of the terms of the Confidentiality Agreement, the aggrieved party can get the following remedies—

- i. Monetary compensation or damages shall be paid by the party who breached the contract⁴.
- ii. Filing Criminal Suit for misappropriation of Confidential Information⁵.
- iii. Request for granting Temporary or Permanent Injunctions to prohibit the release of Confidential information and not to use for their gain⁶.
- iv. To snatch back any profit made by the accused party by breaching the confidentiality agreement.

Besides the legal ramification that an aggrieved party can file, one of the main reasons a party will be hesitant to breach the confidentiality agreement is that it tarnishes the company's

³ <https://info.vethanlaw.com/blog/trade-secrets-10-of-the-most-famous-examples>

⁴ Sec. (73, 74), Indian Contract Act, 1872.

⁵ Sec. (403,405), Indian Penal Code, 1860.

⁶ Sec. (94, 37(b)), Specific Relief Act, 1963.

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reputation. No company will enter into a business deal with them if they got a wind of that earlier they leaked confidential information to a third party. Companies that deal in bad faith are unlikely to survive the market.

6. Components Non-Disclosure Agreement Consist of?

- i. **Identification of Parties** – It is also known as “parties to the agreement”, the purpose of this section is to identify the people or entities involved in the confidentiality agreement. It uses the names and addresses of the parties to identify them. Relevant parties such as attorneys, accountants, or business partners can also be included in the contract.
- ii. **Ownership of Invention** – The ownership of the intellectual property should be mentioned in the Non-Disclosure Agreement. The party who is receiving the information should clearly accept, that to their best knowledge, the ownership does not belong to anybody other than the disclosing party.
- iii. **Defining Confidential Information** – The general definition of Confidential Information states that “*It includes information which is confidential including Proprietary Information and other information related to the business of the Company, its affiliates or any third parties with which the Company associates, whether or not such information is expressly marked or designated as confidential information*”⁷. This definition is very broad but the scope of the definition has to be tailor-made to suit the requirement of a specific non-disclosure agreement. It is to be noted that what information is confidential should be specified as precisely as possible. The language of the contract should be unambiguous to avoid any legal dispute.
- iv. **Non-Disclosure Provision** – It states that the confidential information that is to be disclosed to the other party should only be disclosed to a specific person or group. It shall also define with whom the receiving party is allowed to share the confidential information. Especially while conducting due diligence or while analyzing the nature

⁷https://www.startupindia.gov.in/content/dam/investindia/Templates/public/Tools_templates/internal_templates/Lets_Venture/CONFIDENTIALITY_IP_ASSIGNMENT_AGREEMENT.pdf, para 1.1.2

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of the party, the other party may need to share some confidential data (like financial data) with its associated representatives, partners or companies. Thus, the 'disclosure' element shall also be clearly specified.

- v. **Obligations** – It is the responsibility of the receiver party not to share confidential information with anyone unless specifically written in the contract itself.
- vi. **Time Period** – The term is an important aspect while drafting a non-disclosure agreement. It should clearly state for how many years the confidential information should be kept a secret from the public eye. Generally, the information disclosed to the receiver party should keep the information secret for as long as the information is confidential but currently, the receiver party wants to fix the term of confidentiality. Therefore, consideration of an appropriate time comes into play. It is generally seen that for business, marketing, and financial information a term period of 3 to 5 years can be acceptable. However, production techniques and manufacturing know-how of a product require a much longer time as these will often have lasting value, in some cases beyond the term of patent protection for the product itself.
- vii. **Return or Destroy Information** – One of the provisions of the non-disclosure agreement may also include returning or destroying the confidential information from the recipient party after the completion of the business transaction for which the agreement was signed. The return of information can be done using electronic devices but that can also lead to the creation of multiple copies. A clause can be drafted which obligates the receiver party to destroy the information after the termination of the confidentiality agreement. If the information is of such nature that it can neither be returned nor destroyed then a clause can be added that can explicitly prohibit the receiver party from accessing the information after the termination. This clause of obligation can be active and enforceable for an indefinite period of time.
- viii. **Remedies** – Remedies state the legal ramifications that are faced by that recipient party if there is a breach of a confidentiality agreement. The disclosing party can

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either monetarily penalize the recipient party or file criminal suits against them. Remedies act as an incentive that makes the recipient party less likely to breach the agreement.

7. Key Provisions to make an ironclad Non-Disclosure Agreement:

1. **Scope** – While drafting the Non-Disclosure Agreement it should be kept in mind that its scope should not be vague and ambiguous. Generally, the receiver party will want to widen the scope of the agreement for their own benefit but it is the responsibility of disclosing party to keep the information as precise as possible. Mentioning vague statements like “All Proprietary information transferred between the two companies shall not be disclosed” will not be enforceable in a court of law. Instead, you have to point out exactly what information is to be kept secret and draft it without using any ambiguous terms. Besides, the non-disclosure agreement must also clearly mention information that is beyond the scope of confidentiality. The information could be a piece of public information, information that is independently produced by the receiver party, or information received from an individual who does not owe the obligation of confidentiality.
2. **Measures to Maintain Confidential Information** – It is obvious that a non-disclosure agreement obligates the receiver party to keep the information confidential but it should also set some regulatory measures that the receiving party should take concerning the confidential information. This can be done either by simply stating that the receiver party should take reasonable efforts to maintain confidentiality or by stating that the receiver party should take the same measures regarding the confidential information as if it was their own. The latter is more subjective in nature than the previous one as it assumes that the receiver party has sufficient measures or follows adequate procedures as they safeguard their own confidential information.
3. **Non-Solicitation Provisions** – If an employee has resigned from a company or started working for a competitor of his previous company, the non-solicitation provisions refrain the employee from soliciting or enticing any business clients using the proprietary information gained from his previous company. This provision is added in the non-disclosure agreements to safeguard the company from losing potential clients. The non-solicitation provisions and agreements are legally

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enforceable in a court of law. Its validity was also upheld by the Delhi High Court in the case *Wipro Ltd v. Beckman International*(2006)⁸ however the restrictions should be reasonable.

4. **Use of Stamp Paper and Notarization** - It is not mandatory to get a non-disclosure agreement printed on stamp paper. However, if you do so then it is easier to enforce it in a court of law. After drafting the agreement on a non-judicial stamp paper you are required to notarize it. "Notarization" is mere authentication of a document that is signed in presence of a notary or any authorized government official. This increases the validity of the non-disclosure agreement so that it cannot be questioned in a court of law.

8. Can Section 27 of the Indian Contract Act affect the validity of the Non-Disclosure Agreement?

Non-Disclosure Agreements are governed under the Indian Contract Act, 1872 and they are legally enforceable. However, the problem starts when we add a post-employment restrictive covenant in the agreement. It can include various things such as:

- a) Non-solicitation provisions.
- b) Prohibition of confidential information.
- c) Prohibiting employees from joining its competitor's business.
- d) Prohibiting misrepresentation as to being in a capacity other than a former employee.

Section 27 of the Indian Contract Act states that any agreement which hampers a person in performing a lawful trade, profession, or business of any kind will be declared void. The only statutory exception to this section is the selling of goodwill⁹. However, confidentiality agreements do not lie in this exception's ambit. While interpreting this provision, Indian courts have often held that restrictive covenants agreements are only valid during the term of employment. According to *Percept D'Mark (India) Ltd v Zaheer Khan* 2006¹⁰, post-employment agreements that restrict the employee's activities are invalid under section 27 of

⁸ 131 (2006) DLT 681.

⁹ <https://blog.ipleaders.in/section-27-of-indian-contract-act-1872/#:~:text=The%20aim%20of%20Section%2027,void%2C%20according%20to%20the%20clause.>

¹⁰ (2006) 4 SCC 227

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the Indian Contract Act 1872. However, there are certain exceptions to this provision. The court of law has recognized that if the post-employment restrictive covenants are done to protect the employer's legitimate business like business connections or intellectual property, the agreement is enforceable and valid. The precedents for the same can be found in *Desiccant Rotors International Private Limited v Bappaditya Sarkar & Another 2009*¹¹ as well as in *Hi Tech Systems and Services Limited v. Suprabhat Ray 2015*¹². Therefore, we can most definitely conclude that post-employment restrictive covenants are **not invalid by section 27** if the employer is protecting the confidentiality of the information.

9. Does this mean that every post-employment restrictive covenant that aims to protect the confidential information of the company is valid?

No, the enforceability or validity of the post-employment restrictive covenant depends upon the restrictions that are imposed on the employee. The restriction must be reasonable in the eyes of the law. Reasonability is quite subjective in nature and it is not defined in any of the statutes let alone the Indian Contract Act 1872. The enforceability and validity of the restrictive covenants vary from case to case. It is up to the Indian courts' intellect to decide whether the restriction is reasonable or not. Here are some precedents where the court held that the restrictions were reasonable in the eyes of the law.

i. Mr. Diljeet Titus, Advocate v. Alfred A Adebare and Ors¹³.

The defendants were former law firm employees who left with confidential information of the plaintiff's clients. They were restricted from using the confidential information they got from their former employer which includes the lists of clients and other information forming the database of the firm. The Delhi High Court found this restriction to be reasonable as this affects the attorney-client privilege between the plaintiff and his clients.

ii. Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber¹⁴.

The plaintiff is a mail order service company and the defendant is a former employee who established himself as his competitor. When the defendant left, he managed to take a

¹¹ (2009) 112 DRJ 13 (Del).

¹² 2015 SCC Cal 1192.

¹³ 130 (2006) DLT 330.

¹⁴ 1995 IVAD Delhi 732.

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copy of the plaintiff's database that comprises the list of clients and their addresses. This database is a piece of confidential information that helps the company while giving service to their customers. The plaintiff enjoined the defendants from using this compilation. The High Court of Delhi upheld this decision and found this restriction reasonable.

iii. **Hi-Tech Systems & Services Ltd. v/s. Suprabhat Ray and Ors. and Fairfest Media Ltd. v/s. ITE Group Plc¹⁵.**

The plaintiff is a manufacturer who sells technologically advanced highly engineered products for process sector industries. The High Court's rule enforced post-contractual obligations of confidentiality for over two years. There were no objections raised by the court in regards to the time period, from which we can assume that such a time frame may be construed to be reasonable.

10. Conclusion

In sum and substance, we can most definitely assure that Intellectual Property Rights are the most valuable asset of a successful company. That is why it is very important to protect it with the help of a non-disclosure agreement. If we want to have a thriving business and a prosperous career, we need to keep the information confidential that helps us get an extra competitive edge over our competitors. When we are talking about business it hardly holds any importance whether you trust the other party with whom you disclose a trade secret. If drafted inaccurately, the non-disclosure agreement can be the reason for the doom of a company. Hence, it is very important to draft an ironclad non-disclosure agreement that cannot come under section 27 of the Indian Contract Act 1872. On the other hand, a non-disclosure agreement that is drafted carefully will become a hidden gem that can lead to your ultimate achievement.

¹⁵ AIR 2015 Cal 261

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