

Protecting the Food or Agriculture Operation: Non-Disclosure Agreements

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I. OVERVIEW

A. Types of NDAs

1. **Mutual or Bilateral** – Where both parties will be supplying information that is intended to remain secret.
2. **One-sided or Unilateral** – Where one party wants to disclose information to another party and needs that information to remain secret.

B. How NDAs Are Used

1. **Between Potential Business Contacts** – This is the most common time when NDAs are used. When parties are considering doing business together, a NDA should be used to protect confidential information.
2. **Between Business Contacts** – Oftentimes in this case, a NDA has already been signed and a confidentiality clause is inserted into the contract making reference to the NDA; however, if a NDA has not yet been signed then this is another opportunity to sign a NDA.
3. **Between Employer and Employee/Independent Contractor** – If there isn't a confidentiality clause in the employee or independent contractor agreement, then a separate NDA could be signed.

II. ANATOMY OF A NDA

A. Who Will Be Exchanging Information?

1. The NDA should use the parties' legal name, address, and state of incorporation (if applicable).
2. If doing business with another corporation, it may be prudent to ask the other party for a Certificate of Good Standing from the Department of State.

B. What Is the Purpose of the Exchange of Confidential Information?

1. The purpose of the NDA should be properly identified to help narrow what information is considered confidential.
2. The NDA should state that usage of the confidential information should be limited to this purpose.
3. **Example of Purpose Clause:**

- i. Option 1:

The Receiving Party has shown interest in the [farm/agri-business/food business] processes of the Disclosing Party, and in the Disclosing Party's **ability to utilize these processes to meet the commercial needs** of the Receiving Party (the "Purpose").

- ii. Option 2:

WHEREAS, [Farm/Agri-Business Client] and Company wish to exchange information of a proprietary and confidential nature relating to the business of [Farm/Agri-Business Client] and **Company's current and future products and product plans** (collectively the "Confidential Information") for the **purpose of determining the usefulness** of the [Farm/Agri-Business Client] products to Company (the "Purpose").

4. Depending on the purpose of the NDA, it should state that there is no obligation to enter into the business relationship which they are exploring.

- i. Example Clause:

Mutual Obligations. Neither Party shall assign this Agreement without the prior written permission of the other Party. **Neither Party shall have the obligation to purchase from or furnish** to the other Party any products or services under this Agreement.

C. What Type of Information Is Considered to Be Confidential?

1. **Identification of Confidential Information**

- i. The definition of what is considered confidential information should be carefully considered to ensure that it properly includes every disclosure.
 - ii. The types of information that might be considered confidential may include ideas, concepts, know-how, trade secrets, intellectual property, business plans and financial information.
 - iii. Disclosures may be or written or oral, so be sure that the NDA addresses that confidential information may be identified in either form.

2. **Examples of Clauses:**

- i. Option 1:

Confidential Information. For the purposes of this Agreement, Confidential Information shall mean any information communicated, whether written or verbal, disclosed by the disclosing party, its affiliates, employees or agents (the “Disclosing Party”) to the other Party, its affiliates, employees or agents (the “Receiving Party”), pertaining to or regarding the services or business or business plans, financial condition, sales, research, strategies, products, developments, methodologies, techniques, processes, plans, customers, distributors, suppliers, properties,

operations, prospect lists, trade secrets, proposed trade names, know-how, ideas, concepts, designs, drawings, flow charts, diagrams and other intellectual property relating to the Purpose furnished and identified as being confidential by the Disclosing Party to the Receiving Party. Disclosing Party shall identify Confidential Information verbally when in discussion and in written form when exchanging documents.

ii. Option 2:

For purposes of this Agreement, “**Confidential Information**” means nonpublic ideas, discoveries, designs, trade secrets, technology, product information, specifications, software, business and marketing plans, business methods, cost information, forecasts, customer information, supplier information and other business information of or relating to the Disclosing Party and shall include all notes, analyses, compilations, studies, or other material prepared by the Receiving Party.

3. **Exceptions (or “Carve-Outs”) to Confidential Information**

i. Typical Exceptions to Confidentiality Include:

- a. If the information is known prior to the date of disclosure;
- b. If the information is in the public domain;
- c. If the information was lawfully communicated to the recipient by a third-party;
- d. If the information was developed independently by employees;
- e. If information was disclosed pursuant to a written release by the disclosing party; and
- f. If information is required to be disclosed by law, such as a court order or subpoena.

ii. Example Clause for Carve-Outs

- a. *When Receiving Party Has No Obligations of Confidentiality.* Notwithstanding the foregoing, the Disclosing Party agrees that the Receiving Party shall have no obligations for the non-use or concealment of

Confidential Information when said Confidential Information:

(i) was **known by the Receiving Party** free of any obligation of confidence prior to the date of such disclosure as evidenced by the Receiving Party's written records and Receiving Party promptly notifies Disclosing Party in writing identifying said written records;

(ii) was in the **public domain**, and reasonably known to have been public, prior to the time that it was received;

(iii) becomes **reasonably known to the public** subsequent to the date it was received not through an act or failure to act on the part of the Receiving Party;

(iv) was **rightfully communicated** by a third party to the Receiving Party having a bona fide right to disclose Confidential Information subsequent to the time of the Disclosing Party's written or verbal communication to the Receiving Party;

(v) was **developed by employees** or agents of a Party independently of and without reference to any Confidential Information or other information that the Disclosing Party has communicated in confidence to the Receiving Party;

(vi) is **approved for release** by written authorization from the Disclosing Party; or,

(vii) is disclosed pursuant to an **order of any court** having proper jurisdiction or as required by any agency of government having proper jurisdiction, under its applicable laws and regulations and Receiving Party gives Disclosing Party written advance notice of any disclosure or planned disclosure in order to permit Disclosing Party to make objections to the disclosure.

D. How Will the Confidential Information Be Used and by Whom?

1. Permitted Parties

- i. Who may or may not be privy to any disclosed confidential information should be clearly identified in the NDA.
- ii. Example Provision:

Upon receiving Confidential Information from the Disclosing Party, the Recipient shall limit its use of the Disclosing Party's Confidential Information to the Permitted Purpose, and permit the Disclosing Party's Confidential Information to be viewed and used only by Permitted Parties for Permitted Purposes.

a. **“Permitted Parties”** means:

- (i) those of Recipient's **employees and consultants**;
 - (A) who are **directly involved** in the Recipient's use of the Disclosing Party's Confidential Information;
 - (B) who have **been advised** of the Recipient's obligations of confidence in respect of the Disclosing Party's Confidential Information; and
 - (C) who have **agreed in writing** to honor personally those obligations of confidence.
- (ii) the Recipient's **professional advisors** who have by their profession a duty of confidence, or who agree in writing to hold the Confidential Information in confidence.

iii. Relationship of the Parties

a. The NDA should note the relationship between the parties, meaning it should likely state that the parties are not in a joint venture, agency, or relationship.

b. *Example Clause:*

No Joint Venture. The Parties have no intent whatsoever to create a joint venture, partnership or other formal business association. The Parties are not part of, and expressly disclaim the existence of, any enterprise, trade or venture over which they share mutual ownership, control or profit, or otherwise derive a common benefit. Neither Party has the right or responsibility to assume or create any debts or obligations, express or implied, on behalf of or in the name of the other party, or to bind the other party in any manner whatsoever. Neither Party will claim the existence of any such joint venture, partnership, or other formal business association as a result of this Agreement.

2. **Permitted Uses**

i. The NDA should state the permitted use to ensure confidential information is limited to this use.

ii. It is important that the obligation to not disclose the confidential information be an affirmative one.

iii. Example Clauses:

a. *Option 1:*

The Parties agree to hold each other's Confidential Information in trust and not to make each other's Confidential Information available in any form to any third party or to use each other's Confidential Information for

any purpose, **other than in connection with the performance of this Agreement.**

b. *Option 2:*

Upon receiving Confidential Information from the Disclosing Party, the Recipient shall limit its use of the Disclosing Party's Confidential Information to the **Permitted Purpose.**

c. *Option 3:*

Obligations of the Receiving Party. Except as set forth hereto, Receiving Party agrees that it shall:

(i) not publish, copy, or disclose any Confidential Information other to disclose said Confidential Information to third parties **except the Receiving Party's employees and independent contractors that need to know in order to use and/or evaluate** the Confidential Information for the Purpose and are bound by a written agreement with the Receiving Party not to disclose any Confidential Information that comes into their possession through their employment or independent contractor agreement.

E. How Will the Secrecy of the Confidential Information Be Maintained?

1. The parties to the NDA should take reasonable safeguards to protect the confidential information.
2. The other party should be promptly notified in writing if there has been a breach of confidentiality.

i. Examples of Security Clauses:

a. *Option 1:*

Each Party shall ensure that the other Party's Confidential Information is not disclosed or distributed by its employees or agents in breach of this Agreement.

b. *Option 2:*

Obligations of the Receiving Party. Except as set forth hereto, Receiving Party agrees that it shall:

- (i) limit its use of the Confidential Information to the Purpose unless it obtains the prior written consent of the other Party to any other use; and,
- (ii) take all steps reasonably necessary to prevent the disclosure of Confidential Information to third parties for the Time Period defined in Paragraph X, but in any event exercising not less than the **level of care exercised to safeguard its own confidential information or the standard in the community.**

3. **Notification of Breach of Security**

i. Receiving Party should disclose any breach of security to Disclosing Party.

ii. Examples of Notification Clauses:

a. *Option 1:*

The Recipient shall notify the Disclosing Party immediately upon discovery of any loss, unauthorized disclosure or use of the Disclosing Party's confidential information attributable to the Recipient.

b. *Option 2:*

The Recipient shall notify the Disclosing Party promptly upon the discovery that any of the Disclosing Party's Confidential Information has been, or is reasonably believed to have been, or there is a reasonable likelihood that it will be accessed or otherwise acquired by an unauthorized person and there is a reasonable risk that such information has been or will be misused.

“**Promptness**” for the notification shall depend on the nature of the loss or unauthorized access and the nature of the information lost or accessed as well as the severity of the loss or harm that the Disclosing Party could suffer as a result of such a loss or misuse.

F. How Long Will the Confidentiality of the Information Be Maintained?

1. A typical term for NDAs in the business community is three to five years.
2. Some NDAs measure this term from the date of disclosure of the confidential information rather than the date the NDA was signed.
3. **Example Term Clause** – The Parties agree to hold each other's Confidential Information in the strictest confidence during the term and for a period of three (3) years after the Effective Date of this Agreement (the “Term”).
4. **Procedure Upon Termination**
 - i. The NDA should discuss how information should be treated at the end of the term of the NDA, including details about how information should be returned or destroyed and whether Receiving Party may keep a copy of all written materials.
 - ii. Example Termination Clause:

At the written request of the Disclosing Party, the Receiving Party shall return all Confidential Information, except for a single copy

thereof which may be retained for the sole purpose of determining the scope of the obligations of the Receiving Party.

G. Who Has Ownership of the Confidential Information?

1. It is paramount that the NDA state that the Disclosing Party retains ownership of the Confidential Information

- i. Example Ownership Clause:

Rights of the Disclosing Party. Disclosing Party shall retain title to all forms of its Confidential Information, including but not limited to, written documentation disclosed for the Purpose of this Agreement and all copies thereof. It is understood that the Disclosing Party has not construed to grant or to convey to the Receiving Party, expressly or impliedly, any right or license or any other right under any copyrights, patents or patent applications or any other proprietary right of the Disclosing Party of the Confidential Information.

2. **Feedback Exception**

- i. In a bilateral NDA where the Receiving Party offers suggestions to improve the value of the confidential information, the NDA should state whether the Disclosing Party can freely use that information or whether the feedback is confidential.

- ii. Example Feedback Clause:

Confidential Information shall not include information that constitutes Feedback, where “**Feedback**” is defined as suggestions, comments, or other feedback to the Disclosing Party with respect to Confidential Information provided originally by the Disclosing Party. It is acknowledged that the Recipient may from time to time provide Feedback, and it is agreed that all Feedback is provided entirely voluntarily. Feedback, even if designated as confidential by the Party offering the Feedback, shall not, absent a separate written agreement, create any confidentiality obligation for the recipient of the Feedback. Subject to any separate agreement

between the Parties, the recipient of Feedback shall be free to use, disclose, reproduce, license or otherwise distribute, and exploit the Feedback as it sees fit, entirely without obligation or restriction of any kind on account of intellectual property rights or otherwise.

H. What Are the Consequences of a Breach of Misuse of the Confidential Information?

1. How Dispute Will Be Settled

- i. The NDA should address how a dispute will be settled, including which state's laws will apply and whether attorneys' fees and costs can be recovered by the prevailing party.
- ii. The NDA should memorialize any preference towards Alternative Dispute Resolution ("ADR") including mediation or arbitration.
- iii. If the parties wish to litigate a dispute or emergency, the NDA should identify which state's courts may be used.

I. What Miscellaneous Clauses Should Be Included in the NDA?

1. Prohibition of Assignment

2. **Waiver Clause** – “Any waiver by the non-breaching party of breach of this Agreement does not waive any right to enforce a subsequent breach.”

3. **Severability Clause** – If court holds one clause invalid, the remaining NDA remains valid.

4. **Integration Clause** – Is this the “Entire Agreement” and it supersedes all prior agreements?

- i. Entire Agreement. This Agreement constitutes the entire agreement between the Parties and shall only be modified in writing by the Parties. This Agreement supersedes all prior agreements, written or oral, between the Parties relating to Confidential Information for the Purpose of this Agreement. This

Agreement shall be binding upon the Parties, their respective successors and assigns.

5. **Execution Clause** – “A scanned or faxed copy of this Agreement shall be deemed to be an original. The Parties may execute this Agreement in counterparts.”
6. **Residual Memory Clause** – Gives the Receiving Party the right to use any Confidential Information retained in the unaided memories of their employees who had access to the information. This doesn’t apply in most cases.
7. **Obligation to Provide Complete and/or Accurate Information**
 - i. The NDA should impose an obligation to disclose complete and/or accurate information, although most parties will resist a warranty of completeness or accuracy, especially if trade secrets are involved.
 - ii. Example Clause:
 - (i) The Disclosing Party shall provide the Recipient with **all information in the possession** of the Disclosing Party reasonably necessary for the Recipient to assess the merits of the Purpose of the Agreement.
 - (ii) The Disclosing Party warrants that the information disclosed to the Recipient **will be accurate**.
8. **Non-Compete Clause** – Only relevant if it is an employment NDA
 - i. Must be reasonable in time, scope, and geography
9. **Indemnification Clause** – Disclosing Party should indemnify for any breach or threatened breach of the NDA.
 - i. Rarely used in NDAs but may be appropriate in some situations

III. MAINTAINING RECORDS

A. Scanned Copies

1. Keep all scanned copies of NDAs in a “NDA File.”

B. Excel Spreadsheet

1. Link to electronic scan of NDA with excel spreadsheet.
2. Put into your calendar deadlines of when NDAs expire.
3. Information to include on spreadsheet:
 - i. Parties/Contact information
 - ii. Purpose of NDA
 - iii. Effective date
 - iv. Term/Expiration date
 - v. Material terms
 - vi. Duty to identify confidential information
 - vii. Employees/independent contractors who have been privy to the confidential information
 - viii. Duty to return confidential information
 - ix. Choice of law
 - x. Dispute resolution
 - xi. Special notes

IV. USE OF NDAs IN THE FOOD INDUSTRY

A. Patent v. Trade Secrets

1. Typically, it is difficult to patent a recipe because it fails on two parts: (1) novelty and (2) obviousness.
 - i. Novelty – To patent a recipe, it must be totally unique, which is difficult in the food business because almost every recipe has ingredients and processes that are already known and used, therefore there is nothing unique about it.

- ii. Obviousness – In order to get a patent, such as a utility patent, the process must yield a final product that is unexpected in some way, which is generally not the case in recipes because mixing ingredients together will usually result in a known final product.
 - a. If the mixing of the ingredients resulted in something unexpected through a process that was unknown, that would only allow the process to be patented and not the recipe as a whole.
- 2. Since most recipes are variations of previous recipes that are generally known, and the recipe is unlikely to result in an unexpected food product, the best way to protect the recipe is through trade secrets.
 - i. A *trade secret*, however, is something not generally known that gives the business more advantage over competitors.

B. Recipes (Usually) Cannot be Copyrighted

- 1. **What Can Be Copyrighted** – To understand whether a recipe may be entitled to copyright protection, one must first look at what can be copyrighted.
 - i. Under the U.S. Copyright Act, 17 U.S.C. § 102, copyright applies only to “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”
 - ii. Under the statute, these original “works of authorship” include the following categories:
 - a. literary works;
 - b. musical works, including any accompanying words;
 - c. dramatic works, including any accompanying music;
 - d. pantomimes and choreographic works;
 - e. pictorial, graphic, and sculptural works;
 - f. motion pictures and other audiovisual works;
 - g. sound recordings; and

h. architectural works.

2. **Difficulty in Copyrighting Recipes**

- i. Courts and the U.S. Copyright Office have historically held that recipes that do not receive copyright protection because it fits under this exception.
- ii. Simply put, recipes are lists of ingredients accompanied by a set of instructions as to how to mix and prepare the ingredients together. Listing ingredients does not qualify for copyright protection because only original works of authorship (see list above) are entitled to copyright protection.
- iii. However, as in a cookbook, descriptions, explanations, or written materials accompanying a list of ingredients and composing the entire “recipe” may make the recipe as a whole protectable. Thus, the facts surrounding the recipe are important to consider.
- iv. To be protectable by copyright, authors of recipes should put efforts towards making sure the recipe is original. By that sense, chefs should make sure that the language they use is unique, the descriptions are specific, and they may want to include other material alongside the recipe such as how to serve it, techniques for preparation, what sides or wine complement the entry, etc. These add to the creative aspect of the work, which may make it more original, and thus will aid in making a case for why a recipe should be copyright protected. It is more difficult to copyright one recipe vs. a collection of work (i.e., a cookbook).
- v. On a final note, it is important to know that pictures or graphics accompanying the recipe are copyright protectable.

C. Types of Information Considered Confidential in NDA

1. Recipes

2. Ingredient lists
3. Cooking procedures
4. Recipes in development
5. Financial information
6. Customer lists
7. Vendor lists

D. Issues Arising in the Food Business

1. Restaurants

- i. The restaurant and chef world is usually one that is supposed to be open to each other where chefs use each other for inspiration, so if restaurants and chefs started having NDAs where confidential information about recipes and cooking techniques could not be shared, it would change the way they work.
- ii. Restaurants often hire chefs who are then responsible for working with the recipes of the restaurant and changing/improving them, so if the feedback from the chef becomes confidential information of the restaurant rather than belonging to the chef it might discourage chefs from joining restaurants if they are required to sign a NDA.

2. Results in Court

- i. Trade secret protection by courts has had results on both sides when an NDA was not involved.
- ii. Not Generally Known. This is usually the element that Disclosing Parties have difficulty proving in court.
 - a. If the court finds that the ingredients are not unique enough then they might be considered to exist in the public domain and would not be considered a trade secret.

- iii. Having employees sign NDAs would go further in protecting recipes as trade secrets because the recipes and all other information involved in your food business would be considered Confidential Information.
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