
Enforceability of Non-Disclosure Agreements Covering Information That Is Not a Trade Secret

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Non-disclosure agreements are the first line of defense for a licensor of intellectual property. A recent decision in the Seventh Circuit, *IDX Systems Corporation v. Epic Systems Corporation, University of Wisconsin Medical Foundation*, Mitchell Quade and Michael Rosencrance, 285 F.3d 581 (April 1, 2002) reaffirmed the enforceability of such agreements after a lower court attempted to limit their scope by drawing analogies to employee non-competition agreements. In the IDX case, Judge Easterbrook, reversing a district court ruling under Wisconsin law, held that a confidentiality agreement between a software provider (IDX) and its customer (the University of Wisconsin Medical Foundation) was valid, regardless of the lack of trade secrets in the disclosed information and regardless of the lack of time and place restrictions.

In the contract between IDX and the University of Wisconsin Medical Foundation (UWMF), UWMF agreed not to permit the medical practice management software and related materials provided by IDX to be “examined ... for the purpose of creating another system” and not to “use or disclose or divulge to others any data or information relating to” IDX’s product or “the technology, ideas, concepts, know-how and techniques embodied therein.” Two employees of UWMF were former employees of Epic Systems Corporation (Epic), a provider of software that competes with IDX’s software. The employees allegedly provided information relating to IDX’s software to Epic during the competitive bid process, which Epic subsequently won after allegedly making changes to its software based on such information. An anonymous source at Epic reported the alleged disclosures to IDX. IDX subsequently filed suit, charging UWMF and the employees with theft of trade secrets and breach of contractual promises of confidentiality, and charging Epic with tortiously inducing those actions, among other charges.

On July 31, 2001, the U.S. District Court (Western District of Wisconsin) held that IDX had not properly established the existence of any trade secrets in the information disclosed to UWMF. The district court went on to hold that confidentiality agreements which protect information that is not a trade secret are “suspect and must incorporate [geographic or temporal limitations]” similar to those required for non-competition agreements between employers and employees under Wisconsin law.

The Seventh Circuit reversed the district court on several key points. While decided on matters of Wisconsin law, the concepts are generalizable and should be influential in similar cases elsewhere in the United States. The Seventh Circuit agreed with the district court that IDX had not identified its “trade secrets” with sufficient specificity to establish that such trade secrets were among the information disclosed by IDX to UWMF. However, the Seventh Circuit recognized that because “it is hard to prove that particular information qualifies as a trade secret, many producers of intellectual property negotiate with their customers for additional protection.”

The Seventh Circuit rejected the district court’s application of rules applicable to restrictive covenants limiting competition between employers and former employees because “[r]ules limiting the extent of non-compete clauses are based on the fact that they tie up human capital and, if widely adopted, may have the practical effect of preventing horizontal competition.” In contrast, the contract “between IDX and [UWMF] are vertical in nature and protect intellectual property without affecting competition.” The court also found that “Wisconsin allows a much greater scope of restraint in contracts between vendor and vendee than between employer and employee.”

Judge Easterbrook went on to say that “[i]t is impossible to understand how a non-disclosure agreement could place ‘geographical’ limits on the dissemination of intellectual property...”

The Seventh Circuit’s decision reaffirms the general enforceability of non-disclosure agreements, regardless of whether the protected information constitutes a trade secret. To hold otherwise would threaten a fundamental protection used by all licensors when disclosing intellectual property to third parties.

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