CONFIDENTIALITY IN PRE-CONTRACTUAL NEGOTIATIONS

I. INTRODUCTION

1. Often, when businesses negotiate, one party may reveal confidential information to the other party in the absence of any safeguards. This puts the disclosing party at considerable risk because much time and effort may have been spent in researching and/or developing the information. There is also the added dimension where disclosure of the information may adversely impact other rights (such as destroying the novelty of a prospective patent).

2. To this end, prior to the revealing of such information, parties may sometimes enter into a non-disclosure agreement to safeguard the confidentiality of such information. This article explores the issue of confidentiality in pre-contractual negotiations. It first analyses the recent Singapore High Court decision of *Rohm and Haas Electronic Materials CMP Holdings, Inc. v NexPlanar Corp*[1] ("**NexPlanar**") before discussing some issues relating to confidentiality and non-disclosure agreements.

II. THE DECISION IN *NEXPLANAR*

3. In *NexPlanar*, the plaintiff sued the defendant for infringement of a patent owned by the plaintiff. The defendant counterclaimed, alleging amongst other reasons, that the patent was invalid due to a lack of novelty. The reason why the defendant argued that the patent was not novel was due to the fact that the patent was anticipated by a prior use and sale of a similar invention to one Intel Corporation ("**Intel**") before the patent's priority date ("**Prior Disclosure**").

4. The Plaintiff argued:

   (a) Firstly, that Intel owed it an express obligation of confidence that arose from three confidentiality agreements that parties had allegedly entered into.

   (b) Secondly, in the alternative, Intel owed the Plaintiff an implied obligation of confidence due to the relationship between both parties at the time of the Prior Disclosure.

[1] [2017] SGHC 310

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5. With respect to the three confidentiality agreements, the difficulty in the Plaintiff's case is that the Plaintiff was unable to produce two of the three confidentiality agreements. In addition, the third confidentiality agreement post-dated the Prior Disclosure. Due to this, the High Court was "*unable to recognise the existence of any express confidentiality undertaking or agreement providing for an obligation of confidence*"[2].

6. As for the Plaintiff's arguments on the implied obligation of confidence, the High Court found that "*information of commercial or industrial value was indeed being given on a business-like basis and with a common object in mind*" [3]. The High Court applied the seminal case of *Coco v AN Clark (Engineers) Limited*[4] in reaching the following conclusions:

   (a) The nature of the information, including the fact that the invention was still at an experimental stage, suggests that the same possessed a necessary quality of confidence.

   (b) The circumstances in which the information was imparted, including the fact that the invention was stored in research facilities off-limits to outsiders, imported an obligation of confidence.

7. In this regard, "*a reasonable man standing in Intel's shoes would have realised that the information was being given to him in confidence, much more Intel itself, which both sides described as being 'paranoid' about preserving confidential information*"[5]. This pointed towards the existence of an implied obligation of confidence.[6] As such, the patent in issue was not anticipated by the Prior Disclosure.

III. CONFIDENTIALITY AND NON-DISCLOSURE AGREEMENTS

8. An immediate lesson to be learned from the *NexPlanar* case is the importance of entering into a confidentiality agreement. If the Plaintiff in *NexPlanar* had managed to adduce such evidence, it would have obviated the need to rely on an implied obligation of confidentiality (which in itself is an uncertain course of action). Indeed, it is possible that an implied obligation of confidentiality may not be found to exist, as demonstrated in the following cases:

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[2] *NexPlanar* at [78]
[3] *NexPlanar* at [82]
[4] [1968] FSR 415
[5] *NexPlanar* at [85]
[6] *NexPlanar* at [85]

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(a) In *Aga Medical Corporation v Occlutech (UK) Ltd* [7], prior disclosure of a patented medical device did not attract an obligation of confidence as the disclosure was not on a business-like basis with a common commercial object in mind. No confidentiality agreement was entered into.

(b) Similarly, in *Thoratec Europe Limited v AIS GmbH Aachen Innovative Solutions*[8], no confidentiality agreement had been entered into and a medical device was aggressively marketed and demonstrated at conferences before the priority date. As such, no confidentiality surrounded the disclosure of the medical devices.

(c) In *Carflow Products (UK) Limited v Linwood Securities (Birmingham) Limited* [9], the disclosing party showed a prototype of the invention during discussions over possible manufacture and sale without entering into any express confidentiality agreement. The English High Court did not impose an obligation of confidence, reasoning that would-be manufacturers are often shown prototypes and to put them under obligations of confidence may have a chilling effect on them being willing to look at such prototypes.

9. A confidentiality agreement would potentially have saved the disclosing party in the above cases and the value of the same can be seen in the case of *Breakthrough Funding Limited v Nearby Media Limited*[10] ("**Breakthrough**"). The plaintiff was in the business of running a UK beer pong competition under the name "britpong" and entered into confidentiality agreements with some of the defendants where detailed business plans were disclosed to the defendants so as to try and obtain funding. The parties did not reach an agreement and the defendants went on to organise their own beer pong competition using some of the information they had obtained. There were numerous claims made against the defendants, but as regards the non-disclosure agreements, the Judge held:

> that [the defendants] both made use of the documents supplied to them in confidence for the purposes of creating and establishing their own Bar Pong UK competing business, contrary to the terms of the

[7] [2015] RPC 12
[8] [2016] EWHC 2637 (Pat)
[9] [1996] FSR 424
[10] [2017] EWHC 2271 (Ch)

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non-disclosure agreements. There is accordingly a breach of contract by both Defendants in that regard.[11]

10. The value of a confidentiality agreement would lie in the fact that it would save the disclosing party resources and time trying to prove and establish the existence an obligation of confidentiality.

11. One commonly used confidentiality agreement used during pre-contractual negotiations is a non-disclosure agreement, which essentially obliges the party receiving confidential information to refrain from disclosing the said information. Other methods can also include confidentiality clauses in employment contracts to restrict employees from making use of confidential information.

12. Confidentiality is important not least because it has value in itself, but also because it may impact other intellectual property rights (in particular, patents and/or industrial designs because both these forms of intellectual property require novelty in order to be registrable), steps should be taken to try and seek registration as soon as possible. Whilst Singapore law provides for a grace period against disclosures[12], the same cannot be said of other countries. In any event, it would not be an optimal solution to try and rely and establish on such exceptions where the evidential burden may be fraught with difficulties.

IV. CONCLUSION

13. In today's digital age, where the generation and dissemination of information is arguably easier than ever, it is important for business to take steps to safeguard their confidential information. This article has sought to highlight the importance of confidentiality and the ways in which confidentiality can be maintained.

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[11] *Breakthrough* at [53]
[12] See section 14 of the Patents Act and sections 8, 8A and 8B of the Registered Designs Act

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