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IP of the Poisonous Tree: NDA Breach can Result in Surrender of Patent Rights

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In *SiOnyx LLC v. Hamamatsu Photonics KK*, Fed. Cir., No. 19-2359 (2020), the Court of Appeals of the Federal Circuit (CAFC) upheld a district court decision finding breach of a non-disclosure agreement (NDA) and transferring ownership of several U.S. patents from manufacturer Hamamatsu to SiOnyx.

The patents in question involved a new class of “black silicon” materials that originated as part of a Harvard-based research program. The inventors filed several patent applications on the technology and formed SiOnyx to commercialize the materials. SiOnyx then entered into a two-way NDA with Hamamatsu that covered any confidential information exchanged by the parties and preserved the right of the disclosing party to claim any IP “in, or arising from” the shared confidential information.

Following termination of the agreement, and within the seven year non-disclosure period outlined in the NDA, Hamamatsu used SiOnyx’s confidential information to generate products incorporating the black silicon technology and to apply for related patents in Japan and the U.S.

SiOnyx filed suit alleging breach of the NDA and requesting sole ownership of Hamamatsu’s patents obtained with SiOnyx’s confidential information. The district court agreed and awarded SiOnyx sole ownership of the U.S. patents, but declined to award ownership of the Japanese patents out of uncertainty of the court’s jurisdiction over the foreign patents.

On appeal, Hamamatsu asserted that it was equally entitled to ownership under the NDA because the patents also “arose from” its own confidential information. The CAFC noted that “while conception is the touchstone of inventorship, ownership operates based on contract” and the NDA granted ownership of the patents to the party disclosing the confidential information. Hamamatsu provided no evidence that they contributed “confidential information” sufficient to award co-ownership under the agreement.

The CAFC also held that the invention in the Japanese patents was the same as that disclosed in the U.S., and there was nothing extraordinary about assigning ownership to SiOnyx because it “is an exercise of the court’s authority over the party, not the foreign patent office.”

Practice Note

Both parties to NDA agreements should be acutely aware of their duties of non-disclosure and the implications on any later acquired IP rights subject to the terms of the NDA. In addition to other damages, clauses that grant a disclosing party rights in IP can lead to surrender of IP rights, even in international jurisdictions.

As a corollary, parties disclosing confidential information should also negotiate for protection of any potential IP, monitor compliance, and consider ownership assignment as a remedy to breach.