

Knobbe Practice Webinar  
Series: Strategic  
Considerations for Non-  
Disclosure Agreements

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# Overview of NDAs – When and How Do Use an NDA

# Overview of NDAs

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## Offensive Uses

- Preserve trade secrets
- Establish contract protection for inventors with pending applications
- Protect information from theft/use by former employees
- Clarify confidential nature of negotiations/offers

## Breach of NDA

- Beware of provisions limiting what is treated as confidential information (e.g., independently developed)
- Need to prove breach and resulting injury (irreparable harm?)
- State law issue – variances could result from state-to-state
  - Breach could result in trade secret misappropriation, copyright infringement (access), or unfair competition claims
  - NDA must be reasonable to be enforceable
  - All valid contracts, including NDA, require consideration
  - May need to show information is confidential or valuable

## Defensive Uses

- Establish clear boundaries of incoming information
- Preserve potential rights in patentable inventions
- Confirm allowed uses of incoming information
- Limit time window for non-use of shared information

## Dealing with Unsolicited Ideas

- Develop a company philosophy
  - Don't accept – or –
  - Accept but without confidentiality obligations
- Communicate Terms and Conditions under either philosophy.
  - No obligation of confidentiality, to review, respond...
  - Consider signed agreement under "Accept" philosophy
- Document internal developments (e.g., notebooks/provisionals).

# Key Terms in NDAs

## Key Terms in NDAs

- Defining the Scope
- Information Flow
- Ownership of IP
- Duration
- Granted Licenses
- Residuals and Feedback
- Relationship to Other Agreements
- Breach
- Exceptions to Confidentiality Obligations
- Assignment
- Third Party Access
- No Formation of Partnerships
- Prohibitions Against Poaching

# Definition of Scope

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## Key Considerations

- Definitions of Confidential Material and Purposes for which it can be used
- Will impact all the other terms and conditions of an NDA
- Broad, general definition of scope will provide the most protection for disclosing party
- Overly broad definition of scope could create potential issues for receiving party
  - Increased management of received data
  - Increased potential for disputes for tangential data
  - Increased scope of granted licenses and residuals

## Strategic Decisions

- Is the information flow bi-lateral or unilateral?
- Will the NDA cover a specific project that is well defined or intended to cover future, undefined projects?
- Will the parties engage in additional contracts for future projects?

# Definition of Scope - Example

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## Example – Broad (Confidential Information)

- For purposes of this Agreement, "Confidential Information" is any and all information concerning the business of a Party and such Party's customers, including without limitation, any and all current and future technical operational or financial information, marketing or business plans, unpublished financial information or business results, forecasts, customer names, customer addresses, and related customer data, vendor names and information, employee names and information, contracts, practices, services and support, procedures, trade secrets, and other business information including, but not limited to, technical data, know-how, software, reports, methods, strategies, plans, documents, drawings, designs, tools, models, inventions, patent disclosures, and requests for proposals that may be disclosed between the Parties whether in written, oral, electronic, website-based, or other form which is designated as Confidential Information by each Party disclosing such Confidential Information ("Discloser") whether verbally, in writing by letter or by the use of an appropriate proprietary and/or confidential stamp or legend, prior to or at the time any such confidential information is disclosed by Discloser to the other Party ("Recipient"). Notwithstanding the foregoing, information which is orally or visually disclosed to Recipient by Discloser, or is disclosed in writing without an appropriate letter, proprietary stamp or legend, shall constitute Confidential Information if it would be apparent to a reasonable person that such information is of a confidential or proprietary nature. This Agreement shall apply to all Confidential Information disclosed between the parties.

# Definition of Scope - Example

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## Example – Broad (Purpose)

- Recipient will use the Confidential Information only for the purpose of and in connection with the Parties' business relationship and not for its own benefit or the benefit of another without the prior written consent of Discloser. Recipient shall hold in confidence, and shall not disclose (or permit or allow its personnel to disclose) to any person outside its organization (except as provided below), any Confidential Information. Recipient shall protect the Confidential Information using the same degree of care it uses to protect the confidentiality of its own information of like kind (but in no event less than a reasonable degree of care). Without limitation of the foregoing, Recipient shall not cause or permit reverse engineering, decompilation or disassembly of any Confidential Information. Recipient shall disclose Confidential Information received by it under this Agreement only to (i) persons within Recipient's organization and (ii) agents of Recipient who have a need to know such Confidential Information in the course of the performance of their duties and who are bound by a written agreement or legal obligation, enforceable by Discloser, to protect the confidentiality of such Confidential Information. Recipient shall adopt and maintain programs and procedures, which are reasonably calculated to protect the confidentiality of Confidential Information and shall be responsible to Discloser for any disclosure or misuse of Confidential Information by Recipient's employees or agents. Recipient will promptly report to Discloser any actual or suspected violation of the terms of this Agreement and will take all reasonable further steps requested by Discloser to prevent, control, or remedy any such violation.



# Information Flow

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## Key Considerations

- Unilateral/one directional vs mutual/bi-directional obligations
  - One direction: restricts only the disclosing party; does not protect the confidential information of the other party that may be disclosed later; does not protect nonbusiness information (such as deal terms or deal process) that both parties will likely want to keep confidential
  - Mutual: protects confidential information of both parties; protects nonbusiness information about the actual deal; provides a more balanced form that typically results in a faster review and signing process; imposes restrictions on both parties to the transaction, regardless of which party has more leverage in the deal
  - NOTE: Courts may decide to not enforce unconscionable agreements, including NDA/confidentiality agreements

## Strategic Decisions

- For unilateral disclosure, when should recipient accept information?
- Will recipient have any need to disclose information?
- If mutual disclosure is required, will the exchange of information be equal?

# Information Flow

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## Key Considerations

- Most trade secret/breach issues result in a battle of circumstantial evidence. Most compelling evidence relates to:
  - Documentation of disclosure
  - Maintenance of disclosed information
  - Documentation of access/use of disclosed information
- Documentation practices closely aligned with definition of Confidential Information and Scope
  - May require business practices to label disclosure materials
  - May require confirmation emails for oral disclosures
- Best practice to define return/destruction of confidential information
- Who is allowed to have access to the information (restrictions on use)

## Strategic Decisions

- What documentation best practices can be defined and followed?

# Ownership of IP

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## Key Considerations

- Definition of pre-existing IP and retained ownership will mitigate intended ownership and license grants
- Jointly owned IP
- Assignment clauses in NDAs

## Strategic Decisions

- Who will/should own IP developed?
- Will the NDA cover a specific project that is well defined or intended to cover future, undefined projects?
- Will the parties engage in additional contracts for future projects?

# Ownership of IP - Examples

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## Example

- Discloser is and shall remain the exclusive owner of the Confidential Information and all intellectual property rights therein, if any. No license or conveyance of any such rights to recipient is granted or implied under this Agreement. Should Supplier or any member of its organization have developed or will develop, either solely or jointly with others or with Discloser, any improvements in the Confidential Information or any intellectual property related thereto (collectively, “Developments”), which Developments are based on or result from access to the Confidential Information, Supplier agrees to assign and **does hereby assign** to Discloser, all of Supplier’s right, title, and interest in and to said Developments worldwide. Any such Developments shall be included within the definition of Confidential Information for purposes of this Agreement. Supplier hereby appoints Discloser as its attorney-in-fact for the limited purpose of executing all documents and performing all other acts necessary to give effect and legality to the provisions of this paragraph. Supplier represents and warrants that it has the right and will have the right to grant all right, title, and interest in the Developments. Each Party retains sole discretion to assign or reassign the job responsibilities of its employees.

# Duration

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## Key Considerations

- Term of the NDA often selected based as appropriate based on the relationship of the parties; intended scope of the projects; contractual preferences of parties; etc.
- One-year terms with automatic renewal is a typical best practice
- Confidentiality obligation will typically survive the termination of the NDA – in perpetuity for trade secret protection
  - Potential conflict with duty to preserve information and standard document retention policies
- Want to avoid potential expiration of NDA and subsequent disclosure
- Carve out trade secrets from any expiration of duty to maintain information confidential

## Strategic Decisions

- Is it better to define term to specific project or define a general term to encompass entire project?
- Will the parties engage in additional contracts for future projects?

# Residuals/Feedback

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## Key Considerations

- Ownership/license to residuals highest potential for future disputes if not addressed
- Complete ownership for receiving party most effective for non-solicited feedback/suggestion
- Potential conflict with disclosing party and pre-existing IP

## Strategic Decisions

- Can specific employees receive guidance regarding feedback/suggestions?
- Can receipt/transmission of feedback be documented?

# Residuals/Feedback - Example

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## Example Residual Clause

- Notwithstanding any other provision of this Agreement, a receiving party shall be free to use the residuals resulting from access to or work with any Confidential Information provided hereunder for any purpose. The term “residuals” means information in non-tangible form, which may be remembered by persons with access to the Confidential Information, including ideas, concepts, know-how or techniques contained therein, in their unaided memories (without reference to the Confidential Information). A receiving party shall not be obligated to limit or restrict the assignment of such persons or to pay royalties for any work resulting from the use of residuals.

## Example Feedback Clause

- You may provide feedback to Discloser regarding the Confidential Information. Unless Discloser otherwise agrees in writing, You hereby agree that Discloser shall own all feedback, comments, suggestions, ideas, concepts and changes that You provide to Discloser and all associated intellectual property rights (collectively the "Feedback") and you hereby assign to Discloser all of Your right, title and interest thereto. You will not knowingly provide Discloser any Feedback that is subject to third party intellectual property rights. You agree to cooperate fully with Discloser with respect to signing further documents and doing such other acts as are reasonably requested by Discloser to confirm that Discloser owns the Feedback and to enable Discloser to register and/or protect any associated intellectual property rights and/or confidential information.

# Relationship to Other Agreements

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## Key Considerations

- Ensure that NDA does not supersede or get superseded by other agreements
- Clarify that neither party is agreeing to the potential relationship by signing it, and instead, its purpose is only to afford the parties protection against misuse of confidential information exchanged

## Strategic Decisions

- Have other agreements between the parties already been made?
- What other agreements may be executed between the parties in the futures?



# Breach

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## Key Considerations

- Available remedies for breach:
  - Injunctive relief – stop further offending behavior until a hearing can be had on the merits
  - Monetary damages – recover money losses caused by the breach
  - Unjust enrichment – for trade secrets, these damages allow recover the amount by which the breaching party profited
  - Punitive damages – punish bad behavior in the instance of egregious situations
- Defenses
  - No breach – the subject of the NDA was not secret or in the public domain
  - NDA is overly broad – go too broad and the NDA can be ruled unenforceable/void for vagueness
  - Hypothetical loss – no proof of quantifiable damages

## Strategic Decisions

- If discloser – receiving party should acknowledge in writing that a breach would cause irreparable harm
- If discloser – include an estimate of what damages might be as agreed liquidated damages
- Consider a loser-pays scenario for enforcement (if realistic for other side to be able to pay)

# Exceptions to Confidentiality Obligations

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- Buyer (receiving party)
  - Generally wants exclusions to be as broad as possible
  - Generally wants to be able to share information with others (e.g., advisors, financing sources)
- Seller (disclosing party)
  - Generally wants any exclusions to be very limited and narrow
  - Generally wants to control the flow of their information
- Typical:
  - Court order
  - Publicly known information
  - Independently developed
  - Learned from a third party under no obligations to disclosing party

# Assignments

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## Key Considerations

- Absent express terms to the contrary, all contractual rights can be assigned and the right to assign is presumed, based upon principles of unhampered transferability of property rights and of business convenience

## Strategic Decisions

- Assignment by recipient – beware of this clause because you may not be able to control who the NDA is assigned to (e.g., competitor) as a result of a purchase of assets and operations or a change of control situation
  - Possible solution – “Neither this Agreement nor any rights, interests, or obligations hereunder shall be assigned by any Party without the prior written consent of the other Party.”
    - NOTE: the effectiveness of an assignment does not normally depend upon the consent of the obligor unless the rights to be assigned involved the performance of unique personal services
- Assignment by discloser – generally a good idea to allow a discloser to assign its rights as a discloser to a buyer of discloser so that the buyer buys the assets and operations together with all of the protections of the NDA

# Third Party Access

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## Key Considerations

- Standard to include known service providers that may be necessary to examine information (e.g., accountants, attorneys, IT staff, etc.)
- May be good practice to identify specific third parties that can be bound by agreement – possibly include in an Appendix that can be amended

## Strategic Decisions

- Do third parties require access to disclosed information?
- Consider including audit rights or documentation to identify third party access

# No Formation of Partnerships

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## Key Considerations

- Standard to include disclaimer regarding no intention to form partnership or joint venture – if applicable
- Can also include language that submission does not require any form of implementation or commitment to commercialize

## Strategic Decisions

- Will there be any additional language defining the relationship between the parties?

# Prohibitions Against Poaching

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## Key Considerations

- Many NDAs include some form of prohibition against hiring employees interacting with other companies
- Standard term for prohibition is one year
- Disclaimer regarding general employment

## Strategic Decisions

- Will there be key employees that are likely to interact with other party?

# Other Issues

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- Publicly Traded Companies:
  - Company to Company (in Mutual NDA where either company is publicly traded in the U.S. and subject to regulation by SEC):
    - Regulation FD. With respect to any material nonpublic information of any Disclosing Party subject to regulation by the U.S. Securities & Exchange Commission (“SEC”), the Receiving Party agrees that it will comply with SEC Regulation FD (Fair Disclosure), as amended, and will refrain from trading in the Disclosing Party’s stock until that nonpublic information is either publicly disseminated or deemed immaterial by the Disclosing Party.
  - Consultant Agreement (use if own company is publicly traded in the U.S. and subject to regulation by SEC):
    - Regulation FD. Consultant hereby acknowledges that he is aware, and that he will advise his representatives who receive any Trade Secrets or confidential information, that the securities laws of the United States prohibit any person who has material, non-public information concerning the Company from purchasing or selling securities in reliance upon such information or from communicating such information to any other person or entity under circumstances in which it is reasonably foreseeable that such person or entity is likely to purchase or sell such securities in reliance upon such information.
- Export Laws – depending upon the technology and country
  - Require compliance with any such laws (if applicable)

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