

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

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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

Duration

Key Considerations

- Term of the NDA often selected 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

- You need to consider term for the exchange of information separate from the term of maintaining confidentiality
- Will the parties engage in additional contracts for future projects?

Residuals/Feedback

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

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

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

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

- 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

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

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

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

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?

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