

## “I NEED AN NDA, ANY NDA, QUICK”—WRONG!

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Clients frequently ask for a non-disclosure agreement (“NDA”) thinking that there is one, all purpose form of NDA that will work in any situation. Clients also frequently simply revise an NDA that was used in another transaction thinking that one NDA is as good as another. Unfortunately, this is not the case.

There are at least four different versions of NDA’s in use. It is important to know the different types of NDA’s and their purposes so that an inappropriate version is not inadvertently used that ultimately harms its uninformed user.

### 1. “NO MARKING” REQUIRED VERSION

The “no marking” required version is the most common. It simply provides that information transmitted by one party to the other that the disclosing party deems to be confidential and trade secret information shall be subject to the non-disclosure obligations of the NDA. This agreement, as with each of the other forms of NDA’s, can be unilateral or reciprocal, meaning that it may pertain to the disclosure of information by one party to another, or the exchange of information between two or more parties.

The “no marking” required NDA provides the broadest protection for the disclosing party because it covers all materials disclosed to the other party, whether in writing or orally transmitted. Thus, this form of NDA should be used by those seeking to protect as much of their confidential information as possible, and should be resisted by those who will be receiving confidential information of others and who fear being burdened



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by a non-disclosure obligation that may be overly restrictive.

### 2. “MARKING REQUIRED” VERSION

A marking required” NDA requires that all written information transmitted by the disclosing party must be specifically identified (i.e., “marked”) as the confidential information of the disclosing party for that information to be entitled to the protection of the NDA.

In addition, this form of NDA requires that orally transmitted information be followed up with a writing, summarizing the orally transmitted information, within “X” number of days after the oral transmission, for the orally transmitted information to be entitled to protection under the NDA.

This form of NDA is obviously more burdensome on the disclosing party and is therefore less protective of the disclosing party’s rights — it is better suited for the recipient’s needs. Depending on the party’s relative negotiating strength,

the recipient should push for this form of agreement.

### 3. “SPECIFICALLY IDENTIFIED INFORMATION ONLY” VERSION

The third form of NDA covers only information that is specifically outlined on an exhibit to the NDA on the date of the execution of the NDA, or which is affixed to the signed agreement at the time of disclosure of the information.

While similar to a marking required NDA, this version is even less protective than the marking required version because it generally covers only specifically identified written materials. Discussions held concerning those written materials are not, however, unless specifically called out in the NDA protective provisions, protected by the NDA.

### 4. EXCLUSION FOR “RESIDUALS”

The strangest, but used more and more frequently, and least protective, form of NDA is one that excludes from the NDA’s protective provisions any information retained in the unaided memories of the receiving party’s employees who have had access to the disclosing party’s confidential information. This information is commonly defined as “residuals.”

This form of NDA can be so weak that it essentially loses all of its protective value. Frequently, this form of NDA will state that an employee’s memory is “unaided” if the employee has not intentionally memorized the information!

In many instances, if the recipients are engineers with extensive background in the area of the information provided, or are other types of professionals with intimate knowledge of the industry to which the disclosed information pertains, it can be difficult indeed to successfully

prevent a disclosure by the recipient when the recipient will be able to argue that the information used falls within the “residuals” exception of the NDA.

#### **TERM OF THE NDA**

There are numerous other provisions that need to be addressed in all NDAs, but there is one provision that is often not thought through by the disclosing party and which can result in the emasculation of the trade secret protection for the disclosed information.

In California, confidential information is protected by the Uniform Trade Secrets Act (which virtually all of the other states have adopted as well). This Act provides that a “trade secret” can be protected perpetually if the proper steps are taken to protect the information. Such “proper steps” are the prevention of subsequent disclosure of the trade secret through the use of contracts preventing disclosure with parties with whom

the secrets have been shared. This is one of the strongest features of trade secret protection relative to the other forms of intellectual property protection. Patents are protectable for only 17 years, copyrights from 50 to 120 years, and trademarks initially for 5 years. (The Coca-Cola recipe is protected by trade secret. Had it been patented it would have lost its protection in 1906!)

If, however, an NDA contains a term, such that the recipient need hold the information in confidence only for, for example, 2 years, then upon expiration of that term the disclosing party’s trade secret protection will cease to exist. Consequently, all NDAs should provide that the agreement shall remain enforceable forever.

It amazes me to hear requests from recipients that the agreement contain a term. Unless the disclosing party is willing to forego its statutory trade secret protection at the end of that term, acquiescence to that request is nonsensical.

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