



The ABCs of NDAs: Protect Your Company

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Agenda

- Why and when to use NDAs
- Principles to approaching NDAs
- The confidential information you should care about
- Elements of an NDA
- Red flags for disclosing and receiving parties

Why and when to use NDAs

- NDAs protect Confidential Information from being disclosed to unauthorized third parties
- NDAs should be used any time Confidential Information is or may be shared with a third party
- NDA defines Confidential Information, how it can be used, and who is authorized to use it, and describes Receiving Party's obligation for protecting Disclosing Party's confidential information
- NDAs should be properly signed and in effect before any Confidential Information is disclosed

General Rules

- There is no such thing as a form NDA
- NDAs need to be drafted for specific situation/facts
- NDAs should only be used for initial conversations/discussions/transaction introduction
- NDAs should not cover IP creation/ownership
- The only Confidential Information to care about are trade secrets

There is no such thing as a form NDA

- Scope of Disclosures
 - One-way – only one party will be disclosing Confidential Information
 - Two-way – both parties will be disclosing Confidential Information
- Nature of Participants
 - Vertical – customers and supplier/licensors and licensees
 - Horizontal – competitors/strategic partners/joint venturers
- Type of Disclosures
 - Business information
 - Technical Information
 - Materials (consider MTA)
- Purpose of Disclosures
 - Evaluation of business relationship

NDA's need to be drafted for specific situation/facts

- Identify the scope, type, and purpose of disclosures to drive the type of NDA that is needed
 - Quantify and identify the risks in the disclosures: what is your company's interest in the discussions and what is your company most concerned about?
 - NDA should be drafted to specifically address your company's concerns and mitigate the risks

NDA should only be used for initial conversations/ discussions

- NDA should be limited to disclosures that cannot give rise to IP creation
 - No enabling disclosures
 - No transfer of source code
 - No transfer of proprietary methods / processes
 - Should not be used for the business relationship that develops from the initial discussions
 - Business relationship should be reduced in a specific agreement (e.g. license, supply agreement, development agreement, purchase agreement, etc.) with appropriate confidentiality obligations

NDA's should not cover IP creation/ownership

- NDA's are typically not designed to cover ownership of improvements, derivatives, enhancements
- NDA's do not have assignment of IPRs
- NDA's do not have necessary language regarding prosecution of IPR, infringement, indemnification, etc.
- NDA's are not intended to be and should not be used in place of MTAs, Evaluation Agreements, Proof of Concept Agreements, etc.

The only Confidential Information to care about are trade secrets

- Trade Secrets means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
 - derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
 - is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Trade Secrets

- Require efforts that are reasonable under the circumstances to maintain its secrecy
 - What happens when the obligation to keep Confidential Information secret, expires?
 - Reject limited term of confidentiality obligations or carve out Trade Secrets
 - Retain leverage under UTSA

Elements of NDA

- Parties
 - Limit to contracting counterparties
 - “Affiliates” / “Authorized Persons” who do not sign are NOT parties to the Agreement
- Definition of Confidential Information
 - Specific enumeration – horizontal parties
 - General enumeration – vertical parties
- Marking Requirement
 - Written disclosure is marked/oral disclosure is notified at the time of disclosure and confirmed in writing within 5-10 days of disclosure
 - Catch-all?
 - Circumstances surrounding disclosure/type of information

Elements of NDA

- Exceptions to Confidential Information
 - Already in or becomes part of public domain (through no fault of recipient)
 - Already in possession of Receiving Party
 - Receipt from third party without obligation of secrecy
 - Public Release by Disclosing Party
 - Independent Creation without using Disclosing Party's Confidential Information
 - Court Order/Legal Compliance

Elements of NDA

- Confidentiality Covenants
 - Keep secret
 - No copy, transfer, publication
- Non-Use Obligations
 - Limit to review only
 - Should not be an implied license
 - No analysis/reverse engineering, etc.
- Limited internal disclosure
 - To officers and employees
 - “Authorized Persons”
- Return Obligations
- Notification Obligations

Red Flags For Disclosing and Receiving Parties

- The parties' obligations with respect to each other's Confidential Information shall remain in effect for a period of two (2) years from the date of the last disclosure of Confidential Information made under NDA
 - Should eliminate or carve out Trade Secrets
- Residuals
 - Receiving Party shall be free to use for any purpose the residuals resulting from access to or work with Disclosing Party's Confidential Information.
 - “residuals” means information in intangible form, which is retained in memory by persons who have had access to the Confidential Information, including ideas, concepts, know-how or techniques contained therein
 - *Use only if your company is Receiving Party and receiving from a horizontal Disclosing Party*

Red Flags for Disclosing and Receiving Parties

- Independent Creation
 - The terms of this Agreement shall not be construed to limit Receiving Party's right to independently develop or acquire competitive products.
 - *Use only if your company is Receiving Party and receiving from a horizontal Disclosing Party*

Red Flags for Disclosing and Receiving Parties

- Separate Creation and Release
 - Disclosing Party acknowledges that Receiving Party may have developed, or be in the process of developing, ideas, concepts or proposals that are similar to any information which may be disclosed by Disclosing Party to Receiving Party. Therefore, as a material inducement to Receiving Party to enter into this Agreement, Disclosing Party agrees that it will not be entitled to any compensation whatsoever for the ultimate use by Receiving Party of any Disclosing Party Confidential Information unless a separate written agreement is executed by the parties. Disclosing Party hereby releases Receiving Party from any and all liability to Disclosing Party in connection with, or in any manner arising out of, use of any Disclosing Party Confidential Information by Receiving Party.
 - *Use only if your company is Receiving Party and receiving from a horizontal Disclosing Party*

Red Flags for Disclosing and Receiving Parties

- Grabbing IPR
 - improvements, modifications or adaptations which may be developed during the course of discussions shall be the sole property of Disclosing Party without further consideration or compensation and Receiving Party hereby assigns to Disclosing Party all rights with respect thereto (including, without limitation, all patent rights, copyrights and other attendant rights).
 - *Use only if your company is Disclosing Party*

Red Flags for Disclosing and Receiving Parties

- Confidential Information of Disclosing Party includes all Feedback to its Confidential Information.
- “Feedback” means all criticism, ideas, suggestions and other feedback provided by Receiving Party relating to Disclosing Party’s Confidential Information
 - *Use only if your company is Disclosing Party*

Thank you!

Questions? Please feel free to
contact us any time for guidance.

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