

# CONFIDENTIALITY: Navigating Tough Clauses To Protect Your Valuable Information

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## JOSEPH YAO

- Patent Attorney assigned to support the ExxonMobil Catalysts & Technology Licensing business which licenses a broad portfolio of ExxonMobil's refining, gas and chemical technologies and offers specialty catalysts for the manufacturer of fuels, lubricant base stocks, basic chemicals and intermediates products.
- Served as full-service patent attorney (patent preparation, transactional and counseling) for several companies in the Energy and Chemical sector for over 30 years.
- Former “apprentice” for Patent Boutique Firm that authored the Casebook “Cases and Materials on Patent Law.”
- Juris Doctor – Michigan State University College of Law
- Bachelor of Mechanical Engineering – General Motors Institute



## JONATHON HANCE

Jonathon Hance is both a litigator and an intellectual property lawyer. As a litigator, Jonathon is at home in the court room, where he represents both plaintiffs and defendants and works hard to enforce his clients' intellectual property rights and data confidentiality rights, to protect his clients' brands, and to resolve complex commercial disputes in the design and construction, real estate, energy, healthcare, and technology industries. As an IP lawyer, Jonathon works to protect and monetize his clients' innovations and protect his clients' brands across a variety of sectors, including the energy, real estate, and technology industries. He also advises healthcare institutions regarding corporate governance issues and patient data privacy and protection under the Health Insurance Portability and Accountability Act (HIPAA).

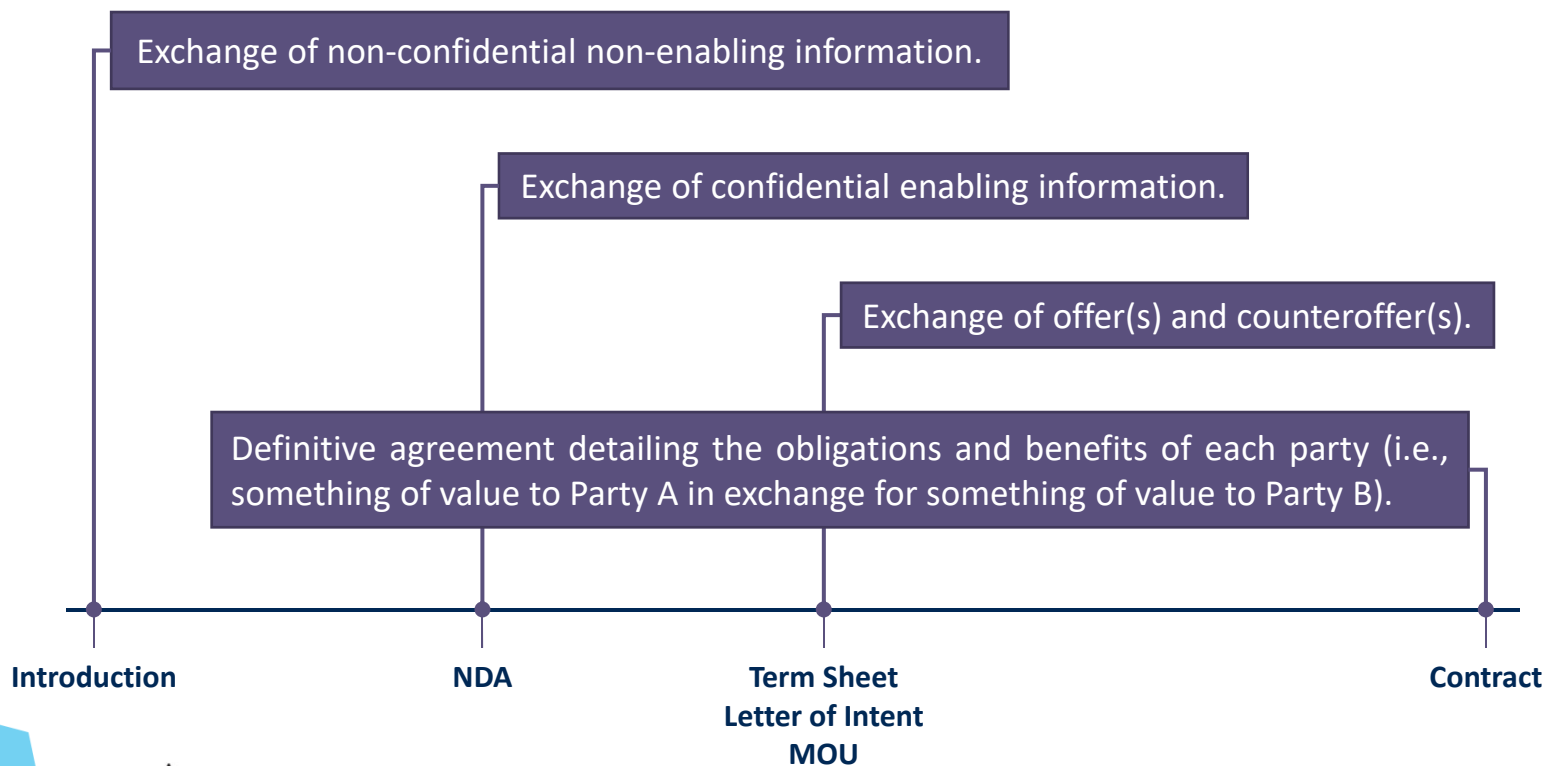


Jonathon has degrees from Southern Methodist University in Applied Mathematics, Computer Science, and Viola Performance and J.D. from Washington and Lee University School of Law. He is a Certified Licensing Professional (CLP), and he served as a judicial clerk to the Honorable Jennifer Walker Elrod of the United States Court of Appeals for the Fifth Circuit.

## AGENDA

- Timeline of a Deal
- Key Confidentiality Considerations
  - Type of Agreement (One-Way or Mutual)
  - Strength of Agreement
  - Purpose of the Agreement
  - Scope of Confidential Information
  - Limitations on Third-Party Disclosure
  - Maintenance of Confidentiality
- Period of Confidentiality
- Term of Confidentiality Agreement
- Disposal of Confidential Information
- Remedy for Breach
- Disclaimer of Liabilities
- Choice of Law & Venue
- Improvements

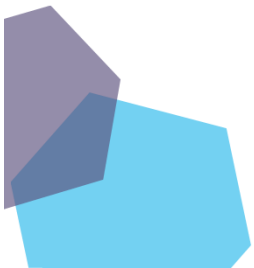
## TIMELINE OF A DEAL



## WHY USE AN NDA?

- To make your company money
- To facilitate a deal
- To protect your information
- To further develop your intellectual assets
- To evaluate a potential business opportunity

HINT: These are non-exclusive reasons...



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## TYPE OF THE AGREEMENT

- One-Way
  - Only one party will be disclosing confidential information
- Mutual
  - Both parties will be exchanging confidential information
  - Good compromise position



## PURPOSE OF THE AGREEMENT

- Careful focus should be paid to the purpose statement in order to ensure the intended scope of protection for your client's information
- One of the most difficult provisions to draft
- Purposes can be open ended, very limited, or anywhere in between:

**WHEREAS**, the Disclosing Party desires to disclose certain information that is proprietary and confidential, including invention disclosure and proprietary rubber and footwear compounds, to the Receiving Party solely for the purpose of evaluating the possibility of entering into a potential business arrangement between the Parties (the "**Purpose**").

**WHEREAS**, the Disclosing Party desires to disclose certain information that is proprietary and confidential, including invention disclosure and proprietary rubber and footwear compounds, to the Receiving Party solely for the purpose of evaluating the Proteon Technology (as defined below) for use in Receiving Party's package assembly process at Receiving Party's Trenton, NJ plant.



## PURPOSE OF THE AGREEMENT

- A narrow purpose can be a powerful tool for a disclosing party to limit the use of its confidential information:

**WHEREAS**, Party A, by one side, and Party B, by the other side, are willing to disclose to each other, strictly on a confidential basis as set forth herein, such Party A and Party B Proprietary Information as the Discloser, as herein defined, in its judgment, deems absolutely necessary for the singular and sole purpose of allowing Party A solely to perform its propriety Chemical-Testing Process, as herein defined, on the Party B Material, as herein defined, solely to evaluate the Party B Material for use in the manufacture of the widget.

## PURPOSE OF THE AGREEMENT

- The purpose statement can both describe permissible activities and prescribe activities that are prohibited.

11. No License, Rights to Intellectual Property. This Agreement shall not be construed as a permit, license, or a grant of any right by the Disclosing Party to the Receiving Party to use the Disclosing Party's Information except to perform tasks for the Purpose, and, for the sake of further clarity, the Purpose specifically excludes any activities by the Receiving Party to conceive, discovery, invent, reduce to practice, or develop any know-how, ideas, designs, inventions, processes, or other intellectual property related to the Disclosing Party's Information. Moreover, for avoidance of doubt, this Agreement grants no license to either Party to the other Party's Information or background intellectual property rights, which in any event must be the subject of a specific, further, written agreement to that end. The Receiving Party agrees not to use Information or the results of any discussions, studies, or evaluations performed under this Agreement as a basis for an application of letters patent, utility model, design registrations, or other intellectual property registration unless permitted in writing by the Disclosing Party. This Agreement will not be construed in any manner to be an obligation to enter into any subsequent arrangements.

## PURPOSE OF THE AGREEMENT

- The purpose is sometimes combined with the definition of confidential information. Note here how the definition of “Information” is narrow but mutual.

1. Definition of Confidential Information and Purpose of Agreement. The Parties desire to engage in discussions which may involve the exchange of business and technical information, including samples, that the Disclosing Party considers to constitute confidential, proprietary and/or valuable trade secrets (the “Information”) **for the investigation and evaluation of Chemical X compounds in Product Y formulations with the potential reuse of Substance A from Product Y.** This is a mutual confidentiality agreement, intended to protect the Information of both Parties. The person receiving Information is the “Receiving Party,” and the person disclosing Information is the “Disclosing Party.” The amount of Information disclosed will be, in the sole discretion of the Disclosing Party, sufficient for the Purpose. The data and the results of any testing of samples, and all visual, written and/or oral transmittals of Information, and the terms of this Agreement are also considered Information hereunder.

## SCOPE OF CONFIDENTIAL INFORMATION

- If you represent the disclosing party, focus on achieving a broad—but not too broad, scope
- Can include business information, technical information, or both
- This is a very important provision that far too often is not heavily negotiated.

1.1 **"Confidential Information"** means any information disclosed by the Disclosing Party to the Receiving Party, either directly or indirectly, in writing, orally or by inspection of tangible objects, including, without limitation, business strategies, business plans, trade secrets, data, know-how, materials, inventions, processes, designs, plans, models, specifications, reports, ideas, pricing information, studies, financial information, financial models, customer lists, potential customer lists, and supplier lists (collectively, the **"Disclosed Materials"**); and any information otherwise obtained, directly or indirectly, by the Receiving Party through inspection, review or analysis of Disclosed Materials. Confidential Information shall not lose its status merely because it was disclosed orally. In addition, Confidential Information may include information of a third party that is in the possession of the Disclosing Party and is disclosed to the Receiving Party under this Agreement.

## SCOPE OF CONFIDENTIAL INFORMATION

1.1 **"Confidential Information"** means all proprietary information that is disclosed to the Receiving Party by the Disclosing Party, and includes, among other things (i) any and all information relating to products or services provided by the Disclosing Party, its financial data, software source code, flow charts, specifications, marketing plans, and forecasts, (ii) as to Party B, the Product and any third party software source code provided with the Product, (iii) the terms of this Agreement.

- The definition can be mutually applicable (as in the prior example), can be tailored to each party, or can be a combination of both

## WHAT ABOUT ORAL INFORMATION?

### COMPARE

1.5 **Disclosure.** To the extent practical, Confidential Information will be disclosed in documentary or tangible form marked "Confidential," provided that the failure to so mark any such information shall not affect its characterization as Confidential Information.

### WITH

1.6 **Disclosure.** All materials containing Confidential Information shall be marked "CONFIDENTIAL" at the time of disclosure. Information disclosed orally must be summarized in a writing that is marked "CONFIDENTIAL" and provided to the Receiving Party within fifteen (15) days of disclosure.

## SCOPE OF CONFIDENTIAL INFORMATION

1.2 **Results and Reports.** Confidential Information shall also include all analyses, compilations, results, studies, reports, translations, derivative works, or other documents prepared by the Receiving Party in connection with its review or analysis of the Disclosed Materials.

2.7 **Ownership.** The Parties agree that the Confidential Information of the Disclosing Party is the sole property of the Disclosing Party.

- Consider making results and reports the Receiving Party derives from the disclosed Confidential Information confidential
- Consider how this provision interacts with provision detailing who owns the Confidential Information

## WHAT ABOUT EXCEPTIONS TO CONFIDENTIALITY?

1.3 Exceptions. Confidential Information shall not, however, include any information that:

1.3.1 was publicly known and made generally available in the public domain prior to the time of disclosure by the Disclosing Party;

1.3.2 becomes publicly known and made generally available after disclosure by the Disclosing Party to the Receiving Party through no action or inaction of the Receiving Party;

1.3.3 is already known by or in the possession of the Receiving Party at the time of disclosure by the Disclosing Party free from any obligation of confidentiality as shown by the Receiving Party's files and records immediately prior to the time of disclosure;

1.3.4 is obtained by the Receiving Party from a third party lawfully in possession of such information and without a breach of such third party's obligations of confidentiality; or

1.3.5 is independently developed by the Receiving Party without use of or reference to the Disclosing Party's Confidential Information or other information that the Disclosing Party has disclosed in confidence to any third party, as shown by documents and other competent evidence in the Receiving Party's possession.



## LIMITATION ON THIRD-PARTY DISCLOSURE

- Consider whether third-parties and/or affiliates of the Receiving Party need access to the Confidential Information to carry out the purpose and what restrictions the Disclosing Party desires to place on those third-parties
- As the group of receiving parties is broadened, particularly if the receiving parties include parties not bound by the NDA itself, the risk that the disclosing party faces grows substantially
- Instead of allowing the receiving party to disclose the confidential information to non-contracting parties, consider entering into NDAs with each party that needs the information to perform the purpose

## LIMITATION ON THIRD-PARTY DISCLOSURE

- Some Examples:

2.2 **Non-Disclosure.** Except as expressly permitted in this Section 2.2, the Receiving Party agrees (i) not to disclose, release, transfer, provide, disseminate, or otherwise make available any Confidential Information in any form to, or for the use or benefit of, any person or entity and (ii) not to circulate any Confidential Information within its own organization. The Receiving Party may disclose the Confidential Information to those agents, officers, employees, consultants, and contractors (collectively, "**Agent**" or "**Agents**") of the Receiving Party who are required to have the information in order to perform tasks for the Purpose, on a "need-to-know" basis, and provided that the requirements of Section 2.2.1 are

2.2.1 **Limited Disclosure to Agents.**

Prior to any disclosure of Confidential Information to any of the Receiving Party's Agents, the Receiving Party shall (i) inform its Agents as to the confidential nature of the Confidential Information and (ii) ensure that its Agents have signed a non-use, non-disclosure, and confidentiality agreement having terms and conditions at least as stringent as those in this Agreement. The Receiving Party shall be responsible and liable for any act or omission by any Agent or former Agent to whom it has disclosed Confidential Information, which act or omission constitutes a breach of the Receiving Party's obligations under this Agreement.

## LIMITATION ON THIRD-PARTY DISCLOSURE

- Some Examples:

5.2 The Receiving Party may disclose the Confidential Data upon the signed written permission of the Disclosing Party to an Affiliated Company (as herein defined); provided that (1) the Affiliated Company is bound by obligations of non-use, non-disclosure, and confidentiality governing the Confidential Data having terms and conditions at least as protective of the Confidential Data as those expressed in this Agreement, (2) the Receiving Party certifies and guarantees in writing that the Affiliated Company will adhere to the terms and conditions of this Agreement, and (3) such disclosure is on a “need to know” basis and is strictly limited to that disclosure which is necessary to accomplish the Receiving Party’s tasks for the Purpose.

## LIMITATION ON THIRD-PARTY DISCLOSURE

- Some Examples:

5.3 The Receiving Party may disclose the Confidential Data upon signed written permission of the Disclosing Party to (1) employees, officers, and directors of the Receiving Party; (2) employees, officers, and directors of an Affiliated Company; (3) any professional consultant or agent retained by the Receiving Party for the purpose of evaluating the Confidential Data; or (4) any bank financing Receiving Party's participation in the potential business relationship including any professional consultant retained by the bank for the purpose of evaluating the Confidential Data ((1), (2), (3), and (4), collectively, "**Authorized Third Persons**" and individually, an "**Authorized Third Person**"); provided that:

- (a) each such Authorized Third Person has a clear need to know the Confidential Data and is required to have such Confidential Data in order for the Receiving Party to perform tasks for the Purpose;
- (b) each such Authorized Third Person has been apprised in writing of this Agreement and the Receiving Party's obligations hereunder;
- (c) each such Authorized Third Person has signed a non-use, non-disclosure, and confidentiality agreement governing the Confidential Data having terms and conditions at least as protective of the Confidential Data as those expressed in this Agreement prior to the disclosure of Confidential Data to any such Authorized Third Person (the "**Authorized Third Person NDA**"); and
- (d) the Receiving Party shall transmit a copy of each such Authorized Third Person NDA to the Disclosing Party by the means provided under Section 16.

## LIMITATION ON THIRD-PARTY DISCLOSURE

### 2.2.2 Disclosure to Certain Agents

**Prohibited.** The Receiving Party shall not knowingly permit any Agents to have access to the Disclosing Party's Confidential Information if such Agent: (i) has been convicted of a crime or has not satisfied or completed a pretrial diversion or similar program in connection with: (A) a dishonest act or a breach of trust, or (B) a felony; or (ii) uses illegal drugs. Notwithstanding anything in this Agreement to the contrary, the Receiving Party shall conduct at its sole expense background and criminal conviction checks, from time to time, on its Agents. Upon the Disclosing Party's request, the Receiving Party shall provide a random sampling of screenings to the Disclosing Party reflecting the background and criminal checks performed by the Receiving Party on such Agents. Upon learning of any act of dishonesty or breach of trust committed against the Disclosing Party or its customers involving any Agents, the Receiving Party shall notify the Disclosing Party of the offense and, at the request of the Disclosing Party and to the extent permitted by law, the Receiving Party shall cooperate with investigations conducted and remedial actions requested by or on behalf of the Disclosing Party.

- Consider language prohibiting disclosure to certain third parties:
  - Individuals convicted of felony
  - Untrustworthy individuals
- Consider requiring receiving party to run and provide background checks

## LIMITATION ON THIRD-PARTY DISCLOSURE

2.2.2 In the event that the Receiving Party is notified that an Agent that has received Confidential Information from the Disclosing Party leaves the Receiving Party to work for a third party, the Receiving Party hereby agrees to notify the Disclosing Party immediately, and to cooperate fully with the Disclosing Party, at no cost to the Disclosing Party, if the Disclosing Party deems it necessary to pursue legal recourse against the former Agent to protect the Confidential Information. The Receiving Party shall be responsible and liable for any act or omission by any Agent or former Agent to whom it has disclosed Confidential Information, which act or omission constitutes a breach of the Receiving Party's obligations under this Agreement.

- Consider how to deal with third-parties who leave the organization to work for another third-party
  - Ex. The employee who quits to go work for a competitor
- Consider who is responsible for breach of confidentiality by a third party

## MAINTENANCE OF CONFIDENTIALITY

- Nondisclosure obligations address what a receiving party **cannot** do with the information
- Maintenance of confidentiality provisions address what a receiving party **must do** to protect the information

2.4 **Maintenance of Confidentiality.** The Receiving Party agrees that it shall take all necessary measures to protect the secrecy of, and to prevent unauthorized use of, the Confidential Information. Without limiting the foregoing, the Receiving Party shall take (i) at least those measures that it takes to prevent unauthorized access, storage, disclosure, publication, dissemination to, destruction, loss, alteration, and/or use of its own confidential information of a similar nature and (ii) at least those measures that it takes to prevent unauthorized access, storage, disclosure, publication, dissemination to, destruction, loss, alteration, and/or use of confidential information of its other customers. The Receiving Party shall not make any copies of the Confidential Information except upon the Disclosing Party's prior written approval in accordance with Section 5.9. The Receiving Party shall promptly notify the Disclosing Party of any use or disclosure of the Confidential Information in violation of this Agreement of which the Receiving Party becomes aware.

## PERIOD OF CONFIDENTIALITY & TERM OF AGREEMENT

- These Are Two Different Concepts!
  - The period of confidentiality refers to the period of time that the receiving party is required to keep the disclosing party's confidential information in confidence
  - The term of the agreement refers to the expiration of the NDA itself
  - These two time periods are not necessarily co-extensive



## PERIOD OF CONFIDENTIALITY & TERM OF AGREEMENT

- Example 1 – Indefinite term of Confidentiality
  - Great for Disclosing Party in One-Way NDAs
- Example 2 – Limited term of confidentiality with appropriate survival of contract terms
  - Good for Receiving Party in One-Way NDAs or for mutual NDAs where both parties are disclosing information

3.1 **Term and Survival.** The obligations of the Receiving Party under this Agreement shall survive and continue until such time as all Confidential Information of the Disclosing Party disclosed hereunder becomes publicly known and made generally available through no action or inaction of the Receiving Party.

3.1 **Term and Survival.** This Agreement shall terminate **one (1) year** from the date of the last disclosure of Confidential Information made pursuant to this Agreement. This Section 3.1 and Articles 1, 4, and 5 of this Agreement shall survive any termination of this Agreement.

## PERIOD OF CONFIDENTIALITY & TERM OF AGREEMENT

- Example 3 – Trigger termination based on achieving another transaction
  - But be careful, this can be very dangerous if the provisions of confidentiality are not as strong in the subsequent agreement!
- Example 4 – The “sneaky” clause
  - Can sometimes be used to get around a party insistent that the Agreement terminate after a term of years

3.1 **Term and Survival.** The obligations of the Receiving Party under this Agreement shall terminate on the earlier of the date that is ten (10) years from the Effective Date, or on the date of the execution of a definitive agreement between the Parties with confidentiality provisions substantially similar to those set forth in Article 2 of this Agreement. The provisions of Articles 1, 3, and 4 shall survive any termination of this Agreement.

3.1 **Term and Survival.** This Agreement and all rights and obligations created hereunder shall expire three (3) years from the date of this Agreement. The obligation to hold information in confidence as required by Article 2 shall survive any termination of this Agreement.

## DISPOSAL OF CONFIDENTIAL INFORMATION

- Several Options
  - Receiving party required to destroy confidential information
  - Receiving party required to return all copies of confidential information
  - Receiving party allowed to keep one copy of confidential information for archival purposes and/or to ensure compliance with NDA
  - Receiving party required to certify that documents were returned or destroyed
- Timing
  - Return upon termination of agreement
  - Return within (x) days of written request

## DISPOSAL OF CONFIDENTIAL INFORMATION

- Examples

2.8 **Return of Materials.** (i) All documents and other tangible objects containing or representing Confidential Information that have been disclosed by the Disclosing Party to the Receiving Party, (ii) all copies or extracts thereof that are in the possession of the Receiving Party, and (iii) all documents or other materials prepared by the Receiving Party based on its evaluation of the Disclosing Party's Confidential Information shall be and remain the property of the Disclosing Party and shall either be promptly returned to the Disclosing Party or promptly destroyed upon the Disclosing Party's written request. Notwithstanding the foregoing, one (1) copy of any written or photographic Confidential Information may be retained by the Receiving Party for the purpose of complying with this Agreement, provided that the terms of this Agreement shall apply to any such retained Confidential Information.

2.8 **Return of Disclosed Materials.** All Disclosed Materials, whether or not marked as "Confidential", that have been disclosed by the Disclosing Party to the Receiving Party and all Confidential Reports, whether or not marked as "Confidential", that are in the possession of the Receiving Party, shall be and remain the property of the Disclosing Party and shall be promptly returned to the Disclosing Party within fifteen (15) days of the Disclosing Party's written request. The Receiving Party will certify in writing to the Disclosing Party the time and date that such Disclosed Materials and Confidential Reports were returned to the Disclosing Party.

## REMEDIES FOR BREACH

- If representing the disclosing party, the NDA **MUST** have a provision allowing for availability of equitable relief.
  - **This should be a non-negotiable point.**

4.3 **Availability of Equitable Relief.** The Receiving Party understands and agrees that its breach or threatened breach of this Agreement will cause irreparable injury to the Disclosing Party and that money damages will not provide an adequate remedy for such breach or threatened breach, and the Receiving Party hereby agrees that, in the event of such a breach or threatened breach, the Disclosing Party will also be entitled, without the requirement of posting a bond or other security (or with the positing of only a nominal bond if a bond is required by law), to equitable relief, including injunctive relief and specific performance in any court of competent jurisdiction. The Disclosing Party's rights under this Agreement are cumulative, and the Disclosing Party's exercise of one right shall not waive the Disclosing Party's right to assert any other legal remedy.

## REMEDIES FOR BREACH

- If representing the disclosing party, consider adding an indemnification provision

4.3 **Availability of Equitable Relief.** The Receiving Party understands and agrees that its breach or threatened breach of this Agreement will cause irreparable injury to the Disclosing Party and that money damages will not provide an adequate remedy for such breach or threatened breach, and the Receiving Party hereby agrees that, in the event of such a breach or threatened breach, the Disclosing Party will also be entitled, without the requirement of posting a bond or other security (or with the positing of only a nominal bond if a bond is required by law), to equitable relief, including injunctive relief and specific performance in any court of competent jurisdiction, and **TO BE INDEMNIFIED AND HELD HARMLESS BY THE RECEIVING PARTY FROM ANY AND ALL DAMAGES, LOSSES, LIABILITIES, COSTS, AND EXPENSES, INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES, IN CONNECTION WITH ANY BREACH OR ENFORCEMENT OF THE RECEIVING PARTY'S OBLIGATIONS HEREUNDER OR THE UNAUTHORIZED ACCESS, STORAGE, DISCLOSURE, PUBLICATION, DISSEMINATION TO, DESTRUCTION, LOSS, ALTERATION AND/OR USE OF ANY CONFIDENTIAL INFORMATION BY THE RECEIVING PARTY OR ANY OF ITS AUTHORIZED AGENTS.** The Disclosing Party's rights under this Agreement are cumulative, and the Disclosing Party's exercise of one right shall not waive the Disclosing Party's right to assert any other legal remedy.

## DISCLAIMER OF LIABILITIES

- The disclosing party should avoid disclaimers of consequential damages
  - Direct damages can be difficult to prove for breach of a confidentiality agreement

8.6 No Exemplary or Punitive Damages. **IN NO EVENT SHALL ANY PARTY BE LIABLE IN RESPECT OF THIS AGREEMENT FOR CONSEQUENTIAL, ENHANCED, EXEMPLARY, INCIDENTAL, INDIRECT, PUNITIVE OR SPECIAL DAMAGES,** EXCEPT TO THE EXTENT ANY SUCH PARTY SUFFERS SUCH DAMAGES TO AN UNAFFILIATED THIRD PARTY IN CONNECTION WITH A THIRD-PARTY CLAIM FOR WHICH THAT PARTY IS ENTITLED TO INDEMNIFICATION UNDER ARTICLE VIII, WHETHER OR NOT THE POSSIBILITY OF SUCH DAMAGES HAS BEEN DISCLOSED TO THE OTHER PARTY IN ADVANCE OR COULD HAVE BEEN REASONABLY FORESEEN BY SUCH PARTY.

## DISCLAIMER OF LIABILITIES

- But, the disclosing party should seek the receiving party's disclaimer of damages arising from the receiving party's use of the confidential information

5.6 **Disclaimer of Liabilities.** THE RECEIVING PARTY UNDERSTANDS AND AGREES THAT THE CONFIDENTIAL INFORMATION IS PROVIDED ON AN "AS IS" BASIS. EXCEPT AS PROVIDED IN SECTION 5.5 ABOVE, THE DISCLOSING PARTY MAKES NO WARRANTIES OF ANY KIND, SPECIFIC, IMPLIED, OR ORAL. THE DISCLOSING PARTY SPECIFICALLY DISCLAIMS ANY WARRANTY WITH REGARD TO MERCHANTABILITY OR FITNESS OF PURPOSE OF ANY PARTICULAR ITEM FURNISHED UNDER THIS AGREEMENT. **THE DISCLOSING PARTY HEREBY DISCLAIMS ANY AND ALL LIABILITY AND SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL OR SPECIAL DAMAGES, CLAIMS FOR LOST PROFITS, AND/OR THIRD PARTY CLAIMS.**



## CHOICE OF LAW & VENUE

- Although principles of state law will apply in absence of these provisions, they are beneficial and can provide certainty to both parties
- Consider avoiding the home turf of the opposing party and seek a neutral forum
- There are benefits to choosing the law of the forum

4.2 **Sole and Exclusive Venue.** Each Party knowingly, voluntarily, unconditionally, and irrevocably (i) agrees that any dispute regarding this Agreement or the matters contemplated by this Agreement shall be brought solely and exclusively in the United States District Court for the Southern District of Texas or in the state courts of the State of Texas located in Harris County, Texas, (ii) hereby accepts and submits to the sole and exclusive jurisdiction of such courts *in personam* with respect to any dispute brought by it or against it by the other Party, and (iii) agrees that it shall not commence any legal proceeding against the other Party in any other court or before any other authority.

4.1 **Governing Law.** This Agreement and all claims related to it, its execution or the performance of the Parties under it, shall be governed by the laws of the State of Texas without regard to Texas's conflicts of law rules or the principles of any other jurisdiction relating to the conflicts of laws.

## CHOICE OF LAW & VENUE

- Consider arbitration where obligations of confidentiality may need to be enforced against a party outside of the United States

4.2 **Arbitration.** Any disputes arising out of or related to a Party's performance or failure to perform under the Agreement shall be submitted to the International Court of Arbitration of the International Chamber of Commerce ("**ICC**") and shall be finally and exclusively resolved under the 2012 Rules of Arbitration (the "**Rules**") of the ICC by a single arbitrator appointed in accordance with the Rules. The arbitrator will be an appropriate person based on the nature of the dispute, will have at least ten (10) years legal experience, and will be fluent in English. The arbitration will be conducted (a) within thirty (30) days of the appointment of the arbitrator, (b) in the English language, and (c) in Houston, Texas at a place and a time agreed by the Parties or, if the Parties cannot agree, at a place and time in Houston, Texas as designated by the arbitrator. The arbitrator will reference the rules of evidence of the Federal Rules of Civil Procedure of the United States of America then in effect in setting the scope of discovery. The arbitrator will issue a reasoned, written final decision subject to the terms of the Agreement and the laws of the State of Texas; the arbitrator may not act according to equity and conscience or as an amicable compounder or apply the law merchant. To the fullest extent permitted by law, the Parties shall maintain in confidence the fact that an arbitration has been commenced, all documents and information exchanged during the course of the arbitration proceeding, and the arbitrator's decision.

## IMPROVEMENTS PROVISION

- The most contentious section in the entire agreement
- Concerns what happens to subsequent inventions that are made based on the disclosing party's confidential information
- Some type of improvements protection is a **must have** for the disclosing party and should be avoided if representing the receiving party
- Mutuality of the NDA often is key to solving disputes in this area
- **Ask the question, what is being disclosed and what is the end game**

## IMPROVEMENTS PROVISION

- Preferred Approach for Disclosing Parties - Example:

2.3 **Improvements / Revisions.** The Receiving Party agrees that any derivative work, addition, enhancement, update, new version, adaptation, modification, improvement, or revision to the Confidential Information in any form or medium, whether tangible or intangible, whatsoever developed or made by the Receiving Party at any time, including all underlying or resultant intellectual property therein (the "**Improvements**"), shall be owned solely and exclusively by the Disclosing Party, and the Receiving Party hereby assigns any and all worldwide rights therein and thereto to the Disclosing Party. The Receiving Party shall promptly disclose to the Disclosing Party any Improvements. After expiration of this Agreement, the Receiving Party agrees not to undertake any Improvements without the Disclosing Party's prior express written consent.

## IMPROVEMENTS PROVISION

- Alternative Approach (less secure):
  - Narrow Purpose of Agreement to exclude improvements and any type of reverse engineering
  - Agree that receiving party cannot use any part of the confidential information as the basis for patent or other intellectual-property protection
  - **NOTICE: Cause of action is now limited to breach of contract. Rights in improvements are not automatically assigned to Disclosing Party.**

## IMPROVEMENTS PROVISION

- Alternative Approach:

2.4 For the sake of further clarity **the Purpose specifically excludes** any activities by either party to conceive, discover, invent, reduce to practice, or develop any data, know-how, ideas, designs, **inventions, processes or other intellectual property related to the other party's Confidential Information.** Accordingly, the Recipient hereby agrees not to use any of the Discloser's intellectual property (including, without limitation, the Confidential Material) or the results of any discussion, studies, evaluations, analysis, or other activities performed under this Agreement as the basis for a patent, patent application, or other intellectual-property registration anywhere in the world. **Any activities contrary to or beyond the scope of this Purpose shall be considered as a material breach of this Agreement.**

QUESTIONS?

