

NON-DISCLOSURE AGREEMENTS: TIPS & TRAPS

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Corporate Shareholder

Amit is a shareholder in Stradling's corporate and securities law and technology transactions practices.

Amit is a corporate governance and business transactions expert, with extensive experience in venture capital and private equity transactions, mergers and acquisitions, joint ventures, technology transactions and general corporate law.

Amit counsels companies and investors in a broad range of industries, including life sciences, software, hardware, communications and networking, internet, manufacturing and distribution and medical devices.

Amit earned an LL.M. (Corporate Law) from New York University School of Law in 1999 and a J.D. in 1998 from University of California, Hastings College of the Law.

He is a member of the State Bar of California and the State Bar of New York.



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EDUCATION

New York University School of Law, LL.M. (Corporate Law) (1999)

University of California, Hastings College of Law, J.D. (1998)

PRACTICE AREAS

Corporate Law
Private Equity
Startups and Emerging Companies
Venture Capital
Mergers and Acquisitions
Technology Transactions

Introduction

- Appear in separate NDAs, Commercial Agreements, Merger documents, employment arrangements and other agreements
- Purpose – **protect against disclosure/use** of confidential information
- Obligations imposed by law
 - e.g., Attorney-client relationship
- Types
 - One-Way
 - Mutual
 - Multi-Party

NDA Strategies

- David vs Goliath
 - Even with NDA in place, are you safe?
 - Don't disclose more than necessary
 - Must know violation occurred
 - Must prove violation
 - Need money for lawyers to sue and win
 - e.g., Waymo vs Uber/Bernie Madoff
- One-Way vs Mutual
 - Discloser favorable vs Recipient favorable

Parties & Purpose

- Clearly identify Parties
- Obligations
 - Keep Confidential
 - Only disclose to Representatives with a need to know and who are subject to confidentiality obligations
 - Permitted Purpose
 - e.g., merger, financing, license agreement, other commercial agreements

Parties & Purpose (Cont'd)

This MUTUAL NON-DISCLOSURE AGREEMENT (this "Agreement") is made effective as of _____, 201__ ("Effective Date"), by and between _____, and _____, each of the foregoing, a "Party" and together, the "Parties"), to **safeguard from unauthorized disclosure Confidential Information that one Party ("Disclosing Party") or its Representatives may disclose to the other Party ("Receiving Party") for the purpose(s) set forth on Exhibit A attached hereto (the "Permitted Purpose").**

Definition of Confidential Information

- Discloser wants very broad definition – everything disclosed
 - Courts won't enforce if too broad
 - unreasonable restraint on trade
 - Receiver cannot be obligated to keep/not use information that is publicly available
- Receiver wants narrow definition - typical carve-outs from definition:
 - Information Receiver already knew
 - Publicly available information
 - Information lawfully received from others
 - Independently developed information

Definition of Confidential Information (Cont'd)

“Confidential Information” means **any and all technical and non-technical information**, data, agreements, documents, reports, “know-how”, interpretations, plans, studies, forecasts, projections and records (whether in oral or written form, machine-readable, electronically stored or otherwise), whether or not proprietary, provided by Disclosing Party or any of its Representatives to Receiving Party or its Representatives, **including, without limitation**, (a) **financial information, books and records**, cost information, forecasts, bidding information and strategies, and contracts and agreements; (b) **current and proposed products and services**, marketing plans and strategies, customer, client, vendor and supplier contracts and agreements, information relating to, and lists of, past, current and prospective customers, suppliers, vendors, business contacts and clients; (c) **any information related to corporate structure**, corporate direction, financing, operating procedures, techniques, systems, processes and methods; (d) employee records and information; (e) **all intellectual property**, product and service information, including research and development and proposed products and services; (f) **other “know-how”, trade secrets** and any other information not available to the public generally; (g) **information regarding any of the foregoing which Disclosing Party or its Representatives provides to Receiving Party or its Representatives regarding third persons**; and (h) **all notes, summaries, reports, analyses, compilations, studies, legal opinions and interpretations of any of the items described in (a) through (g), above, whether prepared by or on behalf of Disclosing Party or Receiving Party**;

Carve-Outs from Definition

provided, however, that Confidential Information shall not include information that [Receiving Party can demonstrate]^D: (i) was in **Receiving Party's, or its Representatives', possession before** receipt from Disclosing Party or its Representatives[, as shown by written or other tangible evidence and which was not acquired or obtained from a source that Receiving Party or its Representatives had reason to believe was bound by confidentiality obligations with respect to such information]^D; (ii) is or becomes **generally available to the public, other than as a result of a disclosure by Receiving Party** or its Representatives in violation of this Agreement [or by disclosure by any other person or entity in violation of any contractual, legal or fiduciary obligation]^D; (iii) was or is **lawfully received by Receiving Party or its Representatives from a source other than Disclosing Party** or its Representatives[, unless Receiving Party or one or more of its Representatives has or had reason to believe that such source is prohibited from transmitting the information to Receiving Party or its Representatives by a contractual, legal or fiduciary obligation]^D; or (iv) was or is **independently developed by Receiving Party** or its Representatives[, without use of, or reference to, Confidential Information, as shown by written or other tangible evidence]^D.

Marking Requirement

- Receiver may want information to be marked “Confidential” to be protected
- Trap for Unwary
 - Risk of noncompliance – forgetting to mark
- Savings clauses for unmarked disclosures
 - Information Recipient reasonably should know is confidential
 - Information marked later than deadline
 - Only applies to improper disclosures after marking

Marking Requirement (Cont'd)

[Notwithstanding anything to the Contrary in this Agreement, **information shall be deemed Confidential Information only if it is: (a) marked as Disclosing Party's Confidential Information (or with an equivalent legend) at the time of disclosure, if disclosed in tangible or retainable form; or (b) identified as Disclosing Party's Confidential Information at the time of disclosure and summarized and designated as confidential in a writing delivered to a Receiving Party's authorized representative within thirty (30) days after disclosure is made, if disclosed in any other manner. Information disclosed pursuant to clause (b) of the preceding sentence shall be treated as Confidential Information under this Agreement during the period permitted for providing written confirmation. Further, information that the Receiving Party should reasonably know is confidential or proprietary shall be deemed Confidential Information even if not marked as Disclosing Party's Confidential Information.]^R**

Treatment of Confidential Information

- Standard of Care – at least reasonable degree of care
- Notify Discloser of any prohibited disclosures

Treatment of Confidential Information (Cont'd)

Except as specifically permitted in this Agreement, Receiving Party shall, and shall cause its Representatives to, **hold all Confidential Information in strict confidence and not disclose** Disclosing Party's Confidential Information to any third party, except as approved in writing by Disclosing Party, and will **use such Confidential Information for no purpose other than the Permitted Purpose**. Receiving Party will use the same degree of care, but **no less than a reasonable degree of care**, that Receiving Party uses to protect its own confidential information of a like importance to protect Disclosing Party's Confidential Information. Receiving Party may disclose Disclosing Party's Confidential Information to **its Representatives who have a need to know** and are directly concerned with furthering the Permitted Purpose, so long as such **Representatives are bound by confidentiality obligations** at least as protective of Disclosing Party's Confidential Information as Receiving Party's obligations under this Agreement. Receiving Party will **notify Disclosing Party, in writing, immediately upon learning of any prohibited disclosure**, misuse or misappropriation of Disclosing Party's Confidential Information.

Compelled Disclosure

- No violation if Confidential Information is disclosed:
 - As required by law
 - Pursuant to valid order of court of competent jurisdiction
 - As necessary to establish the rights of the parties in a dispute
- Requirements
 - Notice to Discloser
 - Cooperation at Discloser's cost

Compelled Disclosure (Cont'd)

Notwithstanding the provisions of Section 3, Receiving Party shall not be in breach of this Agreement if it, or any of its Representatives disclose Confidential Information (i) **in response to a valid order** by a court or other governmental body of **competent jurisdiction**; (ii) **as required by law**; or (iii) if such disclosure was **necessary to establish the relative rights of the Parties in a legal proceeding**; provided, that Receiving Party promptly **notifies Disclosing Party in writing of any such requirement so that Disclosing Party may seek an appropriate protective order** or other appropriate remedy or waive compliance with the provisions of this Agreement. **Receiving Party will reasonably cooperate** with Disclosing Party so that it can seek a protective order or other appropriate remedy or limitation, and **Disclosing Party will reimburse all reasonable costs** (including reasonable attorneys' fees and expenses) incurred by Receiving Party in connection with a written request for specified assistance and cooperation by Disclosing Party.

Compelled Disclosure (Cont'd)

- Trap for the Unwary:
 - Information required to be disclosed by law, court order, etc. still needs to remain Confidential Information for all purposes
 - This is merely an exception to the requirement to keep the information confidential, not an exception to the definition of Confidential Information

Non-Solicitation

- **BPC 16600 - “every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”**
- **Non-solicitation of Customers/Suppliers is Unenforceable Non-compete**
 - OK to extent confidential information/trade secrets are used
- **Non-solicitation of Employees No Longer Enforceable**
 - May be OK to extent confidential information/trade secrets are used

Non-Solicitation

- *Prior Law*
 - *Loral v. Moyes* (1985) - prohibiting defendant from “raiding” the plaintiffs’ employees was a “reasonable” restraint
 - *Edwards* - no “rule of reasonableness” under Section 16600 (didn’t address EE non-solicitation, so didn’t overrule *Loral*)

Non-Solicitation (Cont'd)

- ***AMN Healthcare v. Aya Healthcare Services***
 - Can't prohibit travel nurse recruiters from soliciting nurses working at former employer (improperly restrains them from engaging in their profession)
 - EE non-solicitation clause invalid under Edward
 - Involved nurse recruiters, was it limited to its facts?
- No, AMN not Limited to its Facts (not Cal SCt)
 - *Barker v. Insight Global* - "former employer [cannot restrain] a former employee from engaging in his or her lawful profession, trade, or business *of any kind*"
 - *WeRide v. Huang*

Non-Solicitation (Cont'd)

During and after the termination of Employee's employment with Company, Employee will not, directly or indirectly, solicit or otherwise take away **customers or suppliers of Company [and will not, directly or indirectly, encourage or solicit any employee or consultant of Company to leave Company for any reason] if, in so doing, Employee would use or disclose any trade secrets or proprietary or confidential information of Company.** Employee agrees that the **non-public names and addresses of Company's customers and suppliers [and non-public information about employees]**, including such customers' and suppliers' buying and selling habits and special needs[, and non-public information about employee skills and compensation,] created or obtained by Employee during Employee's employment with Company, **constitute trade secrets or proprietary and confidential information of Company.**

* Bracketed language not litigated with respect to EE non-solicitation, but likely enforceable (in my personal opinion only).

Termination; Survival

- Term of Agreement
 - Should it survive execution of definitive agreements (e.g., Merger Agreement)?
 - 1/2 year term
- Survival
 - Perpetuity
 - Some states – unreasonable restraints on trade – unenforceable
 - Limited duration of confidentiality obligations
 - 2/3/5 years
 - Trade secrets trap – may lose trade secret protection

Survival - Trade Secrets

- Trade secret
 - Information
 - Economic value from secrecy
 - Not generally known
 - Reasonable efforts to maintain secrecy
 - “[A]dvising employees of the existence of a trade secret, limiting access to the information on a ‘need to know basis,’ requiring employees to sign confidentiality agreements, and keeping secret documents under lock.”
- Solution to protect trade secrets
 - If there is a fixed duration, trade secrets survive so long as they qualify as trade secrets

Survival - Trade Secret (Cont'd)

This Agreement may be terminated at any time by either Party upon thirty (30) calendar days' written notice to the other. A Receiving Party's **obligations of confidentiality** with respect to any Confidential Information received prior to the effective date of termination **shall survive** any such termination **[for a period of 3 years thereafter]^R[; provided, however, that, with respect to any trade secret, such obligations shall remain in effect for as long as the trade secret remains a trade secret under applicable law relating to trade secrets]** ^{D1}.

IP Rights; Reps & Warranties

- Discloser retains all IP Rights in its Confidential Information
- Discloser represents it has the right to disclose
- Discloser makes no warranties re the information itself
 - Provided “AS IS”
 - Make sure definitive agreement overcomes this so it doesn’t eliminate value of representations and warranties re Confidential Information

Intellectual Property Rights

Disclosing Party retains all right, title and interest in and to its Confidential Information. No Receiving Party acquires any intellectual property or licensing rights in Confidential Information it receives under this Agreement, by implication, estoppel or otherwise, except for the Permitted Purpose. Unless included in the Permitted Purpose, not by way of limitation of the foregoing, Receiving Party shall not make, have made, use, loan or sell for any purpose any product or other item using, incorporating or derived from Disclosing Party's Confidential Information.

FEEDBACK

Feedback-What if Receiving Party gives Disclosing Party some good ideas related to its IP?

[“Feedback” means any ideas, suggestions, guidance or other information disclosed by Receiving Party related to Disclosing Party’s Confidential Information and any intellectual property rights relating to the foregoing.]^D

[Receiving Party hereby grants to Disclosing Party a non-exclusive, perpetual, irrevocable, royalty-free, worldwide license (with the right to grant and authorize sublicenses) to make, have made, use, import, offer for sale, sell, reproduce, distribute, modify, adapt, prepare derivative works of, display, perform and otherwise exploit Feedback without restriction.]^D

Representations; Warranties

Each Disclosing Party **represents and warrants that it has the right and authority to disclose the Confidential Information** it discloses to Receiving Party. Each individual executing this Agreement on behalf of a Party represents and warrants that he or she is duly authorized to execute and deliver this Agreement on behalf of such Party and agrees to deliver competent evidence of his or her authority to the other Party if requested by the other Party. EXCEPT AS SPECIFICALLY PROVIDED IN THIS AGREEMENT, **ALL CONFIDENTIAL INFORMATION IS PROVIDED “AS IS”**, AND EACH PARTY EXPRESSLY DISCLAIMS ANY WARRANTY, WHETHER EXPRESS OR IMPLIED OR STATUTORY, AS TO THE DESCRIPTION, QUALITY, TITLE, NON-INFRINGEMENT, MERCHANTABILITY, ADEQUACY, SUFFICIENCY, ACCURACY, FREEDOM FROM DEFECT OF ANY KIND, COMPLETENESS OR FITNESS FOR A PARTICULAR USE OR PURPOSE OF ANY CONFIDENTIAL INFORMATION.

Termination – Disposal/Return

- Upon request or termination – return/destroy Confidential Information
- Receiver's retention right
 - Compliance requirements
 - Ability to prove compliance with confidentiality obligations

Termination – Disposal/Return (Cont'd)

Within fifteen (15) days after receiving a written request from Disclosing Party, Receiving Party shall: (a) **erase** all Confidential Information (including whole or partial copies and derivations) stored on electronic media, and (b) **return or, at the written request of Disclosing Party, destroy** all Confidential Information provided by Disclosing Party in any tangible form, **including all copies and derivations, and all summaries**, analyses, studies, and other material whatsoever relating in any way to the Confidential Information which was prepared by Receiving Party or any of its Representatives[; **provided, however, that Receiving Party may retain one copy of the Confidential Information for its legal files for compliance purposes subject to its obligations set forth in this Agreement**]R. An officer of Receiving Party shall then provide Disclosing Party with written notice that Receiving Party has fully complied with all of its obligations under this Section 8.

Remedies for Breach

- Damages
 - Trap – exclusions against consequential damages in contracts (need to carve-out NDA)
 - Attorneys' fees
 - Responsibility for breaches by Representatives
- Injunction

Remedies for Breach-Damages

Each Party shall be **responsible for any breach of this Agreement by any of its employees**, agents or other Representatives. If any arbitration, litigation or other legal proceeding arising out of or relating to this Agreement occurs, the **prevailing Party shall be entitled to** recover from the other Party in addition to other relief awarded or granted, its reasonable **costs and expenses, including (without limitation) attorneys' fees**, incurred in the arbitration, litigation or other proceeding, or in any appeal thereof, in the amount determined by the appropriate arbitrator, trial court or appellate court.

Remedies for Breach-DTSA

- Defend Trade Secrets Act of 2016
 - Federal civil cause of action for trade secrets “related to a product or service used in, or intended for use in, interstate or foreign commerce.”
 - Injunction and 2x damages (plus attorneys’ fees) if willful and malicious
 - Immunity for whistleblower who discloses trade secret information to a government official or attorney for the purposes of reporting violation of the law
 - Exempts someone who discloses the information under seal in a lawsuit
 - After 5.11.16, immunity must be disclosed to employees, contractors and consultants that “governs the use of a trade secret or other confidential information.”

Remedies for Breach-DTSA (Cont'd)

Pursuant to the Defend Trade Secrets Act of 2016, [Employee/Consultant] acknowledges that he or she shall **not have criminal or civil liability** under any Federal or State trade secret law for the **disclosure of a trade secret** that is made (i) **in confidence to a Federal, State or local government official**, either directly or indirectly, or to an attorney, solely for the **purpose of reporting or investigating a suspected violation of law** or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, **if [Employee/Contractor] files a lawsuit for retaliation by the Company for reporting a suspected violation of law, [Employee/Contractor] may disclose the trade secret to his or her attorney and may use the trade secret information in the court proceeding** if [Employee/Contractor] (x) files any document containing the trade secret under seal and (y) does not disclose the trade secret, except pursuant to court order.

Equitable Relief - Injunctions

Each Receiving Party acknowledges and agrees that the breach by it of any of its confidentiality obligations hereunder will cause serious and irreparable harm to Disclosing Party that could not adequately be compensated by monetary damages. Each Receiving Party therefore agrees that, in addition to any of the remedies to which a Disclosing Party may be entitled at law or in equity, **a Disclosing Party will be entitled to an injunction or injunctions (without the posting of any bond and without proof of actual damages) to prevent breaches or threatened breaches of this Agreement and to compel specific performance of this Agreement.** Such remedies shall not be deemed to be the exclusive remedies for a breach of this Agreement, but shall be **in addition to all other remedies** available at law or equity.

Relationship of the Parties

Each Party is an independent contractor and no agency, partnership, joint venture or other business relationship is created between the Parties by this Agreement. **Neither Party, by virtue of this Agreement, is authorized to be an agent, employee or legal representative of the other Party.** Except as provided herein otherwise, **each Party shall bear all costs and expenses it incurs** in connection with this Agreement or its use of the information furnished pursuant to this Agreement.

Nothing in this Agreement requires a Party to enter into any further agreement with the other Party regarding the Confidential Information or any other subject, whatsoever. **Each Party reserves the right** in its sole discretion to (a) provide or **not provide Confidential Information**; (b) **reject any and all proposals** made by the other Party or its Representatives regarding any proposed transaction; and (c) **terminate discussions** and negotiations at any time.

Assignment

Neither Party shall assign or transfer any of its rights or obligations hereunder without the prior written consent of the other Party[; provided, however, that each Party may assign its rights under this Agreement [with respect to the **protection of its Confidential Information disclosed prior to such assignment**] **without such consent within the context of any merger**, consolidation, sale of all or substantially all of such Party's assets or any transaction in which more than 50% of such Party's voting securities are transferred (a "Change of Control"). The Party undergoing such Change of Control shall provide notice thereof to the other Party **within ninety (90) days of the closing** of the Change of Control]^D. Any attempted assignment or transfer of this Agreement in violation of this Agreement shall be void ab initio. This Agreement shall be binding on and inure to the benefit of the successors and permitted assigns of the respective Parties. Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the Parties and their successors or permitted assigns, any rights or remedies under or by reason of this Agreement.

Exporting Confidential Information

- Bureau of Industry and Security (BIS) - “Export Administration Regulations” (EAR), which regulates the export and re-export of most commercial items.
- Directorate of Defense Trade Controls - defense articles and defense services
- Office of Foreign Assets Control – prohibits/restricts trade with a list of countries and individuals
- Nuclear Regulatory Commission - export of nuclear materials, nuclear technology and technical data for nuclear power

No Party shall directly or indirectly export any other Party’s Confidential Information (including whole or partial copies or derivations) except in **compliance with all applicable laws, rules and regulations relating to the export or re-export of technical data** and information from the United States and other applicable countries.

Governing Law

- Governing law is key to knowing rights
 - e.g., term of confidentiality obligations
- Venue

This Agreement shall be governed and construed in accordance with the internal laws of the State of California, without reference to its conflicts of laws and choice of laws rules or principles. Any disputes based on this Agreement shall be adjudicated solely in the state or federal courts located in San Diego County, California. The Parties hereby consent to the personal jurisdiction and venue of such courts and also hereby irrevocably waive any defense of improper venue or forum non conveniens.

FIN

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