



The Key Elements of a Great NDA

ACC September 22, 2021



Preliminary Assumptions

- This is a non-disclosure agreement between two business parties, and not a company and an employee, consultant or contractor.
- The parties are mutually making disclosures to one another. Be wary of third party NDAs which can be unilateral and only protect the confidential information of the third party. Finally, if the agreement is to have specific rights and obligations for each party, this form must be revised.
- This sample NDA is generic rather than industry specific.
- It is assumed that the parties are US entities and the transactions will occur in the US.
- The NDA will be governed by CA law.

Key Issues and Other Considerations

A brief overview

➤ The key points to consider and negotiate:

- Definition of Confidential Information (“CI”), including exclusions therefrom
- Marking requirements
- Recipient’s obligations regarding CI, including compelled disclosures thereof
- Term
- Survival of Obligations
- Disposal or return of CI
- Remedies for Breach
- Venue and Forum

Definition of Confidential Information

Section 1 of sample NDA

- Check that the definition of CI is broad enough to cover the information you may disclose.
 - Depending on the space you operate in, what else might be applicable? Engineering information? Software? Algorithms?
- To mark or not to mark?
 - Discloser vs. Recipient
 - While marking CI as such is a convenient way to assist the Recipient in identifying such information, it also inherently means that failure on the part of the Discloser to be vigilant in marking may remove any unmarked information from the protection of the NDA.
 - Consider both the volume of disclosures to be made between the parties and what percentage thereof will be confidential. If most of the information disclosed is confidential, likely best from Discloser perspective not to have a marking requirement.
 - If a marking clause is included, consider whether that should be (i) a strict requirement, or (ii) allow for retroactive marking to correct any failure to mark, or (iii) include a requirement that the Recipient treat as confidential that information which is reasonably understood to be confidential.
 - Consider that the DTSA requires the Discloser take reasonable measures to keep the CI a secret.

Nondisclosure and Nonuse Obligations

Section 2 of sample NDA

Duties of the Recipient

- Use the CI only for the express defined purpose
 - This needs to limit the use AND the disclosure of the CI.
 - Is the NDA to cover a narrow engagement between the parties?
 - Should the language be more general to encompass negotiation of a definitive agreement?
 - Or is the NDA for an ongoing relationship and the obligations should continue after the execution of any single agreement? If so, broaden the purpose to include “*discussions of present or future matters under existing or future business arrangements.*”
- Should include non-disclosure obligations
- Standard of Care: at least reasonable care
- Limit disclosure to a need to know basis
- Responsibility regarding representatives
- Immediately notify the Discloser of any breaches of the agreement or unauthorized disclosures

Exclusions from Nondisclosure and Nonuse Obligations

Section 3 of sample NDA

- There are four common carve-outs to the definition of CI which provide exceptions to the nondisclosure and nonuse obligations of the Recipient:
 - i. Publically available information
 - ii. Information already in possession of Recipient not pursuant to a confidentiality obligation
 - iii. Information developed by Recipient independent of the CI
 - iv. Information Recipient receives from a third party on a non-confidential basis
- Legally Required Disclosures
 - Are not a breach, but do require prior written notice to the Discloser

Ownership and Return of Confidential Information and Other Materials

Section 4 of sample NDA

- All disclosed information is property of Discloser; no license or rights are granted
- Want to include a provision requiring return or destruction within a certain time period:
 - Within 5 days after any request by Discloser, return or destroy
- Make sure that this obligation to return or destroy is not subject to an exception for backup or archived copies
- Written certification of Recipient's compliance

Independent Development & Residual Information; Disclosure of Third Party Information

Sections 5 and 6 of sample NDA

- This protects the right of Recipient to develop products or services which may compete with the products or systems in the Discloser's CI
 - This clause should be limited to development without violation of this Agreement
- Beware of a clause which defines "Residual Information" too broadly – it should be limited to general skills and experience of an employee or contractor who has been exposed to the CI of the other party and does not result in a violation of the other party's intellectual property rights.
- Protection of the rights of third parties in their proprietary information

No Warranty, No Export and No Assignment

Sections 7, 8 and 10 of sample NDA

- All three quite standard and rarely the subject of negotiation
- All CI is “as-is”
- NDA should include an acknowledgement that the CI may be subject to export control laws and agree to comply with such laws
- An assignment requires prior written consent from the other party

Term/Termination/Survival

Section 9 of sample NDA

- Note that the language of Section 9 addresses two key points relating to the term:
 - The period of time during which the parties may disclose information and such information will be covered by the NDA.
 - The period of time that the parties are required to maintain the confidentiality of the information that is disclosed during the period referenced in the first point above.

- Three potential issues with the term:
 - No defined period of time for when information may be disclosed under the NDA
 - Warning: always check the NDA to ensure that it covers the period of time during which you will share information. Does it need to be retroactive? Was there a gap since parties first talked?
 - Confidentiality obligations expire “X” years from date of disclosure (this requires tracking of the date of disclosure of every piece of CI)
 - Tip: if confidentiality obligations not indefinite, the length of time should be measured from the termination date or effective date of the agreement, not the date of disclosure.
 - Confidentiality obligations expire without a carve out for trade secrets: if there is an expiration date on the confidentiality obligations, there should be a carve out for trade secrets

Term/Termination/Survival, continued

Section 9 of sample NDA

- If there is a termination provision, termination by either party on 30 days' written notice is common
- Survival period of the obligations is key; 3-5 years is a normal range and factors include:
 - Type of information being shared
 - Length of time before the information is no longer current
 - Peg length of time for information protected by rule or regulation to any such required time frames

Injunctive Relief and DTSA

Sections 11 and 12 of sample NDA

Remedies

- Injunction – the most important
- Specific Performance
- Damages
- Occasionally one may see a provision which requires the Recipient to indemnify the Discloser if any third party brings an action against the Discloser because of a breach of the agreement by Recipient.
- Defend Trade Secrets Act of 2016 provides a federal civil cause of action for trade secrets as well as immunity for whistleblowers

Governing Law; Forum

Section 14 of sample NDA

- If not California, Delaware and New York are used most often
- Note that the DTSA does not pre-empt state law, so consider which is more favorable
- Forum is more important than choice of law
 - DTSA provides US district courts with exclusive original jurisdiction of DTSA civil actions
 - If one has both a DTSA cause of action and a civil action under state law, it is likely that a federal district court would have supplemental jurisdiction over the state law claims
 - If there is no state law claim, a federal court could possibly have diversity jurisdiction
 - Options:
 - Mandatory forum selection clause/ floating reciprocal selection/ permissive selection

Notices, Severability, Waiver/Modification and Entire Agreement

Section 13, 15, 16 and 17 of sample NDA

- These are standard clauses and rarely negotiated.

Thank you