

The Promise and Perils of Non-Disclosure Agreements (NDAs)

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General considerations for NDAs

- The basic elements of an NDA are commitments:
 - Not to disclose the other party's confidential information (CI) to third parties
 - To use the other party's CI only for permitted/defined purposes
 - To use reasonable efforts to safeguard the other party's CI from unauthorized use or disclosure
- When is an NDA appropriate?
 - Two parties exploring a possible business relationship
 - Discussions between a patent holder and potential licensee
 - Facilitation of financing transaction
 - Employee or consultant relationships

Importance of NDAs

- Don't assume an NDA is a "standard" agreement
 - Be aware of what obligations you are assuming, and what rights the NDA affords the other party in relation to your CI
 - Propose modifications to the NDA, and consider limiting CI disclosure if the other party objects
 - *Caveat Subscriptor* – Let the signer beware!
- What if the other party refuses to enter into an NDA?
 - Ensure patent and trademark coverage before disclosing CI
 - Clarify the stage at which the other party would enter into an NDA
 - Refrain from disclosing highly sensitive information without an NDA

Trade Secrets

- Trade secrets are a subset of CI
- Additional protection for trade secrets under federal and state laws
 - Uniform Trade Secrets Act (UTSA) – adopted by all states except NY
 - Defend Trade Secrets Act (DTSA) – creates a federal cause of action for trade secret misappropriation
 - The DTSA defines trade secrets as “all forms and types of financial, business, scientific, technical, economic, or engineering information . . . if (A) the owner thereof has **taken reasonable measures to keep such information secret**; and (B) the information derives **independent economic value, actual or potential, from not being generally known** to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.”
- Misappropriation if the trade secret was acquired improperly, or in violation of a duty to maintain it as secret or limit its use

Provisions of an NDA

- Standard provisions of an NDA include:
 - A definition of CI, including exceptions
 - Restrictions and obligations regarding disclosure and use of CI
 - Obligations for protection of CI from unauthorized use/disclosure
 - Restrictions on copying and reverse engineering CI
 - Provisions relating to the disclosure of CI to third parties
 - Commitments to return or destroy CI when the NDA ends or on request
 - Provisions for survival of obligations with respect to CI
 - Warranty and liability disclaimers
 - Provisions relating to disputes and injunctive relief

What constitutes CI under the NDA?

- CI can include various items:
 - Written/electronic (tangible) information
 - Oral/visual information
 - Sample materials
- Be wary of an overly broad definition of CI
 - It dilutes protection of true confidential information
 - As a practical matter, it is burdensome to treat everything as CI
- The definition of CI should
 - Require tangible CI to be marked as such
 - Require non-tangible CI to be identified as such and summarized in writing
 - Include information Recipient should reasonably expect Discloser would want treated as confidential
 - Include standard exceptions for certain information

Basic definition of CI

- “Confidential Information” means this Agreement and its terms, together with **all information disclosed to Recipient by Discloser** during the term of this Agreement, **including, without limitation, technical, economic, intellectual property and other business information**, which information is: (a) disclosed in writing or other tangible form and marked as confidential or with a similar designation, (b) orally or visually disclosed, identified, to the extent reasonably practicable, as confidential at the time of disclosure, and confirmed as such in writing within thirty (30) days thereafter, or (c) of such a nature that Recipient should reasonably Discloser would want it treated as confidential.

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Basic definition of CI

- However, “Confidential Information” excludes any information that:
 - (a) **is known by Recipient**, without restriction, at the time of disclosure
 - (b) is or becomes **generally known or publicly available** without breach of this Agreement;
 - (c) is **obtained by Recipient in good faith from a third party** that is not subject to any obligation of confidentiality respecting the information; or
 - (d) is **independently developed** by or on behalf of Recipient without the benefit of Confidential Information, **as shown by competent written records**.

Are results derived from CI protected?

- Review/evaluation of CI is generally permitted, but results from such activity are often not treated as CI
 - This can be addressed in the definition of CI, or elsewhere in the NDA
 - Particularly important if samples, prototypes or other tangible items are provided
- Consider the following protections:
 - Treat results as CI of both parties
 - State that neither party can make any patent filings or publications based on results without the other party's consent
- Ownership of results is a separate matter
 - If IP rights are a concern, consider a Material Transfer Agreement (MTA)

Sample provisions for results

- All data, information and results derived from Recipient's evaluation or use of any Confidential Information or Samples of Discloser (collectively, "Results") **shall be treated as Confidential Information of both parties** under this Agreement.
- Recipient shall not **publish or otherwise disclose to any third parties, or reference or include in any patent application or other intellectual property rights filing,** any data, information or results derived from Recipient's evaluation or use of any Confidential Information or Samples of Discloser without Discloser's prior written consent.

Are protections in place for CI disclosed to third parties?

- Typically, the recipient may disclose CI to employees, directors, advisors, consultants, contractors and affiliates
 - Consider whether these third parties are potential competitors
- If disclosure is permitted:
 - Limit disclosure to third parties with a need to know the CI for the purpose
 - Require the third parties to be bound by similar obligations regarding the CI
 - Hold Recipient responsible for breach of those obligations by third parties
- Consider whether a three-party NDA is appropriate

Sample provisions for third-party disclosure

- Recipient may disclose Confidential Information of Discloser to Recipient's and its Affiliates' officers, employees, representatives and advisors (collectively, "Representatives") **who have a need to know** the Confidential Information in order to carry out the Purpose, provided that each such Representative is (a) informed of the confidential nature of such Confidential Information; and (b) **bound by obligations no less protective of such Confidential Information** than the obligations imposed on Recipient under this Agreement.
- Recipient shall be **responsible for ensuring compliance** by its Affiliates and Representatives with the obligations imposed on Recipient under this Agreement, **as well as for any breach thereof.**

Does the NDA contain a residuals clause?

- A residuals clause allows the Recipient's personnel to use any information in their unaided memories, without restriction
- If so, consider the following:
 - Limiting to use of general knowledge
 - Including carveouts for specific items, such as customer data
 - Clarifying that memory is not "unaided" if CI is remembered using mnemonic devices, notes or other documents, or if it is intentionally memorized
 - Imposing a firewall so CI can only be reviewed by limited personnel of Recipient

Sample residuals clause provisions

- Recipient is free to use Residuals resulting from access to or work with Confidential Information of Discloser for the purpose of gaining **generic or peripheral knowledge** in its business activities, or to enhance its ideas, concepts, know-how and experience only.
- “Residuals” means **information in intangible form retained in the unaided memory of persons** employed or retained by Recipient who have had access to or worked with Confidential Information of Discloser, including ideas, concepts, know-how or techniques contained therein, but **excluding customer data and personally identifiable information**.
- Memory is not considered “unaided” with respect to information if such information **is remembered using mnemonic devices, notes or other documents**, or if it **was intentionally memorized** in any other way.

Sample residuals clause provisions

- Nothing in this Agreement will restrict Recipient's use or disclosure of **residual knowledge of a general nature retained in the unaided memory** of Recipient's employees or representatives who may have had access to Confidential Information of Discloser.
- Recipient shall establish a **firewall** within its organization to ensure that no Confidential Information of Discloser is shared with **any technical or research personnel directly involved in Recipient's own development activities relating to the Purpose.**

Does the NDA contain a feedback clause?

- A feedback clause allows Discloser to use feedback received from Recipient regarding Discloser's products/technology
 - Might result in a license for Discloser to use whatever ideas, suggestions or feedback Recipient provides
- Are the parties competitors?
 - If not, this clause might not be an issue
 - If so, consider carefully what feedback is provided to Discloser
- Clarify that no rights are provided under any patents or IP of Recipient

Sample feedback clause provisions

- **Nothing in this Agreement will restrict Discloser's use and disclosure of any feedback**, suggestions, or ideas provided by Recipient pertaining to Discloser's existing or planned products, services, devices, or other technology.
- Recipient may, but is not required to, provide suggestions, comments, ideas, or know-how to Discloser relating to actual or planned products, services or technology of Discloser ("Feedback"), and any such **Feedback is deemed licensed to Discloser (with the right to sublicense through multiple tiers) on a perpetual, irrevocable, worldwide, paid-up, and royalty-free basis**, and may be disclosed or used by Discloser for any purpose.

Is there an appropriate period of protection for CI?

- NDA protections typically apply only to information disclosed during the term of the NDA – Period of Disclosure
 - Consider whether these protections should apply to previously disclosed CI
- Obligations to protect CI should continue beyond the term of the NDA – Period of Protection
 - From the date of disclosure – but this makes tracking difficult
 - During the term of the NDA and for some number of years thereafter – typically three to five years
- For trade secrets, the period of protection should continue as long as the CI remains a trade secret

Sample term and survival provisions

- The term of this Agreement shall **commence on the Effective Date** and **expire upon the earlier of two (2) years thereafter**, or termination of this Agreement as permitted hereunder.
- The obligations of Recipient with respect to Confidential Information of Discloser obtained during the term of this Agreement shall **survive its expiration or sooner termination for a period of five (5) years**, except for trade secrets for which such obligations will **survive so long as the information remains a trade secret** protectable under applicable law.

How will disputes under the NDA be handled?

- Note the governing law and any jurisdiction in which legal actions must be filed
 - Consider how burdensome it would be to have to file or defend against an action in the stated jurisdiction
- Acknowledge the right to seek injunctive relief for breach of the NDA
 - Clarify that injunctive relief to enforce the NDA can be brought in any court of competent jurisdiction
 - Consider language that injunctive relief can be sought without posting any bond or other security

Sample injunctive relief provisions

- Recipient acknowledges that any violation of its obligations in this Agreement may result in irreparable injury and damage to Discloser, which injury and damage is likely not adequately compensable in monetary damages and for which Discloser would likely have no adequate remedy at law or in equity. Recipient therefore agrees that, in the event of any such violation, **Discloser may seek to obtain such injunctions, order and decrees in a court of competent jurisdiction** as may be necessary to protect the Confidential Information of Discloser, **without the necessity of proving actual damages and without posting any bond or other security**. Such injunctive relief shall be in addition to any other rights or remedies available to Discloser.

Concluding comments

- Take care to review NDAs before signing them
 - Do not expect them to be fair or even-handed
 - You will be bound by what you sign, even if the other party wrote the NDA
 - Consider seeking professional review before signing an NDA (or any other contract)
- Even if a protective NDA is in place, it may be difficult to prove a breach or enforce
 - Consider what CI to provide, and avoid providing highly sensitive CI where possible
 - If sample materials or prototypes will be provided, consider an MTA or other more protective agreement



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Scott Bovino has 30 years of experience leading legal and business teams to capitalize on technical innovations and business opportunities in a global environment. He specializes in strategizing, drafting, and negotiating licensing and other business arrangements to successfully monetize patents and other intellectual property. Before joining Meagher Emanuel in 2012, Scott was Vice President and General Counsel at Universal Display Corporation (Nasdaq: OLED) for over nine years. While a Partner at Meagher Emanuel, Scott also served as Vice President and General Counsel for 1WorldSync, Inc. from 2013 until 2020. From 1994 to 2002, he was an Associate with the law firm Morgan, Lewis & Bockius, LLP, in Philadelphia, PA. Scott clerked on the U.S. Court of Appeals for the Third Circuit for the Honorable Samuel A. Alito, Jr. during the 1993-94 term. He received a J.D. with Honors from The University of Chicago Law School (1993), an M.S. in Chemistry from Stanford University (1990), and a B.A. from Franklin & Marshall College (1988). Scott is admitted to practice law in New Jersey and Pennsylvania.

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