The Startup's Guide to Nondisclosure Agreements

Preface:

For the purpose of this publication, "NDA" shall mean Nondisclosure Agreement, also known as a confidentiality agreement (CA), confidential disclosure agreement (CDA), proprietary information agreement (PIA), or secrecy agreement (SA).

A common question in the startup or small business context is "Should I have an attorney review this NDA?" It is always best to have an attorney review every contract including NDAs, since they are binding contractual agreements. However, many business executives end up skimming and signing NDAs without any legal advice or review due to time constraints, lack of financial resources, or lack of access to a qualified attorney. So, while this publication does not constitute legal advice and its authors are not your attorneys, it does contain information to highlight many of the big picture issues that attorneys consider when reviewing NDAs. This information is meant to be a general education on the topic of NDAs and does not and could not cover all of the potential issues that can arise.

Chapter 1: PARTIES

The first thing you need to know about any contract is who the parties are. A "Party" is a person or entity involved in an agreement.[1] A party can enter into a contractual transaction, file a lawsuit, and defend its rights. There are several questions to ask when looking to define who the parties to a contract are:

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[1] *The People's Law Dictionary.* (2005). Retrieved June 27 2014 from http://legal-dictionary.thefreedictionary.com/party

- What type of entity is each signatory (Individual? Corporation? LLC?)? Is it in good standing?
- Where is each signatory located?
- Any history of bad press or red flags that come up when you research their identities?
- Who will you be dealing with and are they able to bind the legal entity?

Why do the parties matter? First, if a startup operates as an LLC or a C corporation, it needs to enter all contracts as the legal entity and not as the individuals who sign the agreements in order to preserve the corporate liability shield. If you believe you are working with one company, but in actuality, you will be disclosing information to them and all of their sister and brother companies within a larger group of companies controlled by a parent company, this may change your opinion about how much you wish to disclose and/or what uses of the information should be allowed.

Others associated with the Party:

The NDA may call for others to be associated with the Party. These can include affiliates, subcontractors, advisors, permitted receivers, and others as defined in the agreement.

- **Affiliates:** Affiliates are a person, entity, subordinate, member, organization, or subsidiary party that either has control over the party in the contract or controlled by the party in contract. Affiliates can have common owners or directors, shared business interests, or control through ownership.
- **Subcontractors:** A subcontractor is one who contracts with a primary contractor to perform some or all of the primary contractor's obligations under a contractual agreement.

- **Advisors**: A person who gives official or professional advice, typically as an expert in a particular field. These can be legal, financial, technical, and general.
- **Permitted receivers:** A person chosen or permitted by the party to receive or have access to a business transaction, property, or information.

The above, if named in the agreement as permitted receivers of information and/or members of the party, become linked to the actual party and may have access and/or the ability to use information as set forth in the agreement. In summary, knowing the details of the opposing party is the first step to understanding issues or concerns that could arise from your disclosure of information to them.

Chapter 2: PURPOSE

A purpose is something set up as an object or end to be attained, an intention.[2]

The purpose of the information sharing is central to reading an NDA – in order to know whether the appropriate use limitations and distribution permissions should be included in the document, you need to understand the purpose of the parties for entering into the discussions in the first place. Like many terms, the term "Purpose" may have slightly different meaning when considering it in the legal context than when considering it in the day-to-day context.

The legal purpose is the reason why the parties are entering into an agreement and should limit the parties' rights and responsibilities accordingly.

[2] *Merriam-Webster*. (2014). Retrieved June 30, 2014 from http://www.merriam-webster.com/dictionary/purpose

Sales or Service Partnerships

For example, suppose you are evaluating the feasibility of your company (Party A) entering into a partnership with Party B, perhaps to determine whether you both may co-sell into the same customer channels, or to determine if you may be able to work together to market complimentary products and services. To do so, both parties may need access to the other party's confidential information.

In this case, a proper description of the purpose of entering an NDA would be *"to survey or evaluate another's product or services."* In contrast, *"to develop new products based on the information"* or *"to incorporate information into a party's product offerings"* would *not* be appropriate purposes of the agreement because neither party intends to authorize the other party to do those things.

Potential sales and mergers

Another common NDA use case is a potential business sale, merger, or acquisition. In these types of transactions, NDAs are used in a different manner, for the purpose of *"evaluating a potential purchase of or merger with the other party's business."* Both parties have an interest to protect discussions and ensure that their confidential information and trade secrets are not used or disclosed by the other party if the acquisition or sale ends up not taking place.

Broad catch-all purpose

Many purposes that parties enter into NDAs fall under a broad catch-all business purpose which is typically written in a manner similar to this: *"The purpose of evaluating/entering a mutually beneficial business transaction between the parties."* This broad description is useful when you may not know where the discussions may end up. This purpose allows flexibility while ensuring that in no event is the information to be used for anything that doesn't benefit both parties. The

key protection here, if applied correctly, is that everything governed by the Agreement has to be mutually beneficial to both parties.

Some best practices to keep in mind:

1) If you know the specifics of the intended discussion, then limit the purpose language to cover only that particular transaction.
2) If you do not know where discussion negotiations are leading, then make the purpose of the NDA broader, and make sure to include the term "mutually beneficial" in the purpose language.

So why does purpose matter? The legal purpose in an NDA is the default limitation that should be included in all conditions in the agreement.

Chapter 3: LIMITATIONS

It is usually important that the following limitations are present in an NDA:

(1) Standard of Care.

(2) Use.

(3) No copying.

(4) No Distribution.

(5) No license granted.

These limitations may not be clearly laid out for you in the NDA, although some can be clustered together, as discussed below. If you don't recognize the presence of limitations that you need, you may want to suggest additional language to cover them. Ask yourself if there are particular ways the other party could use your information that you would want to prohibit? There are

innumerable special cases and unique limitations that can arise in NDAs, but the five listed above are the most common.

(1) Standard of Care

Standard of Care is a legal duty of care, or a set requirement, owed from one person to another based on surrounding circumstances. By signing an NDA with an explicit standard of care, the receiving party agrees to treat (store, handle, use) the discloser's confidential information in accordance with the stated standard.

A commonly used standard of care is to require the other party to treat your information in the same manner the party treats its own confidential information. Another common standard of care is to require that in no event may the other party treat your information in a manner that is not *"commercially reasonable."*

Example:

"The Receiving Party receiving Confidential Information agrees to use at least the same degree of care, but no less than a reasonable degree of care, that the Receiving Party treats its own similar information to prevent unauthorized disclosure or use of confidential information."

A secondary issue to consider with respect to the standard of care is whether the Party is responsible for the failures of its third party recipients?

This issue only arises when a party is not contractually prohibited from distributing or sharing your information with third parties (for example, independent contractors, lawyers, accountants, or others who may need access to the information).

If the NDA allows it, your confidential information could be shared by the recipient with a consultant that has no legal relationship or actual responsibility to you. In that case, you may need to require language that creates liability for the other party in the NDA in the event of a third party's breach of confidentiality.

If you are going to allow the other party to distribute your information to third parties with whom you do not have a contractual relationship, then you need the other party to commit to (i) ensuring that the standard of care is extended to its third parties and/or, (ii) being responsible for any breach of that standard of care by such third parties.

Examples:

1. *"The receiving party may disclose Proprietary Information to its employees, agents, and representatives who have a need to know such information for the purposes set forth in this Agreement. The receiving party shall be responsible for any breach of this Agreement by such employees, agents, and representatives."*
2. *"The Recipient is responsible for any acts or omissions of its Representatives that, if taken by the Recipient would constitute a breach of this agreement."*

(2) Use

Use limitations are diverse in the world of NDAs. One thing you want to keep in mind: A use limitation defines the allowed uses of the confidential information. Use limitations are usually in the beginning of NDAs near the stated purpose (and often are directly tied to the purpose), but there is no hard and fast rule. Without a proper use limitation, the receiving party may use your information for any purpose, including purposes you did not intend, for example to build a

competitive product or service or to aid them in offering competitive business terms to customers.

Examples:

1. *"Without limiting the generality of the foregoing, the Receiving Party will only use or reproduce the Disclosing Party's Confidential Information to the extent necessary to enable the Receiving Party to fulfill the purposes contemplated by this Agreement."*
2. *"Recipient agrees to use Discloser's Confidential Information for the sole purpose of evaluation in connection with the Project and discussions with Discloser related to the Project, or as otherwise agreed upon in writing by an authorized representative of Discloser."*
3. "*Recipient will not use Discloser's Confidential Information for any purpose except in connection with exploring a potential Transaction."*
4. "*The Recipient may use the Confidential Information solely for the purpose of evaluating Discloser's potential use of Company's products and services (The Purpose).*"
5. *"Receiving Party shall not…*

   otherwise use, or permit any others to use, any Confidential Information for any purpose other than the Purpose described in Section 2, without the prior written consent of the Disclosing Party."

<u>(3) No Copying</u>

If a party has access to your confidential information, you may or may not want them to be authorized to make copies of it. Read the language in the NDA that discusses copying and confirm that it correctly protects your information.

Examples:

1. *Recipient will not copy, distribute, or otherwise use the Information or knowingly allow anyone else to do the same, provided that Recipient may copy, internally distribute, and use the Information solely in pursuit of the Project.*
2. *"Recipient agrees not to copy, duplicate, disclose or deliver all or any portion of the Confidential Information to any third party"*

(4) No Distribution

If a party has access to your confidential information, you may or may not want them to be authorized to distribute copies of it. Read the distribution limitation and confirm that it correctly protects your information and only allows distribution to receivers who you want to have access to your information.

Example:

"Recipient shall not copy, distribute, or otherwise use such Information or knowingly allow anyone else to copy, distribute, or otherwise use such Information."

(5) No license

If a party has access to your confidential information, and that information is subject to protection under intellectual property rights, it is best to make it explicitly clear that no license to any intellectual property is being granted under the NDA.

Examples:

1. *"No license or right under any intellectual property right is granted under this Agreement or by any disclosure of Confidential Information except as expressly stated in this*
2. *"Nothing contained herein shall be construed, either expressly or implicitly, to grant to the receiving Party any rights to technology or a license under any patent, copyright, trademark or other intellectual property right now or hereafter in existence except for the limited Purpose set forth herein."*
3. *"The parties recognize and agree that nothing contained in this Agreement shall be construed as granting any property rights, by license or otherwise, to any Confidential Information of the other party disclosed pursuant to this Agreement, or to any invention or any patent, copyright, trademark, or other intellectual property right that has issued or that may issue, based on such Confidential Information."*

Chapter 4: RESIDUALS

A residuals clause is a tricky carve-out to the NDA's protections. Typically, a residuals clause exists to ensure that the free unaided memories of a receiver aren't restricted. The goal of a good residuals clause is to avoid trouble at some point in the future if the receiver of confidential information relies upon unaided memory for a different activity (that may be outside of the purpose of the NDA).

Examples:

1. *"Notwithstanding anything herein to the contrary, either party may use Residuals (as defined below) for any purpose or in any manner. The term "Residuals" means any information retained in the unaided memories of a party's Representatives who have had*

access to the other party's Confidential Information pursuant to the terms of this Agreement. A person's memory is unaided if the person no longer has access to the Confidential Information and has not intentionally memorized the Confidential Information for the purpose of retaining and subsequently using or disclosing it. Neither party has any obligation to limit or restrict the assignment of such persons or to pay royalties for any work resulting from the use of Residuals."

2. *The term "residuals" shall mean Information in intangible form, such as ideas, concepts, techniques and knowhow, which may be retained in the mind of those employees who have had rightful access to the Information. Each party shall be free to use the residuals of the Information for any purpose, subject to the patent, copyright and trademark rights of the Discloser."*
3. *"Receiver shall be free, at any time, to use the Residual Information retained by those of its employees who have had access to the tangible form of the Materials or Confidential Information received from Licensor, for any purpose, including the use of such Residual Information in the development, manufacture, marketing and maintenance of Receiver's products and services. 'Residual Information' shall mean that information in non-tangible form (subject only to the patent, copyright, and maskwork rights of Licensor and the obligation not to disclose such information during the period of confidentiality) which may be retained by Receiver's employees who have had access to the Materials or Confidential Information."*

Each of the underlined provisions above highlights the manner in which the residuals are carved out from the protections of the NDA in general and made available for uses outside of the purpose.

Chapter 5: CHOICE OF LAW

Choice of law is a provision that sets forth which state or country's law will govern the NDA. Every sovereign state has its own governing body of law for the interpretation of contractual agreements. As such, it is important to understand the differences between default choice of law and contractual choice of law provisions.

If choice of law is silent, the NDA could default to a number of places: where the agreement was signed, where one party operates a business, where a party is incorporated, or where the transactions or uses contemplated by the NDA take place.

For example, an agreement signed and executed (by two parties who operate their businesses in the same state) is most likely to default to the laws of that state. If, however, the parties operate their businesses in different states or multiple states, then there could be a conflict over which state's laws should apply. An express choice of law contractual provision eliminates these ambiguities. The body of law that determines which law applies is called "conflicts of laws."

A contractual choice of law is a contractual term that is part of the signed agreement. As such, it is enforceable against both parties. It is very common to see contractual choice of law provisions expressly disclaim conflicts of laws provisions of the selected state to avoid any unexpected consequences.

Example:

"This Agreement shall be subject to and governed by the laws of the state of California without regard to its provisions regarding conflict of laws."

Chapter 6: VENUE

Venue is the geographic location where a legal action takes place. A venue clause determines which court or administrative body is proper for a plaintiff to bring an action. There are two types of venue that can govern an NDA: (1) default and (2) contractual. In the absence of a venue clause, default venue laws apply, and a party may be sued wherever the opposing party can assert legal action.

A venue clause that is expressly written in the agreement results in a contractual agreement that all disputes relating to the contract will be resolved in the identified venue. Ask yourself and/or your attorney whether appearing in a legal action in a particular venue is to your benefit or detriment.

In short, if you are concerned about having to travel and defend yourself in a foreign venue, then you may wish to include a venue clause that binds the other party to resolution of disputes in your venue of choice.

Chapter 7: DEFINITION OF CONFIDENTIAL INFORMATION

The definition of Confidential Information is included in NDAs to define what is and what is not protected under the NDA. Confidential information can be contractually defined as a general category of information received (e.g. all information that a reasonable person would consider confidential in nature) or it can be drafted as a laundry list (e.g. presentations, data, financial analysis, and charts). Each and every NDA should uniquely define its confidential information – be sure to review the definition and confirm that you understand and agree about the information (both yours and the other party's) that will be governed by the NDA.

Examples:

1. *"'Confidential Information' means any and all information and material disclosed by one party (the "Disclosing Party") to the other party (the "Receiving Party") during the term of this Agreement that is marked as (or provided under circumstances reasonably indicating it is) confidential or proprietary, or if disclosed orally or in other intangible form or in any form that is not so marked, that is identified as confidential at the time of disclosure. Confidential Information includes the Purpose, discussions concerning the Purpose and timing or location thereof."*
2. *"Each undersigned party (the 'Receiving Party') understands that the other party (the "Disclosing Party") has disclosed or may disclose information relating to the Disclosing Party's business (including, without limitation, ideas, inventions and other technical, business, financial, customer and product development plans, forecasts, strategies and information), which to the extent previously, presently or subsequently disclosed to the Receiving Party is hereinafter referred to as 'Proprietary Information' of the Disclosing Party."*

Some definitions further define confidential information to require marking and summary. Marking and summary requirements act to ensure that only what is clearly marked as "confidential" or "proprietary" will be protected under the NDA. These types of provisions are often followed by a deadline to send the summary of oral disclosures in writing (e.g. 5, 15, 30 days after disclosure). If you fail to send a summary before the deadline then the confidential information you disclosed orally and did not summarize will not be protected by the NDA.

Marking and Summary Examples:

1. *"A recipient of Confidential Information under this Agreement ('Recipient') shall have a duty to protect only that Confidential Information which is (a) disclosed by the Discloser*

in writing and is marked as confidential at the time of disclosure, or which is (b) disclosed by the Discloser in any other manner and is identified as confidential at the time of the disclosure and is also summarized and designated as confidential in a written memorandum delivered to the Recipient's representative named above within 30 days of the disclosure."

2. *"Notwithstanding the foregoing, nothing will be considered 'Confidential Information' of the Disclosing Party unless (A) the Disclosing Party provides the Receiving Party with a non-confidential written summary of the matter to be disclosed prior to disclosure only after the Receiving Party has consented in writing and (B) (1) it is first disclosed in tangible form and is conspicuously marked 'Confidential' or the like or (2) it is first disclosed in non-tangible form and orally identified as confidential at the time of disclosure and is summarized and delivered in tangible form conspicuously marked "Confidential" or the like within 30 days of the original disclosure."*

3. **Or (optional marking and summary)** *"Although there is no marking requirement, Confidential Information, provided in written, encoded, graphic, or other tangible form shall be deemed to be confidential and proprietary if it is clearly marked 'confidential.' If the Confidential Information is provided orally, it shall be deemed to be confidential and proprietary if it is so identified by the Disclosing Party at the time of such disclosure or if by its nature it should be deemed confidential. Within five (5) days of making oral confidential statements, the Disclosing Party may confirm that such statements were confidential and proprietary by submitting a written description of said Confidential Information to the Receiving Party. Confidential Information shall include such*

information disclosed thirty (30) days prior to the Effective Date of this Agreement and which relates to the Purpose."

4. *"'Confidential Information' shall mean any information, including but not limited to data, techniques, protocols or results, or business, financial, commercial or technical information, disclosed by Company to Party which is reasonably necessary for the Purpose, and which (i) if disclosed in tangible form, is marked as "Confidential" at the time it is disclosed, or (ii) if disclosed in non-tangible form (including without limitation orally or visually), is identified as confidential at the time of disclosure and is summarized by Company with specificity in a writing marked 'Confidential' and given to Hospital within thirty (30) days after such disclosure."*

Chapter 8: EXCEPTIONS TO CONFIDENTIAL INFORMATION

Exceptions to confidential information are often found after the language defining confidential information. Before executing an NDA, it is important to understand what exceptions to confidential information exist, and whether you can accept that the information that falls under those exceptions will not be protected. As a receiver of another's confidential information, there are five common exceptions that you may want in the NDA:

(1) In the public domain; publicly known.

(2) Previously known to the recipient.

(3) Disclosed to the recipient by a third party without breach of a confidentiality obligation.

(4) Independently developed.

(5) Disclosed under operation of law (but solely to the extent of that disclosure).

(1) In the public domain; publicly known

If something is in the public domain or is generally known, the receiving party will want that information to be excluded from the definition of what is covered as confidential information. The reason for this is simple – if someone shares something with you that is commonly known, they shouldn't be able to limit how you can use the information. Without the NDA, you would have been able to discover and use it free of limitation from other sources.

Examples:

1. *"Confidential Information shall not include information that (a) is or becomes publicly available through no act or omission by the Recipient."*
2. *"The information becomes publicly available other than by the Recipient disclosing it in violation of this Agreement;"*
3. *"Notwithstanding the foregoing, the confidentiality and non-use obligations of the Receiving Party under this Agreement shall not apply to Confidential Information which… is within the public domain at the time of disclosure or that subsequently enters the public domain;"*
4. *"Without granting any right or license, the Disclosing Party agrees that the foregoing shall not apply with respect to any information after five years following the disclosure thereof or any information that the Receiving Party can document is or becomes (through no improper action or inaction by the Receiving Party or any affiliate, agent, consultant or employee of the Receiving Party) generally available to the public."*
5. "*Confidential Information will not include, or will cease to include, as applicable, information or materials that (i) were generally known to the public on the Effective*

Date; (ii) become generally known to the public after the Effective Date, other than as a result of the act or omission of the receiving party;"

(2) Previously known to the recipient

If the recipient previously knows the information before it is disclosed to them, the recipient will want to continue to be able to use the information despite the disclosure under the NDA. This explains why the "previously known" exception typically exists in NDAs.

Examples:

1. *"The Recipient already has or knows the information at the time the Discloser provides it;"*
2. *"Confidential Information shall not include information that…(b) was already in Recipient's possession without restriction before receipt from the Disclosing Party and was not subject to a duty of confidentiality;"*
3. *"Confidential Information will not include, or will cease to include, as applicable, information or materials that were rightfully known to the receiving party prior to its receipt thereof from the disclosing party."*
4. *"Disclosing Party agrees that the foregoing shall not apply with respect to any information … that the Receiving Party can document was in its possession or known by it without restriction prior to receipt from the Disclosing Party."*

(3) Disclosed to the recipient by a third party without breach of a confidentiality obligation

Similarly, if information is disclosed to the recipient by a third party without breach of confidentiality, the recipient will want to be able to use the information in whatever manner the third party allows, regardless of whether it was also disclosed by the disclosing party under the NDA.

Examples:

1. *"Confidential Information shall not include information that … is rightfully disclosed to Recipient by a third party without confidentiality restrictions."*
2. *"Confidentiality and non-use obligations of the Receiving Party under this Agreement shall not apply to Confidential Information which … is lawfully received from a third party free to disclose such Confidential Information to the Receiving Party."*
3. *"Disclosing Party agrees that the foregoing shall not apply with respect to any information after five years following the disclosure thereof or any information that the Receiving Party can document was rightfully disclosed to it by a third party, provided the Receiving Party complies with restrictions imposed thereon by third parties."*

(4) Independently Developed

Independent development is likely the most contentious of these five exceptions. On one hand, a receiver of information may wish to be free to develop similar information or inventions. On the other hand, a discloser of information may be concerned that the receiver will take their information and use it to develop competing technology and simply claim that they independently developed the information.

This tension is often resolved by specifyiing in the NDA what **exactly** constitutes independent development. A party can propose to qualify the independent development using limiting language, such as "without use of the Confidential Information" or "by recipient's employees without access to the Confidential Information." The goal is to limit "independent" development in a manner that preserves protection for the receiver but also allows the discloser to feel comfortable that their information won't be misused.

Examples:

1. *"The Recipient independently develops the same information without use of the Discloser's confidential information."*
2. *"Notwithstanding the foregoing, the confidentiality and non-use obligations of the Receiving Party under this Agreement shall not apply to Confidential Information which: b) is independently developed by the Receiving Party, without reference to, use of or access to the Confidential Information."*
3. *"Disclosing Party agrees that the foregoing shall not apply with respect to any information after five years following the disclosure thereof or any information that the Receiving Party can document was independently developed without use of or reference to any Proprietary Information of the Disclosing Party*."
4. *"This Agreement imposes no obligation upon the Recipient with respect to Confidential Information which is independently developed by the Recipient by employees without access to the Confidential Information."*

(5) Disclosed under operation of law

The last common exception to the definition of confidential information confirms that a recipient is allowed to legally comply with a government request should one come up. Disclosers of confidential information may wish to limit this exception by requiring the recipient to follow certain procedures such as seeking a protective order or requiring that the exception only applies in the single instance of the required disclosure under operation of law (e.g. that all other disclosures and uses that may be in violation of the NDA are still prohibited).

Examples:

1. *"The Receiving Party may make disclosures required by law or court order provided the Receiving Party uses diligent reasonable efforts to limit disclosure and to obtain confidential treatment or a protective order and allows the Disclosing Party to participate in the proceeding."*
2. *"The Recipient may disclose the Disclosing Party's Confidential Information as required by law or court order provided: (i) The Recipient reasonably notifies the Disclosing Party in writing of the requirement for disclosure unless notice is prohibited by law; and (ii) discloses only that portion of the Confidential Information as is legally required."*
3. ***"****This Agreement imposes no obligation upon the Recipient with respect to Confidential Information which … is disclosed under operation of law or court order provided the Recipient Party uses diligent reasonable efforts to limit disclosure and to obtain confidential treatment or a protective order and allows the Disclosing Party to participate in the proceeding."*

Chapter 9: AS IS; WARRANTY DISCLAIMER

The first thing to note regarding an "AS IS" provision or "WARRANTY DISCLAIMER" is that you will not always see one in an NDA. The "AS IS" provision is shorthand for a longer, more specific warranty disclaimer. When one disclaims a warranty, he or she is removing the specific quality assurances that may ordinarily come with the product or service (or in the case of an NDA, information) being provided.

A warranty is a type of legal protection that comes along with whatever is being provided to another party. In NDAs, some people like to be very clear that the confidential information they are providing is provided "AS IS" without any representation or assurance of quality. In other words, if you rely upon this information and you are harmed, it's not the disclosing party's fault. Another common way to think of an "AS IS" disclaimer is *caveat emptor* or BUYER BEWARE. In the case of NDAs, the items being "bought" (exchanged) are the confidential information and the obligations to keep the information protected.

Examples:

1. *"ALL CONFIDENTIAL INFORMATION IS PROVIDED "AS IS." NEITHER PARTY MAKES ANY WARRANTIES, EXPRESS, IMPLIED, OR OTHERWISE, REGARDING THE CONFIDENTIAL INFORMATION, INCLUDING WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT."*
2. *"The Discloser warrants that it has the right to disclose the information provided to the Recipient. Otherwise, the information is provided "AS IS" and without any warranty."*
3. *"Disclosing Party shall have no liability whatsoever for any damages arising out of Receiving Party's use of Confidential Information disclosed pursuant to the Agreement,*

and all Confidential Information disclosed by the Disclosing Party hereunder shall be on an "AS IS" basis and with no warranties of any kind, express or implied."

Chapter 10: REMEDIES

There are several remedies available for breach of an NDA:

(1) Award of Damages.

(2) Injunctions and Temporary Restraining Orders (TROs).

(3) Specific Performance.

(1) Award of Damages

An award of damages is the most common and traditional remedy at law. Damages are an award of monetary value in the event of a breach of agreement where the goal is to provide the harmed party with the financial amount to make up the harm caused by the breach. Proving the value of the loss that results from an NDA breach is difficult. It is very hard to point to information disclosure and show a direct financial or property harm that results. Even if you can show a direct financial harm, the actual loss is extremely difficult to quantify if the information has become generally known, and thus the loss will continue in the future. Accordingly, some NDAs contain provisions indicating that monetary damages are likely to be insufficient.

Example:

"Notwithstanding the above the parties agree that for breach of obligations under this Agreement may in certain circumstances monetary damages not be adequate and that the non-breaching party shall be entitled to apply to a court for injunctive relief in addition to any other

available remedies, and the party alleged to have breached this Agreement shall not oppose any such application in the matter of damage."

(2) Equitable Relief: Injunctions, Specific Performance

Injunctions

Injunctions (including temporary restraining orders) are equitable remedies where a court orders an entity to take an action or stop taking action(s). In the case of an NDA, the ordered action would be to prevent or stop a breach such as the sharing or use of confidential information.

Examples:

1. *"Accordingly, the Parties specifically agree that the Disclosing Party shall be entitled to seek injunctive or other equitable relief to prevent or curtail any such breach, threatened or actual, without posting a bond or security and without prejudice to such other rights as may be available under this Agreement or under applicable law."*
2. *"The unauthorized use or disclosure of confidential information by the Recipient could cause the Discloser irreparable harm, for which the Recipient could not adequately compensate the Discloser after the fact. Because of this, the parties agree that if the Discloser believes the Recipient has breached (or might breach) this Agreement, the Discloser may seek an injunction to stop the unauthorized use or disclosure. Just because the Discloser has the right to seek an injunction does not mean it gives up its other rights--the Discloser may still assert other rights and remedies available to it."*

Specific Performance

Specific Performance, a judicial order requiring the actual performance of the specific obligations (and conditions, if relevant) bargained for in the contract, may be awarded by the court in exceptional circumstances where monetary damages are not an adequate remedy. In the case of NDAs, a breach of an obligation not to use trade secrets to compete with the owner of the trade secrets, for example, would be a good candidate for specific performance.

Chapter 11: LIMITATION OF LIABILITY

A limitation of liability is an agreement between the parties to limit the possible losses or damages that may arise in connection with agreement. These clauses specifically list and limit the different types of damages that may arise. Damages fall into two distinct categories: Indirect Damages and Direct Damages. Limitation of liability provisions may also put a cap on all possible monetary recovery under the contract, which if reasonably drafted, could be upheld. Liability caps may be a set dollar amount or generally limited, for example, limiting to the aggregate amount paid or payable under the contract in the twelve months prior to when the claim arose.

Direct Damages

Direct damages are those that directly result from a breach of contract. A full disclaimer of direct damages means that there is no expectation of recovery if the contract is not performed, and therefor, the contract would be effectively unenforceable. It is quite common in many

contracts, however, to limit the total monetary value of direct damages to the amounts expected to be paid or expended under the contract.

Direct damages are sometimes referred to as "Expectation Damages" – that is, what you would have received from the other party if the contract had been fully performed as you expected. In the case of an NDA, the disclosing party's expectation is that the receiving party would not disclose or misuse the confidential information. Accordingly, an award of direct damages is difficult to quantify in terms of money for breach of an NDA.

Indirect Damages

Indirect damages are consequential, indirect, or associated damages arising from the breach of contract, meaning they are not the expected outcome of performance of the contract, but rather they are losses that arose as a result of the breach of the contract. Indirect damages also includes consequential, incidental, and special damages.

In commercial contracts, it is very common to limit or exclude indirect damages entirely for many types of breach. However, in the case of NDAs, it is important to remember that your only financial losses resulting from a breach of the NDA are likely to be indirect losses, such as lost profits, lost business opportunities (due to someone using your information to compete with you), lost market share (due to additional competitors). If you are the disclosing party, it is generally not a good idea to enter into an NDA (or other obligation of confidentiality) where indirect damages are disclaimed entirely, as you will have difficulty showing any other damages.

Example of a typical commercial indirect damages disclaimer NOT recommended for an NDA:

"NEITHER PARTY WILL BE LIABLE TO THE OTHER OR ANY THIRD PARTY FOR CONSEQUENTIAL, INCIDENTAL, INDIRECT AND/OR SPECIAL DAMAGES FOR ANY CLAIMS ARISING FROM OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, EVEN IF THE POSSIBILITY OF SUCHDAMAGES IS, OR SHOULD HAVE BEEN, KNOWN."

If there is a disclaimer of indirect damages, it's best to address the need for protection for confidential information by expressly carving out confidential information and intellectual property losses from any disclaimer of indirect damages (whether in an NDA or commercial contract):

Example:

"EXCEPTION FOR BREACH OF CONFIDENTIALITY OBLIGATIONS UNDER THIS AGREEMENT OR BREACH OF THE OTHER PARTY'S INTELLECTUAL PROPERTY RIGHTS, BOTH OF WHICH SHALL BE UNLIMITED, IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER, FOR ANY INDIRECT, INCIDENTAL, EXEMPLARY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES OR LOSSES, INCLUDING WITHOUT LIMITATION, LOSS OF USE, PROFITS, GOODWILL OR SAVINGS, OR LOSS OF DATA, DATA FILES OR PROGRAMS, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT."

Chapter 12: TERM AND TERMINATION OF NDA

NDAs have two separate periods of time that matter: (1) a disclosure period and (2) a protection period. Generally speaking, the term of an NDA, is the disclosure period, or time period during

which, if disclosures of confidential information are made, they are deemed protected. The protection period, however, is how long these disclosures must be protected after they are made and often survives the NDA.

(1) NDA Disclosure Period:

A disclosure period is the time in which disclosures are covered by the NDA. An NDA will be valid until terminated or will be valid until it reaches a certain expiration date or is otherwise terminated by the requirements set out in the agreement. If the NDA is silent as to the explicit term, it will be governed by the applicable state laws' default provisions as to term and termination. Under California law, for example, when a contract is silent as to term, the default law is that the agreement is terminable by either party for convenience.

Examples:

1. *"This Agreement applies only to disclosures made by the Parties to each other during the term of this Agreement, which shall end immediately upon written notice by one party to the other party of its intention to terminate this Agreement."*
2. *"This Agreement shall terminate on the fifth anniversary of the last disclosure of Confidential Information by the Disclosing Party to the Receiving Party, but the Receiving Party's obligation to protect Confidential Information shall survive termination of this Agreement and shall continue in effect with respect to Confidential Information of the Disclosing Party that by its nature (for example, a trade secret) should reasonably be maintained as confidential after termination of this Agreement."*

3. *"Unless extended by a mutually agreed written amendment, this Agreement shall terminate three (3) years after the Effective Date. Each Party may terminate this Agreement at any time without cause upon written notice to the other Parties..."*

(2) NDA Protection Period:

A protection period is the period of time confidential information is protected under the NDA. The obligation to protect information begins after the receipt of confidential information and continues until the protection period expires, which is often purposefully drafted to be a period longer than the disclosure period. If an NDA is silent as to the protection period, then arguably, the obligations with respect to confidential information are only valid so long as the NDA is in effect (e.g. if the NDA is terminated, the obligation to protect the information goes away).

Examples:

1. *"Notwithstanding the earlier termination of this Agreement, the Receiving Party's obligations under this Agreement shall continue for a period of five years from the date of final disclosure."*
2. *"This Agreement shall terminate on the fifth anniversary of the last disclosure of Confidential Information by the Disclosing Party to the Receiving Party, but the Receiving Party's obligation to protect Confidential Information shall survive termination of this Agreement and shall continue in effect with respect to Confidential Information of the Disclosing Party that by its nature (for example, a trade secret) should reasonably be maintained as confidential after termination of this Agreement."*
3. *"Receiving Party's obligations with respect to Confidential Information disclosed hereunder during the Term will survive any termination of this Agreement."*

Destruction of Information

Often, in connection with termination of an NDA, the receiving party will have an obligation to destroy (or return) the confidential information it received. This provision provides additional protection for the disclosing party that its confidential information is unlikely to be misused after termination.

Example:

"Upon termination of this Agreement or written request by a Disclosing Party, the Receiving Party shall: (i) immediately cease using the Confidential Information, (ii) return or destroy the Confidential Information and all copies (except copies required for backup, disaster recovery, or business continuity and in such case the obligations hereunder shall survive until such copies are destroyed), notes or extracts thereof to a Disclosing Party within fifteen (15) business days of receipt of request, and (iii) upon request of a Disclosing Party, confirm in writing that a Receiving Party has complied with these obligations."

Final Thoughts:

It is the goal for this publication to dispel some of the mystery behind the language in an NDA and perhaps make entrepreneurs more confident in reading and understanding them. Although this publication does not constitute legal advice and its authors are not your attorneys, we certainly would love any feedback you may have and welcome your questions or comments.