**Considerations for Nondisclosure Agreements**
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1. **Timing.** You shouldn't ask for a nondisclosure agreement (NDA) to sell a widget to a customer—your potential customer would laugh (or worse). You probably don't need one to have an initial, get-to-know-you with a potential distributor, for example. You do need one if any part of a conversation or disclosure with another party involves business-sensitive information. The timing surrounding an NDA is a gut feel--if you feel like you're about to disclose something sensitive (something that, if it hit the public domain, would competitively harm your company), ask for an NDA. Better yet, have a standard NDA already developed that you can provide. Like many areas, this is an area where having a standard document that you use consistently can save time, expense and can get you in the routine of using the document in question.

2. **Mutual or Unilateral?** If only one party is disclosing information, then the sensible approach is to ask for a unilateral NDA protecting the discloser. If information would flow between the parties, a mutual NDA would be appropriate. Make sure that a unilateral NDA flows the right way (and I've seen some that purport to protect the discloser but don't).

3. **What is 'Confidential'?** Care should be taken in defining 'confidential information.' Too broad a definition could cause the agreement to be unenforceable (so 'anything we disclose' isn't going to work). Too narrow, and you risk putting something sensitive into the public domain. I generally use, when counseling a discloser, a definition like "any trade secrets or other information of discloser that is not generally available to the public, whether of a technical, business or other nature (including, without limitation, information relating to discloser's technology, software, products, services, designs, methodologies, business plans, finances, marketing plans, customers, prospects or other affairs), that is disclosed to recipient. Confidential Information also includes any information that has been made available to discloser by third parties that discloser is obligated to keep confidential." Most NDAs contain certain exclusions to the definition of 'confidential information,' including information (i) acquired by recipient from a third party and is not subject to an unexpired obligation to such third party restricting recipient's use or disclosure thereof; (ii) independently developed by recipient without reliance upon or use of any of the Confidential Information; or (iii) that has become generally publicly available through no fault or action of recipient. In each case, the discloser should ask the recipient to 'prove' each possible exclusion.

A few fine-tuning points:

- Trade secrets, as a matter under US law, are a subset of the broader definition 'confidential information.' In order to protect both, it is important to mention trade secrets and 'other non-public information in the relevant definition.
- At times, a recipient will request that confidentiality protections be extended only to information that is marked as confidential. This creates an obvious problem for a discloser- an inadvertent marking mistake can cause sensitive information to not be protected. I generally don't like a marking requirement.
- Recipients may ask for confidential information, as a defined term, to be limited to information disclosed in writing. Of course, this kind of limit would not cover conversations. It's better for the discloser to not limit 'confidential information' to be in writing.
- Sometimes, the parties will define a 'disclosure period,' so that only information disclosed during that period would be treated as confidential. This presents a challenge to the discloser—especially as to whether it would cover information


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disclosed before the execution of the NDA. Without the time limit, a discloser has greater protection, including disclosure of items before the NDA is signed.

4. **Use**. The NDA should specify obligations/restrictions on the use of confidential information. For example the recipient should be required to (i) keep the confidential information, well, confidential; (ii) use the confidential information solely within the scope of the disclosure (as stated by the NDA—something like 'evaluating a distribution relationship'); (iii) not disclose the information to any third party (subject to required disclosures); and (iv) not copy or record the information. Disclosers can fine-tune the use obligations and restrictions to (i) prohibit the recipient from copying or reproducing the confidential information other than as strictly necessary in furtherance of the NDA's purpose (and provide that any copies will be identified as belonging to the discloser); (ii) require the receiving party to (at its own expense) take all actions necessary to restrain its employees, agents and representatives from making any unauthorized use or disclosure of any of the confidential information. In certain contexts, it also makes sense to have the NDA provide that the recipient shall not reverse engineer (or take similar action) the confidential information.

5. **Disclaimers**. Although a recipient of confidential information may not be (or should not be) able fully to rely on the accuracy or completeness of disclosed information, it makes sense for the discloser to disclaim any/all warranties as to the information and to provide that the information is provided 'as-is' and 'with all faults.'

6. **Required Disclosures**. At times, a recipient may be required to disclose your confidential information. This is an exception to the 'no disclosure to third parties' requirement stated above. It is customary for an NDA to allow (subject to certain conditions) disclosure if directed by court or regulatory agency in connection with judicial or governmental proceeding. However, a discloser should, in the NDA, provide that, prior to such disclosure, the recipient will provide reasonable advance notice of the possible disclosure so that the discloser has a reasonable opportunity to appear, object and obtain a protective order or other appropriate relief regarding such disclosure. Further, the permitted 'required' should only be as broad as the direction from the court or relevant agency.

7. **Ownership**. Confidential information likely will contain some intellectual property. The NDA should be clear that it reserves all right, title and interest to the intellectual property in the confidential information as well as the "intellectual property based on the confidential information." This broad standard would likely include all modifications and extensions short of a "derivative work." This IP ownership clause should extend to the documents or media in which the secrets are disclosed.

8. **Return of information**. An NDA typically requires the recipient to return or destroy confidential information and certify such return/destruction. The return/destruction requirement would be triggered upon notice from the discloser, when the information is no longer needed for the purpose defined in the NDA or for another, similar reason. Take care to ensure that the return/destruction requirement effectively extends to electronic files that may contain confidential information.

9. **Remedies**. In the US system, specific performance is an equitable remedy—meaning that it is an order for someone to do (or not do) something specific. Specific performance requires a valid, binding contract with clear statement of obligations—like an NDA—with a statement that damages will not adequately compensate the non-breaching party. Specific performance clauses can also extend the specific performance remedy to threatened (and not just actual) breaches. Consider also including an acknowledgement in the NDA of reasonableness as to the specific performance clause, and a statement that the non-breaching party does not have to prove actual damages or post a bond to get specific performance, and that specific performance is in addition to, and not in lieu of, any other rights and remedies available to it.


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10. **Term**. Some US states require that an NDA have a defined term (expiration date). Courts in other states disfavor evergreen NDAs. This presents a challenge to disclosers. In many cases, a discloser will have the NDA in effect until such time as the information becomes public. However, be careful to exclude trade secrets from that the NDA's 'expiration date.' You do not want the protections for trade secrets disclosed under the NDA to expire when the confidentiality term expires.


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