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Non-disclosure agreements outline

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what is a non-disclosure agreement

A non-disclosure agreement is the agreement that you use if you want to disclose ideas or information that, in some sense, belong to you. A non-disclosure agreement gives a discloser a sense of security when they disclose confidential information to a recipient.

Information and ideas may be market related or technology related. Market related information is sometimes referred to as “commercially sensitive” information; it may concern your pricing strategy, margins and costs.

Technology related information would include your intellectual property, know-how and trade secrets.

A non-disclosure agreement may also serve the interests of a recipient. A non-disclosure agreement clearly delineates a recipient’s rights and obligations in respect to confidential information. They do not have to wonder what their rights and obligations are and do not have to face the uncertainties of common law, including the commission of torts such as industrial espionage and theft of trade secrets.

Do not place inordinate reliance upon a non-disclosure agreement. Only use it if you absolutely must. Be selective, do not use a non-disclosure agreement as a crutch. Do a thorough due diligence on the recipient. Negotiating a non-disclosure agreement may cause delays, which can be costly. Each project has its own momentum, if it is broken it can be difficult to regain.

There are many promising technologies out there, each has its own exciting story. It’s easy to sell technology, but it’s difficult to maintain a buyer’s interest. People are barraged by so many new technologies it becomes difficult to keep track of our assessments.

So it is important to ask yourself if you really need a non-disclosure agreement at this stage. If the answer is no, don’t bother with one which could break the momentum

It is not always easy to get large corporations to sign non-disclosure agreements; some corporations won’t sign them as a matter of corporate policy. These companies are fearful of compromising their own research and development activities.

Companies with this policy may nonetheless give fair consideration to your proposal. It would be unwise to rule them out simply because of that policy. However, it pays to be more circumspect with them particularly during the early stages.

The Purpose of a Non-Disclosure Agreement

A non-disclosure agreement has three purposes.

- It defines what information is “confidential”.
- It limits the disclosure of that information.
- It imposes restrictions upon the recipient’s use of that information.

It is important to know these purposes, because if none are of any great concern to you, don’t bother with a non-disclosure agreement. This is particularly so in the case of early disclosures, later disclosures tend to be meatier. If what you are disclosing isn’t truly confidential, a non-disclosure agreement is unnecessary.

Therefore, do not feel that whenever you share information with someone else, you must do so under the cloak of a non-disclosure agreement. Particularly with a new relationship, sharing information is critical. It’s the means by which two parties establish a rapport. The premature discussion of non-disclosure agreements may have a “chilling” effect on a budding business relationship.

While you may think that the recipient will steal your technology and leave you out in the cold this happens far less often than you may think.

Most people underestimate the sheer complexity of adopting a new technology. So if you give everything away in most cases nothing will happen.

It takes more than information about your technology to induce a company to commercially exploit it, it's far more complicated than that.

Before a company commercially exploits a new technology, it will employ a fairly rigorous methodology:

- First, it will determine whether commercial exploitation conforms to its strategic plan.
- Next, it will undertake market research to see whether the commercial potential is truly there.
- Next, it will develop a business plan for commercially exploiting the new technology.
- Finally, someone will have to prepare a detailed proposal for capital expenditure approval.

Unilateral vs. Bilateral

A non-disclosure agreement may be either "unilateral" or "bilateral".

With a unilateral non-disclosure agreement, one party is doing all the disclosing. The other party is doing all the receiving.

With a bilateral non-disclosure agreement, each party is both disclosing and receiving. Each type has its pros and cons.

With a unilateral agreement, the discloser will define the information that is "confidential" as broadly as possible. They will impose the strictest possible limitations upon the recipient's use and disclosure of such information.

This is not possible with a bilateral agreement because everything is reciprocal. For this reason, bilateral agreements tend to be tamer.

It is important not to go overboard with restrictions.

Sometimes, instead of a bilateral agreement, each party will opt for its own form of unilateral agreement. There's nothing wrong with this other than having to look at two unilateral agreements instead of one bilateral agreement.

To really promote a relationship, you want the recipient to do more than passively receive your information. You really want the recipient to share their information. Not only does this ensure that the recipient is genuinely pro-active, it gives you information that you may need to evaluate whether the recipient is a good candidate.

In many instances, a discloser will not be able to provide relevant information without obtaining information from the recipient. For example, if you have some unique type of manufacturing technology, you might need to know about the recipient's manufacturing process to determine whether there is a good fit.

Thus, even though a unilateral agreement may afford greater legal protection, in most situations it is commercially unrealistic.

If the recipient is satisfied with a unilateral agreement, meaning that the recipient does not intend to tell anything in confidence to you, the discloser, that should set off alarm bells. It is suggestive of a recipient who is not genuinely motivated, otherwise, the recipient would see the exchange of confidential information more as a collaborative affair.

The Agreement

The format of a non-disclosure agreement is more important than its substance. How the agreement looks is more important than what the agreement says.

It's the act of signing the agreement, not the agreement itself, which creates a powerful moral imperative.

the recipient

Because corporations are made up of people, a non-disclosure agreement must specify the individuals that will receive confidential information. As a corollary to that, it should also specify the circumstances under which such individuals shall receive confidential information. There are several ways to do this.

One way is to attach a schedule of individuals who may receive confidential information. The agreement would then restrict access only to those persons identified in such schedule.

This is a good approach where you are dealing with a limited number of people who will receive and evaluate your information, but may be impractical in a large corporation. It may be too much of a burden for the recipient to identify each staff member that may potentially receive or evaluate your information.

Whether or not you name specific individuals, it is a fundamental element of principal/agency law that the recipient is responsible for the acts and omissions of its employees. In this case, the principal is the corporate recipient and the agents are its employees.

Most non-disclosure agreements impose obligations upon just one corporate recipient, and some go a step further. These agreements require the individuals who actually receive the information to sign a statement agreeing to be bound by the terms and conditions that apply to the corporate recipient.

The key benefit of such a statement is that it gives you a direct right of action against an individual who breaches the non-disclosure agreement. So it is important to decide who will actually sign the agreement.

There are several ways to safeguard the discloser's interests where more than one corporate recipient may be involved. First, the recipient should take responsibility for the acts and omissions of its parent, subsidiaries and affiliates.

Add extra signature lines for the other companies comprising the recipient's group. Then make each recipient jointly and severally liable for the acts and omissions of every other recipient that signed the non-disclosure agreement.

Sometimes, the recipient will be a company against whom it will be difficult for you to enforce your rights. The recipient may be a new company, possibly organised for your specific project. The recipient may lack an established trading history, it may be financially weak or it may be based in some distant market.

To overcome these risks, you may seek to include multiple recipients. However, if no other company with whom the nominal recipient is affiliated will be receiving confidential information, this avenue may be closed off to you.

In that case, you can go for a guarantee of the recipient's obligations. The parent or an affiliate of the recipient should have no qualms about guaranteeing the full and faithful performance by the recipient.

If you are just disclosing confidential information to one recipient, it may be awkward to insist that other recipients sign. However, this should not give you tunnel vision. You should still consider

the feasibility of having another company, normally affiliated with the nominal recipient, guarantee such a recipient's performance.

the discloser

Sometimes, the discloser of confidential information is not the owner of such information. An affiliate, subsidiary or parent of the discloser may own such information, or it may even be owned by an individual shareholder of the discloser.

It is not necessary to include each and every owner of confidential information as a separate contracting party. As stated above, it is wise to do so in respect to each and every recipient of confidential information, but not in respect to each and every owner.

In cases where the confidential information is owned by person(s) other than the discloser, the agreement should define confidential information to include information supplied by such other person(s), so name them too.

You may even go one step further. You may confer upon such person(s) rights to enforce the non-disclosure agreement on the basis that they are "third party beneficiaries" thereof.

If you disclose information that does not belong to you, you should obtain written authorisation from the person on whose behalf you are making such disclosure.

If you wish, you may include multiple discloser(s) as contracting parties. The non-disclosure agreement may contain signature lines for multiple disclosers just as it may do so for multiple recipients.

The agreement should contain a clause indicating that each separate discloser shall have the right, both jointly and severally, to enforce the agreement. The agreement should mention employees, agents, advisers and consultants who will be acting on behalf of the corporation.

Otherwise, the recipient could argue that it received the confidential information from a third party who was not bound by obligations of confidentiality to you.

consideration

Usually, but not always, the recipient does not pay to receive confidential information. Confidential information is neither bought nor sold. It is disclosed with the anticipation, indeed expectation that a commercial relationship will ensue. The disclosure, itself, does not normally involve any transfer of money.

However there is an exception to this rule. If you grant the recipient an exclusive evaluation period, be it one month, three months or longer, you are entitled to consideration for keeping your confidential information on ice. Such a payment could be quite substantial, as the opportunity cost for you could be quite high.

Thus, if the recipient demands an exclusive evaluation period, they should pay for that benefit.

confidential information

"Confidential Information" Defined

To understand the meaning of "confidential information", let's first start with the meaning of "information". It can mean different things to different people.

The problem is compounded by the use of the adjective “confidential” to qualify “information”. The word “confidential” is also subject to varying interpretations. In the practice of law, defining one’s terms is essential.

Think of information as the by-product of communication.

One party conveys information to another party in a conversation. Information may consist of words on a sheet of paper or may be contained in electronic media such as videos, audiotapes, floppy disks and CD-ROMs.

You derive information by inspecting a prototype or sample, you disseminate information by e-mail, fax, telephone and virtually every other means of communication. As a discloser of information, you want to protect all types of information through all channels of disclosure.

You can define “confidential information” in general terms as being all non-public information, in whatever form, owned by the discloser.

You may prefer to mention a few specific items by name. Following is a list of potential items to refer to and select from.

The list loosely falls into two categories: Commercially sensitive information and technology sensitive information.

- | | |
|---|---|
| <input type="checkbox"/> Budgets | <input type="checkbox"/> Marketing Information |
| <input type="checkbox"/> Business Plans | <input type="checkbox"/> Marketing plans |
| <input type="checkbox"/> Capital expenditures | <input type="checkbox"/> Patent Applications |
| <input type="checkbox"/> Computer Systems and Software | <input type="checkbox"/> New Products |
| <input type="checkbox"/> Costs and margins | <input type="checkbox"/> Operating results and yields |
| <input type="checkbox"/> Customer lists | <input type="checkbox"/> Pricing strategies |
| <input type="checkbox"/> Demonstrations | <input type="checkbox"/> Product information |
| <input type="checkbox"/> Designs | <input type="checkbox"/> Production information |
| <input type="checkbox"/> Devices | <input type="checkbox"/> Prototypes |
| <input type="checkbox"/> Drawings | <input type="checkbox"/> Quality control procedures |
| <input type="checkbox"/> Employee information | <input type="checkbox"/> Research and development |
| <input type="checkbox"/> Financial Data | <input type="checkbox"/> Sales forecasts |
| <input type="checkbox"/> Forecasts | <input type="checkbox"/> Samples |
| <input type="checkbox"/> Formulae | <input type="checkbox"/> Software and Documentation |
| <input type="checkbox"/> Ideas | <input type="checkbox"/> Specifications |
| <input type="checkbox"/> Intellectual Property | <input type="checkbox"/> Strategic plans |
| <input type="checkbox"/> Inventions | <input type="checkbox"/> Suppliers |
| <input type="checkbox"/> Know-How | <input type="checkbox"/> Technical Information |
| <input type="checkbox"/> Manuals | <input type="checkbox"/> Test results |
| <input type="checkbox"/> Manufacturing techniques and processes | <input type="checkbox"/> Trade Secrets |
| <input type="checkbox"/> Market research | |

You should select from the list those items that you may potentially disclose to the recipient. But make sure it is clear that such items do not exhaust the universe of possible items, but are provided for purposes of illustration only.

In addition to mentioning specific items it is also recommended that you mention the generic process, product, technology or project that forms the overall subject matter of the non-disclosure agreement. In that way, you have covered both the general and the specific.

Sometimes, either the discloser or the recipient may wish the very existence of the non-disclosure agreement to be kept confidential. Absent a compelling reason, this is to be discouraged.

A reason may be if the purpose of the non-disclosure agreement is to facilitate the exchange of information as part of the due diligence to sell the business, the discloser may well wish to keep the relationship confidential.

Knowledge that the discloser's business is up for sale might have a negative impact upon staff morale or the goodwill of its customers. In these situations, the parties must exercise special care to conceal the true purpose of the disclosures.

It is not uncommon for the parties to assign a code name to the project. The non-disclosure agreement usually imposes restrictions upon communicating with staff. All communications may be directed to a secure fax or postal address.

Marking Information "Confidential"

Clients often ask whether they have to mark information that they disclose as "confidential". Although marking information "confidential" is certainly desirable, it is generally impractical.

The same is true with the requirement that confidential information be identified as such at the time of disclosure. In the rush of business, even reasonably diligent people will forget to identify information as confidential.

To deal with this include a clause to the effect that information shall be deemed confidential whether or not it is identified as such at the time of disclosure. Information is presumed confidential unless otherwise noted.

In addition it recommended that you buy a rubber stamp marked "CONFIDENTIAL". Rarely is information purely confidential or purely non-confidential. Most information is a hybrid of the two - if in doubt, stamp it.

The onus must always be upon the recipient to make the threshold determination how to treat information received. The recipient should assume that all information is confidential, unless otherwise noted.

The recipient may, if they wish, challenge a specific item of information on the basis that it is not truly confidential. The non-disclosure agreement may even establish a procedure for that purpose.

If the recipient does not avail themselves of that procedure, they do not necessarily waive their rights either. They may still challenge any claim of confidentiality in accordance with one or more of the standard exceptions contained in the non-disclosure agreement.

Thus, neither the discloser nor the recipient is necessarily disadvantaged by the absence of any requirement to indicate whether or not the information disclosed is confidential.

Format of Information

Documentary information is the most common form of confidential information.

However, confidential information comes in a variety of formats. It may be electronic, such as a floppy disk, videotape, audiotape, CD-Rom or a secure website.

It may come from a visual examination, such as viewing a prototype or taking a plant tour. Plant tours frequently involve the disclosure of far more confidential information than documentary information.

Whereas documentary information can be stamped confidential and thereafter easily identified, this is not so with information received during a visual examination.

Unfortunately, a non-disclosure agreement is a very imperfect means of protecting information received during a visual examination.

The best way to approach this problem is that if visual examination is the most likely means of disclosing confidential information, you should prepare a simple addendum to the non-disclosure agreement describing the visual presentation and what elements thereof the discloser considers confidential.

Use of Confidential Information

There are restrictions a discloser may impose upon the recipient's use of confidential information. The non-disclosure agreement should state its purpose, in plain English, as narrowly as possible.

For example:

- *The purpose of this non-disclosure agreement is to enable the Supplier to determine whether it wishes to enter into a supply contract with the discloser.*
or
- *The purpose of this non-disclosure agreement is to facilitate the due diligence of the recipient who has expressed an interest in buying the business of the discloser.*
or
- *The purpose of this non-disclosure agreement is to enable the customer to determine whether it wishes to buy products from the discloser.*
or
- *The purpose of this non-disclosure agreement is to enable the recipient to evaluate the technology and to determine whether it wishes to enter into a licence agreement or joint venture with the discloser.*

Reciting the purpose of a non-disclosure agreement does not have any legal effect, per se. However if an issue ever arises over the use, or misuse, of confidential information, that issue will almost certainly be resolved by examining the intention of the parties when they entered into the agreement. It is a way of enshrining the contractual history.

A non-disclosure agreement is not a pretext for a nosy recipient to engage in a "fishing expedition". The recipient must agree upon the ground rules, namely:

- What will the recipient do with the confidential information?
- Why does the recipient need the confidential information?
- Who on behalf of the recipient will evaluate the confidential information?
- Where will the recipient perform its evaluation?
- How will the recipient perform its evaluation?
- When will the recipient perform its evaluation?

Other Uses of Confidential Information

Evaluation is certainly the most common use of confidential information, but it is by no means the only use.

Whatever the allowable uses, specify them in the non-disclosure agreement. Limit the recipient to only the uses so specified. If you do not do this, the recipient may use the information for purposes that you never intended.

Limit the recipient's discretion, make them come to you for permission to use the confidential information in a manner not authorised in the non-disclosure agreement.

Confidential Information Distinguished from Proprietary Information

There is a difference between confidential information and proprietary information; proprietary information is usually intellectual property. Confidential information may be proprietary information, but it doesn't have to be.

If you wish to disclose confidential information "about" proprietary information, but not the proprietary information itself, or you plan on holding back a portion of proprietary information, you should take steps to ensure that the recipient does not use your confidential information to discover your proprietary information.

If this is a matter of concern, try this clause:

The Recipient shall not in any way attempt to discern the Discloser's intellectual property underlying the Confidential Information. Without limiting the generality of the foregoing, the Recipient shall not disassemble or de-compile, or reverse engineer the Confidential Information, or perform any like operation, to discover the underlying Intellectual Property.

Protecting Proprietary Information

A non-disclosure agreement is not normally the appropriate document to lay claim to ownership rights.

However, there is no rule of law that says you can't use a non-disclosure agreement as a means of claiming ownership of proprietary information. This is because there is so much confusion over the difference between "confidential information" and "proprietary information". You may be able to use a non-disclosure agreement as a means of obtaining back door intellectual property protection.

First, you must define your terms. In particular, include a definition of "proprietary rights". This means the same as "intellectual property" but is far less emotive.

Then, you can include any number of undertakings concerning your proprietary rights, such as:

- *The recipient expressly acknowledges your ownership of the proprietary rights and disclaims any right, title or interest therein.*
- *The recipient shall respect your proprietary rights and take no action in derogation thereof.*
- *The recipient shall not use your proprietary rights to compete with you, to confer a competitive advantage upon a third party or in any other manner that is detrimental to your business.*
- *The recipient shall not modify or adapt your proprietary rights for the purpose of deriving any benefit therefrom that would not accrue to the discloser.*

retrospective application

Any non-disclosure agreement or technology evaluation agreement should "claw back" prior disclosures that you may have made, whether inadvertently or intentionally. That's an important clause. Otherwise, the agreement will speak as of the date of the signature only.

The agreement should apply retrospectively to communications between the parties prior to the date thereof.

prospective application

Just as a non-disclosure agreement should apply retrospectively, it should also apply prospectively. That is to say, it should apply to confidential information that may not yet exist on the date of the agreement.

Some information loses its confidentiality over time. For example, it may enter the public domain. Meanwhile, the discloser is always creating new confidential information.

At any rate, make sure that the non-disclosure agreement does not restrict confidential information to that which exists on the date of the agreement. That restriction could be unfair and unrealistic.

patents vs. know-how

A patent application is normally considered confidential information. An issued patent is never confidential information. On the other hand the essence of know-how is secrecy.

Both patents and know-how are types of intellectual property. Your know-how is protected by a non-disclosure agreement; it is usually the most important thing that you seek to protect in a non-disclosure agreement.

You do not need a non-disclosure agreement to convey information in a published patent.

A patent application, however, is a different story. The information in a patent application is as sensitive as know-how. It deserves the same degree of protection as know-how in a non-disclosure agreement.

Even with patents, a non-disclosure agreement may still be appropriate. To truly exploit a patent, the owner thereof will probably need to disclose a significant amount of know-how. There may also be new techniques and processes not mentioned in the original patent.

Know-how does not suffer from this impediment. A well drafted non-disclosure agreement will protect the secrecy of know-how as it evolves over time.

A non-disclosure agreement recognises the vitality of know-how. A patent can only speak for the novelty of the claims therein as at a finite date.

standard exceptions

There are some standard exceptions that appear in most non-disclosure agreements.

Public Domain Exception

The first exception concerns “information that is in the public domain or that subsequently enters the public domain through no fault of the recipient.”

Make sure that your non-disclosure agreement addresses this potential trap. You should have the right to disclose confidential information to a third party pursuant to a non-disclosure agreement with such third party. Such information shall not be deemed to have entered the public domain as a result of such disclosure. Without that caveat, the recipient can argue that the information entered the public domain when you disclosed it to a third party.

Information in the Public Domain but not Readily Available

While the public domain exception is pretty standard, it is not carved in stone. There is no law that requires a non-disclosure agreement to contain an exception for information in the public domain.

A non-disclosure agreement is simply one form of a contract. Provided there is consideration, and the contract does not offend some overriding public policy, courts will enforce it.

If the standard public domain exception would defeat your claim of confidentiality, you would be fool to accept it. There is no law that says you must hand over on a silver platter information that you painstakingly accumulated over many years. The recipient should not be allowed to weasel out of its non-disclosure responsibilities by invoking the public domain exception.

There are two ways to amend the public domain exception. The long way is to include a clause similar to the following. It would be appropriate where most of the information disclosed is in the public domain.

We acknowledge that some of the Information is in the public domain. However, the Information is not readily available unless you know where to look for it and have the requisite knowledge and expertise, as do we, to interpret it. It took us a considerable amount of time and money to locate, compile and interpret such Information. We do not wish to give a third party an advantage that we did not have. Therefore, even such Information as is in the public domain shall be deemed confidential for purposes of our relationship with you.

There is a shorter way that gives less prominence to the issue. Simply provide that the public domain exception only applies to “generally known” information in the public domain. The problem with this is that the term “generally known” is highly subjective.

Another way to further qualify the public domain exception is: “Information that is generally known in the same trade or business as practiced by the Discloser”.

In other words, if the information is not generally known in your trade or business, even if it is generally known in some other trade or business, the recipient can not avail themselves of the public domain exception.

The Specifics Known; the General Unknown

Can you combine bits of generally known information with bits not generally known and protect the combination? Can the recipient avoid their non-disclosure obligations, claiming the public domain exception on the basis of random bits and pieces of generally known information collected from divergent sources within the relevant trade or industry?

There are no clear-cut answers to these questions, however they can be addressed with the following clause:

Matter shall be deemed “generally known” in the pertinent trade only if the Recipient can establish that the full particulars of the Confidential Information are, in the combination disclosed to the Recipient, well known or generally used within the Discloser’s trade or industry.

Good Faith

This exception concerns information that the recipient receives in good faith from a third party. The exception is normally qualified by the proviso that the third party must be lawfully in possession of the information and have the right to disclose it to the recipient.

In most cases, the discloser will not know what the recipient received from someone else until it is too late. Therefore, you can try to impose a “duty to disclose” on the recipient, the recipient must make timely disclosure of information received from a third party. Otherwise the recipient loses the right to invoke this exception with respect to such information.

Agreement to Release from Confidentiality

Another common exception concerns information that the parties agree in writing to release from the terms of the non-disclosure agreement.

Prior Knowledge

This exception concerns information that the recipient can demonstrate, by written record, they already knew on the date of disclosure - it protects the recipient's prior knowledge.

It is understandable why a recipient needs this exception, they may be part of a large organisation with multiple research and development departments or manufacturing facilities in numerous geographic regions.

The organisation may be fully possessed of the very information you disclose to the recipient. The individual representative with whom you are dealing is not aware of this "corporate knowledge".

The recipient usually invokes this exception to defend itself against a claim by the discloser that the recipient has not honoured its confidentiality undertakings.

To prevent the recipient using this exception unethically a "duty to disclose" can be imposed. If they wish to invoke the "prior knowledge" exception, the recipient must invoke the exception within a specified time (say, 30 days) from the date of disclosure. Otherwise, the recipient shall be deemed to have waived its right to invoke the "prior knowledge exception".

As "prior knowledge" is a vague concept, try to include the clause:

If the recipient claims the exception of "prior knowledge", the subject information must have been in actual commercial use (or at least experimental use) by the recipient before the date of the disclosure by the discloser.

This defines "prior knowledge" more and focuses instead on whether the recipient actually applied such "prior knowledge".

Information Independently Developed

This next exception concerns information that the recipient's employee or consultant develops independently.

The employee or consultant should not have had access to information disclosed pursuant to the non-disclosure agreement. Otherwise, it would be an impossible task to distinguish information that they developed, themselves, from information received from the discloser.

While this exception is similar to the "prior knowledge" exception, there are some key differences. The "prior knowledge" exception protects the recipient from committing to non-disclosure obligations in respect to information it already knew. The exception for information that is developed independently has a somewhat more "pro-active" spin to it.

The discloser should try to avoid this exception. As there is no practical way to make sure that the person credited with independently developing information did not actually have access to the discloser's information.

If possible, the discloser might condition the disclosure of confidential information upon the recipient's promise not to engage in parallel research and development. If the recipient is a small company, and the subject matter of the disclosure is unrelated to the recipient's research and development programme, the recipient might well accept such a restriction. A large company would probably insist upon the unrestricted right to engage in parallel research and development.

Another approach that the discloser might take is to allow parallel research and development provided the recipient establishes that all work is undertaken by personnel with neither access to, nor knowledge of, the discloser's information. This is known as the "clean room approach".

Should the recipient not accept anything short of the standard exception, there is one last option open to the discloser. The discloser should obtain signed undertakings by the recipient's employees to make sure that those employees do not share confidential information with a person engaged in parallel research and development within the same organisation.

The employees of the recipient would acknowledge their familiarity with the terms of the non-disclosure agreement signed by the recipient, and agree to be bound by the restrictions on use and disclosure. This will help the discloser should any future disputes arise concerning the “clean room” research and development activities of the recipient.

Disclosures Required by Law

This exception is rarely invoked as the law generally respects confidential information, and does not compel disclosure except in extenuating circumstances. However, it is still important to get the words right. Otherwise, in those rare cases where it is invoked, the recipient may be more generous than you would wish.

The recipient should have an obligation to notify the discloser of any proposed disclosure. The recipient should take reasonable and lawful action to avoid and/or minimise the extent of such disclosure.

The recipient may also grant the discloser a limited time within which to obtain a protective order or other equitable relief to prevent the disclosure.

Burden of Proof

If a recipient uses confidential information in breach of its obligations in a non-disclosure agreement do they have the burden of proving that the information fell within one of the exceptions cited above?

Usually the recipient has the burden of proof but circumstances may mitigate otherwise. It is wise to spell out who carries the burden of proof.

The non-disclosure agreement should expressly impose the burden of proof on the recipient. The recipient should have the burden of proof either that (a) no such disclosure occurred, or (b) if such disclosure occurred, the information disclosed fell within one of the stated exceptions.

Failure to Invoke Exception

There should be a finite period within which the recipient may invoke an exception. Failure to invoke an exception within that period should constitute a waiver thereof.

The purpose of such a clause is to prevent the recipient from breaching the agreement and then fishing around for a defence of their actions.

Confidential Information

There is no such thing as unadulterated, 100% pure confidential information. Confidential information is always couched in material falling within one of the exceptions. The material may be in the public domain or be subject to the “prior knowledge” exception.

Every single page of confidential information will contain at least some extraneous bits of non-confidential information. Thus, all confidential information, by its nature, is hybrid. Make sure that the non-disclosure agreement does not treat confidential information as an all or nothing proposition. If it does, the discloser will always be at the short end of the stick.

To protect the discloser from these risks, add the following clauses to the non-disclosure agreement:

Disclosures of specific elements of confidential information shall not fall within any of the exceptions merely because the discloser incorporates them within disclosures of general elements already known to the recipient or in the public domain.

Disclosures of any combination of elements of confidential information shall not fall within any of the exceptions merely because one or more such element was already known by the recipient or was in the public domain provided that the combination of such elements was not known by the recipient or in the public domain.

The first clause protects the specific confidential elements where the combination of elements is not confidential. The second clause protects the combination of elements where the specific elements are not confidential.

Recipient's Work Product

Here's another problem. You give the recipient confidential information. There is no issue about its confidentiality. From your information, the recipient prepares internal memoranda, reports and other documents. This is to be expected and you can't reasonably ask a recipient not to do this.

The issue then arises as to whether these are confidential. These are not your memoranda, reports or documents, while they may include your confidential information, the recipient prepared them from scratch.

Logic would dictate that it should not matter who prepared the memoranda, report or document. It should only matter who owned the information contained.

The value of a piece of paper containing information is determined by the information on the paper. Your aim is not to protect specific pieces of paper; your aim is to protect specific pieces of information.

This is so regardless of how you communicate that information to the recipient or how the recipient uses that information. Your claim of confidentiality should extend to any memoranda, reports or documents that the recipient compiles or generates from information that you disclosed to the recipient.

To cover this situation, you might consider the following clause:

Confidential Information also includes any memoranda, reports or documents that the Recipient may compile or generate from the Discloser's information if a third party could identify or extract such information from such memoranda, reports or documents.

clauses

General Rules of Interpretation

There are three clauses that typically go together. Each clause addresses a variation of the same common theme. You can not enforce contractual rights against a party who is not a signatory to the contract as there is no privity of contract between you and that third party.

That basic notion of law makes good sense most of the time. On occasion, however, it can produce an anomalous result. It allows a dishonourable person to use a non-contracting party to do their bidding. Technically, the contracting party is not in breach of the contract and you can't enforce your rights against the non-contracting party.

To protect against this, you need a clause that prohibits a contracting party from enlisting the services of a non-contracting party to commit a breach. The following three clauses would prevent this:

Certain clauses in this agreement may prohibit a party from doing a specific act or thing. In such case, such party shall not aid, abet or encourage a third party to do such act or thing that such party could not do itself.

Any obligation not to do anything shall include an obligation not to suffer, permit or cause the doing of that thing. Neither party shall suffer, permit or cause an affiliate, subsidiary or third party to do an act that, if done by such party, would violate this agreement.

The Discloser shall regard any breach of this agreement by a subsidiary or affiliate of the Recipient as a breach of this agreement by the Recipient. The Discloser shall regard any breach of this agreement by an officer, director, staff member, adviser or other person acting for the Recipient as a breach of this agreement by the Recipient.

Disclosures to Third Parties

Virtually every non-disclosure agreement prohibits the recipient from disclosing confidential information to an unrelated third party except with the discloser's prior written consent. The discloser may condition their consent upon such third party entering into confidentiality undertakings similar to those contained in the non-disclosure agreement with the recipient.

This raises an interesting issue. Who is a "third party"?

Inevitably, individuals working for a corporation will be receiving, evaluating and assessing your confidential information.

There are several ways that you can bind these individuals to confidentiality. The most obvious way is to get each of them to sign an agreement accepting the terms and conditions of your non-disclosure agreement with the recipient and agreeing to be bound thereby.

In some situations, the recipient may not want its staff and advisers to sign any instrument that purports to confer upon the discloser a direct right of action against them.

In that case, your next best protection is to require the recipient to enter into employee confidentiality agreements with such members of its staff as shall be receiving, evaluating and assessing your confidential information. Concomitant with that obligation would be an obligation by the recipient to assume full liability for the acts and omissions of its employees and other persons to whom it discloses your confidential information.

A clause that embodies all of these points would read:

The Recipient shall only disclose the Confidential Information to those of its trusted employees and agents who require it for the purposes described in the agreement. The Recipient shall fully inform its employees and agents of the Recipient's obligations to the Discloser concerning the Confidential Information. The Recipient shall obtain written confidentiality undertakings from its employees before disclosing any Confidential Information to them. The Recipient shall be responsible for making sure that its employees and agents understand and comply with such obligations.

Restrictions on Use

The more copies of confidential information floating around, the greater is the risk of accidental disclosure, and therefore it is not uncommon to find in a non-disclosure agreement a restriction against photocopying confidential information.

Even with restrictions against photocopying, a recipient is normally allowed to retain at least one copy of the confidential information for its archives. The recipient may need to maintain a record of confidential information received to comply with good manufacturing practices, for reasons of quality assurance or relevant accreditation requirements, indeed this is an ISO requirement.

Another common restriction is to limit disclosure to a few trusted employees and then only on a "need to know" basis. However, disclosing confidential information only to employees on a "need to know" basis doesn't afford very much protection.

Your best protection is to have each individual recipient undertake in writing to maintain the confidentiality of the information disclosed. This can be achieved by:

- Having the individual recipient sign the non-disclosure agreement;
- Having the individual recipient sign a statement affirming that they will abide by the restrictions in the non-disclosure agreement applicable to the recipient; or
- Having the individual recipient sign an employee confidentiality agreement with the recipient.

Responsibility for Unauthorised Disclosures

It is important to distinguish three different levels of responsibility by the recipient.

The highest level is where the recipient accepts total responsibility for protecting the confidential information from unauthorised disclosure by it or its staff. Such an undertaking affords the greatest level of protection to the discloser.

However, the recipient may balk at giving such an onerous undertaking. Instead, the recipient will perhaps agree to use its “best endeavours” to protect the confidential information from unauthorised disclosure. This is an undertaking of one lesser degree, but still very good.

Unauthorised disclosures may still occur despite a recipient’s best endeavours to prevent them. A watered down version of “best endeavours” is “reasonable endeavours.”

It makes little difference whether a recipient commits to use its best endeavours or its reasonable endeavours to protect a discloser’s confidential information. Far more important is the consequences of an unauthorised disclosure, be it intentional or through inadvertence.

The “Designated Discloser”

I have discussed the problems associated with limiting disclosures to a few key people, so called “trusted employees”. The flip side of that issue concerns limitations upon individuals who will actually be doing the disclosing rather than the receiving. A discloser may not want the recipient to communicate with just anybody.

The ideal situation would be for just one person representing the discloser to co-ordinate all disclosures. Such a person would have an intimate knowledge of the confidential information. They would also know the rights and obligations of the discloser and recipient pursuant to the non-disclosure agreement.

A designated discloser can exert greater control over the types of information disclosed, the means of disclosing it and the security measures to protect it.

The risk of accidental disclosure increases dramatically if you have multiple recipients and disclosers. There may be good reason for the recipient to designate several people to receive the confidential information. The recipient may adopt a team approach to its evaluation and assessment.

Ideally, a single designated discloser should be the contact person for the recipient. All confidential information should be channelled through this person.

This may not be a problem in a small company, but is more likely to be a problem in a large company where several individuals are involved in the same project, each of whom possess confidential information bearing upon the project.

Consider including a clause in your non-disclosure agreement that requires the recipient to communicate only with such person or persons as the discloser may designate. The clause should prohibit the recipient from contacting any other officer, employee or agent within the discloser’s organisation.

Anti-Competitive Aspects of Non-Disclosure Agreements

A non-disclosure agreement bears certain similarities with a restraint of trade.

A non-disclosure agreement has the potential to restrict competition, for that reason, prohibitions against use of confidential information by the recipient must be drafted with great care lest such prohibitions be interpreted as a backdoor means of restricting competition.

If the restraints upon use and disclosure are deemed anti-competitive, the entire agreement could be declared void as against public policy. In determining whether restraints are anti-competitive, courts generally apply the so-called "rule of reason".

Taking all the circumstances into account, is it "reasonable" for the discloser to insist upon these restraints. If not, then the discloser is deemed to be acting unreasonably and in an anti-competitive manner.

To justify clauses that others might consider anti-competitive, you can resort to the tried and true method of "signposting". In other words, explain the reason for the clause. Explain why the discloser needs the protection conferred thereby.

These signposts do not have the force of law, however they provide helpful contractual history concerning the intent of the parties when they signed the non-disclosure agreement.

If you include a clause with anti-competitive overtones, make sure that you limit its scope, territory and duration to only what you need. If you overreach, you may lose everything, so just go for the very basic protection that you need.

Severability Clauses

If any clause is determined to be invalid, the entire contract should not fail simply because of that one invalid clause. Instead, the invalid clause is "severed" from the contract, hence the term, "severability clause".

Just because there is a risk that a court may strike down a clause as being anti-competitive, don't be afraid to use it. In the right circumstance, the clause may be perfectly acceptable.

For example, if you provide confidential information to a prospective supplier, you have every reason to expect them not to use that confidential information to supply your competitors. In that circumstance, the clause would be no more anti-competitive than clauses of the same type in exclusive supply contracts.

Raiding

The non-disclosure agreement may be bullet-proof but of limited use if the recipient can circumvent it simply by hiring the person that created, or possessed, the confidential information. If that is a possibility, it is easy enough to prevent, all you have to do is insert an "anti-raiding clause" in the non-disclosure agreement.

With an anti-raiding clause, the recipient agrees not to offer employment to, or otherwise engage the services of, the discloser's personnel. Such a restraint normally expires one year after the termination of the non-disclosure agreement.

An anti-raiding clause is difficult to draft because raiding can occur in so many different ways. It is almost impossible to address them all short without attaching a three page anti-raiding clause to a two-page non-disclosure agreement. Perhaps the cleanest way to handle this is to insert a clear contractual prohibition, and then provide a mechanism for the waiver of the prohibition.

For example, the mechanism would start with a notification by the recipient to the discloser seeking permission to hire one of the discloser's employees. The discloser would then grant or withhold its permission either in its sole and absolute discretion or in its reasonable discretion.

In granting permission, the discloser might impose reasonable conditions. Thus, the whole purpose of such a mechanism would be to foster a dialogue between discloser, recipient and perhaps even the employee.

There is no guarantee that an acceptable resolution will come from such dialogue. But it may avoid a protracted dispute involving a clause that is, at the same time, difficult to draft and even more difficult to enforce.

Length of Term

The length of term depends on the circumstances.

Some non-disclosure agreements run for a long time while others are short lived.

Some non-disclosure agreements provide for termination upon notice by the discloser to the recipient, which is called "instant termination".

There is logic to allowing the discloser to terminate at will, as the moment the discloser does not wish to disclose, there is really no sense holding the discloser to any agreement. Remember that in most non-disclosure agreements, there is no obligation upon the discloser to disclose.

All things being equal, a stand-alone non-disclosure agreement tends to have a short term, say one year or less. The reason is that the purpose of most stand-alone non-disclosure agreements is to allow the recipient to evaluate confidential information which shouldn't take probably only a few weeks, maybe a month at most.

The discloser and recipient may view a non-disclosure agreement merely as a pre-cursor to an agreement that involves a more lasting relationship. The non-disclosure agreement, itself, does not contemplate a lasting relationship.

When you have long term non-disclosure agreements, it is generally in the context of a long-term relationship such as joint ventures and licence agreements.

It can be a good idea to incorporate the confidentiality clauses within the licence or joint venture, as the case may be, rather than in a free standing non-disclosure agreement.

If you go with a freestanding non-disclosure agreement in the context of a long-term relationship, such as a licence or joint venture, make sure that you at least incorporate by specific reference the terms of the non-disclosure agreement into the licence or joint venture.

The two documents should be "collateral". That means if one terminates so does the other.

After the evaluation, if the parties agree to negotiate a more formal relationship, what happens to the non-disclosure agreement?

You have several options.

First, you can terminate the non-disclosure agreement and incorporate equivalent confidentiality undertakings in the more formal agreement.

Second, you can amend the non-disclosure agreement so that it runs co-terminously with the formal agreement. That is to say, so long as the formal agreement is in effect, so too is the non-disclosure agreement.

Thirdly, you can include a clause in the non-disclosure agreement that automatically extends its term in the event that the parties enter into a subsequent formal agreement.

Post-Termination Obligations

Upon termination of a non-disclosure agreement, the recipient should stop using the confidential information.

The non-disclosure agreement should establish a procedure whereby, upon termination, confidential information is either returned to the discloser or destroyed.

Incidentally, you don't have to wait until the non-disclosure agreement terminates to get back your confidential information. You should have the right to recall your confidential information at any time during the term of the agreement.

Survival of Obligations

Regardless of the length of the term of a non-disclosure agreement, the confidentiality obligations therein should survive termination.

As much as you may need the protection of confidentiality during the term, even more so do you need it when the agreement expires. In most agreements the confidentiality undertakings survive for anywhere from three to five years.

Whatever the term of the non-disclosure agreement may be, make sure that it survives any agreement that follows it. If you were to enter a licence agreement, it is likely to include a clause stating:

This licence agreement represents the entire agreement between the parties concerning the subject matter thereof. As such, it supersedes any prior agreement in respect to the same subject matter.

By signing this you have terminated the non-disclosure agreement. If you do this intentionally, that's fine. There is a chance that you might do it by accident. Therefore, in your non-disclosure agreement, you must state that it shall survive any subsequent agreement concerning the same subject matter.

A non-disclosure agreement is a stand-alone legal contract. It should not lose its effectiveness simply because the parties incorporate non-disclosure covenants in a subsequent legal contract, unless they expressly state that to be their intention.

Admission of Novelty; Representations and Warranties

A recipient may wish to include the following clause: "The receipt of confidential information shall not constitute an admission as to its novelty or patentability".

In other words, the recipient wants to keep their options open, foremost among them being to challenge the validity of your intellectual property. Needless to say, you should avoid such a clause.

On the other hand, you may wish to state for the record that your disclosure of confidential information does not constitute a representation, warranty or guarantee to the recipient that such confidential information does not infringe the patents or other intellectual property rights of third parties.

Such a clause is entirely reasonable within the context of a non-disclosure agreement. It may be entirely unreasonable in the context of another agreement. Understandably, the recipient might seek exactly such a representation from you before entering into a more formal relationship with you.

You will find that many clauses that might be entirely appropriate in a joint venture or licence agreement are inappropriate in a non-disclosure agreement. This is due to the narrower scope of a non-disclosure agreement.

Inaccurate or Incomplete Information

You may come across the following clause:

The discloser shall not be liable for any errors or omissions in the confidential information. The discloser does not make any representations or warranties concerning the use of the confidential information or the results to be obtained there from. There are no representations or warranties concerning the accuracy or completeness of the confidential information. The recipient should satisfy itself through independent inquiry and investigation in respect to these matters.

In a licence agreement, for example, the licensee is certainly entitled to representations and warranties that the confidential information is free of errors or omissions. The licensee is also entitled to rely upon the completeness and the accuracy of the information.

The licensee may even be entitled to representations concerning its use of the confidential information and the results to be obtained.

It is purely a case of timing. In a non-disclosure agreement, it is not worth fighting over these issues since the relationship may never go any further.

Information Not Up-to-Date

In the same vein, the discloser may wish to state that the confidential information might not be current as at the date of its disclosure. Normally, the discloser has no obligation to update information previously furnished to the recipient.

Again, the currency of confidential information is not of any great consequence to the recipient at such a preliminary stage as a non-disclosure agreement. Once the recipient negotiates a full-blown licence agreement or joint venture, the fact that the information is current on the date of its disclosure can be of paramount concern. The recipient is entitled to assurances to that effect.

No Business Relationship Implied

You may also come across this clause:

This non-disclosure agreement does not obligate either party to enter into a business relationship with the other party. This non-disclosure agreement does not create any such business relationship, either expressly or by implication.

This clause should also be quite self-evident.

Grant Back Clauses

Occasionally, a non-disclosure agreement will contain a "grant back clause". The clause is much more common in licence agreements.

It is easier to explain a grant back clause in the context of a licence agreement.

When a licensor licenses their intellectual property to a licensee, it is almost inevitable that the licensee will discover enhancements and improvements to that intellectual property. Inevitably, the issue will arise as to who owns the enhancements and improvements, the licensor or the licensee. A "grant back clause" confers ownership on the licensor in respect to enhancements and improvements developed by the licensee.

If you think that the licensor is over-reaching by claiming the licensee's enhancements and improvements, remember that the licensor probably made the major breakthrough, they discovered the "core technology". The licensee's enhancements and improvements would not have been discovered but for the licensor's breakthrough.

Therefore, by all rights, such enhancements and improvements should accrue to the licensor. A "grant back clause" achieves that result.

A grant back clause is usually not relevant in a non-disclosure because the likelihood of the recipient discovering an enhancement or improvement is so remote.

Whether or not a discloser needs a grant back clause in a non-disclosure agreement depends upon the use to which the recipient will put the confidential information. If the evaluation is more extensive than a simple “look see”, a grant back clause may be entirely appropriate.

For example, if, in the course of the recipient’s evaluation, the recipient plans to engage in extensive lab work, or conduct performance tests or review quality control procedures, clearly those activities go well beyond a simple evaluation.

milestones

A non-disclosure agreement should set milestones for measuring progress. It should require the discloser and the recipient to convene regular meetings. It should describe any other activities or events that should occur in order to move the project along.

You must find a way to get the recipient committed to the project. A non-disclosure agreement setting out an action plan for the parties to commit to is an essential first step in the process.

A non-disclosure agreement should not be a sterile legal document, it should be a charter for action.

evaluation

By far, the most common use of confidential information by the recipient is for evaluation and assessment. Be careful, the term “evaluation” means different things to different people.

Restrict “evaluation” to intellectual evaluation only. Evaluation does not extend to the manufacture of prototypes, trial marketing, commercial testing or similar activities except with the discloser’s express written consent.

These other activities go beyond pure intellectual evaluation. If the recipient wishes to engage in them, a standard non-disclosure agreement is probably not the appropriate legal instrument. The parties should consider a “technology evaluation agreement” or a “test market agreement”.

Absence of Representations and Warranties

During the recipient’s evaluation, the discloser will be in communication with the recipient. Inevitably, the discloser will puff up their confidential information to capture the recipient’s enthusiasm.

It is important to realise that the recipient may construe your remarks as representations and warranties.

The non-disclosure agreement should dispel any such notion. Statements made by the discloser are solely for the purpose of supporting the recipient’s evaluation; they are not representations or warranties. The recipient is responsible for making an independent evaluation of the confidential information.

The following two clauses can be used to drive this point home:

You are responsible for your own independent judgment, valuation and assessment of the confidential information. You shall not rely upon any opinions, statements, assurances or representations that our staff or we may express.

Such confidential information is supplied for evaluation only and is provided “as is” with no warranties of any kind, express or implied, including any warranty of merchantability or fitness

for a particular purpose. Under no circumstance shall we be liable for any direct, indirect, special or consequential damages arising from your evaluation of such confidential information.

This does not mean that a recipient is never entitled to rely upon statements and opinions that the discloser furnishes.

At so early a stage as a non-disclosure agreement, the discloser normally furnishes the confidential information without any representations or warranties. At a later stage, representations and warranties may be entirely appropriate, such as in a joint venture or licence agreement.

Results of Evaluation

After the recipient completes their evaluation the usual protocol is for the recipient to provide the discloser a written summary of the results of their evaluation.

These are considered confidential information. The recipient is prohibited from using the evaluation results without the express written consent of the discloser.

The discloser may use the evaluation results. If the discloser releases the evaluation results into the public domain, the recipient is then relieved of any further confidentiality obligations in respect to such information. Of course, that principle applies to all types of confidential information.

For the protection of both the recipient and the discloser, it is important for the recipient to prepare evaluation results and to share those results with the discloser. This procedure will help to avoid any future disputes over the recipient's use or misuse of the confidential information.

Prohibited Uses of Confidential Information

In addition to specifying the "permitted uses", you should also specify the "prohibited uses". Mention specific uses that are off limits.

The recipient should acknowledge that the confidential information is your property. It's okay if the recipient wants to reserve the right to invoke one of the exceptions mentioned earlier.

In the case of bona fide confidential information, where none of the exceptions apply, the recipient should agree to use such confidential information in a manner that would not be detrimental to the discloser's business. This is the minimal standard of care that a recipient should commit to. You may, if you wish, elaborate on the types of uses that you would consider "detrimental" to your business.

record keeping

Try to impose record keeping requirements on the recipient. Don't be surprised if the recipient bristles at such a requirement.

It is reasonable for the recipient to maintain a record of all persons to whom it discloses confidential information. Furthermore, the recipient should make that record available to the discloser, upon request.

reporting requirements

Non-disclosure agreements are too frequently signed, sealed, delivered, filed and neglected. This is not the way that it should be.

The discloser should have a genuine interest in maintaining the vitality and relevance of a non-disclosure agreement. There are certain techniques that a discloser may employ to achieve this.

The discloser should try to keep the recipient aware of their obligations. One means of doing so is to require the recipient to furnish periodic affidavits or certificates indicating their compliance with the non-disclosure agreement.

Such affidavits or certificates have the virtue of creating a “self-policing” procedure. The recipient is less likely to commit a breach of the non-disclosure agreement if they have to certify their compliance therewith. Likewise, the discloser has less need to police the recipient’s compliance.

Another technique to achieve compliance is to impose an obligation upon the recipient to report, periodically, on how they are using the confidential information.

breach of non-disclosure agreement

Damages for breach of a non-disclosure agreement are exceedingly difficult to prove. A discloser’s best remedy is often equitable (i.e. injunctive) relief. The discloser must be able to go into court and slap a writ against the recipient.

You may be entitled to equitable relief even where the non-disclosure agreement is silent on the subject. However, the inclusion of a clause expressly granting the discloser the right to seek, and to obtain, equitable relief would certainly not go amiss.

Equitable relief is considered extraordinary relief. Courts grant it on a discretionary basis, and they will exercise their discretion with considerable restraint. Courts are reluctant to grant such relief unless: (a) the claimant is suffering “irreparable injury”; and (b) there is not an “adequate remedy at law”. That’s code meaning an award of damages will not adequately compensate the discloser for the injuries sustained at the hands of the recipient.

When a discloser applies for equitable relief, invariably, the recipient will invoke the following defence. The recipient will say that the discloser does not need equitable relief because an adequate remedy at law exists.

Therefore, any clause in the non-disclosure agreement concerning equitable relief would be deficient if it did not include a waiver by the recipient of that defence.

The recipient may, of course, defend an application for injunctive relief on other substantive grounds. For example, the recipient certainly may defend on the grounds that they did not breach the non-disclosure agreement. A waiver of that defence would, clearly, be against public policy. So don’t for a minute think that the recipient is without defences to raise.

Here is a clause concerning equitable relief. It’s a bit long winded yet it addresses all of these issues pretty well:

The Recipient acknowledges that the Discloser will be irreparably harmed by any breach by the Recipient of its obligations under this Agreement and that a remedy at law may be insufficient to protect the Discloser’s interest in the event of such breach. By reason thereof, the Recipient agrees that the Discloser shall be entitled, in addition to any other remedies it may have under this Agreement or otherwise, to preliminary and permanent injunctive and other equitable relief to prevent a breach or to curtail any breach or threatened breach of this Agreement by the Recipient. The Recipient waives any right to challenge any such claim for equitable relief by the Discloser on the basis that an adequate remedy at law exists.

Damages for Lost Profits

In addition to equitable relief, the discloser can always recover damages. A typical measure of damages is lost profits.

“Lost profits” is a very hard thing to quantify. The amount of lost profits can be very high or very low. It all depends upon what assumptions you use.

The discloser and the recipient will each have an expert witness to give evidence. Lost profits are in the nature of consequential losses. Direct losses are usually minimal or non-existent. That’s why it is so difficult to recover money for breach of a non-disclosure agreement.

Indemnities

It is helpful if the non-disclosure agreement contains an indemnity by the recipient. An indemnity is not absolutely essential. It rarely goes further than what common law would say.

You might say that the recipient should indemnify the discloser against any losses, costs, claims, damages and expenses that the discloser may incur because of the recipient’s breach of the non-disclosure agreement.

Liquidated Damages

Because damages are so difficult to prove in court, the parties should consider a liquidated damages clause.

Non-lawyers frequently misunderstand the purpose of liquidated damages; they believe that liquidated damages are awarded as a penalty or punishment for wrongdoing, which is not the case. Criminal courts mete out punishments. Civil courts mete out damages.

In civil law, there is no basis for punishing one party for breaching a contract. You can only award damages resulting from such breach. Thus, a liquidated damages clause can not be punitive. If it is punitive, it will be unenforceable.

A liquidated damages clause must represent a genuine, good faith, pre-estimate by the parties of the damages that the discloser is likely to sustain as a result of the recipient’s breach of the non-disclosure agreement.

A drawback to a liquidated damages clause is that it could bar the discloser from obtaining equitable relief.

The discloser would have difficulty arguing that there was no adequate remedy at law after agreeing, in advance, on the exact quantum of damages (down to the last cent) that they would sustain in the event of a breach by the recipient.

Thus, a liquidated damages clause is somewhat inconsistent with a clause granting the discloser the right to obtain equitable relief.

Mediation and Arbitration

Mediation and arbitration are great dispute resolution procedures, but don’t use them in a non-disclosure agreement.

Certainly, mediation is inappropriate. If a recipient misuses your confidential information, it is highly unlikely that mediation will produce a satisfactory result for you.

Jurisdiction and Venue

The discloser should always determine the jurisdiction and venue. This is one turf battle that the discloser must win.

Arguably, it is in the recipient’s interest for the discloser to make this call. The reason is that the discloser may have entered into the same, or similar, non-disclosure agreements with persons in other jurisdictions.

Unless all such agreements are interpreted uniformly, there is a serious risk that different jurisdictions will come up with different interpretations. That could destroy the benefit of the confidential information for both the discloser and the recipient.

For the sake of uniformity, the discloser must determine the jurisdiction and venue. Courts will normally uphold that determination.

In addition to stating which country's laws shall govern, the recipient should expressly submit to the jurisdiction of the relevant courts in that country. Otherwise, even though the recipient may have agreed on the governing law, you may not be able to obtain a judgement against the recipient.

Notification of Breach

The non-disclosure agreement should impose an obligation upon the recipient to notify the discloser in the event that the recipient breaches the agreement.

Try to justify the clause by explaining to the recipient that not all breaches are malicious. Sometimes wrongful disclosures occur by accident or through inadvertence. The notification requirement may help mitigate the injury sustained.

In addition, not all breaches result in injury or damages, yet it is still wise to keep track of them.

length

The shorter the non-disclosure agreement, the better. Do not clutter up the agreement with standard, yet unnecessary clauses.

However it is appropriate to include a "non-waiver clause".

This clause protects you in the event that you delay in enforcing your rights and remedies against the recipient.

Without such a clause, the recipient could claim that a "constructive waiver" occurred because you delayed enforcing your rights and remedies.

In this same vein, it is advisable to state that your rights and remedies are "cumulative". What that means is that the assertion of one right or remedy shall not pre-empt you from asserting another right or remedy at the same time or in the future.

Aside from these two clauses ("Non-waiver" and "Rights Cumulative"), you may be able to dispense with other standard clauses.

assignment

Non-disclosure agreements are normally non-assignable. The reason is that the disclosure of confidential information envisages a personal relationship based upon trust.

signatures

Make sure that the non-disclosure agreement is signed by persons with appropriate signing authority. This is more important in some jurisdictions (e.g. New Zealand) than in others.

In the United States, for example, signature formalities are extremely lax. You hardly need to inquire into the authority of the signer thanks to such common law doctrines as "implied authority" and "apparent authority".

Today, signature by fax is acceptable. Include a clause in the non-disclosure agreement allowing counterparts to be exchanged by facsimile transmission. Then you don't even have to exchange blue ink signature copies.

technology evaluation agreements

A technology evaluation agreement is a totally different to a non-disclosure agreement. A non-disclosure agreement defines what's confidential and imposes conditions upon the recipient's use and disclosure. Implicit in a technology evaluation agreement is that the recipient, if not also the discloser, shall be undertaking pro-active steps to evaluate your technology.

There is usually a schedule of milestones to make sure that the recipient actively evaluates the technology. Otherwise, the recipient may just sit with the information, as often happens with a non-disclosure agreement.

A certain amount of disclosure must precede a technology evaluation agreement. You may be unable or unwilling to make those disclosures. In that case, you will need to proceed by the more traditional route of a non-disclosure agreement.

Whereas the standard form non-disclosure agreement puts the recipient in the role of a passive assessor of your technology, a good technology evaluation agreement will make them feel like an active participant in an exciting new venture.

"black box disclosures"

You feel that your information is just too sensitive for words. You might want to consider the feasibility of making "black box disclosures" to the recipient.

With black box disclosures, you do not reveal the specifics of the confidential matter. Instead, you provide the recipient with sufficient information upon which to decide whether to proceed further. If the recipient decides to proceed further, you may by-pass a non-disclosure agreement and sign a technology evaluation agreement instead.

With black box disclosures, you describe what the technology does but not how the technology works. Usually, however, you avoid disclosures concerning the technology altogether, you focus instead on its commercial benefits. You may, for example, describe the costs, results and other pertinent economic data that will allow the recipient to make a superficial business analysis.

A knowledgeable recipient may well be content with black box disclosures. This is more likely to be the case during the initial stages of communication. They may actually prefer black box disclosures since they will not be bound by any non-disclosure obligations.

You are telling the recipient, "My black box can do this but I am not going to tell you what's inside". With such information, a recipient can make a threshold decision whether it's worth taking a look inside your black box. To do that, the recipient will need to give you ironclad protection in the form of a non-disclosure agreement or technology evaluation agreement.

In a rare situation, the recipient might even bypass those steps. The recipient may proceed directly with a licence agreement or joint venture purely on the strength of your black box disclosures.

Since the recipient is basing their decision to proceed on the veracity of your disclosures, it should not surprise you if, later on, they demands representations and warranties concerning the accuracy thereof.

The line between a black box disclosure and the disclosure of something more revealing can be quite fuzzy. It would be pertinent to obtain competent advice.

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