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Do Not Give NDAs the Short Shrift

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Several states have passed new laws restricting use of nondisclosure agreements (NDAs), making it timely for companies to review their policies and practices. Below are some general "best practices" related to NDAs, which can be essential to protecting proprietary information and avoiding misappropriation claims from others.

An NDA Is Critically Important

Notwithstanding the recent legislation in a number of states restricting the use of NDAs to prevent whistleblowing activity, it is still important to ensure that an appropriate NDA is in place before disclosing your company's confidential information. This is true whether you are exploring a potential joint development, procuring specialized parts, or hiring a new employee. Disclosure without an NDA may bar your ability to maintain the trade secret status of your company's key information and allow others to freely use it based on your "voluntary" disclosure without an NDA. *See*, for example, *Abrasic 90 Inc. v. Weldcote Medals, Inc.*,[1] where the court denied a preliminary injunction request on the ground that the plaintiff had not taken reasonable measures to protect its supposedly trade secret information, including by using NDAs.

Don't Ignore Future Threats

In negotiating an NDA, it is important to recognize that the relationship may eventually sour. For example, an employee may go to work for a competitor after being terminated; the joint venture may not come to fruition or ends badly; or the other party's participation in negotiations may have been a ruse to gain access to your confidential information. Thus, when negotiating an NDA, you should not lose sight of the possibility that the other party may attempt to steal your trade secrets or, conversely, accuse you of stealing their trade secrets.

Don't Inadvertently Enter into a Relationship Prematurely

NDAs are often executed when parties are exploring a *potential* relationship (*e.g.*, a sale of a business or a joint venture). Explain in the NDA that neither party is agreeing to the potential relationship by signing the NDA and, instead, its purpose is to afford the parties protection against misuse of confidential information exchanged during the exploration of the potential relationship.

Consider the Direction(s) of Information Flow

Another important consideration is whether confidential information will be exchanged by both parties. If the flow of information will be mutual, keep in mind that the obligations that you seek to impose on the other party for your confidential information likely will be imposed on you *vis-à-vis* the other party's confidential information. Thus, weigh the costs and benefits before interjecting overly burdensome obligations.

Scope of Protected Information Should Not Be Boilerplate

Beware of provisions that require you to protect the other party's nonconfidential information. Efforts to protect designated information can be onerous and expensive. Moreover, such provisions could expand the chance of being accused by the other party of a misappropriation or a breach of contract. Articulate what is excluded from the scope of the duty to protect information under the NDA. For example, while it may seem obvious, explicitly state that any information that is readily ascertainable or independently developed is not protected under the NDA.

Be Mindful of the "As Required By Law" Carve Out

Often NDAs will carve out from the obligation not to disclose confidential information "as required by law." It is important to understand what is being carved out under that exception. One common exception is when a court orders the disclosure of the information. You should also be aware of a growing body of "whistleblowing" exceptions, including the following:

- The federal Defend Trade Secrets Act protects whistleblowers who disclose trade secret information to government officials or private attorneys for the purpose of reporting or investigating suspected violations of law. *See* 18 U.S.C. § 1833.
- The Securities and Exchange Commission (SEC) considers illegal any limitation on an individual's ability to communicate directly with the SEC about a possible securities law violation. *See* Securities Exchange Commission, Rule 21F-17(a).
- Other statutory provisions that afford protection for whistleblowers include 5 U.S.C. § 7211 (governing disclosures to Congress) and 5 U.S.C. § 2302(b)(8) (governing disclosures of illegality, waste, fraud, abuse, or public health or safety threats).
- A number of states have restricted an employer's ability to prohibit certain disclosures by an employee. For example, California's Government Code § 12964.5 (effective January 1, 2019) makes it unlawful to require an employee "to sign a … document that purports to deny the employee the right to disclose information about unlawful acts in the workplace…." Other state legislation related to disclosures of sexual harassment and assaults in the workplace include:

  - o New Jersey—Effective March 18, 2019. P.L. 2019, c.39 precludes any "provision in any employment contract that waives any substantive or procedural right or remedy relating to a claim of discrimination, retaliation, or harassment."
  - o Tennessee—Effective May 15, 2018. Pub. Ch. 965 prohibits an employer from requiring an employee "to execute or renew a nondisclosure agreement with respect to sexual harassment in the workplace as a condition of employment."
  - o Vermont—Effective July 1, 2018. Act No. 183 prohibits employers from requiring "any employee or prospective employee, as a condition of employment, to sign an agreement or waiver" that restricts the employee from disclosing sexual harassment.
  - o Washington—Effective June 7, 2018. Chapter 117, Laws of 2018 forbids employers from requiring employees to "sign a nondisclosure agreement … that prevents the employee from disclosing sexual harassment or sexual assault occurring in the workplace" as a condition of employment.

Pay Attention to Ownership Issues

Watch out for provisions that may result in a transfer of ownership of proprietary information. For example, a provision that a party disclosing a document will own any and all information in that document may give the counterparty an argument that, under the agreement, it is deemed the owner of certain information because it disclosed a document containing such information. The NDA should clearly articulate what trade secrets will be deemed owned by each of the parties.

Do Not Ignore Third Party Access Rights and Obligations

You should determine which third parties, if any, you may need to disclose the other party's information to and negotiate a provision that meets your needs. For example, you may want to be able to share the other party's information with your financial and/or legal advisors. On the flip side, the NDA should

define clearly how the other party may use the information you disclose—namely, to which third parties such information may be disclosed and the third parties' obligation to protect the information to which they are given access.

Carefully Weigh Rights to Assign

Special attention should be given to provisions that allow assignment of rights under the NDA to third parties or affiliates. Consider requiring the other party to obtain your consent prior to assigning the NDA to a third party or even the other party's affiliates since such affiliates may be your competitors. Even if the counterparty has no affiliates that are your competitors when the NDA is signed, that may change in the future.

You may also want to include a provision requiring the other party to (i) give you notice if it is going to be acquired by a third party (in whole or in part) and (ii) to return all documents including your confidential information upon demand (but continuing to be bound to protect the intangible information for your benefit). That way, if the acquirer is one of your competitors, you can prevent it from gaining access to your confidential information.

Set an Appropriate Duration for Confidentiality Obligations

The length of confidentiality obligations should be driven by the nature of the information being disclosed—whether it is expected to remain a trade secret for a long time or will no longer be secret or valuable after a certain period. Confidentiality obligations may continue after the parties terminate their relationship. Since protecting information, however, can be expensive and burdensome, parties should avoid agreeing to protection period that is unnecessarily long.

Suitable Protection Measures Should Be Imposed

NDAs often provide that "reasonable efforts" must be taken to protect the other party's confidential information. But, given the wide latitude in determining "reasonable" efforts, this is sometimes the reason litigation arises. For example, what is considered reasonable can vary depending on the scale and sophistication of a particular business. To avoid such dispute, you should consider whether the NDA should expressly identify what specific protection measures the other party must use to protect your confidential information.

Consider Audit Rights

The right to inspect the other party's business records to determine how your confidential information is being used, disclosed, and protected may be important to assuage your concerns should suspicions of misuse or negligent protection arise. They may be important later to build a case or to obtain an injunction against the other party, and in litigation (especially in jurisdictions where there are limited discovery rights, for example, in certain non-U.S. countries or in certain arbitrations).

Don't Allow an Integration Clause to Backfire

Although it is generally a good practice to include in NDAs an integration clause—a declaration that the written contract is the complete and final agreement between the parties and supersedes all prior negotiations—be careful not to inadvertently supersede (or worse, nullify) the terms of other agreements between the parties, which is sometimes the main reason that the parties entered into a relationship in the first place.

Give Special Attention to Choice of Law and Forum Selection Provisions

Careful consideration should be given to the provision designating: (i) which state's or jurisdiction's law will apply to interpret the NDA, and (ii) the forum or venue for the resolution of disputes arising out of the agreement. These provisions may affect the enforceability of the NDA, as well as the availability of sometimes crucial injunctive relief (and, when a foreign jurisdiction is involved, the ability to obtain discovery that may be crucial to prove misappropriation). For example, some jurisdictions (*e.g.*, China, Korea) do not provide for discovery similar to that allowed in the United States. Discovery rights also differ based on the arbitral forum chosen. These are critical provisions when it becomes necessary to enforce the NDA.

Educate Your Employees about the NDA and Maintain Records Related to the NDA

In event that your company may later be required to show its exercise of reasonable efforts to comply with the NDA, you should educate employees who will have access to the other party's confidential information about their obligations under the NDA, and, better yet, obtain their written acknowledgment of the training. This goal will also be furthered by maintaining appropriate records, including communications relating to the NDA with the other party, as well as documentation of the information designated as confidential under the NDA (which party designated it as confidential, which employees accessed it, how it was used, and where it is kept within your systems).

Reduce Risk of Misappropriation Claims by the Other Party

Businesses should control access to the other party's confidential information, as well as how it is utilized. When a product is being developed that potentially may later be falsely accused of having incorporated the other company's confidential information, your company should carefully and methodically document the development of such product to be able to demonstrate that it was independently developed without use of the other party's confidential information. Such documentation may allow your company to avoid (and, if necessary, prevail in) any potential litigation filed by the owner of the confidential information asserting misappropriation.

Stay on Top of Rights and Obligations at Termination of the Relationship

Once the parties' relationship is terminated, neither party should use or access the other's confidential information except to return or destroy documents in compliance with the NDA. Plan in advance so that you can return in a timely manner or destroy the other party's confidential documents and information, and to meet such demand by the other party (*e.g.*, keep track from the onset of the location of documents containing such information, and dissemination of the information by the company's email system, etc.).

1. United States District Court for Northern District of Illinois Case No. 1:18-cv-05376, Dkt. 63 (March 4, 2019 Order).

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