



# **NDA BOOTCAMP: THE DO'S AND DON'TS AND TRAPS FOR THE UNWARY**

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**PRESENTED BY:**

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Business attorney Drew Kuettel partners with clients on a wide range of corporate and financial matters, including mergers and acquisitions, joint ventures, public and private securities offerings, equity and debt financing, lending transactions, corporate governance, business entity formation, and employee equity and phantom equity compensation plans. Drew serves clients by understanding their specific business needs and delivering practical and straightforward legal solutions.

Drew is experienced in all aspects of mergers and acquisitions, from the letter of intent stage through closing, involving companies in a variety of industries. In addition, he advises clients on Securities Exchange Act of 1934 reporting obligations for issuers and insiders, public offerings of securities registered under the Securities Act of 1933, private placements of securities exempt from registration, and state blue sky laws. Drew also provides general business counseling and guidance on entity formation.

### PROFESSIONAL RECOGNITION

- Selected for inclusion in *Best Lawyers: Ones to Watch*, 2021

### PROFESSIONAL LEADERSHIP

- Greater Phoenix Chamber of Commerce, Valley Young Professionals, Member
- Phoenix Suns Charities 88, Member
- State Bar of Arizona, Member

### COMMUNITY INVOLVEMENT

- Cricket Together, Elementary School Reading eMentor

The background features a light gray gradient with several overlapping, semi-transparent white circles of varying sizes. A single dotted red circle is positioned in the upper-left quadrant, overlapping some of the white circles.

**CLE PASSCODE**

# AGENDA

- Rationale for Written Confidentiality Agreements
- NDA Basics
- NDA Drafting
- Key Takeaways
- Q&A



# Why Protect Confidential Information by Contract?

- Confidential information is a business asset (sometimes the most valuable one)
- Prevalence of Confidentiality Obligations in Commercial Settings
  - Separate “Non-Disclosure Agreement” (NDA); or
  - Confidentiality clauses within an agreement that covers a broader transaction
- Compliance with contractual obligations owed to third parties
- Compliance with data security and privacy laws

# Why Protect Confidential Information by Contract?

- Written NDAs provide many advantages, such as:
  - Clearing any confusion over what is confidential
  - Flexibility in defining confidential information
  - Setting expectations regarding obligation of confidentiality
  - Easier to enforce
  - Ability to cover additional salient topics governing the relationship (e.g. non-solicitation covenants)
  - Maximizing trade secret protection\*\*\*

# Why Protect Confidential Information by Contract?

## SIDEBAR ON TRADE SECRETS

- Although trade secrets may be protected under federal and state law, entering into written NDAs help bolster protection.
- What is a trade secret?
  - The Uniform Trade Secrets Act (UTSA) defines trade secrets as: information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
    - derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
    - is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
- Federal cause of action under Federal Defend Trade Secrets Act of 2016

*For help with any trade secret matters, please contact John Gray in our Phoenix office  
[JHGray@perkinscoie.com](mailto:JHGray@perkinscoie.com) or 602-351-8092*

# Why Protect Confidential Information by Contract?

## **SIDEBAR ON TRADE SECRETS**

- General examples of information often claimed to be trade secrets include the following:
  - Data compilations
  - Certain information about customers or potential customers
  - Designs, formulas, drawings, blueprints, maps, or architectural plans
  - Algorithms, computer programs (including programmers' notes), and the processes implemented in computer programs
  - Instructional methods
  - Techniques and know-how, including manufacturing processes and repair processes
  - Business processes
  - Business strategies and methodologies, including business and marketing plans
  - Sales or financial information
  - Personnel records
  - Schedules
  - Manuals
  - Ingredients
  - Information regarding research and development activities
  - Product and/or service pricing



# Why Protect Confidential Information by Contract?

## RISKS & LIMITATIONS

- “The cat’s out of the bag”
- Proving breach
- Contract damages

*\* Control the disclosure process \**

# NDA BASICS

## COMMON COMMERCIAL CONTEXTS

- Consulting engagements
- Service agreements
- Employment agreements
- Strategic alliances
- Mergers and acquisitions
- Certain finance transactions
- Joint ventures

# NDA BASICS

## TYPES OF NDAS

- Unilateral (Discloser → Recipient)
- Bilateral (Discloser/Recipient ↔ Discloser/Recipient)
- Multilateral (Discloser/Recipient ↔ Discloser/Recipient ↔ Discloser/Recipient ↔ Discloser/Recipient)

*\* Just because information is flowing both ways does not mean all confidential information needs to be treated equally\**

# NDA DRAFTING

## CONTEXT MATTERS

- Who do you represent?
- What will you disclose?
- How will your confidential information be used?



# NDA BASICS

## COMMON MATERIAL NDA TERMS

- Parties to agreement
- Business purpose
- Definition of “Confidential Information”
  - Common exclusions from definition
- Non-disclosure obligations
- Term and termination
- Return or destruction of confidential information

*\*Careful drafting upfront can prevent the pain and expense of litigation later\**

# NDA BASICS

## **OTHER MATERIAL TERMS TO CONSIDER**

- Title and retention of rights
- Representations and warranties (or absence thereof)
- No obligation to enter into a transaction or relationship
- Non-solicitation covenants
- Remedies (injunctive relief and other equitable remedies)
- Indemnification
- Governing law, jurisdiction and venue
- Anti-assignment provisions

# NDA BASICS

## TIMING

- Depending on the context of the transaction or relationship, an NDA may be the sole governing document or it may co-exist with or be superseded by a broader agreement
- Execute NDAs *prior* to disclosure of confidential information
  - In any event, consider whether the NDA should cover prior disclosures
- Be vigilant with respect to term sheets

# NDA DRAFTING

## PARTIES TO THE AGREEMENT

- What entity is bound by the agreement?
- To whom can they disclose confidential information?
  - Certain employees, subsidiaries, parent entities, affiliates, agents, beneficial owners, professional advisors? *Create a defined term for this group of additional indirect recipients.*
- Watch out for exculpation language
  - *Sample clause: “[Party A / Recipient] will be responsible for any actions taken by its Representatives that would be deemed a breach of this Agreement if [Party A / Recipient] had taken such actions.”*



# NDA DRAFTING

## BUSINESS PURPOSE / PERMITTED USES

- Defining a purpose can aid in establishing permitted uses and narrowing the class of indirect recipients (i.e. “representatives”).
- *Sample clause: “In connection with the evaluation of a potential software development joint venture transaction between the parties (the “Proposed Transaction”) the Disclosing Party may disclose Confidential Information (as defined below). Recipient may use the Confidential Information solely for purposes of evaluating the Proposed Transaction and may disclose Confidential Information to its Representatives who: (a) need access to such Confidential Information in connection with the Recipient's evaluation of the Proposed Transaction; (b) are informed of its confidential nature; and [(c) are bound by [written] confidentiality obligations no less protective of the Confidential Information than the terms contained herein.]*

# NDA DRAFTING

## DEFINING CONFIDENTIAL INFORMATION

- What information does the definition cover?
  - Consider timing limitations
- Marking requirements?
  - Consider whether your internal team will be able to comply with marking requirements



# NDA DRAFTING

## DEFINING CONFIDENTIAL INFORMATION

In addition to business information that will be disclosed, consider covering:

- Third-party information that you are obligated to protect
- Derivative information created by the recipient using, or with reference to, your confidential information.
  - *Sample clause: "...and all notes, analyses, compilations, forecasts, studies or other documents prepared by you or any of your Representatives that contain or reflect such information..."*
- The existence of the NDA itself and the fact that the parties are considering a transaction.

# NDA DRAFTING

## DEFINING CONFIDENTIAL INFORMATION

- Common exclusions from “Confidential Information” definition:
- Information becomes public without a breach by recipient (or its Representatives)
- The information was already in the recipient’s possession or was available to recipient on a non-confidential basis prior to the disclosure
- Information that is independently developed by the recipient without using the confidential information

# NDA DRAFTING

**Sample clause:** *“Confidential Information does not include any information that:*

*(a) is or becomes generally available to the public other than as a result of Recipient's or its Representatives' [material] breach of this Agreement;*

*(b) is obtained by Recipient or its Representatives on a non-confidential basis from a third party that[, to Recipient's knowledge,] was not legally or contractually restricted from disclosing such information;*

*(c) [Recipient establishes by documentary evidence] was in Recipient's or its Representatives' possession before receiving such information from Disclosing Party; or*

*(d) [Recipient establishes by documentary evidence] was or is independently developed by Recipient or its Representatives without using any Confidential Information.*

# NDA DRAFTING

## NONDISCLOSURE OBLIGATIONS

- Include affirmative duty to safeguard and protect “Confidential Information”
- Standard of care
  - *Common standard of care: “the same degree of care used to protect Recipient’s own confidential information, but not less than a reasonable degree of care.”*

# NDA DRAFTING

## NONDISCLOSURE OBLIGATIONS

- Common exceptions:
- Disclosures to Representatives [solely for the permitted purposes]
- Disclosures required by law
  - *Sample clause: “If Recipient or any of its Representatives is required by applicable law or [stock exchange rules, the rules and regulations of the U.S. Securities and Exchange Commission, or] a valid legal order to disclose any Confidential Information, Recipient shall, before such disclosure and unless legally prohibited, notify Disclosing Party of such requirements so that Disclosing Party may seek, at Disclosing Party's expense, a protective order or other remedy, and Recipient shall reasonably assist Disclosing Party therewith. If Recipient remains legally compelled to make such disclosure, it shall: (a) only disclose that portion of the Confidential Information that it is required to disclose; and (b) use [commercially] reasonable efforts to ensure that such Confidential Information is afforded confidential treatment.”*

# NDA DRAFTING

## **NONDISCLOSURE OBLIGATIONS**

- Consider additional safekeeping and security requirements:
- Specific physical and network security methods and procedures
- Data room log
- Obligate recipient to provide notice of security breaches or unauthorized access or disclosures



# NDA DRAFTING

## TERM AND TERMINATION

- Indefinite
- Date certain (typically one to five years)
- End of business purpose
- Execution of definitive agreement

*Consider survival carveouts for specific highly-sensitive documents, such as customer lists, technical information, business methods, etc.*

# NDA DRAFTING

## RETURN OR DESTRUCTION OF CONFIDENTIAL INFORMATION

- Upon termination or at any time?
- Returning materials to discloser vs. destruction by recipient
- Retention of Confidential Information
  - Compliance with law (including any professional standards)
  - Bona fide internal document retention policies (i.e. archival backup)

*Insist on a tail period for retained Confidential Information notwithstanding termination of the NDA*

# NDA DRAFTING

## TITLE AND RETENTION OF RIGHTS

- Affirmatively state that the discloser retains all right, title or interest, to all Confidential Information
- Expressly disclaim licenses
- *Sample clause: “The Disclosing Party hereby retains its entire right, title, and interest, including all intellectual property rights, in and to all Confidential Information. Any disclosure of such Confidential Information hereunder shall not be construed as an assignment, grant, option, license, or other transfer of any such right, title, or interest whatsoever to the Recipient or any of its Representatives.”*

## WARRANTY DISCLAIMERS

- In order to prevent the recipient from later claiming it suffered damages in reliance on the disclosed Confidential Information, discloser should disclaim all express or implied warranties regarding the accuracy or completeness of the provided Confidential Information.
- *Sample clause: “Neither the Disclosing Party nor any of its Representatives make any representation or warranty, expressed or implied, as to the accuracy or completeness of the Confidential Information disclosed to the Recipient hereunder. Neither the Disclosing Party nor any of its Representatives shall be liable to the Recipient or any of its Representatives relating to or resulting from the Recipient's use of any of the Confidential Information or any errors therein or omissions therefrom.”*

# NDA DRAFTING

## NO OBLIGATION TO DISCLOSE INFORMATION OR ENTER INTO TRANSACTION



- No party is required or compelled to disclose any Confidential Information
- Parties are under no obligation to enter into a transaction
- Parties can terminate discussions at any time

# NDA DRAFTING

## NON-SOLICITATION

- Consider including a non-solicitation provision covering:
- Employees / service providers
- Customers
- Suppliers

*Analyze state-law limitations of restrictive covenants*

# NDA DRAFTING

## REMEDIES

- Injunction or other equitable relief in addition to monetary damages
- Would/could & will/may
- Entitled to / entitled to seek
- Reimbursement of enforcement costs

# NDA DRAFTING

## REMEDIES

- **Sample clause:** *“The parties agree that money damages will not be a sufficient remedy for any breach of this Agreement by Recipient or its Representatives and, in addition to all other remedies available under applicable law, Discloser shall be entitled to specific performance and to injunctive or other equitable relief as a remedy for any such breach. Neither Recipient nor its Representatives will oppose the granting of such relief and will waive any requirement for the posting of any bond or other security in connection therewith. In the event that either Party institutes any legal suit, action, or proceeding against the other Party arising out of or relating to this Agreement, the prevailing Party in the suit, action, or proceeding shall be entitled to receive in addition to all other damages to which it may be entitled, the costs incurred by such Party in conducting the suit, action, or proceeding, including [reasonable] attorneys' fees and expenses and court costs.*



# NDA DRAFTING

## INDEMNIFICATION

- Indemnification by recipient for third-party claims against discloser
- Not common (typically arise in unilateral NDAs)
- Consider identifiable third-party liabilities, such as a fine imposed by a regulatory authority

# NDA DRAFTING

## GOVERNING LAW, JURISDICTION & VENUE

- **Sample clause:** *“This Agreement and any dispute arising hereunder shall be governed in all respects by the internal laws of [STATE], without giving effect to principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of the laws of another jurisdiction. In the event of any litigation arising hereunder or in connection with the matters contemplated hereby, each party agrees to submit to the [non-]exclusive jurisdiction of courts of the [STATE] located in [COUNTY] and of the United States located in [COUNTY].”*
- Governing law inertia in subsequent agreements

# NDA DRAFTING

## ANTI-ASSIGNMENT CLAUSE

- **Sample clause:** *“You may not assign or transfer this Agreement, including by assigning any of your rights or delegating any of your obligations hereunder without the prior written consent of the Company, and any transfers by operation of law or any change in control resulting from a merger, consolidation, stock transfer or asset sale shall be deemed an assignment or transfer for purposes of this Agreement that requires the Company’s prior written consent. Any purported transfer, assignment or delegation in violation of the preceding sentence will be null and void. In no event will a transfer by you without the Company’s prior written consent release, discharge or relieve you from your obligations under this Agreement and such a transfer will extend your obligations indefinitely, notwithstanding the termination of this Agreement. This Agreement will be binding upon you and your successors and assigns, and shall inure to the benefit of the Company and its successors and assigns.”*

# KEY TAKEAWAYS

- Do not accept “form” NDAs
- Context is key
- A written agreement is good, but managing disclosure of confidential information is paramount
- Clearly define who can receive Confidential Information and what they can do with it
- Consider whether non-solicitation covenants are appropriate

*Slide show available at:* <https://www.perkinscoie.com/en/virtual-cle-conference/virtual-cle-conference-legal-strategies-for-business-success.html>

# Q&A

- *CLE Passcode*
- Use Q&A feature to submit questions



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