Are Your NDAs Up to Date?

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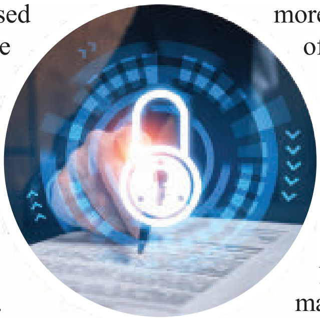

Nondisclosure agreements (NDAs) can be used to protect companies' confidential and trade secret information. But you should resist the urge to have a vendor, contractor, or employee sign a dusty old stock NDA and assume your company is protected under all circumstances.

The law evolves and relationships change. An NDA for protecting business information may not be suitable for protecting trade secrets. And an NDA for evaluating a business opportunity may not be suitable for product development projects, contract manufacturing, or testing. So, before signing your next NDA, take the opportunity to ask: "Is this NDA up to date?"

NDAs for employees, contractors, and consultants. For NDAs with employees, contractors, and consultants, look to see if it has the whistleblower immunity notice provision from the Defend Trade Secrets Act of 2016 (DTSA).

Trade secrets used to be governed under state law. Most states enacted a form of the Unified Trade Secrets Act (UTSA) — New York being the sole holdout. The UTSA does not require any specific language in NDAs. However, Congress added another layer of federal trade secret protection in the 2016 DTSA, which, unlike the UTSA, requires a specific notice provision to recover enhanced damages and attorneys' fees in litigation. Among other requirements, the notice must explain that individuals cannot be held liable for disclosing a trade secret to government officials or an attorney when such disclosure is made for specific purposes (such as to report a suspected violation of law) and when it is made in confidence. Additionally, the notice should advise that when suing an employer for retaliation, an individual may disclose a trade secret to their attorney, so long as any document containing it is filed under seal. Without such a notice, companies can still sue for misappropriation, but they cannot seek enhanced damages or attorneys' fees following a successful trade secret litigation.

The next time you look to use an older stock NDA with an employee, contractor, or consultant, make sure that it complies with the DTSA notice provision.

NDAs for the exchange of trade secrets. If you plan on disclosing trade secrets under the NDA, make sure the NDA will not inadvertently destroy those trade secrets.

First, ensure that the measures of protection that the receiving party must take to safeguard trade secret information are robust. While trade secret law only requires "reasonable measures of protection," you should require more than the minimum. This helps reduce the risk of disputes in the future.

Second, when trade secrets will be disclosed, do not use an NDA that limits the period during which the trade secrets must be maintained in confidence. Many NDAs require that confidential information be maintained in confidence for a period of just a few years. If you are exchanging only business information, that may be fine because business information can become stale after a few years. However, trade secrets and know-how often retain their value longer. Some courts have held that a trade secret disclosed under an NDA with a fixed period of protection cannot be protected as a trade secret any longer, taking a stance that the company disclosing the information must have decided it would eventually become public. Instead, choose a term of protection that is coextensive with the information remaining a trade secret (*e.g.,* an indefinite period of confidentiality for trade secrets).

NDAs for product development, contract manufacturing, and testing. Stock NDAs often have a stated purpose of "evaluating a possible business relationship" or something similar. If no relationship ensues, then such an NDA has served its purpose. But if two companies decide to work with one another, do not assume that the original NDA is adequate for the ongoing relationship.

When two companies collaborate, the disclosure of confidential information by one party to the other can lead to the receiving party innovating. The question becomes then, who owns that innovation and associated intellectual property (IP)?

The default rule in the U.S. is that the inventor owns the invention unless there is some agreement to the contrary. For this reason, if the parties envision IP being created pursuant to their exchange of confidential information, the parties should include terms in the NDA that address who owns and controls that IP. The terms should effectively assign ownership of the IP before it has been developed. The NDA should also require the receiving party to execute written agreements with its employees and other representatives that assign such IP to the receiving party. This ensures that any IP developed pursuant to the activities conducted under the NDA will be owned by the intended party, without needing to follow up by seeking assignments from the inventor after the fact. CEP

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