



**ANTICIPATE**

# Non-Disclosure Agreements

Chris Slavinsky  
September 24, 2018

# Confidential Information – Overview and Risks



- In the pharma/biotech industry, confidential information provides a competitive advantage
  - Trade secrets
  - Patentable subject matter not yet published
  - Customer lists
  - Product pricing information (bids/tenders)
  - Employee compensation
- Risks to that confidential information (CI) for pharma/biotech companies
  - Employees rarely stay with a single employer throughout their career
  - Companies often work with third party service providers, giving access to CI
  - Companies provide CI to bankers/investors during fund raising, updates
  - Companies engage in business transactions that require disclosure of CI

# Why NDAs are Important for Employers



- NDAs keep people from sharing trade secrets, proprietary knowledge, client information, product information, and strategic plans.
- NDAs keep people from making a profit on any secret company information.
- NDAs usually say that a company owns things that get developed or produced during someone's employment. That might include things written or invented.
- The contracts also often say a company owns things that are developed, written, invented, or produced during someone's contract, interview, or services provided to the company.
- NDAs usually let a company give someone permission to use certain company information. With that permission, previous employees can start businesses of their own or become company vendors.
- NDAs are more concrete than oral agreements, or implied agreements that come about from company and employee conduct.

# Protecting Confidential Information



- An NDA prevents the disclosure of confidential information to third parties
- Use of Non-Disclosure Agreements is industry standard
  - Sometimes they are known as Confidentiality Agreements or Confidential Disclosure Agreements (CDA)
  - Commonly Non-Disclosure Agreements are abbreviated as “NDA”
- Use of NDA is common in different contexts
  - Employees execute upon commencing employment to protect the Employer’s confidential information
  - Hiring consultants and independent contractors
  - Bankers/lenders execute when reviewing confidential information prior to lending or investing in a company
  - Prospective partners or acquirers will review confidential information before closing a deal
  - When interviewing vendors to see if they are suitable to provide goods or services
- Is this enough?

# Non-disclosure v. Non-use



- NDA / CDA typically have non-use clauses independent of non-disclosure clauses
- The provision for non-disclosure prevents recipients from leaking a disclosing company's private data to third parties
- The provision for non-use prevents recipients from making use of data other than for particular purposes
- If a non-use provision is not included in an NDA, the recipient may use the disclosing company's confidential information for their own purposes without disclosing that use to other parties

# What does an NDA include?



- Time frame during which the NDA is in force
  - What the confidential information is
  - What the confidential information is not
  - Information about the parties involved
  - Ownership information
  - Information about signing the NDA
- 
- NDAs can be mutual or one-way
    - Mutual agreements are common in collaborations where prospective partners need to share information to assess moving forward
    - Unilateral agreements are common with employees and lenders, for example

# Typical NDA Clauses (1 of 4)



- Definition of Confidential Information
  - Everything that is intended to be covered under the NDA
  - Common ways to define confidential information include:
    - A listing of the information
    - A limitation to written information that is marked “confidential” by the discloser
    - A limitation to oral information that is reduced to writing after the disclosure and marked confidential – this should be done by the disclosing party to ensure protection
- Explanation of the Purpose of the Disclosure
  - Why is the information being disclosed (typically connects to the non-use provision)
- Parties to the Agreement
  - Who is signing the NDA
  - Important in a one-way NDA

# Typical NDA Clauses (2 of 4)



- No disclosure: this is a clause that helps explain how strong the NDA is and may include:
  - Best efforts clause
  - Need to know basis for the information a recipient gets
    - In a corporate context, only people at the recipient company needed to fulfill the purpose
  - Recipient's obligation to protect the disclosure the same way recipient protects its own confidential information
- Non-use clause
  - Restricts the use to the purpose of the NDA – very important!
- Obligations of recipient
  - What you aren't allowed to do with the confidential information received – an extension of non-use to cover behavior that can go around the NDA



# Typical NDA Clauses (3 of 4)



- Exclusions from Confidential Information – these protect a recipient who may work in the same space
  - Information that was publicly known before the NDA was signed
  - Information that is already in recipient’s possession
  - Information gathered from unrelated third parties without any obligation to the disclosing party
  - Information that is independently established by the recipient
    - Often tied to a requirement for contemporaneously available written documents
- Residual Information
  - A clause that favors the recipient enabling them to use the information of the discloser preserved in the memory of its employees
  - A discloser will restrict the ability the ability to use such information and may not choose to grant the necessary license to use any such information

# Typical NDA Clauses (4 of 4)



- Permitted disclosures
  - Recipients typically need the protection to disclose confidential information pursuant to legal proceedings and government investigations
  - Disclosers usually agree to such terms with timely notice from the recipient so that the discloser may take legal steps to block or limit such disclosure, if possible
- Term
  - The term of the agreement should be clearly defined – an indefinite term for anything other than trade secrets is not typical
  - At the end of the term, is the confidential information given back? Destroyed?
- Typical contract clauses
  - Waiver
  - Integration
  - Severability

# What happens if an NDA is breached



- Discloser can sue the recipient who violated the agreement for damages
- Discloser can get a court order to enjoin (block) the recipient from sharing any of the disclosed information or using it inappropriately (if a non-use provision was included)
- Often, taking action against a recipient may be necessary to protect trade secret misappropriation by another
  - A defense to trade secret misappropriation is that the information was no longer a secret

# Examples of the value of NDAs



- Hotmail
  - founder Sabeer Bhatia required his roommates, friends, and employees sign NDAs
  - He believed this secrecy gave him a 6-month head start on competition created web-based email programs
  - Hotmail was acquired by Microsoft for \$400MM
- Nektar
  - Nektar has been in a collaboration with a large pharmaceutical partner developing a drug/device combination product
  - The collaboration ended prematurely, but the large pharmaceutical partner continued product development
  - Nektar claimed its confidential information had been misappropriated under the non-use provisions of its NDA
  - Large pharmaceutical partner was unable to show that it used the information appropriate due to poor record taking
  - The dispute was settled for \$35MM

Thank You

