

# NDA's - Review Checklist

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*Article by: Jean Sifleet*

NDA's ("non-disclosure" and "confidentiality" agreements) are documents commonly used to prevent unauthorized use of business information.

Disclosing important information to prospective customers, suppliers or investors is a common business dilemma, because:

- The "disclosing party" fears being "ripped off" - that the information will be used without compensation.
- The "receiving party" fears that it may have similar work underway and does not want to be accused of pirating someone's ideas.

What should you look for before signing a NDA?

1. Who are the parties?

The agreement should clearly identify the name, entity, address, and jurisdiction of the parties.

2. Is the agreement mutual?

Does the agreement cover both parties or does it only cover disclosures by one party?

3. What is the purpose of the agreement?

The agreement should specify the purpose of the disclosure. Is it background information for the purpose of developing a business relationship? Is it part of another agreement?

4. What information is covered?

Confidential information is usually broadly defined to include "any and all information ... whether oral or in writing." It is important that information be marked "confidential" and that oral disclosures are reduced to writing and marked confidential in a timely manner.

5. What information is excluded?

NDA's exclude information that was already known prior to the date of the agreement if documented in written records; in the public domain; rightfully received from another source; or developed independent of this disclosure as evidenced by written records.

6. What safeguards are required?

The agreement should specify procedures for protecting the confidential information. It should state under what circumstances it can be disclosed to employees or other parties.

7. What is the term of the agreement?

How long is the agreement effective? Is it one year? Three years? Or, is it of indefinite duration?

8. What are the termination provisions?

How is the agreement terminated? How is the confidential information handled in the event of termination? Is it destroyed? Returned? How will it be accounted for?

9. What does it say about intellectual property rights?

Usually, NDA's specify that neither party acquires any intellectual property rights under the agreement, other than the limited rights to carry out the specified purpose. The agreement should say, "No right or license, express or implied, is granted in connection with any Confidential Information disclosed pursuant to this Agreement" and "No commercial use is allowed without prior written consent."

10. Does it address similar work in progress?

Sometimes NDA's say that each party acknowledges that the other is developing and acquiring similar technology and that "nothing in this agreement precludes the receiving party from developing similar technology without obligation to the discloser provided it does not use the discloser's confidential information."

11. Does it address derivative work?

Sometimes NDAs say that in the event that either party develops new information or data as a result of the work carried out, "that party shall have the right to use or publish that new information, with the prior written consent of the other party."

12. Is the existence of the agreement confidential?

Sometimes the agreement specifies that neither party shall make any public announcement or disclosure of this agreement without the prior written consent of the other party.

13. Are there any warranties?

Usually a NDA says that the disclosing party is authorized to make the disclosure, but that there are no other warranties.

14. What happens in the event of breach?

NDAs frequently call for "injunctive relief" in addition to any and all remedies at law. This means that a party can seek a court order prohibiting use of its information in violation of the agreement. Unfortunately, for most business disputes, going to court is not an effective remedy because it is costly and the outcome is unpredictable. For business disputes, mediation and arbitration before a neutral party experienced in business matters is a faster and more cost effective way to resolve disputes.

15. Governing laws and jurisdiction?

If both parties are located in the same state, the choice of law and the location for the dispute resolution proceeding is easy. Frequently, however, the parties are located in different states or countries and hence it can be contentious which law applies. To prevent one party from having the "home court advantage," I recommend a "mutually inconvenient" location that is business friendly such as Delaware or the Netherlands.

In conclusion, how confidential information is disclosed is important. Sufficient information needs to be disclosed to persuade the other party to proceed. Disclosing too much information without protection is risky. Disclosing too little information precludes the business relationship from progressing. Used effectively, NDAs protect information and facilitate business transactions. Used ineffectively, NDAs can confuse ownership rights and restrict business opportunities. Jean Sifleet is a practical and experienced business attorney whose career spans many years in large multi-national corporations and includes three successful entrepreneurial ventures. Jean has extensive experience in dealing with intellectual property matters in the large and small companies and as a small business owner. She has authored numerous books and publications on avoiding legal pitfalls in doing business. This article is excerpted from her new book, *Advantage IP – Profit from Your Great Ideas* (Infinity 2005). For more information, Jean's website is <http://www.smartfast.com>.