CONFIDENTIALITY AGREEMENTS
AND
DUE DILIGENCE

By:
Margaret Lewis Meister
Daniel M. Alsup
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico
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Confidentiality Agreements and Due Diligence

Margaret Lewis Meister
Daniel Alsup
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

I. Introduction

In the due diligence context, the free flow of information is necessary to enable parties to a transaction to meaningfully evaluate whether to proceed. Confidentiality agreements provide the legal and logistical framework for this information exchange. In most transactions, information flows mainly from one party, the provider, to another, the recipient.\(^1\) Much of the information disclosed will inevitably be confidential and/or proprietary. Confidentiality agreements can do many things, but on a basic level, a confidentiality agreement serves the provider by protecting the confidentiality and trade secret status of its information. For the recipient, a confidentiality agreement is necessary because without it, the provider may not be willing to share confidential and proprietary information.

Such agreements fulfill two fundamental purposes. They limit the use of information deemed confidential by a counterparty in a transaction, where often the counterparty may be a direct competitor or someone who could benefit economically from unfettered use of confidential information. Secondly, they prohibit the disclosure of information deemed confidential to other parties, which disclosure could defeat legal protections of such information and cause economic harm to the provider.

The tension between the interests of the provider and the interests of the recipient influence the form the confidentiality agreement ultimately takes. Most of the duties in a confidentiality agreement burden the recipient of information. Therefore it may seem logical that a recipient would desire a shorter, less comprehensive agreement than the provider desires. However, a recipient, in fact, benefits from the clarity provided by a well-drafted, comprehensive confidentiality agreement.\(^2\)

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\(^1\) This paper will use the term “provider” for the party that is disclosing information and the term “recipient” for the party obtaining information. These terms are consistent with the Rocky Mountain Mineral Law Foundation Form 7.

\(^2\) The Rocky Mountain Mineral Law Foundation Form 7 (“Form 7”) is a comprehensive form Confidentiality and Nondisclosure Agreement. It, like any other form, needs to be reviewed in the context of the facts of a particular situation to determine whether deal-specific changes need
The most notable terms included in a confidentiality agreement are:

- a definition of confidential information;
- exclusions from the definition of confidential information;
- permitted uses of the information by the recipient;
- a description of parties and persons bound, particularly third parties such as consultants and lawyers engaged by the recipient;
- enforcement and remedies provisions;
- disposition of information and tangible items upon a decision by either party not to proceed;
- general terms, such as choice-of-law and integration clauses;
- terms outlining the logistical framework for disclosure and use of information.

In addition to the above provisions, parties entering into a confidentiality agreement for due diligence should keep several things in mind. First, both parties should be aware that information may be protected by common law or statutory regimes regardless of whether a confidentiality agreement is in place. For example, geological data can constitute a trade secret. The failure to safeguard the secrecy of the information by the provider can result in loss of trade secret status and resulting protections. The failure to safeguard the secrecy of the information by the recipient can result in liability. Finally, lawyers must be aware of the ethical obligations involved in due diligence with particular emphasis on issues surrounding confidentiality agreements.

II. Key Terms in Confidentiality Agreements

A. Definition of Confidential Information

A key element in a confidentiality agreement is the definition of confidential information. One of the provider’s primary goals in negotiating a confidentiality agreement is to maintain the economic or competitive value of its information by reducing the risk that the recipient will use the information to its own advantage or to the disadvantage of the provider. Further, the provider should maintain its information’s protected status as trade secrets or intellectual property.3

The provider normally wants a broad, comprehensive definition of confidential information. For example, confidential information could be defined to include “all information actually disclosed, whether before or after the execution of the agreement, whether tangible or intangible, and in whatever form or medium provided, as well as all information generated by the interested party or by its representatives that contains, reflects, or is derived from the provided

3 See infra Part III for a brief discussion of common law and statutory protection of trade secrets.
The parties should use caution; however, as an overly broad confidentiality agreement could be at risk of not being enforced by a court. Further, just because the parties define something as a trade secret does not make it so. An agreement between private parties can work to safeguard confidential and proprietary information from disclosure by the parties to the agreement, but such an agreement cannot imbue information with the legal protection of trade secrets. Many courts, as well as the Restatement of Unfair Competition, take the view that information cannot be protected from disclosure by agreement unless the information rises to the level of a trade secret. “A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.” Under the Restatement view, the “reasonableness of an agreement that merely prohibits the use or disclosure of particular information depends primarily upon whether the information protected by the agreement qualifies as a trade secret.” The parties to a confidentiality agreement should be aware of this potential limitation while negotiating the definition of confidential information.


5 See, e.g., Motorola, Inc. v. Fairchild Camera & Instrument Corp., 366 F. Supp. 1173 (D. Ariz. 1973) (contract unenforceable where recipient was given no warning as to which specific information was protected) (employment context). The Restatement (Third) of Unfair Competition recognizes that parties may contract for nondisclosure of information, but qualifies this right by stating, “As a general matter, a restraint is unreasonable if it is greater than necessary to protect the legitimate interests of the promisee of or the promisee’s interest in protection is outweighed by the likely harm to the promisor or to the public.” RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. d (1995).

6 Dynamics Research Corp. v. Analytic Sciences Corp., 400 N.E. 2d 1274, 1288 (Mass. 1980) (“[A]n agreement cannot make secret that which is not secret, and it remains for the court to determine whether an alleged trade secret is in fact such.”).

7 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. d (“The reasonableness of an agreement that merely prohibits the use or disclosure of particular information depends primarily upon whether the information protected by the agreement qualifies as a trade secret.”); see also Rototron Corp. v. Lake Shore Burial Vault Cor., 712 F.2d 1214 (7th Cir. 1983); Dynamics Research, 400 N.E. 2d 1274. For a discussion of trade secret law, see Part III, infra. For a more in depth discussion of trade secrets and intellectual property in the natural resources context, see Lynn P. Hendrix, Dealing with Intellectual Property in Mergers and Acquisitions, 47 Rocky Mtn. Min. L. Inst. Ch. 8 (2001). Some courts recognize actions for “breach of confidence” without regard to information’s status as a trade secret. Roboserve, Ltd. v. Tom’s Foods, Inc., 940 F.2d 1441 (11th Cir. 1991).

8 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39.

9 Id. § 41 cmt. d.
Parties to a confidentiality agreement also should be aware that the agreement alone does not create a fiduciary relationship.\textsuperscript{10} Instead, to create a fiduciary relationship, there must be “a voluntary and conscious assumption or acceptance of the duties of a fiduciary.”\textsuperscript{11} A fiduciary has “a duty to act primarily for the benefit of another,” and “is in a position to have and exercise, and does have and exercise influence over another.”\textsuperscript{12} Parties engaged in due diligence generally do not voluntarily and consciously assume the duties of a fiduciary. Providers and recipients alike should be aware of this limitation on the duties involved in execution of a confidentiality agreement. Conversely, parties to a confidentiality agreement should be aware that in certain instances the relationship developed during the course of a transaction can give rise to fiduciary duties, as where a possible joint venture is the purpose of the due diligence.\textsuperscript{13} For example, while “mineral leases generally do not create a fiduciary relationship between lessor and lessee” because “the relationship is purely contractual in nature,” fiduciary relationships can arise where a joint venture is undertaken.\textsuperscript{14} Parties conducting due diligence must be aware of the limited nature of the duties confidentiality agreements are capable of creating, as well as the potential duties the law attaches to various relationships and transactions.

In light of these considerations, a provider should negotiate for a reasonably broad definition of “confidential information,”\textsuperscript{15} confirming that it has a legitimate reason to protect disclosure of the information defined as confidential. When producing documents in due diligence, the provider may wish to label specific information as proprietary and confidential so that there is no question that the provider intended the information to be treated in accordance with the contractual terms of the confidentiality agreement.

**B. Exclusions from Definition of Confidential Information**

The party conducting due diligence bears potential liability with respect to the information disclosed.\textsuperscript{16} Accordingly, the recipient will want to limit the scope of information

\begin{itemize}
  \item \textsuperscript{10} Pulsecard, Inc. v. Discover Card Servs., Inc., 917 F. Supp. 1478, 1484 (D. Kan. 1996) (agreeing with a litigant that “Although almost every fiduciary relationship implies some duty of confidentiality, not every agreement to protect confidential information from disclosure creates a fiduciary relationship.”); Rajala v. Allied Corp, 919 F.2d 610, 623 (10th Cir. 1990) (five-year confidentiality agreement did not create fiduciary relationship).
  
  \item \textsuperscript{11} Pulsecard, 917 F. Supp. at 1484.
  
  \item \textsuperscript{12} Id. at 1486.
  
  \item \textsuperscript{13} Hydro Res. Corp. v. Gray, 173 P.3d 749, 760 (N.M. 2007).
  
  \item \textsuperscript{14} Id.
  
  \item \textsuperscript{15} For an example of a definition of “confidential information”, see the Rocky Mountain Mineral Law Foundation Form 7, ¶ 1.
  
  \item \textsuperscript{16} See infra Part II.C for a discussion of the recipient’s use and disclosure of information.
\end{itemize}
considered confidential under the agreement. This limitation can be accomplished through narrowing the definition of confidential information. For instance, if the provider and the recipient have an existing relationship where non-confidential information has been exchanged, the recipient may negotiate to exclude such information from the definition of confidential informational. In order to manage confidential information in such a context, a recipient may request that the provider mark documents intended to be confidential. While such a procedure may not work in all contexts, and should be carefully considered where a stamp could be inadvertently forgotten, this process can work where the number of documents is limited and the scope of disclosure is narrow.

A recipient also will want to affirmatively exclude from the definition of confidential information certain classes of information. From the recipient’s perspective, the definition of confidential information should not include:

i. Public Information—Information that is public knowledge before disclosure during due diligence or becomes public after disclosure through no fault of the recipient.

ii. Information Already Possessed by the Recipient—Information held by the party conducting due diligence prior to disclosure. Problems of proof may arise where the provider disputes that the recipient already knew some piece of information before due diligence. If practical, the recipient should document the information and knowledge it already possesses that could overlap with the information to be disclosed during due diligence. Likewise, prompt reporting to the provider of the overlapping information could avoid a later dispute if such disclosure doesn’t jeopardize the recipient’s confidential or proprietary information.

iii. Information Received from a Third Party—Information shared with the recipient by a person or entity not a party to the confidentiality agreement. Again, proof could be a problem, documentation of the source of such information will be important, and timely disclosure of existing knowledge, if feasible, could avert a dispute.

iv. Independently Created Information—Information the recipient develops without the use of the disclosed information.

v. Mandatory Disclosure—Information the recipient must disclose to third parties by law. At some point, the recipient may be required to disclosure information received pursuant to a confidentiality agreement. The information could be subpoenaed or ordered by a court to be disclosed, or it might be necessary to disclose the information to a state or federal agency. The Rocky Mountain

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Mineral Law Foundation Form 7 contains a separate provision relating to required disclosure, and further discussion of the logistics regarding required disclosure are discussed within the general provisions of these materials.\(^{18}\)

By excluding the categories of information above from the definition of confidential information, the recipient reduces the risk of violating the agreement. The exclusions benefit the provider by increasing the likelihood that the agreement, with a more narrowly tailored definition of confidential information, will be enforced by a court. Finally, all parties to a confidentiality agreement benefit from a well-defined, bargained-for concept of confidential information because it lends certainty to the parties’ due diligence relationship.

C. The Recipient’s Use of Information

The confidentiality agreement should state the purpose or purposes for which the recipient can use the disclosed information. Such a limitation on use of the information is a cornerstone of confidentiality agreements. In the due diligence context, the information is disclosed to allow the recipient to meaningfully evaluate a company, property, well, mine, piece of equipment, or other asset for purchase, joint venture or another business arrangement. Accordingly, the recipient’s use of information is generally limited by the confidentiality agreement to evaluation of the opportunity at hand.

A recipient’s use of information for purposes outside the confidentiality agreement’s proposed use can result in liability for the recipient. In *Minera Aquiline Argentina S.A. v. IMA Exploration, Inc.*, a Canadian mining company, IMA, was interested in purchasing a mining project in Argentina.\(^{19}\) A confidentiality agreement provided that Colorado law would govern disputes arising under the agreement. Some of the information obtained during due diligence was sediment sample data for an area outside the geographic scope of the proposed project. The data indicated that the area was potentially rich in silver and lead. IMA ultimately decided not to pursue the proposed project, but obtained rights to mine the promising area outside the project, which subsequent exploration indicated contained 305 million ounces of silver and 2.9 billion pounds of lead.\(^{20}\) The successor in interest to the provider of the sediment sample data sued Aquiline for breach of the confidentiality agreement. The agreement provided that confidential information would be used by the recipient “only for the purpose of the project and that the Confidential Information will otherwise be kept confidential.”\(^{21}\) The trial court held that Aquiline had used the sediment sample data for purposes other than “the Project,” in breach of

\(^{18}\) See infra Part II.G.


the confidentiality agreement’s restriction on use provision. Consequently, Aquiline was declared to hold the silver and lead project in trust for the provider’s successor in interest, and ordered to transfer the project to the successor in interest.\textsuperscript{22} Aquiline’s market capitalization dropped $130 million the day of the decision.\textsuperscript{23}

The \textit{Aquiline} decision is a powerful example of the consequences of using disclosed information for purposes other than those expressly allowed by the confidentiality agreement. Parties conducting due diligence would be well served to treat the restriction on use provision as a substantive part of the contract, rather than mere boilerplate. Further, if in the course of due diligence the scope of the opportunity shifts, the purpose provision of the confidentiality agreement should be amended.

D. Restrictions on Disclosure; Persons and Parties Bound by the Confidentiality Agreement

In addition to restricting the recipient’s use of information, the confidentiality agreement normally prevents the recipient from disclosing the information except to certain specified persons or entities, or for certain specified reasons. The recipient’s unauthorized disclosure is a breach of contract, and in some jurisdictions is also a tort, breach of the duty of confidence.\textsuperscript{24}

It goes without saying that the actual parties to the confidentiality agreement are bound by it. However, since the provider and recipient are usually entities rather than individuals, they operate through people, and often the recipient must disclose the information to third parties to enable the recipient to effectively analyze and evaluate the transaction. For example, attorneys, accountants, and third party consultants such as geologists often assist a company conducting due diligence. The confidentiality agreement should address the terms for the recipient’s disclosure of information to these parties. The recipient is commonly required to provide a list of specific people who will be given information or at least classes of people by occupation or position within the company. The people are sometimes required to sign confidentiality agreements individually or to ratify the confidentiality agreement, but the recipient is liable for the individuals’ unauthorized disclosure of confidential information. Requiring individual confidentiality agreements or ratification of the underlying agreement puts individuals on notice of the confidential nature of information and the duty of nondisclosure. Even in the absence of individual agreements or ratification, the recipient should impress upon its employees and agents the importance of maintaining the confidentiality of information obtained during due diligence.

Form 7, as with other confidentiality agreements, contains a list of types of people who are included with the parties who may receive and review the confidential information. This list

\textsuperscript{22} Pletcher & Zoobkoff,\textit{ supra} note 19, at 28-15 to 28-16.

\textsuperscript{23} Pletcher & Zoobkoff,\textit{ supra} note 19, at 28-4.

\textsuperscript{24} See, e.g., \textit{Roboserve, Ltd. v. Tom’s Foods, Inc.}, 940 F.2d 1441 (11th Cir. 1991).
includes officers, employees, attorneys, accountants and financial advisors “who have a bona fide need to have access…in order for Recipient to carry out the Purposes…”\textsuperscript{25} Additionally, it is contemplated that each of these parties will agree in writing to be bound by the terms of the confidentiality agreement.\textsuperscript{26} Recipients must pay careful attention to the requirements for who can review information and what is required before they review such information.

Many confidentiality agreements, including Form 7, hold the recipient responsible for any disclosures of confidential information by the parties allowed to receive and review information. Such a provision is logical from the provider's perspective. The provider is not deciding with whom the recipient shares the information. However, the recipient may want its own contractual obligation of non-disclosure from its employees or contractors in order to have a meaningful remedy should disclosure occur.

\textbf{E. Enforcement and Remedies}

For a confidentiality agreement to be effective, it must provide a remedy in the event of breach. The most effective remedy is injunctive relief, preventing disclosure or use of the provider’s confidential information. The Restatement (Third) of Unfair Competition specifically provides for injunctive relief whether a confidentiality agreement is in place or not,\textsuperscript{27} though an agreement specifically providing for injunctive relief makes it more likely a court will enjoin disclosure or use of information. The purpose of injunctive relief is to prevent the recipient from being unjustly enriched while protecting the provider from further injury.\textsuperscript{28}

A confidentiality agreement may also provide for liquidated damages.\textsuperscript{29} Even in the absence of a contractual provision, a party who wrongfully misappropriates another's trade secret is liable for the greater of the loss to the owner of the information or the gain from the misappropriation.\textsuperscript{30} This measure of damages could be used in the due diligence context where the recipient uses the provider’s information for its own benefit or to the detriment of the provider.

\begin{flushright}
\textsuperscript{25} Rocky Mountain Mineral Law Foundation Form 7, ¶ 3.
\textsuperscript{26} Id.
\textsuperscript{27} Restatement (Third) of Unfair Competition § 44.
\textsuperscript{29} Gruschus v. C.R. Davis Contracting Co., 409 P.2d 500, 504 (N.M. 1965) (explaining that a liquidated damages clause will only be unenforceable “when the stipulated amount is so extravagant or disproportionate as to show fraud, mistake or oppression”).
\textsuperscript{30} Restatement (Third) of Unfair Competition § 45.
\end{flushright}
The provider will seek to avoid language making the above remedies exclusive to preserve the right to seek redress under common law theories or the Uniform Trade Secrets Act. A recipient may seek to limit the provider’s remedy to liquidated or direct damages, requesting waiver of consequential damage claims. If arbitration is being used for dispute resolution, the agreement should confer authority on the arbitrator to award injunctive relief and provide for an expedited process to obtain such relief.

F. Disposition of Information

If the parties ultimately decide not to go through with the transaction, the recipient is usually obligated under the confidentiality agreement to return all documents obtained during due diligence to the provider or to destroy such information in its possession. The provider usually has the burden of requesting the return in writing. The provider will seek to obligate the recipient to destroy all notes, memoranda, analyses, and related documents based on the confidential information, and to certify in writing that such destruction has occurred.

Upon return or destruction of all confidential information, the recipient could be at a disadvantage to defend against a claim of disclosure or misuse. A recipient may wish to negotiate for the right to keep a log of documents produced in order to have evidence to refute a claim of disclosure or misuse. Obviously, such a log is not possible for information gained through site visits or interviews, but often that form of due diligence occurs later and, perhaps, even after a definitive agreement is in place.

G. General Provisions

Confidentiality agreements contain many general provisions addressing various terms. Additionally, because confidentiality agreements are often the first agreement signed, certain optional provisions may be desired. This section discusses those general and optional provisions that are most pertinent to the confidentiality agreement itself, but drafters should also include any other common provisions that usually appear in all contracts.

i. Choice of Law—The agreement should specify which jurisdiction’s law applies to disputes arising from the contemplated transaction. The clause can include consent to venue and jurisdiction provisions as well. Counsel to the parties should be aware of the trade secrets laws of the governing law jurisdiction, as well as of the jurisdictions where the information is kept in order to consider the interplay between the confidentiality agreement and underlying law.

ii. Severability—The agreement should contain a severability clause providing that if one term of the agreement is unenforceable, the rest of the agreement remains enforceable. Given the possibility of a court scrutinizing a confidentiality and non-disclosure agreement, this provision has special merit in this context. Drafters should also consider including language that instructs a court or arbitrator to
reform contractual provisions to carry out the parties’ intent to the maximum extent allowed by law.

iii. Term—Confidentiality agreements often have no term. It is logical to require confidential treatment of information without limit as to time, but it is also conceivable that a recipient may wish to be relieved of some obligations in a reasonable time. For example, any non-solicitation provisions may be limited in time.

iv. Other Transactions—The confidentiality agreement can, but does not necessarily have to, prohibit either party from pursuing transactions with other parties during the due diligence period.

v. Multiple Signatories—The recipient should avoid executing a confidentiality agreement with multiple parties on the receiving side because of the exposure to liability should one of the other parties breach the agreement. If multiple signatories are necessary, each recipient’s liability should exclude any liability for a breach by another signatory, unless there is a special relationship that makes joint liability appropriate.

vi. No Obligation to Complete—The agreement should not create an obligation for either party to complete the transaction and should explicitly disclaim such duty.

vii. Non-solicitation—The confidentiality agreement should prohibit the recipient from soliciting the provider’s employees, either directly or indirectly. These provisions customarily have a reasonable time limit.

viii. Disclaimer of Representations and Warranties—The provider should disclaim representations and warranties as to the accuracy and completeness of the confidential information provided. Such a disclaimer can aid the provider in defense of any claim by a recipient based on misrepresentation or fraud. If a definitive agreement is entered into, representations and warranties about information provided are appropriate, and providers should take care to make sure at that time that complete and accurate information has been provided.

ix. Standstill—The confidentiality agreement should prevent the recipient from acquiring any assets or securities of the provider unless approved

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31 The Rocky Mountain Mineral Law Foundation Form 7 contains an optional non-solicitation provision.
by the provider’s management. This prevents the recipient from effecting a hostile takeover of the provider during due diligence.

x. Intellectual Property—If materials protected by intellectual property laws are being provided, the agreements should acknowledge the provider’s ownership of such property and disclaim any transfer of rights by providing access to such property.

H. Logistical Provisions

The confidentiality agreement should specify the procedure for disclosure of information. For example, if the transaction involves a large number of documents, a data room might be used. The agreement should specify the individuals or class of individuals who have access to the room and access should be monitored. When electronic data rooms are used for due diligence, often third parties provide hosting through a secure site on the world wide web. Hosts offer different levels of access to the rooms, and passwords are provided to each authorized user. Certain users can have the ability to add and remove documents while others will have access only to view the documents. Additionally, settings can be used to prohibit copying of documents, although it should be noted that such settings have not been found to be failsafe.

If confidential information is being sent directly to the recipient, rather than using a data room, procedures need to be put in place for the delivery point of such information and confirmation of receipt. If needed, the agreement should provide a procedure for oral communications of confidential information. The provider is commonly given the burden of confirming by written memoranda that oral communications of confidential information were made to the recipient, and the content of the confidential information conveyed. The provider may want a single point of contact for the recipient party, in order to keep apprised of exactly what information is disclosed. If phased disclosures are to be made, the confidentiality agreement should state the procedure to be used. For example often specific employee information is not disclosed until a definitive agreement is reached, and access to employees for interviews is phased at the end of the transaction time frame. Finally, if the recipient needs to contact a third party to verify information or otherwise disclose confidential information provided by the disclosing party, the confidentiality agreement should specify a procedure for doing so, such as allowing the provider to actually make the contact or be present during the contact.

III. Uniform Trade Secrets Act

The party conducting due diligence normally has obligations with respect to the provider’s confidential information in addition to and regardless of the confidentiality agreement. Most notably, the recipient is subject to the provisions of the Uniform Trade Secrets Act. Most U.S. jurisdictions have adopted the uniform act with no or limited revisions. Under the uniform act, a recipient could face liability if it is found to have misappropriated the provider’s trade secrets. A finding of misappropriation requires that a recipient is found to have acquired a trade
secret improperly or disclosed or used a trade secret without express or implied consent by the owner. Upon a finding of misappropriation, damages can be awarded, including exemplary damages up to twice the compensatory damage award.

From the provider’s perspective, it is important to bear in mind that unless adequate care is taken to preserve the secrecy of information, important rights can be lost. A confidentiality agreement is one avenue to protect trade secrets; however, it is possible that even with an executed confidentiality agreement, its terms are found to be insufficient to adequately protect the trade secrets. Other authors have written extensively about common law and statutory duties regarding confidential natural resources information. It is most important to know that legal obligations under the Uniform Trade Secrets Act are separate from obligations under a contract.

IV. Ethical Considerations

Several Model Rules of Professional Conduct (“Model Rules”) are particularly applicable to the conduct of attorneys representing parties in due diligence. First, attorneys who negotiate on behalf of a client must keep in mind Model Rule 1.2, governing the scope of representation and allocation of authority between client and attorney. Second, Model Rule 1.6 prevents attorneys from revealing “information relating to the representation of a client,” except under given circumstances. This prohibition can have particular relevance in the due diligence

32 Uniform Trade Secrets Act, § 1(2).

33 Uniform Trade Secrets Act § 3(b).

34 See, e.g., Pletcher & Zoobkoff, supra note 19; Hendrix, supra note 7 (discussing trade secrets, copyrights, marks, patents, and licenses in the natural resources due diligence context).

35 Uniform Trade Secrets Act, § 7(b) states specifically that the act does not affect contractual remedies.

36 The American Bar Association’s Model Rules of Professional Conduct, originally approved by the House of Delegates of the ABA in 1983 have been adopted with revisions by all states, except California. Even California, however, has adopted certain of the Model Rules. While this might sounds as though there is great uniformity among the states with regard to ethical rules, the revisions made by each state have caused there to be differences in the rules that govern lawyers across state lines. Practitioners need to take care to consider what jurisdiction’s rules apply and what those rules are.

context. Third, Model Rule 2.1, governing the attorney’s role as advisor, is applicable in due diligence as with any transaction. Model Rule 1.13, governing representation of an organization, will generally be applicable and gives rise to certain evaluations and notices. Model Rules 5.1 and 5.3 regarding supervision of attorneys and non-attorney assistants also is implicated in the due diligence process, as associates and paralegals often work with documents being produced and reviewed. Natural resources transactions can be multi-jurisdictional, which raises issues under Model Rule 5.5 regarding the multijurisdictional practice of law. Finally, attorneys must also consider the interplay between their ethical obligations under the applicable professional conduct rules and any contractual obligation undertaken by signing a confidentiality agreement.

A. Scope of Representation and Authority of Client

Model Rule 1.2 places the decision regarding the objectives of representation on the client. However, the rule does not address the division of authority as to the means to be used to accomplish such objectives. The official comment to Model Rule 1.2 recognizes that lawyers and clients may disagree about such means, and the comment provides that such means must be measured against the lawyer’s professional obligations. Specifically, Model Rule 1.2(d) provides that a lawyer shall not counsel a client to engage in or assist a client in criminal or fraudulent conduct. In the context of disclosure under a confidentiality agreement, an issue could arise related to what information will be disclosed. Once a provider agrees to disclose information, does such an agreement create an obligation to provide complete information, such

38 Rule 1.2, Scope Of Representation And Allocation Of Authority Between Client And Lawyer

(a) Subject to paragraphs (c) and (d), a lawyer shall abide by a client’s decisions concerning the objectives of representation and, as required by Rule 1.4, shall consult with the client as to the means by which they are to be pursued. A lawyer may take such action on behalf of the client as is impliedly authorized to carry out the representation. A lawyer shall abide by a client's decision whether to settle a matter. In a criminal case, the lawyer shall abide by the client's decision, after consultation with the lawyer, as to a plea to be entered, whether to waive jury trial and whether the client will testify.
(b) A lawyer’s representation of a client, including representation by appointment, does not constitute an endorsement of the client's political, economic, social or moral views or activities.
(c) A lawyer may limit the scope of the representation if the limitation is reasonable under the circumstances and the client gives informed consent.
(d) A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning or application of the law.

39 See supra note 39.
that failure to do so could be considered fraudulent? Many confidentiality agreement forms, including Form 7, disclaim any representation or warranty as to completeness or accuracy of information. Even if the provider does not have an obligation of full disclosure, the lawyer is obligated under Model Rule 4.1 not to knowingly make a false statement of material fact to a third person. Therefore, a situation could arise where a client, covered by a properly drafted confidentiality agreement, has no obligation to provide full and accurate information, but a lawyer, if he or she knows that the information does not present an accurate picture, could be obligated to disclose additional information.

B. Client’s Confidential Information

Model Rule 1.6 prohibits a lawyer from revealing information related to representation of a client, unless the client gives informed consent to do so or such consent is implied in order to carry out the representation. The official comment specifically provides that the confidentiality

40 In Rancho Management Corp. v. DG Investment Bank Ltd., 17 F.3d 883 (6th Cir. 1994), the court found that disclaimer language contained in the confidentiality agreement protected the provider from allegations of fraud because of the inaccuracy of information provided. The confidentiality agreement provided “[W]e [defendant] are under no obligation to verify the accuracy of any of the Information, make no representation or warranty of any kind, and shall have no liability with respect to the accuracy, completeness or sufficiency of the Information.” Id. at 886.

41 See Rocky Mountain Mineral Law Foundation Form 7, ¶ 4.

42 Rule 1.6, Confidentiality Of Information

(a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation or the disclosure is permitted by paragraph (b).
(b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:
(1) to prevent reasonably certain death or substantial bodily harm;
(2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer's services;
(3) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services;
(4) to secure legal advice about the lawyer's compliance with these Rules;
(5) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was
obligation implies a duty to act competently to safeguard information from inadvertent or unauthorized disclosure. Law firms regularly implement such procedures through locking physical document rooms and limiting access to areas where clients’ documents are maintained. This affirmative safeguarding obligation presents a novel challenge when a law firm is requested to set up and operate an electronic data room. A law firm may choose to use a third-party provider for such a task. Is it sufficient that the third-party provider explains that they have certain security measures in place or must the law firm independently determine that such security measures are sufficient? In the context of electronic data rooms, the client’s expectation is that certain people working for the recipient of the information will have access to the data room information. Any other parties would be unauthorized and disclosure to them would be in violation of Model Rule 1.6. Therefore, lawyers working for providers of information who are setting up and operating electronic data rooms for due diligence must be vigilant about password protocols and security measures that would prevent the sharing of passwords with unauthorized parties.

As the lawyer for the recipient, once the information is provided to the recipient, either by physical delivery or through posting in an electronic data room, the lawyer must consider it the recipient’s information and treat it in accordance with Model Rule 1.6. This means that the safeguards put in place by the provider’s lawyers with regard to unauthorized disclosure of information now need to be monitored and enforced by the recipient’s legal team, as well.

The passing of information from a non-client to a client raises another series of issues for the recipient’s lawyers. Many confidentiality agreements, including Form 7, contemplate that each party who will be receiving the confidential information agrees to be bound by the terms of the confidentiality agreement. Therefore, the recipient and its lawyer, following the terms of the confidentiality agreement, will have the lawyer execute a confidentiality agreement. The lawyer will then have certain contractual obligations to the provider, which may vary from the lawyer’s obligation under the applicable professional conduct rules. For example, the comment to Model Rule 1.6 provides specifically that “lawyers in a firm may, in the course of the firm’s practice, disclose to each other information relating to a client of the firm, unless the client has instructed that particular information be confined to specified lawyers.” However, a lawyer bound by the terms of Form 7 cannot disclose the confidential information to anyone who has not signed a confidentiality agreement.

43 See Rocky Mountain Mineral Law Foundation Form 7, ¶ 3, which provides in pertinent part “Recipient agrees … not to disclose the Confidential Information to any person or entity other than (a) such Recipient’s… attorneys…who have agreed in writing supplied to, and enforceable by, Provider to be likewise bound by the provisions of this Agreement…”

44 Model Rule 1.6, official comment.
This disparity between the obligations under the rules of professional conduct and those imposed under the confidentiality agreement could be more alarming when considering a lawyer’s right and obligation to disclose client information without client approval. Model Rule 1.6(b) provides a list of instances where a lawyer can disclose information related to the representation of a client. For example, a lawyer can reveal such information to prevent reasonably certain substantial bodily harm or to prevent a client from committing a crime reasonably certain to result in substantial injury to financial interests. Information provided under a confidentiality agreement could give rise to a concern by the recipient’s lawyer that substantial bodily harm or injury to financial interests is going to occur. The recipient’s lawyer is covered by Model Rule 1.6(b) to disclose such information as such information relates to his or her client. However, the recipient’s lawyer has a separate contractual relationship with the provider, and the same rights and obligations of the lawyer may not govern under that relationship. Perhaps more plausible is the possibility that disclosure of certain environmental information gives rise to an obligation to report to an applicable agency. Model Rule 1.6(b)(6) specifically allows disclosure in order to comply with law. However, the language of the confidentiality agreement may not give such latitude.

C. The Organization as Client

Model Rule 1.13 reminds us that when a lawyer represents an organization, the organization itself is the client, not the individuals through whom the organization operates.

45 See supranote 43.

46 Model Rule 1.6(b)(1) and (2). See supra note 43.

47 Rocky Mountain Mineral Law Foundation Form 7, ¶ 3 provides language that allows disclosure “if, in the written opinion of Recipient’s legal counsel, such disclosure is legally required to be made in a judicial, administrative, or governmental proceeding pursuant to a valid subpoena or other applicable order, provided, however Recipient give Provider at least ten days prior notice.”

48 See supra note 43.

49 Rule 1.13, Organization As Client

(a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.
(b) If a lawyer for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the lawyer shall proceed as is reasonably necessary in the best interest of the organization. Unless the lawyer reasonably believes that it is not necessary in the best interest of the organization to do so, the lawyer shall refer
The import of this rule may arise in several contexts when dealing with due diligence review under a confidentiality agreement. First, pursuant to the terms of the confidentiality agreement, directors, officers and employees may be required to sign a confidentiality agreement. Those individuals may seek advice from the recipient’s lawyer with regard to the legal consequences to them personally of signing such an agreement. Model Rule 1.13(g) allows for joint representation of an organization and any of its directors, officers and employees so long as the organization has consented to such dual representation. However, the recipient’s lawyer should consider whether there is a conflict of interest such that dual representation would be

\[\text{(c) Except as provided in paragraph (d), if}\]
\[\text{(1) despite the lawyer’s efforts in accordance with paragraph (b) the highest}\]
\[\text{authority that can act on behalf of the organization insists upon or fails to address}\]
\[\text{in a timely and appropriate manner an action, or a refusal to act, that is clearly a}\]
\[\text{violation of law, and}\]
\[\text{(2) the lawyer reasonably believes that the violation is reasonably certain to result}\]
\[\text{in substantial injury to the organization, then the lawyer may reveal information}\]
\[\text{relating to the representation whether or not Rule 1.6 permits such disclosure, but}\]
\[\text{only if and to the extent the lawyer reasonably believes necessary to prevent}\]
\[\text{substantial injury to the organization.}\]
\[\text{(d) Paragraph (c) shall not apply with respect to information relating to a lawyer’s}\]
\[\text{representation of an organization to investigate an alleged violation of law, or to}\]
\[\text{defend the organization or an officer, employee or other constituent associated}\]
\[\text{with the organization against a claim arising out of an alleged violation of law.}\]
\[\text{(e) A lawyer who reasonably believes that he or she has been discharged because}\]
\[\text{of the lawyer’s actions taken pursuant to paragraphs (b) or (c), or who withdraws}\]
\[\text{under circumstances that require or permit the lawyer to take action under either}\]
\[\text{of those paragraphs, shall proceed as the lawyer reasonably believes necessary to}\]
\[\text{assure that the organization’s highest authority is informed of the lawyer’s}\]
\[\text{discharge or withdrawal.}\]
\[\text{(f) In dealing with an organization’s directors, officers, employees, members,}\]
\[\text{shareholders or other constituents, a lawyer shall explain the identity of the client}\]
\[\text{when the lawyer knows or reasonably should know that the organization’s}\]
\[\text{interests are adverse to those of the constituents with whom the lawyer is dealing.}\]
\[\text{(g) A lawyer representing an organization may also represent any of its directors,}\]
\[\text{officers, employees, members, shareholders or other constituents, subject to the}\]
\[\text{provisions of Rule 1.7. If the organization’s consent to the dual representation is}\]
\[\text{required by Rule 1.7, the consent shall be given by an appropriate official of the}\]
\[\text{organization other than the individual who is to be represented, or by the}\]
\[\text{shareholders.}\]

\[\text{See Rocky Mountain Mineral Law Foundation Form 7, ¶ 3(a).}\]

\[\text{See supra note 50.}\]
inappropriate. For example, if the recipient were to seek an indemnity from an individual signing the confidentiality agreement for that individual’s breach of the agreement there could be an adversity of interests that would counsel toward the individual seeking his or her own legal counsel. Model Rule 1.13(f) provides that lawyer may need to explain the identity of his or her client to officers and employees when the organization’s interests are adverse to those persons with whom the lawyer is dealing.\(^\text{52}\)

The other context in which the provisions of Model Rule 1.13 may arise is considering with whom information from the lawyer should be shared. In order to maintain the attorney-client privilege related to communications, a lawyer representing an organization must be communicating with his or her client. State law will determine who within an organization constitutes the client, but the two general approaches include a “control group,” which means the entity’s controlling executives and managers,\(^\text{53}\) or the broader notion of employees with information about the subject matter covered in the attorney-client communication.\(^\text{54}\) Lawyers analyzing due diligence information should take care to direct their communication regarding that analysis to the client within the organization. On a related point, the confidentiality agreement needs to either exclude attorney-client privileged communication from confidential information that must be returned to the provider or allow for destruction of such information in lieu of return to the provider.\(^\text{55}\)

D. Supervisory Obligation of Lawyers

Model Rule 5.1 covers the supervisory lawyer’s obligations with regard to lawyers he or she is supervising.\(^\text{56}\) Model Rule 5.3 addresses a lawyer’s supervisory obligations with regard to

\(^{52}\) See supra note 40.

\(^{53}\) Reed v. Baxter, 134 F.3d 351, 359 (6th Cir. 1978) (Jones, J., dissenting).


\(^{55}\) Rocky Mountain Mineral Law Foundation Form 7, ¶ 1 includes within the definition of “Confidential Information” “all analyses, interpretations, compilations, studies and evaluations” of the information provided by the provider, but ¶ 6 allows for the destruction of rather than return of “all other related documents, including without limitation, all documents prepared by Recipient or others utilizing or relating to any portion of the Confidential Information.”

\(^{56}\) Rule 5.1, Responsibilities Of Partners, Managers, And Supervisory Lawyers

(a) A partner in a law firm, and a lawyer who individually or together with other lawyers possesses comparable managerial authority in a law firm, shall make reasonable efforts to ensure that the firm has in effect measures giving reasonable assurance that all lawyers in the firm conform to the Rules of Professional Conduct.

(b) A lawyer having direct supervisory authority over another lawyer shall make reasonable efforts to ensure that the other lawyer conforms to the Rules of Professional Conduct.
These rules create essentially the same duty for supervisory lawyers. First, partners or those who possess comparable managerial authority must have measures in place to reasonably assure conformance with the rules of professional conduct. The official comment specifically calls out conflicts of interest protocols and calendaring of court dates. Additionally, Model Rule 5.1(c) places on a supervisory lawyer the responsibility for a supervised lawyer’s violation of the rules of professional conduct where the supervisor has ordered or ratified such conduct or where the supervisory lawyer learns of the conduct when it can be rectified but fails to take steps to rectify it. In the context of due diligence and confidentiality agreements, such issues could arise through information provided by an associate which could give the other party a false impression, in violation of Model Rule 4.1 or by an associate providing information to an unauthorized person through maintenance of an electronic data room (a task that is often delegated to associates or paralegals).

(c) A lawyer shall be responsible for another lawyer’s violation of the Rules of Professional Conduct if:
(1) the lawyer orders or, with knowledge of the specific conduct, ratifies the conduct involved; or
(2) the lawyer is a partner or has comparable managerial authority in the law firm in which the other lawyer practices, or has direct supervisory authority over the other lawyer, and knows of the conduct at a time when its consequences can be avoided or mitigated but fails to take reasonable remedial action.

57 Rule 5.3, Responsibilities Regarding Nonlawyer Assistants

With respect to a nonlawyer employed or retained by or associated with a lawyer: (a) a partner, and a lawyer who individually or together with other lawyers possesses comparable managerial authority in a law firm shall make reasonable efforts to ensure that the firm has in effect measures giving reasonable assurance that the person’s conduct is compatible with the professional obligations of the lawyer;
(b) a lawyer having direct supervisory authority over the nonlawyer shall make reasonable efforts to ensure that the person’s conduct is compatible with the professional obligations of the lawyer; and
(c) a lawyer shall be responsible for conduct of such a person that would be a violation of the Rules of Professional Conduct if engaged in by a lawyer if:
(1) the lawyer orders or, with the knowledge of the specific conduct, ratifies the conduct involved; or
(2) the lawyer is a partner or has comparable managerial authority in the law firm in which the person is employed, or has direct supervisory authority over the person, and knows of the conduct at a time when its consequences can be avoided or mitigated but fails to take reasonable remedial action.

58 See supra note 57.
E. Multijurisdictional Transactions

Many transactions will arise from operations that span several states. Model Rule 5.5 addressing multijurisdictional practice of law will need to be consulted in such situations. A transactional lawyer working for a client in his or her state of licensure, but working on a transaction where the other party is located in another state, will most likely be considered to be in another state on a “temporary” basis and therefore not engaging in the unauthorized practice of law. However, if a lawyer is in fact working in another state, even on a temporary basis, the lawyer should consult the professional conduct rules of that state. The ABA website shows that only 14 states have adopted Model Rule 5.5 without revision. Additionally, each state may have separate laws related to the unauthorized practice of law. In a complicated transaction, several

59 Rule 5.5, Unauthorized Practice Of Law; Multijurisdictional Practice Of Law

(a) A lawyer shall not practice law in a jurisdiction in violation of the regulation of the legal profession in that jurisdiction, or assist another in doing so.
(b) A lawyer who is not admitted to practice in this jurisdiction shall not:
   (1) except as authorized by these Rules or other law, establish an office or other systematic and continuous presence in this jurisdiction for the practice of law; or
   (2) hold out to the public or otherwise represent that the lawyer is admitted to practice law in this jurisdiction.
(c) A lawyer admitted in another United States jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services on a temporary basis in this jurisdiction that:
   (1) are undertaken in association with a lawyer who is admitted to practice in this jurisdiction and who actively participates in the matter;
   (2) are in or reasonably related to a pending or potential proceeding before a tribunal in this or another jurisdiction, if the lawyer, or a person the lawyer is assisting, is authorized by law or order to appear in such proceeding or reasonably expects to be so authorized;
   (3) are in or reasonably related to a pending or potential arbitration, mediation, or other alternative dispute resolution proceeding in this or another jurisdiction, if the services arise out of or are reasonably related to the lawyer’s practice in a jurisdiction in which the lawyer is admitted to practice and are not services for which the forum requires pro hac vice admission; or
   (4) are not within paragraphs (c)(2) or (c)(3) and arise out of or are reasonably related to the lawyer’s practice in a jurisdiction in which the lawyer is admitted to practice.
(d) A lawyer admitted in another United States jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services in this jurisdiction that:
   (1) are provided to the lawyer’s employer or its organizational affiliates and are not services for which the forum requires pro hac vice admission; or
   (2) are services that the lawyer is authorized to provide by federal law or other law of this jurisdiction.
states’ laws and professional conduct rules could apply: the location of the provider, the location of the recipient, the location of the information being provided, and the location of the information stored for purposes of a review.

F. The Future of Ethics

In August, 2009, the American Bar Association president appointed a Commission on Ethics 20/20. The purpose of the commission is to review and assess the Model Rules and other rules and regulations related to lawyers in the context of protecting the public, preserving core professional values, and maintaining a strong, independent and self-regulated legal profession. 60

In providing the initial outline for the scope of the commission’s work, the commission identified three areas of primary focus: “(1) issues that arise because U.S. lawyers are regulated by states but work increasingly across state and international borders; (2) issues that arise in light of current and future advances in technology that enhance virtual cross-border access; and (3) particular ethical issues raised by changing technology.” 61 As of the printing of this paper, the Commission has released for comment proposals for changes to the Model Rules regarding technology and confidentiality to address the need for security protocols related to information stored and/or sent by electronic means, as well as other rules related to multi-jurisdictional practice and international outsourcing. 62

V. Conclusion

Due diligence in natural resources transactions involves the disclosure of much confidential and proprietary information. Both parties can benefit from a negotiated confidentiality agreement setting out the parties’ rights and liabilities, and the procedure for the information exchange. Only with a clear understanding of key terms and the underlying law can this goal be accomplished. In addition to the contractual arrangement, lawyers must be aware of the overarching rules of professional conduct that govern their duties in the context of due diligence and how those rules interface with any contractual obligations of confidentiality and non-disclosure the attorney has taken on during due diligence.


61 Id.

62 http://www.americanbar.org/groups/professional_responsibility/aba_commission_on_ethics_20_20.html. The proposed rule on security protocols contains a reasonableness standard, and the comment recognizes that a particular client could require additional safeguards or waive reasonable safeguards through informed consent.
APPENDIX I

Confidentiality and
Non-Disclosure Agreement

Checklist
Confidentiality and
Non-Disclosure Agreement

Checklist

This checklist provides thoughts on various provisions and considerations when drafting and negotiating a confidentiality agreement. The checklist does not cover all of the general provisions that would be included in any contract, but focuses on provisions that have particular uses in confidentiality agreements.

1. Definition of Confidential Information

Consider listing or scheduling specific types of information that is at the heart of the confidential information. Consider any specific exclusion from confidential information where the recipient knows it has information that should not be confidential. Usual exclusions from confidential information include information already public, information already in the possession of the recipient, information received by the recipient from a third party, and information independently created by recipient (although product derived from the information, such as analyses and reports should be a part of the confidential information).

2. Permitted Uses

The permitted uses will determine whether a party has violated the terms of the Confidentiality Agreement through its use of the confidential information. The provider will want to narrow the use to only what is necessary for determining the opportunity being offered to the recipient. The recipient will want to make certain the use is clear and can be objectively determined so that no question arises as to whether the recipient’s use was allowed under the Confidentiality Agreement.

3. Parties to Agreement

Review list of types of people who are entitled to receive and review information to confirm it meets the needs of the specific transaction.

As a recipient, set up a process for obtaining confidentiality from people receiving and reviewing information. Consider indemnification running to recipient in order to cover the recipient’s obligations to the provider in the case of disclosure.

4. Term
Providers of confidential information will want the confidentiality agreement to be unlimited in term. Recipients should consider whether there are any provisions of the confidentiality agreement that should reasonably be limited in term. For example, a non-solicitation provision should have a reasonable time limit.

5. Enforcement and Remedies

The provider will want to specifically provide for injunctive relief in the event of a breach of the confidentiality agreement. The parties could consider liquidated damages for violation of the terms of the Confidentiality Agreement if damages are uncertain. State law specific issues related to liquidated damages provisions will need to be considered if such a provision is included.

6. Court-Ordered Turnover of Confidential Documents

Consider who should have the burden to protect confidential documents requested through a court process. Does the provider want to define that process in order to ensure the best outcome? Should the provider pay the costs associated with such protection?

7. Return of Confidential Information

Include a process for return of confidential information to provider upon completion or termination of due diligence. The recipient may want to negotiate the right to keep a list of confidential information received in order to defend against a claim of disclosure in the future. The recipient needs to have a process in place whereby it can track who of its employees and consultants have received confidential information in order to facilitate the return of such information to the provider.

8. Use of On-line Document Rooms

If an on-line document room is being used to produce due diligence materials, the provider should control the distribution of access codes. Also, a separate confidentiality agreement should be entered into with the service provider facilitating the on-line document room.

9. Choice of Law

Attorneys should be aware of the trade secrets law of the jurisdiction chosen for governing law, as well as the trade secrets law of the jurisdictions in which the
confidential information exists. Also, if the attorneys will be receiving and reviewing the confidential information, the professional standards obligations with regard to a client’s confidential information in the governing law jurisdiction should be consulted in order to confirm the potentially applicable standards of the attorney’s obligations.

10. No Obligation to Complete a Transaction

Because confidentiality agreements are often the first document signed by two parties contemplating a transaction, the parties should include a provision that makes clear that neither party has an obligation to continue to negotiate or complete a transaction.

11. Disclaimer of Accuracy of Information Provided

In the confidentiality agreement, providers of information should disclaim any warranties or representations about the accuracy or completeness of the information provided. Such representations and warranties are likely appropriate in the definitive agreement negotiated between the parties, but if information is being provided initially, prior to entering into a definitive agreement, a provider will not want to risk a claim of misrepresentation or breach of warranty simply by providing information under a stand-alone confidentiality agreement.

12. Non-Solicitation Agreement

As a part of the confidentiality agreement, the provider may want to include a non-solicitation provision, prohibiting the recipient from directly or indirectly soliciting its employees. The recipient will want to negotiate for a reasonable time limitation on the non-solicitation.

13. Standstill Agreement

If a provider is concerned that a recipient could take action in relation to the provider’s securities, the provider may want a standstill provision included. The provision can include prohibitions for a designated period of time in trading in the provider’s securities; merger or acquisition of provider; solicitation of provider’s officers or directors; and any proxy solicitation.

14. Assignment and Transfer

It is appropriate for a provider not to allow unfettered assignment of the recipient’s rights under a confidentiality agreement. However, if substantially all of the assets of the
recipient are sold to a third party, that third party should be bound by the continuing terms of the confidentiality agreement.
APPENDIX II

ANNOTATIONS TO FORM 7

CONFIDENTIALITY AND NONDISCLOSURE AGREEMENT

What follows are annotations to Form 7 to provide considerations for potential revisions related to specific transactions and thoughts on carrying out the provisions of Form 7. The annotations are not a critique of the form, which is quite comprehensive. Instead, the annotations are intended to bring to mind considerations related to using the form in a particular situation.

Form 7 is copyrighted by the Rocky Mountain Mineral Law Foundation and has been reprinted here with its permission. Copies can be obtained from the Rocky Mountain Mineral Law Foundation, 9191 Sheridan Boulevard, Suite 203, Westminster, Colorado 80031. Telephone: 303-321-8100.
CONFIDENTIALITY AND NONDISCLOSURE AGREEMENT

This Confidentiality and Nondisclosure Agreement (this “Agreement”), dated as of _______, _______, is between ________ (“Provider”), and ________ (“Recipient”).

Recipient desires to obtain certain Confidential Information (as defined below) relating to Provider and its business for the limited purposes described in the Schedule hereto (the “Purposes”). Provider has agreed to make the Confidential Information available to Recipient upon the terms and conditions set forth herein.
In consideration of the mutual promises set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Provider and Recipient agree as follows:

1. **Confidential Information.** Provider will disclose and make available to Recipient certain Confidential Information for Recipient's use in connection with the Purposes. The term "Confidential Information" as used in this Agreement shall mean all information, data, knowledge, and know-how (in whatever form and however communicated) relating, directly or indirectly, to Provider (or to its affiliates or to its or their businesses, operations, properties, products, markets, or financial positions) that is delivered or disclosed by Provider or any of its officers, directors, partners, members, employees, agents, affiliates, or shareholders to Recipient in writing, electronically, verbally, or through visual means, or which Recipient learns or obtains aurally, through observation or through analyses, interpretations, compilations, studies, or evaluations of such information, data, knowledge, or know-how. The term "Confidential Information" shall not include information, data, knowledge, and know-how, as shown by written records, that (a) is in Recipient's possession prior to disclosure to Recipient, (b) is in the public domain prior to disclosure to Recipient, or (c) lawfully enters the public domain through no violation of this Agreement after disclosure to Recipient; however, such term shall include all analyses, interpretations, compilations, studies, and evaluations of such information, data, knowledge, and know-how generated or prepared by or on behalf of Provider or Recipient. The term “document,” as used in this Agreement, shall include, without limitation, any writing, instrument, agreement, letter, memorandum, chart, graph, blueprint, photograph, financial statement, or data, telex, facsimile, cable, tape, disk, or other electronic, digital, magnetic, laser, or other recording or image in whatever form or medium.

2. **Use of Confidential Information.** Recipient agrees to use the Confidential Information solely for the Purposes and for no other purpose.

3. **Disclosure of Confidential Information.** Recipient agrees to keep the Confidential Information confidential and not to disclose the Confidential Information to any person or entity other than (a) such of Recipient's officers, directors, partners, members, employees, attorneys, accountants, or financial advisors who have a bona fide need to have access to such Confidential Information in order for Recipient to carry out the Purposes and who have agreed in writing supplied to, and enforceable by, Provider to be likewise bound by the provisions of this Agreement, and (b) such other persons as Provider hereafter agrees in writing may receive such Confidential Information (which agreement may be withheld for any reason or for no reason). Recipient shall be responsible and liable for any use or disclosure of the Confidential Information by such parties in violation of this Agreement. Nothing contained herein shall be deemed to prevent disclosure of any of the Confidential Information if, in the written opinion of Recipient's legal counsel, such disclosure is legally required to be made in a judicial, administrative, or governmental proceeding pursuant to a valid subpoena or other applicable order, provided, however, Recipient shall give Provider at least ten days prior written notice (unless less time is permitted by the applicable proceeding) before disclosing any of the Confidential Information in any such proceeding and, in making such disclosure, Recipient shall disclose only that portion thereof required to be disclosed and shall take all reasonable efforts to preserve the confidentiality thereof, including obtaining protective orders and supporting Provider in intervention.

4. **Representations and Warranties.** Provider represents and warrants to Recipient that it has full right, power, and authority to disclose or make available the Confidential Information to Recipient as provided for in this Agreement without the violation of any
contractual, legal, or other obligation to any entity or person. Provider specifically disclaims and makes no representation or warranty, expressed or implied, as to the accuracy, completeness, usefulness, or reliability of the Confidential Information or any portion thereof, and Recipient shall use the Confidential Information at its own risk.\(^8\)

5. **Copies of Documents.** Recipient agrees not to make or reproduce any copies of any document (or any portion thereof) which is part of the Confidential Information, except to deliver copies of such documents to the persons described in paragraph 3 of this Agreement.\(^9\)

6. **Return of Documents.** Recipient agrees to return to Provider, within ________ business days after a written request by Provider, all documents (including all copies thereof) which have been delivered or disclosed to Recipient, or which Recipient has obtained, as part of the Confidential Information, and to destroy, and certify to Provider in writing that Recipient has destroyed, all other related documents, including, without limitation, all documents prepared by Recipient or others utilizing or relating to any portion of the Confidential Information.\(^10\)

7. **Legal Remedies.** Recipient agrees that if this Agreement is breached, or if a breach hereof is threatened, the remedy at law may be inadequate, and therefore, without limiting any other remedy available at law or in equity, an injunction, restraining order, specific performance, and other forms of equitable relief or money damages or any combination thereof shall be available to Provider. The successful party in any action or proceeding brought to enforce this Agreement shall be entitled to recover the costs, expenses, and fees incurred in any such action or proceeding, including, without limitation, attorneys’ fees and expenses.

8. **Nondisclosure of this Agreement.** Neither Recipient nor Provider shall, directly or indirectly, disclose to any third party the terms and conditions of this Agreement or the transactions that are the subject of this Agreement, without the other party's prior written consent. Nothing contained herein shall be deemed to prevent disclosure of any of the terms and conditions of this Agreement of the transactions that are the subject of this Agreement (a) to the extent necessary to enforce this Agreement, or (b) if, in the written opinion of the party's legal counsel, such disclosure is legally required to be made in a judicial, administrative, or governmental proceeding pursuant to a valid subpoena or other applicable order, provided, however, such party shall give the other party at least ten days prior written notice (unless less time is permitted by the applicable proceeding) before disclosing any of the terms and conditions of this Agreement or the transactions that are the subject of this Agreement in any such proceeding and, in making such disclosure, the party shall disclose only that portion thereof required to be disclosed and shall take all reasonable efforts to preserve the confidentiality thereof, including obtaining protective orders and supporting the other party in intervention.

9. **No Unauthorized Contact.** Unless otherwise authorized, Recipient will not contact any of Provider's officers, directors, partners, members, employees, agents, affiliates, or shareholders for the purpose of obtaining information in connection with the Purposes.\(^11\)

10. **Severability.** If any provision of this Agreement is invalid or unenforceable in any jurisdiction, such provision shall be fully severable from this Agreement and the other provisions hereof shall remain in full force and effect in such jurisdiction and the remaining provisions hereof shall be liberally construed to carry out the provisions and intent hereof.
The invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction, nor shall the invalidity or unenforceability of any provision of this Agreement with respect to any person or entity affect the validity or enforceability of such provision with respect to any other person or entity.  

11. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF _______ WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PROVISIONS THEREOF. THE PARTIES CONSENT TO THE EXCLUSIVE JURISDICTION AND VENUE IN ANY COURT OF COMPETENT JURISDICTION IN SUCH STATE AND IN THE UNITED STATES DISTRICT COURT FOR SUCH STATE, AND TO SERVICE OF PROCESS UNDER THE STATUTES OF SUCH STATE.

12. Additional Provisions. The additional provisions, if any, set forth on the Schedule hereto are hereby incorporated into this Agreement and form a part hereof.

13. Notices. All notices and other communications required under this Agreement to be in writing shall be addressed to the parties at the addresses or facsimile numbers set forth below each party's signature, or to such other addresses or facsimile numbers of which a party may from time to time notify the other party pursuant hereto. Such notices and communications shall be deemed given upon the earlier of (a) actual receipt, (b) five business days after being mailed by registered or certified mail, return receipt requested with postage prepaid, (c) when sent by facsimile with receipt confirmed by telephone, or (d) one business day after being deposited with a recognized overnight courier service with charges prepaid.

14. Assignment and Transfer. Recipient may not assign, pledge, or otherwise transfer its rights or delegate its duties or obligations under this Agreement without the prior written consent of Provider. Provider may assign or otherwise transfer its rights and delegate its duties or obligations under this Agreement without the consent of Recipient in connection with a sale or other transfer of all or substantially all of its assets, or the sale or other transfer of its assets relating to the Confidential Information. In addition, Provider may grant a security interest in this Agreement without the consent of Recipient in connection with granting liens on or security interests in all or substantially all of its assets or the assets relating to the Confidential Information, and this Agreement may be assigned upon foreclosure of such a security interest or transfer in lieu thereof without the consent of Recipient.

15. Entire Agreement. This Agreement constitutes the entire understanding between the parties with respect to the subject matter thereof and supersedes all negotiations, prior discussions, or prior agreements and understandings relating to such subject matter. Neither this Agreement nor the parties' performance hereunder shall be deemed to create any special relationship or obligations between the parties other than those expressly set forth herein, and no implied covenants shall apply to this Agreement other than those of good faith and fair dealing. All duties, obligations, rights, powers, and remedies provided for herein are cumulative, and not exclusive, of any and all duties, obligations, rights, powers, and remedies existing at law or in equity, and Provider shall, in addition to the duties, obligations, rights, powers, and remedies herein conferred, be entitled to avail itself of all such other duties, obligations, rights, powers, and remedies as may now or hereafter exist, including, without limitation, the Uniform Trade Secrets Act and similar statutes and rules of law pertaining to trade secrets and confidential and proprietary information. Neither Provider nor Recipient shall have any obligation or duty to pursue any further agreement or
understanding, or to proceed with respect to any additional transaction relating to the Purposes, until a definitive agreement relating thereto has been duly authorized, executed, and delivered by the parties.

16. Miscellaneous. This Agreement may not be altered or amended, nor may any rights hereunder be waived, except by an instrument in writing and executed by the party or parties to be charged with such amendment or waiver. No waiver of any term, provision, or condition of this Agreement shall be deemed to be, or construed as, a further or continuing waiver of any such term, provision, or condition, or as a waiver of any other term, provision, or condition hereof. To the extent the parties have deemed necessary, they have consulted with their legal, tax, financial, and accounting advisors with respect to the subject matter of this Agreement. Pronouns in masculine, feminine, and neuter gender shall be construed to include any other gender. Words in the singular form shall be construed to include the plural, and words in the plural form shall be construed to include the singular, unless the context otherwise requires. The headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement. This Agreement shall be binding upon the parties hereto and, except as otherwise prohibited, their respective successors and assigns. Except for Recipient and Provider, and their permitted successors and assigns, nothing in this Agreement, express or implied, is intended to confer upon any other entity or person any benefits, rights, or remedies. This Agreement may be executed in counterparts and shall become operative when each party has executed and delivered at least one counterpart. This Agreement may be delivered by facsimile or similar transmission, and a facsimile or similar transmission evidencing execution shall be effective as a valid and binding agreement between the parties for all purposes.

This Agreement has been executed on the dates set forth below to be effective as of the date first set forth above.

PROVIDER:  
_______  
By: _______  
Name: _______  
Title: _______  
Address: _______  
Telephone: _______

RECIPIENT:  
_______  
By: _______  
Name: _______  
Title: _______  
Address: _______  
Telephone: _______
1. This form Confidentiality and Nondisclosure Agreement (this “Form Agreement”) has been prepared only as a guide and may not contain all of the necessary or appropriate provisions. Each provision of this Form Agreement and the Schedule should be carefully reviewed and adapted to the specific facts and circumstances surrounding the particular transaction and the relationship of the parties. Parties using this Form Agreement should consult with their legal, tax, financial, and accounting advisors. Parties using this Form Agreement do so at their own risk, and the Rocky Mountain Mineral Law Foundation shall have no liability for losses or damages that may result from the use of this Form Agreement or any portion or variation thereof.

2. Prior to entering into any confidentiality or nondisclosure agreement, the parties should understand the rights, duties, and obligations provided and imposed by applicable statutes and rules of law. The parties should understand the interrelation between applicable statutes and rules of law and contractual confidentiality and nondisclosure agreements, and understand that written agreements can expand, limit, or otherwise affect the rights, duties, and obligations provided or imposed by applicable statutes or rules of law.

In particular, the body of law pertaining to trade secrets should be understood. The laws relating to trade secrets are generally embodied in three areas: (a) the Uniform Trade Secrets Act, 14 U.L.A. 433 (1990) (“UTSA”); (b) the RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39-45 (1994); and (c) the RESTATEMENT OF TORTS § 757 (1939). THE RESTATEMENT (SECOND) OF TORTS does not address trade secrets because the drafters elected to include such provisions in the RESTATEMENT (THIRD) OF UNFAIR COMPETITION.

At the time of initial publication of this Form Agreement forty states and the District of Columbia had adopted the UTSA with modifications in one form or another. The states that had adopted the UTSA are Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, South Dakota, Utah, Virginia, Washington, West Virginia, and Wisconsin. In addition, Massachusetts and North Carolina had adopted other general trade secret statutes. The states that had not adopted the UTSA or other general trade secrets statutes are Michigan, New Jersey, New York, Pennsylvania, Tennessee, Texas, Vermont, and Wyoming. Some of these states may have adopted the UTSA or such statutes subsequent to the initial publication of this Form Agreement. In addition, a number of states have adopted statutes that specifically make misappropriation of trade secrets subject to criminal penalties.
3. For additional information regarding trade secrets and the use of confidential and proprietary information, see the following:


4. Any comments or suggestions relating to this form or the use thereof are welcome and should be directed to: Form 7 Committee, Rocky Mountain Mineral Law Foundation, 7039 East 18th Avenue, Denver, CO 80220, USA.

**USE OF THIS FORM**

The following sets forth the various blanks and other areas that should be completed when using this Form Agreement. Like all provisions of this Form Agreement, the following must be carefully reviewed and adapted to the specific facts and circumstances surrounding the particular transaction and the relationship of the parties after consultation with legal, tax, financial, and accounting advisors.

1. **Preamble.** In the preamble, the date of the agreement as well as the names of the parties should be inserted. The date set forth in the preamble is the effective date of the agreement and the agreement should be entered into prior to any of the Confidential Information being provided to the Recipient. When providing the names of the parties, the full legal name should be used and, if the party is a corporation, partnership, or other legal entity, the state of formation should be included. If a party is an individual, this should be so stated.

2. **Paragraph 6 -- Return of Documents.** The blank in paragraph 6 should be completed. The length of this time period depends on the type and volume of the Confidential Information. If the Confidential Information is minimal, a period as short as one day may be appropriate; however, if the amount of the Confidential Information is voluminous, a period as long as thirty days may be appropriate.

3. **Paragraph 11 -- Governing Law.** The blank in paragraph 11 should be completed. Typically, this would be the state where the Provider has its principal place of business. The state selected should have reasonable contacts with the parties and the transaction, and the parties should consider a state that has adopted the Uniform Trade Secrets Act.

4. **Signature Blocks.** The signature blocks should be completed with the appropriate information. This information should include the full legal name of each of the parties, including the state of formation if a party is a corporation, partnership, or other legal entity or, if a party is an individual, a statement to that effect. In addition, the name of the individual executing the agreement on behalf of each of the parties should be provided,
together with his or her title and the date of execution. The address, telephone number, and facsimile number should be provided for the notice purposes of paragraph 13. The individual executing the agreement on behalf of each of the parties should have the power and authority to execute the agreement and to bind the party thereto.

5. Schedule. The Schedule has two areas for included information. The first is the "Purposes," and the second is the "Additional Provisions."

The description of the Purposes for which the Confidential Information is supplied is critical and deserves significant attention and thought. As a general proposition, it is advisable to be as specific as possible.

The Additional Provisions section should be completed if there are any Additional Provisions. If there are no Additional Provisions, the word “none” or “N/A” should be inserted. Which Additional Provisions are included depends upon a number of factors, including how the information is to be used; the type and nature of the information; whether the information has application to other areas, transactions, or projects; the nature of the contemplated transactions; the relationship of the parties; and the useful life of the information.

ADDITIONAL PROVISIONS

The committee (the “Committee”) drafting this Form Agreement allowed for “Additional Provisions” to be incorporated. Different fact patterns and circumstances may require modifications or additional provisions. The following sets forth some, but not all, of the Additional Provisions that the parties may want to consider. These provisions are examples only and are neither suggested nor recommended. Like all provisions of this Form Agreement, the following must be carefully reviewed and adapted to the specific facts and circumstances surrounding the particular transaction and the relationship of the parties after consultation with legal, tax, financial, and accounting advisors.

1. Agreement Not to Solicit Officers and Employees. The parties may find it advisable to include a provision that prohibits the Recipient from hiring the Provider's employees for a certain period of time. An example of such a provision follows:

Nonsolicitation. For a period of _______ after the effective date of this Agreement, Recipient agrees not to solicit for hire or hire, as an officer, employee, agent, independent contractor, or otherwise, any current officer, director, partner, member, or employee of Provider or its affiliates.

2. Standstill Provision. Occasionally the Provider may be concerned that the Recipient may attempt to take action, through the acquisition of securities or otherwise, to affect the Provider and how the Provider operates or conducts its business. If this is a concern, the parties should consider the inclusion of a so-called “standstill” provision. One form of such a provision follows:

Standstill. For a period of _______ after the effective date of this Agreement, neither Recipient nor Recipient's affiliates (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) will (or will assist or encourage others to) in any manner, directly or indirectly, unless specifically requested in writing in advance by Provider's board of directors: (a) acquire, or agree, offer, or propose to acquire, directly or indirectly from Provider or any other person, any business or assets of, or securities issued
by, Provider or any right, warrant, or option to acquire any of the foregoing, (b) propose to enter into, directly or indirectly, any merger or business combination involving Provider or any of its subsidiaries or to purchase, directly or indirectly, a material portion of the assets of Provider or any of its subsidiaries, (c) make any proposal or request to Provider or any of its officers or directors relating, directly or indirectly, to any action referred to in clause (a) or (b) of this paragraph or to any modification or waiver of any provision of this paragraph, (d) make or participate in, directly or indirectly, any “solicitation” of “proxies” (as those terms are used in the proxy rules of the Securities and Exchange Commission) to vote or seek to advise or influence any person with respect to the voting of any voting securities of Provider or any of its subsidiaries, (e) form, join, or in any way participate in a “group” (within the meaning of Section 13(d)(3) under the Exchange Act) with respect to any voting securities of Provider or any of its subsidiaries, (f) act alone or in concert with others, directly or indirectly, to seek to control or influence the management, board of directors, or policies of the Provider, (g) advise, assist, or enter into any discussions, negotiations, arrangements, or understandings with any other person with respect to any of the foregoing, or (h) make any public statement or disclosure of any kind with respect to any matter addressed by this paragraph (unless compelled by law) or take any other action which might reasonably be expected to result in any such public disclosure. Recipient will immediately provide oral notification to Provider to be promptly followed by written confirmation to Provider advising Provider of any inquiry or proposal made to Recipient with respect to any of the foregoing.

3. Limitation on Term of Obligations. Parties to confidentiality and nondisclosure agreements often include provisions which provide that the restrictions on use and disclosure of the Confidential Information terminate after a specified period of time. Because such provisions may cause the Confidential Information to enter the public domain and therefore lose its status as a trade secret, the Committee did not include such a provision in this Form Agreement. If the parties desire to include such a provision, such inclusion should only be done after taking into consideration all factors, including the type and character of the Confidential Information and the useful life of the Confidential Information, as well as the concern that allowing unrestricted use and disclosure after a specific period of time may cause the Confidential Information to enter the public domain and lose its status as a trade secret, not only with respect to the relationship established by the agreement, but for all purposes. In any event, the termination of the restrictions on use and disclosure should not affect a party’s ability to exercise its rights for a breach of or failure to comply with the agreement that occurs prior to such termination.

Examples of two alternate provisions that provide for termination follow. The first alternative provides that the restrictions on use and disclosure are terminated after a specified period of time. The second alternative provides that the restriction on use terminates after a specified period of time, but provides that the restriction on disclosure does not terminate.

**Term. (Alternative 1).** The restrictions on the use and disclosure of the Confidential Information contained in paragraphs 2 and 3 of this Agreement shall terminate ________ after the effective date of this Agreement; provided, however, the termination of such restrictions shall not terminate the other rights, duties, and obligations contained in this Agreement and shall not affect the rights, powers, or remedies of Provider, or restrict or otherwise limit any cause of action or claim arising from Recipient's breach of or failure to perform any duty or obligation under this Agreement prior to such termination.
Term. (Alternative 2). The restriction on the use of the Confidential Information contained in paragraph 2 of this Agreement shall terminate after the effective date of this Agreement, and thereafter the use of the Confidential Information by Recipient shall not be restricted to the Purposes; provided, however, the termination of such restriction shall not terminate the other rights, duties, and obligations contained in this Agreement (including the restrictions on disclosure of the Confidential Information contained in paragraph 3 of this Agreement) and shall not affect the rights, powers, or remedies of Provider, or restrict or otherwise limit any cause of action or claim arising from Recipient's breach of or failure to perform the duty and obligation to use the Confidential Information only for the Purposes prior to such termination.

4. Area of Mutual Interest. Parties in the natural resource industry often include provisions in confidentiality agreements which set forth an area of mutual interest and define the rights of the parties within that area, including how the Confidential Information can be used within or without the area. These provisions are often highly negotiated and their final forms are seldom uniform. The Committee therefore did not include an area of mutual interest provision in the Form Agreement Certain observations as to the use of such provisions, however, may be helpful.

The area of mutual interest provision generally restricts the use of Confidential Information within a defined area by prohibiting the acquisition by the Recipient of any property interest within the area for a specified period of time. Such a provision protects the Provider from acquisitions by the Recipient within the vicinity of the property to which the Confidential Information relates, without the necessity of proving that the acquisition was in fact prompted by or was otherwise the result of the Recipient's review of the Confidential Information. Unless specifically defined, however, such a provision may well imply that the Recipient is free to use the Confidential Information outside of the defined area of mutual interest without restriction and without obligation to the Provider. The Provider must recognize that if the Recipient is free to use the information outside of a defined area without restriction, the Confidential Information may no longer constitute a trade secret, not only with respect to the relationship established by the agreement, but for all purposes; and, accordingly, the Provider may be limited to only those protections specifically set forth in the agreement. In cases where the Confidential Information consists of proprietary ideas or technologies rather than simply geologic data concerning a prospect or deposit, the Provider may wish to specifically provide in the agreement that, in addition to the area of mutual interest restrictions, the Recipient is obligated to maintain the confidentiality of the Confidential Information in all cases and not use it for the Recipient's benefit even outside the area of mutual interest.

There are clearly competing interests between the Provider and the Recipient in the formation of an area of mutual interest provision. From the Recipient's perspective, it wants a clear and unambiguous understanding of what it can and cannot do with the Confidential Information and would likely prefer that the parties' rights and obligations be limited to the written agreement, without supplementation from the Uniform Trade Secrets Act and similar statutes and rules of law pertaining to trade secrets and confidential and proprietary information. The Recipient prefers the “bright line” of the area of interest, knowing that it cannot act for a certain time within the area, but that it is free to conduct business outside the area without concern for whether or not its business decisions are influenced by knowledge gained from the Confidential Information and whether it is unlawfully usurping the Provider's trade secret. The Recipient will therefore often request language that limits the restrictions of its use of the Confidential Information to within the area of mutual interest. The Recipient then will not be susceptible to a claim by the Provider of improper
use of the Confidential Information with respect to activities outside the area of mutual interest. As a practical matter, many companies may require such language in light of the administrative difficulty of tracking the obligations flowing from the many confidentiality agreements executed by such companies in the course of normal property investigations. The Provider must recognize, however, that allowing unrestricted use outside the area of mutual interest may cause the Confidential Information to enter the public domain and lose its status as a trade secret, not only for the relationship established by the agreement, but for all purposes.

5. Arbitration. Parties to any agreement should always consider whether arbitration is appropriate. The use and nonuse of arbitration provisions and the terms that are included therein are subject to much discussion and disagreement. The Committee did not include an arbitration provision in the Form Agreement because it felt that the breach or threatened breach of the agreement likely would require immediate action, such as an injunction, a temporary restraining order, or other preliminary relief, that can only be obtained through the court system.

6. Intellectual Property Rights. If the Confidential Information includes processes, procedures, or other information, data, knowledge, or know-how that could be improved, enhanced, or refined during the review process, the parties should consider including a provision which sets forth the ownership thereof. An example of such a provision follows:

**Intellectual Property Rights.** Any and all intellectual property and all rights therein or thereto (including, without limitation, all patents, copyrights, trademarks, and trade secrets) and all applications and registrations therefore relating to the Confidential Information and all improvements, enhancements, and refinements thereto, shall be the property of Provider, and Recipient shall have no rights therein unless otherwise agreed to in writing by the parties.
The purpose for use must be properly scoped for the particular transaction. It is important to review the purpose again if the scope or direction of the transaction changes so that the document conforms to the parties’ understanding of the revised use of the confidential information.

The definition of confidential information used in Form 7 is very comprehensive. Nonetheless, the drafter should consider specifically referencing items that are known to be included in the confidential information with special attention being directed at the items that are the heart of the provider’s trade secrets.

If there is a pre-existing relationship between the parties to the confidentiality agreement, the definition may need to be tailored to only the information provided in the context of the transaction covered by the confidentiality agreement.

Inclusion within “confidential information” of information gained through means other than written documents presents its own unique set of challenges. First, how does a recipient adequately document what was disclosed in order to avoid a later dispute? How does a recipient limit the use of information gained by observation? For example, if a party observes a particular process that provides insight into how to perform the process for the recipient’s business, would the recipient be forced to stop work on projects that could involve the process so that no use of the confidential information occurs?

If software is a component of the confidential information being revealed, the drafter should consider specific language about software codes.

Prior to receiving any confidential information, the recipient’s team must consider how it is going to oversee the review and distribution of such information and make certain there are no other uses of the confidential information beyond the uses specifically allowed by the confidentiality agreement.

Rather than the general language included in Form 7 regarding classes of people who are entitled to receive and review the confidential information, the provider could consider a specific list of people who can receive and review confidential information and then require provider’s approval for anyone else to review.

Making the recipient responsible for any disclosure is very important to the provider, but the recipient needs to consider whether being responsible for third-party
disclosure is appropriate in the specific circumstance. It is possible that having each third party sign a confidentiality agreement enforceable by the provider could be sufficient protection for the provider. Because effective injunctive relief would need to be brought against a third party who is disclosing or misusing information, the provision making the recipient responsible for the actions of a third party is really making the recipient a guarantor or insurer for the actions of the third parties. Hence, the recipient, if agreeing to be responsible for a third party’s actions, may want to seek an agreement to indemnify the recipient from its third party consultants for any damages related to or arising out of the third party’s actions under the confidentiality agreement.

7 The drafter should consider whether the burden for protecting the confidential information should lie with the provider, rather than the recipient. For example, the recipient could give notice to the provider of a court order that the recipient believes requires disclosure of confidential information, then the provider would drive and pay for the process of seeking protection from such disclosure.

8 Any definitive agreement will most likely have representations and warranties about accuracy of information provided by the provider. The confidentiality agreement will be a stand-alone first document; therefore, it is appropriate to disclaim warranties other than the right to provide information. When the definitive agreement is completed, the provider needs to consider whether any information must be updated or additional information provided in order to make the representations true.

9 If data needs to be reproduced in order for it to be analyzed, this provision may need to be expanded to consider derivative uses. Paragraph 1 contemplates that studies, compilations and evaluations of confidential information are themselves confidential information; therefore, the reproduction rights need to include reproductions made in the context of analysis or reporting.

10 Another drafting option is to require only destruction of documents rather than return. Also, the question arises as to how to document what the recipient was provided when all confidential information is returned or destroyed. The recipient may want to negotiate the right to keep a log of confidential information received. Another operational consideration for the recipient is to implement a process whereby all confidential information is tracked and kept segregated so that it can all properly be returned or destroyed.

11 If the provider gives authority to contact any of the parties included in paragraph 9, the recipient will want to document the authority from the provider and the date and
time of any such contact in order to be able to defend against any claim of improper contact.

12 The severability provision in paragraph 10 refers to a provision being unenforceable or invalid in a particular jurisdiction, which could be a jurisdiction other than the governing law jurisdiction. The drafter may want to consider adding language to clarify that the choice of law provision should be applied first, and only after the choice of law provision is applied should the unenforceability in another jurisdiction come into consideration.

13 It is appropriate that the recipient’s rights under the confidentiality agreement not be assignable, but the provisions of the confidentiality agreement may need to apply in the future to a successor in business. For example, consider a scenario where a deal does not materialize and all of the documents are ostensibly returned, then the recipient sells all of its assets to a third party who discovers confidential information. Paragraph 16 contains a sentence that the agreement “shall be binding upon the parties… their respective successors and assigns,” but an asset purchaser may not be a successor and it will not be an assign, as assignment is prohibited under paragraph 14.