General Contract Clauses: Confidentiality Agreement Clauses After the Defend Trade Secrets Act

CHARLES R. MACEDO AND MICHAEL SEBBA, AMSTER, ROTHSTEIN & EBENSTEIN LLP, WITH PRACTICAL LAW COMMERCIAL TRANSACTIONS
COURTESY OF AMSTER, ROTHSTEIN & EBENSTEIN LLP

Search the Resource ID numbers in blue on Practical Law for more.

Standard Clauses for use in confidentiality agreements drafted after the Defend Trade Secrets Act of 2016 (DTSA). These Standard Clauses include whistleblower protections and notice of immunity provisions for agreements with employees and certain contractors and consultants. They also include other clauses that should be reviewed for business-to-business transactions. These Standard Clauses have integrated notes with important explanations and drafting and negotiating tips.

DRAFTING NOTE: READ THIS BEFORE USING DOCUMENT

The Defend Trade Secrets Act of 2016 (DTSA) (18 U.S.C. §§ 1831-1836) became effective on May 11, 2016, creating a federal private cause of action for trade secret misappropriation that occured on or occurs after the effective date. Private parties can now bring civil trade secret claims in federal court. Confidentiality agreements typically address the handling and protection of trade secrets by the parties. Before the DTSA, confidentiality agreements were traditionally governed by state law. Like most state trade secrets laws, the DTSA is modeled after the Uniform Trade Secrets Act (UTSA) and contains similar remedies. However, the DTSA has unique provisions that require renewed consideration when drafting or revising confidentiality agreements with:

- Employees, consultants, and contractors.
- Potential and actual business partners.

These unique provisions address:

- **Protection for whistleblowers.** This protection must be addressed appropriately for a company to take full advantage of the enforcement rights and remedies allowed under the DTSA (see Drafting Note, Notice of Immunity Under the Economic Espionage Act of 1996).
- **The DTSA not preempting state laws.** Parties may bring claims for trade secret misappropriation under the DTSA and combine them with state law claims (18 U.S.C. § 1838) (see Drafting Notes, Choice of Forum and Choice of Law).
- **Civil *ex parte* seizures.** In extreme situations, the DTSA authorizes courts to order seizure of property (18 U.S.C. § 1836(b)(2)).

These Standard Clauses include a notice of immunity provision which is required

the answer company™
THOMSON REUTERS®

© 2017 Thomson Reuters. All rights reserved.

under the DTSA for agreements with employees and contractors (see Clause 1). The other Standard Clauses are common in confidentiality agreements and the drafting notes mainly focus on the DTSA's possible implications.

For a general discussion of the DTSA in the context of trade secrets litigation, see Practice Note, Trade Secrets Litigation: Defend Trade Secrets Act (5-523-8283). For further discussion of confidentiality agreements generally, see Practice Note, Confidentiality and Nondisclosure Agreements (7-501-7068) and other resources included in the Confidentiality and Nondisclosure Agreements Toolkit (3-502-1883). For more information on employee confidentiality agreements, see Standard Document, Employee Confidentiality and Proprietary Rights Agreement (6-501-1547).

ASSUMPTIONS

The notice of immunity provision assumes that it will be used in an agreement between a company and an employee, consultant, or contractor (see Clause 1). That provision is drafted to address protections that the DTSA affords to employees, consultants, and certain contractors and, therefore, is not written as a business-to-business clause.

The other Standard Clauses assume that:

- **The clauses are used in a mutual agreement, which assumes that both parties are disclosing and receiving confidential information.** The other Standard Clauses should not be used if only one party is disclosing confidential information. In addition, those Standard Clauses must be revised if the parties are not sharing confidential information on a fully mutual basis and the parties are instead entering into a reciprocal confidentiality agreement that contains party-specific rights and obligations to reflect any differences in the scope and type of confidential information that each party expects to disclose (see Practice Note, Confidentiality and Nondisclosure Agreements: Mutual Confidentiality Agreements (7-501-7068)).
- **The parties to the agreement are US entities and the transaction takes place in the US.** If any party is organized or operates in, or any transaction takes place in a foreign jurisdiction, these terms may need to be modified to comply with applicable laws in the relevant foreign jurisdictions.
- **These terms are not industry-specific.** The other Standard Clauses do not account for any industry-specific laws, rules, or regulations that may apply in certain transactions. Some of these Standard Clauses may not be enforceable, either because of applicable state law, industry-specific regulations, or other rules and regulations applicable to the parties. Parties should check all applicable laws and regulations to ensure the Standard Clauses included in the agreement are enforceable as drafted.
- **Capitalized terms are defined elsewhere in the agreement.** Certain terms are capitalized but not defined in the other Standard Clauses because it is assumed that they are defined elsewhere in the agreement (for example, Agreement, Business Opportunity, Business Purpose, Company, Contractor, Disclosing Party, Employee, Employer, Litigation, Parties, and Receiving Party).

BRACKETED ITEMS

Bracketed items in ALL CAPS should be completed with the transaction's facts. Bracketed items in sentence case are either optional provisions or include alternative language choices to be selected, added, or deleted at the drafter's discretion.

1. Notice of Immunity Under the Economic Espionage Act of 1996, as amended by the Defend Trade Secrets Act of 2016.

[Notwithstanding any other provision of this Agreement:

(a) [Contractor/Employee] will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that:

© 2017 Thomson Reuters. All rights reserved.

(i) is made:

(A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and

(B) solely for the purpose of reporting or investigating a suspected violation of law; or

(ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

(b) If [Contractor/Employee] files a lawsuit for retaliation by [Company/Employer] for reporting a suspected violation of law, [Contractor/Employee] may disclose [Company's/Employer's] trade secrets to [Contractor's/Employee's] attorney and use the trade secret information in the court proceeding if [Contractor/Employee]:

(i) files any document containing the trade secret under seal; and

(ii) does not disclose the trade secret, except pursuant to court order.

OR

[Contractor/Employee] acknowledges receipt of [Company/Employer's] [NAME OF REPORTING POLICY FOR A SUSPECTED VIOLATION] setting forth:

(a) [Company's/Employer's] reporting policy for a suspected violation of law; and

(b) Notice of immunity from criminal and civil liability for certain disclosures of trade secrets under the Defend Trade Secrets Act of 2016 (18 U.S.C. § 1833(b)).]

DRAFTING NOTE: NOTICE OF IMMUNITY UNDER THE ECONOMIC ESPIONAGE ACT OF 1996

If the confidentiality agreement is with an individual employee, consultant, or contractor, the trade secret owner must:

- Be aware of whistleblower protections provided by the DTSA.
- Include the notice of immunity to preserve the full extent of its rights and remedies afforded by the DTSA.

DTSA'S WHISTLEBLOWER PROTECTION

The DTSA provides employees with immunity to both criminal and civil liability for trade secret misappropriation under the DTSA and any state trade secret law if the trade secret disclosure is made either:

- In confidence and solely for the purpose of reporting or investigating a suspected violation of law to:
  - a federal, state, or local government official; or
  - to an attorney.
- In a filing in a lawsuit or other proceeding, made under seal.

(18 U.S.C. § 1833(b)(1).)

Under the DTSA, the term "employees" includes individuals who are:

- Employees.
- Independent contractors.
- Consultants.

(18 U.S.C. § 1833(b)(4).)

The DTSA also permits individuals filing a lawsuit for retaliation by an employer to:

- Disclose the employer's trade secret to an attorney.
- Use the trade secret in the court proceeding.

The individual must both:

- File any document containing the trade secret under seal.
- Not disclose the trade secret, except under court order.

(18 U.S.C. § 1833(b)(2).)

NOTICE OF IMMUNITY REQUIREMENT

Confidentiality agreements with employees (defined under the DTSA to include

© 2017 Thomson Reuters. All rights reserved.

contractors and consultants) must provide written notice of the DTSA's immunity provisions. Failure to provide notice waives the employer's rights to exemplary damages or attorneys' fees against that employee who did not receive the notice. For further discussion of consequences for failure to provide notice, see Standard Clause, Notice of Immunity Under the Defend Trade Secrets Act (DTSA) Provision: Drafting Note: Consequences for Failure to Provide DTSA Notice (w-003-5261).

This Standard Clause directly tracks the statutory language. It has optional language to address either:

- An employment relationship, referring to the individual as an "Employee" and the business entity as the "Employer."
- An independent contractor relationship, referring to the individual as a "Contractor" and the business entity as "Company."

It also includes alternative language based on the DTSA provision which states that an employer may provide the required notice by reference to a policy document:

- Setting out the employer's reporting policy for a suspected violation of the law.
- Providing notice of the DTSA's immunity provisions.

(18 U.S.C. § 1833(b)(3).)

For further discussion of the notice of immunity provisions and the practical implications, see:

- Standard Clause, Notice of Immunity Under the Defend Trade Secrets Act (DTSA) Provision: Drafting Notes: Consequences for Failure to Provide DTSA Notice (w-003-5261) and Practical Implications for Employers (w-003-5261).
- Standard Document, Employee Confidentiality and Proprietary Rights Agreement: Drafting Note: Notice of Immunity Under the Defend Trade Secrets Act of 2016 (6-501-1547).
- Standard Document, Independent Contractor/Consultant Agreement (Pro-Client): Drafting Note: Notice of Immunity Under the Defend Trade Secrets Act of 2016 (2-500-4638).

2. Recitals.

[WHEREAS, Disclosing Party has a business opportunity associated with intellectual property and/or proprietary information relating to, *inter alia*, [DESCRIPTION OF PRODUCT OR SERVICE], which is intended for use in interstate or foreign commerce (the "**Business Opportunity**"); and

OR

WHEREAS, Disclosing Party has a business opportunity associated with intellectual property and/or proprietary information relating to, *inter alia*, [DESCRIPTION OF PRODUCT OR SERVICE], which is intended for use solely within the State of [STATE] (the "**Business Opportunity**"); and]

DRAFTING NOTE: RECITALS

INTRASTATE VERSUS INTERSTATE

A prerequisite to invoking the DTSA is that the trade secret concerns a product or service involved in interstate or foreign commerce (18 U.S.C. § 1832(a)). If there is no intent evidenced in the agreement, a court will review the nature of the actual purportedly wrongful activities and may invoke only state law or state and federal law. The parties can use the recitals to demonstrate the nature of the activities and inform the court's analysis.

These alternative provisions enable the parties to demonstrate that the information relates to products or services that are either:

- Used in or intended for use in interstate or foreign commerce.

© 2017 Thomson Reuters. All rights reserved.

- Only offered within the borders of a single state.

The first alternative can help the parties invoke the DTSA. If the confidential information relates to products or services offered within a single state, the second alternative can support a position that the DTSA does not apply.

3. Confidential Information.

"**Confidential Information**" means[, except as set forth below,] any facts, opinions, conclusions, projections, data, information, trade secrets, patents, patent applications, inventions, software, hardware, or know-how relating to any work in process, future development, sales, marketing, financial, or personnel matter relating to (a) the Business Opportunity; and (b) Disclosing Party or its affiliates, its present or future development, sales, marketing, financial, or personnel matter relating to Disclosing Party, its present or future products, patents, patent applications, technology, inventions, know how, sales, customers, employees, investors, prospects, markets, or business, whether communicated orally or in writing or obtained by the Receiving Party through observation or examination of Disclosing Party's facilities, documents, or procedures.

DRAFTING NOTE: CONFIDENTIAL INFORMATION: DEFINITION

Most confidentiality agreements include a definition of information to be protected. Parties can invoke protection under the DTSA for the following types of information:

- Financial.
- Business.
- Scientific.
- Technical.
- Economic.
- Engineering.

(18 U.S.C. § 1839(3).)

DTSA protections apply if:

- The owner takes reasonable measures to keep the information secret.
- The information derives actual or potential independent economic value from not being generally known to, and not being readily and properly ascertained by, other persons who can use it for economic gain.

(18 U.S.C. § 1839(3).)

These requirements have two implications to the DTSA's application:

- **Certain types of information may not be covered.** The Confidential Information definition in this clause is consistent with the categories specified in the DTSA. Most trade secrets should be covered by the DTSA. However, courts may interpret the act narrowly and, if the parties add other types of information, they should ensure that the description is consistent with categories listed in the DTSA.
- **The secrecy must create value and the owner must take steps to protect the information.** For the DTSA to apply, a party must demonstrate that there is some economic value derived from the information's secrecy and it not being readily ascertainable. The parties should also consider taking reasonable measures to ensure that the information is protected. For example, they should:
  - show that they take measures to protect their own data; and
  - consider adding additional requirements, such as a marking provision, if it is appropriate (see Drafting Note, Marking Confidential Information).

  If a marking provision is included, the drafter should consider including the bracketed text in this clause (see Clause 4).

If the DTSA does not apply to the information, a party may need to pursue

© 2017 Thomson Reuters. All rights reserved.

state law claims for misappropriation, unfair competition, or breach of contract. For further discussion of the definition of Confidential Information, see Practice Note, Confidentiality and Nondisclosure Agreements: Definition of Confidential Information (7-501-7068).

4. Marking.

[Confidential Information shall not include any [written] information disclosed under this Agreement unless it is conspicuously marked "Confidential" at the time of disclosure.]

[Confidential Information shall not include information that is disclosed orally, visually, or in another form that [is difficult to mark/cannot be tangibly marked] unless Disclosing Party, within fifteen (15) days of the disclosure, delivers a tangible version of the information marked "Confidential", or in the case of information that is not amenable to tangible form, a writing describing the information and marked "Confidential."]

[If disclosed information should reasonably be recognized by Receiving Party as confidential, then Disclosing Party's inadvertent failure to mark the information as Confidential shall not result in the information being deemed to be non-confidential under this Agreement.]

DRAFTING NOTE: MARKING CONFIDENTIAL INFORMATION

Parties must determine whether and to what extent confidential information should be marked. The parties should carefully consider the inclusion of a marking clause as courts have held that failure to mark removes the unmarked information from the agreement's protection. Marking requirements can increase both:

- The certainty of what information is protected as confidential under the agreement's terms.
- The risk that a party's valuable information may become unprotected after an inadvertent failure to mark.

Marking clauses are beneficial when the parties anticipate the dissemination of a large volume of information between the parties and with only a small portion being confidential. In these situations, both parties benefit by having clear instruction on what information is confidential. However, marking clauses can create an excessive administrative burden when most information disclosed between parties will be confidential. This Standard Clause provides three alternative marking provisions that counsel can choose from or combine:

- A strict marking option.
- A permissive option that includes a catch up clause permitting retroactive marking to remedy any failures to mark.
- A more permissive option which requires the receiving party to treat as confidential information that should be reasonably understood to be confidential even if there is an inadvertent failure to mark.

DTSA protections apply if the owner takes reasonable measures to keep the information secret (18 U.S.C. § 1839(3)). When considering a marking clause, a party should evaluate whether the process would support an argument that they took reasonable measures to protect the information.

© 2017 Thomson Reuters. All rights reserved.

5. Exclusions.

Receiving Party, however, shall have no liability to Disclosing Party under this Agreement with respect to the disclosure and/or use of any such Confidential Information that it can establish:

(a) has become generally known or available to the public without breach of this Agreement by the Receiving Party.

(b) was known by the Receiving Party, as established by its [written] records, before receiving such information from Disclosing Party; or

(c) has become known by or available to Receiving Party subsequent to disclosure of such information to it by Disclosing Party from a source other than Disclosing Party, without, to Receiving Party's knowledge, any breach of any obligation of confidentiality owed to Disclosing Party.

DRAFTING NOTE: EXCLUSIONS

There are circumstances where trade secrets are no longer deemed protectable and courts will not continue to enforce confidentiality obligations in certain situations. Parties traditionally address those circumstances by including exclusions from the confidential information definition. Those exclusions include situations where:

- The information is no longer confidential through no fault of the receiving party.
- The receiving party already knew about the alleged trade secret without any wrongdoing.

It is still appropriate for parties to include these traditional exclusions under the DTSA. For further discussion, see Practice Note, Confidentiality and Nondisclosure Agreements: Exclusions from the Definition (7-501-7068).

6. Required Disclosures.

Receiving Party may disclose Confidential Information if and to the extent that such disclosure is required by applicable law, regulation, or court order, provided that Receiving Party (i) uses reasonable efforts, at Disclosing Party's expense, to limit the disclosure by means of a protective order or a request for confidential treatment and (ii) provides Disclosing Party [a reasonable opportunity/at least ten (10) business days] to review, if permitted, the disclosure before it is made and to interpose its own objection to the disclosure.

DRAFTING NOTE: REQUIRED DISCLOSURES

Traditionally, confidentiality agreements also address required disclosures, such as disclosures required by law or regulation. Examples include:

- Response to a subpoena or court order.
- A public company's reporting obligations to the Securities and Exchange Commission or another regulatory authority.

It is still appropriate for parties to include required disclosure language under the DTSA. For further discussion, see Practice Note, Confidentiality and Nondisclosure Agreements: Nondisclosure Obligations (7-501-7068).

© 2017 Thomson Reuters. All rights reserved.

7. Confidentiality Obligations.

Receiving Party acknowledges that irreparable injury and damage may result from disclosure of Confidential Information to any parties or individuals not expressly authorized under this Agreement or use by Receiving Party for any purpose other than the Business Purpose. Receiving Party shall[:

(a) hold Confidential Information in [strict] confidence;

(b) disclose such Confidential Information only to individuals who Receiving Party warrants and represents have agreed in writing to be bound by the terms and conditions of this Agreement;

(c) use [all] reasonable precautions, at least consistent with the precautions Receiving Party takes in the procedures it follows to avoid disclosure of its own confidential information of a similar nature, to prevent the unauthorized disclosure of Confidential Information, including, without limitation, protection of documents from theft, unauthorized duplication, and discovery of contents, and restrictions on access by other persons to such Confidential Information; and

(d) not to use any Confidential Information for any purpose other than the Business Purpose.

OR

take [all] [reasonable] precautions, at least consistent with the precautions Receiving Party takes in the procedures it follows to protect its own confidential information of a similar nature, to prevent unauthorized copying, duplication, sketching, drawing, photographing, downloading, uploading, alteration, destruction, photocopying, replicating, transmitting, delivering, sending, mailing, communicating, or conveying of Confidential Information, and to take [all] [reasonable] precautions, at least consistent with the precautions Receiving Party takes in the procedures it follows to protect its own confidential information of a similar nature, against theft, unauthorized sale, or unauthorized conveyance obtained through fraud, deception, misrepresentation, or bribery of Confidential Information.]

DRAFTING NOTE: CONFIDENTIALITY OBLIGATIONS

The purpose of entering into a confidentiality agreement is to ensure the protection of confidential information. The DTSA recognizes that establishing the protectability of a trade secret requires the trade secret owner to take precautions to protect the trade secret (18 U.S.C. § 1839(3)).

These measures can be evidenced by:

- Confidentiality agreement clauses that require the recipient to maintain the information's confidentiality.
- Precautionary measures taken by the trade secret owner to maintain the information's confidentiality within its own organization.

Traditional confidentiality agreements often use broader restrictive language than that listed in the DTSA. As long as the proscribed acts are encompassed by the type of protection provided under the DTSA, this broader agreement language should meet the DTSA's requirements. If the parties seek greater protection beyond that set out in the DTSA, the parties should consider choosing a state's law that provides the best opportunity to pursue additional claims for:

- Trade secret misappropriation claims based on state law.
- Breach of contract.

The last alternative bracketed language provides the most comprehensive language addressing the disclosing party's confidentiality obligations.

© 2017 Thomson Reuters. All rights reserved.

8. Permitted Disclosures.

[Receiving Party may disclose Confidential Information to its employees with a bona fide need to know such Confidential Information, but only to the extent necessary to carry out the Business Purpose and only if such persons are advised of the confidential nature of such Confidential Information and the terms of this Agreement and agree to be bound in writing by the confidentiality obligations contained in this Agreement.

OR

Receiving Party may disclose Confidential Information to the following individuals to the extent necessary to carry out the Business Purpose: [RECIPIENT NAMES]. Such disclosure may only occur after the individuals are advised of the confidential nature of the Confidential Information and the terms of this Agreement and agree to be bound in writing by the confidentiality obligations contained in this Agreement. Receiving Party shall not disclose Confidential Information to other individuals except upon the Disclosing Party's prior written permission.]

DRAFTING NOTE: PERMITTED DISCLOSURES

Typically, in addition to including a paragraph addressing the receiving party's confidentiality obligations, confidentiality agreements may also include a permitted disclosure paragraph that identifies certain situations where the receiving party may be permitted to disclose confidential information.

The first alternative clause allows disclosure to advisors or other parties who both:

- Need access to the information so the receiving party may perform the project which is the basis of the disclosure.
- Agree to be bound by the same confidentiality obligations set out in the agreement.

The second alternative clause is more restrictive and requires the receiving party to limit disclosure to only those individuals listed in the agreement. This is a practice often employed in court-directed protective orders.

9. Choice of Law. This Agreement and all related documents [including all exhibits attached hereto][, and all matters arising out of or relating to this Agreement,] are governed by, and construed in accordance with, the laws of the State of [STATE], United States of America [(including [APPLICABLE STATE CHOICE OF LAW STATUTE(S)])] [, without regard to the conflict of laws provisions thereof to the extent such principles or rules would require or permit the application of the laws of any jurisdiction other than those of the State of [STATE]].

DRAFTING NOTE: CHOICE OF LAW

Unlike many federal statutory schemes, the DTSA expressly does not pre-empt state law (18 U.S.C. § 1838). There may be advantages to pursuing claims under the DTSA or state law and each party should consider which state laws that may provide a favorable option. State law includes both substantive law, and state law that deals directly with choice of law.

CHOICE OF LAW RULES

This provision includes optional bracketed language that addresses the state's choice of law rules, which can determine which state's substantive law to apply. If the parties do not include the bracketed language, the forum court could apply the choice of law rules of the selected state to

© 2017 Thomson Reuters. All rights reserved.

determine that the substantive law of a state other than the selected state applies to the transaction. For further discussion of choice of law rules, see Standard Clauses, General Contract Clauses: Choice of Law: Drafting Notes: Choice of Law Rules (9-508-1609) and Interaction with Other Contract Provisions (9-508-1609).

OTHER TRANSACTION DOCUMENTS

The language in the first line "and all related documents" captures ancillary documents, especially short form documents that may not have stand-alone choice of law clauses. To the extent that the ancillary documents contain choice of law clauses, the parties should consider whether to conform these provisions to select the same governing law.

EXTRA-CONTRACTUAL MATTERS

State law varies regarding the applicability of the choice of law clause to tort, fraud, statutory, or other matters that **arise from** or **relate to** the contract, but are not explicitly a matter of contract law. The parties should consider adding the bracketed language "[and all matters arising out of or relating to this Agreement]" to try to capture these and other extra-contractual matters.

For more information about key issues in choice of law provisions, see Practice Note, Choice of Law and Choice of Forum: Key Issues (7-509-6876). For more explanations and drafting and negotiating tips regarding, see Standard Clauses, General Contract Clauses: Choice of Law (9-508-1609).

10. Choice of Forum.

[Mandatory Choice of Forum. Each party irrevocably and unconditionally agrees that it will not commence any action, litigation, or proceeding of any kind whatsoever against any other party in any way arising from or relating to this Agreement and all contemplated transactions[, including, but not limited to, contract, equity, tort, fraud, and statutory claims], in any forum other than [US DISTRICT COURT NAME] or[, if such court does not have subject matter jurisdiction,] the courts of the State of [STATE] sitting in [POLITICAL SUBDIVISION], and any appellate court from any thereof. Each party irrevocably and unconditionally submits to the exclusive jurisdiction of such courts and agrees to bring any such action, litigation, or proceeding only in [US DISTRICT COURT NAME] or[, if such court does not have subject matter jurisdiction,] the courts of the State of [STATE] sitting in [POLITICAL SUBDIVISION]. Each party agrees that a final judgment in any such action, litigation or proceeding is conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

OR

Permissive Choice of Forum. Any party may commence any action, litigation, or proceeding of any kind whatsoever against any other party in any way arising from or relating to this Agreement and all contemplated transactions[, including, but not limited to, contract, equity, tort, fraud, and statutory claims], in [US DISTRICT COURT NAME] or[, if such court does not have subject matter jurisdiction,] the courts of the State of [STATE] sitting in [POLITICAL SUBDIVISION], and any appellate court from any thereof. Each party submits to the nonexclusive jurisdiction of such courts and agrees that any such action, litigation, or proceeding may be brought in [US DISTRICT COURT NAME] or[, if such court does not have subject matter jurisdiction,] the courts of the State of [STATE] sitting in [POLITICAL SUBDIVISION]. Each party agrees that a final judgment in any such action, litigation or proceeding is conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.]

© 2017 Thomson Reuters. All rights reserved.

DRAFTING NOTE: CHOICE OF FORUM

In a choice of forum clause, the parties agree on which court will decide disputes under the confidentiality agreement. The parties confer personal jurisdiction on the specified state or federal courts to adjudicate disputes.

SUBJECT MATTER JURISDICTION

The parties cannot contractually confer subject matter jurisdiction. The court has subject matter jurisdiction, the parties can negotiate to allow certain federal or state courts to have personal jurisdiction over the parties.

The DTSA provides US district courts with exclusive original jurisdictions of DTSA civil actions (18 U.S.C. § 1836(c)). If there is both a DTSA cause of action and a civil action under state law, a federal district court would likely have supplemental jurisdiction over state law claims as long as those claims are part of the same case or controversy as the claims over which the court has original jurisdiction (28 U.S.C. § 1367). As a result, when there is both a DTSA cause of action and a civil action under state law, supplemental jurisdiction will exist.

Federal courts can decline to exercise supplemental jurisdiction if:

- The state law claim raises a novel or complete state law issue.
- The federal court has dismissed all claims over which it has original jurisdiction.
- The state law claim substantially predominates over the federal claim.
- In exceptional circumstances, there are other compelling reasons for declining jurisdiction.

(28 U.S.C. § 1367(c).)

If there is no cause of action under the DTSA, federal courts could potentially have diversity jurisdiction if the parties are from different states and have a sufficient amount in controversy (28 U.S.C. § 1332(a)). State law would apply in these cases.

For more information about federal subject matter jurisdiction generally, see Practice Note, Commencing a Federal Lawsuit: Initial Considerations (3-504-0061) and Subject Matter Jurisdiction Flowchart (4-507-0081).

MANDATORY FORUM SELECTION CLAUSE

The first alternative is a mandatory forum selection clause, which requires the parties to bring any dispute to the selected forum. Provided the court has subject matter jurisdiction, the parties can negotiate to confer personal jurisdiction on federal or state courts. In the mandatory forum selection clause, the parties take a targeted approach, by:

- First conferring personal jurisdiction on the specified federal court.
- Using the bracketed language "if such court does not have subject matter jurisdiction" to confer personal jurisdiction on the specified state court only if the specified federal court does not have subject matter jurisdiction.

In many cases, the parties take a more flexible approach by taking out the bracketed language and conferring personal jurisdiction on either:

- The state courts located in the specified location.
- The federal courts located in the specified location.

Floating Reciprocal Option

The mandatory forum selection clause contemplates that the parties will select to litigate in the courts of the specified party's home jurisdiction, regardless of which party initiates the lawsuit. However, contract parties sometimes agree to reciprocal forum selection clauses to promote or incentivize the mutual resolution of disputes arising from an agreement and avoid litigation. When parties include a reciprocal forum selection clause, they agree to bring suit in their counterparty's home jurisdiction. For a sample form of choice of forum clause that requires a party initiating litigation to do so in the home jurisdiction of the counterparty being sued, see Standard Clauses, General Contract Clauses: Choice of Forum (Floating: Reciprocal) (8-533-6036).

© 2017 Thomson Reuters. All rights reserved.

Choice of Forum Selection Clause Factors

When the parties negotiate the choice of forum clause, they must consider the potential impact of selecting the state or federal courts in a particular state on the outcome of the likely disputes. These factors include:

- How friendly or hostile judges, jury pools, and procedural rules in the selected forum are towards a particular type of litigant or a particular legal position (see Practice Note, Choice of Law and Choice of Forum: Key Issues: Legal Environment of the Selected Forum (7-509-6876)).
- Desire to litigate in the party's home state (see Practice Note, Choice of Law and Choice of Forum: Key Issues: Home State Preference (7-509-6876)).
- Where the parties are qualified to do business (see Practice Note, Choice of Law and Choice of Forum: Key Issues: Qualification to Do Business (7-509-6876)).
- Whether the selected forum state has a sophisticated body of substantive law on a particular issue.

PERMISSIVE FORUM SELECTION CLAUSE

The second alternative is a permissive forum selection clause, which permits, but does not require, the parties to bring any dispute to the selected forum. The plaintiff has the right to choose another forum, if the other forum has appropriate jurisdiction.

If the parties confer permissive jurisdiction, then the plaintiff can freely commence a lawsuit in the selected forum, but also in any other court with appropriate jurisdiction. To preserve the plaintiff's flexibility to commence litigation in other courts, some parties include the waiver of forum non conveniens defense clause (see Practice Note, Choice of Law and Choice of Forum: Key Issues: Defenses (7-509-6876)).

For further discussion of choice of forum, see Practice Note, Choice of Law and Choice of Forum: Key Issues (7-509-6876).

ABOUT PRACTICAL LAW

Practical Law provides legal know-how that gives lawyers a better starting point. Our expert team of attorney editors creates and maintains thousands of up-to-date, practical resources across all major practice areas. We go beyond primary law and traditional legal research to give you the resources needed to practice more efficiently, improve client service and add more value.

If you are not currently a subscriber, we invite you to take a trial of our online services at **legalsolutions.com/practical-law**. For more information or to schedule training, call **1-800-733-2889** or e-mail **referenceattorneys@tr.com.**

01-17

© 2017 Thomson Reuters. All rights reserved. Use of Practical Law websites and services is subject to the Terms of Use (http://static.legalsolutions.thomsonreuters.com/static/agreement/westlaw-additional-terms.pdf) and Privacy Policy (https://a.next.westlaw.com/Privacy).