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Technology Transfer Contracts

Secrecy Agreements

Introduction

Technology based companies that survive into the next century will likely be aggressive competitors with a globally oriented business plan centered around developing strategic alliances. Developing new products and penetrating global markets will require businesses to enter into joint ventures, license agreements, partnerships, and other alliances that involve the joint development and transfer of technology.

Before entering into a strategic alliance involving technology transfer, however, companies need to discuss the technology and determine each other's qualifications to develop and market products based upon the technology. These discussions need to be completed before committing to a definitive contract containing terms governing a business relationship between the parties. The parties need to exchange and evaluate proprietary information relating to the technology and evaluate the plausibility of a business arrangement before investing the time and effort needed to negotiate the complete details of a lengthy contract that may never be signed.

The parties must, however, anticipate what will happen to disclosed proprietary information should the discussions reveal that the parties are not compatible as business partners. If this occurs, it may be important that the information exchanged during negotiations be kept confidential after the negotiations cease. Therefore, parties contemplating a strategic alliance often enter into a secrecy agreement[1] written to allow open discussions and exchange of confidential and proprietary information. The agreement, if properly written, protects such information from disclosure to third parties and from misuse by the recipient if the parties do not enter into a strategic alliance.

Secrecy Agreement Definition

A secrecy agreement is a contract between two or more parties that allows the exchange of confidential and proprietary information relevant to a potential business arrangement while obligating the parties to maintain the secrecy of the information. The consideration that makes the contract valid is the mutual obligation not to disclose the other party's confidential information.[2] Generally, there is no exchange of money under the terms of a secrecy agreement.

In a typical situation, an inventor (individual or business) has an invention believed to be valuable and of interest to a company. The inventor wants to give details about the invention to the company so that the company can determine if it is interested in funding a research and development program intended to produce a product based upon the invention. The inventor also wants to know about the research, development, and marketing capabilities of the company so that the inventor does not enter into an agreement with a company with good intentions but

[1] Secrecy agreements are also commonly entitled "confidentiality agreements" or "non-disclosure agreements."

[2] Secrecy agreements must meet the usual requirements for contract formation, i.e., offer, acceptance and consideration. *See*, Basicomputer Corp. v. Scott, 973 F.2d 507 (1992).

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without the resources to develop the invention into a profitable product. More importantly, the inventor does not want the company to use the invention without contracting with the inventor and also does not want the company to disclose the invention to others, particularly if he company is not interested in the invention. If the company is not interested, the inventor will likely take the invention to another party for evaluation. Similarly, the company wants to protect information about its research, development, and marketing capabilities and its financial status. The parties need to sign a secrecy agreement to protect both party's interests while they consider a strategic alliance.

The sample secrecy agreement[3] shown as Exhibit 1 (hereinafter "Agreement") contains the terms needed for the situation described above and most other situations where confidential information is to be exchanged between two or more parties contemplating entering into a mutually beneficial business arrangement. Each element of the Agreement is discussed below.

Secrecy Agreement Terms

Referring to the Agreement, the terms of a secrecy agreement are deceptively simple and straight forward. The contract must identify the parties, define the subject matter, and set forth the terms under which confidential information will be exchanged. The agreement must protect the integrity of exchanged information during the discussions and for a defined term after the discussions end. Also, the agreement contains "boilerplate" language that recites the legalese typical of many contracts. However, as discussed below, caution should be taken since even this simple and straight forward contract contains traps for the unwary.

Parties

The Agreement recites the complete name and address, including the state of incorporation if applicable, of the parties in the first Paragraph. This section often seems straight forward but can cause problems if the correct parties are not identified. Consider the issue that arises when the negotiations are with a professor at a university. Will the Agreement be with the professor? If so, will the professor refrain from disclosing confidential information to students and faculty? The professor may not want to sign the secrecy agreement and may propose that the agreement be with the department or college.[4] The distinctions here can be important. The professor can enter onto an agreement as an individual but will be restricted in communicating with students and faculty. The department and college cannot enter into the agreement because they are not legal entities that can form contracts.[5] The recommended approach requires the university to be the contracting party and the professor to sign the agreement acknowledging the terms and obligations detailed in the agreement.

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[3] A "secrecy agreement" can have many forms. The agreement can be a "one-way" agreement wherein only one party is obligated to maintain the information received from the other party in confidence or a "two-way" agreement whereby the parties exchange information and obligations. The sample Agreement is a two-way agreement. A secrecy agreement can be a "letter" instead of the more formal looking contract as shown in the Exhibit.

[4] By "college" I mean a subunit of the university such as the "college of arts and sciences" or the "school of veterinary medicine."

[5] Although experience has shown that departmental "egos" often cause the responsible individuals to deny this reality.

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The same issue arises when the contracting party is a corporate employee, department, or division. The Agreement should be with the legal entity, *i.e.*, the corporation, and not with its employees or subunits.

Subject Matter

The "subject matter" of the discussions should be drafted carefully to limit the information exchanged under the terms of the agreement. An overly broad subject matter may not be enforced by the courts and will likely cause problems if the agreement results in a dispute. An overly board subject matter, *e.g.*, any information relating to the party's business interests, can result in undesired and unexpected restrictions if a recipient expecting to receive information on a particular subject receives different and unwanted information. For example, a party expecting to discuss vaccines may be given information on insecticides. If the recipient has an insecticide development program, the information received may result in unwanted restrictions on internal research programs and ultimately in a dispute over whether products resulted from the use of disclosed confidential information of internal research. This potential problem can be avoided by carefully drafting the subject matter to cover only what is to be discussed based upon the contemplated strategic alliance.

Defining Confidential Information

Paragraph 1 defines "Confidential Information" as information exchanged in writing and information exchanged by other means such as by viewing premises or by oral communications. This definition can be customized to remove views or oral communications if there will be no such exchange of information. However, it is advisable to leave the definition as written. This broad definition gives the parties flexibility to exchange information by any convenient means.

Poorly drafted secrecy agreements often define confidential information as "information exchanged between the parties" and do not include language limiting such confidential information to information "related to the subject matter." When exchanging information, particularly orally or by viewing premises, the discloser should disclose and the recipient should accept only confidential information encompassed in the defined subject matter. This contract language forces the discloser to carefully review what is disclosed since information outside the definition of subject matter is not protected from misuse or disclosure to third parties. Also, limiting the definition of confidential information to information in the defined subject matter protects the recipient if unwanted information outside the scope of the agreement is received. The recipient is not obligated to maintain the confidentiality of nor refrain from using disclosed information not related to the subject matter.

The Agreement contains a short list of specific types of confidential information that will likely be disclosed, *e.g.*, chemical properties, product specifications, processes, compositions, formulations, business information, and the like. The list should include these broad definitions but should also include narrow topics that the employee knows will be disclosed, *i.e.*, antigens and adjuvants if the subject matter relates to vaccines and the parties contemplate discussing these topics. The list should include only information that is within the definition of the subject matter.

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If the fact that the parties are entering into discussions would instigate speculation among competitors about a potential strategic alliance, language can be included to require the fact that the parties entered into the agreement and related discussions to be maintained as confidential information. The last sentence in Paragraph 1 requires the parties to treat the existence of the Agreement and related activities as confidential information.

Protecting Confidential Information

The Agreement also includes a requirement that non-tangible information be identified when disclosed and that a written record of such disclosures be created within a short time after disclosure, typically thirty days. These requirements will force the parties to keep records of information disclosed and avoid disputes later based on asserted oral disclosures.

Access to confidential information should be restricted by keeping the information in a separate file and limiting access to employees with a "need to know." All documents containing confidential material should be clearly labeled to prevent confusion as to their status. Other document control measures may be useful, such as numbering copies of documents and requiring employees to sign for possession of sensitive documents.

The Agreement requires that all tangible confidential information be marked as "confidential" by the disclosing party and that such information be clearly identified as the property of the discloser. All documents disclosed should be marked as follows:

> This is page 1 of a document containing __ pages. The entire document contains confidential and/or proprietary information that is the property of ABC Company, Inc. (ABC). Neither this document nor the information contained therein may be published, reproduced, copied, disclosed, or used for any purpose other than for review and consideration in the discussions between ABC and the party receiving the document without prior written permission from ABC.

If practical, each page of the document should be stamped as "CONFIDENTIAL Property of ABC Company, Inc." or "CONFIDENTIAL." These markings inform recipient's employees that the information is confidential and avoid inadvertent disclosures of unmarked information.[6]

Exchanging Confidential Information

Paragraph 2 obligates the parties to exchange confidential information and provides a term limit for the exchange and related discussions. A term limit for discussions ensures that the parties do not continue to discuss the subject matter indefinitely. The goal of the agreement is to allow the parties to exchange information and make a decision about a strategic alliance. The discussions and the decision should occur within a relatively short time when compared to the term of the agreement. Exchanging information two years into a three year agreement defeats the purpose of the agreement by shortening the time that a recipient must keep the information confidential. Individuals involved tend to discuss various subjects months or years after termination of the initial discussions under the Agreement, usually because they are too busy or

[6] The trade secret status of information disclosed by a party to a secrecy agreement by mistake may not lose its status, particularly if it is marked. *See*, Drill Parts & Service Co. v. Joy Manufacturing Co., 439 So. 2d 43 (1983) (trade secret status maintained when a subcontractor bound by a confidentiality agreement accidentally put confidential plans in the trash).

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lazy to get another secrecy agreement. Also, there may be a mistaken belief that a secrecy agreement, once in place, covers all subjects forever. A clearly defined term for discussions emphasizes the need to get the discussions completed and dispels the myth that a secrecy agreement covers everything and last forever.

The Agreement permits the parties to extend the term limit for discussions by written agreement. Any such agreement should contain a further numerical term limit and should not just be an agreement to continue discussion indefinitely.

Paragraph 3 contains language that prevents disclosure and misuse of exchanged confidential information. Requiring a recipient of confidential information to refrain from disclosing such information to others is the essence of the Agreement. However, the agreement should also prohibit a recipient from using such information for the recipient's benefit or the benefit of others. Preventing misuse of the information is as important, if not more important, than controlling disclosure. The recipient should not use the information to further its goals even if the recipient refrains from disclosing the information to third parties. Avoid agreements without a misuse provision if possible.

Exclusions

The Agreement contains "exclusions" that exempt certain information from the obligations of confidentiality imposed by the terms of the Agreement. Exclusions usually exempt information already in the recipient's possession, information already known to the public, information that becomes public after the parties enter into the agreement, and information received from independent third parties. Without these exclusions, all information given to the recipient may be subject to the confidentiality obligations in the agreement. This means that confidentiality obligations may apply to information already in the public domain or disclosed information that later enters the public domain. This information is freely available to competitors but the recipient's use of the information is restricted because of the confidentiality obligations in the agreement. Including the proper "exclusions" avoids this situation. Similarly, non-disclosure and non-use restrictions in the agreement, without exclusions, may hinder information already in the recipients possession, including information developed internally before entering into the secrecy agreement.

The Agreement contains a provision excluding information developed by recipient's employees with no knowledge of the disclosed information. This exclusion is important to companies operating globally or having many subsidiaries or divisions. Companies with many sites or subunits often do not communicate as well as desired. Employees at one site may not know what work is being done at a different location. This exclusion would exempt information developed independently by such employees after other employees receive the same information under the terms of the secrecy agreement. Without this exclusion, internal information developed by employees having no knowledge of the disclosed information may be encumbered. This problem can occur when a company has multiple research sites, particularly when they are in different countries. Employees in one country can enter into a secrecy agreement and receive information that is duplicative of information developed by employees at a research site in

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another country. What effect does the disclosed information have on internal research in this situation? If the exclusion is included, the question is answered by the terms in the agreement.[7]

Other exclusions can be added to the agreement when needed. An exclusion for legally compelled disclosures may be appropriate, *e.g.*, "confidential information that must be disclosed by compulsion of law or order or legal requirements of any court or competent authority with the necessary jurisdiction." Similarly an exclusion for permitted disclosures can be included, *e.g.*, "confidential information for which recipient has acquired permission to disclose." This is rarely needed since permission can always be requested and obtained but is often encountered in secrecy agreements drafted by others.

Secrecy agreements without exclusions should be carefully evaluated for their effect on business activities and internal confidential information. Generally, they should be avoided!

Secrecy agreements containing exclusions can, however, cause unwanted and unexpected results. Suppose you are developing a vaccine for the prevention of rabies and an inventor approaches you with a proposal for developing a rabies vaccine. You enter into a secrecy agreement with the typical provisions and receive the proposal. The proposal is essentially the same as the R&D program you are conducting except that (1) you are further along in the development or (2) the proposal shows the inventor is further along in the development.

In situation (1), you are protected, right? The secrecy agreement contains an exclusion for information already in your possession. The inventor's confidential information is not protected by the secrecy agreement! However, when your vaccine goes on the market, the inventor is likely to think you stole the vaccine. You may receive a threatening letter from the inventor's attorney accusing you of misappropriating the inventor's trade secrets and threatening litigation. How good are your records? Can you prove by written documentation that you knew what was in the proposal before you received it? How many resources, in dollars and man-hours, do you want to devote to proving you are right? Have you budgeted resources for such litigation? Would you likely settle for paying a royalty to the inventor for information you know you developed alone?

In situation (2), you may be stuck with the inventor even in unwanted situations. Suppose the inventor has suggested the research path you were pursing anyway, but, of course, had not written down since it is obvious and you are very busy. The inventor is just six months further along in research and development. Further, suppose the inventor demands an unreasonable price for this technology, *e.g.*, a 50% royalty. Can you proceed as you had planned? Can you document that you had planned to proceed as the inventor suggests before you received the inventor's information? Did you consciously or have you subconsciously adopted some of the inventor's proposal? Are you sure? As in situation (1), are you ready to devote the time and money to litigate the dispute or you settle, assuming the inventor will take less than the 50% royalty being demanded?

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[7] Although, as discussed later in this Article, this approach may result in disputes that require proof of independent development.

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How do you avoid these problems? For secrecy agreements relating to internal research projects, an independent third party expert should review the company's information and the inventor's proposal. The expert should determine if there is overlap and advise the parties if there are potential problems associated with the exchange of information. Should a relationship appear likely, the expert can evaluate the inventor's technology and recommend a royalty and other compensation before the parties become irretrievably bound in a relationship that is difficult to dissolve.

Is this not just lawyer paranoia? Will you really get sued? Probably not. Litigation is expensive! You will just waste a lot of time arguing with someone that thinks you stole their intellectual property and make an enemy, an enemy that will likely be roaming the halls of commerce telling everyone you are an amoral intellectual property thief!

Further, suppose your client filed a patent application in the U.S. and also filed the application under the terms of the Patent Cooperation Treaty (PCT).[8] If you disclose the details of the invention under the terms of a secrecy agreement that has a ten (10) year term, you are protected for ten years right? Consider this situation - The PCT application will be published eighteen (18) months after the U.S. filing date.[9] The information will then be public information and be excluded from the confidentiality restrictions in the secrecy agreement, assuming that the secrecy agreement has the typical term excluding information that "becomes part of the public domain through no act by the recipient." The recipient can, therefore, practice the invention until the patent issues. Should the patent not issue, the recipient will have free use of the invention without restrictions imposed by the original secrecy agreement.[10] The exclusion clause has basically invalidated the ten (10) year term written into the agreement.

Terminating the Discussions

Paragraph 4 makes it clear that either party may terminate the discussions at any time for any reason. This ability to terminate the agreement is important if a party looses interest in the proposed alliance or determines that an alliance in not beneficial. However, terminating the discussions may make the other suspicious that disclosed information is being misused and provoke an inquiry as to why the discussions were terminated. This Paragraph clarifies the parties termination rights and avoids disputes about the right to discontinue discussions when desired, with or without explanation.

Returning Confidential Information

Paragraph 5 contains language that requires the parties to return all disclosed confidential information after the discussions terminate, except for one copy kept for the recipient's records.

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[8] 35 U.S.C. 122; 37 C.F.R. 1.14(a) (patent applications in the United States Patent and Trademark Office are kept secret). Patent Cooperation Treaty, Article 21 (applications are published eighteen months after the original filing or priority date).

[9] Issuance of a U.S. patent or publication of a PCT patent application has the same effect as any other publication, e.g., product brochure or journal article. A publication extinguishes any trade secret rights the owner has in the information. *See*, Permagrain Prods. v. U.S. Mat & Rubber, 489 F.Supp. 108 (1980).

[10] Gilson v. Republic of Ireland, 787 F.2d 655 (1986) (process disclosed in books and publications held not to be a trade secret).

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Getting back disclosed information helps to avoid misuse or unauthorized disclosure, inadvertent or intentional, of the information. The exception can be omitted if the parties agree. However, keeping one copy in a file permits the recipient to later determine what was received if a dispute arises. The “legal counsel” language can be omitted if the copy will be kept elsewhere.

Agreement Term

Paragraph 6 defines a term for the Agreement. During the term, the parties may not disclose or use confidential information received from the other party. There is no standard term or best term to use in an agreement. The correct term depends on the information being disclosed. An acceptable term for a computer software related agreement may be one year since the software will likely be obsolete in a year. Information related to products requiring Food & Drug Administration approval should be kept confidential for a term that will exceed product approval and launch, often five to ten years. The term should be perpetual for some information, *e.g.*, a softdrink formulation that will remain a trade secret forever. Some states, however, refuse to enforce perpetual confidentiality terms. Absent a reason otherwise, a term of ten years will suffice for most information and agreements.

Some agreements define the term from the date the parties signed the agreement or from the date confidential information is received. Both of these methods should be avoided. Such secrecy agreements recite “the obligations of confidentiality and non-use shall expire five (5) years from the date of receipt of the confidential information.” The term should, however, be measured from a defined date, the “Effective Date” defined in the Agreement. Agreement administration is more difficult if the term must be tracked from a signature date and almost impossible if the confidentiality obligations expire at various times depending upon when information was received, particularly when there is no record of dates when the information was received (as is often the case).

Obligations after Termination

Paragraph 7 makes it clear that the parties intend only to discuss and evaluate disclosed information and that agreeing to enter into such discussions and evaluations does not obligate the parties to enter into other contracts. Most parties enter into a secrecy agreement assuming that they have the greatest opportunity ever and that an agreement formalizing a strategic alliance will naturally follow the discussions. This provision negates the argument by a disappointed party that the exchange of information obligates the recipient to enter into more formal agreements to develop products based upon the discussions.

Contract Boilerplate

Paragraph 8 is an “integration clause” that merges all prior discussions into the written agreement. This provision negates assertions that there were ancillary oral agreements that conflict with the written terms of the agreement. This language should be included in all contracts, including secrecy agreements. Consider, many things may be said in the discussions that lead to an agreement to enter into a secrecy agreement. What happens when there is a dishonest person who later alleges that promises were made and not kept? What if there is an honest mistake regarding want was said and what was promised? Dealing with this issue

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contractually is easy; just include an integration clause. An integration clause basically says all discussions are incorporated into the written agreement and that what is not written is not part of the agreement. This clause makes it easy for the attorney representing the businessman. If the other party is upset because some action has not been taken and the attorney's client calls wanting to know how to proceed, a simple letter pointing out the integration clause, reviewing the complaint, and pointing out that the complaint is outside the agreement should suffice.

Paragraph 9 is a "choice of law" provision that determines which state or country law that will govern the agreement if a dispute arises.[11] Since state and international laws differ, care should be taken in making the selection, *e.g.*, some states do not allow perpetual confidentiality terms and some countries may not recognize broad confidentiality terms. For example, the trade secret laws in Canada are essentially equivalent to those in the U.S.[12] while the laws in Mexico[13] are developing and those in Japan are uncertain.[14] Using U.S. law is recommended because the laws relating to trade secrets and confidential information are well developed.

Paragraph 10 is a "severability" clause that permits a invalid provisions to be discarded while allowing the remainder of the Agreement to be enforced. This clause is important if a particular state or country law will not enforce a particular provision, *e.g.*, a perpetual confidentiality term.

Paragraph 11 is a "warranty" provision that ensures the parties that the confidential information received is unencumbered by obligations to third parties. A party receiving information has some assurances that the time spent evaluating the information will not be wasted because other parties have rights to the information.

Other provisions typical for many agreements can be inserted if needed. For example, the following language can be inserted if the agreement must be executed immediately by parties in different locations, typically because the parties have waited until the last minute to solicit the agreement, *e.g.*, "*This Agreement may be signed in two counterparts, provided that each party receives a copy fully signed by the other party*."

Similarly, a clause requiring that all agreement amendments be in writing can be included. For example, a party may disclose information outside the defined subject matter but expect the secrecy agreement to protect the information. When confronted with the fact that the information is not protected by the written agreement, the party may assert that the agreement was amended, orally, by assent, or otherwise. This is a simple issue if the contract is drafted to include an "amendments in writing" clause. The clause simply states that all amendments to the agreement must be in writing and signed by the parties. If a dispute arises, a reminder of the clause and a request for the written amendment often disposes of the issue, particularly if there is a mistake and the written instrument does not exist.

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[11] Ferrofluidics v. Advanced Vacuum Components, 968 F.2d 1463 (1992) (criticizes lower court for overriding a choice of law provision in the contract).
[12] C. Enian Kyer, *Dealing with Canada Since the Free Trade Agreement,* 6 Computer L. 7 (1990).
[13] *See,* Dario Oficial de la Federacion, June 28, 1981.
[14] *See,* Jay Dratler, Jr., *Trade Secrets in the United States and Japan: A Comparison and Prognosis,* 14 Yale J. Int'l L. 68 (1989).

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What happens when an overzealous employee writes a letter amending the agreement. The employee does not have actual authority to amend contracts since he is not an officer of the company but does likely have apparent authority since he is managing the discussions. There is no good solution other than to honor the commitments made by the employee. The agreement could include a clause that says only an officer of the corporation can sign any amendments but such an approach is not likely to succeed. The best solution is to educate employees not to amend contracts without approval from the legal department and to ask those that do not follow this policy to seek gainful employment elsewhere.

Signatures

The signature blocks shown in the Agreement provide a place for signatures, title and dates. If desired, a place for a typewritten or printed name can be inserted. Obviously, the signatory should be the parties to the agreement, whether a corporation or an individual. A section identifying the contract by number and reciting where the originals are to be distributed make contract administration more manageable.

Other Considerations

Other problems sometimes arise when preparing secrecy agreements. Clients wanting to save money or expedite the negotiations often ask for a "standard form" secrecy agreement that can be completed by filling in the blanks, often in the bathroom at the airport. Use of such forms is not recommended because of the complex issues that can be involved and traps lurking for the impatient or unskilled client. The terms in secrecy agreements, as well as most contracts, should be drafted and reviewed by an attorney knowledgeable in the law and a technical or business person knowledgeable of the proposed alliance.

Similarly, parties often enter into discussions and disclose confidential information only to later recognize the need for a secrecy agreement. The request for an agreement then includes instructions to "backdate" the agreement in an attempt to protect the information already disclosed. This, unfortunately, may be an attempt to close the door after the horse has escaped. The party requesting the agreement should be advised that courts may not provide protection for information disclosed prior to signing the agreement.[15] Backdating contracts should be avoided if possible.

Confidential information can be further protected by inserting a clause that permits injunctions in there is an unauthorized disclosure, *e.g.*, "*Each party understands that the other party could not be adequately compensated by money damages in the event of a breach of this Agreement and agrees that the aggrieved party is entitled, in addition to any other right or remedy, to an injunction restraining such breach or any threatened breach and to specific performance of any provision of this Agreement,. No bond or other security shall be required in connection with any injunction.*" Generally, disclosing confidential information to third parties destroys its value. Injunctions are the most effective way to prevent disclosure or misuse of

[15] *See*, RTE Corp. v. Coatings Inc., 267 N.W.2d 226 (1978) (attempts after disclosure of information to create express confidentiality agreement does not create a confidential relationship for previously disclosed confidential information or trade secrets).

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confidential information before its value is destroyed. However, this clause is usually objectionable, particularly to the party that will receive the bulk of the information, because injunctions have such an adverse effect on conducting a business. Since injunctions are not favored by courts, most parties prefer to rely on the courts to determine whether an injunction is justified.[16]

Conclusion

Secrecy agreements are vital in the strategic alliance and technology transfer process. They enable the parties to exchange information needed to evaluate possible collaborations and protect such information from misuse or disclosure to others. Such agreements should be entered into, however, only after considering the possible ramifications if the parties do not enter into a strategic alliance.

[16] Different jurisdictions use different factors to determine whether an injunction should be granted. Conventional standards are (1) irreparable injury, (2) balance of hardship, and (3) probability of success on the merits. *See generally,* Direx Israel, Ltd. v. Break Through Medical Corp., 952 F.2d 802 (1992) (compares a “likelihood-of-success” standard and a “hardship balancing test” for reviewing injunction requests). *See also,* Norind Corp. v. Parkin, 785 F.Supp. 1353 (review of injunction standards in context of employee taking a job with a competitor).

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Exhibit 1

Secrecy Agreement

THIS AGREEMENT is by and between ABC Company, Inc., an Iowa corporation having a principal place of business at 111 Main Street, City, Iowa 40001 (hereinafter "ABC") and XYZ Company, Inc., a Delaware corporation having a principal place of business at 222 Center Street, City, Illinois 60006 (hereinafter "XYZ").

WHEREAS, ABC and XYZ wish to evaluate a potential business relationship relating to the development of vaccines for the prevention of lyme disease (hereinafter "**Subject Matter**"); and

WHEREAS, the progression of the aforesaid discussions will necessitate the exchange of confidential information from one party to the other;

NOW, THEREFORE, in consideration of these premises and the mutual covenants herein, the parties, safeguard the disclosed confidential information, agree as follows:

1. "**Confidential Information**" for the purposes of this Agreement shall mean any and all information (1) disclosed in written materials, (2) obtained visually by viewing premises, equipment or facilities, or (3) disclosed by oral communication by one party to the other relating to the **Subject Matter**. **Confidential Information** shall include, but not be limited to, lyme disease antigens, vaccines, adjuvants, physical and chemical characteristics of compounds, product specifications, manufacturing processes and operations, compositions, formulations, formulation techniques, analytical methodology, safety and efficacy data, testing data, future market and product plans, marketing and financial data, know-how, trade secrets, ideas and other information of a technical or economic nature related to the **Subject Matter**. **Confidential Information** submitted in a written or graphic form shall be clearly marked by the disclosing party as "Confidential" and indicate the disclosing party as its source. Any information that is transmitted orally or visually, be **Confidential Information** subject to this Agreement, shall be identified as such by the disclosing party at the time of disclosure and identified in writing to the receiving party as **Confidential Information** within thirty (30) days after such oral or visual disclosure. **Confidential Information** shall include the fact that the parties entered into this Agreement.

2. The parties agree to exchange **Confidential Information** as required to permit the parties to fully evaluate their interest in establishing a business relationship relating to the **Subject Matter**. The parties shall exchange **Confidential Information** and conclude the discussions contemplated hereunder within four (4) months from the **Effective Date**, provided, however, that the four (4) month period may be extended by written agreement between the parties.

3. The receiving party agrees to (1) receive and maintain the disclosing party's **Confidential Information** in strict confidence, (2) use the disclosed **Confidential Information** solely for the purpose of evaluating the business proposals under discussion, and (3) prevent unauthorized use or reproduction of the **Confidential Information**, including by limiting access to **Confidential Information** to employees, agents or affiliates who are necessary to perform or facilitate the purposes of this Agreement and who are bound to hold such **Confidential Information** in confidence pursuant to the terms of this Agreement. (As used herein, the term "affiliate" shall mean a corporation or business entity that, directly or indirectly, is controlled by, controls or is under common control with the receiving party). This obligation of confidentiality and limited use shall not apply to (a) **Confidential Information** that at the time of the disclosure is in the public domain; or (b) **Confidential Information** that, after disclosure, becomes part of the public domain by publication or otherwise, except by breach of this Agreement by the receiving party; or (c) **Confidential Information** that the receiving party can establish by reasonable proof was in its possession at the time of disclosure by the disclosing party or is subsequently developed by that receiving party's employees who have no knowledge of or access to the disclosing party's **Confidential Information**; or (d) **Confidential Information** that a receiving party receives from a third party who has a right to disclose it to that receiving party.

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4. Either party may terminate the discussions without prior notice, for any reason, at any time, and without liability or restriction, other than the obligations of confidentiality and non-use and the obligation to return the disclosed **Confidential Information** as provided for herein.

5. Upon conclusion of the discussions contemplated hereunder, unless otherwise agreed by the parties in writing, all written or graphic **Confidential Information** together with all copies thereof shall be returned to the disclosing party, provided, however, that one copy may be retained in the receiving party's legal counsel files for archival purposes as a means of determining any continuing obligations under this Agreement.

6. The **Effective Date** of this Agreement is defined to be January 7, 1996. The obligations of confidentiality and non-use under this Agreement shall expire on January 6, 2006, ten (10) years from the **Effective Date**.

7. Nothing contained in this Agreement shall be construed, by implication or otherwise, as an obligation for any party hereto to enter into any further agreement with the other, or as a grant of a license by any party hereto to the other to use any **Confidential Information** disclosed other than for discussions or evaluations relevant to the purposes of this Agreement.

8. This written Agreement embodies the entire understanding between the parties and supersedes and replaces any and all prior understandings, arrangements, and/or agreements, whether written or oral, relating to the **Subject Matter**.

9. This Agreement shall be construed in accordance with the laws of the State of Illinois.

10. This Agreement is divisible and separable so that if any provision or provisions hereof shall be held to be invalid, such holding shall not impair the remaining provisions hereof. If any provision hereof is held to be too broad to be enforced, such provision shall be construed to create an obligation to the full extent allowable by law.

11. Each party represents and warrants to the other that it has the right to enter into this Agreement without breaching or violating any fiduciary, contractual, or statutory obligations owed to another.

IN WITNESS WHEREOF, the parties hereto caused this Agreement to be duly executed by their duly authorized representatives.

ABC Company, Inc.	XYZ Company, Inc.
By: ________________________________	By: ____________________________
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