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The limitations of NDAs

Blog

One of the most common ways to control the circulation of confidential information is a Non-Disclosure Agreement (NDA). In essence NDAs are confidentiality agreements designed to enable the sharing of specific information with an outsider for specific needs. NDAs are commonly signed when sensitive confidential information needs to change hands, for example in an exchanging of information and documentation when assessing a potential investment or acquisition. Most NDAs are quite standard and their widespread use and basic nature means that many people do not give much thought to the nature of an NDA.

Signing an NDA seems like a relatively simple matter, but it is not always so. Consider the following two questions:

(1) We have approached investors in order to interest them in our startup, obviously they have asked for details about our technology (some of which are confidential) in order to assess our potential but when we asked them to sign an NDA they refused [note]Many investors refuse to sign NDAs since they believe that doing so may prevent them from being exposed to similar technologies and solutions developed by others or expose them to the risk of harassment by lawsuits.[/note] – what should we do?

(2) We need to reveal our technology and proprietary information to a business partner, who agreed to sign an NDA – is this enough? Are we now protected?

Well, let's consider these situations. NDAs are important since they set up rules that establish what can and cannot be done with the confidential information shared with others and provide legal consequences for breaching the confidentiality obligations. But they do not provide a perfect safety net and they have clear limitations.
NDAs are inherently limited since they are merely contractual instruments, agreements between two parties that create obligations that apply only to these specific parties. If the other side that received our proprietary information breaches the confidentiality obligations in such a way that the information has been broadly disclosed and is now in the public domain, we can no longer call it proprietary. In such case we may have contractual remedies against the person who signed the NDA, for example the right to receive monetary compensation, but we can no longer control the once-proprietary information. In other words, once the genie is out of the bottle you cannot put it back in – you can only sue whoever opened the bottle.

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How bad is it? Well, it depends on the nature of the information that was disclosed. If the information is business-oriented, or merely contains plans or general ideas, it may have some impact but that may be of limited effect and can be quantified quite easily. But if the information disclosed involves details of your technology and inventions, which may have been patentable, once they are disclosed and become part of the public domain they may no longer be patentable [note]Under the laws of many countries the applicant in a patent application the subject matter of which was disclosed to the public by another person in breach of confidentiality obligations may enjoy a certain grace period beginning at the publication date (usually 6 or 12 months) during which a patent application can still be filed despite the disclosure of the subject matter to the public.[/note]. And if due to breach of confidentiality you lose patentability, it means that you lost a key asset – in some cases an asset which your entire business was dependent upon.

This does not mean that NDAs are pointless. They do provide a degree of protection and most people will think twice before breaching a non-disclosure obligation. It can also serve as an "insurance policy", granting the right to monetary compensation for the loss of confidentiality. But it is important to understand that NDAs do not provide a complete safety net. So if someone agreed to sign an NDA it does not mean that you can now spill the beans – and if they refused to sign, it does not mean that there is nothing you can do. The solution is to understand the limitations of NDAs and manage the flow and control of confidential information in an intelligent and strategic manner.

Here are two rules of thumb that you may want to remember:

1. Even with an NDA, reveal as little as you can. Limit the information you reveal to the minimum necessary in order to enable the other side to do that for which you needed to reveal proprietary information. Keep some key information to yourself – preferably information without which it will be impossible or difficult to copy your entire solution or technology and to make them work. Reveal only that which is necessary for the specific need. This may not always be easy so it is important to make an effort to figure out what is indeed necessary and what is not and that the other side shares your understanding of the scope of information necessary.
2. If the confidential information includes patentable technology, consider filing a patent application before disclosing the information to the other side – even under an NDA. It can help you maintain control over (at least part of) your proprietary information if the NDA is breached.

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