Term Limits: Can You Get What You Want
From Your Non-Disclosure Agreement?
No, But You Can Get What You Need

The Apparent Problem

As the "information society" continues to grow in prominence, the use and value of Confidentiality Agreements or Non-Disclosure Agreements (we'll call them "NDAs" here) continues apace.

The person or company disclosing the confidential information (we'll call them the "Discloser") wants the person or company receiving the Discloser's trade secrets or confidential information (we'll call them the "Recipient") to keep that information secret as long as possible, and forever if possible. The Discloser thus prefers to not set a time limit on the term of the NDA. This desire, however, sparks a potential legal problem. The law in Michigan (and as far as I know, most other states) provides that parties to a contract with a term of indefinite length (e.g., no term of years) may terminate the contract at will. See, e.g., *Lichnovsky v. Ziebart International Corp.*, 414 Mich. 228, 242 (1982).

On the surface, this rule makes it difficult for the Discloser to "get what he needs": a perpetual commitment to secrecy. Any unhappy (or dishonest) Recipient can promise an indefinite term of nondisclosure, and then just slide into court and have that clause nullified based on the rule cited above.

The Discloser is thus faced with this apparently disturbing choice: (a) specify a limited NDA term and risk disclosure of the trade secrets or confidential information in a few years (usually three or four); or (b) stay with an indefinite term and hope for the best if a challenge claiming a right to terminate at will arises.

A Few Representative Cases

To my knowledge, Michigan courts have not yet resolved this potential conundrum head-on. Several other state courts, however, have declared that a Recipient can disclose the protected information at the expiration of an NDA term. In their view, the Discloser has manifested its intent that after the term expires, there is no need to maintain the secrecy of any sensitive and confidential information. *ECT Int'l, Inc. v. Zwerlein*, 228 Wis.2d 343, 355-56 (1999); *see also See Baystate Techs., Inc. v. Bentley Sys., Inc., 946 F. Supp. 1079, 1092 (D. Mass. 1996).*

There is, however, another view in the cases, one that seems more rational in light of general business practices and expectations. In one case that clearly illustrates this contrary point of view, the Federal Court posits the following question:

> [w]hat possible motive would either party have to permit its business secrets to be used by another without any compensation to conduct a business from which it was not profiting and which therefore would be directly competing against it? *Medical Store, Inc. v. AIG Claim Services*, 2003 U.S. Dist. LEXIS 27554, at 11,

In support of its decision, the Court cites clauses in the NDA requiring that the confidential information only be used for purposes of the transaction at issue, and express statements that the confidential information shall be kept secret from and after the date of the NDA. *Id.* at 10-11. Other documents and behavior of the parties supported the intent and interpretation of the NDA permitting the information to remain subject to an obligation of confidentiality. The Court thus upheld the parties' expectation that the protected information could not be disclosed even after the NDA expired.

The Term of Years Solution

The point of this Article is not to resolve or synthesize these two apparently conflicting lines of cases. Indeed, they may not conflict at all but are rather based upon the contract terms at issue. Rather, the focus here is on the challenge presented by applicable legal doctrine when drafting an NDA.

The reasoning and result in the *Medical Store* case persuasively states the case for using a definite term of years in an NDA. An NDA typically provides that the disclosed secrets or information can only be used for specified purposes. Such a clause clearly restricts unauthorized uses. The Recipient was never granted the authority to use the disclosed information for unauthorized purposes (e.g., competing), so expiration of the Contract does not suddenly and magically confer such authority upon the Recipient. The Discloser merely granted a limited license to use the information for the limited period and purposes specified.

All things being equal (NDAs can be challenged on other grounds), the Recipient operating under an indefinite term can wait a respectful period and then act quickly (easily within a year) to assert the right to disclose the trade secrets. A term of three or four years changes this calculation. With such a clause the Recipient must, at a minimum, await expiration of the term before using the valuable information. That information has far less value three or four years after disclosure than it does several months later.

As is suggested in the *Medical Store* decision, the Discloser can further support its position by prohibiting use of the information after the contract term expires. This clause may run afoul of the conflicting case law noted above, but there is no harm in trying.

NDAs frequently impose the added requirement that the Recipient destroy or return the Discloser's confidential information. That clause should be put to use in conjunction with the definite term NDA. With such a contract, and regardless of its expiration, the Recipient would suffer yet another NDA violation due to the failure to return or destroy the information, which cannot be used if it is destroyed.

Indefinite Term NDAs Can Work Too

This discussion does not lightly dismiss the use of indefinite terms in NDAs. If contracting parties are going to do this, they should make every effort to provide identifiable events which

help define the term of the NDA. Such an effort at least reduces the chance that the NDA term would be declared "indefinite" and thus "terminable at will" in court. For example, if the contract relates to the sale of a business, that NDA is likely to remain in effect until the parties either consummate the transaction or terminate the deal under the purchase agreement which is pending between them.

Courts might also resort to other legal devices to protect the Discloser when an indefinite term NDA is challenged, on the ground that immediate "at will" termination flies in the face of the parties' obvious intent to protect the valuable information. For example, the Court can interpret the NDA term as being "reasonable," or even adopt the analysis reviewed above to declare that any unauthorized use of the information is not permitted at any time.

Conclusion

Contracting parties cannot get what they want – a guaranteed eternal unconditional commitment to secrecy – from their NDA. With a little effort these same parties can get what they need: a commitment which protects their rights and expectations indefinitely. All they need to do is implement some or all of the protective clauses reviewed above.

Caution: This article provides general information and is not intended to be legal advice. Your personal circumstances likely vary from those discussed in this article. You should contact Lambert & Lambert PLC if you are seeking specific legal advice as to your contract or circumstances.