

**GENERAL INFORMATION**

**ON**

**TRADE SECRETS AND CONFIDENTIAL INFORMATION**

*Compliments of:*

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## Introduction

Every business owns and utilizes information that it does not want to share with its competitors, its customers, or the public at large. This information may take the form of client lists or secret recipes. If your business is a “one person show” (such as the famous chef who refuses to allow anyone in the kitchen while he selects and measures out the ingredients to create a special sauce) you may never need to share the information; however, in most businesses, in order to succeed and/or expand, it will become necessary to share this information with others such as employees, business partners, or potential investors.

In order to ensure that confidential business information is not improperly disclosed, the business owner needs to be rigorous and aware of the means and methods of guarding against inadvertent disclosure or, in some instances, industrial espionage (theft of the confidential business information). Since the advent of word processing, easy accessibility to the computer, and the explosion of the Internet, information is now, more than ever, easily obtained, duplicated, and distributed.

Equally important, as a growing business, you may be a recipient of someone else’s confidential business information. As such, you will be under serious legal obligations to keep the information secret.

## What is a Trade Secret?

One of the most valuable forms of confidential business information is the “trade secret”. It is important to know what kind of information qualifies as a trade secret, and what practical steps can be taken to protect your trade secrets (and other sensitive confidential business information). There is no legislation in Canada setting out a clear definition of what is a trade secret, unlike the legislation governing trade-marks, copyrights, patents or industrial designs. However, the Canadian case law supports the interpretation put forward by the Alberta Law Reform Commission in 1986 [Institute of Law Research and Reform, *Report No. 46*, July 1986, p. 256]. This definition of a trade secret states:

“Trade secret” means information including but not limited to a formula [recipes for beer, hot sauce, cookies, glue], pattern, device, compilation, programme, method, technique, or process, or information contained or embodied in a product, device or mechanism which

- (I) is, or may be used in a business;
- (ii) is not generally known in that trade or business;
- (iii) has economic value from not being generally known; and
- (iv) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Thus, any formula, pattern, device, or compilation of information which is used in one's business and which gives one an opportunity to obtain an advantage over a competitor who does not know and use it is considered a trade secret.

Some trade secrets, such as manufacturing techniques and recipes or formulas for products might also be eligible for patent protection, but if the owner of the trade secret is unwilling to publicly disclose the manufacturing process or the means to make the product in a patent application, the only protection remaining is to keep the information secret and to never disclose the secret to anyone unless they also agree to keep the information a secret and execute confidentiality agreements (confidentiality agreements should be written to reflect the specific fact situation between the party who owns the confidential information and the party who is receiving disclosure of the confidential information but a standard confidentiality agreement would be available on request at a first interview.

Related Concepts are "know how" and "show how". "Know How" is any knowledge or experience that relates to the business or technology involved (e.g. source of supply). "Show How" is any kind of training, technical assistance, instruction, supervision, consulting and related ongoing support services to assist the recipient of the trade secret know how or patents to use same efficiently and profitably.

### Protection of Trade Secrets

How are these rights protected? In Canada a body of case law has evolved whereby these rights are protected by contracts (confidentiality agreements/non-disclosure agreements) and relationships of confidence rather than by a statutory regime. Protection of trade secrets depends on the broad principle of equity: he who has received information in confidence shall not take unfair advantage of it. A person who has obtained information in confidence is not allowed to use it as a spring-board for activities detrimental to the person who made the confidential communication. He must not make use of it to the prejudice of the one who gave it to him, without obtaining consent.

A cause of action in response to the unauthorized taking or use of a trade secret may be based on a breach of express/implied contractual term, breach of fiduciary duty, breach of confidence or unjust enrichment. The elements necessary to show a breach of confidence, will also assist in pursuing any other cause of action related to another party's unauthorized taking and/or use of a trade secret.

The elements necessary in a breach of confidence action:

- (1) the information must have a "quality of confidence" about it;
- (2) the information must have been imparted in circumstances importing an obligation of confidence; and
- (3) there must be an unauthorized use of that information to the detriment of the party communicating it.

## Defenses to Allegations of Unauthorized Taking or Use of a Trade Secret

There are numerous defenses to a cause of action alleging unauthorized taking or use of a trade secret, although unconscious copying is not one of them. A number of the defenses depend on the characterization of the information received and utilized. If the information is not a secret or is not protectable subject matter or if there is a combination of mixed public/private information it can be argued that whatever was disclosed was not subject to protection. Other defenses rely on the employee's personal skill, knowledge and experience whereby, the employee would have had the means to obtain or know the information without reference to the plaintiff's information. A related defense would allege the independent development of the idea at issue. There can be no cause of action if the information was obtained through reverse engineering, or if there was no obligation of confidence, or if there was no improper use or disclosure, or if any covenant restraining disclosure would be an improper restraint of trade. If the facts support the defense, the defendant may also be able to avail itself to a limitation defense (statutory time period for the action has expired), laches or acquiescence or argue that it was not a fiduciary to the plaintiff, or if it was in a fiduciary position, it did not breach its fiduciary duty. In order for a plaintiff to pursue an action for unauthorized taking or use of a trade secret, it will need to establish that it is the owner of the trade secret and that it suffered a loss or damages as a consequences of the defendant's unauthorized or unlawful use or disclosure of the information. If the defendant can establish that the plaintiff suffered no detriment, the defendant will significantly reduce its exposure to liability. If the recipient is an innocent third party, the plaintiff will not have a contractual basis to pursue a breach of confidence action.

## Disclosure of Trade Secrets or Confidential Business Information to Third Parties

An action may not be available against a third party recipient in Canada because of the lack of a direct relationship between the owner of the trade secret and the third party. The Supreme Court of Canada was asked whether obtaining, without authorization, confidential information by copying the document or memorizing its contents constituted theft. The Supreme Court answered no. Mr. Justice Lamer did comment that "It is possible that, with time, confidential information will come to be considered as property in the civil law or even be granted special legal protection by statutory enactment". In Canada, the protection of trade secrets and confidential business information remains in the jurisdiction of the civil courts, and any successful action against a third party will have to proceed on the basis of a breach of confidence or unjust enrichment.

## Trade Secret Protection in the U.S.A. & Criminal Liability

The *Economic Espionage Act of 1996* criminalizes economic espionage and trade secret theft where the evidence shows any effect on interstate or foreign commerce. Parties engaged in the misappropriation of trade secrets can no longer be assured that liability will be limited to civil remedies. This Act is a benefit and a fright to businesses. While the threat of hefty fines and lengthy prison terms is a powerful weapon for trade secret owners to use to punish and deter others from stealing their secrets, it is a sword which can cut both ways. Businesses who wish to protect

themselves from the risk of criminal prosecution under this Act will have to institute monitoring procedures to ensure that they are not receiving the trade secrets of others in the pursuit of daily business pursuits such as hiring employees, contractors or consultants or meeting with customers, suppliers, vendors or entering into business relationships.

### What Does the Act Protect?

The term "trade secret" has been defined to mean any and all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, whether tangible or intangible, and whether or how stored, compiled or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by the public.

### Offences Under the Act

It is a federal criminal act in the U.S. for anyone to convert a trade secret to his own benefit or the benefit of others intending or knowing that the offence will injure any owner of the trade secret. The prohibited conduct of coveting a trade secret is defined as stealing, or without authorization appropriating, taking, carrying away, or concealing or by fraud, artifice or deception obtaining such information or without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails communicates, or conveys such information. It is also a criminal offence to receive, buy or possess the trade secret information of another, knowing it to have been stolen or appropriated, obtained or converted without authorization. It is also an offence to attempt to convert a trade secret or to conspire with others to convert a trade secret.

### Extraterritorial Provisions of *The Economic Espionage Act of 1996*

Canadians could be subject to prosecution under the Act. It applies to conduct occurring outside the United States if (1) the offender is a natural person who is a citizen or permanent resident alien of the United States; or (2) an organization organized under the laws of the United States; (3) or an act in furtherance of the offence was committed in the United States. In other words, if the confidential business information was improperly acquired at a trade show in the United States, but the information was utilized in Canada only, the U.S. Courts have been given the power to take jurisdiction over the prosecution of foreign nationals involved in the taking of the trade secrets.

Anyone doing business in the United States or with individuals or organizations originating from the United States will be well advised to ensure that they have protected themselves against the

potential of receiving the trade secrets of others and to ensure that they minimize the risk of criminal prosecution under the Act.

### Conclusion

In assessing your obligations when receiving the confidential business information of others, it is a good rule to treat the information as if it were your own. As with your own confidential business information, assume that the information is valuable and confidential; implement protective measures (confidential/non-disclosure/security agreements), and ensure that both the party disclosing the information and the party receiving the information comply with their contractual obligations and those legal obligations defined by Canadian case law (and where relevant) the new U.S.

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