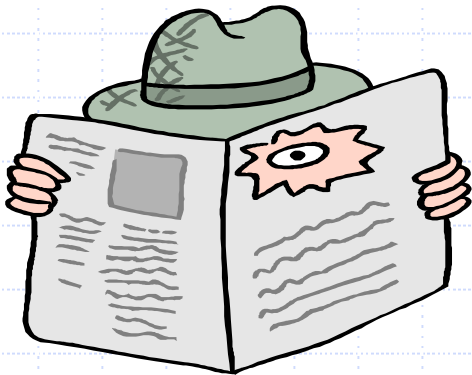


KEEPING SECRETS SECRET – BATTLING INDUSTRIAL ESPIONAGE

Protecting Your Confidential Information & Trade Secrets

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Bruce McWilliam

with the assistance of
Sacha Isaacksz, Student-at-law

McMILLAN BINCH MENDELSON

The Need For Protection



- ◆ Changing nature of companies' economic resources
- ◆ Proprietary or confidential knowledge can give a competitive advantage
- ◆ Misuse of confidential information can damage a company's economic interests and strategic objectives

Confidential Business Information



- ◆ Information which provides a business advantage as a result of the fact that it is kept secret
- ◆ Includes trade secrets, formulae, client lists and internal office memoranda
- ◆ Any information of a business, commercial, industrial, strategic, technical or scientific nature may merit legal protection

What Is A Trade Secret?



- ◆ “Information, including a formula, pattern, compilation, program, device, method, technique or process that:
 - derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
 - is the subject of efforts that are reasonable under the circumstances to maintain its secrecy”

(Uniform Trade Secrets Act, Drafted by the National Conference Of Commissioners On Uniform State Laws, American Bar Association)

Statutory Protection



- ◆ No Canadian uniform statutory scheme to protect confidential information and trade secrets
- ◆ Protection offered through:
 - Common Law
 - *Criminal Code*
(Fraud - section 380(1), Mischief – section 430(1))
 - Provincial Privacy Acts, *PIPEDA*
 - *North American Free Trade Agreement*
(Article 17.11.1 – Trade Secrets)

Information Capable of Protection

Information will generally be protected from disclosure or misuse where two elements can be established:

- ◆ The “Confidential” Nature of the Information
- ◆ The “Business” Nature of the Information

The “Confidential” Nature of the Information

- ◆ The extent to which the information is:
 1. generally known or unknown to others
 2. known to others within the specific industry
 3. known to others within or connected to the business entity
 4. capable of acquisition elsewhere by those outside the business entity
 5. the subject of measures to ensure that the relative secrecy of the information remains intact
 6. in some minimum or basic way unique, original or novel

(Julie A. Thorburn & Keith Fairbairn, *Law of Confidential Business Information*, Aurora: Canada Law Book Inc., 2005 at 3-5.)

The “Business” Nature Of the Information



- ◆ Economic value (whether actual or potential)
- ◆ Value to the business
- ◆ Value to competitors
- ◆ Use in a trade or business
- ◆ Providing an advantage over competitors
- ◆ Expenditure of independent effort and resources to protect the information

(Julie A. Thorburn & Keith Fairbairn, *Law of Confidential Business Information*,
Aurora : Canada Law Book Inc., 2005 at 3-21.)

Civil Claims for Breach of Confidential Business Information

◆ Plaintiff must establish that:

1. He or she has the sole right to benefit from the use of the information
(LAC Minerals Ltd. v. International Corona Resources Ltd. (1989), 61 D.L.R. (4th) 14.)
2. The defendant has wrongly appropriated the information
3. The plaintiff has suffered damages as a result of the breach
(Rodaro v. Royal Bank of Canada (2002), 59 O.R. (3d) 74.)

Civil Claims for Breach of Confidential Business Information

- ◆ Defendant's wrongful actions may be classified as:
 - 1) Breach of an express provision of a contract
 - 2) Breach of an implied provision of a contract
 - 3) Breach of confidence
 - 4) Breach of fiduciary duty
 - 5) Unjust enrichment
 - 6) Wrongful interference with the contractual relations of others

Breach of Contract



- ◆ Breach of Express Provisions of a Contract
- ◆ Breach of Implied Provisions of a Contract
 - The nature of the employment or business
 - Whether one party to the agreement impressed upon the other party the importance of maintaining the confidentiality of the information
 - Whether the relevant information can be easily isolated from other information

(Faccenda Chicken Ltd. v. Fowler, [1986] 1 All E.R. 617 (C.A.) at p. 625.)

Breach of Confidence



- ◆ In order to succeed in an action for breach of confidence, the plaintiff must establish that:
 1. The information was confidential in character or had the necessary quality of confidence
 2. The information was communicated as a result of a relationship of confidence
 3. The information was misused by the party receiving it

(LAC Minerals Ltd. v. International Corona Resources Ltd. (1989), 61 D.L.R. (4th) 14.)

Breach of Confidence

1. Relationships where a contract exists between the parties
2. Relationships which are not purely contractual but contain elements of trust
3. Relationships where personal contact or dealing impose an obligation of trust and confidence

(W.R. McComas, *Protection of Trade Secrets: A General Guide* (Sydney: Butterworths, 1981), p. 29.)

Breach of Fiduciary Duty

- ◆ Director or Senior Officer
- ◆ Employees
- ◆ Joint Ventures
- ◆ Subject-oriented Fiduciary Duty

Situations in Which Confidential Information May Be Exposed

- ◆ Mergers and Acquisitions
- ◆ Joint Ventures and Alliances
- ◆ Licences, Franchises and Similar Situations
- ◆ Consultants and Advisors
- ◆ Employment Relationships

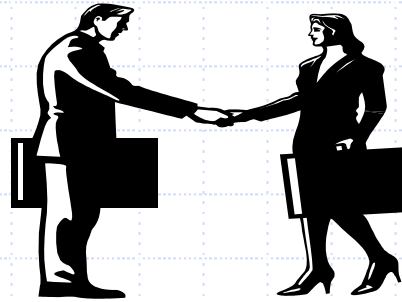
Mergers and Acquisitions



◆ Confidentiality Agreements:

- To protect against disclosure of confidential information in due diligence / investigatory process
- To limit or restrict use of confidential information
- To protect confidentiality of transaction and identity of parties
- To restrict recipient from soliciting customers, key employees or others
- To get a “standstill” commitment from the recipient

Joint Ventures



- ◆ Other commercial partnering activities (alliances, consortiums, preferred supplier, sponsorship arrangements)
- ◆ Confidential information likely to be exchanged between the interested parties
- ◆ Balance interests of each partner and best interests of joint venture

Licences & Franchises

- ◆ Transfer by one party to another of special knowledge
 - Licence arrangements
 - Franchise arrangements
 - Distributorship agreements

Confidential Information and the Employment Relationship

◆ Three types of employment duties:

1. The general good faith duty owed by all employees
2. Express contractual terms (restrictive covenants)
3. Fiduciary obligations owed by higher level employees

Employment Relationships: Duty of Good Faith

- ◆ Common law duties are implied into every contract of employment
- ◆ Obligation to serve employer in good faith
 - Act in the employer's best interest
 - Strict prohibition on competing with the employer during employment relationship

(Bee Chemical Co. v. Plastic Paint and Finish Specialties Ltd. (1978), 41 C.P.R. (2d) 175 (Ont. H.C.J.), aff'd 47 C.P.R. (2d) 133 (Ont. C.A.))

Employment Relationships: Confidentiality

- ◆ Information Meriting Protection During Course of Employment
 - Prohibited from using employer's business information for personal gain
 - Does the information provide the employer with a competitive edge or an economic advantage?

Employment Relationships: Confidentiality



Information Meriting Protection Following the End of the Employment Relationship

(International Tools Ltd. v. Kollar (1968), 67 D.L.R. (2d) 386 (C.A.))

- **Courts will restrain a former employee from:**
 1. Publishing or divulging that which was communicated in confidence or under an express or implied contract
 2. Making improper use of information obtained in the course of employment
 3. Using information secretly obtained during employment to the employer's detriment

Distinguishing Knowledge and Skills from Confidential Information

- ◆ General skills learned by employee during employment are the *employee's* property and can be used after employment relationship terminated
(*Genesta Manufacturing v. Babey* (1984), 48 O.R. (2d) 94)
- ◆ "Objective" (unique) information versus "subjective" information or "know-how"
- ◆ The "reasonable employee" standard
(*Coco v. A.N. Clark* [1969] R.P.C. 41 (Ch.))
- ◆ Result of "independent effort"
(*Molnar Lithographic Supplies Ltd. v. Sikatory* (1974), 14 C.P.R. (2d) 197 (Ont. C.A.))

Employment Relationships: Fiduciary Duty

◆ “Fiduciaries” continue to owe a heightened duty to former employers

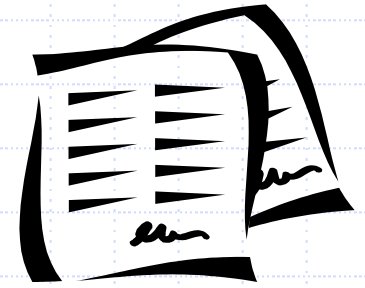
- Management
- Directors and senior management
- “Key personnel”

(Canadian Aero Service Ltd v. O'Malley, (1973) 40 D.L.R. (3d) 371 at p. 381.)

◆ Prohibited from:

- Competing with employer during employment relationship
- After employment ends, divulging information that was communicated in confidence
- After employment ends, making improper use of information obtained during employment

Protecting Your Information: *Confidentiality Agreements*



- ◆ Advantages of a well-prepared agreement
- ◆ Negotiating considerations
- ◆ Drafting considerations
- ◆ Special Clauses

Advantages Of A Well-Prepared Agreement

- ◆ Creates focus and discipline in identification and treatment of confidential information
- ◆ Adds clarity and certainty in all aspects of the delivery and use of confidential information
- ◆ Helps create an ethical foundation for governing the parties' relationship

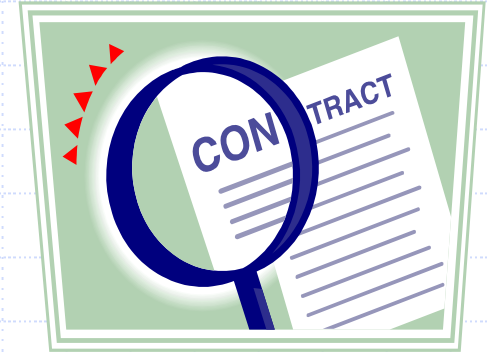
Confidentiality Agreements: Negotiating Considerations

- ◆ Timing and integration
- ◆ Separate agreement to deal with confidentiality
- ◆ Parties to the agreement

Confidentiality Agreements: Basic Drafting Considerations

- ◆ Define what information falls within the scope of the agreement
- ◆ Limitations on the use of the information
- ◆ The scope of disclosure permitted
- ◆ Any precautions to be taken
- ◆ Internal development, derivative works and dependency
- ◆ Prohibitions on copying or other duplication
- ◆ Return of the information and any copies
- ◆ The consequences of any breach (remedies, enforcement)

Confidentiality Agreements: Special Clauses



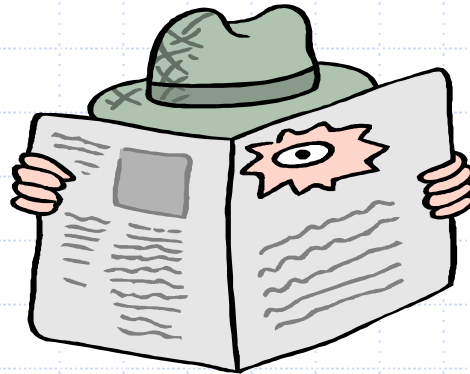
- ◆ Stand Stills
- ◆ Press Releases
- ◆ Area of Exclusion
- ◆ Beware the “Entire Agreement” Clause

Freedom of Information

- ◆ Ontario *Freedom of Information and Protection of Privacy Act*
- ◆ Federal *Access To Information Act, Privacy Act*
- ◆ Government can be required to disclose information in its possession
- ◆ However, legislation also protects certain corporate information (trade secrets)

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Protecting Your Confidential Information & Trade Secrets



Top 10 Tips to Protect Your Confidential Business Information

1. Monitor, identify and document confidential information.
2. Disclose confidential information only to necessary persons.
3. Appropriate measures should be taken to **limit access** to confidential information (physical access to certain employees, access by visitors, computer access).
4. Review all correspondence including marketing materials and speeches by employees to guard against inadvertent disclosure of information.
5. Carefully consider content and legislative protections when providing confidential information to governments.
6. Securely dispose of documents and other media containing trade secrets or confidential information. Cross-shred documents. Consider using a bonded shredding company and review their procedures.

Top 10 Tips to Protect Your Confidential Business Information

7. Beware of economic espionage while traveling internationally.
8. Educate all employees on the importance of trade secrets, and how they can be misused. Company policies related to confidential information should be reviewed with all employees.
9. Include confidentiality provisions in all employee and independent contractor agreements prohibiting them from disclosing or using trade secrets or confidential information without authorization.
10. Require that all potential licensees, franchisees and third parties sign strict agreements preventing the unauthorized use or disclosure of any trade secret or confidential information revealed during negotiations.



Thank you.