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Keeping Secrets: Trade Secrets and Confidentiality Agreements

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If you are a business owner or an entrepreneur, you have probably encountered non-disclosure agreements or agreements with a similar title: confidentiality agreements, CAs, NDAs or confidential disclosure agreements. These agreements are common in many commercial enterprises and transactions: from licensing deals to franchise agreements, from the manufacturing sector to the food services industry.

Non-disclosure agreements are designed to impose confidentiality obligations on one or more parties to a transaction. Confidential or “trade secret” information may be disclosed during early-stage negotiations, even before a formal contractual relationship is concluded. Or it may be disclosed in the course of an ongoing contract: for example, a licensing or manufacturing agreement. Regardless of the specific circumstances, you should consider the following points as you review these documents in the course of your business.

Not All Confidentiality Agreements Are Created Equal

Remember that not all confidentiality agreements are created equal. Many “off-the-shelf” documents may be drafted with terms that simply do not apply to your business or specific transaction. Even simple things – such as Alberta companies signing a Non-Disclosure Agreement that chooses New York law as the governing law – are telltale signs that the agreement was copied off the internet and may not take into account the particular needs of the parties.

Review the Definition of “Confidential Information”

It is very important to review the exact definition of “confidential information.” Consider this case: in *Convolve, Inc. and Massachusetts Institute of Technology v. Compaq Computer Corporation and Seagate Technology, LLC*, the US Federal Circuit Court of Appeals heard an appeal for misappropriation of trade secrets and breach of confidence arising out of a Non-Disclosure Agreement that the parties had signed.

The Non-Disclosure Agreement stated that “...to trigger either party’s obligations, the disclosed information must be: (1) marked as confidential at the time of disclosure; or (2) unmarked, but treated as confidential at the time of disclosure, and later designated confidential in a written memorandum summarizing and identifying the confidential information.”

The Court of Appeals upheld the lower Court’s interpretation that this term meant that certain disclosures by Convolve that failed to include a written designation or notification of confidentiality were not considered to be confidential for the purposes of the Agreement, even though they were very confidential to Convolve. The Court found that failure to mark the information as “confidential” meant that the information was not captured by the Agreement, and was therefore subject to disclosure without consent.

Thus, remember that the definition of “confidential information” is important, and strictly abiding by the definition of “confidential information” is just as important. The former may be easy to focus on while the agreement is being negotiated and vetted by legal counsel. The latter is more difficult to remember as the parties engage in fast-paced negotiations, and information is disclosed by persons within the organization who may never have actually seen the written Non-Disclosure Agreement.

Secrets and Departing Employees

Confidentiality obligations can also be embedded in other agreements, such as employment or consulting agreements. What about confidentiality agreements with employees who might obtain confidential information about your business and clients? Consider this case: in *Plaza Consulting Inc. v. Grieve et al*, a Canadian company offering software testing and quality assurance services sued their former employees and consultants who started a competing business. In refusing to grant the injunction, the Ontario Superior Court of

Justice provided some guidance on how the Court will consider cases where ex-employees are accused of misappropriating confidential information and poaching customers. The Court states:

- When seeking a remedy against employees who allegedly misappropriated their former employer's business methods in breach of a restrictive covenant or in breach of fiduciary duties, the former employer must at the very least establish that it "has a proprietary interest that is entitled to protection." The Court concluded that the confidential information in question was "highly generic," and therefore did not qualify as a trade secret as "[a] trade secret cannot be within the realm of general skills or knowledge."

- A party who receives allegedly confidential information and who is accused of misusing it must have done so to the detriment of the party that provided the information in the first place. In this case, the Court found that the information in question was not used to the detriment of the employer, and therefore declined to grant the employer the injunction.

Remember to get advice on confidentiality agreements and the confidentiality restrictions within other documents, such as employment agreements. Our [Intellectual Property and Technology Group](#) can provide recommendations and advice to assist you in keeping your valuable secrets.

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