An introduction to Trade Secrets: What they are and why they matter to your business

September 11, 2020

Authors

James Duffy

Patent Agent and Senior Associate

Chantal Desjardins

Partner, Lawyer Partner, and Trademark Agent

One of the most common questions we receive as intellectual property lawyers is “How can I prevent others from using technology that I have developed and that has significant value to my business?” That question can often be answered by advising clients to file a patent application. However, there exists another type of intellectual property protection, known as a “trade secret,” that may be more suitable for certain situations and technologies.

This brings us to the main topic of this newsletter: the importance of trade secrets. Specifically, this newsletter will first provide a general definition of trade secrets, including examples thereof, followed by information regarding the various ways trade secrets can be effectively used and protected by a business.

Brief overview of trade secrets

The definition of a trade secret is incredibly broad; in fact, the term “trade secret” can include any valuable business information that derives its value from secrecy. This information can be, for example, financial, business, or scientific information, such as patterns, plans, compilations, formulas, programs, codes, prototypes, or techniques.

As indicated by the Canadian Intellectual Property Office, to protect and benefit from trade secrets in Canada, a business must:

Obtain value from the secret;
Keep the information a secret; and
Take all possible measures to ensure that the information remains a secret.

Generally, if the above criteria are met, then the information in question can be considered a trade secret. Some of the most famous examples of trade secrets are for recipes (such as the Coca-

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

Cola™ recipe or the KFC Original Recipe™); chemical formulas (such as WD-40™); and the client information of social media platforms and dating apps (such as Facebook™ or Tinder™).

While the definition of a trade secret may seem quite broad, this breadth is precisely why trade secrets can be such a powerful tool: they can allow your company to monopolize information or technology that may not be protected using other means, such as patents. In addition, the protection granted by keeping valuable information secret can last indefinitely (or at least until the secret is revealed).

The premise behind trade secrets is that, by keeping this valuable information secret, third parties are prevented from accessing and using the information in question, thereby giving your business an advantage over competitors.

Accordingly, if your company has information from which it derives value (such as a newly developed piece of technology), trade secrets may be an appealing alternative to patents and other forms of IP protection.

Best practices for businesses with respect to their trade secrets

Having provided a brief overview of trade secrets, we will now focus on practical considerations, specifically with respect to helping ensure that trade secrets are kept confidential even when the information in question needs to be shared with an employee or a third party.

Frequently, businesses will have to share their trade secrets with others. For example, specific employees of a company will often have access to some (or all) of that company's trade secrets. Similarly, companies will often have to share their trade secrets with third parties; for example, a company that hires an external consultant may be required to furnish that consultant with trade secret information. Also, a company that has developed a new piece of technology it aims to keep secret may be required to divulge how to make said technology to a third-party manufacturer. In such situations, it is important to have certain measures in place that will better ensure that your trade secret remains a trade secret.

Contractual obligations

When employed correctly, the use of contractual clauses can provide ample protection with regard to a company's trade secrets. Specifically, for any employee or third party that may gain access to trade secrets, it would be prudent to ensure that a robust written agreement is signed that stipulates what said employee's or third party's obligations are with respect to the trade secrets to which they gain access. Some examples of clauses pertaining to trade secrets that can be included in an employment contract or a contract with a third party include the following:

> Definition of "Confidential Information" or "Trade Secrets": This clause would give a definition as to what information to be provided to the employee or third party is considered a trade secret.
> Obligation of non-disclosure and non-use: This clause would specify that the employee or third party in question is not allowed to use or disclose the confidential information they receive except in accordance with "permitted uses."
> Definition of "permitted uses": This clause would define the manner in which an employee or third party is allowed to use or disclose the confidential information they receive.
> Undertaking not to use/disclose/publish/reproduce confidential information of third parties (e.g., a former employer): This clause would remind an employee or third party that they are forbidden from using or disclosing confidential information they have received from a previous employer or contractor.
> Data destruction/return of documents: This clause would specify that the employee or third party is required to destroy and/or return all confidential information they have received to the company upon termination of their contract.
> Obligation to report if information was inadvertently transmitted: This clause would specify when and how an employee or third party must notify the company should any confidential information in their possession be disclosed or used in a manner that contravenes their contractual obligations.
> Penalty clause (articles 1622 and 1623 of the Civil Code of Quebec): This clause would specify that the employee or third party is obliged to pay the company a certain fee should any confidential information they receive be

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

disclosed or used in a manner that contravenes their contractual obligations.

The above clauses represent but a few examples of important clauses that can be included when drafting a written contract for any employee or third party that will be given access to a company's trade secrets. However, it is not always feasible to draft a robust written agreement. Accordingly, there are other ways to implement the above clauses; for example, the above clauses can be defined in a company's policy manual that would be provided to employees when they are being hired by the company.

It is also important to remind employees or third parties of their obligations regarding your company's trade secrets at the relevant times. For instance, when a contract with an employee or a third party is to be terminated, that might be an opportune moment to remind the employee or third party that they have a duty to return and/or destroy all confidential information and documents they have received from your company. This reminder can be made in an email, in a release to be signed by the employee, or even during an exit interview.

Employee duty of loyalty

It should be mentioned that, in Quebec, all employees have a duty of loyalty to their employers, due to article 2088 of the Civil Code of Quebec, which states *inter alia* that "The employee is bound […] to act faithfully and honestly and not use any confidential information he obtains in the performance or in the course of his work. These obligations continue for a reasonable time after the contract terminates […]." [emphasis added]. Accordingly, even without a written employment contract containing the above-discussed clauses, employees are still required to keep trade secrets confidential and to not appropriate the material or intellectual property of the employer. However, this protection is quite limited (for example, it only applies for a reasonable time once the employment contract is terminated), and so it is always more prudent to explicitly define an employee's obligations regarding trade secrets in, for example, an employment contract or a company policy manual.

It should also be mentioned that article 2088 of the Civil Code of Quebec concerns employees only, and does not apply to third parties who gain access to trade secrets.

Remedies

Even with the best of safeguards in place, a current or former employee or third party may nonetheless use or disclose your company's trade secrets. While such a situation is unfortunate, there are a number of legal remedies that can allow you to mitigate the damage done, as well as to recover amounts from the rule-breaking parties.

Specifically, it is generally possible to obtain injunctions or safeguard measures against parties that have misappropriated your company's trade secrets. In addition, it is generally possible to recover damages from said parties.

While the above remedies may seem relatively inconsequential, they can be quite severe under certain circumstances. One recent example is a lawsuit commenced in 2017 by Motorola Solutions against Hytera Communications in the United States. In their lawsuit, Motorola Solutions alleged *inter alia* that three former Motorola Solutions employees had gone to work for Hytera and taken Motorola trade secrets with them, after which Hytera used these trade secrets to develop its Digital Mobile Radio (DMR) products. Motorola was eventually awarded a jury verdict of $764.6 million earlier this year.

The above example not only demonstrates how powerful legal remedies regarding trade secret protection can be, but it also demonstrates why it is important to respect the trade secrets of others. Otherwise, your company may find itself on the receiving end of a lawsuit similar to the one

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.

commenced by Motorola. It is also worth mentioning that, despite the lawsuit taking place in the United States, the injunction sought by Motorola (which has yet to be ruled upon) would forbid Hytera from selling any of the contested DMR products worldwide.

In addition to civil remedies (such as the example provided above), there are also criminal ramifications for violating the trade secrets of others. In Canada, the newly implemented Canada-United States-Mexico Agreement (CUSMA) has required Canada to implement criminal procedures and penalties specifically for trade secret theft. Said regulations no doubt serve as an additional incentive to respect the trade secrets of competitors.

Conclusion

We hope that the above has demonstrated the importance of trade secrets, both in terms of how they can be used and why the trade secrets of competitors should be respected. However, while the above guidelines may serve as a good starting point for protecting your company's trade secrets, the best strategy (including whether or not trade secrets are preferable over, say, patents) will depend heavily on your business, the information/technology in question, and various other factors. Accordingly, our intellectual property team would be happy to help you with any questions you may have regarding how to best protect your business' most valuable information and technology.

Copyright (c) Lavery, de Billy, S.E.N.C.R.L. - L.L.P.