

### **Everyman's Intellectual Property: Trade Secrets & Confidential Information**

In this column, I will address a form of intellectual property that is used by all types of businesses, namely confidential information. Such information may take many forms. A secret recipe or chemical formula may be considered a trade secret. Customer lists, supplier pricing, marketing plans, etc. are usually treated as confidential business information. Technical knowledge of the best practice for a particular manufacturing process may be considered proprietary "know-how". Although it may not be considered "property" in a strict legal sense, such information is capable of exclusive control and such exclusivity can provide a commercial advantage.

If measures are adopted early to preserve exclusive control, confidential information can all be bought, sold and licensed like property. Legal steps may also be taken to preserve the exclusivity when threatened with theft or disclosure by competitors or disgruntled former employees.

#### **Identify and Control Valuable Information**

Identifying valuable information and taking early steps to preserve exclusive control over such information is critical to ensure that it can be protected at law. In general, information can only be protected at law if it has been the subject of reasonable efforts to guard its secrecy. The first step is, of course, identifying the information early so that it can be guarded.

Some forms of information are obviously valuable. For instance, many businesses identify their customer lists, supplier pricing and marketing plans as valuable information and take routine steps to protect their confidentiality. These steps may include distribution on a need to know basis, password protection on computers and confidentiality clauses in employment agreements.

However, some forms of information routinely fly under the radar until it is too late. This commonly occurs when a business develops a unique solution for a general challenge facing their industry. The solution may be a simple technical fix to a recurring problem in the manufacturing process. It may be the development of a recipe or chemical formula with unique qualities that answers a long-standing need in the industry. It may even result in the introduction of an entirely new product or service. In these cases, steps should be taken to preserve the secrecy of the development process before the solution is finalized. Otherwise, the outcome may be in the public domain.

#### **Secrecy of the Development Process**

Although a duty of confidentiality may be implied in some circumstances, the basic legal mechanism to protect information is contract. This includes everything from non-disclosure agreements developed for a specific purpose to confidentiality and non-solicitation clauses routinely included in employment agreements.

Other practical means of protecting confidential information are simple common sense, but require some forethought:

- restrict electronic access to information recorded on computers by way of password protection and encryption of the hard drives;
- mark records as “confidential” with a stamp or watermark;
- restrict physical access to locations where development and testing is being undertaken;
- remove network and internet access from computers used for development and testing;
- store records and specimens in a secure location when not being actively used;
- train staff to recognize and respect information as confidential; and
- routinely change office locks when a key employee is terminated.

### **Secrecy is No Protection against Independent Discovery**

Exclusive control over information may be lost despite the best efforts of a business if it is independently discovered by a third party. For instance, a valuable chemical formula may be independently discovered by a competitor through trial and error and a mechanical device may be reverse engineered by a competitor to discover its construction.

If such independent discovery is a significant risk, a prudent business owner should consult with a patent agent in a timely manner to determine if the information may be considered an “invention” and entitled to patent protection. A patent will preserve a monopoly over the information even after its public disclosure.

### **Former Employees**

Former employees are the most common means of losing control over confidential information. However, the courts are often reluctant to intervene where to do so would unreasonably restrict the employee’s ability to secure new employment. As a result, an employee may be barred from soliciting the customers of a former employer, but will rarely be barred from competing with a former employer.

In law, there is also a distinction between the confidential information of a business and the “trade knowledge” of an employee. Trade knowledge includes the skills, general knowledge and any personal goodwill that an employee obtained in the course of employment. Employees are entitled to take such trade knowledge from job to job. The trouble is that it can be difficult to distinguish trade knowledge from the confidential information of the business, especially if there were no prior steps taken by the business to identify and protect such information.

### **Remedies for Theft or Disclosure**

Since the theft or public disclosure of confidential information will destroy its value, an injunction to prevent such misuse or disclosure is often the only practical remedy. For this reason, injunctive relief is more readily available to protect this form of intellectual property than any other. Be wary of any delay in seeking such relief, however, as the courts tend to discredit the value of information where the claimant hesitates on their way to the courtroom.

A business may later seek to recover monetary losses from the unauthorized

disclosure of confidential information. However, such a claim may be an exercise in futility as the losses can prove difficult to quantify and, if significant, may not be recoverable from the responsible parties.

**Conclusion**

By its very nature, confidential information does not require any formal legal process to ensure its protection. It just needs to remain a secret. With a little foresight and some common sense, any business should be able to protect this form of intellectual property at relatively little cost.

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