



## CONFIDENTIALITY AGREEMENTS AND INJUNCTIVE RELIEF

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Can a confidentiality agreement be used in order to obtain injunctive relief? What conditions must be met so that a confidentiality agreement binds the employees of the company which signed it? These were among some of the questions the Court of Queen's Bench for Saskatchewan had to grapple with in *Automated Tank Manufacturing Inc. v Miller* 2012 SKQB 300, which was rendered on July 26, 2012.

This case is important to patent practitioners and agents because it provides guidance on how to counsel clients with regard to disclosures and confidentiality. The case may also interest those litigators who may ask the court to enjoin a party from disclosing or using confidential information.

### Facts

In most technical fields, confidentiality or non-disclosure agreements are commonplace. In patent law, such agreements can be essential to maintaining the validity of a patent if it is ever contested in court. Most jurisdictions consider confidential disclosures to be non-anticipatory, meaning that they do not count as a disclosure prior to the filing of a patent application which may vitiate the eventual patent's validity. Confidentiality agreements also provide a possible remedy to the injured party if ever their confidential information is disclosed in violation of the agreement. These remedies can include damages, as well as equitable relief.

Automated Tank Manufacturing (ATM) brought suit against Peter Miller, an employee of BAR Engineering Co. (BAR) which provided services to ATM. ATM also sued Larry Bertelsen, the former president and CEO of ATM. ATM alleges that Miller obtained confidential and proprietary information during his work for BAR, and that Miller disclosed some of this information to Bertelsen. ATM also alleges that both Miller and Bertelsen conspired together with intent to misuse the confidential information to harm ATM. As a result, ATM suffered losses, and seeks an interim or interlocutory injunction against both Miller and Bertelsen to prevent them from using or disclosing ATM's confidential information. Both Miller and Bertelsen deny the

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allegations. Miller also pleads that since he is not a party to the confidentiality agreement, he is not bound by its restrictions.

The agreement in question, entitled “Confidentiality and Protection of the Invention Agreement”, was entered into by ATM and BAR in April, 2008. As with most of these agreements, the definition of what constitutes “confidential information” is left vague. Miller signed the agreement, but only as an authorized representative of BAR and not in any personal capacity. The agreement required BAR’s employees who had access to the confidential information to also sign a confidentiality agreement, but that was never done.

## Judgement

The test for interim injunctive relief was set out by the Supreme Court of Canada [*RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311] as follows:

- (i) What is the strength of the applicant’s case?
- (ii) Will the applicant suffer irreparable harm if the injunction is not granted?
- (iii) Does the balance of convenience favour the granting of an interim injunction?

In the first step, it is only necessary for the applicant (ATM in this case) to raise a serious issue to be tried. If such an issue is raised, the Court must consider the other two factors. With regard to irreparable harm, the applicant must demonstrate that the loss it may suffer if the injunction is not granted cannot be compensated with damages. Finally, the third factor is where courts usually perform the bulk of their analysis. Here, “the judge must weigh the risk of the irreparable harm the [applicant] is likely to suffer before trial if the injunction is not granted, and he or she succeeds at trial, against the risk of the irreparable harm the defendant is likely to suffer if the injunction is granted and he or she prevails at trial.”

In assessing the strength of ATM’s case, the Court considered whether Miller or Bertelsen had either a contractual or fiduciary duty not to use the confidential information. With respect to Miller, the Court found that the agreement between ATM and BAR, on its face, does not bind Miller in a personal capacity to a duty not to disclose confidential information. The Court further concluded that “until the trial judge’s decision, [...] this agreement cannot be used as proof of the type of information to be considered as confidential nor as proof that there was an enforceable negative covenant against disclosure of such information.” Despite these findings, the Court concluded that the affidavit upon which ATM’s statement of claim relies raised at least a serious issue to be tried, and therefore the Court needed to assess the other two factors.

Moving now to the irreparable harm factor, the Court found that certain losses ATM alleges it would suffer can be reasonably compensated with money damages, and thus do not constitute irreparable harm. Other alleged losses, such as loss of business reputation or lost opportunities in finding a buyer for ATM's business, were moved with sufficient specificity that the Court concluded there may be a meaningful risk of irreparable harm, even if little direct evidence was presented. Therefore, the Court moved on to the third factor.

Turning now to the balance of convenience analysis, the Court concluded that this all-important factor does not favour ATM. Although ATM raised a serious issue to be tried, it did not have a strong *prima facie* case, nor did it have any evidence that it had actually suffered a loss. Miller and Bertelsen raised two points to argue that the balance of conveniences tilted in their favour. First, they argued that one aspect of the injunctive relief requested, the delivering up of "all confidential information in their possession", was far too vague and would be impossible to perform. Second, both Miller and Bertelsen submitted that ATM is requesting such relief for the sole purpose of preventing Miller from assisting Bertelsen in a Federal Court of Canada patent-infringement lawsuit that Bertelsen launched against ATM. The Court found this second allegation to be persuasive:

In my opinion, interim injunctive relief should not be granted if the reason it is sought is to gain an advantage for ATM in the Federal Court Action. Miller may be a witness in the Federal Court Action and unless or until ATM can establish Miller is subject to the confidentiality agreement or has some common law duty of confidentiality, ATM cannot prevent communications with him for the purposes of preparation for that action. There is no property in a witness.

The Court therefore rejected ATM's motion for an interlocutory injunction, with costs.

## Conclusion

Although it is possible to obtain injunctive relief preventing a party from using or disclosing confidential information, the party requesting such relief should put their ducks in a row.

Injunctive relief is a remedy in Equity, and the party requesting it must have clean hands, or at the very least, must demonstrate that the balance of equities favours them. In the particular case where the applicant is asking the Court to enforce a confidentiality agreement, the following points should be considered:

- Do not ask the court to enforce a vague or poorly-worded definition of "confidential information";

- It may help to ask for specific relief (i.e. delivery up of a hard drive or mass-storage device containing the information, an injunction against disclosure of a particular set of schematics related to a specific project, etc.);
- When entering into a confidentiality agreement with a corporation, ensure that its employees have a duty of confidentiality towards the corporation (i.e. as defined in their employment contract), or better yet, towards the disclosing party itself; and
- In certain cases, it may be possible to sue the corporation whose employees violated the confidential agreement (it is unclear why ATM did not do so in this case).

Finally, with any injunctive relief, facts are crucial to obtaining the relief requested. Courts will not rely on the allegations in the pleadings, but will instead look to the facts lead by affidavit. In this case, more specific details about the losses ATM might have suffered may have helped tilt the balance of conveniences in its favour.



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