The importance of Trade Secrets in Merger and Acquisition Operations

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Although not subject to legal definition, business secrecy is widely recognized by doctrine and jurisprudence. It is worth mentioning that its applicability gains support, above all, in the rules of repression of unfair competition provided for in the Industrial Property Law[1], which consider unlawful conduct that implies the disclosure of confidential information obtained through labor or contractual relationships or even through fraud.

Even though in the law there is no provision of a list of information that can be protected via business secrets in Brazil, there is a general understanding both in the doctrine and in the jurisprudence that any information that has applicability in the market and competitive value for a company can be protected by secrecy, provided that it is not public knowledge or evident to an expert on the subject. Therefore, an innovative formula used for the complex manufacturing of a product or a strategic customers list of a company can be considered as business secret. Even information or technique not subject to patent protection, such as a mathematical method, can be protected by secrecy.

It cannot be disregarded that the maintenance of the confidentiality of information is a key element in the constitution of a secret, being its holder responsible for demonstrating not only the interest in maintaining its confidentiality, but also proving that he or she has adopted reasonable measures for its preservation, such as: the signature of confidentiality terms, the adoption of confidentiality policies, the proper and secure storage of information, the limitation of access to those to whom the information is necessary for the execution of activities in the company.

It can be said that the business secret is not constituted by chance, it arises from the effective intention of its holder to own it and keep it due to the commercial/competitive value linked to it. If, on the one hand, the protection of business secrets is more fragile than patent protection, since its mere disclosure removes all its value, the term of its protection can be extremely longer, as the protection will fall on the information for as long as it is effectively kept confidential, even for a century.

In view of the breadth of what may be subject to protection by secrecy and its potential importance in the context of business activity in an increasingly competitive scenario, extreme attention and care is needed from legal operators with this theme in "merger and acquisition" operations. This is because any business, regardless of size and branch of activity, has the potential to have sensitive information that may provide some kind of competitive advantage, thus constituting a business secret. Its relevance will be dictated by the market involved and by the interest of the parties.

In this scenario, Due Diligence should be seen as an important ally in the negotiation of "merger and acquisition" operations, since it allows the Parties

to provide or obtain a better picture of the care adopted by the company to be acquired/invested. This picture may be a relevant factor for the transaction to be carried out or not – depending, of course, on the relevance of this matter to the business and expectations of the transaction. As much as the lawyers are able to assist in obtaining said picture, only the parties, in many cases the technicians of the companies involved, will be able to assess whether the business secret constitutes an essential condition for the closing of the transaction or even an excuse for eventual negotiation of values.

The agreements to be celebrated in "merger and acquisition" operations are also important allies so that the Parties can regulate issues related to business secrets eventually acquired. Depending on the nature of the operation and the relevance of secrecy to the activities of the acquired company, the purchase and sales agreement may provide not only statements and guarantees regarding the confidential information, but also the establishment of prohibitions on the use of secrecy by sellers, including fines in case of infringement. After all, in many cases, especially today when a considerable part of the operations involves intangible assets, the absence of due care on the subject can lead to a relevant loss of value of the assets acquired. For this reason, depending on the internal organization of the acquired company, it is not uncommon for the parties to establish conditions prior to the closing of the transaction, with the purpose of regularizing the assets protected by secrecy through the signing of agreements, additives and/or other measures, such as, the adoption of a confidentiality policy.

Business secrets should be seen as important intellectual property assets for any and all companies/businesses, and it is recommended that their importance for the company's activities be evaluated by both parties before negotiations begin, so that the initial documents of the operation, such as the memorandum of understanding, promptly establish the expectations of the parties in this regard.

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NOTE:

[1] The article 195, items XI and XII of Law No. 9279/96 expressly prohibit the disclosure, exploitation and unauthorized use of confidential information, attitudes typified as crime.

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