TRADE SECRETS VIOLATION AND BREACH OF THE DUTY OF CONFIDENTIALITY IN THE FRAMEWORK OF THE ACQUISITION OF A HOTEL COMPLEX: COMMENTARY ON THE COURT DECISION OF THE APPEAL COURT OF BARCELONA N. 853/2022, MAY 20.

The Court decision of the Appeal Court of Barcelona n. 853/2022, May 20 solves the appeal against the first instance court decision that resolved the case of trade secrets violation and breach of a confidentiality agreement, in the framework of the acquisition of a hotel and its management company.

The claimant had the objective of acquiring the physical assets that made up the hotel complex and the company that operated the business. The hotel complex and the company that managed it belonged to the same family.

In order to acquire the assets of the hotel complex and the company that managed it, the claimant hired a consultancy firm for the assessment during the process of purchasing the hotel complex, to draw up a business plan, and to find a new company to take over the management of the hotel business.

The consultancy firm carried out a *due diligence* process to obtain an overview of the financial situation of the hotel complex and the viability of the business. Moreover, the consultancy firm found a company that could take over the management of the business. This company, which is the parent company of a holding, needed access to business information in order to be able to make the offer. In this situation, the parent company signed a confidentiality agreement to have access to the information, committing itself not to use the information it received for any other purpose than to make an offer regarding the management of the hotel.

The claimant acquired the property where the hotel complex was located, however, the claimant could not acquire the company that managed the hotel complex, because such company was acquired by a third company linked to the parent company that had had access to the confidential information.

In view of this situation, the claimant brought an action against the parent company as it considered that the parent company made unlawful use of the information to which it had access. According to the claimant, the defendant used the information with the aim of acquiring through one of the companies of the holding the shares of the company that managed the hotel.

The claimant brought an action for unfair practices due to the violation of trade secrets and breach of the confidentiality agreement as the defendant used the information provided for its own benefit. Besides, the claimant claimed compensation in the concept of damages.

In its Court decision, the Appeal Court of Barcelona analyses five different aspects: i) the limitation period for the unfair competition action alleged by the defendant ii) the lack of legal capacity to be the defendant iii) whether or not the information transmitted was confidential, iv) whether or not the use of that information constitutes an act of unfair competition, and finally v) determines the amount of the damages award.

- **The limitation period for bringing an unfair competition action for violation of trade secrets**

The defendant alleges that the claimant cannot bring an action for unfair competition, as it has been over a year since the time when it could have brought the action, as it is set forth in Article 35 of the Spanish Unfair Competition Law since the limitation period must start running "*from the moment when the unfair competition action could have been exercised and the entitled party became aware of the person who carried out the act of unfair competition (...)*".

The Appeal Court considers that although it is true that the claimant became aware of the unlawful act at the time when the defendant acquired the management company, this cannot be the moment when the time starts to run, as the defendant does not take into account the interruption of the limitation period due to the extrajudicial injunctions and prior judicial measures requested by the claimant before filing the lawsuit in July 2020.

In particular, the limitation period was interrupted because the first injunction was issued in November 2018, then in May 2019, the claimant filed preliminary proceedings to request the company related to the defendant to provide a copy of the deed of purchase of the shares of the company that originally managed the hotel. Such preliminary proceedings were not completed until July 2019 when the requested copy was provided, and the limitation period was interrupted again by another injunction issued by the claimant in November 2019. Thus, the action was not time-barred as the lawsuit was filed in July 2020, before the year had elapsed since November 2019, when the defendant was summoned for the third time.

- **The lack of legal capacity alleged by the defendant**

The second motivation of the defendant to challenge the appeal is based on its lack of legal capacity to hold the position of the defendant, given that it was not the defendant who entered into the confidentiality agreement, but that the confidentiality agreement was signed under the name used by the holding company group in commercial transactions, and that such name lacks legal personality to be the defendant.

The Appeal Court considered that the allegation made by the defendant was completely unfounded, as the confidentiality agreement was signed by the defendant's expansion director. Not only that but **even if a name has no legal personality, such a name is used in the course of trade to identify someone who does have personality, whether a natural or legal person. The defendant, who created and uses these trade names in the course of trade, is reluctant to acknowledge that such name identifies it. This attitude can only be understood as an attempt to conceal the name of the group's parent company.**

Besides, among the documentation provided, it is clear from the offers that it is the defendant who assumes the confidentiality agreement because the offers were signed by the CEO or by the president and administrator of the parent company, and also because it is the parent company that decides which company of its group will manage the hotel complex.

- **The confidential or non-confidential nature of the provided information**

The claimant brings the action for an act of unfair competition, namely the exploitation of a trade secret, and the breach of a confidentiality agreement.

The unfair act of trade secrets violation is governed by Article 13 of the Spanish Unfair Competition Law which, in the version of the Law prior to the 2019 reform, established the following:

> "*The disclosure or exploitation, without the authorisation of the holder, of industrial secrets or any other kind of business secrets to which access has been obtained legitimately, but with a duty of confidentiality, or illegitimately, as a result of any of the conducts provided for in the following paragraph or in Article 14, shall be considered unfair*".

This article, since the adoption of the Spanish Trade Secrets Law in 2019, has changed its wording, by referring to the provisions of the Spanish Trade Secrets Law. However, before moving on to the unfair act of trade secrets violation, **we must first determine whether or not the information provided had the character of a trade secret, or in other words whether or not the information was confidential.**

At the time of the facts, the Spanish Trade Secrets Law had not yet been enacted, however, and despite the fact that as a general rule a rule cannot be applied retroactively, this does not prevent the Spanish Trade Secrets Law from being applied to cover a legal void as long as it does not contradict the interpretation of business secrets that had been made.

The first aspect to be determined is whether the information that had been shared with the defendant falls within the definition of trade secret established by the Spanish Trade Secrets Law. Article 1 of the Spanish Trade Secrets Law provides that:

> *For the purposes of this law,* ***any information or knowledge****, including technological, scientific, industrial, commercial, organisational or financial information or knowledge,* ***which meets the following conditions, shall be considered a trade secret****:*
>
> *(a) be* ***secret, in the sense that****, as a whole or in the precise configuration and assembly of its components,* ***it is not generally known by, or readily accessible to, persons belonging to the circles in which the type of information or knowledge in question is normally used;***
>
> *(b) have* ***business value****, either actual or potential,* ***precisely because it is secret;*** *and*
>
> *(c) the holder has adopted* ***reasonable measures to keep it secret.***

The information that was shared with the parent company contained valuation reports, the business plan drawn up by the consultancy firm, professional and salary data of the employees, etc.

As we can see, this is secret information, as this type of information is not normally known by people in the hotel sector who are external to the company. As the Barcelona Appeal Court, considered the commercial and economic information provided to the parent company **was not public, it was confidential**. It was only available to the parent company after signing a confidentiality agreement with the claimant's consultancy firm,

such information was not available to hotel operators in general, who would be the circle of users of that type of information.

On the other hand, it is also verifiable that the provided information had a business value, as it enabled the parent company to draw up its own business plan and two different offers for the lease of the hotel complex, **which shows the information was complete and valuable.**

And finally, it also requires that the owner of the information, or in the case when sensitive information is transmitted, as is the case here, it is necessary to take security measures to ensure that the information remains secret. The court decision understands that the confidentiality agreement is a reasonable measure to preserve the confidential nature of the information to which the defendant had access.

As we were saying, **the confidentiality agreement becomes a key element to protect the provided information**. The consultancy firm only provides such information under the condition that the parent company signed the confidentiality agreement. **By doing so, the parent company acknowledges the ownership of the information and commits itself to use the information solely for the purpose of evaluating the possibility of submitting a proposal to lease the business on display. The confidential agreement constitutes a reasonable means of preserving the confidentiality of the information.**

Therefore, the fact that the claimant, through the consultancy firm, submitted such information only after the parent company signed the confidential agreement, implies that the confidentiality agreement is the reasonable means or measure adopted by the claimant to protect and preserve the confidentiality of the information transmitted to the defendant.

- **The unfair act of trade secrets violation**

Now that we have determined that the information provided to the defendant was confidential, or secret, information, we have to determine what constitutes the violation of trade secrets.

As described above, once the defendant had access to the information, through a related company, purchased the shares of the company that managed the hotel complex that had been acquired by the plaintiff.

The Spanish Trade Secrets Law in Article 3.2 provides that "*the use or disclosure of a trade secret is considered unlawful when, without the consent of the owner, it is made*

(...) by anyone who has breached a confidentiality agreement or any other obligation not to disclose the trade secret, or by anyone who has breached a contractual or other obligation limiting the use of the trade secret".

In the light of the provisions of Article 3.2 of the Spanish Trade Secrets Law, we are faced with unlawful or unfair conduct insofar as the defendant used the information with the aim of purchasing the company that had already managed the hotel through one of the companies of the holding, breaching the confidentiality agreement.

The current law considers **the use of secret information as a violation of trade secrets when it is made in breach of a confidentiality agreement.** This leads us to consider that **the defendant incurred in the unfair act provided in the former article 13 of the Spanish Unfair Competition Law by exploiting the secrets obtained under the duty of confidentiality by using such information to purchase the shares of the company originally managing the hotel.**

However, we must bear in mind that there is a difference between what was established in article 13 of the Spanish Unfair Competition Law before the 2019 reform and what is established in article 3.2 of the Spanish Trade Secrets Law. In the light of the Spanish Trade Secrets Law, in order to determine that the conduct is unlawful, it is not required that the use of the secret information is made with the intention of obtaining a personal benefit or causing damage to the owner of the information, but rather **the violation of trade secrets is committed when the information is used in breach of the confidentiality agreement, and in this particular case because the information has been used with a different purpose than the one established in the confidentiality agreement.**

- **The amount of the damages award**

Last but not least, we must analyse how the Court resolved the discrepancies between the parties in determining the amount claimed. The claimant claimed on the one hand, compensation for **consequential damages set at €123.580** and, on the other, **the loss of profit initially set at €6.904.400.**

The defendant argued that the claim for damages does not proceed as considers that the business between the two parties would not have prospered, because the defendant understands that the claimant did not have enough financial capacity to acquire the hotel's real estate assets and lease the management of the hotel to a third party, as the claimant intended to before the defendant company acquired the hotel's management company.

However, this conclusion, says the Court, is not logical, as **it would be absurd for the defendant**, a company with extensive experience in the hotel sector, **to have made two offers to lease the hotel for the not inconsiderable price of €1.900.000 per year, for twelve years, to a company that had no real options to control the real estate asset. It is simply incomprehensible that the parent company would agree to negotiate this transaction with the claimant if it did not believe that the claimant could pay such an amount**.

Therefore, the fact that the defendant had submitted not one but two offers for such a price undermines the belief that the applicant did not have sufficient financial capacity to pay the price offered.

Both parties agreed on the amount of €123.580 in damages, as such amount was determined by the fees of the services provided by the consultancy firm to the claimant during the due diligence process.

The amount in dispute was the amount corresponding to the loss of profit. The amount claimed by the defendant varied throughout the judicial proceeding.

Initially, the amount claimed, based on the claimant's expert report, was set at €6.904.400. This amount was reduced by an addendum to the expert's report, which stated that the amount of the loss of profit should be lower than initially claimed by reducing by 50% the profits that the claimant would have hypothetically obtained during the central period of the pandemic. Once the amount of the profits obtained had been reduced, the loss of profit was set at €5.503.214, the main amount claimed.

As an alternative claim, the claimant claimed the sum of €4.151.196, which was the result of deducting from the expected income the expenses that the claimant would have had during the years of the contract, as determined in the offers submitted by the defendant to manage the hotel complex.

On its side, the defendant argued that the loss of profit would not have existed, since there was the possibility to terminate the contract within the first three years of the contract, and when the Covid-19 pandemic arrived, the defendant would have taken advantage of the opportunity to terminate the contract so that the claimant would not have been able to make a profit.

The Appeal Court of Barcelona ultimately ordered the defendant to pay the amount requested in the alternative of **€4.151.196.**