

M&A. Trade secrets and NDAs

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The Spanish Trade Secrets Act¹ (STSA) defines a trade secret as any “technological, scientific, industrial, commercial, organizational or financial” information or know-how that (i) is generally unknown among the persons that deal with this type of information and not easily accessible, (ii) has an economic value (either current or potential) precisely because it is secret and (iii) has been subject to reasonable measures aimed at maintaining its confidentiality.

The Barcelona Court of Appeal (BCA) has recently confirmed² that the information exchanged pursuant to an NDA to evaluate a business opportunity may indeed be considered a trade secret and that the violation of the NDA can be an act of unfair competition under article 13 of the Spanish Unfair Competition Act.

In the case at hand, Smarttia had been negotiating the acquisition of a hotel complex. The deal had two phases: firstly, the purchase of part of the hotel’s real estate and all the shares in Apartur (the hotel’s management company at that time); secondly, the acquisition of the remaining real estate.

It seems that Smarttia completed part of the first phase of the transaction, as it acquired some of the hotel’s real estate assets. Smarttia also hired a consultancy firm (CBRE) to assist, among other things, in the selection of a management company to run the hotel business.

CBRE contacted First Ona Cap (ONA), a company belonging to one of the main hotel management groups in Spain, as a potential manager of the hotel. ONA signed an NDA whereby it undertook *not to use the information received from CBRE for any purpose other than preparing an offer to operate the hotel*; the information disclosed (valuation reports, a business plan and information on the hotel’s employees) had been prepared based on the information provided by the owner of the hotel to CBRE through a data room. CBRE also allowed ONA to access the premises and interview the employees to obtain further information. ONA then prepared its own business plan, sent it to Smarttia and eventually submitted two offers to operate the hotel.

Some months later, a company related to ONA bought all the shares in Apartur.

Smarttia filed a claim against ONA arguing that the latter had breached the NDA and illegally exploited a trade secret by using the confidential information provided by CBRE for a use other than that agreed in the NDA.

¹ Spanish Trade Secrets Act 1/2019 dated 20 February 2019 transposes Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.

² Judgment of the Court of Appeal of Barcelona 853/2022 dated 20 May 2022.

The claim was dismissed by a first instance court that found that Smarttia had not proved which information it had disclosed nor that it was secret. Smarttia appealed the decision before the BCA and the appeal was upheld.

As opposed to the first instance court, the BCA found that the claimant had indeed evidenced which information had been provided to ONA under the NDA and that such information met the requirements to be considered a trade secret, namely, it (i) was not public and only became available to ONA after it had signed the NDA, (ii) enabled ONA to prepare its own business plan and submit two offers (facts that revealed that the information was complete and valuable), and (iii) had been protected by an NDA, "a reasonable means to preserve the confidentiality of the information", according to the BCA.

The BCA concluded that ONA had purchased Apartur's shares through a related company thanks to an inappropriate use of the information received under the NDA and had, thus, unlawfully exploited a trade secret and committed an unfair competition offence. The BCA ordered ONA to pay Smarttia a compensation for loss of profit of over 4 million euro.

This ruling points out how important it is in any M&A process not only to have a good NDA in place but also to identify every piece of information that is subsequently provided (as one of the matters discussed in the case at hand was whether the claimant had proved the specific information it had provided to the defendant) and to use the information disclosed for the specific purpose agreed.