

I've Got A Secret

By Vivien Lou Chen
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One of Germany's leading car makers, Volkswagen AG, shelves out \$100 million to settle charges that an employee stole valuable trade secrets from his former company, General Motors Corporation.

Eastman Kodak Company mounts an elaborate sting to catch an ex-worker selling confidential information about the company's operations. And the Silicon Valley is rocked by the latest story of a Cadence Design Systems' engineer planning to turn over secret software program code to rival Avant! Corporation.

Never before has the risk of losing valuable trade secrets to a business competitor seemed greater -- and never before have so many companies realized it.

"The stakes are very, very high. A company literally could lose its crown jewels, and a new company could be put into an economic grave as a result of trade-secret losses and trade-secret violations," said Terrence P. McMahon, an intellectual-property litigator for Orrick, Herrington & Sutcliffe in Menlo Park. "These are life-threatening issues for businesses.

"Front-line products could literally be escaping out the back door with an employee, so employers need to be vigilant in protecting their trade secrets and . . . careful to bring new employees in."

With some unscrupulous rivals willing to pay up to \$3,500 for a simple corporate staff directory, more and more companies are seeking help from consultants like Naomi R. Fine in identifying and protecting their most valuable, intangible assets.

No less than 200 companies nationwide -- 99 percent of them Fortune 500 corporations -- have called on Fine for assistance over the past decade, including Eastman Kodak, Johnson & Johnson, MCI Communication corporation, Mobil Oil corporation, The Procter & Gamble Company, and Visa International. In

California, the 40-year-old former attorney has been retained by the likes of Apple Computer, Inc., National Semiconductor Corporation, Rockwell International Corporation, Shaklee Corporation, Sun Microsystems Inc., Tandem Computers Inc., and Varian Associates Inc.

"We're busier than ever," Fine declared during an interview from her San Leandro-based consulting firm, Pro-Tec Data. "The big change is that companies are recognizing the need to protect their information. The sense before was that there was a risk, but that it was just another cost of doing business. Certainly, with the increased competitive value information has, more and more companies realize that their very survival and viability is on the line if they don't protect their information.

"The problem is a lot of companies don't take proactive steps to protect themselves from employees leaving with that information in their head."

Damaging information can leak out in an number of unsuspecting ways: An alert rival notices a large number of pizzas being delivered to your office, and deduces that a major project is under way. A travel agent books a flight for a group of corporate executives, then casually discloses the destination of that flight to a third party. Or -- as usual -- your company is celebrating the completion of good work by ordering T-shirts, only to learn that the T-shirt vendor has told one of your competitors what is to be printed on them.

Once such information is disclosed, it is gone forever, making the need to safeguard it that much greater. Behind corporate America's current angst over trade secrets is not only the fear of losing them, but of knowingly or unknowingly obtaining them.

The federal Economic Espionage Act of 1996, for instance, makes it a crime to receive or possess any trade secrets without the owner's authorization -- a misdeed punishable by up to 15 years in prison, a maximum fine of \$10 million, and/or forfeiture of any property used to commit or facilitate the illegal activity. In addition -- under the Uniform Trade Secrets Act adopted by several states, including California -- a new employee could be kept from performing certain duties if he or she is aware of a former employer's trade secrets.

"The interest is at both ends of the spectrum," explained William G. Becker, director of intellectual property for Santa Clara-based computer giant 3Com Corporation. "Companies are not only concerned about losing confidential information, but are also concerned about a person getting hired in, bringing it with them, and having that confidential information unknowingly used by the company somehow,"

That's where Fine steps in.

A former associate for the San Francisco and Palo Alto firm of Cooley Godward, left the practice of law in 1985 after failing to convince Cooley's managing partner that corporate clients -- particularly those in the high-tech industry -- needed more specific advice on how to protect their intellectual property. Up until that point, Fine said, the firm only offered clients general ideas.

So Fine began pouring much of her energy, not to mention \$30,000 in savings, into Pro-Tec Data, operating it out of her home in Oakland. She developed a business plan and -- with the help of an advisory committee consisting of partners, associates and clients from Cooley -- made a list of 10 companies that would most likely need her.

From there she built a reputation as one of the most prominent and well-respected people in the field of intellectual-property protection, a service also offered by many IP law firms and the nation's Big Six accounting giants.

Because of the sensitive nature of her work, Fine is typically required to sign a nondisclosure agreement with clients promising to keep their confidential information private.

Her first task is to make an on-site visit of a company, and survey its employees to identify what should or should not be considered secret. At 3Com, for instance, Fine advised management to reduce the number of categories for classified information, and thereby reduce the amount of time worrying about it in an industry where speed is of utmost concern.

Fine's strength, Becker said, is in "tailoring a policy to the needs of the company."

Her next job is to suggest the appropriate types of policies and procedures for approval by management. In the case of Sunnyvale's MicroUnity Systems Engineering Inc., a microprocessor research and development company, that meant simply putting into writing what were unwritten policies. One of them required the company's visitors to be escorted at all times. Another called for employees to accept personal responsibility for protecting the company's intellectual property -- or face disciplinary action up to and including termination, said Darryl T. LeDoux, MicroUnity's former director of corporate security.

The final steps of Fine's work include educating employees on those policies -- training them, if necessary -- making sure that all of the necessary security systems are in place, and auditing the entire process continuously for compliance.

"You can have an out-of-date, poorly written policy that's very effective if senior management stands behind it and enforces it," she said, "or you could have a current, well-written policy that's completely ineffective because there's no enforcement nor management support and implementation.

"I'm not suggesting that companies begin by setting up confidential relationships with their travel agents or T-shirt vendors, but rather determine what their highest risks are for losing information."

Fueling the unprecedented wave of trade-secret cases are at least two dynamics, according to Orrick's McMahon, who has seen more of them in the past two years than in the last five or ten.

"Employers are more conscious of their right to protect intellectual property, and employees are more aware of their rights to move from one job to another or open up their own business. The problem is that free movement of employees has to be weighed against an employer's right to protect its investment in research and development from which it gets new ideas for products.

"There's a real tension there," he said.

About Naomi Fine

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