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Trade Secret Confidential

Intellectual Property Protection, Right to Work Threats Raise New Concerns

By Nina Schuyler
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Peter Bonyhard spent seven years at IBM as a research scientist, developing magnetic-resonance-head technology for computer disk drives. When IBM began reducing its work force in 1991, Bonyhard left and joined Scotts Valley-based Seagate Technologies Inc. and continued to conduct the same kind of research.

But four months later, Bonyhard, 55, faced the possibility of unemployment and an abrupt career change: IBM obtained a preliminary injunction in federal court in St. Paul, Minn., to prevent him from working for Seagate and advanced a unique theory called the inevitable disclosure doctrine. IBM argued it was inevitable that Bonyhard would expose IBM's trade secrets based on what he learned there.

As intellectual property becomes the key to competition in a global economy, general counsel are finding that the legal mechanisms set up to protect this asset need repair. At the same time, companies are grappling with employees' competing concerns of workplace privacy and, as in Bonyhard's case, the right to work.

The problem of safeguarding intellectual property, and in particular, trade secrets, has become increasingly more difficult because of the ease with which information can be copied and transferred. Trade secrets include such confidential information as a company's product designs, manufacturing "know-how," pricing practices and customer records. Technological advances are more complex, thus involving more people in their development, which means more employees learn about the company's most valuable assets.

"In addition, as technology continues to advance, it takes more and more money to finance research and development in almost every industry," said Stephen Westbrook, associate general counsel at Oakland-based Clorox Corp. responsible for intellectual property issues. "Unfortunately, some people start looking for illegal shortcuts, like trade secret theft, to avoid this huge expenditure."

With the hope of finding some answers, general counsel are gathering at the first comprehensive trade secret conference, The National Trade Secrets Institute 1994, held in Washington, D.C., today through Saturday, to exchange ideas about trade secret protection. Government officials from the U.S. Patent and Trademark Office and the FBI, as well as security experts and outside counsel, will discuss ways to bolster corporate legal strategies to safeguard intellectual property.

"Economic success increasingly is dependent upon finding, developing and exploiting information capital," said Jim Pooley, a partner at Fish & Richardson in Menlo Park who organized the conference and specializes in trade secrets. As potential raw material for patents, protection for trade secrets is critical to the economic health of the technology industry, he said.

Trade secret law became a hot topic in Silicon Valley after a 1973 case pitting Motorola Inc. against Fairchild Camera & Instrument Corp. showed general counsel that a generic nondisclosure agreement was inadequate to protect proprietary information. Motorola sued Fairchild for misappropriation of trade secrets when eight executives resigned from Motorola's Semiconductor Division and joined Fairchild. *Motorola Inc. v. Fairchild Camera and Instrument Corp.*, 366 F.Supp. 1173 (1973).

The U.S. District Court for the District of Arizona held that the nondisclosure agreements were unenforceable because they failed to identify what Motorola considered proprietary. The court found that Motorola made no real effort to keep its trade secrets confidential.

Since then, Clorox's general counsel and

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General Counsel Concentrate On Trade Secrets, Work Rights

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most Silicon Valley in-house attorneys have implemented more detailed nondisclosure agreements that employees sign upon hiring and leaving a company. These agreements also are used for third-party vendors.

"When the employee leaves, we remind them of their continuing obligations to Clorox and the areas that they have in their minds that belong to the company," said Westbrook, who is a panelist at the conference. Westbrook said that each departing employee is debriefed on the types of knowledge that employee has. "We explicitly specify the difference between the knowledge they gained that comes from general experience as opposed to trade secrets."

But as technology has become more complex and as global economic pressures increase, general counsel have found that even detailed nondisclosure agreements do not provide enough protection.

"Nondisclosure agreements are like gentlemen's agreements," explained John O'Laughlin, director of corporate security at Sun Microsystems, who also is speaking at the conference on this issue. "But in some cases, you aren't dealing with gentlemen and it would be a terrible mistake to rely on them exclusively."

As a result, some in-house attorneys have instituted ongoing due diligence procedures to secure their trade secrets. For instance, Sun uses videotapes and lectures to help employees identify confidential information.

"Education of employees is extremely important since most agreements are not specific about what information can't be disclosed," said Naomi Fine, president of ProTec Data in Oakland, a company that assists companies in implementing intellectual property protection procedures. "Also employees need information about how to protect information – for instance, shredding, passwords and classifying information."

In the context of outside vendors, DuPont corporate counsel Jim Forstner, who is responsible for international patent litigation, has expanded the use of nondisclosure agreements to include vendors' employees. Delaware-based DuPont manufacturers almost half of its products abroad and deals with foreign vendors.

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"This protection is especially important when it comes to international trade secrets and our company's dealings in foreign countries with third-party vendors," said Forstner. "In Confucian societies, copying information is considered flattering. China passed its first trade secret act in December and Japan did not have a trade secret law until 1990."

According to Fine, IBM explicitly lists the steps that outside vendors must take to protect IBM's information, such as audits and shredding.

But for some companies, like IBM, the gaps left by nondisclosure agreements, even when coupled with due diligence efforts, are too great.

If an employee who possesses confidential information takes a position at a competitive company, that employee will inevitably compromise the former employer's trade secrets, posited Evan Chesler, a partner at Cravath, Swaine & Moore in New York who represents IBM in its case against Seagate and Bonyhard.

"Such an employee is caught in an irreconcilable problem between meeting his obligation not to disclose and doing the best job possible for the new employer," said Chesler. Chesler argues that to avoid this tension, courts need to adopt the "inevitable disclosure doctrine."

Chesler has based this new doctrine on language found in the Minnesota Uniform Trade Secret Act stating that the tort of misappropriation can occur if there is threatened disclosure of trade secrets.

"Companies shouldn't have to wait until the cat is out of the bag," said Chesler.

The federal court initially granted IBM the injunction in the case *International Business Machines Corp. v. Seagate,* CIV 3-91-630. Then, in April 1992, the injunction was overturned. Based on information obtained through discovery, IBM amended its complaint and now alleges that its two former employees misappropriated trade secrets. The case has yet to be set for trial.

IBM's newest tactic to protect information, one of the hottest topics to be discussed at the conference, is being met with strong opposition.

"The theory that IBM advanced denies Peter Bonyhard his mobility and the right to lifetime employment in his specialty," said James DiBoise, a partner at Wilson, Sonsini, Goodrich & Rosati who represents Bonyhard as well as Brendan Hegarty, another former IBM employee who joined Seagate in 1988 as senior vice president and chief technical officer, and is also being sued by IBM for alleged trade secret violations. "If we had this kind of rule that IBM is arguing – an inevitable disclosure theory – there never would have been a Silicon Valley."