

Session 201

Behind the Firewall: Protecting IP And Trade Secrets When Engaging Consultants

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BEHIND THE FIREWALL: PROTECTING IP AND
TRADE SECRETS WHEN ENGAGING CONSULTANTS

ACCA Annual Meeting
Hyatt Regency San Diego
Thursday, 11/4/99, 10:30-noon
Program 201

I. Introductions (5 minutes)

II. Background:

With the increasing use of and reliance upon consultants to perform work traditionally performed by employees, all in-house counsel need to know how to protect their corporate clients from misappropriation of valuable data and trade secrets. A panel of experts will address such topics as: confidentiality, protection of intellectual property, and computer security concerns in the context of nonemployee disclosures. What can in-house counsel do to protect the corporate interests once a consultant is behind the company's firewall? Join us and learn.

III. What is a consultant? What do you want to protect?

A. Types of consultants

1. Paid: Engineers, designers, temporaries, contract employees, contractors, etc.
2. Unpaid: Student interns, volunteers.
3. Not Consultants, but can be problematic: Uncompensated individuals, such as facility visitors, unsolicited submitters, "cold callers," guests.
4. Miscellaneous topic: Tax/HR issues re consultants

B. Types of protectable subject matter

1. Proprietary, confidential information: customer lists, turn-key technology, fabrication, trade secrets, methods of operation/doing business, recipes, etc/
2. Business information: strategies, financial data, pricing/cost information, accounts.
3. Consider: Uniform Trade Secrets §45 definition

IV. Confidentiality Obligations

- A. Contractual obligations of confidentiality: Non-Disclosure Agreements
 - 1. Examples: Consultant NonDisclosure Agreement (attached); Consultant and NonDisclosure Agreement (attached)
 - a. Defining what is confidential and/or proprietary
 - b. Agreeing not to disclose to others unless authorized and protecting Confidential Information
 - c. Not disclosing third party's Confidential Information
 - d. Exceptions to confidentiality
 - i. information in consultant's prior possession
 - ii. information which is or becomes in public domain
 - iii. information from a third party under no obligation to you
 - iv. (optional) information required to be disclosed as a result of court or administrative order or process, so long as holder of confidential information has an opportunity to intervene and defend against such forced disclosure.
 - e. Protecting your (client's) identity, existence and nature of working relationship (Anti-blabbermouth clause)
- B. Alternate Bases of confidentiality: Fiduciary duties, attorney/client privileges, invoices (boilerplate provisions), work product privileges, etc.
- C. Obligations of Non-use
 - 1. Non-use of Confidential Information
 - 2. Not to Compete against Client? Caveat: California Law and the law of most states forbid the use of covenants not to compete re consultants
 - a. Covenants not to compete strictly construed and generally, only available where:
 - i. Sale of business (Cal. Bus. & Prof. Code §16601)
 - ii. Dissolution of partnership (Cal. Bus. & Prof. Code §16602)
- D. Obligations to Assign I.P. Rights

1. Assign patent/trade secret rights
 2. Assign copyright rights
 - a. Work Made for Hire Doctrine
- E. Miscellaneous Obligations:
1. Warranties
 2. Retainer/Exclusivity
 3. Standard contractual issues: independence of action (not employee, agent, servant or representative, to avoid agent/principal liability), choice of law, merger clause, notices, etc.
- F. Consultant's Own Form Agreement/Caveats
1. Won't agree to broad exclusivity/may agree to category exclusivity
 - a. Wants potentially to serve your competitor at the same time as your firm.
 2. Wants to use information learned in the course of serving you for other clients.
 3. Wants control over I.P. generated (own) or wants to have rights to use after term of engagement over.
 4. Wants to prevent you from hiring any of her/his personnel, either directly or indirectly, both during the term of engagement, as well as afterward.
- V. Enforcement of Obligations/Remedies
- A. Civil Enforcement
1. Principal goal: injunctive relief
 2. Inevitable Disclosure Doctrine (Caveat: may not apply to non-employee)
 3. Damages
- B. Criminal Enforcement
1. Economic Espionage Act of 1996 (18 U.S.C. §1831 et seq.)

- a. Allows for prosecution under protective order for protecting confidentiality of the trade secret(s). 18 U.S.C. §1835.
2. Other Federal Statutes (e.g., RICO -- 18 U.S.C. §1961 et seq.)
3. State Statutes (e.g., Calif. Penal Code §499c)
4. "Leveraging" criminal prosecution for a related civil litigation; ethical concerns, such as plaintiff's providing assistance to the District Attorney/U.S. Attorney while pursuing its own civil action.

VI. Protection of Intellectual Property

- A. Patents
- B. Copyrights
- C. Trade Secrets
 1. Organizing trade secrets into lists: Advantages and Disadvantages
 2. Trade secret policies

VII. Security Issues

- A. Computer, telephone, e-mail and facility privileges
- B. Background Checks
- C. Entrance/Exit Procedures for engaging consultants and terminating them
- D. Contractual Exclusivity

VIII. Question/Answer Session

CONSULTANT AND NON-DISCLOSURE AGREEMENT

Re: Consulting Services Regarding, and Clorox Confidential

Information Relating To:

Dear Madam or Sir:

We, Clorox Services Company (hereinafter referred to as "Clorox"), wish to use you as a consultant in the field indicated above, including related products and the manufacture thereof, and in connection therewith, to disclose to you certain information relating to the above indicated subject and product and its development and manufacture, including Clorox's interest and plans regarding such products, all of which is secret, proprietary and confidential, all hereinafter "Information".

Accordingly, we propose that the following terms and conditions shall govern your consulting services for Clorox as described hereinbelow:

1. Consulting Services: You shall undertake consulting services for Clorox related to the above subject as may be requested from time to time by authorized Clorox personnel, at times mutually agreeable to you and Clorox, as more specifically described on the attached Schedule A.
2. Fees: Clorox shall pay you for your consulting services at the rates indicated on the attached Schedule A. In no event however shall Clorox's total obligation to you under this Agreement, arising in any way, exceed the total sum indicated on Schedule A.
3. Inventions and Developments: Any inventions or developments that you, including any of your officers or employees, conceive, make or develop in the course of performing your consultant services for Clorox or resulting therefrom shall be the sole and exclusive property of Clorox, and you will promptly disclose all such inventions and developments to Clorox, and assign all rights therein to Clorox (or to a Clorox affiliate) at Clorox's request. Also any and all records, notes, specifications, programs, and charts that you make or develop in the course of performing your services for Clorox shall be held in confidence and trust for the sole benefit of Clorox, and copies thereof shall be given to Clorox. You also agree that the copyright and any derivative rights of all writings and publications you make which result from performing services for Clorox shall be the sole and exclusive property of Clorox, and you shall assign any such copyrights and derivative rights to Clorox, whenever requested.
4. Confidential Information: You agree that all Information disclosed to you by Clorox and all Information that you develop for Clorox in the performance of your consultant services for Clorox will be held in confidence for the exclusive benefit of Clorox for a

period of ten years from the date of this Agreement, except for information that was previously in your possession in the form of a written document dated prior to this date, or which is or becomes in the public domain or available to the public in a printed publication through no act or failure to act on your part, or which you hereafter receive from another party which did not receive such Information directly or indirectly from Clorox. You agree that you will exercise all reasonable precautions to prevent the disclosure of such Information to others. You shall not use any such Information except for the benefit of Clorox as specifically authorized and instructed by authorized Clorox personnel, and at any time upon Clorox's request, you shall surrender to Clorox all documents including drawings, records, notebooks or the like which you may receive from Clorox or which you may make which contain Information or material from such Clorox documents. You shall not release any information about the nature of your consulting services for Clorox without Clorox's prior written consent to such release, and approval of the context of any such release.

5. Warranty: You warrant and represent that you have the full right to enter into and execute this agreement and to undertake the services and obligations set forth herein, and you will not disclose the Confidential Information of any other party to Clorox without their express written permission, and you will not knowingly incorporate information covered by the patents, trade secrets or copyrights of others into the work product that you provide for Clorox without prior notification and approval of Clorox.

The obligations provided by this agreement shall be binding upon you, your successors (including any heirs), assigns or other legal representatives.

If you agree that the above terms and conditions shall govern your consulting services for Clorox and all disclosures to you by Clorox, kindly indicate your agreement by executing the duplicate of this letter and returning it to Clorox.

Agreed and accepted this ___ day
of _____, 19__.

CLOROX SERVICES COMPANY

By:

By:

Name:

Name:

Title:

Title:

Date:

Date:

Schedule A

1. Consulting Services:

2. Fees:

3. Term:

CONSULTANT NON-DISCLOSURE AGREEMENT

Re: Clorox Confidential Information

For: _____

Dear Sir:

We, Clorox Services Company (hereinafter referred to as "Clorox"), wish to consider using you as a consultant in the field indicated above, and in connection therewith it will be necessary to disclose to you certain information relating to our business, operations, plans, manufacturing processes, formulas, and/or products, as well as other confidential information regarding Clorox, all of which is secret, proprietary and confidential (all hereinafter "Information"). To insure that Clorox's interests and proprietary rights in such Information are protected and all Information is retained in confidence, we require an agreement prior to such disclosure which creates a contractual obligation and a confidential relationship with respect to such Information.

It is therefore requested that you agree to the following terms and undertakings in consideration of Clorox's disclosure of such Information in reliance on this undertaking, and for other good and valuable consideration. It is further specifically understood that Clorox would not make such disclosure to you except for your indicated agreement to the following terms and conditions.

You agree that all Information disclosed to you will be held in confidence and not used except for the exclusive benefit of Clorox, except for information that was previously in your possession in the form of a written document dated prior to this date, or which is or becomes in the public domain or available to the public in a printed publication through no act or failure to act on your part, or which you hereafter receive from another party which did not receive such Information directly or indirectly from Clorox. You agree that you will not disclose such Information to others, and will exercise all reasonable precautions to prevent the disclosure of such Information to others. You shall not use any such Information except for the benefit of Clorox as specifically authorized and instructed by authorized Clorox personnel, and at any time upon Clorox's request you shall surrender to Clorox all documents including drawings, records, notebooks or the like which you may receive from Clorox or which you may make which contain any Information, or material from such Clorox documents.

You further agree that you will not disclose to Clorox any confidential information of any other party; and you warrant and represent that you are free to undertake such consulting services for Clorox.

You also agree that you will not disclose either the identity of Clorox, the existence and subject of this Agreement, or the fact of your working with Clorox, to any third party without the prior, written consent of Clorox.

If you agree that the above terms and conditions shall govern our discussions regarding the possibility of your providing your consulting services for Clorox and all disclosures to you by Clorox, kindly indicate your agreement by executing the duplicate of this letter and returning it to Clorox.

CLOROX SERVICES COMPANY

By: _____
Title:

Agreed and accepted this ____ day of _____, 1999.

By: _____
Title:

Checklist for Conducting Background Checks and Entrance Interviews for Consultants

by Kristi L. Vaiden, Assistant General Counsel
The Prudential Insurance Company of America
November 4, 1999

Before signing an engagement schedule or other agreement for acquisition of services from an outside consultant, the project manager should ensure that background checks have been conducted where needed with regard to each of the consultant's personnel assigned to work for the buyer.

The need for a background check depends on such factors as whether the services to be performed involve research and development or whether the consultant's personnel may have been exposed on previous assignments to the product designs, marketing strategies or other trade secrets of the buyer's competitors. Project managers should consult with counsel to identify the best procedures to follow in securing an effective background check.

The project manager may conduct the background check using buyer staff or the services agreement may require the consultant to perform the background checks for any of its personnel assigned to work for the buyer. If the consultant performs the background checks, documentation should be submitted to the project manager for review and approval.

The depth of the investigation shall depend on the nature of the work to be performed and may include such steps as:

1. a technical interview with each of consultant's personnel to identify prior background and experience;
2. a confirmation from the consultant's personnel that no former assignment required the execution of a covenant not to compete or other contractual obligation that would impact the scope of the Project;
3. a telephone verification of employment and education with at least one job reference from each of the consultant personnel's last two jobs and at least one educational institution;
4. a credit and/or criminal record inquiry where appropriate; and
5. a drug test by the buyer's authorized vendor, with costs passed through by the consultant to the buyer, for consultant personnel who will be on the buyer's premises or have access to buyer's computers or circumstances where it is otherwise deemed necessary.

The project manager should either conduct, or the services agreement may require the consultant to conduct, an entrance interview with each of consultant's personnel. The entrance interview should include the following topics:

1. Review with the consultant's personnel their confidentiality obligations under the services agreement to safeguard information obtained as a result of the engagement. These obligations typically have two components:
 - a. The consultant shall not disclose buyer's confidential information (and third party confidential information entrusted to buyer) to anyone else; and
 - b. The consultant shall not use buyer's confidential information in work for anyone else.
2. Remind the consultant's personnel that buyer owns all ideas, documents and other results of the work performed, unless otherwise stated in the services agreement.
3. Secure execution of separate written acknowledgement of consultant's personnel's agreement to comply with buyer's security policies and procedures if such personnel will have access to buyer's computer systems and networks.

4. Provide consultant's personnel having access to buyer's computer systems and networks a copy of buyer's security policies and procedures and inform consultant's personnel that buyer may review, monitor and/or audit any messages, data, or other information transmitted through, stored on or contained in any network facility, computer hard drive, disk or other storage medium on buyer's premises whether owned by buyer, consultant, consultant's personnel or another party.
5. Secure written receipt by consultant's personnel of any and all badges, keys, pass cards and other items that would provide access to or otherwise identify them as having permission to access buyer's facilities.
6. Secure written receipt by consultant's personnel of any other buyer property that is provided as part of the engagement (e.g., pagers, cell phones, computer equipment, etc.).
7. Review with the consultant's personnel requirements for maintaining project logs, planning calendars, systems documentation, laboratory notebooks, programming notes, testing results or other records related to the work to be performed.
8. Review with the consultant's personnel the timing, format and content of monthly or other periodic reports that may be required to document work in progress.
9. Review with the consultant's personnel the timing, format and content of the deliverables under the parties' agreement.
10. Confirm with the consultant's personnel any requirements that documentation must be (a) delivered in paper, electronic, or multimedia format; (b) addressed to a specified person and (c) labeled in accordance with the buyer's standard markings related to proprietary information.

The project manager is responsible for maintaining documentation of the foregoing investigation and interview in accordance with the buyer's record retention requirements.

Checklist for Conducting Exit Interview with Consultant

At the expiration of an agreement for buyer's acquisition of services from an outside consultant, the project manager should conduct an exit interview with each of the consultant's personnel, where needed.

The need for an exit interview depends on such factors as whether the services provided by the consultant involved research and development or whether the consultant's personnel can be expected on their next assignment to perform similar work for the buyer's competitors. Project managers should consult with counsel to identify the best procedures to follow in conducting an effective exit interview.

During the exit interview, the project manager should take such steps as the following:

1. Remind the consultant's personnel of their confidentiality obligations under the services agreement to safeguard information obtained as a result of the engagement. These obligations typically have two components:
 - a. The consultant shall not disclose buyer's confidential information (and third party confidential information entrusted to buyer) to anyone else; and
 - b. The consultant shall not use buyer's confidential information in work for anyone else.
2. Remind the consultant's personnel that buyer owns all ideas, documents and other results of the work performed, unless otherwise stated in the services agreement.
3. Notify the consultant that any access to buyer's computer systems and networks ends. (The project manager should IMMEDIATELY inform buyer's security officer that the consultant personnel's need for computer access has ceased.)
4. Ensure that the consultant's personnel have returned any and all badges, keys, pass cards and other items that would provide access to or otherwise identify them as having permission to access buyer's facilities. (The project manager should IMMEDIATELY inform building security that the consultant's personnel's needs for facility access has ceased.)
5. Ensure that the consultant's personnel have returned any other buyer property that may have been provided as part of the engagement (e.g., pagers, cell phones, computer equipment, etc.).
6. Review any obligation that buyer may have assumed under the services agreement or separate nondisclosure agreement for safeguarding the consultant's confidential information. If buyer has an obligation to return any of the consultant's information or materials, contact counsel to determine whether a signed receipt should be obtained from the consultant's personnel upon return of the material at the exit interview or if another procedure should be followed.
7. Ensure that the consultant's personnel have returned all of buyer's information, materials and other resources. These include note pads, planning calendars, systems documentation, programming notes, drawings, models, training materials, computer files or software, hard disks, CD ROMs, paper files and any other tangible item containing or embodying information obtained during the engagement.