

IN PRACTICE

INTELLECTUAL PROPERTY

A New Act for Trade Secrets

By Elliot D. Ostrove and
Maureen C. Pavely

In January, New Jersey adopted the Uniform Trade Secrets Act (NJTSA), N.J.S.A. 56:15-1 et seq., affording greater protection for trade secrets in New Jersey. Recognizing the significant damage that misappropriation of trade secrets poses to businesses, New Jersey joined 46 of its fellow states and the District of Columbia, which have adopted, in whole or in part, the Uniform Trade Secrets Acts (UTSA). (New York, Massachusetts and Texas are the three states that have not enacted the UTSA.)

The NJTSA is intended to provide greater clarity and consistency in the event of a threatened or actual loss of trade secrets through misappropriation. It must be noted, however, that the NJTSA has some important differences from the general UTSA as adopted by other jurisdictions, as well as from the pre-existing common law of New Jersey.

What Is a Trade Secret?

Until now, a “trade secret” under New Jersey common law included any compilation of information used in one’s business that gives an opportunity to ob-

Ostrove is a partner at Day Pitney LLP in Parsippany, practicing in the areas of commercial litigation, real estate litigation and class-action defense. Pavely is a senior counsel at the firm, focusing on commercial and employment litigation.

tain an advantage over one’s competitors who do not know or use the information. *Hammock by Hammock v. Hoffmann-La Roche, Inc.*, 142 N.J. 356, 384 (1995); *Ingersoll-Rand Co. v. Ciavatta*, 110 N.J. 609, 636 (1988). The New Jersey legislature has now broadly defined the concept of what a trade secret is, which should provide greater protection to companies. Under the NJTSA, a trade secret is any information that confers a competitive advantage when the owner of the secret takes reasonable measures to secure its secrecy. Specifically, at N.J.S.A. 56:15-2, the NJTSA provides, as follows:

“Trade secret” means information, held by one or more people, without regard to form, including a formula, pattern, business data compilation, program, device, method, technique, design, diagram, drawing, invention, plan, procedure, prototype or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Prior to the passage of the NJTSA, New Jersey courts had looked to Section 39 of the *Restatement (Third) of Unfair Competition*, as well as Section 757 of



Elliot D. Ostrove

the *Restatement (First) of Torts*, for guidance on the elements of a trade secret. We expect that New Jersey courts will follow many other courts in UTSA states and will continue to refer to those Restatement sections for guidance.

What Constitutes a “Misappropriation”

Under the NJTSA, misappropriation occurs when an individual or entity, by improper means, acquires, uses or discloses protected information. Specifically, “misappropriation” means:

(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (2) Disclosure or use of a trade secret of another without express or implied consent of the trade secret owner by a person who:

- (a) used improper means to acquire knowledge of the trade secret; or
- (b) at the time of disclosure or

use, knew or had reason to know that the knowledge of the trade secret was derived or acquired through improper means; or (c) before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired through improper means.

In contrast, under New Jersey common law, to prevail upon a claim for misappropriation of a trade secret, a trade-secret owner had to establish six elements:

(1) a trade secret exists; (2) the information comprising the trade secret was communicated in confidence by plaintiff to the employee; (3) the secret information was disclosed by that employee and in breach of that confidence; (4) the secret information was acquired by a competitor with knowledge of the employee's breach of confidence; (5) the secret information was used by the competitor to the detriment of plaintiff; and (6) the plaintiff took precautions to maintain the secrecy of the trade secret.

Rycoline Prods., Inc. v. Walsh, 334 N.J. Super. 62, 71 (App. Div. 2000), cert. denied, 165 N.J. 678 (2000).

The NJTSA thus changes the standard to establish a claim for misappropriation. Under the NJTSA, misappropriation can now be based solely on the acquisition of a trade secret by improper means. N.J.S.A. 56:15-2. "Improper means" is defined as:

[T]he theft, bribery, misrepresentation, breach or inducement of a breach of an express or implied duty to maintain the secrecy of, or to limit the use or disclosure of, a trade secret, or espionage through electronic or other means, access that is unauthorized or exceeds the scope of authorization, or other means that violate a person's rights under the laws of this State.

The new statutory definition thus eliminates the common-law requirements that the secret information be disclosed and used by a competitor, but adds the requirement that the acquisition be by "improper means."

Other UTSA states are split as to whether secret information has to be used to the detriment of the plaintiff in order to be considered a misappropriation. *Compare Smithfield Ham & Prods. Co. v. Portion Pac, Inc.*, 905 F. Supp. 346 (E.D. Va. 1995); and *Del Monte Fresh Produce Co. v. Dole Food Co.*, 136 F. Supp. 2d 1271, 1291 (S.D. Fla. 2001), with *Utah Med. Prods. v. Clinical Innovations Assocs.*, 79 F. Supp. 2d 1290, 1311 (D. Utah 1999) (use needed).

As a practical matter, a trade secret owner should not delay bringing a misappropriation claim until there is evidence that someone has improperly used a trade secret. Once courts begin to interpret the provisions of the NJTSA, the definition of "misappropriation" will become more clear.

When Does the NJTSA Apply?

While the NJTSA takes effect immediately, the NJTSA "does not apply to misappropriation occurring prior to the effective date" of Jan. 5, 2012. N.J.S.A. 56:15-10. Moreover, "[w]ith respect to a continuing misappropriation that began prior to the effective date, the act also does not apply to the continuing misappropriation that occurs after the effective date."

Other Significant Changes

The NJTSA includes a three-year statute of limitations under N.J.S.A. 56:15-8, which departs from the six years previously provided under New Jersey common law. The statute of limitations is triggered when "the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered." A continuing misappropriation is considered a single claim when applying the limitation provision.

The NJTSA also provides greater remedies than were available under the common-law protections previously afforded by New Jersey, including: monetary damages for both the "actual loss caused by the misappropriation and the unjust enrichment caused by the misappropriation"; the potential award of punitive damages of up to two times the monetary damages; and, in exceptional circumstances, the court can condition future use of the trade secret on payment of a royalty.

Prior to the adoption of the NJTSA, attorneys' fees generally could not be recov-

ered in a misappropriation of trade secret case. Attorneys' fees can now be recovered. In addition, New Jersey has expanded this fee provision to include costs, including a reasonable sum relative to expert witnesses, under certain circumstances set forth in N.J.S.A. 56:15-6.

What This Means to You

Employers need to take several steps to benefit from the protection provided by the NJTSA and to protect themselves from claims of misappropriation by competitors. New Jersey has departed in several ways from the UTSA. Given the changes in the statute of limitations, employers must be vigilant in their efforts to protect and preserve their valuable corporate assets. In order to fully obtain the benefits of this new statute, employers should have in place reasonable precautions directed at keeping their trade secrets confidential.

To meet this objective, employers, as always, should consider having a "trade secret protection policy," and any existing policies should be re-examined at this time. For example, now that the definition of "improper means" has been statutorily broadened under the NJTSA to include access that "exceeds the scope of authorization," employers should consider specifically defining their employees' scope of authority when accessing company computers. Employers should consider conducting a trade secret audit to assess the protections in place and monitor for potential misappropriation. It is now even more important for employers to be proactive in their efforts and consult with counsel as to important issues with respect to confidentiality affecting their business and/or industry.

In addition, employers should also consider potential liability. As a result of the potential for augmented remedies, including attorneys' fees and costs, litigation could increase. Accordingly, employers should evaluate their hiring practices and other internal practices so as to guard against misappropriation claims asserted against them by competitors. This includes, among other things, learning of any potential obligations of new hires and requiring that they be specifically precluded from disclosing or using trade secrets from any former employers in the performance of their duties. ■