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NEW JERSEY TRADE SECRET ACT PASSES ASSEMBLY: WHAT COMPANIES NEED TO KNOW AND DO

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With the Assembly's passage of the New Jersey Trade Secrets Act (A921) on December 5, 2011, and its likely signature by Governor Christie, New Jersey joins the 46 other states to have codified trade secret protection. Prior to the Act, New Jersey had relied on well-developed case law regarding trade secret protection. Although the Act codifies much of that case law, it makes some significant changes that are noteworthy.

Instead of the general six-year time limit to initiate a lawsuit, the Act provides for a three-year statute of limitations from discovery of any misappropriation of trade secrets.

The new legislation seeks to balance the equities in circumstances where a recipient of a misappropriated trade secret makes a material and prejudicial change in position before it knows that the information had been taken improperly from another person or company.

Trade secrets are critical to numerous businesses across all industries. Many categories of information, if kept secret, may be protected under trade secret law, including but not limited to engineering drawings, sources of

raw materials, customer lists, data compilations, and certain business and manufacturing processes. In many instances, a company's trade secrets are critical to the continued vitality of its business. Consequently, it is important to keep abreast of changes in trade secret law, like the passage of the Act, because they may require changes in business practices and of course will impact litigation strategy.

1. The Act Codifies Much of the Existing Case Law

The Act essentially collects and codifies the definition of a trade secret from the long line of cases considering various types of information for the past hundred years. The definition of a trade secret under the Act is:

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.

This definition clarifies any confusion caused by the case *Ahlert v. Hasbro, Inc.*, 325 F.Supp. 2d 509, 513-514 (D.N.J. 2004). In *Ahlert*, the U.S. District Court of New Jersey, interpreting New Jersey law, found that in order for information to be a trade secret it must be **in continuous business use**; otherwise, the case was a "submission-of-idea" case rather than a trade secret case. The Act removes any doubt by eliminating any use-in-business requirement.

2. Expert Fees Are Recoverable Under the Act

Trade secret cases are often commenced with a request for a temporary restraining order and/or a preliminary injunction to prevent use or further dissemination of the alleged trade secrets. In many cases, damages

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are not easily determined because the trademark owner discovers the alleged misappropriation at or around the time it takes place. Even when damages are ascertainable, they can be very complicated in circumstances where the trade secret has been incorporated into another product, or an intangible secret, such as a marketing plan or idea for a new product, is destroyed by disclosure. Therefore, evaluation of the losses suffered by the trade secret owner can be critical, and should be undertaken at the earliest stages of the case to avoid unwarranted costs.

In circumstances where liability is clear, the work of the experts may be far more expensive than the attorneys' fees. Under prior case law, even though an award of attorneys' fees was possible in a case of willful misappropriation, expert fees were not recoverable. Pursuant to the Act, the court may also award a reasonable sum to cover the service of expert witnesses if the misappropriation is willful and malicious or in the case of bad faith litigation by any party. Under The New Jersey Act, bad faith "is that which is undertaken or continued solely to harass or maliciously injure another, or to delay or prolong the resolution of the litigation, or that which is without any reasonable basis in fact or

law and not capable of support by a good faith argument for an extension, modification or reversal of existing law."

3. The Act Balances Punitive Damages for Bad Actors with Royalties for Unknowing Recipients of Misappropriated Trade Secrets

The Act also provides for punitive damages in the case of willful and malicious misappropriation, but limits it to twice the compensatory or basic damages. The basic damages can include "both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss."

In exceptional cases, which are essentially the circumstances of the innocent recipient of a misappropriated trade secret who uses it before he or she learns that the information has been improperly taken from another person or company, the new legislation provides for a royalty to use the trade secret rather than an injunction to prohibit its continued use. The royalty is limited to the time period during which the use of the information would have been prohibited. This provision may, in

some cases, focus the litigation on the factual circumstances related to what the receiving entity should have known about the misappropriated trade secrets, and therefore, whether an injunction is the appropriate remedy.

Importantly, the Act also codifies long-standing New Jersey law that an alleged misappropriator may not defend a trade secret claim by arguing that, while the misappropriator used improper means to access the secret, other proper means existed.

4. The Act Changes the Statute of Limitations to Three Years

Prior to the Act, the statute of limitations on a trade secret misappropriation claim was six years. N.J. Stat. Ann. § 2A:14-1 (2011). The Act changes that to a three-year statute of limitations. Since the Act does not apply retroactively, trade secret violations occurring before the enactment of the legislation are subject to the six-year statute of limitations, as well as to the requirements and remedies of the common law. The statute of limitations begins to run, as it did under case law, when a plaintiff knew or should have known of the misappropriation. *Cnty. of Morris v. Fauver*, 153 N.J. 80 (1998).

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WHAT SHOULD YOU DO NOW?

- First and foremost, review your trade secret policy, and if necessary conduct a trade secret audit with the assistance of an attorney familiar with this area of the law.
- You should have strict policy prohibiting sending confidential information to an employee's personal computer without prior written authorization.
- Share information that you consider to be a trade secret only on a need-to-know basis and pursuant to a written agreement.
- Conduct exit interviews with all employees who have had access to your trade secrets. Employees usually take trade secrets within 30 days of departure.
- Even mere suspicion that your trade secrets are being improperly disclosed should be discussed confidentially with an attorney familiar with this area of law.
- If your trade secrets have been misappropriated, act quickly and decisively to protect your rights.

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**with questions related
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