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N.J. Trade Secrets Act: What Will the Impact Be?

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Soon to arrive for signature on the governor's desk is New Jersey's version of the Uniform Trade Secrets Act (UTSA or, as to New Jersey, the NJTSA). If enacted, New Jersey would join the 46 other states, and the District of Columbia, that have adopted the UTSA with various modifications. Currently, only New Jersey, New York, Massachusetts and Texas have not signed on to the UTSA.

To date, trade secret litigation in New Jersey has been based upon common law. If enacted, the NJTSA would change the definitions and remedies in trade secret litigation. Indeed, the outcome of a case in New Jersey might vary depending upon whether the court applied the UTSA or common law.

Recent high-profile cases regarding the alleged misappropriation of trade secrets have garnered attention. For example, a 2010 Third Circuit decision affirmed a district court's order enjoining a senior executive from Bimbo

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Bakeries USA Inc., from going to work for rival Hostess until after the court resolved the merits of a misappropriation claim under Pennsylvania's version of the UTSA. *Bimbo Bakeries USA, Inc. v. Botticella*, 2010 WL 2902729 (July 27, 2010). Even though the executive did not have a contract containing a non-compete clause, the court held it was appropriate to enjoin him from working for Hostess because the UTSA permits courts to enjoin the "threatened" misappropriation of trade secrets. In that case, because the executive apparently was one of only a few people who knew how to make the famed "nooks and crannies" in a Thomas' English muffin, the court held allowing him to work for Hostess was "likely to result in the disclosure" of the trade secrets he had acquired during his employment at Bimbo.

Prior to the UTSA, courts in different states would have analyzed the facts in *Bimbo* using criteria derived from case law, possibly resulting in inconsistent outcomes depending on where the lawsuit had been filed. However, many states have adopted the UTSA to provide consistent guidance across state lines about what constitutes a trade secret, what facts give rise to misappropriation and what types of remedies are available.

The adoption of the NJTSA is good news for companies seeking greater

clarity as to what intellectual or business property constitutes a "trade secret," often a highly contested issue in litigation with former, now competing, employees who allegedly have misappropriated a company's information upon their departure.

If enacted in New Jersey, the NJTSA will allow courts to apply a uniform definition of what constitutes a trade secret, that is:

[I]nformation, 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 is broader than the definition in the UTSA, and incorporates certain concepts derived from New Jersey's common law. The statutory definition should, therefore, result in greater consistency without substantially altering currently-accepted ideas regarding what type of information is protectable in New Jersey.

In theory, the NJTSA will make it

easier for businesses to protect and enforce their sensitive information. Significantly, while under common law a plaintiff had to prove that the defendant had used or was about to use the trade secret, if enacted, the NJTSA would define misappropriation to include simple acquisition of the trade secret by a person who knows (or has reason to know) that the information was obtained through improper means. Proof of imminent harm is no longer necessary.

Previously, a New Jersey court had wide discretion in imposing a remedy for the misappropriation of a trade secret. Typically a court would enjoin the use of the trade secret and award damages that a plaintiff could prove were suffered as a direct result of the trade secret's misappropriation. If enacted, more specific remedies will become available under the NJTSA. They include:

- Damages for both the actual loss the plaintiff suffered as well as for any unjust enrichment the defendant received by misappropriating the trade secret. Damages could also include the imposition of a reasonable royalty for unauthorized disclosure or use;
- Injunctive relief for actual or threatened misappropriation of a trade secret. Future use of the trade secret may be conditioned on the payment of a reasonable royalty;
- In cases involving the willful and malicious misappropriation of a trade secret, a court could award punitive damages in an amount not exceeding twice that awarded for actual damages and unjust enrichment; and
- The award of counsel fees by a court if there was willful and malicious misappropriation, a claim of misappropriation made in bad faith, or if a motion to terminate an injunction is made or resisted in bad faith.

The availability of attorney's fees and punitive damages under the NJTSA, previously unheard of, could change the dynamic of trade secret litigation in New Jersey. Certainly, these provisions may help deter frivolous litigation with

respect to these types of disputes or encourage settlement sooner than might otherwise have occurred.

There is at least one open question that will not be answered until New Jersey's courts have had an opportunity to interpret the NJTSA. Some states' courts have interpreted their versions of the UTSA to pre-empt all other civil remedies for misappropriation of ideas and confidential information. Those courts may deny a remedy to a plaintiff bringing a non-UTSA cause of action based on the misappropriation of a trade secret. *See, e.g., Compuware Corp. v. IBM*, 2003 WL 23212863 (E.D. Mich. Dec. 19, 2003) ("the purpose of the UTSA was to 'codify all the various common law remedies for theft of ideas' and ... 'plaintiffs who believe their ideas were pilfered may resort only to the UTSA'").

Other courts have struggled to determine whether the UTSA pre-empts a claim relating to information that does not rise to the level of a trade secret as defined by the statute. *See, e.g., Burbank Grease Svcs., LLC v. Sokolowski*, 693 N.W.2d 89, 101-102 (Wis. Ct. App. 2005), *rev'd*, 717 N.W.2d 781 (reversing lower court's holding that the UTSA pre-empts common-law claims for unauthorized use of information not meeting the statutory definition of "trade secret").

The language currently included in Section 9 of the proposed NJTSA appears to leave intact all pre-existing New Jersey causes of action relating to the misappropriation or misuse of confidential information. As currently worded, the bill provides that "[t]he rights, remedies and prohibitions provided under this act are in addition to and cumulative of any other right, remedy or prohibition provided under the common law or statutory law of this State" However, based on *Compuware*, this language might not be read so broadly.

Both the NJTSA and the Michigan version of the UTSA (which the *Compuware* court interpreted) provide that they supersede all conflicting law regarding misappropriation of a trade secret. In

addition, the Michigan law states that it "does not affect ... other civil remedies that are not based upon misappropriation of a trade secret." M.C.L.A. § 445.1908. Yet the Michigan court dismissed *Compuware's* tortious interference claim — which alleged that IBM had induced *Compuware's* former employees to disclose confidential information in violation of contracts — as pre-empted by the UTSA.

Given that the differences between the UTSA and the NJTSA reflect our legislature's attempt to broaden the scope of the UTSA in New Jersey and to make it generally consistent with the scope of prior New Jersey decisional law, it seems that Section 9 of the NJTSA was drafted with the intent of maintaining all currently-recognized causes of action instead of pre-empting them. Time will tell if the courts agree.

Finally, while, if passed, the NJTSA will be good news for employers trying to protect their trade secrets in court, there are proactive steps that all businesses should take to protect their confidential and proprietary business information short of litigation. In particular, all employers should:

- Restrict access to sensitive information (both in hard copy and electronically);
- Mark materials containing sensitive information as "confidential";
- Require employees to sign confidentiality agreements;
- Prohibit removal of materials containing confidential or proprietary information from the workplace; and
- Proactively monitor and investigate possible theft of business information.

The Assembly is expected to vote soon on the latest version of the bill amended by the Senate so that it may be presented to the governor for signature. Attorneys should continue to closely monitor the status of this bill so that, as is often the case in fast-paced trade secret litigation seeking injunctive relief, they may afford their clients the benefits of this new law as soon as it is enacted. ■