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### NEW JERSEY TRADE SECRETS ACT: WHAT WILL THE IMPACT BE?

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**Governor Christie has signed into law the New Jersey Trade Secrets Act (the "NJTSA"), which is effective immediately and brings New Jersey into line with 46 other states and the District of Columbia, each of which has adopted a version of the Uniform Trade Secrets Act ("UTSA").**

As of now, only New York, Massachusetts and Texas have not signed onto the UTSA. Enactment of the NJTSA will affect the definitions and remedies in trade-secret litigation, which was until now based upon common law, and should make it easier for businesses to protect their sensitive information and enforce their agreements.

Recent high-profile cases regarding the alleged misappropriation of trade secrets have garnered attention. For example, in 2010, in *Bimbo Bakeries USA, Inc. v. Botticella*, the Third Circuit Court of Appeals affirmed a district court's order prohibiting a senior executive from Bimbo 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. Even though the executive did not have a contract containing a noncompete, the court held it was appropriate to prohibit the executive

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.

Before 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.

#### **The NJTSA creates a statutory definition of what constitutes a trade secret:**

[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.

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In theory, the NJTSA will make it easier for businesses to protect 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, the NJTSA defines 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 prohibit 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. More specific remedies are 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 or 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 may 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.

Finally, while the NJTSA is 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.

If you have any questions about how the NJTSA might affect your business, please call **Julie Levinson Werner** or **Joy N. Eakley** at 973 597 2500. We also would be pleased to provide you with assistance with respect to other employment practice and workplace compliance issues.

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