

New Jersey May Finally Enact Legislation Protecting Trade Secrets



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What is it about your business that makes it more competitive than the rest and how does that work exactly? Don't want to tell? That's completely understandable. New Jersey has long been the home to innovation and intellectual enterprise and its business owners have spent years and countless dollars honing and sharpening their competitive advantage, whether it be a prized customer list, a unique business plan or a specially developed product. These valued tools may be considered "trade secrets" that require legal protection to sustain your business's competitive edge.

The codification of that necessary protection is currently before the New Jersey Legislature, entitled "The New Jersey Trade Secrets Act." This protective legislation has already passed the Senate unanimously (39-0) on September 26, 2011. Pending a vote in the Assembly and the Governor's approval, New Jersey may finally join the vast majority of states in this country that are devoted to protecting their businesses' proprietary information and encouraging their further innovation.

What Is A Trade Secret?

Trade secrets can be any number of things, from the secret recipe for Coca-Cola to something as simple as a workman's "negative know-how" (knowing what not to do) about how to perform a particular job. However, the most common trade secrets include customer lists, computer source codes or pricing information utilized and prized by businesses after years of collecting and perfecting.

Historically, New Jersey based its protection of trade secrets upon what is called the "common law," a collection of judicial decisions based on discrete and individualized fact patterns that provide precedential holdings to be analyzed and applied to similar factual situations. As a result, amorphous and varied definitions of the term "trade secret" have been created, thus allowing a reviewing judge considerable discretion to determine whether your hard work and time can be protected as a "trade secret" or left vulnerable to your competitor's attack.

For example, one court defined a trade secret as "any compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." *Hammock by Hammock v. Hoffmann-LaRoche*, 142 N.J. 356, 384 (1995). Another has defined it as "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford a potential economic advantage to others." *Communications Workers of America, AFL-CIO v. Rousseau*, 417 N.J. Super. 341, 361 (App. Div. 2010).

While these definitions may seem broad enough, courts can still find ways to exclude your secrets from protection by considering outside factors, including: (1) the extent to which the information is known outside of the owner's business; (2) the extent to which it is known by employees of the owner, (3) the measures taken to guard the secrecy of the information, (4) the value of the information to the owner and competitors, (5) the effort expended to develop the information, and (6) the ease or difficulty by which the information can be duplicated.

[A plaintiff can obtain damages for both his actual loss and for any unjust enrichment of the defendant caused by the misappropriation.]

In short, this sole reliance on common law decisions has produced uncertainty for businesses about their purported "trade secrets," which is the same fear that prompted 46 other states, as well as the District of Columbia, Puerto Rico and the Virgin Islands, to enact legislation to better define and protect their businesses' trade secrets. Hopefully, Governor Christie and the Assembly will recognize that New Jersey businesses deserve these same protections and will quickly sign the New Jersey Trade Secrets Act into law.

What Is The New Jersey Trade Secrets Act?

In essence, the New Jersey Trade Secrets Act is a codification of the common law jurisprudence, but with the additional certainty of a legislative edict. The Act sets forth a clear definition of "trade secret" for businesses to recognize: "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."

Moreover, the Act provides a statutory definition of "misappropriation," which includes the "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 "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." "Reverse engineering"—uncovering a trade secret by analyzing the product—is also expressly considered in the statute as a proper means of acquiring information.

The Act also provides statutory remedies to an aggrieved trade secret holder. A plaintiff can obtain damages for both his actual loss and for any unjust enrichment of the defendant caused by the misappropriation. Damages can also include the imposition of a reasonable royalty for unauthorized disclosure and use. Plaintiffs

can also seek injunctive relief and courts may condition future use upon the payment of a reasonable royalty.

Significantly, in cases involving the willful and malicious misappropriation of trade secrets, a court may award punitive damages in an amount not to exceed twice the amount awarded for actual damages and unjust enrichment. Plaintiffs can also seek compensation for their attorneys' and experts' fees in cases where willful and malicious misappropriation exists or where a motion to terminate an injunction is made in bad faith. But be warned, attorneys' fees are also available to a defendant where the plaintiff makes a misappropriation claim in bad faith or when the plaintiff resists the motion to terminate an injunction in bad faith. Although these standards are relatively high to meet and courts may be hesitant to grant these sanctions, the Act does provide businesses with another arrow in their quiver to protect against their trade secrets' misappropriation.

Every business has something that makes it unique. That special aspect of your business may qualify as a "trade secret" and could be afforded the same protections given those in 46 other states should the Governor and Assembly decide to enact the New Jersey Trade Secrets Act into law. The signing of this Act will only encourage further innovation and allow you to better protect the precious knowledge that already forms the basis of your business's assets, which is a must for every business—and that certainly is no secret. ■

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