



STATE OF NEW JERSEY

N J L R C

NEW JERSEY LAW REVISION COMMISSION

FINAL REPORT

Relating to

UNIFORM TRADE SECRETS ACT

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John M. Cannel, Esq., Executive Director
NEW JERSEY LAW REVISION COMMISSION
153 Halsey Street, 7th Fl., Box 47016
Newark, New Jersey 07101
973-648-4575
(Fax) 973-648-3123
Email: njlrc@njlrc.org
Web site: <http://www.njlrc.org>

Introduction

In 1969, the National Conference of Commissioners on Uniform State Laws (NCCUSL) organized a special committee to develop a uniform trade secrets act, relying heavily upon the definition of “trade secret” from the Restatement of Torts (First). At that time, state statutes that protected trade secrets emphasized keeping innovations secret, but the federal patent law encouraged public disclosure of innovations. An impetus for creating a uniform law was the patent bar’s effort to resolve this dichotomy.

The Uniform Trade Secrets Act (UTSA) was approved by NCCUSL in 1979 and recommended for adoption in all states. It was amended in 1985 to further clarify the intent of the 1979 official text.¹ The UTSA codifies the basic principles of common law trade secret protection, preserving the essential distinctions from patent law and the remedies for trade secret misappropriation as developed in case law. State trade secret law, notwithstanding its commercial importance, had up to that point evolved in an uneven manner. States that were commercial centers generated more reported decisions than did states that were less populous and more agricultural. Uniform trade secret protection was deemed necessary because of the uncertainty concerning the parameters of trade secret protection and the appropriate remedies for misappropriation.

The UTSA provides a cause of action for actual or threatened misappropriation of trade secrets. It permits the imposition of injunctive relief in order to eliminate the commercial advantage that otherwise would be derived from the misappropriation. It also provides an award of damages that includes actual loss and unjust enrichment for misappropriation that is not taken into account in computing actual loss. Punitive damages, in an amount not exceeding twice any damage award, are recoverable for willful and malicious misappropriation. Attorney’s fees are also recoverable.

The Restatement of Torts (First) definition of “trade secret” required that a trade secret be “continuously used in one’s business”. The definition ultimately adopted in the UTSA extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. “Trade secret” is generally defined as information that derives economic value, actual or potential, from its proprietary nature and is the subject of reasonable efforts to maintain its secrecy.

Misappropriation includes acquisition of a trade secret by a person who knows or has reason to know it was acquired by “improper means” as well as disclosure or use of it without consent by a person who uses “improper means.” Misappropriation also includes other conduct relating to the perpetrator’s knowledge of the secrecy or duty to maintain the secrecy of the trade secret.

The UTSA provides for a three year statute of limitations and permits the grant of protective orders and other discovery protections.

The UTSA has been adopted in 47 jurisdictions: the District of Columbia, and every state except for New Jersey, New York, Massachusetts and Texas.² Many of those

¹ The 1985 amendment modified the sections on damages, injunctive relief, the effect on other law and the effective date of the act.

² Texas has a well-developed common law tradition, also derived from the Restatement of Torts (First), but no civil statute. Massachusetts regulates the embezzlement, stealing and unlawful taking away, carrying

jurisdictions have adopted the Uniform Act with modifications, some quite significant. Upon review and consideration, the Commission recommends that the Legislature enact the 1985 UTSA with several modifications, as set forth below.

Current New Jersey Law

Trade secrets misappropriation law in New Jersey dates back to the early 1900s. No single definition of trade secret exists in New Jersey case law; thus, our courts often look to the factors set forth in the Restatement of Torts (First) to determine whether information constitutes a trade secret.

A New Jersey plaintiff generally must establish six elements to support a claim of misappropriation of trade secrets under state law, including (1) that a trade secret exists; (2) that the secret was communicated by plaintiff to a third party in confidence; (3) that the secret was disclosed by the third party to another in breach of such confidence; (4) that the secret was acquired by a competitor with knowledge of the breach of confidence; (5) that the secret was used by a competitor to the detriment of the plaintiff; and (6) that the plaintiff took precautions to maintain the secrecy of the trade secret.

In New Jersey, however, courts have held that information need not rise to the level of a trade secret to be protected. The key to determining whether information is protectable, as determined in *Lamorte Burns & Co., Inc. v. Walters*, 167 N.J. 285 (2001), is the relationship of the parties at the time of disclosure and the intended use of the information. The common law rule articulated in *Lamorte* has expanded New Jersey trade secrets misappropriation law.

New Jersey also has adopted court rule 4:10-3(g), pursuant to which parties to litigation may seek to limit the disclosure of a trade secret or other confidential research, development or commercial information, including, as developed through case law, the limiting of access to attorneys and experts only.

Modifications to the Uniform Act

In reviewing the UTSA, the Commission considered New Jersey's rich common law trade secret and related jurisprudence. Included in this jurisprudence is a common law definition of "improper means" which is not fully reflected in the Uniform Act definition. The Commission also examined the manner in which other jurisdictions had modified the Uniform Act, particularly the definition of "trade secret" and the provision for attorney's fees, in the context of our State's well-established jurisprudence.

As a result, the Commission modifies the Official Text definitions of "improper means", "misappropriation" and "trade secret" and adds two new definitions derived from the comments to the Uniform Act, one for "proper means" and the other for "reverse engineering." The Commission also revises section 4 of the UTSA, Attorney's Fees, to include the award of costs and fees for the service of expert witnesses. A

away, copying or obtaining by fraud or deception of any trade secret. Bills to adopt the UTSA were introduced in the New York Senate and Assembly as recently as January 2008.

definition of “bad faith” is also added to this section. Section 5, Preservation of Secrecy, now references R. 4:10-3(g) of the Rules Governing the Courts of the State of New Jersey. Section 7, Effect on Other Law, is altered to make the language consistent with other New Jersey statutory language, now providing for a cumulative remedy unless rights or remedies are specifically superseded.

The proposed legislation is numbered beginning with 56:14-1 *et seq.*, since placement of the act at the end of Title 56 of the New Jersey Statutes, which pertains to Trade Names, Trade-Marks and Unfair Trade Practices, seems appropriate. A comment appears after each section.

56:14-1. Short title.

This ~~[Aact]~~ shall be known and may be cited as the ~~Uniform~~ New Jersey Trade Secrets Act.

COMMENT

This section appears near the end of the Uniform Act as section 9. In the revision, the Commission moved the section to the beginning of the statute in keeping with customary New Jersey statutory practice. All subsequent sections were renumbered accordingly. This section also names the law the New Jersey Trade Secrets Act because the modifications made to the Uniform Act are very specific to New Jersey common law trade secret practice.

56:14-2. Definitions.

As used in this ~~[Aact]~~, unless the context requires otherwise:

(1) “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a 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 violative of a person’s rights under the law of this State;

(2) “Misappropriation” ~~means~~ is defined as:

(i) 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

(ii) 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 ~~his~~ the knowledge of the trade secret was derived or acquired through improper means; or

~~(I) derived from or through a person who had utilized improper means to acquire it;~~

~~(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or~~

~~(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or~~

(C) before a material change of ~~his [or her]~~ position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired ~~by accident or mistake~~ through improper means.

(3) "Person" ~~means~~ is defined as a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(4) "Proper means" includes discovery by independent invention, discovery by reverse engineering, discovery under a license from the owner of the trade secret, observation of the information in public use or on public display, obtaining the trade secret from published literature, or discovery or observation by any other means that is not improper. A person who misappropriates a trade secret may not use as a defense to the misappropriation that proper means to acquire the trade secret existed at the time of the misappropriation.

(5) "Reverse engineering" is defined as the process of starting with the known product and working backward to find the method by which it was developed so long as the acquisition of the known product was lawful or from sources having the legal right to convey it, such as the purchase of the item on the open market.

(6) "Trade secret" ~~means~~ is defined as 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:

(i) 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

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

COMMENT

This section differs from the Uniform Act in several ways. The Commission expanded the definition of "improper means" to reflect its broader definition in New Jersey common law. "Improper means" now also includes conduct previously made part of the Uniform Act definition of "misappropriation". The definition of "misappropriation" is accordingly modified. Definitions of "proper means" and "reverse engineering" based, in part, on the comments section to the Official Text of the Uniform Act are added. The definition of "trade secret" is transformed, using a conglomeration of several other state-modified definitions and including additional information not in the Official Text. Finally, in the Official Text, the definitions section appears at the beginning. Here, it has been placed after the title section.

56:14-3. Injunctive relief.

a. Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

b. In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

c. In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

COMMENT

This section adopts the Official Text of the Uniform Act except for numbering. This section is numbered section 2 in the Official Text.

56:14-4. Damages.

a. Except to the extent that circumstances including a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. 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 lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

b. If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

COMMENT

This section adopts the Official Text of the Uniform Act except for minor word modification in subsection a., removal of parentheses around the reference to subsection a. in subsection b., and renumbering. This section is numbered section 3 in the Official Text.

56:14-5. Attorney's fees.

~~If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.~~

The court may award to the prevailing party reasonable attorney's fees and costs, including a reasonable sum to cover the service of expert witnesses, if (i) willful and malicious misappropriation exists, (ii) a claim of misappropriation is made in bad faith, or (iii) a motion to terminate an injunction is made or resisted in bad faith. For purposes of this section, "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.

COMMENT

This section adopts the Official Text of the Uniform Act but reverses the order of the paragraph and clarifies language. A definition of "bad faith" is also added to this section, similar to the proposed

pending bills in New York, as is the inclusion of costs and expert witness fees, similar to California's law. This section is numbered 4 in the Official Text.

56:14-6. Preservation of secrecy.

In an action under this ~~{Act}~~, a court shall preserve the secrecy of an alleged trade secret by reasonable means, ~~which may include~~ There shall be a presumption in favor of granting protective orders in connection with discovery proceedings, in accordance with R. 4:10-3 (g), which may include provisions limiting access to confidential information to only the attorneys for the parties and their experts, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

COMMENT

The Commission added language to link this provision to existing New Jersey law pertaining to protective orders set forth in R. 4:10-3 of the Rules Governing the Courts of the State of New Jersey. This section is numbered 5 in the Official Text.

56:14-7. Statute of limitations.

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

COMMENT

This section adopts the Official Text of the Uniform Act except for numbering. This section is numbered section 6 in the Official Text.

56:14-8. Effect on other law.

~~(a) Except as provided in subsection (b), this [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret~~

~~(b) This [Act] does not effect:~~

~~(1) contractual remedies, whether or not based upon misappropriation of a trade secret;~~

~~(2) other civil remedies that are not based upon misappropriation of a trade secret;~~
or

~~(3) criminal remedies, whether or not based upon misappropriation of a trade secret.~~

a. The rights, remedies and prohibitions accorded by the provisions of this act are hereby declared to be in addition to and cumulative of any other right, remedy or prohibition accorded by the common law or statutes of this State and nothing contained herein shall be construed to deny, abrogate or impair any such common law or statutory right, remedy or prohibition except as expressly superseded in subsection b.

b. This act shall supersede conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.

c. In any action for misappropriation of a trade secret brought against a public entity or public employee, the provisions of the “New Jersey Tort Claims Act” (N.J.S. 59:1-1 et seq.) shall also supersede any conflicting provisions of this act.

COMMENT

The Commission added new subsections a. and b. to provide for a cumulative remedy except as specifically superseded, thereby making the language consistent with statutory construction in other New Jersey statutes. This section is also numbered 7 in the Official Text.

56:14-9. Uniformity of application and construction.

This {Aact} shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this {Aact} among states enacting it.

COMMENT

This section adopts the Official Text of the Uniform Act except for minor changes as noted and numbering. This section is numbered section 8 in the Official Text.

56:14-10. Severability.

If any provision of this {Aact} or its application to any person or circumstances is held invalid, the invalidity does not affect other provisions or applications of the {Aact} which can be given effect without the invalid provision or application, and to this end the provisions of this {Aact} are severable.

COMMENT

This section adopts the Official Text of the Uniform Act with minor changes as noted.

56:14-11. Time of taking effect.

This {Aact} takes effect on _____ and does not apply to misappropriation occurring prior to the effective date. With respect to a continuing misappropriation that began prior to the effective date, the {Aact} also does not apply to the continuing misappropriation that occurs after the effective date.

COMMENT

This section adopts the Official Text of the Uniform Act with minor changes as noted.

56:14-12. Repeal. [deleted]

~~The following Acts and parts of Acts are repealed:~~

COMMENT

This section is deleted as no acts or parts of acts are repealed by the adoption of the Uniform Act in New Jersey.