

SENATE, No. 3147

STATE OF NEW JERSEY
213th LEGISLATURE

INTRODUCED DECEMBER 14, 2009

Sponsored by:

Senator NICHOLAS P. SCUTARI

District 22 (Middlesex, Somerset and Union)

SYNOPSIS

"New Jersey Trade Secrets Act."

CURRENT VERSION OF TEXT

As introduced.



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1 AN ACT concerning the misappropriation of trade secrets and
2 supplementing Title 56 of the Revised Statutes.

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4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

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7 1. This act shall be known and may be cited as the "New Jersey
8 Trade Secrets Act."

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10 2. As used in this act:

11 "Improper means" means the theft, bribery, misrepresentation,
12 breach or inducement of a breach of an express or implied duty to
13 maintain the secrecy of, or to limit the use or disclosure of, a trade
14 secret, or espionage through electronic or other means, access that
15 is unauthorized or exceeds the scope of authorization, or other
16 means that violate a person's rights under the laws of this State;

17 "Misappropriation" means:

18 (1) Acquisition of a trade secret of another by a person who
19 knows or has reason to know that the trade secret was acquired by
20 improper means; or

21 (2) Disclosure or use of a trade secret of another without express
22 or implied consent of the trade secret owner by a person who:

23 (a) used improper means to acquire knowledge of the trade
24 secret; or

25 (b) at the time of disclosure or use, knew or had reason to know
26 that the knowledge of the trade secret was derived or acquired
27 through improper means; or

28 (c) before a material change of position, knew or had reason to
29 know that it was a trade secret and that knowledge of it had been
30 acquired through improper means.

31 "Person" means a natural person, corporation, business trust,
32 estate, trust, partnership, association, joint venture, government,
33 governmental subdivision or agency, or any other legal or
34 commercial entity.

35 "Proper means" means discovery by independent invention,
36 discovery by reverse engineering, discovery under a license from
37 the owner of the trade secret, observation of the information in
38 public use or on public display, obtaining the trade secret from
39 published literature, or discovery or observation by any other means
40 that is not improper.

41 "Reverse engineering" means the process of starting with the
42 known product and working backward to find the method by which
43 it was developed so long as the acquisition of the known product
44 was lawful or from sources having the legal right to convey it, such
45 as the purchase of the item on the open market.

46 "Trade secret" means information, held by one or more people,
47 without regard to form, including a formula, pattern, business data

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1 compilation, program, device, method, technique, design, diagram,
2 drawing, invention, plan, procedure, prototype or process, that:

3 (1) Derives independent economic value, actual or potential,
4 from not being generally known to, and not being readily
5 ascertainable by proper means by, other persons who can obtain
6 economic value from its disclosure or use; and

7 (2) Is the subject of efforts that are reasonable under the
8 circumstances to maintain its secrecy.

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

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

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

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26 4. a. Except to the extent that circumstances, including a
27 material and prejudicial change of position prior to acquiring
28 knowledge or reason to know of misappropriation renders a
29 monetary recovery inequitable, a complainant is entitled to recover
30 damages for misappropriation. Damages can include both the
31 actual loss caused by misappropriation and the unjust enrichment
32 caused by misappropriation that is not taken into account in
33 computing actual loss. In lieu of damages measured by any other
34 methods, the damages caused by misappropriation may be measured
35 by imposition of liability for a reasonable royalty for a
36 misappropriator's unauthorized disclosure or use of a trade secret.

37 b. If willful and malicious misappropriation exists, the court
38 may award punitive damages in an amount not exceeding twice any
39 award made under subsection a. of this section.

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41 5. A person who misappropriates a trade secret shall not use as a
42 defense to the misappropriation that proper means to acquire the
43 trade secret existed at the time of the misappropriation.

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45 6. The court may award to the prevailing party reasonable
46 attorney's fees and costs, including a reasonable sum to cover the
47 service of expert witnesses, if:

48 a. willful and malicious misappropriation exists;

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- 1 b. a claim of misappropriation is made in bad faith; or
2 c. a motion to terminate an injunction is made or resisted in
3 bad faith.

4 For purposes of this section, “bad faith” is that which is
5 undertaken or continued solely to harass or maliciously injure
6 another, or to delay or prolong the resolution of the litigation, or
7 that which is without any reasonable basis in fact or law and not
8 capable of support by a good faith argument for an extension,
9 modification or reversal of existing law.

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11 7. In an action under this act, a court shall preserve the secrecy
12 of an alleged trade secret by reasonable means. There shall be a
13 presumption in favor of granting protective orders in connection
14 with discovery proceedings pursuant to section 4:10-3(g) of the
15 Rules of Court as adopted by the Supreme Court of New Jersey,
16 which may include provisions limiting access to confidential
17 information to only the attorneys for the parties and their experts,
18 holding in-camera hearings, sealing the records of the action, and
19 ordering any person involved in the litigation not to disclose an
20 alleged trade secret without prior court approval.

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22 8. An action for misappropriation shall be brought within three
23 years after the misappropriation is discovered or by the exercise of
24 reasonable diligence should have been discovered. For the purposes
25 of this section, a continuing misappropriation constitutes a single
26 claim.

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28 9. a. The rights, remedies and prohibitions provided under this
29 act are in addition to and cumulative of any other right, remedy or
30 prohibition provided under the common law or statutory law of this
31 State and nothing contained herein shall be construed to deny,
32 abrogate or impair any common law or statutory right, remedy or
33 prohibition except as expressly provided in subsection b. of this
34 section.

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

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

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43 10. This act shall take effect immediately, and does not apply to
44 misappropriation occurring prior to the effective date. With respect
45 to a continuing misappropriation that began prior to the effective
46 date, the act also does not apply to the continuing misappropriation
47 that occurs after the effective date.

STATEMENT

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This bill creates the “New Jersey Trade Secrets Act,” and is based on the “Uniform Trade Secrets Act” prepared by the National Conference of Commissioners on Uniform State Laws. The “Uniform Trade Secrets Act” has been adopted in 46 states and the District of Columbia. Many of those states have adopted the “Uniform Trade Secrets Act” with varying degrees of modification. The New Jersey Law Revision Commission has reviewed and modified the “Uniform Trade Secrets Act” to reflect this State’s common law trade secret jurisprudence.

The bill sets forth the remedies that are available to the holder of a trade secret which has been misappropriated, which the bill defines as acquired by improper means or improperly disclosed. Those remedies include:

1. Damages for both the actual loss suffered by the plaintiff and for any unjust enrichment of the defendant caused by the misappropriation. Damages may also include the imposition of a reasonable royalty for unauthorized disclosure or use.
2. Injunctive relief for actual or threatened misappropriation of a trade secret. Under certain exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty.
3. In cases involving the willful and malicious misappropriation of a trade secret, punitive damages, if awarded by the court, in an amount not exceeding twice that awarded for actual damages and unjust enrichment.
4. The award of attorney’s fees by the court 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.

The bill also contains language indicating that if a public entity or employee is the defendant in any action brought for the misappropriation of a trade secret, the provisions of the "New Jersey Tort Claims Act" would supersede any conflicting provision of the bill.