



# The Secrets of Successful Trade Secret Litigation

by Marc J. Gross and Jordan B. Kaplan

Imagine a client's senior vice president of operations abruptly walks out the door and takes the entire customer list with him. Even worse, the client has not entered into a separation agreement with its former employee and has no contractual post-employment restrictions. One of a company's worst business nightmares might become a reality, when that former trusted employee begins poaching the company's prospects, beating its prices and soliciting its customers. The foundation of the business is about to crumble, and the company's newest competitor has the inside track to take it all down.

While conventional wisdom dictates that, absent a post-employment contract or other non-compete agreement, the company might be without recourse, New Jersey law still protects the company's trade secrets. In fact, New Jersey has adopted some of the most stringent statutes to protect trade secrets. In this regard, the New Jersey Trade Secrets Act,<sup>1</sup> combined with the Federal Defend Trade Secrets Act of 2016,<sup>2</sup> provide New Jersey businesses with some of the most powerful laws protecting trade secrets. Indeed, even without an employment contract or post-employment restrictions, the New Jersey Trade Secrets Act provides strong remedies to businesses in the event an employee gets up to leave with confidential information. Specifically, remedies available under the

New Jersey Trade Secrets Act include injunctive relief, damages, and, if the misappropriation is particularly malicious, punitive damages and attorneys' fees.

Trade secret litigation certainly should not be treated the same as other commercial litigation. In fact, successful trade secret litigation should begin with an immediate application for injunctive relief and a carefully calculated litigation strategy. As with any request for injunctive relief, the application must include a detailed analysis of *Crowe v. De Gioia*,<sup>3</sup> demonstrating that absent temporary and preliminary restraints, the adversary will continue to utilize the company's confidential information that will lead to irreparable harm, including loss of customers, loss of competitive advantage, and, most importantly, destruction of the business. If one does not commence trade secret action by seeking temporary and preliminary restraints, the case may be doomed regardless of a future judgment in the company's favor, as the former employee can continue to use confidential information prior to the entry of final judgment. Acting quickly to obtain restraints is a litigation imperative.

While the irreparable harm arising from the misappropriation of confidential information may be obvious, a successful litigant must also be prepared to show that such misappropriated information constitutes a 'trade secret,' and that the liti-

gant will, therefore, succeed on a claim under the New Jersey Trade Secrets Act.

In this regard, New Jersey courts evaluate six factors to determine whether the subject information constitutes a trade secret:

- 1) the extent to which the information is known outside of the business;
- 2) the extent to which the information is known by others involved in the business;
- 3) the extent of measures taken to guard the secrecy of the information;
- 4) the value of the information to the business and to its competitors;
- 5) the amount of effort or money expended in developing the information; and
- 6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>4</sup>

Customer lists, for example, have been found to be a trade secret where they contain private information that is not open to and ascertainable by everyone.<sup>5</sup> In this light, lawyers should counsel their clients to take steps to protect information they do not want to be available to their competitors, such as deliberately choosing and carefully managing the information that is available to the public on their company's website.

An emergent application in trade secret litigation should also include requests for immediate discovery. Such discovery should include the deposition of the wrongdoer and paper discovery to be answered on an expedited basis, focusing on: 1) the extent to which the former employee has already misappropriated the confidential information; 2) the access the former employee had to the confidential information throughout his or her employment; and 3) all communications the former employee had with third parties that reflect, relate to, or otherwise concern the confiden-

tial information.

In addition to providing support for the application for preliminary relief pending final judgment, immediate discovery will allow the practitioner to prepare an application for summary judgment more expeditiously.

But even if the immediate discovery requested in the emergent application does not reveal that the former employee has actually taken a customer list or other trade secrets with him or her, a former employee is not without recourse to obtain preliminary restraints. Through the inevitable disclosure doctrine, as set forth in *National Starch and Chemical Corp. v. Parker Chemical Corp.*,<sup>6</sup> injunctive relief may still be available to prevent a former employee from using the knowledge and information he or she gained while in the company's employ to compete against the business.

In *National Starch*, a nine-year employee at an envelope factory, who had worked closely with his employer's "highly technical envelope adhesives," left to work for a competitor.<sup>7</sup> Based upon the employee's "intimate association" with his former employer's trade secrets, the former employer was able to obtain an injunction: 1) preliminarily barring the employee from beginning employment responsibilities that "in any way relate to or involve" the former employer's trade secrets; 2) preliminarily enjoining the employee from disclosing any of the former employer's trade secrets; and 3) barring the competitor from requiring the employee to disclose his former employer's trade secrets.<sup>8</sup>

Affirming the trial court's decision to impose preliminary restraints, the Appellate Division held that to obtain a preliminary injunction in trade secret litigation, a plaintiff need not prove at the preliminary stage that any misappropriation has already occurred, but only that "[i]t is sufficient that the circumstances give rise to an inference that substantial threat of disclosure exists."<sup>9</sup>

Thus, to ensure that a former employee will obtain injunctive relief in trade secret litigation one must show that, even without taking a customer list or actual trade secret in document form, the former employee has such intimate knowledge of the business that he or she will be able to replicate the confidential information from memory, and that it is inevitable that he or she will disclose trade secrets in his or her new venture. This requires a carefully calculated presentation of the facts in the case, highlighting the former employee's intimate knowledge of and experience with the confidential information.

At this juncture, the stage has been set for success in the trade secret action. Having obtained temporary and preliminary restraints, one can shift the focus to obtaining a permanent injunction and establishing any damages the business has suffered as a result of the former employee's misappropriation. Learning and following the secrets of trade secret litigation will, without question, increase the likelihood of a successful outcome. ☪

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## Endnotes

1. N.J.S.A. 56:15-1 *et seq.*
2. 18 U.S.C. §1836 *et seq.*
3. 90 N.J. 126 (1982).
4. See *e.g. Hammock by Hammock v. Hoffman-LaRoche, Inc.*, 142 N.J. 356 (1995).
5. See *e.g. Lamorte Burns & Co., Inc. v. Walters*, 167 N.J. 285 (2001); *J.H. Renarde, Inc. v. Sims*, 312 N.J. Super. 195 (Ch. Div. 1998).
6. 219 N.J. Super. 158 (App. Div. 1987).
7. *Id.* at 161.
8. *Id.* at 160.
9. *Id.* at 163.