

WV HOUSE BILL 4005 – WEST VIRGINIA INTELLECTUAL PROPERTY AND TRADE SECRETS ACT

West Virginia House Bill 4005, titled the West Virginia Intellectual Property and Trade Secrets Act (“IPTSA”), has been introduced in the West Virginia Legislature as a substitute to the presently enacted Uniform Trade Secrets Act (“UTSA”).

Summary of Modifications Proposed by IPTSA:

The proposed IPTSA would change current Trade Secrets Laws in West Virginia by:

- 1) adding reference to a segment of trade secret information referred to as “intellectual property” – this addition appears to have no effect on the protection, enforcement or scope of trade secret rights in West Virginia;
- 2) expanding actionable matters beyond traditional misappropriation of trade secrets, to include:
 - a) breach of a nondisclosure or employment agreement, but only by an employee, officer or agent, for the purposes of misappropriation of trade secrets;
 - b) willful disregard for a person’s trade secrets;
 - c) any knowing and willful attempt, either directly or indirectly, to access or cause to be accessed a computer or computer network with the intent to obtain the trade secrets of another; and
 - d) any knowing and willful attempt, either directly or indirectly, to disclose trade secrets to any corporation, trust, association, partnership or other entity organized outside the laws of the United States;
- 3) criminalizing trade secret misappropriation and these new actionable matters;
- 4) adjusting a Court’s right to grant equitable relief in a misappropriation matter, by:
 - a) withdrawing the Court’s right under certain circumstances to allow continued use of misappropriated trade secrets, previously permitted upon payment of a reasonable royalty;
 - b) allowing a Court to mandate that individuals subject to an action of misappropriation remain within the jurisdiction of the Court during pendency of the action; and
 - c) allowing a Court to require the posting of a bond by the alleged misappropriator;
- 5) adjusting the monetary damages available to an owner of trade secrets to include:
 - a) compensatory damages for any breach of a nondisclosure agreement or other employment agreement by an employee, officer or agent of the complainant for the purposes of misappropriation of IP or trade secrets;
 - b) any intangible or future losses caused by the misappropriation; and
 - c) increased punitive damages available for willful and malicious acts of misappropriation from double compensatory damages to the greater of four times compensatory damages or \$500,000;
- 6) expanding the statute of limitations from three to five years; and
- 7) withdrawing from the intention to make uniform the law with other states adopting the Uniform Trade Secrets Act.

Detailed Discussion of Modifications Proposed by IPTSA:

Each of the above-referenced proposed changes to current statutory law are discussed in further detail below:

Addition of Reference to “Intellectual Property”:

The UTSA is directed to protecting trade secrets against misappropriation, and providing relief in the event of misappropriation. The IPTSA appears to add to the protected information a distinct category of information referred to as “intellectual property.” However, in reviewing the provisions of the IPTSA, this inclusion of “intellectual property”, as a segment or subset of “trade secrets”, does not modify (or expand) the information as presently protected under the UTSA.

Specifically, “intellectual property” is defined by the IPTSA as:

a commercially valuable product of the human intellect that:

- (1) **is a trade secret** in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within circles that normally deal with the kind of information in question;
- (2) Has commercial value because it is a trade secret; and
- (3) Has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

IPTSA § 47-22-2(a). The IPTSA includes the same definition of “trade secrets” as the UTSA (IPTSA § 47-22-2(c)); because “intellectual property” under the IPTSA must first be a “trade secret”, it does not expand the information protected. Further, “intellectual property” is treated identically to “trade secrets” under the IPTSA provisions, and therefore the identification of this subset of trade secret information is presently without meaning or purpose.

Civil Actionable Matters:

The UTSA as adopted in West Virginia is limited to the actual **or threatened** misappropriation of trade secrets. Not all states include threatened misappropriation as an actionable matter. The IPTSA incorporates as unlawful/actionable matters the same actionable or threatened misappropriation of trade secrets, but adds thereto four additional claims:

(1) breach of a nondisclosure or employment agreement, but only by an employee, officer or agent, for the purposes of misappropriation of trade secrets;

(2) willful disregard for a person’s trade secrets;

(3) any knowing and willful attempt, either directly or indirectly, to access or cause to be accessed a computer or computer network with the intent to obtain the trade secrets of another; and

(4) any knowing and willful attempt, either directly or indirectly, to disclose trade secrets to any corporation, trust, association, partnership or other entity organized outside the laws of the United States (without reference to foreign individuals).

IPTSA § 47-22-3(c)-(f).

These additional claims broaden the scope of the current UTSA, wherein for example there is a breach of a nondisclosure agreement by an employee for the purposes of misappropriation of trade secrets, but threatened misappropriation has not occurred (as threatened misappropriation is otherwise actionable under both Acts). Instances which would be captured by the IPTSA and not the UTSA would include an employee who possesses company trade secrets in violation of an employment agreement, but there is no evidence that he/she intended to use the information or disclose the information in violation of the obligations of confidentiality under the employment agreement.

Criminal Matters:

The IPTSA proposes to criminalize trade secret misappropriation and the additional actionable matters discussed in the foregoing section. Generally, the crime is defined as a misdemeanor, with a maximum fine of \$1,000 and/or up to one year in jail for **each** violation of the Act; any disclosure or attempt to disclose trade secrets to a foreign entity is defined as a felony, with a minimum fine of \$1000 and/or minimum jail term of one year for **each** violation. IPTSA § 47-22-3.

Injunctive & Other Nonmonetary Relief.

The UTSA as adopted in West Virginia authorizes a Court to enjoin actual or threatened misappropriation: “Actual or threatened misappropriation **may** be enjoined.” WV Code § 47-22-2(a). The IPTSA appears to mandate such injunctions: “Actual or threatened misappropriation **shall** be enjoined **to the extent necessary to effectuate the immediate cessation of use of a person’s intellectual property or trade secret.**” IPTSA § 47-22-4(a). The IPTSA is clearly directed to immediate cessation of use of another person’s trade secrets, whereas the UTSA has a more equitable analysis.

As an example, the UTSA allows a Court, in exceptional circumstances, to grant an injunction wherein future use of the trade secret information is conditioned upon payment of a reasonable royalty. Exceptional circumstances under the UTSA include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of a misappropriation that renders a prohibitive injunction inequitable. WV Code § 47-22-2(b). The IPTSA does **not** authorize a Court to allow continued use of trade secret information by a misappropriator, even where a prohibitive injunction would be inequitable.

The UTSA further authorizes a court to compel a party to undertake certain affirmative acts to protect a trade secret. WV Code § 47-22-2(c). The IPTSA includes among such acts the requirement that the person(s) accused of misappropriation **remain in the jurisdiction of the court for the remainder of the judicial process.** IPTSA § 47-22-4(a)(2).

In addition to the relief offered under the UTSA, the IPTSA allows a Court, in appropriate circumstances, to require a party against whom a misappropriation action has been brought to post a bond to secure against future potential damages associated with the misappropriation. IPTSA § 47-22-4(a)(4).

Monetary Damages:

Each of the Acts allow for the recovery of damages in instances of trade secret misappropriation, except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable

The IPTSA describes these damages as “compensatory,” and further entitles a party to receive compensatory damages for any breach of a nondisclosure agreement or other employment agreement by an employee, officer or agent of the complainant for the purposes of misappropriation of IP or trade secrets. IPTSA § 47-22-4(b)(1).

Both Acts articulate that the damages may include both the actual loss caused by the misappropriation and the unjust enrichment caused by the misappropriation. The IPTSA further includes as potential damages any intangible or future losses caused by the misappropriation. IPTSA § 47-22-4(b)(2).

Each of the Acts provide, in lieu of damages measured by any other methods, the damages may be measured by imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret.

If willful and malicious misappropriation occurs, the UTSA provides that the court may award exemplary damages in an amount not to exceed twice any compensatory damage award. WV Code § 47-22-3(b). The IPTSA refers to these as punitive damages, in accordance with Section 55-7-29 of the WV Code, allowing damages up to the greater of **four times** compensatory damages or \$500,000. IPTSA § 47-22-4(b)(4).

Miscellaneous:

As with the UTSA, the IPTSA was intended to displace conflicting tort, restitutive, or other West Virginia law providing civil remedies for misappropriation of trade secrets, except contractual remedies, other civil remedies not based upon misappropriation, and criminal remedies whether or not based upon misappropriation. WV Code IPTSA § 47-22-7, IPTSA § 47-22-7. Therefore, any contractual remedies from breach of a nondisclosure agreement or employment agreement would be actionable independent of a claim under the IPTSA; further, any criminal activity would be actionable both under the IPTSA and other criminal statutes.

However, the displacement of laws does not apply to information about the marketing and distribution of Schedule 2 substances, including opioids and opiates, and therefore if there are other conflicting tort, restitutive or other West Virginia law providing civil remedies for misappropriation of trade secrets relating to the marketing and distribution of Schedule 2 substances, they are not displaced by the IPTSA. IPTSA § 47-22-7(c).

Finally, the IPTSA withdraws from the uniformity of the Uniform Trade Secrets Act. The uniformity of the UTSA has been beneficial for businesses to have some confirmation that the Courts of the State of West Virginia may align with decisions from other jurisdictions under the Uniform Trade Secrets Act, with the case law regarding misappropriation of trade secrets in West Virginia being limited in comparison.