West Virginia Trade Secrets in the 21st Century: West Virginia's Uniform Trade Secrets Act

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WEST VIRGINIA TRADE SECRETS IN THE 21st CENTURY: WEST VIRGINIA’S UNIFORM TRADE SECRETS ACT

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I. INTRODUCTION

As West Virginia strives to retain existing businesses and attract new ones, it must offer a way for businesses to obtain and maintain an advantage over competitors. One way the state can do this is by providing protection for the valuable intellectual property upon which these businesses rely. This intellectual property may be a formula, process, product, technical know-how, customer list, or financial infor-
information, which gives a business a competitive edge because its competitors do not have the same information. Even relatively low-technology businesses are concerned with protecting information such as customer lists and financial information. Treating such intellectual property as a trade secret is one way to protect it.

When former employees go to work for competitors, businesses want to be able to protect their trade secrets and thus their competitive position. In a similar manner, when businesses hire new employees, they do not want to risk being sued for inadvertently stealing their competitor’s trade secrets.

West Virginia took a positive step in providing such protection for businesses by joining the majority of states\(^1\) in adopting the Uniform Trade Secrets Act (UTSA),\(^2\) which became effective in West Virginia on July 1, 1986.\(^3\)

Trade secret protection is valuable in many situations. A company may choose trade secret protection over patent protection because it is less expensive and the period of protection is unlimited. Also, if patent


protection is selected and a patent is issued, the idea becomes publicly available. However, the patent can subsequently be invalidated by the courts, resulting in the loss of all protection. A business may seek trade secret protection for information that cannot be protected by patents, copyrights, or trademarks. Examples of this type of information are: customer lists; business sensitive information such as the cost of making certain products, labor rates, marketing projections, and commercialization plans; the fact that certain software or processes are used by the business; and special knowledge and training provided to employees.

The adoption of the UTSA offers several advantages for West Virginia. First, because trade secret case law in West Virginia has been slow to develop, case law from other jurisdictions that have adopted the UTSA can be used as a guide to trade secret protection in West Virginia. Second, since the protection provided by the West Virginia Uniform Trade Secrets Act (WV UTSA) is similar to that offered by other states, West Virginia businesses can compete more efficiently in interstate commerce.

This Note will first review the developments in trade secret law, including the progression from the common law to the UTSA. The WV UTSA will then be described, including the types of information protected and the remedies available to owners of trade secrets. Finally, examples of how the WV UTSA can be expected to function will be provided.

II. BACKGROUND

Several methods of protecting intellectual property are available, including patents, copyrights, trademarks and trade secrets. The United States Constitution\(^4\) expressly gives Congress the power to grant patents and copyrights. The Commerce Clause\(^5\) authorizes Congress to regulate trademarks. In addition, specific federal legislation has been adopted to implement patent\(^6\), copyright\(^7\) and trademark\(^8\) protection.

\(^{4}\) U.S. CONST. art. I, § 8, cl. 8.
\(^{5}\) U.S. CONST. art. I, § 8, cl. 3.
However, no federal constitutional provision or legislation exists relative to trade secrets. Thus, the states have exclusive authority to regulate trade secrets. The United States Supreme Court resolved any doubt regarding the states’ power to regulate trade secrets when it ruled that neither the Patent Clause of the United States Constitution nor federal patent law preempts state trade secret law.9

Businesses seek patent and trade secret protection for many of the same reasons.10 The primary purpose of both is to allow an owner to legally prevent misappropriation of valuable information by another who would gain an unfair economic advantage.11 However, there are several reasons why trade secret protection is preferred over patent protection. First, while a concept can remain secret during the patent application process, it becomes public knowledge when the patent is issued. Because a substantial number of patents are invalidated by the courts,12 the owner risks losing its competitive advantage through the patent process. Second, trade secret status provides an unlimited period of protection as long as secrecy is maintained,13 while patent protection only exists for seventeen years after a patent is issued. Third, while a concept must be novel and non-obvious in order to qualify for patent protection,14 and copyright protection is only afforded to “original works of authorship,”15 these requirements do not exist for trade secret protection. Fourth, the patent process is time consuming and expensive because a patent attorney must be hired, and filing and maintenance fees must be paid. These problems are avoided with trade secret protection.

11. Id. at 866.
12. UTSA, supra note 2, prefatory note at 434.
14. See, e.g., Kewanee Oil Co., 416 U.S. at 476-78.
Finally, in contrast to patents and copyrights, trade secret protection extends to ideas, customer lists, and most financial information. Misappropriation of information that qualifies as a trade secret triggers relief for injury or potential injury to the owner. Prior to the UTSA, the courts generally looked to the Restatement of Torts (Restatement) to resolve trade secret issues. Under the Restatement, "any formula, pattern, device or compilation of information which is used in one's business, and which gives one an opportunity to obtain an advantage over competitors who do not know or use it" can be protected as a trade secret. Although it is permissible to learn a trade secret through independent discovery and reverse engineering, discovering a trade secret through improper means entitles the owner to relief. Generally, improper means of discovery are those "which fall below the generally accepted standards of commercial morality and reasonable conduct." Although the Restatement provides a partial list of improper means, its authors recognized the impossibility of providing a complete list.

The principles in the Restatement have been used extensively in trade secret litigation. However, the Restatement has several drawbacks. First, there is a great deal of variation in the law from state to state and a lack of law in many states. Since the Restatement merely provides a guideline, courts are not bound to follow it and, even when they do, interpretations are not consistent. Second, the Restatement is

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16. Miller, supra note 10, at 867.
17. RESTATEMENT OF TORTS § 757 (1939).
18. Id. at cmt. b.
19. Reverse engineering involves discovering the secret by starting with the known product and dismantling it. In order for reverse engineering to be legal, the product must be obtained by fair and honest means such as purchase on the open market. UTSA, supra note 2, § 1 cmt. at 438.
20. RESTATEMENT, supra note 17, § 757 cmt. f.
21. Id.
22. 12 ROGER M. MILGRIM, BUSINESS ORGANIZATIONS; MILGRIM ON TRADE SECRETS § 1.01 (1993).
24. Id. (citing Ramon A. Klitzke, The Uniform Trade Secrets Act, 80 PAT. & TRADE-
not exhaustive, and when the second edition was published in 1979, all provisions relating to trade secrets were deleted because the American Law Institute believed that "trade regulation law, of which trade secrets was a part, had developed into an independent body of law no longer based primarily upon tort principles," and that trade secrets should be considered part of property law. Finally, prior to the UTSA, existing state statutes mostly focused on criminal liability for theft and protecting trade secrets from governmental dissemination.

In 1979, the National Conference of Commissioners on Uniform State Laws approved and recommended for enactment the UTSA. The UTSA was developed because of the failure of the second edition of the Restatement to address trade secrets. Moreover, in spite of the importance of trade secret law to interstate business, the law in this area had not developed in a satisfactory manner. The UTSA was amended in 1985 primarily to clarify several ambiguous sections and strengthen the available remedies.

The UTSA supplements rather than replaces state law, including statutes regarding preliminary injunctions and the burden of proof. The UTSA not only draws upon but expands the guidance provided by the Restatement, while providing civil remedies exclusively. Additionally, it codifies the basic common law principles of trade secret protection while maintaining the distinctions from patent law. Although the

MARK REV. 157, 162 (1980)).

25. Id.

26. Miller, supra note 10, at 865 (citing Ramon A. Klitzke, The Uniform Trade Secrets Act, 64 MARQ. L. REV. 277, 283 (1980)).


28. UTSA, supra note 2, prefatory note, at 436.

29. Id. at 434.


32. UTSA, supra note 2, prefatory note, at 434.
UTSA is general in nature, it provides unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations in place of the various property, quasi-contractual, and violation of fiduciary relationship theories used at common law. Finally, the UTSA codifies the results of the better reasoned cases that address the remedies for trade secret misappropriation. Thus, the UTSA is especially valuable for states such as West Virginia which lack case law in this area.

III. WEST VIRGINIA'S UNIFORM TRADE SECRETS ACT

West Virginia adopted the 1985 version of the UTSA, with several insignificant modifications and one significant modification involving available remedies. Other states that follow the 1985 version of the UTSA, with variations, include: Colorado; the District of Columbia; Florida; Hawaii; Maine; Maryland; Minnesota; Nebraska; Nevada; New Mexico; North Dakota; Oklahoma; Oregon; South Dakota; Utah; Virginia; and Wisconsin. Rhode Island adopted the 1985 Act without change. Many of the other states that adopted the UTSA have enacted versions containing provisions identical to those in the WV UTSA. Thus, case law from other jurisdictions is helpful in interpreting the WV UTSA.

A. Definition of a Trade Secret

One of the policies behind trade secret law is “the maintenance of standards of commercial ethics.” The Restatement embraces the view that:

A trade secret may consist of any formula, pattern, device or 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. It may be a formula for a chemical compound, a process of manu-

33. Id. at 435.
34. Id.
36. Id.
facturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.38

In the absence of applicable West Virginia decisions on the issue and before the adoption of the WV UTSA, the United States District Court for the Southern District of West Virginia determined that the Supreme Court of Appeals of West Virginia would rely on the Restatement definition of a trade secret if asked to sustain a claim where an improper disclosure was made of a trade secret.39

In spite of the extensive adoption of the UTSA, the Restatement is still referred to by courts in cases involving the UTSA.40 Recently, the Supreme Court of Appeals of West Virginia adopted the six-factor test found in the Restatement to determine whether there was good cause, pursuant to Rule 26(c)(7) of the West Virginia Rules of Civil Procedure, to issue a protective order to prevent the disclosure of the defendant’s trade secrets.41

The UTSA furnishes a new definition of “trade secret” which replaces that of the Restatement. There are three main elements of the definition: a trade secret must be information; it must have actual or potential independent economic value based on its secrecy; and reasonable measures must be taken to maintain its secrecy.42 In adopting the UTSA, West Virginia made a minor change by adding the words “but not limited to” after “information, including” in the first paragraph.43

38. RESTATEMENT, supra note 17, § 757 cmt. b.
40. MILGRIM, supra note 22, § 1.01. See, e.g., Optic Graphics, Inc. v. Agee, 591 A.2d 578 (Md. Ct. Spec. App. 1991) (using Restatement’s factors still helpful in determining whether information constitutes a trade secret within the definition of the UTSA); Robert S. Weiss & Assoc., Inc. v. Weiderlight, 546 A.2d 216 (Conn. 1988) (listing the Restatement’s factors as useful in determining whether certain information is a “trade secret”); Minuteman, Inc. v. Alexander, 434 N.W.2d 773 (Wis. 1989) (stating that although all six elements of Restatement’s test are no longer required, the Restatement still provides guidance in deciding whether certain materials are trade secrets under new statute).
42. UTSA, supra note 2, § 1.
43. Specifically, the WV UTSA provides that:
   (d) “Trade secret” means information, including, but not limited to, a formula, pattern, compilation, program, device, method, technique, or process, that:
Although the WV UTSA definition is based on that in the Restatement, there are several changes that significantly broaden the scope of trade secret law. The common law dictated that the alleged trade secret be “used in one’s business,” and provide “an advantage over competitors who do not know or use it.”44 The requirement that the trade secret be used in one’s business does not appear in the WV UTSA and the owner of the information need not demonstrate that it benefits because its competitors do not have the same information.45

1. Information

The Restatement and the WV UTSA both provide a list of items considered to be trade secrets.46 However, the WV UTSA expands the Restatement list, by including the terms “program, method and technique.”47 “Program” includes computer programs,48 and “method and technique” includes the concept of “know-how.”49 Know-how is the knowledge gained by an employee during his employment; however, it does not include skills and information gained by an employee that are of a general nature50 or that are not given in a confidential manner.

The difference between know-how and general knowledge is illustrated in Appalachian Laboratories, Inc. v. Bostic.51 Bostic, a water analyst employed by Appalachian Laboratories, quit his job and went

(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.

44. RESTATEMENT, supra note 17, cmt. b.
45. W. VA. CODE § 47-22-1(d) (1992); see supra note 43.
46. See supra text accompanying note 38; W. VA. CODE § 47-22-1(d) (1992).
47. W. VA. CODE § 47-22-1(d) (1992); see supra note 43.
49. UTSA, supra note 2, § 1 cmt. at 439.
to work for another company in violation of the terms of a written employment agreement. Substantially all of the customers of Bostic's new employer were former customers of Appalachian. The court held that Appalachian did not demonstrate any legitimate business interest worthy of protection by the restrictive covenant in Bostic's employment agreement because Bostic was not privy to any sensitive or confidential information. Also, Appalachian did not prove that it had any interest capable of being protected in its list of customers because the customer list was readily available to employees or ascertainable by independent sources. Because of the fine distinction between employee know-how and general knowledge, there is no precise standard to guide employers and employees to avoid trade secret misappropriation.

As discussed previously, the scope of trade secret law has been broadened by the WV UTSA. The WV UTSA protects trade secrets that have not been put to use, while the Restatement only protects trade secrets that are actually used in business. The UTSA also protects information that has commercial value from a negative viewpoint, such as the results of research which proves that a certain process will not work or is not economical. Finally, the Restatement requires continuous business use, while the WV UTSA does not contain such a restriction so even a single event, such as a contract bid, is protected.

A final difference between the Restatement and the WV UTSA is that the Restatement specifically mentions a "customer list" in the comments while customer lists are not included in the WV UTSA definition. However, prior to the adoption of the WV UTSA, the Su-

52. Id. at 616.
53. Id. at 616-17.
54. See supra text accompanying notes 44-45.
55. W. VA. CODE § 47-22-1(d)(1) (1992); see supra note 43.
56. RESTATEMENT, supra note 17, § 757 cmt. b; see supra text accompanying note 38.
57. UTSA, supra note 2, § 1 cmt. at 439 (citing Telex Corp. v. IBM Corp., 510 F.2d 894 (10th Cir. 1975) (per curiam) (liability imposed for developmental cost savings associated with product not marketed), cert. dismissed, 423 U.S. 802 (1975)).
58. RESTATEMENT, supra note 17, § 757 cmt. b.
59. W. VA. CODE § 47-22-1(d) (1992); see supra note 43.
60. RESTATEMENT, supra note 17, § 757 cmt. b.
61. W. VA. CODE § 47-22-1(d) (1992); see supra note 43.
preme Court of Appeals of West Virginia found that, in certain circumstances, a customer list can be protected as a trade secret. There is no reason to deviate from this opinion in spite of the omission by the WV UTSA. However, caution must be exercised because a customer list will not be protected if the customers are members of a readily ascertainable class.

2. Actual or Potential Economic Value Based on Secrecy

Under the WV UTSA, information does not have to be generally known to the public in order for trade secret protection to be lost. Instead, the WV UTSA focuses on the principal persons who can obtain economic benefit from the information. For example, a process for making a certain chemical that is unknown to the general public but readily known within the chemical industry would be regarded as generally known and not a trade secret.

Processes involving publicly known techniques and procedures that are developed by others before a company applies them to its specific problem are not trade secrets. Likewise, information available in trade journals, reference books, or published materials is considered to be generally known. Under both the UTSA and common law, reverse engineering of a product which lends itself to being readily copied is permitted. However, "if reverse engineering is lengthy and

64. W. VA. CODE § 47-22-1(d)(1) (1992); see supra note 43.

In Minnesota, the fact that a process was owned by a former employer was a sufficient competitive advantage to establish that the process was a protected trade secret. Surgidev Corp. v. Eye Technology, Inc., 648 F. Supp. 661, 691 (D. Minn. 1986), aff'd, 828 F.2d 452 (8th Cir. 1987).
66. UTSA, supra note 2, § 1 cmt. at 439.
67. UTSA, supra note 2, prefatory note at 434. Cf. Electro-Craft Corp. v. Controlled Motion, Inc. 332 N.W.2d 890 (Minn. 1983) (holding the requirement that the information desired to be protected must not be generally known or readily ascertainable is satisfied if the information is not readily available through reverse engineering and if the form of the
expensive, a person who discovers the trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering. 68 Finally, under both the UTSA and common law, more than one person can claim trade secret protection for the same information if each developed it independently because a trade secret may provide a competitive advantage even though more than one person knows it. 69 Since the WV UTSA is essentially identical to the UTSA, these principles should also apply in West Virginia.

3. Reasonable Efforts to Maintain Secrecy

The third major requirement for a trade secret is that reasonable efforts to maintain secrecy must be taken. 70 This requirement can be met by notifying employees of the existence of a trade secret, limiting access to the trade secret to those who have a need to know, and restricting plant access. 71 However, protection can be lost by public disclosure of information through display, trade journal publications, advertising, or other means. 72 Protection can also be lost by disclosing a trade secret to someone who is not obligated to maintain the confidentiality of the information. 73

Only efforts "reasonable under the circumstances to maintain its secrecy" are required. 74 The owner of a trade secret is not required to protect against unanticipated, undetectable or unpreventable means of

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68. Id. § 1 cmt. at 439.
69. Id.
70. W. VA. CODE § 47-22-1(d)(2) (1992); see supra note 43. See also Robert S. Weiss & Assocs., Inc. v. Weiderlight, 546 A.2d 216, 224 (Conn. 1988) (holding that to constitute a trade secret, steps must be taken to ensure that the information would be difficult to obtain except through improper means); Gillis Associated Indus., Inc. v. Cari-All, Inc., 564 N.E.2d 881 (Ill. App. Ct. 1990) (holding that a customer list, although sufficiently secret and economically valuable, did not qualify for protection because there was no evidence that the company took any measures to keep the list secret), appeal denied, 571 N.E.2d 147 (Ill. 1991).
71. UTSA, supra note 2, § 1 cmt. at 439.
72. Id.
74. W. VA. CODE § 47-22-1(d)(2) (1992); see supra note 43.
In the leading case on secrecy, *E.I. du Pont de Nemours & Co. v. Christopher,* while the plaintiff's chemical plant was being constructed, the defendant flew over the site and took aerial photographs. A skilled engineer could determine the plaintiff's secret chemical process by examining these photographs. The court found the defendant's actions to be a misappropriation of a trade secret. Since the plaintiff had taken reasonable measures to prevent observation from the ground, the court found that it was not necessary for a cover to be built over the site before beginning construction.

Finally, under some circumstances, such as limited disclosure to employees and licensees, the requirement of relative secrecy is still met even though a trade secret has been revealed. Thus, disclosure of a trade secret to a person under the protection of a non-disclosure agreement or confidentiality agreement does not cause trade secret protection to be lost. However, further disclosure by that person to another person without the trade secret owner's permission could lead to liability on the part of the person making the improper disclosure.

**B. Trade Secret Misappropriation**

As discussed previously, one policy behind trade secret law is "the maintenance of standards of commercial ethics." To be liable under the UTSA, two requirements must be met. First, a trade secret must exist. Second, the party's acquisition, disclosure to others, or use of the trade secret must be improper. A cause of action arising under the UTSA is built around the definitions of "misappropriation"

76. 431 F.2d 1012 (5th Cir.), cert. denied, 400 U.S. 1024 (1970).
77. Id. at 1016-17.
78. Id.
79. UTSA, supra note 2, § 1 cmt. at 439. See also Gillis Associated Indus., Inc. v. Cari-All, Inc., 564 N.E.2d 881 (Ill. App. Ct. 1990) (stating that it was not essential that the owner have exclusive possession of the information), appeal denied, 571 N.E.2d 147 (Ill. 1991).
80. See text accompanying supra note 37.
81. UTSA, supra note 2, prefatory note at 434.
82. Id.
and "improper means." West Virginia adopted the UTSA definitions of "misappropriation" and "improper means" with only minor grammatical modifications. 83

1. Misappropriation

Under common law, a trade secret case could be based on tort, contract or both. While the UTSA specifically "displaces conflicting tort, restitutionary and other law of the state providing civil remedies for misappropriation of a trade secret," it does not affect contractual remedies. 84 The elimination of conflicting causes of action should result in greater consistency in the law.

83. Specifically, the WV UTSA provides that:
(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy or espionage through electronic or other means.
(b) "Misappropriation" means:
   (1) 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
   (2) Disclosure or use of another person's trade secret without the other's express or implied consent 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 knowledge of the trade secret was:
           (i) Derived from or through a person who had utilized improper means to acquire it; or
           (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 position, knew or had reason to know that the information was a trade secret and that knowledge of it had been acquired by accident or mistake.

84. Miller, supra note 10, at 875.
Under both the Restatement85 and the WV UTSA,86 liability will exist if the trade secret was acquired by improper means such as a taking or an unauthorized disclosure.87 However, the WV UTSA provides for liability in cases of accident or mistake, thus providing greater protection for a trade secret owner than the Restatement.88

Under the WV UTSA, misappropriation can occur in four situations: (1) use of improper means to obtain the information; (2) use of a trade secret through a breach of a duty to maintain secrecy; (3) use of a trade secret by one who knows or has reason to know that it was obtained through improper means; or (4) continued use of a trade secret obtained by mistake or accident after learning of its confidential nature.89 The trade secret owner is entitled to relief in the last situation only if he used reasonable efforts to maintain secrecy90 and the misappropriator did not significantly change its position, such as making a large investment in implementing the trade secret into his opera-

85. Restatement, supra note 17, § 757(a) ("[o]ne who discloses or uses another's trade secret, without privilege to do so, is liable to the other if (a) he discovers the secret by improper means").

86. The WV UTSA provides that "(b) 'Misappropriation' means: (1) 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 . . . ." W. Va. Code § 47-22-1(b) (1992).

87. The Indiana Court of Appeals found that a former employee had misappropriated trade secrets from his former employer because: he had prepared the information for his former employer; the public did not have access to the information; the information was specific to his former employer's operation and was not the type of general information acquired in the course of employment; the former employer kept the information in a safe in a room with limited access; and access to the information allowed the former employee to undercut his former employer's price quotes. Davis v. Eagle Products, Inc., 501 N.E.2d 1099 (Ind. Ct. App. 1986).

An aircraft window supplier that had been provided with drawings, technical assistance and tooling by a window designer was found to have misappropriated the designer's trade secrets when the supplier used the designer's drawings to manufacture windows for other airlines. Boeing Co. v. Sierracin Corp., 738 P.2d 665 (Wash. 1987).

The Connecticut Appellate Court held that there must be a showing that customer lists and hair formulas were taken or copied in order for former employees of a beauty salon to be liable to the owner for misappropriation of trade secrets. Gach v. Franolich, 525 A.2d 525 (Conn. App. Ct. 1987).


89. W. Va. Code § 47-22-1(b) (1992); see supra note 83.

90. UTSA, supra note 2, § 1 cmt. at 439.
tion, before learning of the confidential nature of the information.\textsuperscript{91} Thus, liability results from the use of improper means to obtain the trade secret rather than from copying or using the trade secret.

Under both the WV UTSA\textsuperscript{92} and the \textit{Restatement},\textsuperscript{93} the misappropriator is liable for the continued use of the information after learning that it is a trade secret. However, the \textit{Restatement} grants absolute immunity to third parties who paid for the information in good faith,\textsuperscript{94} while the WV UTSA does not.\textsuperscript{95} Thus, in West Virginia, a person who continues to use a trade secret — even a trade secret obtained in good faith — after learning of its nature, is liable to the trade secret owner. Also, a third party is liable in West Virginia if he or she knows or has reason to know that the information was acquired through improper means.\textsuperscript{96} This includes situations in which the third party knows that the information was provided by its owner to the misappropriator under a duty to maintain secrecy.\textsuperscript{97}

2. Improper Means

The definition of “improper means” provided by the WV UTSA is a partial list of actions including “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy or espionage through electronic or other means.”\textsuperscript{98} Improper means are actions which do not meet the generally accepted standards of business ethics and reasonable conduct.\textsuperscript{99} Additionally, improper means can

\textsuperscript{91} W. VA. CODE § 47-22-1(b)(2)(C) (1992); see supra note 83.
\textsuperscript{92} W. VA. CODE § 47-22-1(b)(2)(B) (1992); see supra note 83.
\textsuperscript{93} \textit{RESTATEMENT OF TORTS} § 758 cmt. d (1939).
\textsuperscript{94} Id. § 758 cmt. e.
\textsuperscript{95} W. VA. CODE § 47-22-1(b)(2)(C) (1992); see supra note 83.
\textsuperscript{96} W. VA. CODE § 47-22-1(b)(1) (1992); see supra note 83.
\textsuperscript{97} W. VA. CODE § 47-22-1(b)(2)(B) (1992); see supra note 83.
\textsuperscript{98} W. VA. CODE § 47-22-1(a) (1992); see supra note 83.
\textsuperscript{99} Miller, \textit{supra} note 10, at 878. Several cases illustrate this concept. An individual who was hired by his former employer's competitor obtained his former employer's furniture stripping formula without permission. The Wisconsin Supreme Court held that, even though the competitor never used the trade secret, the individual's action constituted an appropriation of a trade secret by "improper means." Minuteman, Inc. v. Alexander, 434 N.W.2d 773 (Wis. 1989).
include conduct which is otherwise legal but improper under the circumstances. For example, in *E.I. du Pont de Nemours & Co. v. Christopher*, flying over the site of a competitor’s plant during construction to determine the plant’s layout was found to be improper conduct.

While it is impossible to develop a comprehensive definition of “improper means,” the UTSA does provide a partial list of proper means. Proper means include: (1) discovery by independent invention; (2) discovery by “reverse engineering”; (3) discovery under a license from the trade secret owner; (4) observing the item in public use or on public display; and (5) discovery by reading published literature.

C. Available Remedies

The WV UTSA provides for both legal and equitable remedies for misappropriation. If several individuals have independently developed the same information and claim it as a trade secret, only the individual whose information was actually misappropriated has a remedy.

The Minnesota Court of Appeals determined that a former employee who started a competing business using her former employer’s policy and procedure manual had appropriated a “trade secret” by “improper means.” Rehabilitation Specialists, Inc. v. Koering, 404 N.W.2d 301 (Minn. Ct. App. 1987).

However, when a research and development contractor sued an aircraft manufacturer for misappropriation of the contractor’s technology, a Kansas District Court held that improper means were not used in acquiring the technology because it was developed under contract and thus was the manufacturer’s property. EDO Corp. v. Beech Aircraft Corp., 715 F. Supp. 990 (D. Kan. 1988), aff’d, 911 F.2d 1447 (10th Cir. 1990).

100. UTSA, supra note 2, § 1 cmt. at 439.
102. UTSA, supra note 2, § 1 cmt. at 438.
103. See supra note 19.
104. UTSA, supra note 2, § 1 cmt. at 438.
105. W. VA. CODE § 47-22-3 (1992); see infra note 122.
107. UTSA, supra note 2, § 2 cmt. at 451.
1. Injunctive Relief

The WV UTSA provides for injunctive relief for trade secret misappropriation.\(^{108}\) There are several reasons why an injunction may be preferable to the award of monetary damages. First, where damages are difficult to prove, the only means of relief is an injunction. Second, money damages may be insufficient to remedy the harm caused by the misappropriation, such as when the prevention of future misappropriation is desired.

West Virginia adopted the UTSA injunctive-relief provision without change.\(^{109}\) To obtain an injunction, the plaintiff must show a rea-

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\(^{108}\) See infra note 109. Injunctions have been applied in several states that have adopted the UTSA. For example, where a former employee knew or had reason to know that he had a duty to maintain the secrecy of his former employer’s trade secret, an injunction preventing the employee from using the trade secret was proper. Dionne v. Southeast Foam Converting & Packaging, Inc., 397 S.E.2d 110, 113 (Va. 1990).

A preliminary injunction was proper to prevent a video center’s competitor from distributing the center’s customer list to the competitor’s stores, because the center’s customer base began to erode after the competitor’s use of the list, loss of customers would cause the center to go out of business, the injunction merely caused the competitor to revert to its past advertising methods, and the public’s interest was served by the injunction. Kozuch v. CRA-MAR Video Ctr., Inc., 478 N.E.2d 110 (Ind. Ct. App. 1985).

In contrast, an individual cannot be enjoined from contacting his former employer’s customers if the information on the customer list could easily be obtained from public sources such as telephone directories. In re R & R Assocs. of Pinellas County, Inc., 119 B.R. 302, 304 (M.D. Fla. 1990).

\(^{109}\) Specifically, the WV UTSA provides that:

(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 a misappropriation that renders a prohibitive injunction inequitable.

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

sonable likelihood of success, or that the plaintiff's actual or threatened harm exceeds the potential harm to the defendant if the injunction is granted.\textsuperscript{110} The plaintiff must also show that the public interest would be served by granting the injunction.\textsuperscript{111}

Because it would be anti-competitive to restrain the misappropriator beyond the lead time acquired as a result of the misappropriation, an injunction will be granted only for the length of time that it would have taken the misappropriator to develop the information through legal means.\textsuperscript{112} In addition, an injunction should terminate when the trade secret becomes known to good faith competitors.\textsuperscript{113}

When equity dictates, a court has flexibility to provide remedies other than prohibitory injunctions. In some situations, such as when an entity has materially changed positions before having reason to know that it has obtained a trade secret through improper means, a royalty order injunction conditioning future use upon payment of a reasonable royalty may be more appropriate.\textsuperscript{114} Similar to a prohibitory injunction, a royalty order injunction is available only if the misappropriator has obtained a competitive advantage through misappropriation and only for the period of the competitive advantage.\textsuperscript{115}

In some exceptional circumstances, an injunction against future use of the trade secret will not be granted, even though the future use will damage a trade secret owner. Such exceptional circumstances may exist when there is an overriding public interest.\textsuperscript{116} For example, the New York Supreme Court of Judicature refused to enjoin a misappropriator from supplying the United States with an aircraft weapons control system where such an injunction would have endangered military personnel in Vietnam.\textsuperscript{117} An exceptional circumstance may also exist


\textsuperscript{111} Id.

\textsuperscript{112} UTSA, supra note 2, § 2 cmt. at 449-50 (citing K-2 Ski Co. v. Head Ski Co., 506 F.2d 471 (9th Cir. 1974)).

\textsuperscript{113} UTSA, supra note 2, § 2 cmt. at 450.

\textsuperscript{114} W. Va. CODE § 47-22-2(b) (1992); see supra note 109.

\textsuperscript{115} UTSA, supra note 2, § 2 cmt. at 451.

\textsuperscript{116} Id. § 2 cmt. at 450.

where a third party innocently relies in good faith on a misappropriated trade secret. 118 Although the UTSA does not allow for absolute immunity in such cases, 119 the court may choose to impose the payment of reasonable royalties as a more equitable solution than restraining future use.

The UTSA also provides for the granting of mandatory injunctions requiring the misappropriator to return any information obtained as a result of misappropriation. 120 Thus, a misappropriator may be required to return stolen items such as blueprints, notes, photographs, diagrams or recordings. 121 Since West Virginia adopted the UTSA injunction provision without change, these remedies are available under the WV UTSA.

2. Damages

In adopting the damages section of the UTSA, West Virginia made several minor changes that should not affect the operation of the statute. 122 However, one significant change was made that could potentially lead to double recovery. Specifically, the WV UTSA eliminated the words "that is not taken into account in computing actual loss" that appear in the UTSA after "the unjust enrichment caused by the misap-

1967) (cited in UTSA, supra note 2, § 2 cmt. at 450).
118. UTSA, supra note 2, § 2 cmt. at 450-51.
119. Id. at 451.
120. Id.
121. Id.
122. The WV UTSA provides that:
(a) 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, a complainant is entitled to recover damages for misappropriation. Damages may include both the actual loss caused by the misappropriation and the unjust enrichment caused by the misappropriation. 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 occurs, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a) of this section.
propriation” in the second sentence of paragraph (a). Thus, it is possible for a plaintiff to recover twice — for the actual loss and also for unjust enrichment. Such a double recovery is expressly prohibited by the UTSA.123

Monetary recovery for trade secret misappropriation is available for the period during which the information is entitled to trade secret protection plus any period during which the misappropriator gains a competitive advantage from his illegal actions.124 Damages can be recovered for actual loss, unjust enrichment and exemplary damages.125 Recovery of monetary damages may not be appropriate if the misappropriator obtained a trade secret in good faith and without knowledge of the misappropriation, and has changed position because of reliance on the trade secret.126

A trade secret owner can file a claim for both monetary damages and injunctive relief. However, if both are granted, monetary damages usually cannot be recovered while the injunction is in effect.127 The WV UTSA prevents double recovery in this situation.

As an alternative to monetary relief for actual damages and unjust enrichment, relief may be provided in the form of a reasonable royalty for the misappropriator’s unauthorized use or disclosure of the trade

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123. UTSA, supra note 2, § 3(a) at 455.
An insurance agency was awarded the damages specified in an employment agreement with a former agent for the agent’s use of confidential information. Damages were awarded for information obtained not only during the period covered by the agreement but also at any time during his employment. Insurance Assocs. Corp. v. Hansen, 723 F.2d 190, 192-94 (Idaho Ct. App. '86).
125. W. VA. CODE § 47-22-3 (1992); see supra note 122.
126. Id.; UTSA, supra note 2, § 3 cmt. at 457 (citing Conmar Prods. Corp. v. Universal Slide Fastener Co., 172 F.2d 150 (2d Cir. 1949) (no relief where the defendant innocently committed $40,000 to develop the trade secrets prior to receiving notice of the misappropriation). However, in relying on Conmar, the Commissioners did not consider the significance of the issuance of a patent which disclosed the trade secret. Miller, supra note 10, at 884 (citing ROGER M. MILGRIM, BUSINESS ORGANIZATIONS A-13 n.21 (1986)).
127. UTSA, supra note 2, § 3 cmt. at 456.
To be entitled to this type of relief, reliable evidence of the amount of a reasonable royalty must be available. Royalty damages differ from a royalty order injunction in that royalty damages are awarded to punish a misappropriator’s past conduct while a royalty order injunction seeks to control a misappropriator’s future conduct. A royalty order injunction is only appropriate in exceptional circumstances whereas reasonable royalty damages are generally appropriate. Monetary relief for actual damages and unjust enrichment may be suitable even if an injunction is granted. However, because a royalty order injunction is granted in situations where a person has materially changed positions before having reason to know that he has acquired a trade secret through improper means, the additional award of royalty damages based on conduct which occurred before having notice of the misappropriation is prohibited.

Where the misappropriation is willful and malicious, the trade secret owner can also be granted exemplary or punitive damages. Punitive damages are limited to twice the actual damages determined. An award of such damages is completely within the discretion of the judge.

128. W. VA. CODE § 47-22-3(a) (1992); see supra note 122.
129. UTSA, supra note 2, § 3 cmt. at 456.
130. For discussion of the royalty order injunction, see supra text accompanying notes 114-15.
131. UTSA, supra note 2, § 3 cmt. at 456.
132. See supra text accompanying notes 114-15.
133. UTSA, supra note 2, § 3 cmt. at 456.
134. Id. at 456-57.
135. Id.
136. W. VA. CODE § 47-22-3(b) (1992); see supra note 122. For example, an award of punitive damages was found to be justified when an aircraft window supplier, aware that its conduct was illegal, engaged in a major effort to disguise its copying of the window designer’s drawings. Boeing Co. v. Sierracin Corp., 738 P.2d 665, 680-81 (Wash. 1987).
137. W. VA. CODE § 47-22-3(b) (1992); see supra note 122.
138. UTSA, supra note 2, § 3 cmt. at 457.
3. Attorney’s fees

The WV UTSA incorporates the UTSA’s provisions for the award of reasonable attorney’s fees to the prevailing party.\textsuperscript{139} However, as the WV UTSA indicates, attorney’s fees can be recovered only in flagrant situations.\textsuperscript{140} Attorney’s fees are awarded to discourage specious claims of misappropriation, specious efforts by a misappropriator to terminate an injunction, and willful and malicious misappropriation. In deciding whether to grant attorney’s fees for willful and malicious misappropriation, the court should consider the extent to which punitive damages will be recovered.\textsuperscript{141} Again, the award of such damages is totally within the judge’s discretion.\textsuperscript{142}

D. Preservation of Secrecy

The WV UTSA provides reasonable assurances that secrecy will be maintained during actions brought under the Act.\textsuperscript{143} The purpose of

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\item \textsuperscript{139} The WV UTSA provides that "[i]f (a) a claim of misappropriation is made in bad faith, or (b) a motion to terminate an injunction is made or resisted in bad faith, or (c) willful and malicious misappropriation occurs, the court may award reasonable attorney’s fees to the prevailing party." W. VA. CODE § 47-22-4 (1992).
\item \textsuperscript{140} Id. For example, an aircraft window designer recovered attorney’s fees in an action against a window supplier when the misappropriation of the trade secrets was intentional, willful and malicious. Boeing Co. v. Sierracin Corp., 738 P.2d 665, 682 (Wash. 1987).
\item The Maryland Court of Special Appeals held that only egregious behavior would support the award of attorney fees. Therefore, the award of attorney’s fees was not warranted, even though the former employer continued litigating the matter after learning that the employee’s signature on a confidentiality agreement was possibly forged, because bad faith was not clearly established. Optic Graphics, Inc. v. Agee, 591 A.2d 578, 590 (Md. Ct. Spec. App.), cert. denied, 598 A.2d 465 (Md. 1991).
\item Although the plaintiff was unsuccessful, an award of attorney’s fees to the defendant was not justified because the plaintiff provided sufficient evidence to show that the alleged trade secrets were valuable and provided some evidence of misappropriation. Colorado Supply Co. v. Stewart, 797 P.2d 1303, 1307-08 (Colo. Ct. App. 1990).
\item \textsuperscript{141} UTSA, \textit{supra} note 2, § 4 cmt. at 460.
\item \textsuperscript{142} \textit{Id.}
\item \textsuperscript{143} The WV UTSA provides that:
\item In an action brought pursuant to this article, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in camera hearings, seal-
this provision is to prevent the chilling of meritorious trade secret litigation. A trade secret owner may be reluctant to bring suit if it would mean that his alleged trade secret would be publicly disclosed. However, in preserving secrecy, the court must ensure that the defendant has sufficient information to mount a defense and that the trier of facts has sufficient information to judge the merits of the case.

Rule 26(c)(7) of the West Virginia Rules of Civil Procedure provides an additional means by which a trade secret or other confidential information may be protected from disclosure during litigation. The Supreme Court of Appeals of West Virginia in *State ex rel. Johnson v. Tsapis*, upheld the circuit court’s issuance of a protective order under Rule 26(c)(7) to protect a manufacturer’s alleged trade secrets in a product liability suit.

### E. Statute of Limitations

West Virginia adopted the UTSA statute of limitations provision with no changes. The WV UTSA specifies that an action for misappropriation of a trade secret must be brought within three years from the time the misappropriation is discovered or should have been discovered. The WV UTSA also provides a definition for when a cause of action accrues and a rule for continuing misappropriation. In drafting this provision, the Commissioners declined to follow the concept of continuing wrong, which asserts that each act of misappropriation activates the running of a distinct statute of limitations.

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144. UTSA, *supra* note 2, § 5 cmt. at 461.
145. *Id.*
148. The WV UTSA provides that “an action for misappropriation must be brought within three 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.” W. Va. CODE § 47-22-6 (1992).
149. *Id.*
150. UTSA, *supra* note 2, § 6 cmt. at 462.
F. Impact on Other Laws

The UTSA does not replace all other remedies for trade secret misappropriation; it does not address criminal remedies for misappropriation and does not encompass all available remedies. Specifically, the WV UTSA does not alter contractual or other non-misappropriation-based civil remedies.

IV. Operation of the West Virginia Uniform Trade Secrets Act

To demonstrate the operation of the WV UTSA, assume that the ABC Company has developed an improvement to an existing process that gives the business an advantage over its competitors. If the information used to develop the improvement was simply learned through a trade journal or at a meeting open to the industry, it would not qualify for trade secret protection because the information is generally known to others. However, if the ABC Company had taken information from a trade journal and implemented it in a way that was not suggested by the journal, not commonly known in the industry or not readily discoverable by the industry, the information could be protected

151. The WV UTSA provides that:
(a) Except as provided in subsection (b) of this section this article displaces conflicting tort, restitutionary and other law of this state providing civil remedies for misappropriation of a trade secret.
(b) This article does not affect:
(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.
152. Id. The Washington Supreme Court held that, the Uniform Trade Secrets Act replaces conflicting tort, restitutionary and other law regarding civil liability, but does not replace claims for breach of a contractual and confidential relationship. Boeing Co. v. Sieracin Corp., 738 P.2d 665 (Wash. 1987).
as a trade secret. In addition, if the information was developed by the ABC Company’s employees or by a contractor hired by the ABC Company and the information is not generally known by others in the industry, the information could be a trade secret.

Additionally, in order to qualify as a trade secret under the WV UTSA, the ABC Company must make reasonable efforts to preserve the secrecy of the process. These efforts should include informing employees or anyone else who has access to the information that it is considered to be a trade secret and that it must be treated as such. The ABC Company should limit access to the information to those who need to know it for business reasons. Thus, a formal procedure should be implemented to protect the trade secret, including keeping the information in a secure place, and the procedure should be communicated to all those who may have contact with the information. Finally, the ABC Company should only disclose the information under the protection of a confidentiality or secrecy agreement.

Assume that the information sought to be protected was research results which provided negative information. Examples of negative information include research results indicating that: the use of certain materials increases the price of the product; certain process conditions do not produce acceptable results; and certain chemical reactions do not produce the desired products. Under the WV UTSA, such information could qualify for trade secret protection as long as it has potential economic value, is not generally known to or cannot readily be developed by the business’ competitors, and the business takes reasonable steps to protect the secrecy of the information.

If the information meets the definition of a trade secret and the XYZ Company, a competitor of the ABC Company, learns of it by improper means, the ABC Company may have a cause of action for misappropriation. Suppose that the XYZ Company paid one of ABC Company’s employees to steal the information. Because the XYZ

154. W. VA. CODE § 47-22-1(d)(2) (1992); see supra note 43 and text accompanying notes 70-79.

155. UTSA, supra note 2, § 1 cmt. at 439 (citing Telex Corp. v. IBM Corp., 510 F.2d 894 (10th Cir. 1975) (per curiam), cert. dismissed, 423 U.S. 802 (1975)).

156. See supra text accompanying notes 80-104.
Company knew that the information was obtained by improper means, its actions would constitute misappropriation.\textsuperscript{157} The ABC Company could seek damages based on actual loss and unjust enrichment or royalty damages.\textsuperscript{158} If these damages were too speculative or if money damages would not compensate the ABC Company for all of the harm it suffered, the ABC Company could seek an injunction against the XYZ Company's future use of the trade secret.\textsuperscript{159} However, this injunction could only last until good faith competitors discover the trade secret plus a reasonable time to eliminate any commercial advantage which the XYZ Company gained.\textsuperscript{160}

Alternatively, if the XYZ Company acquired the information through a third party, had no reason to know that it was stolen and incurred significant costs in implementing it into its operations, misappropriation would not be found and the ABC Company would not be able to recover damages.\textsuperscript{161} Future use of the information may be conditioned on the payment of royalties to the ABC Company.\textsuperscript{162}

If the XYZ Company obtained the information by accident but continued to use it after later learning that it was a trade secret, misappropriation would exist.\textsuperscript{163} Again, damages\textsuperscript{164} or a prohibitory injunction\textsuperscript{165} would be appropriate remedies for the ABC Company. Finally, misappropriation would not be found if the XYZ Company bought the ABC Company's product in the open market, took it apart and discovered the trade secret, or independently performed research which led to the discovery of the trade secret.\textsuperscript{166}

If the ABC Company could prove that the XYZ Company's misappropriation was willful and malicious, the ABC Company could be
entitled to punitive damages.\textsuperscript{167} Award of such damages is limited to twice the actual damages\textsuperscript{168} and is completely within the discretion of the judge.\textsuperscript{169} The ABC Company may also be entitled to recover its attorney’s fees if the judge determines that award of such fees is appropriate.\textsuperscript{170}

V. CONCLUSION

The WV UTSA provides a number of advantages for businesses operating in West Virginia. By adopting the WV UTSA, both existing and potential West Virginia business have a valuable tool for protecting their competitive advantage in the marketplace. When its trade secrets are threatened, a business can look to the WV UTSA and the appropriate case law from other jurisdictions to predict the level of protection it can expect, as well as the remedies to which it may be entitled. When evaluating whether it can use information obtained directly or indirectly from a competitor or hire a competitor’s employee, a business can look to the WV UTSA to determine if its conduct may constitute trade secret misappropriation and, if so, its potential liability. Businesses considering locating in West Virginia have some assurances that they will receive treatment which is consistent with that provided in other states. This uniformity also allows West Virginia business to participate effectively in interstate commerce, and so helps West Virginia keep existing businesses and attract new ones. Thus, the WV UTSA is an invaluable addition to the statutory law of West Virginia.

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\textsuperscript{167} W. VA. CODE § 47-22-3(b) (1992); see supra note 122.
\textsuperscript{168} Id.
\textsuperscript{169} UTSA, supra note 2, § 3 cmt. at 457.
\textsuperscript{170} W. VA. CODE § 47-22-4 (1992); see supra note 139.