A Summary Of The Kansas Uniform Trade Secrets Act

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The vast majority of states have specific statutes that protect trade secrets and Kansas is no exception. The Kansas Uniform Trade Secrets Act ("KUTSA") is found at K.S.A. §§ 60-3320-3330. KUTSA is modeled after the Uniform Trade Secrets Act, which was completed by the Uniform Law Commissioners in 1979 and amended in 1985. Businesses often look to trade secret law to protect one or more competitive advantages. A summary of KUTSA is included below.

What Is A Trade Secret?

Under KUTSA, a trade secret is: Information, including a formula, pattern, compilation, program, device, method, technique, 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. K.S.A. § 60-3320(4).

As noted by the Kansas Supreme Court, "by restricting the acquisition, use, and disclosure of another's valuable, proprietary information by improper means, trade secret law minimizes the inevitable cost to the basic decency of society when one steals from another. In doing so, trade secret law recognizes the importance of good faith and honest, fair dealing in the commercial world." Progressive Products, Inc. v. Swartz 292 Kan. 947, 955 (2011), paraphrasing the California Supreme Court in DVD Copy Control Assn., Inc. v. Bunner, 31 Cal.4th 864, 880-81 (2003).

Perhaps the best example of a trade secret is the formula for Coca-Cola. However, because there is no bright line rule on whether certain information qualifies as a trade secret, a court must conduct a fact intensive inquiry. Universal Engraving, Inc. v. Duarte, 519 F.Supp.2d 1140, 1151 (D.Kan. 2007).

Nevertheless, Kansas courts have determined that various types of information can qualify as trade secrets, including customer lists, profit margins, new technologies, marketing strategies, merger and acquisition plans, formulas

used to operate software, equipment development processes and engineering designs. For a good discussion of the issue, see All West Pet Supply Co. v. Hill's Pet Products Div., Colgate Palmolive Co., 840 F. Supp. 1433, 1438 (D.Kan. 1993); Universal Engraving, Inc. v. Duarte, 519 F.Supp.2d 1140, 1151-1152 (D.Kan. 2007); Bradbury Co., Inc. v. Teissier-duCros, 413 F.Supp.2d 1209, 1222-1229 (D.Kan. 2006); Fireworks Spectacular, Inc. v. Premier Pyrotechnics, Inc., 147 F.Supp.2d 1057, 1065-1067 (D.Kan. 2001) and Jones v. Noblit 260 P.3d 1249 (Kan.App. 2011) [unpublished opinion].

It's important to keep in mind that KUTSA does not require a trade secret owner to maintain compete secrecy or adopt particular procedures to protect its' trade secrets. Rather, the holder of a trade secret must use *reasonable* efforts under the circumstances to maintain secrecy. K.S.A. § 60-3320(4)(ii).

A business can adopt a number of procedures to maintain secrecy, including but not limited to having employees and vendors sign non-disclosure agreements, using locked filing cabinets and password protected computers, marking documents "confidential," limiting trade secret access to specified employees, and restricting access to research and development buildings.

A business should also consider implementing additional procedures when an employee leaves the company. For instance, at an exit interview, a company can remind the employee of the company's trade secret policies and the employee's non-disclosure obligations. The company can also request that the employee acknowledge their obligations in writing and a confirmation letter can be sent to the employee if they refuse to sign an acknowledgement. An employee should also be required to return all company property that might contain or provide access to trade secrets or other confidential information, such as phones, notebook computers, tablets, thumb drives, pass cards, keys and other items. An employee's access to the company's voicemail, email, texts and computer systems should also be disabled.

What Is Misappropriation?

If the plaintiff establishes the existence of a trade secret under § 60-3320, the plaintiff then needs to show that there has been a misappropriation by the defendant. Under KUTSA, "misappropriation" means:

(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 by a person who

(A) used improper means to acquire knowledge of the trade secret; <u>or</u>

(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;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; <u>or</u>

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

(C) before a material change of his 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. K.S.A. § 60-3320(2).

Misappropriation can manifest itself in various forms. For example, a sales person might download confidential customer information to a thumb drive before leaving their current job and then use that information when they start working for a new employer. Another situation might involve a higher level employee who, as part of the due diligence process associated with a potential merger or acquisition, gains access to a competitor's confidential information, including profit margins, marketing data and business plans. Then, the potential merger or acquisition never occurs but the employee uses the confidential information for the benefit of their employer.

<u>What Is The Applicable Statute of Limitations</u>?

KUTSA establishes a three (3) year statute of limitations for misappropriation of trade secrets. K.S.A. § 60-3325. The three-year period begins when the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.

<u>What Remedies Are Available</u>?

KUTSA provides numerous remedies for trade secret misappropriation. These include injunctive relief, monetary damages and payment of a reasonable royalty. K.S.A. §§ 60-3321-3322. If willful or malicious misappropriation is proven, the court may award exemplary (punitive) damages in an amount not exceeding twice any monetary award. § 60-3322(b).

KUTSA also grants a court the authority to award reasonable attorney's fees to the prevailing party 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. § 60-3323.

What About Other Potential Claims?

KUTSA preempts (displaces) all conflicting tort, restitutionary and other law that provides civil remedies for misappropriation of a trade secret. § 60-3326(a). However, KUTSA 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. § 60-3326(b).

Consequently, a plaintiff can still pursue other claims based upon facts that are different from those which form the basis of the trade secret misappropriation claim. For example, a plaintiff might pursue claims related to the disclosure of confidential information that does not qualify as a trade secret. These additional claims might include unfair competition, unjust enrichment, breach of fiduciary duty, breach of employment agreement and tortious interference with contractual relations. A plaintiff in federal court should also consider a claim under the Defend Trade Secrets Act of 2016.

In addition, if a case involves claims under KUTSA and other related claims not preempted by KUTSA, it's important to think not only about how claims are framed in the complaint but how jury instructions are drafted. In particular, to try and avoid jury instruction challenges on appeal, jury instructions should be drafted so the jury can allocate the portion of its award (if any) for misappropriation of trade secrets versus the portion of its award for loss of information that, even if arguably confidential business information, does not qualify as a trade secret. See Wolfe Elec., Inc. v. Duckworth 293 Kan. 375, 401-402 (2011).

What About Defenses?

A defendant in a trade secret lawsuit can assert numerous defenses. As a starting point, a defendant can challenge each of the elements the plaintiff must prove. For example, a defendant can argue that the alleged trade secret information is widely known or that the information can be obtained through publicly available materials. A defendant might also

show that the plaintiff failed to take reasonable measures to preserve the secrecy of the trade secret.

Another potential defense is reverse engineering, i.e. that the defendant started with a known product and worked backward to discover the process by which the product was developed or manufactured. Bonito Boats, Inc. v. Thunder Craft Boats 489 U.S. 141, 155-156 (1989). In addition, a defendant might be able to prove through its own records that it independently developed the alleged trade secret without any use of the plaintiff's information. Some or all of the plaintiff's claims might also be barred by the statute of limitations.

Further Information

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