

Trade Secrets – Kansas

Brenda G. Hamilton

Shank & Hamilton, P.C.

2345 Grand Blvd., Suite 1600

Kansas City, MO 64113

816.471.0909

816.471.3888 (fax)

brendah@shankhamilton.com

BRENDA G. HAMILTON is a founding shareholder of Shank & Hamilton, P.C. in Kansas City, Missouri. She has nationwide experience representing major companies and individuals in state and federal court litigation, including extensive experience in Kansas and Missouri courts. Her areas of practice include commercial, employment, and trade secret litigation. She has attained an *AV* rating from *Martindale-Hubbell*, and has been selected as a *Missouri and Kansas Super Lawyer* and one of the *Top 50 Missouri and Kansas Women Lawyers*. She is a member of DRI and its Commercial Litigation Committee. She also is a member of the ABA and the Kansas City Metropolitan Bar Association. She is a former federal law clerk for the late Honorable D. Brook Bartlett of the United States District Court for the Western District of Missouri, as well as a former Special Representative of the Missouri Supreme Court's Fourth Regional Disciplinary Committee. Additional information about Ms. Hamilton is available at www.shankhamilton.com.

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1. STATUTORY OR COMMON LAW PROTECTIONS FOR TRADE SECRETS

a. Has Kansas Adopted a Version of the Uniform Trade Secrets Act?

Yes. The Kansas legislature first enacted the Kansas Uniform Trade Secrets Act (“KUTSA”) in 1981 and revised it in 1988.¹ The KUTSA is closely patterned after the Uniform Trade Secrets Act (“UTSA”), which was promulgated by the National Conference of Commissioners on Uniform State Laws and recommended for the states’ enactment in 1979.²

The KUTSA expressly states that “[t]his act shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this act among states enacting it.”³ Accordingly, cases from other jurisdictions interpreting other states’ trade secrets statutes modeled on the UTSA are deemed persuasive and may be considered in applying the KUTSA.⁴ Moreover, Kansas courts rely on the UTSA Comments in interpreting the KUTSA, viewing them as “highly persuasive.”⁵

i. Where is the KUTSA codified?

The KUTSA is codified at Kansas Statutes Annotated §§ 60-3320 to 60-3330.⁶

¹ Kan. Stat. Ann. §§ 60-3320 to 60-3330 (West, Westlaw through 2006 Reg. Sess.).

² *McCaffree Fin’l Corp. v. Nunnick*, 18 Kan. App. 2d 40, 48, 847 P.2d 1321, 1327 (1993) (citing 12B Milgrim, Roger M. Milgrim on Trade Secrets, App. A, at A-4 (1992); Unif. Trade Secrets Act, 14 U.L.A. 433 (1990)).

³ Kan. Stat. Ann. § 60-3327 (West, Westlaw through 2006 Reg. Sess.).

⁴ *See, e.g., Bradbury Co., Inc. v. Teissier-DuCros*, 413 F. Supp. 2d 1209, 1222 (D. Kan. 2006) (“Bradbury Co. II”) (citations omitted).

⁵ *Bradbury Co., Inc. v. Teissier-DuCros*, No. 03-1391-WEB, 2005 WL 2972323, at *2 (D. Kan. Nov. 3, 2005) (“Bradbury Co. I”) (UTSA Comments deemed highly persuasive for interpreting KUTSA because Kansas statutory construction rules “provide that when the Kansas Legislature adopts a statute from a uniform law, it carries with it the construction placed on that statute by the drafters, except when contrary to the Kansas Constitution or public policy”) (quoting *Earth Scientists (Petro Servs.), Ltd. v. United States Fid.*, 619 F. Supp. 1465, 1471 (D. Kan. 1985)).

⁶ Kan. Stat. Ann. §§ 60-3320 to 60-3330 (West, Westlaw through 2006 Reg. Sess.).

ii. Does the KUTSA have any major differences from the UTSA? If so, what are they?

There are no major differences between the UTSA and the KUTSA.

b. Does Kansas Recognize a Common Law or Different (Non-UTSA) Statutory Scheme for Protecting Trade Secrets?

Kansas courts have noted that the KUTSA provides the applicable standards for civil claims of trade secret misappropriation, rather than the former common law standards used before the KUTSA's adoption.⁷ In addition to the KUTSA, the Kansas legislature has adopted a statutory trade secret privilege providing a trade secret owner with a limited privilege to refuse to disclose trade secrets and to prevent others from disclosing them if the exercise of the privilege will not conceal fraud or otherwise work injustice.⁸ This well-established privilege complements the KUTSA, and is further discussed in Section 5(b) *infra*.

There also are several federal criminal statutes that may be used to protect trade secrets in certain circumstances. For instance, the Computer Fraud and Abuse Act ("CFAA") provides a private right of action for injunctive relief and compensatory damages against anyone, including former employees and competitors, who intentionally accesses a computer without authority or exceeds his authorization and thereby obtains valuable information from any protected computer used in interstate communications.⁹ The CFAA sets forth the specific instances in which a private right of action may be brought and establishes a two-year statute of limitations.¹⁰

⁷ See, e.g., *Universal Engraving, Inc. v. Duarte*, 519 F. Supp. 2d 1140, 1151 (D. Kan. 2007).

⁸ Kan. Stat. Ann. § 60-432 (West, Westlaw through 2007 Reg. Sess.).

⁹ 18 U.S.C. § 1030, *et seq.* (West, Westlaw through P.L. 110-199 approved 4-9-08).

¹⁰ 18 U.S.C. § 1030(g) (West, Westlaw through P.L. 110-199 approved 4-9-08); see also *Duarte*, 519 F. Supp. 2d at 1155-56 (granting preliminary injunction to former employer prohibiting former employee from disclosing or using former employer's trade secrets because, among other things, former employer was likely to succeed on the merits of its CFAA claim). Similar Kansas state criminal statutes exist. See, e.g., Kan. Stat. Ann. § 21-3755(a) (West, Westlaw through 2006 Reg. Sess.) (making it a felony to engage in certain conduct involving computers, similar to the conduct made illegal in CFAA, but without providing any private right of action); Kan. Stat. Ann. § 21-3755(c), (d) (making intentional and unauthorized disclosure of a computer password, and the accessing or attempted accessing of a computer, a misdemeanor).

In addition, the Economic Espionage Act of 1996 (“EEA”) criminalizes the intentional theft or attempted theft of certain commercial trade secrets as well as conspiracies to steal such trade secrets.¹¹ The EEA definition of a “trade secret” is similar to that used by the KUTSA.¹² The EEA is intended to serve as a strong deterrent against trade secret theft, given the harshness of the criminal felony penalties available for its violation, which include up to 10 years in prison and up to \$5 million in fines for an organization.¹³ While the EEA does not provide a private right of action,¹⁴ federal authorities have prosecuted numerous EEA violators.¹⁵

2. DEFINITION OF TRADE SECRETS

a. How Does Kansas Define the Term “Trade Secrets”?

The threshold inquiry in an action claiming misappropriation of trade secrets under the KUTSA is “whether or not there [is] a trade secret to be misappropriated.”¹⁶ The determination of whether a trade secret exists is a

¹¹ 18 U.S.C. § 1832 (West, Westlaw through P.L. 110-199 approved 4-9-08).

¹² Compare 18 U.S.C. § 1839(3) (West, Westlaw through P.L. 110-199 approved 4-9-08) with Kan. Stat. Ann. § 60-3320(4) (West, Westlaw through 2006 Reg. Sess.).

¹³ 18 U.S.C. § 1832(a)-(b) (West, Westlaw through P.L. 110-199 approved 4-9-08).

¹⁴ *Pisani v. Van Iderstine*, No. CA 07-187S, 2007 WL 2319844, at *3 (D.R.I. Aug. 9, 2007) (holding that there is no private right of action for trade secret misappropriation under the EEA) (citations omitted).

¹⁵ See, e.g., *United States v. Four Pillars Enter. Co., Ltd.*, No. 06-3297, 2007 WL 3244034, at *12 (6th Cir. Oct. 30, 2007) (affirming \$2 million criminal fine imposed on corporate defendant for its attempt, and conspiracy, to steal secret adhesive formulae from another company); *United States v. Lange*, 312 F.3d 263 (7th Cir. 2002) (affirming conviction and thirty month sentence of former employee for violation of EEA based on former employee’s theft of former employer’s computer data and attempt to sell it to former employer’s competitor).

¹⁶ *Fireworks Spectacular, Inc. v. Premier Pyrotechnics, Inc.*, 147 F. Supp. 2d 1057, 1060, 1065 (D. Kan. 2001) (“*Fireworks Spectacular III*”) (quoting *All West Pet Supply Co. v. Hill’s Pet Prods. Div.*, 840 F. Supp. 1433, 1437 (D. Kan. 1993)).

very fact-specific inquiry involving a question of fact for the trier of fact to decide.¹⁷

Section 60-3320(4) of the KUTSA defines a “trade secret” as follows:

“Trade secret” means 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.¹⁸

In sum, to be a trade secret, the information must have independent economic value, must derive its value from not being generally known or readily ascertainable, and must have its secrecy maintained by reasonable efforts.¹⁹ To qualify as a trade secret, the information at issue is not required to have been developed exclusively through business operations.²⁰

Kansas courts consistently hold that a plaintiff must identify and prove with specificity the particular trade secrets that form the basis of a claim for

¹⁷ *Bradbury Co. II*, 413 F. Supp. 2d at 1221-23 (citations omitted); *Dodson Int’l Parts, Inc. v. Altendorf*, 347 F. Supp. 2d 997, 1010 (D. Kan. 2004) (citation omitted); *All West Pet Supply*, 840 F. Supp. at 1437-38 (citations omitted).

¹⁸ Kan. Stat. Ann. § 60-3320(4) (West, Westlaw through 2006 Reg. Sess.).

¹⁹ *Dodson Int’l Parts*, 347 F. Supp. 2d at 1010 (citation omitted); *Curtis 1000, Inc. v. Pierce*, 905 F. Supp. 898, 901 (D. Kan. 1995).

²⁰ *Herbster v. Global Intermediary, Inc.*, No. 89-2198-V, 1991 WL 205659, at *3 (D. Kan. Sept. 11, 1991) (plaintiff’s customer lists identifying specific business contacts and customer needs qualified as trade secrets even if plaintiff had not developed the information through its business operations).

violation of the KUTSA.²¹ They do not hesitate to grant dispositive motions when the plaintiff fails to do so.²² “The plaintiff must show *concrete* secrets.”²³ Merely alleging generally that there is a trade secret is not enough; rather, the plaintiff must set forth sufficient facts to demonstrate the existence of the particular disputed trade secrets, show that they meet the KUTSA trade secret definition, and establish each element of the claim.²⁴ Vague, conclusory, or speculative assertions about the existence or nature of the trade secrets at issue are inadequate to establish liability.²⁵ Instead, the plaintiff “has the burden under the KUTSA to define its trade secrets with the precision and particularity necessary to separate [them] from the general skill and knowledge possessed by others.”²⁶

b. What Types of Information Have Been Protected as Trade Secrets?

i. Scientific Data/Inventions

Product designs, engineering drawings, specifications, prototypes, and technological data typically constitute trade secrets when the information is

²¹ See, e.g., *Duarte*, 519 F. Supp. 2d at 1151; *Bradbury Co. II*, 413 F. Supp. 2d at 1221-22, 1223 (citation omitted); *Dodson Int’l Parts*, 347 F. Supp. 2d at 1010 (citations omitted); *Pulsecard, Inc. v. Discover Card Servs., Inc.*, No. 94-2304-EEO, 1996 WL 137824, at *10 (D. Kan. Mar. 22, 1996) (“*Pulsecard II*”).

²² See, e.g., *Bradbury Co. II*, 413 F. Supp. 2d at 1221-22, 1223 (citation omitted) (granting defendant’s summary judgment motion because general statements were not sufficient to show that plaintiff’s alleged trade secrets were not readily ascertainable or not known); *Dodson Int’l Parts*, 347 F. Supp. 2d at 1009-10, 1012 (citations omitted) (granting defendants’ summary judgment motion because plaintiff failed to provide proof of the specific trade secrets in dispute); *Pulsecard, Inc. v. Discover Card Servs., Inc.*, No. 94-2304-EEO, 1996 WL 137819, at *6-7 (D. Kan. Mar. 5, 1996) (“*Pulsecard I*”) (granting defendant’s summary judgment motion because plaintiff failed to provide evidence of the specific trade secrets at issue).

²³ *Pulsecard II*, 1996 WL 137824, at *10 (citing *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1266 (7th Cir. 1992)).

²⁴ *Duarte*, 519 F. Supp. 2d at 1151; *Bradbury Co. II*, 413 F. Supp. 2d at 1221-22 (citation omitted); *Dodson Int’l Parts*, 347 F. Supp. 2d at 1010 (citations omitted); *Pulsecard II*, 1996 WL 137824, at *10.

²⁵ *Duarte*, 519 F. Supp. 2d at 1151; *Bradbury Co. II*, 413 F. Supp. 2d at 1221-29; *Pulsecard II*, 1996 WL 137824, at *10.

²⁶ *Bradbury Co. II*, 413 F. Supp. 2d at 1222 (citation omitted); *Capitol Mktg. Assocs., Inc. v. Western States Life Ins. Co.*, No. 88-4199-R, 1991 WL 50255, at *4 (D. Kan. Mar. 14, 1991).

kept sufficiently confidential.²⁷ Moreover, a device comprised of a combination of components, each of which by itself might be available in the public domain, may constitute a trade secret if that particular combination is not known to the public or the industry.²⁸ Similarly, knowledge of the best combination of processes or systems of combination of elements may amount to a trade secret.²⁹

ii. Business Information

(1) Sales and marketing techniques

Sales and marketing techniques ordinarily do not constitute trade secrets because their use typically requires their disclosure to the customer, making them readily ascertainable by others involved in the industry.³⁰ Similarly, methods for calculating and obtaining bids or other business opportunities will not be given trade secret protection if there is no proof that the methods are not generally known or readily ascertainable by others.³¹ An employee “‘frequently acquires information concerning the methods of his employer . . . Information of this sort is barred from use in competition only to the extent that, considering all the circumstances, it would be unfair for the [employee] to use it.’”³²

Sales tactics that are not revealed to customers in any way may be entitled to trade secret status. Furthermore, having customers sign a non-disclosure

²⁷ *Webster Eng'g & Mfg. Co., Inc. v. Francis*, No. 89-1416-FGT, 1993 WL 406025, at *3-4 (D. Kan. Sept. 1, 1993) (citations omitted).

²⁸ *Mann v. Tatge Chem. Co.*, 201 Kan. 326, 334-35, 440 P.2d 640, 647 (1968) (citations omitted) (pre-KUTSA case). Nevertheless, confidential designs or specifications of a publicly-available product are not entitled to trade secret protection where they have been obtained through reverse engineering. *See* Section 3 *infra*.

²⁹ *Mann*, 201 Kan. at 334-35, 440 P.2d at 647 (citations omitted).

³⁰ *Bradbury Co. II*, 413 F. Supp. 2d at 1216, 1217, 1225-26; *Dodson Int'l Parts*, 347 F. Supp. 2d at 1012; *but see Webster Eng'g*, 1993 WL 406025, at *3-4 (noting there was no dispute among the parties that marketing strategies for new water heater were trade secrets).

³¹ *Dodson Int'l Parts*, 347 F. Supp. 2d at 1012.

³² *Maximus, Inc. v. Thompson*, 78 F. Supp. 2d 1182, 1190 n.3 (D. Kan. 1999) (quoting Restatement (Second) of Agency §396 cmt. b).

agreement before using the sales methods may aid in protecting them as trade secrets.³³

(2) Profit margins

A company's profit margins, to the extent they are kept secret, ordinarily qualify as trade secrets. Knowing a rival's profit margin in a competitive market can be valuable information.³⁴

(3) Market research

Market research will be protected as a trade secret if the information is not publicly known or readily ascertainable by the industry.³⁵

(4) General business principles and marketing strategies

Universal business principles and generic marketing rules are not normally entitled to trade secret protection.³⁶ Yet, if a company adapts or applies such principles and rules to a specific industry and keeps them secret, they may be considered trade secrets.³⁷

(5) Merger and acquisition plans

Plans to merge with or acquire another company are not entitled to trade secret protection unless the plaintiff can show that the information was not publicly known or readily ascertainable by the industry.³⁸

³³ *Bradbury Co. II*, 413 F. Supp. 2d at 1216-17, 1225-26; *Dodson Int'l Parts*, 347 F. Supp. 2d at 1012.

³⁴ *Bradbury Co. II*, 413 F. Supp. 2d at 1217-18, 1227 (citing *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1260 (3d Cir. 1985)).

³⁵ *Bradbury Co. II*, 413 F. Supp. 2d at 1217-18, 1227; *Webster Eng'g*, 1993 WL 406025, at *3-4 (competitor prices and comparison data may constitute trade secrets if kept sufficiently confidential).

³⁶ *Bradbury Co. II*, 413 F. Supp. 2d at 1217-18, 1227-28.

³⁷ *Id.* at 1218, 1227-28.

³⁸ *Id.* at 1215, 1223; *Paul v. North*, 191 Kan. 163, 177, 380 P.2d 421, 431 (1963) (pre-KUTSA) (one having special knowledge that a business is for sale, along with knowledge of the business' financial data and ideas concerning its future profits, must protect such information with a nondisclosure agreement).

(6) New technologies

New technologies developed by a company will not be entitled to trade secret protection except to the extent the plaintiff shows with specificity that all of the KUTSA elements are met.³⁹

(7) Market expansion plans

A company's general plan to expand its sales efforts into new territories is not considered a trade secret unless the company can establish that its plan was not known or readily ascertainable by others involved in the industry.⁴⁰ This is particularly true if the company is already known within the industry to be active in the territory into which it plans to expand its sales efforts.⁴¹ Similarly, a Kansas court has held that the fact a company is discussing potential joint ventures or strategic alliances with other entities located within a new potential sales territory does not constitute a trade secret unless the company can show that the other entities are obligated to keep the discussions secret and that the company's interest in the new territory is not otherwise known or readily ascertainable by other industry participants.⁴²

(8) Business plans/financial information

A company's confidential business plan incorporating data concerning its pricing structure, contracts with third parties, customer information, financial statements, and marketing strategies may qualify as a trade secret so long as the plaintiff can show that the contents of the plan were not readily ascertainable by others and that it took reasonable steps to maintain the plan's secrecy.⁴³

Similarly, Kansas courts have held that a company's financial information may lose its trade secret status if the company failed to list such information

³⁹ *Bradbury Co. II*, 413 F. Supp. 2d at 1215, 1223.

⁴⁰ *Id.* at 1215-16, 1223-25.

⁴¹ *Id.* at 1215, 1223.

⁴² *Id.* at 1215, 1223-24.

⁴³ *Pulsecard II*, 1996 WL 137824, at *9-12.

in its written policies identifying various types of confidential information.⁴⁴ Also, Kansas courts have held that information concerning employee productivity and compensation is not entitled to trade secret protection when there is no evidence of any attempt to protect the information from disclosure and employees are permitted to share such information with anyone.⁴⁵

(9) Industry contacts and relationships

The identities of a company's industry contacts, by themselves, are not ordinarily entitled to trade secret protection unless the company can establish that they are not known or readily ascertainable by those involved in the industry.⁴⁶

iii. Customer Lists

Customers themselves are not considered to be trade secrets under Kansas law; therefore, their mere identities typically are not entitled to trade secret protection.⁴⁷ A former employee, thus, has the right to solicit business from his former employer's customers, absent an enforceable non-disclosure or non-competition agreement to the contrary, so long as he does not use his former employer's confidential written customer lists.⁴⁸

Kansas courts generally will give trade secret protection to customers' identities if they appear on a tangible customer list meeting the KUTSA definition of a "trade secret," including the requirement that the list contain

⁴⁴ *Wichita Clinic, P.A. v. Columbia/HCA Healthcare Corp.*, 45 F. Supp. 2d 1164, 1208-09 (D. Kan. 1999).

⁴⁵ *Id.* at 1208.

⁴⁶ *Bradbury Co. II*, 413 F. Supp. 2d at 1215, 1224 (citing *Fox Sports Net N. v. Minneapolis Twins P'ship*, 319 F.3d 329, 336 (8th Cir. 2003)); *Dodson Int'l Parts*, 347 F. Supp. 2d at 1012.

⁴⁷ *Bradbury Co. II*, 413 F. Supp. 2d at 1217-18, 1227 (citing *W. Forms, Inc. v. Pickell*, 308 F.3d 930, 934 (8th Cir. 2002)); *Fireworks Spectacular III*, 147 F. Supp. 2d at 1068 (citations omitted).

⁴⁸ *Garst v. Scott*, 114 Kan. 676, 679, 220 P. 277, 278 (1923) (pre-KUTSA) (former laundry salesman/deliveryman was free to solicit business from former employer's laundry customers because he had not entered into a noncompetition or nonsolicitation agreement with former employer and had not taken any written customer lists).

information that is not generally known or readily ascertainable by proper means.⁴⁹ The same applies to patient lists.⁵⁰

Whether a tangible customer list constitutes a trade secret is a fact-intensive inquiry that is highly dependent upon the contents of the list.⁵¹ A simple list of customer names and addresses is not necessarily considered a trade secret under Kansas law.⁵² A customer list is more likely to be given trade secret status if it contains detailed confidential customer information beyond merely listing the customers' identities. For instance, the inclusion within the list of specific information about customers' purchasing patterns, sales volumes, payment histories, contact persons, or business requirements may transform it into a trade secret.⁵³

Customer lists containing only public information that could be easily compiled by third parties generally will not be protected as trade secrets.⁵⁴ Nevertheless, if the party compiling the customer list, while using public information as a source, expends a great deal of time, effort, and expense in developing the list and treats it as confidential, then the list may be entitled

⁴⁹ *Dodson Int'l Parts*, 347 F. Supp. 2d at 1010-11 (citations omitted); *Fireworks Spectacular III*, 147 F. Supp. 2d at 1068 (citations omitted); *All West Pet Supply*, 840 F. Supp. at 1437-38 (citations omitted); see also *Morrison v. Woodbury*, 105 Kan. 617, 185 P. 735, 737 (1919) (pre-KUTSA) (concluding that information taken by former employee from former employer's insurance policy books identifying former employer's customers, expiration dates of customer policies and premium rate information qualified as trade secrets).

⁵⁰ *Wichita Clinic*, 45 F. Supp. 2d at 1208-09.

⁵¹ *Dodson Int'l Parts*, 347 F. Supp. 2d at 1011 (citations omitted); *Curtis 1000*, 905 F. Supp. at 901-02 (citations omitted); *All West Pet Supply*, 840 F. Supp. at 1437-38 (citations omitted).

⁵² *Id.* at 1010-11 (citations omitted).

⁵³ See, e.g., *Bradbury Co. II*, 413 F. Supp. 2d at 1228 (citation omitted); *Dodson Int'l Parts*, 347 F. Supp. 2d at 1011 (citations omitted); *All West Pet Supply*, 840 F. Supp. at 1437-38; *Herbster*, 1991 WL 205659, at *2-3; *Morrison*, 105 Kan. at 617, 185 P. at 737.

⁵⁴ *Bradbury Co. II*, 413 F. Supp. 2d at 1218, 1221-22, 1228 (citations omitted); *Dodson Int'l Parts*, 347 F. Supp. 2d at 1010-11 (citations omitted); *Fireworks Spectacular, Inc. v. Premier Pyrotechnics, Inc.*, 86 F. Supp. 2d 1102, 1106-07 (D. Kan. 2000) ("Fireworks Spectacular I").

to trade secret protection.⁵⁵ The plaintiff, however, is not required to prove that every piece of information in the compilation is unavailable elsewhere.⁵⁶

iv. General Industry Skills and Knowledge

Kansas courts have long held that one who leaves the employment of another is entitled to take and use the general knowledge, education, skills, and day-to-day methods of operation he has learned during the course of his employment, absent the existence of a reasonable agreement to the contrary.⁵⁷ So long as the former employee takes no property of the employer, he is free to use such information for his own or a new employer's benefit.⁵⁸

Skills and knowledge acquired or information obtained cannot be left behind so long as those things exist within the mind of the employee. All that knowledge, skill, and information, except trade secrets, become a part of his equipment for the transaction of business in which he may engage, just the same as any part of the skill, knowledge, information, or education that was received by him before entering upon the employment.⁵⁹

⁵⁵ *Bradbury Co. II*, 413 F. Supp. 2d at 1221-22, 1228 (citation omitted); *Dodson Int'l Parts*, 347 F. Supp. 2d at 1011 (citations omitted); *Fireworks Spectacular I*, 86 F. Supp. 2d at 1106-07 (fireworks seller's computerized customer lists and former employee's personal sales log book entitled to trade secret protection because they contained valuable customer information ultimately available from public sources but not readily ascertainable by others in fireworks industry without significant effort; seller had invested substantial time, effort, and expense developing the information, had maintained strict policy keeping it secret, and had limited employee access to it; former employee also knew he was expected to keep the information confidential).

⁵⁶ *Curtis 1000*, 905 F. Supp. at 901 (citation omitted); *All West Pet Supply*, 840 F. Supp. at 1438 (citation omitted).

⁵⁷ *Puritan-Bennett Corp. v. Richter*, 235 Kan. 251, 257-58, 679 P.2d 206, 256-57 (1984); *Garst*, 114 Kan. at 679, 220 P. at 278; *see also Bradbury Co. II*, 413 F. Supp. 2d at 1228-29 (citing *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions*, 732 F. Supp. 370, 377 (S.D.N.Y. 1989)); *Vasquez v. Ybarra*, 150 F. Supp. 1157, 1172-73 (D. Kan. 2001).

⁵⁸ *Garst*, 114 Kan. at 679, 220 P. at 278.

⁵⁹ *Garst*, 114 Kan. at 679, 220 P. at 278; *see also Southwest Specialties Co. v. Eastman*, 130 Kan. 443, 286 P. 225, 227 (1930) (citations omitted) (pre-KUTSA); *Bradbury Co. II*, 413 F. Supp. 2d at 1229 (citations omitted); *Vasquez*, 150 F. Supp. at 1173-73 (citing *Puritan-Bennett Corp.*, 235 Kan. at 256-57, 679 P.2d at 210-11). "Employees must necessarily take knowledge with them when they change jobs." *Allen Gibbs & Houlik v. Ristow*, 32 Kan. App.

An employee's identity, role, strengths, and weaknesses also do not qualify as the employer's trade secrets because an employee's general, subjective skills belong to the employee, the assessment of an employee's strengths and weaknesses may vary depending on the evaluator, and such information generally is not kept secret and is readily ascertainable by persons interacting with the employee.⁶⁰ Such information "is better classified as general knowledge."⁶¹

Standard operating procedures, business practices, methodologies, and formulas also typically do not constitute trade secrets unless the plaintiff can establish that they differ from those that are widely known or ascertainable in the industry.⁶² The KUTSA requires the plaintiff "to define its trade secrets with the precision and particularity necessary to separate it from the general skill and knowledge possessed by others."⁶³

v. Other Types of Information

(1) Public information

Generally, publicly available information does not constitute a trade secret.⁶⁴

(2) Website-based information

Information contained on a website generally available to the public does not qualify as a trade secret.⁶⁵

2d 1051, 1058, 94 P.3d 724, 728 (2004) (involving claim for breach of noncompetition provision) (citations omitted).

⁶⁰ *Bradbury Co. II*, 413 F. Supp. 2d at 1226-27 (citations omitted).

⁶¹ *Id.* at 1227-28 (citations omitted).

⁶² *Id.* at 1223-29.

⁶³ *Id.* at 1222-23 (citation omitted); *see also* *Guang Dong Light Headgear Factory Co., Ltd. v. ACI Int'l, Inc.*, No. 03-4165-JAR, 2008 WL 53665, at *15 (D. Kan. Jan. 2, 2008) ("Guang Dong II") (citation omitted).

⁶⁴ *Independent Drug Wholesalers Group, Inc. v. Denton*, No. 92-2164-JWL, 1993 WL 191393, at *7 (D. Kan. May 13, 1993).

⁶⁵ *MomsWin, L.L.C. v. Lutes*, No. 02-2195-KHV, 2003 WL 21554944, at *6-7 n.3 (D. Kan. July 8, 2003) (information posted on an internet website "confronts an uphill battle in qualifying as a trade secret").

(3) Computer software/data compilations

Computer software programs designed by a company are often entitled to trade secret protection.⁶⁶ Furthermore, when a company purchases commercially-available computer software programs from vendors and then transforms them into customized programs designed to meet that company's purposes, the modified software programs may be entitled to trade secret protection if they are maintained with sufficient confidentiality.⁶⁷ But, computer programs may be subject to protection under federal copyright laws and, if so, federal copyright law may preempt a state-law claim based on violation of the KUTSA in certain circumstances.⁶⁸

(4) Formulae and recipes

Restaurant recipes and cooking methods used by former employees at a new employer's restaurant have been denied trade secret protection when the former employer failed to have the former employees execute a non-disclosure or non-competition agreement.⁶⁹ Furthermore, where the formula

⁶⁶ See, e.g., *Duarte*, 519 F. Supp. 2d at 1145, 1151-52.

⁶⁷ *Id.* at 1145, 1151-52.

⁶⁸ *Evolution, Inc. v. Suntrust Bank*, 342 F. Supp. 2d 943, 963 (D. Kan. 2004) (software licensor's KUTSA claim against licensee preempted by federal copyright law due to absence of any "extra element" beyond rights protected by federal copyright act, making KUTSA claim not qualitatively different from infringement claim under copyright act) (citing *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 847-48 (10th Cir. 1993)); *Data Prods., Inc. v. Reppart*, No. 89-1291-K, 1990 WL 198610, at *7 (D. Kan. Nov. 29, 1990) (noting that federal copyright law does not in itself preempt trade secret protections provided by KUTSA and that in appropriate cases misappropriation of computer software may constitute KUTSA claim) (citations omitted); *Foresight Res. Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1011 (D. Kan. 1989) (federal copyright law does not necessarily always preempt state trade secret law, but will preempt KUTSA claim seeking injunctive relief when granting injunction would effectively deprive defendant benefits accorded by federal copyright law) (citations omitted). This preemption issue is beyond the scope of this article, and therefore, is not fully addressed herein.

⁶⁹ *Vasquez*, 150 F. Supp. at 1172-73 (citing *Puritan-Bennett Corp.*, 235 Kan. at 256-57, 679 P.2d at 210-11) (restaurant employing cooks formerly employed by competitor entitled to use competitor's recipes, menus, and information about timing of supply orders, selection of suppliers and popularity of various menu items because cooks were not informed that information was confidential or restricted and had not signed non-competition agreements).

or recipe at issue has been previously disclosed to others, it is not entitled to trade secret protection.⁷⁰

(5) Real estate appraisals

A real estate appraisal performed by a hired person does not constitute a trade secret.⁷¹

c. What Steps Must Be Taken to Maintain Confidentiality of Trade Secrets?

The KUTSA requires a trade secret owner to expend only those “efforts that are reasonable under the circumstances to maintain [the trade secret’s] secrecy.”⁷² The KUTSA “does not require the holder of a trade secret to maintain its complete secrecy.”⁷³ Whether the efforts taken are reasonable and, thus, legally sufficient, is a question of fact.⁷⁴

Kansas courts have deemed the following steps to be reasonable for maintaining trade secret confidentiality:

⁷⁰ *Southwest Specialties Co.*, 130 Kan. at 443, 286 P. at 228 (holding that formula for manufacturing penetrating oil was not trade secret because it had been disclosed to numerous third parties before plaintiff obtained it from defendant, who had originated the formula and had not entered into any noncompetition agreement with plaintiff or granted plaintiff exclusive right to use formula).

⁷¹ *City of Wichita v. Chapman*, 214 Kan. 575, 583-84, 521 P.2d 589, 596 (1974) (citing *City of Wichita v. Jennings*, 199 Kan. 621, 623-24, 433 P.2d 351, 354 (1967)) (pre-KUTSA) (applying Kan. Stat. Ann. § 60-432 statutory trade secret privilege and holding that witness could not rely on the privilege to refuse to provide testimony about real estate appraisal).

⁷² Kan. Stat. Ann. § 60-3320(4)(ii) (West, Westlaw through 2006 Reg. Sess.); *see also Bradbury Co. II*, 413 F. Supp. 2d at 1223 (citations omitted); *Fireworks Spectacular, Inc. v. Premier Pyrotechnics, Inc.*, 107 F. Supp. 2d 1307, 1310 (D. Kan. 2000) (“*Fireworks Spectacular II*”) (trade secret owner not required to take all conceivable efforts, or impose extreme and unduly expensive procedures, to protect secrecy of trade secrets) (citations omitted).

⁷³ *Bradbury Co. II*, 413 F. Supp. 2d at 1223 (citations omitted); *see also Fireworks Spectacular II*, 107 F. Supp. 2d at 1310; *All West Pet Supply*, 840 F. Supp. at 1437-38; *Webster Eng’g*, 1993 WL 406025, at *4.

⁷⁴ *Id.* at 1437-38 (citations omitted).

- having employees sign confidentiality or nondisclosure agreements;⁷⁵
- having employees sign confidentiality agreements before meetings at which trade secrets are to be discussed, using password-protected computer access and keeping trade secret information in a separate locked building with entry limited to authorized employees with proper access cards;⁷⁶
- establishing a specific confidentiality policy or otherwise informing employees of the specific information that is to be kept confidential, coupled with limiting trade secret access to certain employees;⁷⁷ and
- entering into confidentiality agreements with third parties before disclosing a business plan containing trade secrets.⁷⁸

Notably, an inadvertent disclosure of a trade secret will not necessarily preclude a KUTSA claim. This is because an inadvertent disclosure does not always demonstrate a failure to exercise reasonable steps to protect a trade secret's confidentiality, particularly if it resulted from a good-faith mistake and the owner took immediate action to rectify the situation.⁷⁹

⁷⁵ *Duarte*, 519 F. Supp. 2d at 1145, 1150-54; *Vasquez*, 150 F. Supp. 2d at 1172-73; *Koch Eng'g Co., Inc. v. Faulconer*, 227 Kan. 813, 827-28, 610 P.2d 1094, 1105 (1980) (pre-KUTSA).

⁷⁶ *Duarte*, 519 F. Supp. 2d at 1145, 1152.

⁷⁷ *Fireworks Spectacular III*, 147 F. Supp. 2d at 1060, 1066-67 (trial court found defendants liable for misappropriation of trade secrets following bench trial). At the preliminary injunction stage, the trial court ruled that the plaintiffs had exercised reasonable efforts to maintain secrecy by their use of a policy requiring trade secrets to be kept confidential combined with the alleged misappropriating employee's acknowledgment of that policy. *Fireworks Spectacular I*, 86 F. Supp. 2d at 1106-07 (granting preliminary injunction preventing former employee from using computerized customer lists and personal sales log book); *see also Koch*, 227 Kan. at 827-28, 610 P.2d at 1104-05.

⁷⁸ *Pulsecard II*, 1996 WL 137824, at *10 (denying defendants' summary judgment motion).

⁷⁹ *Fireworks Spectacular III*, 147 F. Supp. 2d at 1066-67 (protecting former employer's computerized customer lists from disclosure and use by former employee although former employer had mistakenly sent disputed lists to customers after filing its misappropriation lawsuit).

d. Under What Circumstances Have Kansas Courts Refused to Protect Alleged Trade Secrets?

Kansas courts have held that the trade secret owner failed to take reasonable steps to maintain the disputed trade secret's confidentiality in the following circumstances:

- allowing third parties to assist with the development of the alleged trade secrets;⁸⁰
- sharing alleged trade secrets with third parties without designating them as confidential or entering into confidentiality agreement;⁸¹
- failing to establish confidentiality policies or otherwise inform employees of the specific information considered to be confidential,⁸² although Kansas courts have refused to adopt a mandatory rule requiring trade secret owners to always expressly notify the alleged misappropriator that the particular information is deemed "secret";⁸³

⁸⁰ *Bradbury Co. II*, 413 F. Supp. 2d at 1228 (disputed information could not be secret because college students had assisted with its development).

⁸¹ See *Wichita Clinic*, 45 F. Supp. 2d at 1208-09 (granting summary judgment to alleged misappropriators because they were free to disclose alleged trade secrets to third parties during their employment by plaintiff and were unaware of any attempt to protect the information); *Dodson Int'l Parts*, 347 F. Supp. 2d at 1012 (granting defendant's summary judgment motion because plaintiff regularly shared alleged trade secrets with third parties); *Webster Eng'g*, 1993 WL 406025, at *4 (granting defendants' summary judgment motion because plaintiff routinely loaned engineering drawings to customers and sales representatives without stamping them confidential).

⁸² *Vasquez*, 150 F. Supp. 2d at 1172 (granting former employee's summary judgment motion because, among other things, plaintiff former employer only attempted after-the-fact to notify defendant and other former employees that virtually all information learned during their employment with plaintiff was deemed to be trade secrets); *Wichita Clinic*, 45 F. Supp. 2d at 1208-09 (summary judgment granted to alleged misappropriators because plaintiff failed to describe alleged trade secrets as confidential information in its written policies until months after lawsuit filed); *Webster Eng'g*, 1993 WL 406025, at *4 (holding it is incumbent upon an employer "to inform employees what information is considered confidential" and granting defendants' summary judgment motion due to lack of evidence that plaintiff had so informed its employees).

⁸³ See, e.g., *Herbster*, 1991 WL 205659, at *3 (refusing to adopt strict rule requiring trade secret owner to have notified defendant that disputed information was a trade secret in order to prevail on misappropriation claim because KUTSA had adopted "reasonable efforts under the circumstances" standard) (citations omitted).

- failing to require employees to sign nondisclosure or noncompetition agreements;⁸⁴
- failing to mark, or belatedly marking, information as confidential;⁸⁵ and
- registering the trade secrets to obtain copyright protection.⁸⁶

Kansas courts also have noted that information posted on an internet website “confronts an uphill battle in qualifying as a trade secret.”⁸⁷

3. WHAT CONSTITUTES MISAPPROPRIATION OF TRADE SECRETS?

A plaintiff pursuing a claim for violation of the KUTSA must establish that the defendant has misappropriated the trade secrets at issue.⁸⁸ He must identify and prove with specificity not only the particular trade secrets at issue, but also the alleged acts of misappropriation. Mere vague or conclusory allegations concerning the disclosure or use of the trade secrets are insufficient to establish liability.⁸⁹

⁸⁴ *Vasquez*, 150 F. Supp. 2d at 1172 (granting former employee’s summary judgment motion because plaintiff former employer failed to require employees to sign nondisclosure or noncompetition agreements and holding that Kansas courts will not “allow plaintiffs more relief without the agreement than they would have with an agreement”).

⁸⁵ *Wichita Clinic*, 45 F. Supp. 2d at 1208-09 (granting summary judgment to defendants because plaintiffs had not stamped disputed documents as confidential, had not taken other measures to protect documents from disclosure, and did not include such documents within their written confidentiality policies); *Webster Eng’g*, 1993 WL 406025, at *4 (granting summary judgment to defendants because plaintiff did not consistently stamp disputed engineering drawings as confidential prior to loaning them to outside sales representatives and customers); *see also Koch*, 227 Kan. at 827-28, 610 P.2d at 1104-05 (marking of trade secret documents as confidential aided in maintaining their secrecy, along with other measures, so as to entitle them to trade secret protection).

⁸⁶ *Independent Drug Wholesalers*, 1993 WL 191393, at *7 (granting summary judgment to defendants on trade secret misappropriation claim because alleged trade secrets were available publically and had been copyrighted under federal copyright laws).

⁸⁷ *MomsWin, LLC*, 2003 WL 21554944, at *7 n.3.

⁸⁸ *Bradbury Co. II*, 413 F. Supp. 2d at 1221-22 (citation omitted); *Fireworks Spectacular II*, 107 F. Supp. 2d at 1311 (citations omitted).

⁸⁹ *Duarte*, 519 F. Supp. 2d at 1151; *Bradbury Co. II*, 413 F. Supp. 2d at 1221-22 (citation omitted); *Dodson Int’l Parts*, 347 F. Supp. 2d at 1010, 1012; *Pulsecard II*, 1996 WL 137824, at *10.

Section 60-3320(2) of the KUTSA defines “misappropriation” as follows:

“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; 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;
 - (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 it was a trade secret and that knowledge of it had been acquired by accident or mistake.⁹⁰

“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,” according to Section 60-3320(1) of the KUTSA.⁹¹ Thus, under the KUTSA, misappropriation may occur under either of two general sets of circumstances: (1)

⁹⁰ Kan. Stat. Ann. § 60-3320(2) (2006) (West, Westlaw through 2006 Reg. Sess.).

⁹¹ Kan. Stat. Ann. § 60-3320(1) (West, Westlaw through 2006 Reg. Sess.); *see also Herbster*, 1991 WL 205659, at *3 n.1 (noting that “there is no indication that [this] list is exclusive”).

when trade secrets are acquired by improper means, or (2) when trade secrets are disclosed or used improperly by another.⁹²

Kansas courts have rejected the notion adopted by other states' courts that misappropriation by use occurs only when the alleged misappropriator uses the trade secret for personal benefit or in competition with its owner.⁹³

Furthermore, reverse engineering typically does not constitute misappropriation of trade secrets under Kansas law because it “does not by itself constitute an improper means” of discovering trade secrets so long as the sample product was obtained properly.⁹⁴ “Section 60-3320(1) [of the KUTSA] describes a variety of means by which a trade secret is illicitly obtained through a violation of trust or outright theft. Discovering the guarded aspects of a product by disassembling the pieces to understand how they operate does not fall into the same class of activities prohibited by § 60-3320(1).”⁹⁵

4. STATUTES OF LIMITATION

a. What is the Relevant Statute of Limitations for Filing a Claim for Misappropriation of Trade Secrets?

An action for misappropriation of trade secrets under the KUTSA must be brought “within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.”⁹⁶ For purposes of the KUTSA statute of limitation, a continuing misappropriation constitutes a single claim.⁹⁷

⁹² *Pulsecard II*, 1996 WL 137824, at *11; *Curtis 1000*, 905 F. Supp. at 902 (citation omitted).

⁹³ *Evolution*, 342 F. Supp. 2d at 962.

⁹⁴ *Id.* at 962-63.

⁹⁵ *Id.* at 962-63.

⁹⁶ Kan. Stat. Ann. § 60-3325 (West, Westlaw through 2006 Reg. Sess.).

⁹⁷ Kan. Stat. Ann. § 60-3325 (West, Westlaw through 2006 Reg. Sess.).

b. When does the Statute of Limitations Begin to Run?

The question of when the KUTSA limitation period begins to run is one for the trial court when the evidence concerning this issue is undisputed; however, “[w]here there is evidence in dispute as to when the plaintiff’s injury first became reasonably ascertainable, the question is one for the trier of fact.”⁹⁸

Kansas courts hold that the limitations period will be deemed to have commenced running when the plaintiff discovers, or by the exercise of reasonable diligence should have discovered, the existence of acts constituting a cause of action for misappropriation of trade secrets under the KUTSA.⁹⁹ Significantly, the limitations period does not begin running based upon when the alleged injury occurs, but rather when the *misappropriation is discovered*, or should have been discovered with the exercise of reasonable diligence.¹⁰⁰ It is also worth noting that the Kansas Supreme Court held, in a pre-KUTSA case, that where the value of a trade secret is destroyed by its first adverse use, the statute of limitations commences to run at the time the first adverse use is reasonably ascertainable and that continued use of the trade secret thereafter does not amount to a continuing tort.¹⁰¹

Actual discovery that the trade secrets at issue are in the possession or control of the alleged misappropriating party is not necessary to commence the running of the statute of limitations.¹⁰² Likewise, actual knowledge that the alleged misappropriator has used the trade secrets is not required.¹⁰³ Moreover, the plaintiff “need not have discovered all the facts necessary to prove its claim . . . [and] [a]ll that is required is that [the] plaintiff have

⁹⁸ *McCaffree Fin’l Corp. v. Nunnick*, 18 Kan. App. 2d 40, 54-55, 847 P.2d 1321, 1331 (1993) (quoting *Bick v. Peat Marwick & Main*, 14 Kan. App. 2d 699, 703, 799 P.2d 94, 99 (1990)).

⁹⁹ *McCaffree*, 18 Kan. App. 2d at 51-52, 847 P.2d at 1329-1330 (citation omitted).

¹⁰⁰ *Guang Dong Light Headgear Factory Co., Ltd. v. ACI Int’l, Inc.*, No. 03-4165-JAR, 2007 WL 1341699, at *9 (D. Kan. May 4, 2007) (“Guang Dong I”) (citing Kan. Stat. Ann. § 60-3325).

¹⁰¹ *Lockridge v. Tweco Prods., Inc.*, 209 Kan. 389, 398-99, 497 P.2d 131, 138 (1972) (pre-KUTSA).

¹⁰² *McCaffree*, 18 Kan. App. 2d at 47-55, 847 P.2d at 1327-31.

¹⁰³ *McCaffree*, 18 Kan. App. 2d at 47-55, 847 P.2d at 1327-31.

sufficient facts to plead its cause of action.”¹⁰⁴ The plaintiff has a positive duty to use diligence in discovering his cause of action within the limitations period, and “[a]ny fact that should excite his suspicion is the same as actual knowledge of his entire claims.”¹⁰⁵

Furthermore, a defendant’s denials of wrongdoing or concealment of facts material to determining whether a cause of action exists for misappropriation of trade secrets may toll the running of the statute of limitations or estop him from relying on the statute as a defense.¹⁰⁶ It is well established under Kansas law that:

“[C]oncealment and fraud constitute an implied exception to the statute of limitations, and a party who wrongfully conceals material facts, and thereby prevents discovery of his wrong, or the fact that a cause of action has accrued against him, is not allowed to take advantage of his own wrong.”¹⁰⁷

Nevertheless, a defendant’s denials of wrongdoing in response to cease and desist letters or during the course of the misappropriation litigation do not estop his reliance on the statute of limitations or toll the running of the statute.¹⁰⁸

5. PRESERVATION OF ALLEGED TRADE SECRETS

The Kansas legislature has enacted several statutes to aid in preserving the confidentiality of trade secrets during the course of litigation. For instance, the

¹⁰⁴ *Id.* at 52, 847 P.2d at 1330 (quotation omitted); *see also* *Gal-Or v. Boeing Co.*, No. 05-1312-MLB, 2006 WL 1128687, at *5-6 (D. Kan. Apr. 27, 2006). “The statute of limitations does not begin to run when a plaintiff ‘can positively and directly prove misappropriation, . . . but simply when the plaintiff has knowledge of sufficient facts from which a reasonable jury could infer misappropriation.’” *Gal-Or*, 2006 WL 1128687, at *6 (quoting *Chasteen v. UNISIA JECS Corp.*, 216 F.3d 121, 1218 (10th Cir. 2000)).

¹⁰⁵ *McCaffree*, 18 Kan. App. 2d at 52, 847 P.2d at 1330 (quotations omitted).

¹⁰⁶ *Id.* at 55-59, 847 P.2d at 1331-34 (citations omitted).

¹⁰⁷ *Id.* at 55-56, 847 P.2d at 1331-32 (quoting *Railway Co. v. Grain Co.*, 68 Kan. 585, 586, 75 P. 1051, 1052 (1904)).

¹⁰⁸ *McCaffree*, 18 Kan. App. 2d at 55-56, 847 P.2d at 1332 (citations omitted).

KUTSA contains a provision specifically requiring courts to preserve the secrecy of alleged trade secrets in KUTSA actions.¹⁰⁹ The Kansas legislature also has adopted a statutory trade secret privilege as well as procedures for obtaining protective orders to govern discovery involving trade secrets.¹¹⁰ Kansas federal courts follow similar protective order procedures.

a. KUTSA Provision Requiring Preservation of Trade Secrets

Section 60-3324 of the KUTSA provides for the preservation of trade secrets during trade secret litigation, as follows:

In an action under this act, 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, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.¹¹¹

b. Kansas' Trade Secret Privilege

Section 60-432 of the Kansas Statutes Annotated sets forth a statutory privilege pursuant to which the owner of a trade secret has a limited privilege to refuse to disclose the trade secret and to prevent others from disclosing it if the exercise of the privilege will not conceal fraud or otherwise work

¹⁰⁹ See Kan. Stat. Ann. § 60-3324 (West, Westlaw through 2006 Reg. Sess.).

¹¹⁰ See Kan. Stat. Ann. §§ 60-432, 60-226(c)(7) (West, Westlaw through 2007 Reg. Sess.).

¹¹¹ Kan. Stat. Ann. § 60-3324 (West, Westlaw through 2006 Reg. Sess.). Currently, there appear to be no reported cases in which Kansas courts have construed this provision. Kansas courts, however, presumably would look to case law from other jurisdictions addressing similar UTSA provisions adopted by other states. The Kansas courts also likely would rely on Kan. Stat. Ann. § 60-226(c)(7), the Kansas statute governing the issuance of protective orders relating to trade secret discovery, and case law construing that statute. See *infra* Section 5(c) for more detailed discussion of Kan. Stat. Ann. § 60-226(c)(7) (West, Westlaw through 2007 Reg. Sess.).

injustice.¹¹² This privilege may be asserted by either the trade secret's owner or by his agent or employee.¹¹³

This statutory privilege is a limited one, as Kansas courts have long held that there is no absolute privilege for trade secrets.¹¹⁴ Thus, in certain circumstances, Kansas courts will allow, pursuant to an appropriate protective order, the disclosure of trade secrets sought in connection with litigation.¹¹⁵

c. Kansas Protective Order Procedures

Section 60-226(c)(7) of the Kansas Statutes Annotated permits Kansas courts to issue protective orders governing discovery of trade secrets, as follows:

Upon motion by a party or by the person from whom discovery is sought, and for good cause shown, the court . . . may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense including one or more of the following: . . .

(7) that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way¹¹⁶

¹¹² Kan. Stat. Ann. § 60-432 (West, Westlaw through 2007 Reg. Sess.); *see also Chapman*, 214 Kan. at 583-84, 521 P.2d at 596 (citing *Jennings*, 199 Kan. at 623-24, 433 P.2d at 354) (applying Kan. Stat. Ann. § 60-432 statutory trade secret privilege and holding that witness could not rely on the privilege to refuse to provide testimony about real estate appraisal). Section 60-432 is modeled verbatim on Uniform Rule of Evidence 32. *See* 26 Charles Alan Wright & Kenneth W. Graham, Jr., *Federal Practice and Procedure* § 5641 (2008) (available at Westlaw, 26 FPP § 5641). In contrast, federal law and procedural rules do not contain such a trade secret privilege. *Id.*

¹¹³ Kan. Stat. Ann. § 60-432 (West, Westlaw through 2007 Reg. Sess.).

¹¹⁴ *Southwestern Bell Tel. Co. v. State Corp. Comm'n*, 6 Kan. App. 2d 444, 455-56, 629 P.2d 1174, 1183 (1981) (quoting *Federal Open Mkt. Comm. v. Merrill*, 443 U.S. 340, 356 (1979) (quoting 8 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 2043, at 300-302 (1970))) (discussing Kan. Stat. Ann. § 60-432).

¹¹⁵ *See infra* Sections 5(c) and 5(d) for discussion of the circumstances in which Kansas state and federal courts will issue protective orders governing production of trade secrets.

¹¹⁶ Kan. Stat. Ann. § 60-226(c)(7) (West, Westlaw through 2007 Reg. Sess.).

In applying § 60-226(c)(7), Kansas appellate courts have held:

It is well-settled that there is no absolute privilege for trade secrets . . . ; the protection afforded is that if the information sought is shown to be relevant and necessary, proper safeguards will attend disclosure. It is for the party resisting discovery to establish, in the first instance, that the information sought is within this provision of the rule and that he might be harmed by its disclosure. . . .

If it is established that confidential information is being sought, the burden is on the party seeking discovery to establish that the information is sufficiently relevant and necessary to his case to outweigh the harm disclosure would cause to the person from whom he is seeking the information.¹¹⁷

Thus, when deciding whether to permit disclosure of information that a Kansas court has determined to be relevant and necessary to its proceedings and that a party contends is a trade secret, the court should proceed as follows:

First, it should determine whether the information is [in fact] a trade secret or confidential commercial information. In considering this matter, the burden is on the party seeking to prevent disclosure. Secondly, the [court] should weigh the competing interests. In doing so, it should consider, [among other things], the financial or competitive harm to the party seeking to prevent disclosure; whether disclosure will aid the [court] in its duties; whether disclosure serves or might harm the public interest; and whether alternatives to full disclosure exist.¹¹⁸

¹¹⁷ *Southwestern Bell Tel. Co.*, 6 Kan. App. 2d at 455-56, 629 P.2d at 1183 (quoting *Federal Open Mkt. Comm.*, 443 U.S. at 356 (citing 8 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 2043, at 300-302 (1970))).

¹¹⁸ *Southwestern Bell Tel. Co.*, 6 Kan. App. 2d at 456-57, 629 P.2d at 1184.

d. Federal Protective Order Procedures

Kansas federal courts apply Federal Rule of Civil Procedure 26(c)(7), which is virtually identical to the rule used by Kansas state courts, in determining whether to issue a protective order concerning disclosure of trade secrets.¹¹⁹ Trade secrets are not absolutely privileged, and the extent to which a federal district court will allow their disclosure depends upon the court's exercise of its broad discretion.¹²⁰ Furthermore, the contents of any protective order issued by the federal district court are entirely within the court's discretion.¹²¹

A party resisting disclosure of trade secrets in Kansas federal district court has the burden of demonstrating the "good cause" required by Federal Rule of Civil Procedure 26(c)(7).¹²² To do so, it first must establish that: (1) the information is a trade secret or other confidential research, development, or commercial information; and (2) its disclosure might be harmful or create a competitive disadvantage for the party, i.e., disclosure will result in a "clearly defined and very serious injury."¹²³ If these requirements are met, the burden then shifts to the party seeking discovery to establish that the disclosure of trade secrets is relevant and necessary to the action.¹²⁴ Finally, the court must balance the need of the party seeking discovery of the trade secrets against the opposing party's claim of injury resulting from the

¹¹⁹ See Fed. R. Civ. P. 26(c)(7); see also D. Kan. Rule 26.2; *Snowden v. Connaught Lab., Inc.*, 136 F.R.D. 694, 698-700 (D. Kan. 1991) (applying Fed. R. Civ. P. 26(c)(7)).

¹²⁰ *Id.* at 698 (citing *Centurion Indus., Inc. v. Warren Steurer & Assoc.*, 665 F.2d 323, 325 (10th Cir. 1981)).

¹²¹ *MGP Ingredients, Inc. v. Mars, Inc.*, 245 F.R.D. 497, 500 (D. Kan. 2007) ("trial court [has] substantial latitude to fashion protective orders"); *Snowden*, 136 F.R.D. at 698 (citing *Centurion Indus.*, 665 F.2d at 326).

¹²² Fed. R. Civ. P. 26(c)(7); see also *MGP Ingredients*, 245 F.R.D. at 500; *Sentry Ins. v. Shivers*, 164 F.R.D. 255, 256 (D. Kan. 1996).

¹²³ *Flint Hills Scientific, LLC v. Davidchack*, No. 00-2334-KHV, 2001 WL 1718291, at *2 (D. Kan. Dec. 3, 2001) (quoting *Zapata v. IBP, Inc.*, 160 F.R.D. 625, 627 (D. Kan. 1995) (quoting *Koster v. Chase Manhattan Bank*, 93 F.R.D. 471, 480 (S.D.N.Y. 1982)); see also *MGP Ingredients*, 245 F.R.D. at 500 (citing *Centurion Indus.*, 665 F.2d at 325-26).

¹²⁴ *MGP Ingredients*, 245 F.R.D. at 500 (citing *Centurion Indus.*, 665 F.2d at 325-26); *Snowden*, 136 F.R.D. at 698 (citations omitted).

disclosure.¹²⁵ “[H]ard and fast rules in this area are inappropriate,” and “[t]he court’s common sense is a helpful guide.”¹²⁶

Significantly, Kansas federal district courts require that the party seeking a protective order make “a particular and specific demonstration of fact, as distinguished from stereotyped and conclusory statements” in meeting its burden under Federal Rule of Civil Procedure 26(c)(7).¹²⁷ The moving party should meet his burden by providing specific supporting evidence through “more than [simply] the briefs or the hearsay allegations of counsel’s affidavit.”¹²⁸ Moreover, the United States District Court for the District of Kansas has adopted specific guidelines for obtaining protective orders that must be followed in addition to Federal Rule of Civil Procedure 26(c)(7) and D. Kan. Rule 26.2.¹²⁹

e. **Other Relevant Federal Court Procedures**

Kansas federal district courts have adopted additional procedures relevant to protecting trade secrets from disclosure during litigation. Specifically, the United States District Court for the District of Kansas has adopted D. Kan. Rule 5.4.14, which requests that parties refrain from including trade secrets and proprietary information in pleadings and exhibits filed with the court or to redact such information before filing it.¹³⁰ This Rule provides specific procedures for accomplishing this.¹³¹

¹²⁵ *MGP Ingredients*, 245 F.R.D. at 500 (citing *Centurion Indus.*, 665 F.2d at 325-26); *Snowden*, 136 F.R.D. at 698 (citations omitted).

¹²⁶ *Flint Hills Scientific*, 2001 WL 1718291, at *2 (quoting *Zenith Radio Corp. v. Matsushita Elec. Indus. Co., Ltd.*, 529 F. Supp. 866, 891 (E.D. Pa. 1981)).

¹²⁷ *MGP Ingredients*, 245 F.R.D. at 501 (quoting *Gulf Oil Co. v. Bernard*, 452 U.S. 89, 102 n.16 (1981)); *Flint Hills Scientific*, 2001 WL 1718291, at *2 (citations omitted).

¹²⁸ *Id.*, 2001 WL 1718291, at *2 (quoting *Zenith Radio Corp.*, 529 F. Supp. at 891).

¹²⁹ See United States District Court for the District of Kansas, Guidelines for Agreed Protective Orders (revised Jul. 2007), <http://www.ksd.uscourts.gov/guidelines/protectiveorder.pdf>.

¹³⁰ D. Kan. Rule 5.4.14.

¹³¹ *Id.*

Kansas federal district courts also have adopted procedures governing the filing of sealed documents.¹³² A party seeking to file documents under seal must first obtain leave of court to do so.¹³³ Generally, Kansas federal courts disfavor the filing of documents under seal.

6. REMEDIES AVAILABLE FOR MISAPPROPRIATION OF TRADE SECRETS

a. Injunctive Relief

i. Is there a statutory or common law right to injunctive relief?

The Kansas Supreme Court recognizes a property right in trade secrets, and has long authorized the issuance of injunctions restraining the disclosure or use of trade secrets to protect this property right.¹³⁴ Moreover, Section 60-3321 of the KUTSA expressly provides that “[a]ctual or threatened misappropriation may be enjoined.”¹³⁵ The statute further provides that upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist.¹³⁶ Nevertheless, an injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that the misappropriator otherwise would derive from the misappropriation.¹³⁷ Section 60-3321 also provides that, in appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.¹³⁸

¹³² D. Kan. Rule 5.4.6.

¹³³ *Id.*

¹³⁴ *See Morrison*, 105 Kan. at 617, 185 P. at 737. The Kansas legislature also has enacted other statutes generally providing for injunctive relief. *See* Kan. Stat. Ann. § 60-901 *et. seq.* (West, Westlaw through 2006 Reg. Sess.).

¹³⁵ Kan. Stat. Ann. § 60-3322(a) (West, Westlaw through 2006 Reg. Sess.); *see also Duarte*, 519 F. Supp. 2d at 1154; *Farmers Group, Inc. v. Lee*, 29 Kan. App. 2d 382, 390, 28 P.3d 413, 419 (2001) (citing Kan. Stat. Ann. § 60-3321(a)); *Koch*, 227 Kan. at 827-29, 610 P.2d at 1104-05).

¹³⁶ Kan. Stat. Ann. § 60-3322(a) (West, Westlaw through 2006 Reg. Sess.).

¹³⁷ *Id.*

¹³⁸ Kan. Stat. Ann. § 60-3322(c) (West, Westlaw through 2006 Reg. Sess.).

Section 60-3321(b) further permits the court, in “exceptional circumstances,” to issue an injunction conditioning future use of a disputed trade secret upon payment of a reasonable royalty to the owner for “no longer than the period of time for which use could have been prohibited.”¹³⁹ The statute defines “exceptional circumstances” as including but not being limited to “a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.”¹⁴⁰

ii. If so, what must a successful plaintiff prove to receive injunctive relief?

Kansas federal district courts have addressed the propriety of awarding injunctive relief in KUTSA actions on several occasions, particularly with respect to issuance of preliminary injunctions pursuant to federal procedural rules.¹⁴¹ Hence, these federal courts have set forth the applicable standards for obtaining such relief.¹⁴²

The main purpose of a preliminary injunction is “to preserve the status quo pending a trial on the merits in order for the trial court to render a meaningful decision.”¹⁴³ A preliminary injunction is an extraordinary remedy that is

¹³⁹ Kan. Stat. Ann. § 60-3322(b) (West, Westlaw through 2006 Reg. Sess.).

¹⁴⁰ *Id.*

¹⁴¹ See Fed. R. Civ. P. 65(a), (c)-(e) (setting forth specific procedures governing requests for preliminary injunctive relief); Fed. R. Civ. P. 65(b) (setting forth procedures dealing with requests for temporary restraining orders); D. Kan. Rule 65.1 (requiring filing of motion requesting temporary injunctive relief separate from pleadings).

¹⁴² See, e.g., *Duarte*, 519 F. Supp. 2d at 1147-1155 (granting preliminary injunction to former employer prohibiting former employee from disclosing or using former employer’s trade secrets); *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105-07 (citations omitted) (granting preliminary injunction prohibiting defendant from using or disclosing plaintiff’s customer lists in competing business in relation to plaintiff’s KUTSA claims for injunctive relief); *Montgomery Bulk Express, Inc. v. Pavlich, Inc.*, No. 90-2236, 1990 WL 154205, at *1-2 (D. Kan. Sept. 6, 1990) (denying plaintiff’s request for issuance of temporary restraining order); cf. *Heatron, Inc. v. Shackelford*, 898 F. Supp. 1491, 1498-1503 (D. Kan. 1995) (granting preliminary injunction to former employer enforcing noncompetition/nondisclosure agreement with former employee to prohibit disclosure of former employer’s trade secrets).

¹⁴³ *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105 (citation omitted); cf. *Heatron*, 898 F. Supp. at 1498 (citation omitted).

granted as the exception rather than the rule.¹⁴⁴ Therefore, the right to such relief must be “clear and unequivocal.”¹⁴⁵ The determination of whether to grant a preliminary injunction rests within the sound discretion of the trial court.¹⁴⁶

To be entitled to a preliminary injunction, a plaintiff must demonstrate:

- (1) a substantial likelihood of success on the merits;
- (2) irreparable harm in the absence of an injunction;
- (3) the threatened harm outweighs the injury that an injunction may impose upon the opposing party; and
- (4) an injunction is not adverse to the public interest.¹⁴⁷

The United States Court of Appeals for the Tenth Circuit has adopted a modified interpretation of the “likelihood of success” requirement, which Kansas federal district courts use. Pursuant to this modified interpretation, if the other requirements for a preliminary injunction are satisfied, the movant can establish the “likelihood of success” requirement merely by raising “questions going to the merits [that are] so serious, substantial, difficult and doubtful, as to make the issues fair ground for litigation and deserving of more deliberate investigation.”¹⁴⁸

Furthermore, Kansas federal district courts hold that “irreparable harm” is the most important factor in obtaining a preliminary injunction.¹⁴⁹ To constitute “irreparable harm,” an injury must be “certain, great, actual ‘and not theoretical.’”¹⁵⁰ Irreparable harm is more than merely serious or substantial

¹⁴⁴ *Duarte*, 519 F. Supp. 2d at 1147-48 (citations omitted); *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105 (citations omitted); *cf.* *Heatron*, 898 F. Supp. at 1498-99.

¹⁴⁵ *Duarte*, 519 F. Supp. 2d at 1147-48 (citations omitted); *cf.* *Heatron*, 898 F. Supp. at 1499 (citation omitted).

¹⁴⁶ *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105 (citation omitted); *cf.* *Heatron*, 898 F. Supp. at 1499 (citation omitted).

¹⁴⁷ *Duarte*, 519 F. Supp. 2d at 1148 (citations omitted); *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105 (citation omitted); *cf.* *Heatron*, 898 F. Supp. at 1498 (citation omitted).

¹⁴⁸ *Duarte*, 519 F. Supp. 2d at 1148 (citations omitted); *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105 (citation omitted); *cf.* *Heatron*, 898 F. Supp. at 1499 (citation omitted).

¹⁴⁹ *Duarte*, 519 F. Supp. 2d at 1148 (citations omitted)

¹⁵⁰ *Id.* at 1148 (citations omitted) (quotation omitted).

harm.¹⁵¹ This requirement can be met by demonstrating that there is a significant risk of harm that cannot be cured by monetary damages.¹⁵² Disclosure or use of trade secrets, loss of customers, loss of good will, and threats to business viability have been found to constitute irreparable harm.¹⁵³

In the event the federal district court grants a preliminary injunction, the plaintiff must post a bond in an amount the court deems appropriate to protect the defendant from losses and damages if, in the end, he is determined to have been wrongly enjoined.¹⁵⁴

b. Damages

i. What types of compensatory damages may a plaintiff recover for misappropriation of trade secrets?

Section 60-3322(a) of the KUTSA provides that a trade secret owner is entitled to recover damages for trade secret misappropriation. Damages may include both the actual loss caused by the misappropriation and the unjust enrichment caused by the misappropriation to the extent it is not taken into account in computing actual loss.¹⁵⁵ Section 60-3322(a) further provides that a reasonable royalty may be imposed for a misappropriator's unauthorized disclosure or use of a trade secret, in lieu of damages measured by other methods.¹⁵⁶

In applying Section 60-3322(a), Kansas courts have calculated damages for misappropriation of trade secrets "by either the plaintiff's lost profits or the defendant's gain, whichever is greater . . ."¹⁵⁷ Section 60-3322(a), however,

¹⁵¹ *Id.* at 1148 (citations omitted).

¹⁵² *Id.* at 1148 (citations omitted).

¹⁵³ *Id.* at 1147-55 (citations omitted); *Fireworks Spectacular I*, 86 F. Supp. 2d at 1105-07 (citations omitted).

¹⁵⁴ *See* Fed. R. Civ. P. 65(c); *see also* D. Kan. Rule 65.2 (setting forth certain bond and surety requirements).

¹⁵⁵ Kan. Stat. Ann. § 60-3322(a) (West, Westlaw through 2006 Reg. Sess.).

¹⁵⁶ *Id.*

¹⁵⁷ *Intellisports LLC v. Fitzgerald*, No. 90,397, 2004 WL 794458, at *4 (Kan. Ct. App. Apr. 9, 2004) ("Intellisports I") (citation omitted) (former employer to be awarded damages for former employee's misappropriation of magazine subscriber list based on defendant's unjust enrichment because former employer could not prove lost profits damages).

allows recovery of both the plaintiff's actual losses and a misappropriator's unjust benefit that are caused by the misappropriation as long as there is no double counting.¹⁵⁸ Moreover, monetary damages should be awarded only for the period during which the disputed information is entitled to protection as a trade secret, plus any additional period in which the misappropriator retains an advantage over good faith competitors due to the misappropriation.¹⁵⁹

When there is a lack of proof showing the value of the disputed trade secret, courts must be guided by what the plaintiff can actually prove, whether that be the plaintiff's lost profits or an accounting of the defendant's profits.¹⁶⁰ Generally, the plaintiff is entitled to recover the profits it would have made if the trade secret had not been unlawfully used, but not less than the monetary gain which the defendant reaped from the misappropriation.¹⁶¹ Thus, a plaintiff pursuing a KUTSA claim may proceed in the alternative to determine whether the defendant's wrongful profits exceed the plaintiff's losses caused by the misuse of the plaintiff's trade secret.¹⁶²

(1) Lost profits damages

When using lost profits to measure actual damages to be awarded under Section 60-3322(a), the claim must be supported by sufficient financial data to permit an estimate of the actual loss to be made with reasonable certitude and exactness.¹⁶³ Lost profits damages will not be awarded if they are they

¹⁵⁸ Kan. Stat. Ann. § 60-3322(a) (West, Westlaw through 2006 Reg. Sess.); *see also* Unif. Trade Secrets Act §3 cmt. (West, Westlaw through 2006 Annual Meeting of Nat'l Conference of Comm'rs on Unif. State Laws).

¹⁵⁹ Unif. Trade Secrets Act § 3 cmt. (West, Westlaw through 2006 Annual Meeting of Nat'l Conference of Comm'rs on Unif. State Laws); *see also* Meitler Consulting, Inc. v. Dooley, No. 05-2126-DJW, 2007 WL 1834008, at *4-5, 8-9 (D. Kan. June 26, 2007) (awarding plaintiff lost profits pursuant to § 60-3322(a) based on actual lost sales and those expected to be lost during period trade secrets were protected from disclosure pursuant to nondisclosure/nonsolicitation agreement with defendant).

¹⁶⁰ *Intellisports I*, 2004 WL 794458, at *4 (citations omitted).

¹⁶¹ *Id.*, 2004 WL 794458, at *4 (citation omitted).

¹⁶² *Id.*, 2004 WL 794458, at *4 (citation omitted).

¹⁶³ *Id.*, 2004 WL 794458, at *4 (citations omitted); *see also* Meitler Consulting, 2007 WL 1834008, at *4-5, 8-9; *Fireworks Spectacular III*, 147 F. Supp. 2d at 1068.

too speculative or remote in time.¹⁶⁴ On the other hand, they will not be denied simply because they are difficult to ascertain.¹⁶⁵

Furthermore, lost profits damages are properly calculated based on lost net profits, and not gross profits.¹⁶⁶ In proving lost profits, the plaintiff should demonstrate its actual experience with respect to the volume and net profits of its affected business during a reasonable interval immediately preceding the impact of the alleged misappropriation.¹⁶⁷

(2) Unjust enrichment damages

Kansas courts have held that actual damages based on unjust enrichment of the misappropriator cannot be speculative, but must be reasonably ascertainable and based on concrete numbers.¹⁶⁸ Unjust enrichment damages may be based, among other things, on the amount of research and development costs the defendant saved itself by misappropriating the plaintiff's trade secrets, assuming there is competent evidence to establish the costs expended.¹⁶⁹ In addition, unjust enrichment damages may be based on the increased amount of a former employee's salary when he is hired by his former employer's competitor for the purpose of acquiring the former employer's trade secrets.¹⁷⁰ But, the amount of a misappropriator's offer to

¹⁶⁴ *Intellisports I*, 2004 WL 794458, at *4 (citations omitted); cf. *Herbster*, 1991 WL 205659, at *3-4 (citations omitted) (approximated value of damage to goodwill of plaintiff's business not too speculative to serve as measure of damages to be awarded under § 60-3322(a)) (citations omitted).

¹⁶⁵ *Intellisports I*, 2004 WL 794458, at *4 (citations omitted); cf. *Herbster*, 1991 WL 205659, at *3-4 (citations omitted) (inexactness of value of goodwill damage to plaintiff's business does not preclude recovery under § 60-3322(a)) (citations omitted).

¹⁶⁶ *Intellisports I*, 2004 WL 794458, at *4 (citations omitted).

¹⁶⁷ *Id.*, 2004 WL 794458, at *4 (citation omitted).

¹⁶⁸ *Id.*, 2004 WL 794458, at *4, 6 (“[w]hile we do not expect mathematical precision, there must be some documentary support for the trial court's award”).

¹⁶⁹ See, e.g., *Biocore, Inc. v. Khosrowshahi*, Nos. 00-3170, 00-3180, 2003 WL 22481768, at *7-8 (D. Kan. Nov. 4, 2003).

¹⁷⁰ See, e.g., *Id.*, 2003 WL 22481768, at *8.

purchase the stolen trade secrets is not necessarily a proper basis for awarding unjust enrichment damages.¹⁷¹

(3) Reasonable Royalty

To use reasonable royalties as an alternative measure of damages, there must be competent evidence of the amount of a reasonable royalty to be awarded.¹⁷² In addition, this alternative permits a reasonable royalty award based only on the alleged misappropriator's past conduct.¹⁷³

ii. Are punitive or exemplary damages available? If so, what must a plaintiff do to recover punitive or exemplary damages?

Section 60-3322(b) of the KUTSA allows a court to award exemplary damages "if willful and malicious misappropriation exists."¹⁷⁴ The statute limits the amount of exemplary damages to no more than twice the amount of actual damages awarded under Section 60-3322(a).¹⁷⁵

Significantly, a Kansas federal district court recently held that any award of exemplary damages under the KUTSA must comply with the Kansas state law punitive damages scheme and limitations imposed by Section 60-3702 of the Kansas Statutes Annotated.¹⁷⁶ Section 60-3702(a) provides:

¹⁷¹ *Intellisports, LLC v. Fitzgerald*, No. 94,895, 2007 WL 1529649, at *4-5 (Kan. Ct. App. Nov. 13, 2007) ("Intellisports II") (misappropriator's alleged offer to purchase subject trade secrets was not proper basis for damages awarded under § 60-3322(a) because alleged offer included purchase of trade secrets beyond those allegedly misappropriated).

¹⁷² Unif. Trade Secrets Act § 3 cmt. (West, Westlaw through 2006 Annual Meeting of Nat'l Conference of Comm'rs on Unif. State Laws).

¹⁷³ *Id.* In exceptional circumstances, a misappropriator may be ordered by injunction to pay the trade secret owner a reasonable royalty based on the misappropriator's future use of the information. *See* Kan. Stat. Ann. § 60-3321(b) (West, Westlaw through 2006 Reg. Sess.); *see also* Unif. Trade Secrets Act § 3 cmt. (West, Westlaw through 2006 Annual Meeting of Nat'l Conference of Comm'rs on Unif. State Laws).

¹⁷⁴ Kan. Stat. Ann. § 60-3322(b) (West, Westlaw through 2006 Reg. Sess.); *see also Fireworks Spectacular III*, 147 F. Supp. 2d at 1068.

¹⁷⁵ Kan. Stat. Ann. § 60-3322(b) (West, Westlaw through 2006 Reg. Sess.).

¹⁷⁶ *Meitler Consulting*, 2007 WL 1834008, at *14 (compliance with § 60-3702 is required because "by its express terms, [it] applies '[i]n any civil action in which exemplary or punitive damages are recoverable'" (quoting Kan. Stat. Ann. § 60-3702)).

In any civil action in which exemplary or punitive damages are recoverable, the trier of fact shall determine, concurrent with all other issues presented, whether such damages shall be allowed. If such damages are allowed a separate proceeding shall be conducted by the court to determine the amount of such damages to be awarded.¹⁷⁷

Also, pursuant to Section 60-3702(c), the plaintiff has the burden of proving, by clear and convincing evidence, that the defendant acted toward the plaintiff “with willful conduct, wanton conduct, fraud or malice.”¹⁷⁸

In determining the amount of any exemplary damages to be awarded in a KUTSA action, the court may consider the following seven factors set forth in Section 60-3702(b):

- (1) The likelihood at the time of the alleged misconduct that serious harm would arise from the defendant's misconduct;
- (2) the degree of the defendant's awareness of that likelihood;
- (3) the profitability of the defendant's misconduct;
- (4) the duration of the misconduct and any intentional concealment of it;
- (5) the attitude and conduct of the defendant upon discovery of the misconduct;
- (6) the financial condition of the defendant; and
- (7) the total deterrent effect of other damages and punishment imposed upon the defendant as a result of the misconduct, including, but not limited to, compensatory, exemplary and punitive damage awards to persons in situations similar to those of the claimant and the severity of the criminal penalties to which the defendant has been or may be subjected.¹⁷⁹

¹⁷⁷ Kan. Stat. Ann. § 60-3702(a) (West, Westlaw through 2007 Reg. Sess.).

¹⁷⁸ Kan. Stat. Ann. § 60-3702(c) (West, Westlaw through 2007 Reg. Sess.).

¹⁷⁹ Kan. Stat. Ann. § 60-3702(b)(1)-(7) (West, Westlaw through 2007 Reg. Sess.); *see also Meitler Consulting*, 2007 WL 1834008, at *10-13.

In addition, Section 60-3702(e) provides that any award of exemplary damages may not exceed the lesser of the defendant's annual gross income or five million dollars.¹⁸⁰ In the event the doubled amount of any exemplary damages to be awarded under the KUTSA exceeds the limit set forth in Section 60-3702(e), then the Section 60-3702(e) limit shall govern.¹⁸¹

c. Attorneys' Fees

i. Does a successful party have a statutory or common law right to recover attorneys' fees?

Section 60-3323 of the KUTSA provides for the award of attorneys' fees in certain circumstances:

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, the court may award reasonable attorney's fees to the prevailing party.¹⁸²

ii. If so, what must a successful party show to recover attorneys' fees?

A movant seeking to recover attorneys' fees under Section 60-3323 must show that he is the "prevailing party" in the KUTSA litigation.¹⁸³ The phrase "prevailing party" has been defined as "[a] party in whose favor a judgment is rendered . . . [a]lso termed successful party."¹⁸⁴ The movant also must show that the facts fit one of the three statutory categories in which an award

¹⁸⁰ Kan. Stat. Ann. § 60-3702(e) (West, Westlaw through 2007 Reg. Sess.); *Meitler Consulting*, 2007 WL 1834008, at *13-14 (applying § 60-3702(e) to KUTSA claim).

¹⁸¹ *Meitler Consulting*, 2007 WL 1834008, at *13-14.

¹⁸² Kan. Stat. Ann. § 60-3323 (West, Westlaw through 2006 Reg. Sess.); *see also Meitler Consulting*, 2007 WL 1834008, at *16 (awarding attorneys' fees to prevailing party based on finding of willful and malicious misappropriation following entry of default judgment on liability); *Data Products*, 1990 WL 198610, at *7 (attorneys' fees may be awarded with respect to KUTSA claim if misappropriation is shown to be willful and malicious).

¹⁸³ Kan. Stat. Ann. § 60-3323 (West, Westlaw through 2006 Reg. Sess.); *see also Bradbury Co. I*, 2005 WL 2972323, at *2 (noting § 60-3323 clearly provides only "prevailing party" may recover attorneys' fees and rejecting non-prevailing party's request for attorneys' fees award).

¹⁸⁴ *Id.*, 2005 WL 2972323, at *2 (quoting Black's Law Dictionary 1145 (7th ed. 1999)).

of fees is permitted under Section 60-3323 – the first two of these categories require the movant to demonstrate “bad faith” and the third requires the movant to show that a “willful and malicious” misappropriation occurred.¹⁸⁵

Kansas federal district courts have defined “bad faith” for purposes of Section 60-3323 as “a frivolous action or one brought with no supporting evidence.”¹⁸⁶ Accordingly, Kansas courts have denied motions seeking attorneys’ fees under Section 60-3323 when there is sufficient evidence supporting the trade secret misappropriation claims.¹⁸⁷ Furthermore, to establish “bad faith,” the movant must show that the facts alleged to constitute the “bad faith” are related to the merits of the movant’s trade secrets claim.¹⁸⁸

Kansas courts also may award attorneys’ fees under Section 60-3323(iii) if the prevailing party establishes that “willful and malicious misappropriation” occurred.¹⁸⁹ Kansas courts have not yet provided specific guidance concerning the application of this phrase in the context of Section 60-3323. The UTSA Comment to Section 4 (Attorney’s Fees), however, states that the court should take into consideration the extent to which a complainant will recover exemplary damages in determining whether additional attorney’s fees should be awarded.¹⁹⁰

¹⁸⁵ Kan. Stat. Ann. §60-3323 (West, Westlaw through 2006 Reg. Sess.).

¹⁸⁶ *Bradbury Co. I*, 2005 WL 2972323, at *2-3 (citations omitted) (predicting how Kansas state courts would define “bad faith” and noting that it is a “narrow” definition).

¹⁸⁷ *See, e.g., Curtis 1000*, 905 F. Supp. at 902-03 (denying defendants’ attorneys’ fee motion where evidence was sufficient to warrant denial of defendants’ summary judgment motion); *Andrew Corp. v. Van Doren Indus., Inc.*, No. 88-2414, 1990 WL 136779, at *5 (D. Kan. July 5, 1990) (same).

¹⁸⁸ *Meitler Consulting*, 2007 WL 1834008, at *16 (awarding attorneys’ fees to prevailing party based on finding of willful and malicious misappropriation following entry of default judgment on liability); *Bradbury Co. I*, 2005 WL 2972323, at *2 (citations omitted) (denying defendant’s motion to compel production of records purportedly needed to support its attorneys’ fees motion because records would provide “bad faith” evidence unrelated to trade secret claims at issue).

¹⁸⁹ *Fireworks Spectacular III*, 147 F. Supp. 2d at 1068 (denying § 60-3323(iii) attorneys’ fee motion because misappropriation not willful and malicious in nature); *Data Products*, 1990 WL 198610, at *7 (attorneys’ fees may be awarded regarding KUTSA claim if misappropriation is shown to be willful and malicious).

¹⁹⁰ Unif. Trade Secrets Act § 4 cmt. (West, Westlaw through 2006 Annual Meeting of Nat’l Conference of Comm’rs on Unif. State Laws).

iii. What procedures must be followed to recover attorneys' fees?

In Kansas federal district court, the moving party must comply with both Federal Rule of Civil Procedure 54(d)(2) and D. Kan. Rule 54.2 in seeking an award of statutory attorneys' fees pursuant to Section 60-3323.¹⁹¹ These rules set forth specific procedures for obtaining such an award.

Notably, before the court will consider a motion for such a fee award, the prevailing party must first consult with the other party and attempt to reach agreement about the requested award. If they are unable to agree, the prevailing party must file a "statement of consultation" with the court describing the communications with the other party. This "statement of consultation" must be filed within thirty days of the filing of the attorneys' fee motion.¹⁹²

¹⁹¹ Fed. R. Civ. P. 54(d)(2); D. Kan. 54.2.

¹⁹² *Id.*