

# TRADE SECRETS IN NORTH DAKOTA: AN OUNCE OF PREVENTION IS WORTH A POUND OF CURE

## ABSTRACT

North Dakota provides state-level protection under uniform trade secret model legislation. Criminal statutes exist as well. Additionally, the Defend Trade Secrets Act provides a federal civil cause of action for trade secret misappropriation, and the federal Economic Espionage Act provides for criminal prosecution. However, even with these many ways of protecting trade secrets, many businesses do not take the time to identify exactly what information should be protected as a trade secret. Instead, identification happens during discovery and businesses find out far too late the right measures were not taken to protect valuable assets.

Proactive protection is increasingly important so small businesses can reduce litigation costs by having procedures in place beforehand. Protection of trade secrets needs to be part of any business incorporation. Non-disclosure agreements must comply with the near complete ban on non-compete clauses in North Dakota.

Once the secret is lost, a qualified intellectual property practitioner needs to counsel a client on the possibility of other protection and what civil remedies are available in litigation. Even more secrets can be lost through litigation if a practitioner does not take measures to keep documents sealed.

From employees taking work product after they leave to cyberattacks that hack the cloud, knowledge of trade secrets is important for every business owner and farmer in North Dakota.

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## I. INTRODUCTION

Protection of valuable intellectual property is increasingly important in a world where information is shared, leaked, and capable of moving across the world in seconds. One form of intellectual property is easier than others for businesses or inventors to keep: trade secret.<sup>1</sup> However, what a business does not know could hurt its chances of keeping that protection and risk losing a substantial portion of its company value. That's why every business and lawyer should know the basics of trade secret protection in North Dakota.

## II. HISTORY OF TRADE SECRET LAW<sup>2</sup>

As late as the 1980s, states were still adopting common law trade secret protection, with Alabama being the most recent.<sup>3</sup> However, trade secret common law in the United States has been around far longer.<sup>4</sup>

### A. STATE COMMON LAW

The Massachusetts Supreme Court introduced the English common law concept of protection for trade secrets in 1837.<sup>5</sup> *Vickery v. Welch*<sup>6</sup> concerned the sale of a “chocolate-mill” and the “secret manner of making chocolate.”<sup>7</sup> When the seller decided not to give his secrets to the buyer, a court enforced the sale and “thereby imported the English common law concept of protection for trade secrets into the common law of the United States.”<sup>8</sup>

Trade secret common law was better defined in the oft-cited *Peabody v. Norfolk*<sup>9</sup> case, where the Massachusetts Supreme court established that trade secrets were property rights and, most importantly, injured persons could

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1. See generally Sharon Sandeen, *20 Years of Trade Secrets Scholarship (2002-2022)*, MITCHELL HAMLINE OPEN ACCESS (2022), <https://open.mitchellhamline.edu/cgi/viewcontent.cgi?article=1528&context=facsch> (compiling books, book chapters, and law review articles).

2. See MELVIN F. JAGER, 1 TRADE SECRETS LAW at Ch. 2. The Historical Development of Trade Secret Concepts (2022); Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQ. INTELL. PROP. L. REV. 1, 13-15 (2007); Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secret Act*, 33 HAMLINE L. REV. 493, 498-502 (2010).

3. See *Mountain State Tel. & Tel. Co. v. Dep't of Pub. Serv. Regul.*, 634 P.2d 181 (Mont. 1981), *overruled by* *Great Falls Trib. v. Montana Pub. Serv. Comm'n*, 82 P.3d 876 (Mont. 2003); *Drill Parts & Serv. Co. v. Joy Mfg. Co.*, 439 So. 2d 43 (Ala. 1983).

4. See *Vickery v. Welch*, 36 Mass. (19 Pick.) 523, 525-26 (1837).

5. JAGER, *supra* note 2, § 2:3.

6. 36 Mass. (19 Pick.) 523 (1837).

7. *Vickery*, 36 Mass. (19 Pick.) at 523, 525-26.

8. JAGER, *supra* note 2, §2:3.

9. 98 Mass. 452 (1868).

receive injunctive relief from the courts.<sup>10</sup> The fact that others knew of the secret machinery in question did not bar this relief because “[a] secret of trade or manufacture does not lose its character by being confidentially disclosed to agents or servants, without whose assistance it could not be made of any value.”<sup>11</sup>

Other concepts of today’s trade secret law began in various courts. The concept of “unclean hands” was added in *Deming v. Chapman*<sup>12</sup> in New York, when the court refused to enjoin a person from not sharing trade secret information when said person “obtained the secret from a third party who had breached an oath of secrecy with the true inventor” by sharing the information in the first place.<sup>13</sup> In *Tabor v. Hoffman*<sup>14</sup> a New York court held that “an inventor or author has, by the common law, an exclusive property in his invention or composition, until by publication it becomes the property of the general public,”<sup>15</sup> an exclusion that was later universally accepted under trade secret law.<sup>16</sup> In *Eastman Co. v. Reichenbach*<sup>17</sup> a New York court held that trade secret law can protect well-known ingredients combined in a new way for a new result that are useful and give an economic advantage as long as measures were taken to protect the information.<sup>18</sup> *Eastman* also added more support for the remedy of an injunction by quoting Judge Story:

Courts of equity will restrain a party from making a disclosure of secrets communicated to him in the course of a confidential employment, and it matters not in such cases whether the secrets are secrets of trade or secrets of title, or any other secrets of the party important to its interests.<sup>19</sup>

However, in *Salomon v. Hartz*<sup>20</sup> a New Jersey court held this protection did not extend to what might be called today an employee’s “know-how” or general industry information learned on the job.<sup>21</sup> In *Cincinnati Bell Foundry*

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10. JAGER, *supra* note 2. See generally JAGER, *supra* note 2, § 2:3, n.7 (“Peabody was incorrectly identified as the first U.S. trade secret case by the U.S. Supreme Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 n.23 (1974).”).

11. *Peabody*, 98 Mass at 461.

12. 11 How. Pr. 382 (N.Y. Sup. Ct. 1854).

13. JAGER, *supra* note 2, § 2:3; *Deming*, 11 How. Pr. at 384.

14. 23 N.E. 12 (N.Y. 1889).

15. *Tabor*, 23 N.E. at 12.

16. JAGER, *supra* note 2, § 2:3.

17. 20 N.Y.S. 110 (Sup. Ct. 1892).

18. *Eastman Co.*, 20 N.Y.S. at 112-13.

19. *Id.* at 115; see also JAGER, *supra* note 2, § 2:3.

20. 2 A. 379 (N.J. Ch. 1886).

21. *Salomon*, 2 A. at 381.

*Co. v. Dodds*<sup>22</sup> the court held that trade secret protection is destroyed when the information becomes publicly known.<sup>23</sup>

Around 1900, courts began to better define trade secrets.<sup>24</sup> One definition adopted by other states comes from Illinois: “[a] trade secret is a plan or process, tool, mechanism, or compound known only to its owner and those of his employees to whom it is necessary to confide it.”<sup>25</sup>

The North Dakota Supreme Court first mentioned trade secrets in 1919 when the court held the intent of a stockholder is material when requesting examination of the accounting records.<sup>26</sup> “It is shocking to the American sense of law and justice that a statutory right [of inspecting the books] . . . may be made an instrumentality of perpetrating a wrong.”<sup>27</sup> Specifically, the court pointed out the concern that “[b]y such inspection [the stockholder] may learn, or even compile and preserve, all of its business and trade secrets.”<sup>28</sup> In that particular case, the evidence overwhelmingly proved the stockholder had attempted to sell the company’s secrets to a competitor.<sup>29</sup> While the discussion of trade secrets in particular is non-existent, the court’s strong concern for the protection of trade secrets is clear.<sup>30</sup>

## B. U.S. SUPREME COURT CASES

While the bulk of common law trade secret principles developed in state courts, as described above, a few U.S. Supreme Court cases set out a few concepts still in use today.

The Supreme Court laid out the policy for trade secrets in its first case to consider the subject in 1889.<sup>31</sup> *Fowle v. Park*<sup>32</sup> concerned the sale of the right to manufacture and sell “Balsam of Wild Cherry.”<sup>33</sup> The Court held “[t]he policy of the [trade secret] law is to encourage useful discoveries” by protecting the “fruit” of that discovery for its creator.<sup>34</sup> The Court held that because the seller specifically contracted to protect the secret process of

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22. 10 Ohio Dec. Reprint 154 (Super. 1887).

23. *Cincinnati Bell Foundry Co.*, 10 Ohio Dec. Reprint at 155.

24. JAGER, *supra* note 2, § 2:3.

25. *Victor Chem. Works v. Iliff*, 132 N.E. 806, 811 (Ill. 1921) (citation omitted).

26. *Lien v. Sav., Loan & Tr. Co.*, 174 N.W. 621, 623 (N.D. 1919).

27. *Id.*

28. *Id.* (citation omitted).

29. *Id.* at 624.

30. *See id.* at 623.

31. JAGER, *supra* note 2, § 2:4.

32. 131 U.S. 88 (1889).

33. *Fowle*, 131 U.S. at 94; *see also id.* at 88 (The Westlaw synopsis of the case explains that Balsam of Wild Cherry was a “medicinal preparation of great and substantial value, for certain complaints and diseases”).

34. *Id.* at 97.

making the medication, he could claim from any breach of that contract.<sup>35</sup> Furthermore, the Court found unpersuasive the public policy argument of restraint on trade.<sup>36</sup>

The Supreme Court more clearly defined the scope of a trade secret property right in 1917 in *E.I. Du Pont De Nemours Powder Co. v. Masland*.<sup>37</sup> Independent of the value of the secret was whether the defendant knew the information through a confidential relationship.<sup>38</sup> “The property may be denied, but the confidence cannot be. Therefore[,] the starting point . . . is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.”<sup>39</sup> The Court upheld the injunction against disclosure of the trade secret, even to witnesses for the trial, leaving it to the lower court’s discretion of necessity.<sup>40</sup>

After *Du Pont*, the Court largely stayed silent on trade secrets, except for a few passing references.<sup>41</sup> The next major decision from our highest Court would not happen until 1974.<sup>42</sup>

### III. MODERN CIVIL TRADE SECRET LAW

In 1939, the Restatement (First) of Torts (“First Restatement”) more clearly defined trade secret law and “quickly became the major focus of attention in trade secret cases.”<sup>43</sup> The Restatement (Second) of Torts did not revise this section when it published in 1978.<sup>44</sup>

In 1995, the discussion of trade secrets moved from the Torts Restatement to the Restatement on Unfair Competition.<sup>45</sup> The 1995 Restatement also “substantially revised and modernized the common law of trade secrets, and harmonized the common law with the Uniform Trade

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35. *Id.*

36. *Id.* (“Relating, as these contracts did, to a compound involving a secret in its preparation; based, as they were, upon a valuable consideration; and limited as to the space within which, though unlimited as to the time for which, the restraint was to operate, we are unable to perceive how they could be regarded as so unreasonable as to justify the court in declining to enforce them.”).

37. *E. I. Du Pont De Nemours Powder Co v. Masland*, 244 U.S. 100, 102 (1917).

38. *Id.* at 101.

39. *Id.* at 102.

40. *Id.* at 103.

41. JAGER, *supra* note 2, § 2:4.

42. JAGER, *supra* note 2, § 3:2; *see also* *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 491 (1974) (holding that the 1952 Patent Act does not preempt trade secret law).

43. JAGER, *supra* note 2, § 3:1.

44. *See id.* § 3:28.

45. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39-44 (AM. L. INST. 1995).

Secrets Act.”<sup>46</sup> In spite of the more recent update, the First Restatement remains the more popular source for courts to cite.<sup>47</sup>

#### A. 1939 RESTATEMENT (FIRST) OF TORTS

Section 757 covers “Liability for Disclosure or Use of Another’s Trade Secret” and states a person is liable for use or disclosure of a trade secret without permission if: the secret was discovered by improper means, the use is a breach of confidence, the user knew the person sharing the secret did not have the right to do so, or the user learned of the information by mistake and knew the information was a secret.<sup>48</sup> Proper means include independent inspection of a commercial product through gift or purchase from the owner, independent invention, or receipt from a third party without notice the information is considered secret.<sup>49</sup> Comment (o) clarifies that when knowledge of a trade secret is acquired by mistake, trade secret protection does not require improper motive.<sup>50</sup> No matter what the circumstances, “if the actor has notice that the information is disclosed to him by mistake and that it is another’s trade secret, good faith requires that he do not take advantage of the mistake and he is under a duty not to disclose or use the secret.”<sup>51</sup> A company does not have quite the broad protection after inadvertent disclosure today as the restatement suggests;<sup>52</sup> however, some protection still exists.<sup>53</sup>

The definition of a trade secret under the restatement is generally the same as under other codified definitions explained later in this article.<sup>54</sup> “A trade secret may consist of any formula, pattern, device or compilation of information *which is used in one’s business*, and which gives [the user] an

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46. JAGER, *supra* note 2, § 3:2; *infra* Section III.B. UNIFORM TRADE SECRETS ACT.

47. JAGER, *supra* note 2, § 3:2. When comparing the citing references on Westlaw for just the first section of each restatement defining trade secrets, the Restatement (Third) of Unfair Competition was cited in only three reported opinions, and the Restatement (First) of Torts was cited in seventy-one reported opinions.

48. RESTATEMENT (FIRST) OF TORTS § 757 (AM. L. INST. 1939) (“One who discloses or uses another’s trade secret, without a privilege to do so, is liable to the other if (a) he discovered the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person’s disclosure of it was otherwise a breach of his duty to the other, or (d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.”).

49. *Id.* at cmt. a.

50. *Id.* at cmt. o.

51. *Id.*

52. *See, e.g.*, Defiance Button Mach. Co. v. C & C Metal Prods. Corp., 759 F.2d 1053 (2d Cir. 1985).

53. *See infra* Section VIII.A. INADVERTENT DISCLOSURE.

54. *See infra* Sections III.C. RESTATEMENT (THIRD) OF UNFAIR COMPETITION; III.E. FEDERAL DEFEND TRADE SECRETS ACT.

opportunity to obtain an advantage over competitors who do not know or use it.”<sup>55</sup>

In addition, the trade secret must be secret.<sup>56</sup> Items of general knowledge cannot be appropriated, as well as information obtained from goods made available to the public.<sup>57</sup> As the Supreme Court decided in *Du Pont*,<sup>58</sup> communication to employees or “others pledged to secrecy” does not disclose the secret because the relationship is confidential.<sup>59</sup> The First Restatement provided a six-factor test to determine if sufficient secrecy existed to qualify the information as a trade secret, which included:

(1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>60</sup>

This factor test is still “relevant[] but not dispositive” under the most current restatement.<sup>61</sup>

## B. UNIFORM TRADE SECRETS ACT<sup>62</sup>

Every state, except New York, has adopted some version of the Uniform Trade Secrets Act (“UTSA”).<sup>63</sup> In 1979, the National Conference of Commissioners on Uniform State Laws adopted the UTSA after ten years of study in part because the states had not found consensus concerning trade secret law.<sup>64</sup> In addition, instead of a revision, the Restatement (Second) of Torts published in 1978 omitted the sections on trade secret entirely.<sup>65</sup>

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55. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. L. INST. 1939) (emphasis added).

56. *Id.*

57. *Id.*

58. *See supra* notes 37-40 and accompanying text.

59. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. L. INST. 1939).

60. *Id.*

61. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (AM. L. INST. 1995) (appearing in the Texas Court of Appeals section “Case Citations – by Jurisdiction”); JAGER, *supra* note 2, § 3:1; *infra* Section III.C. RESTATEMENT (THIRD) OF UNFAIR COMPETITION.

62. *See* Lee Grossman, Note, *Oil and Gas Law: When it Comes to Restrictive Employment Covenants, Whose Idea of “Reasonable” is Correct, the Oil Company’s or the Landman’s?*, 81 N.D.L. REV. 555, 566-68 (2005).

63. JAGER, *supra* note 2, § 3:28.

64. UNIF. TRADE SECRETS ACT: REFS. & ANNOS. (UNIF. L. COMM’N 1985).

65. *Id.*; *see* RESTATEMENT (SECOND) OF TORTS (AM. L. INST. 1978).



Seven states adopted the 1979 version of the UTSA;<sup>66</sup> the rest of the states and the District of Columbia have adopted the 1985 amended UTSA.<sup>67</sup> New York alone still relies on common law.<sup>68</sup>

The trade secret definition in the 1985 amended UTSA uses the same concepts that were spread among the comments in the First Restatement and puts them into one sentence.<sup>69</sup> 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.<sup>70</sup>

Note the UTSA removed the requirement from the First Restatement that the information be used continuously in business.<sup>71</sup> Trade secret protection now extends to things not yet for public sale.<sup>72</sup>

66. JAGER, *supra* note 2, § 3:28; ARK. CODE ANN. §§ 4-75-601 to -607 (1981); CAL. CIV. CODE § 3426 (1984); CONN. GEN. STAT. §§ 35-50 to -58 (1983); IND. CODE §§ 24-2-3-1 to -8 (1982); LA. STAT. ANN. §§ 51:1431 to :1439 (1981); R.I. GEN. LAWS §§ 6-41-1 to -11 (1986); WASH. REV. CODE § 19.108 (1981).

67. JAGER, *supra* note 2, § 3:28; ALA. CODE §§ 8-27-1 to -6 (1987); ALASKA STAT. §§ 45.50.910 to -945 (1988); ARIZ. REV. STAT. §§ 44-401 to -407 (1990); COLO. REV. STAT. §§ 7-74-101 to -110 (1986); D.C. CODE §§ 36-401 to -410 (1989); DEL. CODE ANN. tit. 6, §§ 2001 to -2009 (1982); FLA. STAT. §§ 688.001 to -009 (1988); GA. CODE ANN. §§ 10-1-760 to -767 (1990); HAW. REV. STAT. §§ 482b-1 to -9 (1989); IDAHO CODE §§ 48-801 to -807 (1981); 765 ILL. COMP. STAT. 1065/1 to /9 (1988); IOWA CODE §§ 550.1. to .8 (1990); KAN. STAT. ANN. §§ 60-3320 to 3330 (1981); KY. REV. STAT. ANN. §§ 365.880 to .900 (1990); ME. REV. STAT. ANN. tit. 10, §§ 1541 to 1548 (1987); MD. CODE ANN., COM. LAW §§ 11-1201 to -1209 (1989); MICH. COMP. LAWS §§ 445.1901 to .1910 (1998); MINN. STAT. §§ 325C.01 to .08 (1980 & Supp. 1986); MISS. CODE ANN. §§ 75-26-1 to -19 (1990); MO. REV. STAT. §§ 417.450 to .467 (1995); MONT. CODE ANN. §§ 30-14-401 to -409 (1985); NEB. REV. STAT. §§ 87-501 to -507 (1988); NEV. REV. STAT. §§ 600a.010 to .100 (1987); N.H. REV. STAT. ANN. §§ 350-B:1 to B:9 (1990); N.M. STAT. ANN. §§ 57-3a-1 to -7 (1989); N.J. REV. STAT. §§ 56:15-1 to -9 (2012); N.C. GEN. STAT. §§ 66-152 to -162 (1981); N.D. CENT. CODE §§ 47-25.1-01 to -08 (1983); OHIO REV. CODE ANN. §§ 1333.61 to .69 (1994); OKLA. STAT. tit. 78, §§ 85 to 95 (1986); OR. REV. STAT. §§ 646.461 to .475 (1987); 12 PA. CONS. STAT. §§ 5301 to 08 (2004); S.C. CODE ANN. §§ 39-8-10 to -130 (1992); S.D. CODIFIED LAWS §§ 37-29-1 to -11 (1988); TENN. CODE ANN. §§ 47-25-1701 to -1709 (2000); TEX. CIV. PRAC. & REM. CODE ANN. §§ 134a.001 to .008 (2013); UTAH CODE ANN. §§ 13-24-1 to -9 (1989); VT. STAT. ANN. tit. 9, §§ 4601 to 4609 (1996); VA. CODE ANN. §§ 59.1-336 to -343 (1986); W. VA. CODE §§ 47-22-1 to -10 (1986); WIS. STAT. § 134.90 (1986); WYO. STAT. ANN. §§ 40-24-101 to -110 (2006).

68. Matthew D. Kasner, *Third Time's the Charm: Remediating the Lack of Uniformity and Predictability in Trade Secret Law*, 87 BROOK. L. REV. 749, 755 (2022); N.Y. PUB. HEALTH L. § 4805 (McKinney 1980).

69. See *supra* Section III.A. 1939 RESTATEMENT (FIRST) OF TORTS.

70. UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM'N 1985).

71. See *supra* note 55 and accompanying text.

72. 1 LAW AND BUSINESS OF COMPUTER SOFTWARE § 4:3 (2d ed.).

The UTSA definition of misappropriation similarly gathers into one long, convoluted sentence several concepts from throughout the comments of the First Restatement.<sup>73</sup> Since the UTSA is the basis for nearly all state trade secret claims,<sup>74</sup> the full definition is worthwhile to consider.

“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 [or her] 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.<sup>75</sup>

As to the acquisition by accident or mistake, the protection is more constrained than the language suggests.<sup>76</sup>

The UTSA concurs with the First Restatement that “[a] complete catalogue of improper means is not possible.”<sup>77</sup> However, the definition section gives examples of both proper and improper means.<sup>78</sup> Proper means include independent invention, reverse engineering, learning through a

73. See *supra* note 48 and accompanying text.

74. See *supra* notes 66-68. Furthermore, the 1985 Amendments did not make any changes to the definitions chapter.

75. UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM’N 1985).

76. See UNIF. TRADE SECRETS ACT § 1 cmt. (“The type of accident or mistake that can result in a misappropriation under Section 1(2)(ii)(C) involves conduct by a person seeking relief that does not constitute a failure of efforts that are reasonable under the circumstances to maintain its secrecy . . . .”); *supra* notes 52-53 and accompanying text; *infra* Section VIII.A. INADVERTENT DISCLOSURE.

77. UNIF. TRADE SECRETS ACT § 1 cmt.; RESTATEMENT (FIRST) OF TORTS § 757 cmt. f (AM. L. INST. 1939).

78. UNIF. TRADE SECRETS ACT § 1 cmt.

license, observation from public display, or published literature.<sup>79</sup> “‘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.”<sup>80</sup>

The UTSA set out to codify the basic principles and better reasoned cases concerning trade secret law.<sup>81</sup> The adoption of forty-nine states and the District of Columbia proves it met its goal.<sup>82</sup>

### C. RESTATEMENT (THIRD) OF UNFAIR COMPETITION

The goal of moving trade secrets to the Restatement (Third) of Unfair Competition in 1995 was to harmonize common law with the very popular UTSA.<sup>83</sup> The Introductory Note for Chapter 4 states, “The rules stated in [the sections concerning trade secrets] are applicable to both statutory and common law trade secret cases,”<sup>84</sup> though application does not extend to criminal cases.<sup>85</sup> The Restatement highlights throughout the definition for trade secret that, even though the UTSA and Restatement definitions are not verbatim copies of each other, “[t]he concept of a trade secret as defined in this Section is intended to be consistent with the [UTSA] definition.”<sup>86</sup>

Trade secret owners can only invoke their rights when the interests served are clear and the scope of the rights are defined.<sup>87</sup> The restatement summarizes important interests advanced by trade secret protection, which include “encourag[ing] investment in research by providing an opportunity to capture the returns from successful innovations,” as well as, creating a standard for fair competition, promoting effective use of information, and strengthening personal privacy protections.<sup>88</sup>

Additionally, the six-point factor test from the First Restatement was deemed to be relevant but not dispositive.<sup>89</sup> The person claiming the trade secret right must show the information has the right subject matter, sufficient

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79. *Id.*

80. UNIF. TRADE SECRETS ACT § 1.

81. *See id.* at Prefatory Note.

82. *See supra* notes 66-68.

83. *See JAGER, supra* note 2, § 3:2.

84. RESTATEMENT (THIRD) OF UNFAIR COMPETITION ch. 4, intro. note (AM. L. INST. 1995).

85. *Id.* § 39 cmt. b.

86. *Id.*

87. *Id.* § 39 cmt. a.

88. *Id.*

89. *See JAGER, supra* note 2, § 3:1; *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (“It is not possible to state precise criteria for determining the existence of a trade secret. The status of information claimed as a trade secret must be ascertained through a comparative evaluation of all the relevant factors, including the value, secrecy, and definiteness of the information as well as the nature of the defendant’s misconduct.”).

value to a competitor, and kept sufficiently secret on a case-by-case basis.<sup>90</sup> The entire system of trade secret protection must balance restraint on trade and public access to information with personal privacy and incentive to innovate.<sup>91</sup> However, generally “[b]ecause of the public interest in deterring the acquisition of information by improper means, doubts regarding the status of information as a trade secret are likely to be resolved in favor of protection when the means of acquisition are clearly improper.”<sup>92</sup>

#### D. NORTH DAKOTA TRADE SECRETS ACT

North Dakota adopted the UTSA on July 1, 1983 as the North Dakota Trade Secrets Act (“NDTSA”).<sup>93</sup> The North Dakota Supreme Court first considered the act in 1984 and granted a preliminary injunction to protect a customer list.<sup>94</sup> This section briefly discusses differences between the UTSA and the NDTSA, what the North Dakota Supreme Court has held is most important to consider, specific items of interest for the oil and gas industry, litigation considerations, non-compete agreements, and the ability to have a federal and state trade secret claim.

The NDTSA follows the definition of a trade secret from the UTSA with one addition: technical know-how.<sup>95</sup> A trade secret claim, under the NDTSA, requires that there was a protectable trade secret, the secret was acquired by improper means, and the information was used or disclosed without permission.<sup>96</sup> A trade secret does not exist if the information is generally known.<sup>97</sup> The information’s value “is not assessed using hindsight.”<sup>98</sup>

In North Dakota, misappropriation is a claim exclusively for trade secrets and does not apply to other breaches of fiduciary duty.<sup>99</sup> The trade secret statutes do not affect “[c]ontractual remedies . . . ; [o]ther civil

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90. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmts. d-f.

91. *Id.* § 39 cmt. b.

92. *Id.* § 43 cmt. d.

93. JAGER, *supra* note 2, § 52:1; *See* N.D. CENT. CODE §§ 47-25.1-01 to -08 (2023).

94. *See* *Advanced Bus. Tel., Inc. v. Pro. Data Processing, Inc.*, 359 N.W.2d 365, 367-68 (N.D. 1984).

95. *Compare* N.D. CENT. CODE § 44-04-18.4 (2023) (“‘Trade secret’ means information, including a formula, pattern, compilation, program, device, method, technique, *technical know-how*, or process . . .”) (emphasis added), *with* UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM’N 1985) (“‘Trade secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process . . .”).

96. *See* *Bertsch v. Duemeland*, 2002 ND 32, ¶ 29, 639 N.W.2d 455; *see also* *SolarBee, Inc. v. Walker*, 2013 ND 110, 833 N.W.2d 422 (affirming the lower court’s ruling that a misappropriation claim had not been proven).

97. *CDI Energy Servs. v. West River Pumps, Inc.*, 567 F.3d 398, 402 (8th Cir. 2009) (applying North Dakota law).

98. *Macquarie Bank Ltd. v. Knickel*, 793 F.3d 926, 937 (8th Cir. 2015) (applying North Dakota law).

99. *McCull Farms, LLC v. Pflaum*, 2013 ND 169, ¶¶ 22-23, 837 N.W.2d 359; *see* N.D. CENT. CODE § 47-25.1-07 (2023).

remedies that are not based upon misappropriation . . . ; or [c]riminal remedies . . . .”<sup>100</sup> The time limit to file an action for misappropriation is three years from the time of discovery or when discovery should have been made.<sup>101</sup>

Concerning the six factors detailed above to determine what qualifies as a trade secret,<sup>102</sup> the North Dakota Supreme Court has held in dicta that “[p]erhaps the most important consideration is whether the information is readily accessible to a reasonably diligent competitor or salesman.”<sup>103</sup> Additionally, communication of the confidentiality of the information is a key point in proving the existence of a trade secret.<sup>104</sup>

Specifically for the oil and gas industry, trade secret classification must be approved by the Oil and Gas Research Council.<sup>105</sup> Some examples of trade secrets in oil and gas include, but are not limited to: “unleased prospect acreage, geological maps, seismic and other data, and cash flow projections.”<sup>106</sup>

Information that is a trade secret can be protected during litigation through protective orders or in camera proceedings<sup>107</sup> and still be required to be disclosed under the open records requirement.<sup>108</sup> Under the Federal Freedom of Information Act, trade secrets can be exempted from the disclosure requirement;<sup>109</sup> however, no such exemption exists under North Dakota law.<sup>110</sup>

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100. N.D. CENT. CODE § 47-25.1-07 (2023); *see* USI Ins. Servs., LLC v. Bentz, No. 1:18-cv-255, 2020 WL 13580423, at \*5 (D.N.D. Nov. 3, 2020) (“The NDTSA may well preclude the unlawful interference with business, tortious interference with contract, unjust enrichment, and civil conspiracy claims in this case if USI prevails in proving the Individual Defendants misappropriated trade secrets.”); *KLX Energy Servs. LLC v. Telos Indus., Inc.*, No. 1:18-CV-00225, 2020 WL 6202321 at \*5 (D.N.D. Mar. 3, 2020) (holding that “encouraging . . . failure to maintain the confidentiality of . . . proprietary information” is not the same as a trade secret and is not preempted); *Macquarie Bank*, 793 F.3d at 937 (holding a claim for unlawful interference “constitutes an attempt to circumvent the [NDTSA’s] preclusion of a misappropriation claim”).

101. N.D. CENT. CODE § 47-25.1-06 (2023).

102. *See supra* text accompanying note 60.

103. *Warner & Co. v. Solberg*, 2001 ND 156, ¶ 35, 634 N.W.2d 65 (quoting *Hollingsworth Solderless Terminal Co. v. Turley*, 622 F.2d 1324, 1332 (9th Cir. 1980)).

104. *General Irrigation, Inc. v. Advanced Drainage Sys., Inc.*, 601 F. Supp. 3d 487, 495 (D.N.D. 2022).

105. N.D. CENT. CODE § 54-17.6-06 (2023).

106. Grossman, *supra* note 62, at 567.

107. § 47-25.01-05; N.D.R.EV. 507.

108. *N. States Power Co. v. N.D. Pub. Serv. Comm’n.*, 502 N.W.2d 240, 241-42 (N.D. 1993) (upholding a denial of trade secret protection from the Public Service Commission to the Northern States Power Company to protect price and volume data from contracts).

109. 5 U.S.C. § 552(b)(4).

110. N.D. CENT. CODE § 44-04-18 (2023). *See also* H.B. 1198, 68th Leg. Assemb., Reg. Sess. (N.D. 2023) (This proposed bill makes no change concerning trade secrets.).

In general, contracts limiting a person's ability to work are banned in North Dakota, with an exception for sale of a business or partnership.<sup>111</sup> However, an additional exception exists to the prohibition of restraint on trade in some instances to prevent use of an employer's trade secrets to compete against said employer.<sup>112</sup> Even if the information is not deemed confidential in the contract, it can be considered confidential under common law principles.<sup>113</sup>

After state law, practitioners in North Dakota need to keep in mind the federal cause of action for trade secret, most importantly, that it does not preempt a claim under state law.<sup>114</sup>

#### E. FEDERAL DEFEND TRADE SECRETS ACT

In 2016, Congress passed the Defend Trade Secrets Act of 2016 ("DTSA"),<sup>115</sup> which provides a private civil action for the misappropriation of trade secrets "related to a product or service used in, or intended for use in, interstate or foreign commerce."<sup>116</sup> The DTSA and UTSA are very similar.<sup>117</sup> The DTSA defines misappropriation and trade secret the same as the UTSA, except for a more detailed description of what type of information is included.<sup>118</sup>

The DTSA does add a civil seizure remedy that the UTSA does not.<sup>119</sup> Several district courts "have recognized a private right of action under 18

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111. N.D. CENT. CODE § 9-08-06 (2023). Compare *Kovarik v. Am. Fam. Ins. Grp.*, 108 F.3d 962, 967 (8th Cir. 1997) (applying North Dakota law to find non-solicitation of former clients clause in an insurance agent's employment contract valid) with *Warner & Co. v. Solberg*, 2001 ND 156, ¶¶ 18, 22, 634 N.W.2d 65 (declining to follow the Eighth Circuit's holding from *Kovarik*).

112. *Werlinger v. Mut. Serv. Cas. Ins. Co.*, 496 N.W.2d 26, 29 (N.D. 1993) ("Reasonable exceptions, limited in time and space, began to arise and be recognized . . . such as in the case of the sale of a business, or limited restraints that a master might impose upon an apprentice to guard against a former apprentice being able to use all his former master's trade secrets to compete against him."); see also N.D. CENT. CODE § 34-02-14 (2023) (requiring an employee not to solicit customers from his or her employer).

113. *Kovarik*, 108 F.3d at 966.

114. 18 U.S.C. § 1838.

115. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376.

116. 18 U.S.C. § 1836(b)(1).

117. WILLIAM C. HOLMES, 1 INTELLECTUAL PROPERTY AND ANTITRUST LAW, § 2:1 (2023).

118. 18 U.S.C. § 1839(3) ("all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing . . ."); UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM'N 1985).

119. HOLMES, *supra* 117, § 2:1; 18 U.S.C. § 1836(b)(2)(i) ("[U]pon ex parte application but only in extraordinary circumstances, [the court may] issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret . . .").

U.S.C. § 1836(b)(1),” but not for conspiracy to misappropriate,<sup>120</sup> including North Dakota.<sup>121</sup>

The DTSA also adds protection for whistleblowers.<sup>122</sup> Persons are protected when disclosing trade secrets to the government if the disclosure is “solely for the purpose of reporting or investigating a suspected violation of law.”<sup>123</sup> Persons are also not liable if they disclose trade secrets in a court filing if the “filing is made under seal.”<sup>124</sup> The statute of limitations for a claim under DTSA is three years from discovery or when discovery should have been made.<sup>125</sup>

In North Dakota, only three cases cite the DTSA, and none in detail: one failed to state a claim,<sup>126</sup> one concerned adding a counterclaim that the court deemed too tangential,<sup>127</sup> and the last is still in discovery.<sup>128</sup>

#### IV. CIVIL REMEDIES

The remedies available under North Dakota law for misappropriation of trade secrets are the same as those found in other states and in the federal courts: injunctions, actual damages, exemplary damages, and the award of attorney’s fees.<sup>129</sup>

##### A. INJUNCTION

No matter if filed federally or in any state, injunctive relief is the typical remedy for “[a]ctual or threatened misappropriation.”<sup>130</sup> Courts assess preliminary injunctions using four factors: “(1) the likelihood of success on the merits; (2) the presence or risk of irreparable harm; (3) the balancing of the harms of granting or denying an injunction; and (4) the public’s interest.”<sup>131</sup> The moving party bears the burden of proving all factors.<sup>132</sup> With respect to trade secrets, the law states that injunctions last as long as

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120. *Steves & Sons, Inc. v. JELD-WEN, Inc.*, 271 F. Supp. 3d 835, 841 (E.D. Va. 2017).

121. *Eberline Oilfield Serv., Inc. v. Eberline*, No. 1:18-cv-245, 2020 WL 6233330, at \*6 (D.N.D. March 6, 2020).

122. 18 U.S.C. § 1833(b).

123. *Id.* (b)(1)(A)(ii).

124. *Id.* (b)(1)(B).

125. § 1836(d).

126. *KLX Energy Serv. LLC, v. Telos Inds., Inc.*, No. 1:18-cv-00225, 2021 WL 9666530, at ¶ 33 (D.N.D. July 29, 2021).

127. *Bighorn Constr. & Reclamation, LLC v. Res Am. Constr., Inc.*, No. 1:21-cv-113, 2022 WL 16699447, at \*6 (D.N.D. July 29, 2022).

128. *See Eberline Oilfield Serv., Inc. v. Eberline*, No. 1:18-cv-245, 2023 WL 157404, at \*11 (D.N.D. Jan. 11, 2023).

129. N.D. CENT. CODE § 47-25.1-02 to -04 (2023).

130. *See UNIF. TRADE SECRETS ACT* § 2 (UNIF. L. COMM’N 1985); 18 U.S.C. § 1836(b)(3).

131. *CDI Energy Servs. v. W. River Pumps, Inc.*, 567 F.3d 398, 401–02 (8th Cir. 2009).

132. *See id.* at 402 (“[The plaintiff] failed to show that any of the information in this case actually was a trade secret . . .”).

protection exists and “must be terminated when the trade secret has ceased to exist.”<sup>133</sup> The court may extend the injunction for a reasonable time “in order to eliminate commercial advantage” if misappropriation occurs.<sup>134</sup> Additionally, any licensing or contractual obligations may still be in effect after the trade secret is disclosed.<sup>135</sup> Reasonable royalties may be included with an injunction for future use of the information in exceptional circumstances, which the law defines as “material and prejudice change of position prior to acquiring knowledge . . . of misappropriation that renders a prohibitive injunction inequitable.”<sup>136</sup> However, the royalties and injunctive relief would not cover the same information.<sup>137</sup>

## B. DAMAGES

Damages in North Dakota include actual loss and unjust enrichment.<sup>138</sup> “Although occasionally applied . . . [a reasonable royalty] is most appropriate when the other theories would result in no recovery or when the parties actually had or contemplated a royalty arrangement.”<sup>139</sup> For willful and malicious misappropriation, exemplary damages may be awarded not exceeding twice the amount awarded for other damages.<sup>140</sup>

Whether willfulness and malice requires ill will is an unresolved issue in North Dakota.<sup>141</sup> The Eighth Circuit held in *Macquarie Bank* that the North Dakota Supreme Court is likely to “use the same definition of malice to award attorney’s fees and punitive damages under the North Dakota Trade Secrets Act as it does to award punitive damages under the general punitive damages statute.”<sup>142</sup> Additionally, “[m]alice is not limited to a spiteful, malignant, or revengeful disposition and intent.”<sup>143</sup> Therefore the North Dakota Supreme Court is likely to hold that “a conscious disregard of another’s rights constitutes malice.”<sup>144</sup>

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133. N.D. CENT. CODE § 47-25.1-02 (2023).

134. UNIF. TRADE SECRETS ACT § 2(a).

135. Camilla A. Hrdy & Mark A. Lemley, *Abandoning Trade Secrets*, 73 STAN. L. REV. 1, 61 n.296 (2021).

136. UNIF. TRADE SECRETS ACT § 2(a).

137. *See Bjorgen v. Kinsey*, 466 N.W.2d 553, 561-62 (N.D. 1991).

138. N.D. CENT. CODE § 47-25.1-03 (2023).

139. *Pioneer Hi-Bred Int’l v. Holden Found. Seeds, Inc.*, 35 F.3d 1226, 1244 (8th Cir. 1994) (citation omitted).

140. § 47-25.1-03.

141. *Macquarie Bank Ltd. v. Knickel*, 793 F.3d 926, 940 (8th Cir. 2015).

142. *Id.*

143. *Remmick v. Mills*, 165 N.W.2d 61, 71 (N.D. 1968).

144. *Macquarie Bank*, 793 F.3d at 940.



Attorney’s fees may be awarded to the prevailing party in cases of bad faith, either in making the “claim of misappropriation” or “a motion to terminate an injunction” or “willful and malicious misappropriation.”<sup>145</sup>

## V. CRIMINAL TRADE SECRET LAW

Theft of trade secrets is criminalized both federally and on the state level.<sup>146</sup>

### A. FEDERAL

Federally, a person is guilty if he or she “with intent to convert . . . knowingly” commits or attempts to commit theft of trade secrets “intended for use in interstate or foreign commerce.”<sup>147</sup> Additionally, the Economic Espionage Act covers thefts that will benefit foreign persons or governments.<sup>148</sup> Section 1831 of the Act carries a maximum of five million dollar fine and/or fifteen years imprisonment, while section 1832 carries only a “fine[] under this title” and/or ten years imprisonment.<sup>149</sup>

Enforcement of these statutes has focused on “trade secrets owned by large corporations or economic espionage by agents of a foreign government.”<sup>150</sup>

### B. NORTH DAKOTA

State-level criminalization of trade secret theft falls into three categories: (1) some states provide “protection for intangible property without specific reference to trade secrets,”<sup>151</sup> (2) some states include trade secret specifically in the definition of property,<sup>152</sup> and (3) other states “have simply elected to remove any reference to intangible property in favor of trade secrets.”<sup>153</sup> North Dakota’s criminal code falls into the first category because the theft of

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145. § 47-25.1-04.

146. 18 U.S.C. §§ 1831-39; *see* N.D. CENT. CODE § 12.1-23-10 (2023) (including “intangible personal property” in the definition of property for the purposes of criminal theft).

147. 18 U.S.C. § 1832(a); *see also* Marina Lao, *Federalizing Trade Secrets Law in an Information Economy*, 59 OHIO ST. L.J. 1633 (1998).

148. 18 U.S.C. § 1831; *see also* David S. Almeling, *Seven Reasons Why Trade Secrets are Increasingly Important*, 27 BERKELEY TECH. L. J. 1091, 1109 (2012). (“By enacting the Economic Espionage Act in 1996, Congress sought in part to address the rise of trade secret misappropriation from foreign entities.”).

149. 18 U.S.C. §§ 1831-32.

150. Kurt M. Saunders & Michelle Evans, *A Review of State Criminal Trade Secret Theft Statutes*, 21 UCLA J. L. & TECH. 1, 2 (2017).

151. *Id.* at 13.

152. *Id.* at 15.

153. *Id.* at 17.

property statute does not name trade secrets specifically.<sup>154</sup> Instead, the definition of property includes “intangible personal property.”<sup>155</sup>

Theft of intangible property is a class A felony in North Dakota if the value of the trade secret exceeds fifty thousand dollars, and the crime is a class B felony if the value is more than ten thousand dollars but less than fifty thousand dollars “or are acquired or retained by a threat to commit a felony.”<sup>156</sup> The theft can be a class C felony in several different ways: the value is more than one thousand dollars, stolen by threat if the threat came from a public servant or value is more than one hundred dollars, also if the property was stolen by a public servant and valued over one hundred dollars, or the theft was part of a “business of buying or selling stolen property.”<sup>157</sup> If the value is less than five hundred dollars and a first offense, the theft is a class B misdemeanor if there was no threat, no breach of a fiduciary relationship, and “the defendant was not a public servant or an officer or employee of a financial institution.”<sup>158</sup> “All other theft . . . is a class A misdemeanor . . . .”<sup>159</sup> A conviction can carry up to five years imprisonment and up to a ten thousand dollar fine.<sup>160</sup>

Prosecution of trade secret theft is rare.<sup>161</sup> As of March 9, 2023, none of the 129 cases that cite to Section 12.1-23.02 reference trade secrets.<sup>162</sup> Owners of trade secrets will have to rely on other avenues for recourse.

## VI. PREVENT A PROBLEM WITH PROACTIVE PROTECTION

When it comes to trade secrets, prevention really is the best medicine.<sup>163</sup> Owners of trade secrets must first decide the best form to protect their intellectual property.<sup>164</sup> If trade secret protection is chosen instead of patent protection, specific secrets must be identified.<sup>165</sup> Once the information is

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154. See N.D. CENT. CODE § 12.1-23-02, -10(7) (2023).

155. § 12.1-23-10(7).

156. § 12.1-23-05(1)-(2).

157. § 12.1-23-05(3)(a), (b), (f).

158. § 12.1-23-05(5)(a)(2).

159. § 12.1-23-05(4).

160. Saunders & Evans, *supra* note 150, at 15 tbl.1.

161. See *Citing References for N.D. CENT. CODE § 12.1-23-02*, WESTLAW, [162. \*Id.\*](https://1.next.westlaw.com/RelatedInformation/N00D6CF40529711DD9BC4CC4EC7A9E1EC/kcCitingReferences.html?docSource=e9ed9892271a4ac79747d202a6aafa4a&pageNumber=1&facetGuid=h274f8978e9a526f09dd5b8cc63116965&ppcid=a5296d90c09a486ca9a5e6a76e8b5eb1&transitionType=ListViewType&contextData=(sc.Category)_(last visited Apr. 13, 2023) (showing no results when searching for “trade secrets” within the results).</a></p></div><div data-bbox=)

163. See *supra* text accompanying note 59.

164. See *infra* Section VI.A. PATENT OR TRADE SECRET PROTECTION.

165. See *infra* Section VI.B. WHAT EXACTLY ARE YOUR TRADE SECRETS?

identified, sufficient measures to maintain secrecy must be implemented.<sup>166</sup> These steps will make sure that if a problem does arise, the owner can quickly file an injunction and will likely present a more persuasive case.<sup>167</sup>

#### A. PATENT OR TRADE SECRET PROTECTION<sup>168</sup>

Companies and creators should first decide if trade secret protection or patent protection is more appropriate. The comparison from The First Restatement of Torts still applies today:

The protection afforded by [trade secret law] is in some respects greater and in some respects less than that afforded by the patent law. It is greater in that it is not limited to a fixed number of years and does not require novelty and invention as in the case of patents . . . . It is less in that secrecy of the process and impropriety in the method of procuring the secret are requisite here but not in the case of patents.<sup>169</sup>

Patents also require a formal registration process, while trade secrets do not.<sup>170</sup> The patent registration process is called “patent prosecution” and involves an application and approval by a patent examiner.<sup>171</sup> The cost of patent prosecution can range widely from a do-it-yourself model, paying only the filing fees, to paying attorneys to write, research, and appeal denials.<sup>172</sup>

While the length of trade secret protection can be indefinite, compared to a patent’s twenty-year protection,<sup>173</sup> the Supreme Court has held that “[t]rade secret law provides far weaker protection in many respects than the patent law”<sup>174</sup> because no recourse exists for independent discovery or reverse engineering by competitors.<sup>175</sup> Furthermore, keeping a trade secret may mean that investors who refused to sign confidentiality agreements will

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166. See *infra* Section VI.C. WHAT COUNTS AS A REASONABLE MEASURE TO MAINTAIN SECRECY?

167. See *supra* Section IV.A. INJUNCTION.

168. See Andrew Beckerman-Rodau, *The Choice Between Patent Protection and Trade Secret Protection: A Legal and Business Decision*, 84 J. PAT. & TRADEMARK OFF. SOC’Y 371 (2002); Jonathan D. Carpenter, Note, *Intellectual Property: The Overlap Between Utility Patents, Plant Patents, the PVP, and Trade Secrets and the Limitations on that Overlap*, 81 N.D. L. REV. 171, 183 (2005).

169. RESTATEMENT (FIRST) OF TORTS § 757 cmt. a (AM. L. INST. 1939).

170. H.R. REP. 114-529, at 2 (2016).

171. BRENT A. OLSON, CAL. BUS. LAW DESKBOOK § 29:9 (2022).

172. See Brad Fach, *How Much Does it Cost to Patent an Idea? – New 2023 Update*, PATENTFILE (April 15, 2012), <https://patentfile.org/howmuchdoesitcosttopatentanidea/>; Anthony De Andrade & Venkatesh Viswanath, *Estimating the Cost for Filing, Obtaining and Maintaining Patents Across the Globe*, IPWATCHDOG (Aug. 28, 2016), <https://ipwatchdog.com/2016/08/28/cost-filing-obtaining-maintaining-patents/id=72336/>.

173. H.R. REP. 114-529, at 2 (2016).

174. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 489-90 (1974).

175. H.R. REP. 114-529, at 2 (2016).

have a difficult time knowing what a company actually does or have enough confidence to invest.<sup>176</sup>

However, patent prosecution is expensive,<sup>177</sup> and “[p]atent litigation is exorbitantly expensive.”<sup>178</sup> According to a 2019 law review article, the United States tied with Hong Kong to have the highest average cost to litigate patent infringement: three million dollars.<sup>179</sup> “These costs dissuade many (especially small) companies from pursuing litigation.”<sup>180</sup>

For those who want to explore patent protection, keep in mind patents and trade secrets are not, at least initially, mutually exclusive.<sup>181</sup> A company can keep trade secret status and file for a patent by filing a complete patent application along with the representation that another application “will not be filed in any country that publishes applications before the grant of a patent.”<sup>182</sup> However, all patent applications are published after eighteen months according to international agreement, which forecloses trade secret protection on the disclosed invention.<sup>183</sup> Even if the requirements are met, international trade secret protections are at risk because additional patent applications cannot be filed.<sup>184</sup>

Yet, cost savings is not the only reason to choose trade secret protection. Even large companies like Coca-Cola and Google sometimes choose trade secret over patent law to prevent disclosure and loss of exclusivity at the end of patent protection.<sup>185</sup> Start-ups may use trade secret protection “to extend a lead-time advantage by preventing the disclosure of specific information that provides the advantage.”<sup>186</sup> Additionally, patents only give the right to

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176. David S. Levine & Ted Sichelman, *Why Do Startups Use Trade Secrets?*, 94 NOTRE DAME L. REV. 751, 773 (2018) (“Trade secrecy typically does not attract venture capitalists and other investors who may refuse to sign confidentiality agreements. Patents, on the other hand, are typically more well-defined sets of rights that can provide something ‘tangible’ for startups to sell to potential investors. Patents may allow for better signaling to investors, and thus may be more valuable to inexperienced innovators.”).

177. Eugene Sisman, Note, *Protecting the Incentive to Disclose for Small Inventors in the Wake of Patent Reform*, 35 T. JEFFERSON L. REV. 77, 88 (2012) (“Competently filing a highly complex patent in software or biotechnology could cost as much as \$30,000 in legal fees alone.”); *id.* at 88 n.94 (“Other, more simple technologies could cost as little as \$5,000 in legal fees to prosecute, but they are the exception and not the rule.”).

178. Gaia Bernstein, *The Rise of the End User in Patent Litigation*, 55 B.C.L. REV. 1443, 1450 (2014).

179. Gregory Day & Steven Udick, *Patent Law and the Emigration of Innovation*, 94 WASH. L. REV. 119, 141 (2019).

180. Bernstein, *supra* note 178, at 1472.

181. *See* 37 C.F.R. § 1.213 (2022).

182. Max S. Oppenheimer, *The Innovator’s Dilemma*, 4 AM. U. BUS. L. REV. 371, 394 (2015); *see also* KEITH WITEK, 2 INTERNET LAW & PRACTICE § 21:31 (2022).

183. *See* 35 U.S.C. § 122; 37 C.F.R. 1.211 (2022).

184. Oppenheimer, *supra* note 182, at 394.

185. *See* Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co., 107 F.R.D. 288, 289 (D. Del. 1985); Levine & Sichelman, *supra* note 176, at 757.

186. Levine & Sichelman, *supra* note 176, at 757.

exclude others from producing the patented product or method.<sup>187</sup> Because of this right to exclude but not to produce, patents can block each other, “where practice of a later invention would infringe [an] earlier patent.”<sup>188</sup> Therefore, just having a patent does not necessarily allow the owner to use the information.<sup>189</sup>

In the end, “[t]here is no simple answer” and each company or creator should discuss the matter with an attorney who specializes in Intellectual Property law.<sup>190</sup>

## B. WHAT EXACTLY ARE YOUR TRADE SECRETS?

If trade secret protection is chosen, next the owner must identify exactly what trade secrets need to be protected. While some information can be classified as a trade secret under common law principles,<sup>191</sup> the best way is to mark the information as confidential from the very beginning.<sup>192</sup>

The criteria for “information” is very broad under the DTSA and NDTSA and rarely litigated;<sup>193</sup> however, “the line between trade secret knowledge . . . and general skills and knowledge, which are not protected, is hard to draw.”<sup>194</sup> Generally, former employees cannot be “prohibited from making use of individual items of sales information contained in customer lists or reports which they might happen to recall from their independent recollection;”<sup>195</sup> however, some argue an exception should apply for “the employee’s own creative outputs.”<sup>196</sup> Any injunction to the contrary would be an impermissible restraint on an individual’s ability to work in his or her chosen profession.<sup>197</sup>

Therefore, as noted earlier, communicating the information’s confidentiality is a key point in proving the existence of a trade secret.<sup>198</sup> A

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187. *See* *FTC v. Actavis, Inc.*, 570 U.S. 136, 146 (2013).

188. *Acorda Therapeutics, Inc. v. Roxane Lab’ys, Inc.*, 903 F.3d 1310, 1337 (Fed. Cir. 2018).

189. *Id.*

190. Almeling, *supra* note 148, at 1112, 1116-17.

191. *See supra* text accompanying notes 60-61.

192. *See supra* text accompanying notes 51-53.

193. Malla Pollack, *Litigating Misappropriation of Trade Secret*, 127 AM. JURIS. TRIALS 283 at § 15 (2012).

194. *Drayton Enters., L.L.C. v. Dunker*, No. A3-00-159, 2001 WL 629617, at \*2 (D.N.D. Jan. 9, 2001); *see also* *AMP Inc. v. Fleischhacker*, 823 F.2d 1199, 1204 (7th Cir. 1987) (superseded by statute on other grounds) (“[A]n employee is free to take with him [his general skill and knowledge] when employment is terminated.”).

195. *AMP Inc.*, 823 F.2d at 1204.

196. Timothy Murphy, *How Can a Departing Employee Misappropriate Their Own Creative Outputs?*, 66 VILL. L. REV 529, 553-55 (2021).

197. *See AMP Inc.*, 823 F.2d at 1205-06.

198. *See supra* text accompanying notes 57-60.

company may find it difficult to know what should be kept confidential if that company has not taken the time to identify what is a trade secret.<sup>199</sup>

Trade secret information is not necessarily sophisticated or technical.<sup>200</sup> Anything that would give a “substantial cost savings” or “competitive edge” may qualify.<sup>201</sup> However, “‘economic advantage’ is arguably more accurate” because those who may benefit do not need to be direct competitors.<sup>202</sup> One way to identify trade secrets is to regularly ask employees questions, such as:

- What does the company know that gives it an advantage over its competitors?
- Is there reason to believe that others do not know this information?
- Is the information something competitors would be likely to want to know?
- Was the information difficult or expensive or time-consuming to gain?
- Would the company suffer significant damage if competitors obtained the information?
- Where is that information resident (by department, or by job description)?<sup>203</sup>

Specifically for the oil and gas industry, confidential communication is not enough, trade secret classification must be approved by the Oil and Gas Research Council.<sup>204</sup>

Trade secret information can always change; identification is not a once-and-done exercise.<sup>205</sup>

### C. WHAT COUNTS AS A REASONABLE MEASURE TO MAINTAIN SECRECY?

Once confidential information has been identified, reasonable measures must be taken to maintain secrecy in order for the information to be a trade secret.<sup>206</sup> Courts have no precise definition for reasonable measures and determine them on a case-by-case basis.<sup>207</sup> Furthermore, “secrecy . . . need

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199. Victoria A. Cundiff, *Maximum Security: How to Prevent Departing Employees from Putting Your Trade Secrets to Work for Your Competitors*, 8 SANTA CLARA COMPUT. & HIGH TECH. L. J. 301, 307 (1992).

200. *Id.* at 306.

201. *Id.*

202. Camilla A. Hrды, *The Value in Secrecy*, 91 FORDHAM L. REV. 557, 574 (2022).

203. Cundiff, *supra* note 199, at 307.

204. N.D. CENT. CODE § 54-17.6-06 (2023).

205. Cundiff, *supra* note 199, at 307.

206. *See* § 47-25.01; UNIF. TRADE SECRETS ACT § 1 (UNIF L. COMM’N 1985).

207. *ClearOne Commc’ns, Inc. v. Bowers*, 643 F.3d 735, 768 (10th Cir. 2011).

not be absolute . . . . Companies need not ‘guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available’ or create ‘an impenetrable fortress.’”<sup>208</sup> Consistency and specificity are key.<sup>209</sup> Marking everything as confidential may be seen as no guidance at all to the employee.<sup>210</sup> Instead, companies can take specific measures like restricting access to files or file rooms that have trade secrets by using passwords for electronic information, physical locks for paper information, and allowing access to only those employees that need to know the information.<sup>211</sup>

As mentioned earlier, non-solicitation and non-compete agreements are generally invalid in North Dakota; however, an exception exists to prohibit the use of a former employer’s trade secrets.<sup>212</sup> Additionally, individuals creating partnerships should consider how best to deal with use of trade secrets if the partnership dissolves.<sup>213</sup> Employers should also consider trade secrets when drawing up contracts with vendors and employees.<sup>214</sup> However, even if employers work in handshakes instead of contracts, reasonable measures of protection are still available. Precautions can include, but are not limited to computer security, electronic mail security, verbal notices, reminder of confidentiality in exit interviews,<sup>215</sup> employee background checks, conflict of interest forms, employee training, or limiting access to the protected information.<sup>216</sup>

For employees and third parties alike, “[t]he watchword is ‘think.’ Do not allow trade secrets to be disclosed to anyone without determining whether disclosure is necessary.”<sup>217</sup> Just like more trade secrets may be found,

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208. *Pioneer Hi-Bred Int’l v. Holden Found. Seeds, Inc.*, 35 F.3d 1226, 1235-36 (8th Cir. 1994) (quoting *E.I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012, 1016-17 (5th Cir. 1970)); *see also Surgidev Corp. v. Eye Tech., Inc.*, 828 F.2d 452, 455 (8th Cir. 1987) (“Only reasonable efforts, not all conceivable efforts, are required . . .”).

209. *See, e.g., MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418, 425 (Ill. 1983) (holding a confidentiality agreement did not overcome the lack of security measures and open access to machines and processes, which disqualified information from being trade secrets).

210. Cundiff, *supra* note 199, at 310-11.

211. Vogel, Weir, Hunke, McCormick, Ltd., *Don’t Spill the Beans: North Dakota’s Trade Secrets Act*, 8 No. 6 N.D. Emp. L. Letter 6 (July 2003).

212. *See text accompanying supra notes 112-113. See also Grossman, supra note 62, at 559; Vogel, Weir, Hunke, McCormick, Ltd., Agreements Not to Compete: When Are They Enforceable?*, 6 No. 9 N.D. Emp. L. Letter 3 (Oct. 2001); Lisa Edison-Smith, *Preventing Former Employees From Poaching Your Clients*, 21 No. 4 N.D. Emp. L. Letter 3 (May 2016).

213. *See* N.D. CENT. CODE § 9-08-06(2) (2023) (providing an exception to the non-compete prohibition for dissolution of a partnership.).

214. *See* Michelle L. Evans, *Proof of Facts to Establish Reasonable Efforts Were Made to Maintain Secrecy Under Uniform Trade Secrets Act*, 152 AM. JUR. PROOF OF FACTS 3D. 1 at § 14 (2016).

215. *Id.*

216. *See* Carl Pacini & Raymond Placid, *The Importance of State Trade Secret Laws in Deterring Trade Secret Espionage*, 7 BUFF. INTELL. PROP. L. J. 101, 108 (2009).

217. Cundiff, *supra* note 199, at 307-08.

methods to secure those secrets should be consistently updated and monitored.<sup>218</sup>

## VII. KEEPING YOUR SECRETS IN FRONT OF THE JUDGE

If prevention and negotiation fail, litigation may be necessary.<sup>219</sup> However, litigation should be seen as “a last resort” as it can place the information at even greater risk.<sup>220</sup>

The Federal Rules of Civil Procedure provide measures to prevent the disclosure of trade secrets, such as the availability of protective orders that stop litigants from disclosing discovery information.<sup>221</sup> Protective orders require a balancing test of the risk of disclosure of the trade secret to the risk of impairment to the prosecution of the opposing party’s claims.<sup>222</sup>

As discussed earlier, North Dakota also allows records to be sealed during litigation.<sup>223</sup> However, North Dakota does not have a trade secret exemption for the open records requirement.<sup>224</sup> Additionally, if nondisclosure will “conceal fraud or otherwise work injustice” the request will not be granted.<sup>225</sup> Even if a company takes measures to have the information in litigation in camera or sealed, the records could still be subject to public view.<sup>226</sup>

If disclosure happens inadvertently in court, protection may not be lost.<sup>227</sup>

## VIII. WHAT TO DO WHEN THE CAT IS OUT OF THE BAG

Owners of trade secrets still have ways to protect valuable information after disclosure. However, the options change depending on if disclosure was inadvertent or purposeful.

### A. INADVERTENT DISCLOSURE

If a trade secret is inadvertently disclosed, protection may not be destroyed, but the case law is far from clear on the subject. As stated earlier,

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218. *See id.* at 326.

219. *Id.* at 327.

220. *Id.*

221. FED. R. CIV. P. 26(c) (“[A] trade secret . . . [must] not be revealed or be revealed only in a specified way.”).

222. *See* *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1470 (9th Cir. 1992) *superseded on other grounds by* *In re Bard IVC Filters Prods. Liab. Litig.*, 317 F.R.D. 562, 564 (D. Ariz. 2016).

223. *See supra* text accompanying note 107.

224. *See supra* text accompanying notes 108-10.

225. N.D.R.Ev. 507.

226. *See supra* text accompanying notes 108-10.

227. *See infra* Section VIII.A. INADVERTENT DISCLOSURE.



the First Restatement and the UTSA provided some protection when the trade secret was discovered by mistake or accident.<sup>228</sup> In 1974, the Supreme Court in dicta listed accidental disclosure as an example of fair and honest means of discovering a trade secret.<sup>229</sup> However, in 1982, the Third Circuit upheld an injunction barring the use of information that had been disclosed to a competitor by third-party vendors in violation of non-disclosure agreements.<sup>230</sup> The difference may be that the owner in the Third Circuit case took measures to mitigate the disclosure.<sup>231</sup> Yet, the Third Circuit stated because the individual knew the information was secret and disclosure would be improper, the way he obtained the information would not change his liability.<sup>232</sup>

Considering *Kewanee Oil Co. v. Bicron Corp.*<sup>233</sup> and the other case law, arguments can and should be made on either side. The party seeking to prove protection is lost must provide evidence the information is generally known.<sup>234</sup> Whether or not the protection is destroyed “is a fact-intensive question to be resolved upon trial.”<sup>235</sup>

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228. See *supra* notes 50-53, 76 and accompanying text.

229. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974) (“A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure . . . .”); see also *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 404 (9th Cir. 1982) (quoting *Sinclair v. Aquarius Elecs., Inc.*, 42 Cal. App. 3d 216, 226 (Cal. Ct. App. 1974) (“[A] trade secret does not offer protection against discovery by fair and honest means such as by independent invention, accidental disclosure . . . .”); *Julie Rsch. Lab’ys, Inc. v. Select Photographic Eng’g, Inc.*, 810 F. Supp. 513, 520 (S.D.N.Y. 1992) (vacated in part on other grounds) (“With even a mere inadvertent or accidental disclosure, the matter ceases to be a trade secret and will no longer be protected. The adequacy of the measures taken to protect the secrecy of the product is a fact question.”).

230. See *Williams v. Curtiss-Wright Corp.*, 681 F.2d 161, 162 (3d Cir. 1982) (The information was also disclosed by the government by erroneously approved Freedom of Information Act requests.)

231. See *id.* (explaining the owner’s attempt to mitigate disclosure by moving for temporary restraining order of the distribution of the documents and asking the court to place them under seal); see also *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 849 (10th Cir. 1993) (holding trade secrets inadvertently disclosed during trial retained their secret status because the owner monitored those in the courtroom and had the exhibits and final judgment placed under seal).

232. *Williams*, 681 F.2d at 164 (applying New Jersey’s adoption of the First Restatement’s disclosure by mistake language).

233. 416 U.S. 470 (1974); see also *supra* note 10.

234. See *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 418-19 (4th Cir. 1999) (declining to hold the information as generally known solely because of its presence in an unsealed court filing); *Religious Tech. Ctr. v. Netcom On-line Comm. Servs., Inc.*, 923 F. Supp. 1231, 1255 (N.D. Cal. 1995) (stating that public disclosure from an unsealed court filing “without evidence that the secrets have become generally known, does not necessarily cause [the owner] to forfeit its trade secrets”).

235. *Hoechst*, 174 F.3d at 419.

However, if the information has already become generally known to competitors, the protection still may be lost.<sup>236</sup> Trade secret law was not designed to hold people liable for disclosing already known information.<sup>237</sup> If that happens, the owner should next look to the options discussed in the next section.

## B. PURPOSEFUL DISCLOSURE

If a trade secret is purposefully disclosed owners may have a one-year grace period where patent prosecution is still available, unless the product has been publicly sold or shared for more than one year.<sup>238</sup> However, patents rely on a first-to-file system, so the owner must file before someone else claims the same information.<sup>239</sup>

If patent protection is not available, recovery under contract theory may cover some of the same area, assuming there exists a contractual relationship between the parties.<sup>240</sup> “The existence of an express or implied-in-fact contract protecting trade secrets does not preclude a separate cause of action in tort . . . .”<sup>241</sup> In fact, sometimes the breach of contract claim may be more straightforward to pursue than a trade secret claim.<sup>242</sup> However, damages for a breach claim only allow for lost profits at best.<sup>243</sup> Additionally, “[n]o damages can be recovered for a breach of contract if they are not clearly ascertainable in both their nature and origin.”<sup>244</sup>

## IX. CONCLUSION

With trade secret protection, you might not know how good you have it until it is gone. Companies like Coca-Cola have relied on it for decades in part because it lasts for decades, unlike other forms of intellectual property protection. And yet, as soon as that information becomes known, the protection is destroyed. Proactive protection is key, especially in North Dakota where other measures like non-compete provisions are prohibited in most situations. Every business, farmer, or creator should take a regular look

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236. See DVD Copy Control Ass’n v. Bunner, 10 Cal. Rptr. 3d 185, 194 (Cal. Ct. App. 2004) (“[A]ssuming the information was originally acquired by improper means, it does not necessarily follow that once the information became *publicly* available that everyone else would be liable under the trade secret laws for republishing it simply because they knew about its unethical origins.”).

237. *Id.* (“[T]he general public could theoretically be liable for misappropriation simply by disclosing it to someone else. This is not what trade secret law is designed to do.”).

238. 35 U.S.C. § 102(b).

239. Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3, 125 Stat. 284, 285-86 (2011).

240. Levine & Sichelman, *supra* note 176, at 775-76.

241. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. a (AM. L. INST. 1995).

242. Alan J. Tracey, *The Contract in the Trade Secret Ballroom—a Forgotten Dance Partner?*, 16 TEX. INTELL. PROP. L. J. 47, 70 (2007).

243. *Id.* at 72; N.D. CENT. CODE § 32-03-09 (2023).

244. § 32-03-09.

at their work and question if any information qualifies as a trade secret. The information does not have to be overly technical, just valuable to competitors if known. Then, if trade secrets are found, the person or business must make sure reasonable measures are taken to keep the secret safe. While breach of contract claims might recover some loss, thinking ahead is the most important tool. From employees taking work product after they leave to cyberattacks that hack the cloud, knowledge of trade secrets is important for every business owner and farmer in North Dakota.

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