Trade Secret Law's On-Sale Bar

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An inventor who sells their invention to the public cannot thereafter get a patent. This is a well-established principle in patent law called the "on-sale bar." In contrast, it is commonly assumed that trade secret law has no on-sale bar. It is perfectly possible to sell a product that embeds trade secrets without losing trade secret law protection for the information, because a sale does not necessarily reveal those secrets to the public. Think of a company that sells a soft drink incorporating a secret formula. As long as the formula for how to make the drink is not generally known and is kept reasonably secret, trade secret protection can continue despite public distribution of an end product. If an employee takes the formula to a new company and markets a competing soft drink, the employee is potentially liable for trade secret misappropriation.

However, trade secret law has an under-used statutory doctrine whose effect is surprisingly similar to patent law's on-sale bar. This is the requirement that a trade secret not be "readily ascertainable through proper means." This doctrine, which I call the "readily-ascertainable bar," severely limits the ability of a trade secret holder to sell a product on the public market and thereafter claim trade secret rights in information revealed in that product. If the disputed information can quickly and cheaply be "reverse engineered" from the product, this information is not a trade secret. It is readily ascertainable and barred.

Trade secret law's readily-ascertainable bar has been neglected and misunderstood by courts and commentators. This article argues that the readily-ascertainable bar should be viewed as very similar to patent law's on-sale bar. The doctrines are in fact motivated by the same primary policy justifications—ensuring that information that is already in the public domain stays there, preventing IP holders from gaming the system to get longer term of exclusivity than the statutory regime allows, and encouraging inventors to obtain patents and fully disclose their inventions through the patent system, rather than "sitting back" and relying trade secrecy.

To operationalize the readily-ascertainable bar, the article proposes that public distribution of a product should lead to a rebuttable presumption that any trade secrets embedded in the product have been rendered readily ascertainable. The trade secret holder has the burden to produce evidence, and to prove, that reverse engineering the secrets would be costly or time-consuming. If the trade secret holder does not produce such evidence, or fails to prove its case, then the trade secret is barred as readily ascertainable. The article also helps solve the problem of what "readily" means. It provides estimates from case law and the drafting history of the Uniform Trade Secrets—all of which suggests the timeframe for "readily" can be up to a few months. It also proposes that courts should take account of how long the product has been on the market. If the product has been on the market for, say, fifty years, but the trade secrets could be reverse engineered from the product in three months, this suggests the information has probably entered the public domain and cannot be taken back.