



Trade Secrets Alert

Recent developments in trade secrets law

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The subject matter of a trade secret license does not determine the duration of the license

By R. Mark Halligan

Nova Chemicals and Sekisui entered into a license agreement under which Nova was permitted to use a proprietary process to produce a Styrofoam-type product called Piocelan anywhere in the world except Asian countries. Nearly 20 years later, Nova began selling Piocelan products in Asian countries and a declaratory judgment action was thereafter filed. The district court ruled in favor of Nova and Sekisui appealed.

The Third Circuit observed that determining that duration of a license agreement involving trade secret rights is complicated because a trade secret can, theoretically, last forever. Unlike patents, there is no fixed duration for trade secret rights. Construing the contract, the court concluded that Sekisui forfeited its trade secret rights at least with respect to Nova in 1995 because the 10-year obligation to keep the process “secret” expired in 1995.

However, the 3rd Circuit observed that the termination of the trade secret status of the Piocelan process did not resolve the contract dispute because trade secret licenses can exist even after the trade secret status of the information has been destroyed by general disclosure. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979); *Warner Lambert Pharm. Co. v. John J. Reynolds, Inc.*, 178 F.Supp. 655, 665-66 (S.D. N.Y. 1959), aff’d 280 F.2d 197 (2nd Cir. 1960).

In *Aronson*, the United States Supreme Court determined that the manufacturer of new type of keyholder had a continuing obligation to pay royalty payments, despite the inventor’s failure to obtain a patent and the loss of trade secret status of the design of the keyholder.

Warner-Lambert is the famous Listerine case. After the “secret” formula for Listerine became generally known in the trade, Warner Lambert filed a declaratory judgment action to stop making payments. Warner-Lambert lost. The court found that Warner-Lambert was obligated to continue making the royalty payments for as long as it continues to make a product based on the original Listerine formula.

Based upon a review of the law, the Third Circuit reaffirmed in *Nova Chemicals, Inc. v. Sekisui Plastics Co., Ltd.* the principle that the subject matter of a trade secret license does not determine the duration of the license.

Turning next to the specific provisions of the Nova-Sekisui contract, the Third Circuit concluded that the Asia exception was a limitation on the scope of Nova's intellectual property rights, rather than an independent restriction or consideration for the trade secret disclosures under the license.

Since there were no longer any trade secret restrictions imposed on Nova under the contract, Nova was now free and clear to sell Piocelan products anywhere in the world, including Asian countries.

For more information, please contact:

- R. Mark Halligan at rmhalligan@nixonpeabody.com or 312-425-3970
- Bruce E. Copeland at bcopeland@nixonpeabody.com or 415-984-8253
- Robert A. Weikert at rweikert@nixonpeabody.com or 415-984-8385
- Edward F. McCormack at emccormack@nixonpeabody.com or 312-425-8560