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Chip makers settle trade secrets suit

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In a case that pitted two San Francisco business litigators against each other, a China-based chip-making startup will pay Taiwan Semiconductor Manufacturing Co. Ltd. \$175 million to settle a trade secrets theft suit.

The settlement, announced Sunday, dismisses litigation that was pending between TSMC, the world's largest chip fabricator, and Semiconductor Manufacturing International Corp. in San Francisco federal court, at the U.S. International Trade Commission and in Taiwan District Court. TSMC may refile its complaint if SMIC breaches the agreement or commits acts of misappropriation specified in the confidential agreement.

TSMC filed suit against Shanghai-based SMIC in San Francisco in December 2003, claiming the company had misappropriated trade secrets and infringed several patents. A few months later SMIC raised \$1.8 billion in an initial public offering.

TSMC attorney Jeffrey Chanin, a partner at Kecker & Van Nest, said it was un-

usual for a suit to be brought in the United States over actions that occurred primarily overseas.

"While trade secrets were misused in processes abroad," Chanin said, the two companies "looked to California in particular for their business."

The two companies manufacture chips designed by U.S. companies in Silicon Valley and elsewhere. TSMC, founded in 1987, alleged that startup SMIC had lured away its key employees with offers of stock and stock options and asked them to steal and disclose proprietary information.

TSMC filed a similar suit against SMIC in Taiwan in 2002. A Taiwan district court issued an *ex parte* provisional injunction prohibiting SMIC from hiring certain categories of TSMC employees or soliciting the company's trade secrets. Last year TSMC also requested that the ITC block imports of SMIC products. Chanin said an ITC hearing on the complaint was scheduled for June 15.

SMIC attorney Ned Isokawa, a partner at Paul, Hastings, Janofsky & Walker's San Francisco office, said he could not comment on the case beyond the compa-

ny's press release.

In its release, SMIC said TSMC has agreed not to sue SMIC for acts of trade secret misappropriation alleged in its complaints and that SMIC does not have rights to license any TSMC trade secrets. The \$175 million is to be paid over six years.

The companies also agreed to cross-license each other's patent portfolio through 2010. SMIC said the cross-licensing and settlement agreements "are terminable upon a breach by SMIC, which may result in the reinstitution of the legal proceedings and acceleration of the outstanding payments under the settlement agreement."

Chanin said it is unusual for trade secret cases to be dismissed without prejudice, meaning a suit can be reinstated if the other party breaches the agreement. He said most cases — such as Cadence Design Systems Inc.'s trade secret suit against Avant Corp. which settled for \$265 million in 2002 — result in a settlement with prejudice and dismissal of claims.

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