

Taiwan Semiconductor Manufacturing Deposits a Trade Secret Win over SMIC

By Donald D. Jackson¹ and John Wright²

Years of collaboration between Keker Van Nest LLP, Haynes and Boone, LLP, and K&L Gates LLP recently resulted in a jury verdict in favor of Taiwan Semiconductor Manufacturing Co. (“TSMC”), in TSMC’s long-running legal battle against rival Chinese chip maker Semiconductor Manufacturing International Corp., (“SMIC”). TSMC had accused SMIC of stealing trade secrets and violating a prior settlement agreement between the companies. The jury’s liability verdict led the way for the damages phase, in which TSMC was seeking over \$2 billion in damages. Before the damages phase of the trial concluded, however, a settlement was announced between the parties in late 2009 in which SMIC agreed to pay \$200 million in cash to TSMC. TSMC also received an undisclosed amount of stock, making it a “significant minority shareholder” of SMIC.

After the settlement, Richard Chang, the CEO of SMIC, resigned from the company he helped found in 2000. SMIC announced that its new CEO will be David N.K. Wang, a former Applied Materials executive.

TSMC, which is based in Taiwan, is a well-known semiconductor “foundry” that offers manufacturing services to computer chip designers. SMIC, based in Shanghai, is a smaller, younger competitor. The two companies have been fighting since late 2003, when TSMC filed suit accusing SMIC of patent infringement and stealing manufacturing technology used in fabricating chips on silicon wafers. SMIC disputed the allegations, but in January 2005 agreed to pay \$175 million as part of a settlement that included certain rights to use TSMC patents and to continue using certain technology – provided that SMIC complied with the settlement agreement. TSMC later filed suit in California’s Alameda County superior court accusing SMIC of violating terms of the settlement agreement and trade secret misappropriation.

After a two-month trial, the jury in the current dispute agreed that SMIC had improperly “acquired, used or disclosed” the TSMC trade secrets and violated the 2005 agreement. Specifically, the jury found that 61 of the 65 alleged trade secrets at issue in the trial were, in fact, trade secrets when SMIC improperly took them with the help of former TSMC employees. The jury was persuaded that TSMC used reasonable efforts to preserve the secrecy of the technology at issue, which included, among other measures, non-disclosure agreements, extensive employee training regarding the protection of proprietary information, and written agreements with third parties requiring that the technology be kept confidential. The jury also rejected SMIC’s claims that TSMC violated terms of the settlement agreement relating to meeting and conferring in good faith after the settlement was allegedly breached.

Given the settlement agreement between the parties, no appeal will be forthcoming because all past issues have been resolved.

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