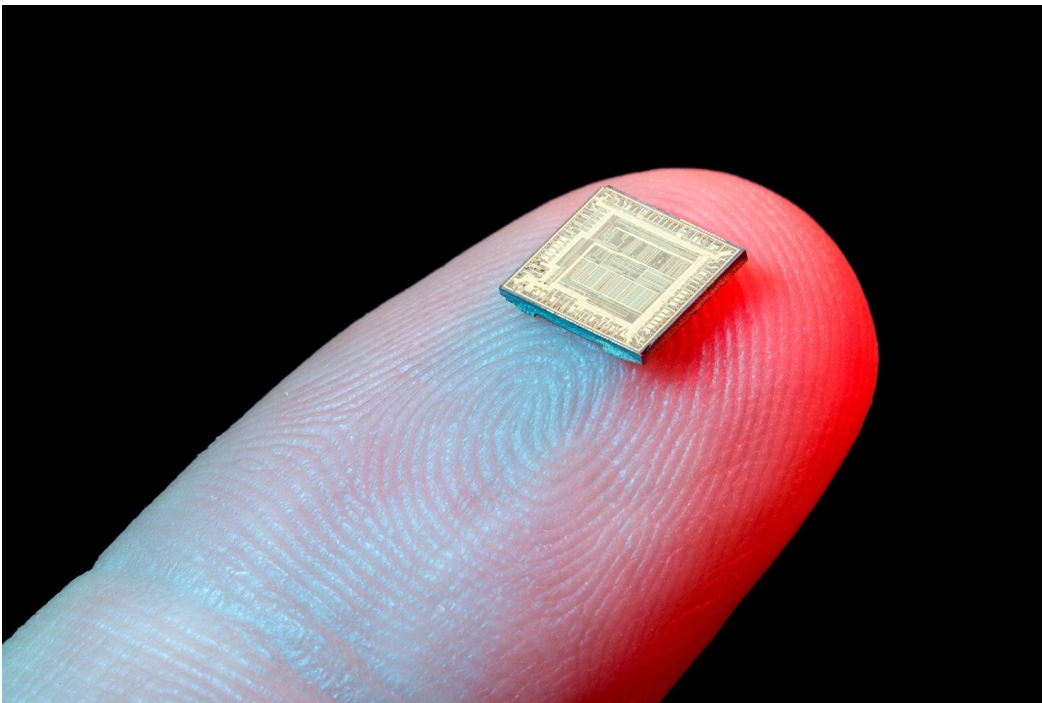


Poaching Employees Landed Generator Maker into Hot Water

November 30, 2022 – *The TMCA*

by Benjamin Greenberg and Janelle Elysee



Related People

- Benjamin Greenberg

Related Capabilities

- Trademark, Copyright + Advertising
- Intellectual Property Litigation

In a recent trade secrets litigation in the United States District Court in the Northern District of California, a jury awarded the plaintiffs 40 million dollars, half of which was punitive damages. The Court also subsequently issued a permanent injunction enjoining the use of the misappropriated trade secrets. Though the defendant is currently seeking relief from the massive damages award and injunction, this case is a cautionary tale on poaching employees from a competitor in two aspects. First, in a “poaching” situation, a defendant can be enjoined from ever selling the product that uses the alleged trade secret *and* owe damages in the form of saved research and development (“R&D”) costs that it can no longer benefit from after the injunction takes effect. Second, it is a reminder of the vast discretion that juries have when awarding damages and their ability to award punitive damages in a “poaching” situation if they are left with a bad taste in their mouth

from what appears to be a conspiracy to wrongfully take trade secrets.

Background

Plaintiffs Comet Technologies USA Inc., Comet AG, and YXLON International GmbH (collectively, “Comet”) sued Defendant XP Power LLC (“XP Power”) for misappropriation of its trade secrets under the Defend Trade Secrets Act (“DTSA”). Comet is a long standing player (over 70 years) in the semiconductor industry; whereas, XP Power is a newer player in the generator industry—entering this sector in 2017. In the lawsuit, Comet asserted that XP Power misappropriated its trade secrets associated with equipment used to manufacture semiconductor chips, specifically, Comet’s RF power generators (“RF Generators”) and electrical circuits referred to as impedance matching networks (“Electrical Circuits”). The RF Generators and Electrical Circuits are used to produce plasma chambers, which, in turn, are sold to silicon chip makers.

So how did XP Power, a California based LLC, acquire the trade secrets of Comet, a Swiss company? Comet alleged that in late 2017, XP Power poached three Comet employees who were key members of the RF Generators and Electrical Circuits division. The poaching allegedly started with XP Power’s three hour interview with the first Comet employee to jump ship. During this interview, XP Power allegedly inquired about Comet’s trade secrets and then decided that it should also poach a supervisor in the same division. Comet claims the third employee later on participated in a group interview with the aforementioned employees before joining XP Power.

After their new positions were secured at XP Power, Comet asserts that these employees surreptitiously collected and shared Comet’s trade secrets. This was allegedly done by (1) saving CAD drawings of Comet’s products as “resumes” to avoid detection, (2) downloading RF Generators and Electrical Circuits files onto external hard drives; and, when confronted, (3) misrepresenting to Comet that they did not save, download, or otherwise collect such files. XP Power purportedly not only was aware of, but also encouraged, this behavior. Comet asserted that XP Power ultimately misappropriated, among other types, trade secrets associated with the: (a) RF Generators; (b) Electrical Circuits; and (c) next generation of Electrical Circuits (“NexGen EC”) for use in the development of XP Power’s own line of competing generators and electrical circuits.

Key Events at Trial

XP Power did not enter the market before Comet instituted its action; therefore, there were no lost profits or sales to use as a basis for damages. Instead, Comet’s theories for damages was limited to either (1) unjust enrichment (quantified as the savings XP Power enjoyed by not investing time and money into R&D) or (2) a reasonable royalty. At trial, Comet’s damages expert testified about Comet’s R&D costs for the trade secrets associated with each of the RF Generators, NexGen EC, and Electrical Circuits. The approximate amount Comet spent on R&D for each trade secret was \$5 million, \$6 million, and \$11 million, respectively. The expert also explained that the amount spent on R&D is *not limited* to the line item in the chart underneath each trade secret, but also the

amount “that was the foundation that that [the] work was built on.” The expert then testified, that if the jury found that the NexGen EC trade secret was misappropriated, “it’s not just the 6 million, it’s everything because those were built upon all of that work.”

Jury Decision and Permanent Injunction

Ultimately, the jury found that XP Power improperly acquired the RF Generators, NexGen EC, and Electrical Circuits trade secrets, but that this improper acquisition was a substantial factor in causing damages to only the trade secrets associated with the RF Generators and NexGen EC. The jury awarded damages based on the unjust enrichment theory, i.e., how much money XP Power saved on its own R&D, and awarded \$5 million for the RF Generator trade secret and \$15 million for the NexGen EC trade secret. For punitive damages, the jury awarded Comet \$20 million, resulting in a 1:1 ratio between compensatory and punitive damages. Shortly thereafter, the Court issued a permanent injunction against XP Power as to all three trade secrets, finding that though the jury’s award “compensated past harm, [it] did not address ongoing or future harm.”

XP Power’s Current Request

In its motion currently pending before the Court, XP Power claims that the jury’s damages award for the NexGen EC trade secret was not based on any evidence since it was \$15 million and not the \$6 million shown in Comet’s expert’s chart at trial. XP Power also offers a second argument that is focused on the permanent injunction the Court issued. The crux of the second argument is that, by issuing a permanent injunction against use of the RF Generator and NexGen EC trade secrets, the very same trade secrets that the jury already award compensatory damages for, this equates to a double recovery for Comet. XP Power states that it is undisputed that it *never* sold a generator or matching networks product. As such, it is inequitable and punitive to issue a permanent injunction since “Comet is effectively being compensated for benefits that XP [Power] never received,” i.e., the sale of the infringing products. Thus, either the permanent injunction should be vacated or there should be a new trial on damages. Comet has until December 2, 2022 to respond to XP Power’s pending motion.

Practice Points

Polling the jury would be the only way to definitively determine why they awarded \$15 million in compensatory damages for the NexGen EC trade secret, instead of the \$6 million in R&D costs put forward by Comet’s expert. However, the expert’s passing comment about “foundational R&D costs” in the damages calculation may very well have been the culprit. This serves as an important reminder to carefully listen to a damages expert’s testimony and refute any testimony that a jury may hone in on as a basis to award significant damages (which can at times be unpredictable).

Additionally, XP Power’s pending request to vacate the permanent injunction may go a step too far. One of the salient tools in intellectual property law, and even more so when trade secrets are involved, is using an injunction to prevent your competitor from running

off with your hard work. This prevents redundant litigation. It is also a recognition of the fact that there is something unquantifiable associated with riding on the coattails of a competitor's intellectual property. It would be odd that after lengthy trade secret litigation, the infringing competitor could simply release its competing product in the market using the plaintiff's trade secrets. Practitioners and business owners should always remember that there is a way to avoid a court ordered injunction in such situations: negotiate a licensing agreement. While the costs associated with a license could be steep, it does allow the company to theoretically stay in business. As this case has shown, it is possible to be out 40 million dollars and a product line where a company opts to misappropriate a competitor's trade secrets instead.

Finally, all companies should work with their counsel to create the best hiring practices and potentially a special protocol when bringing on an employee of a competitor, which should include a review, prior to hiring, of any restrictive covenants that the employee has with their former employer. These steps could serve as a safety measure ensuring that new employees are fully aware of the gravity of taking potentially proprietary information from their former employer without express permission.