

**UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
CHARLOTTE DIVISION**

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| <u>CONTROLS SOUTHEAST, INC.,</u> | : |
| | : |
| Plaintiff, | : |
| | : |
| v. | : |
| | : |
| QMAX INDUSTRIES, INC., | : |
| THOMAS W. PERRY, | : |
| PETER E. KOBYLARZ, JR. and | : |
| HENRY P. GAINES, JR. | : |
| | : |
| Defendants. | : |

COMPLAINT

Plaintiff, Controls Southeast, Inc. (“CSI”) by and through its attorneys RatnerPrestia for its Complaint against defendants QMax Industries, Inc. (“QMax”), Thomas W. Perry (“Perry”), Peter E. Kobylarz, Jr. (“Kobylarz”), and Henry P. Gaines, Jr. (“Gaines”) (collectively, “Defendants”) alleges the following:

NATURE OF THE ACTION

1. CSI seeks declaratory judgments that U.S. Patent Nos. 8,469,082 (“the ‘082 Patent”), U.S. Patent No. 8,899,310 (“the ‘310 Patent”), and 8,662,156 (“the ‘156 Patent”) (collectively, “the Patents-in-Suit”) are not infringed by CSI’s manufacture, sale, or offer for sale of heat transfer elements, and that CSI is the owner of the Patents-in-Suit. This is also an action for injunctive and monetary relief for acts of: (1) trade secret misappropriation under the North Carolina Trade Secrets Protection Act, N.C. Gen. Stat §§ 66-152 *et seq.*; (2) breach of contract under North Carolina common law; and (3)

unfair competition under the North Carolina Unfair and Deceptive Trade Practices Act, N.C. Gen. Stat. § 75-1.1 and North Carolina common law.

THE PARTIES

2. Plaintiff, Controls Southeast, Inc., is a corporation organized and existing under the laws of the State of North Carolina, having a principal place of business at 12201 Nations Ford Road, Pineville, North Carolina.

3. On information and belief, defendant QMax Industries, Inc. is a corporation organized and existing under the laws of the State of North Carolina, having a place of business at 10615 Texland Boulevard, Suite 400, Charlotte, North Carolina.

4. On information and belief, defendant Thomas W. Perry is a citizen of North Carolina having an address of 3008 Lauren Glen Road, Charlotte, North Carolina.

5. On information and belief, defendant Peter E. Kobylarz, Jr. is a citizen of North Carolina having an address of 8615 Ridgeline Lane Charlotte, NC 28269.

6. On information and belief, defendant Henry Gaines is a citizen of North Carolina having an address of 706 Hanna Woods Lane, Cramerton, NC 28032.

JURISDICTION AND VENUE

7. This action for declaratory judgment arises under the patent laws of the United States of America, 35 U.S.C. §§ 100 *et seq.* This action also arises under Title 15 of the United States Code relating to unfair competition.

8. This Court has original jurisdiction over this action under 28 U.S.C. §§ 1331, 1338, 1367, and 2201(a), as well as 15 U.S.C. § 1121. This Court has jurisdiction over the state claims pursuant to 28 U.S.C. §§ 1332, 1338(b) and 1367(a), and the doctrine of pendent jurisdiction.

9. Venue is proper in this judicial district under 28 U.S.C. §§ 1391 and 1400.
10. This Court has personal jurisdiction over Defendants by virtue of their specific acts in, and their continuous and systematic contacts with, the State of North Carolina.

FACTUAL BACKGROUND

11. Since the early 1970s, CSI has been a leading provider of thermal maintenance systems for heating and cooling of liquid/vapor processes in the petrochemical, chemical, and refining industries.
12. CSI's wealth of experience, acquired through its over 40 years of designing, developing, and manufacturing such systems, has led to national and international recognition of its expertise in heat transfer, fluid flow, piping design, and the ASME Codes.
13. CSI provides a number of services and products designed to efficiently provide heat transfer for piping, tanks, vessels, valves, pumps, and instruments.
14. For example, CSI's HAT[®] Tracing product conducts heat from the outer circumference of tubing into a process, thereby greatly improving heat transfer efficiency.
15. CSI depends on innovation to increase sales growth and profitability. The new technologies and products developed by CSI personnel continue to contribute significantly to CSI's sales revenue.
16. In 2014, approximately 13% of CSI's sales revenue came from new products. In 2015, that number rose to approximately 18%.

17. CSI employs sales engineers which work directly with CSI's customers to assess heat transfer needs and design solutions based on CSI's current product lines.

18. CSI sales engineers are, as a general matter, highly technically trained and are required as a part of their employment to provide CSI's customers with solutions for heat transfer systems, including design, installation, maintenance, and troubleshooting services.

19. Because each petrochemical, chemical, and refining process presents unique challenges, CSI sales engineers are required as a part of their employment to use their creativity, technical training, and various CSI resources to provide CSI's customers with unique, and often inventive solutions.

20. To assist CSI sales engineers in these endeavors, CSI provides its sales engineers with access to CSI's trade secret information, including formulas and simulations relating to, e.g., heat transfer, fluid flow, and piping design.

21. CSI instructs its employees that this information is extremely sensitive and proprietary, and should not be used or distributed outside of CSI.

22. The interface between CSI's sales engineers and CSI's customers routinely leads to the development of new technology. Over the years, numerous CSI technologies/products have been generated by CSI sales engineers through these interactions.

23. The development of new technology and product lines at CSI arises largely from discussions between sales engineers and CSI's customers. In particular, by learning the needs of CSI's customers and by drawing upon CSI's trade secrets and other proprietary information, sales engineers are able to invent, devise, or otherwise create

solutions to those needs. Typically, CSI would then evaluate the proposed solutions and, if sensible, develop a product or process corresponding to the solution.

24. Over the years, CSI sales engineers created proprietary and unique solutions for the benefit of CSI.

25. These solutions are the intellectual property of CSI.

26. CSI chose to seek patent protection for certain solutions.

27. CSI chose to maintain other solutions as trade secrets.

28. Because of their access to CSI resources and trade secret material, and because the very nature of the sales engineer position at CSI requires providing creative technical solutions to CSI's customers, CSI sales engineers were expected and obligated, as a condition of employment, to assign to CSI all rights in any intellectual property created during employment with CSI.

29. CSI sales engineers understood those intellectual property rights belonged to CSI.

30. Where CSI elected to seek patent protection, CSI sales engineers assigned such rights to CSI.

31. CSI hired Perry on August 2, 1999 as a sales engineer. Perry had responsibility servicing the Mid-Atlantic, Northeast and, subsequently, Midwest regions of the United States.

32. Among other job requirements, Perry was expected to frequently travel to customer locations in his assigned territories and assist with product design, installation, maintenance, and troubleshooting.

33. As a sales engineer for CSI, Perry had access to CSI's company resources and trade secret information, including customer lists, customer contact information, customer leads, as well as formulas and simulations relating to, e.g., heat transfer, fluid flow, and piping design.

34. Upon information and belief, Perry understood that his job included an obligation to assign all right, title, and ownership of intellectual property developed during his employment with CSI.

35. Upon information and belief, Perry agreed to assign all right, title, and ownership of intellectual property developed during his employment with CSI.

36. Upon information and belief, while employed by CSI and on company time and using company resources, Perry began forming QMax and developing a product line that he intended to sell under this new company and in competition with CSI.

37. Upon information and belief, in or about 2008, Perry began performing less and less of his job duties at CSI so that he could begin forming his own company.

38. In or about 2009, Perry's superiors at CSI observed a noticeable decrease in Perry's traveling to customer sites. Perry was made aware of this observation during his performance review.

39. In 2009, while employed by CSI and on company time and using company resources, Perry prepared a simulated fluid thermal analysis for heating pipe including a product designated by Perry as the QMax FTS Fluid Tracing System. The simulated fluid thermal analysis bears a 2009 copyright notice and indicates that the QMax FTS Fluid Tracing System is the property of QMax Industries, Inc. A copy of the simulated fluid thermal analysis is attached as **Exhibit A**.

40. Upon information and belief, the simulated fluid thermal analysis attached as **Exhibit A** was prepared by Perry, Kobylarz, and Gaines using proprietary heat transfer formulas and other CSI trade secret information.

41. Upon information and belief, Kobylarz and Gaines, both former employees of CSI who were allowed access to the proprietary heat transfer formulas and other CSI trade secret information during their employment, provided Perry with additional CSI trade secret information and technical support to enable the creation of heat transfer products, such as the product illustrated in **Exhibit A**.

42. Upon information and belief, Kobylarz and Gaines provided CSI trade secret information and technical support knowing that Perry intended to improperly use the same in furtherance of Perry's own business agenda and to the detriment of CSI.

43. Upon information and belief, Kobylarz and Gaines provided CSI trade secret information and technical support to Perry for their personal benefit and gain. A different QMax presentation authored by Perry and presented by Perry to QMax clients depicted a CSI ControTrace[®] installation that Perry attended as a CSI sales engineer. The picture of the ControTrace[®] installation used by Perry is proprietary to CSI. A copy of the page of the QMax presentation that includes the picture is attached as **Exhibit B**.

44. The metadata embedded in the QMax presentation states that Perry authored the presentation on September 24, 2009. According to CSI's internal records, on September 24, 2009, Perry was listed as a full time CSI employee, working and not on vacation. A copy of the metadata for the QMax presentation is attached as **Exhibit C**.

45. Upon information and belief, Perry used the CSI trade secret information available to him as a sales engineer to develop technology for QMax, including the QMax FTS Fluid Tracing System as well as the inventions of the Patents-in-Suit.

46. Upon information and belief, Perry understood that CSI's trade secret information was proprietary.

47. In an email to a CSI customer, Perry referred to CSI's trade secret heat transfer analyses as a "proprietary finite difference model."

48. Upon information and belief, Perry based aspects of QMax technology on the very same "proprietary finite difference model."

49. Upon information and belief, while employed by CSI and on company time and using company resources, Perry filed several applications leading to the Patents-in-Suit.

50. In particular, Perry filed U.S. Provisional Patent Appl. Ser. No. 61/120,425 on December 6, 2008, and U.S. Provisional Patent Appl. Ser. No. 61/167,023 on April 6, 2009 (collectively, "the Provisional Applications").

51. On December 6, 2009, Perry also filed the related International Patent Application No. PCT/US2009/066904, which claims priority to the Provisional Applications.

52. While Perry was employed with CSI, Perry intentionally did not advise CSI about the patent applications and CSI was not aware that Perry had filed these patent applications.

53. Perry has since filed other U.S. and foreign patent applications that are related, or otherwise claim priority, to the Provisional Applications.

54. Perry has since filed other U.S. provisional, non-provisional, and foreign patent applications, including U.S. Provisional Patent Appl. Ser. No. 61/306,233 (the '233 Application), U.S. Patent Application 13/589,646 (the '646 Application) and the related PCT Appl. No. US2011/025415.

55. Upon information and believe, Perry offers a product under the name QFin that Perry claims to embody an invention disclosed in the '233 Application.

56. Perry intentionally did not advise CSI of these other U.S. and foreign patent applications that are related, or otherwise claim priority, to the Provisional Applications or the '233 Application.

57. Upon information and belief, the innovations in heat transfer technology set forth in the applications leading to the Patents-in-Suit that Perry claims to have pioneered would not have been possible without the trade secret information and other resources provided by CSI.

58. The Assignment Recordation Branch of the United States Patent and Trademark Office presently lists QMax as the sole assignee of the Patents-in-Suit, as well as the '646 Application. Copies of the Patents-in-Suit and publication of the '646 Application are attached as **Exhibits D** through **G**.

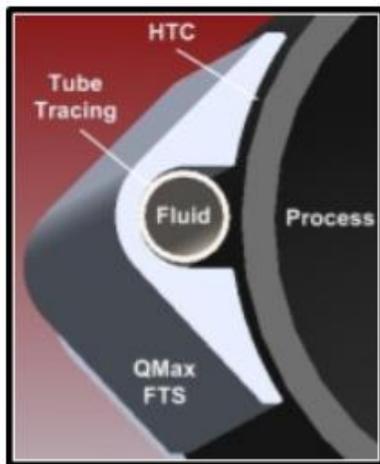
59. On January 29, 2010, Perry resigned from CSI.

60. Perry assured CSI personnel that his subsequent employment would not involve commercial competition with CSI.

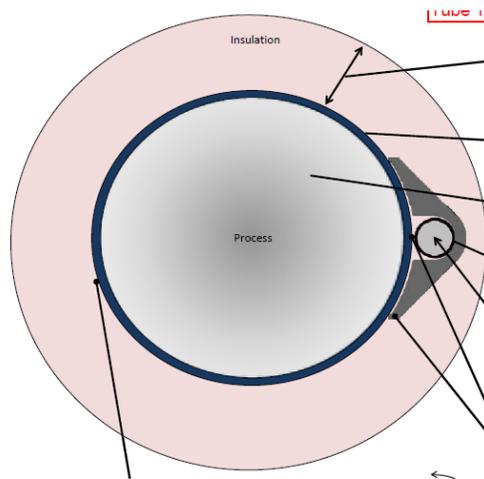
61. Shortly after Perry's resignation, a website for QMax appeared. The QMax website offered for sale a "QMax Patent-Pending Design." A printout of the

QMax website depicting the “QMax Patent-Pending Design” in February, 2011 is attached as **Exhibit H**.

62. Upon information and belief, the “QMax Patent-Pending Design” displayed and described by the QMax website is the same as or substantially similar to the QMax FTS Fluid Tracing System depicted in the simulated fluid analysis attached as **Exhibit A**. A side-by-side comparison is presented below.



QMax Website, February, 2011



QMax simulated fluid analysis, 2009

63. Contrary to Perry’s assertion that he would not compete with CSI, QMax competes with CSI by attempting to sell and selling one or more products to CSI customers that are in direct competition with the products and services offered by CSI in the area of heat transfer for piping, tanks, vessels, valves, pumps, and instruments.

64. CSI maintains a database containing a proprietary list of customer leads and contacts that CSI has developed over the course of many years.

65. Upon information and belief, Perry copied CSI’s customer database and is using it to generate sales for QMax.

66. In particular, QMax has solicited CSI’s customers, including CSI’s customers in Canada.

67. Some of these customers are outside of the sales territory that Perry was responsible for while employed by CSI.

68. Upon information and belief, Perry learned the identity of and contact information for CSI's Canadian customers through CSI's customer database.

69. Upon information and belief, Perry was not aware of any of the identity of CSI's customers, the proper contacts at those customers, or the needs of those customers before his employment with CSI.

70. Perry threatened to sue CSI's distributors and suppliers for patent infringement, alleging that the purchase or sale of CSI's products would infringe one or more of the patents identified above.

71. QMax has sent several cease and desist letters to CSI, accusing CSI's importation, use, and sale of heat transfer elements of directly, indirectly, and willfully infringing the Patents-in-Suit. A copy of QMax's cease and desist letters, without the attached copies of the Patents-in-Suit are attached as **Exhibit I**.

72. In its cease and desist letters, QMax demanded that CSI "immediately cease and desist from practicing any methods or implementing any systems covered by the [Patents-in Suit]" and "that any infringing products currently in stock be destroyed."

73. Based upon Defendants previous and ongoing claims of patent infringement by CSI's heat transfer elements, including the HAT[®] Tracing Product, CSI has a reasonable apprehension that Defendants are likely to accuse CSI's manufacture, use, sale, and/or offer for sale of the HAT[®] Tracing Product of infringing the claims of the Patents-in-Suit, and that Defendants intend to do so imminently.

COUNT I
**Declaratory Judgment of Non-Infringement by Ownership of the ‘082 Patent
(Against QMax and Perry)**

74. CSI incorporates by reference each of the preceding paragraphs of this Complaint as if fully set forth herein.

75. The importation, manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product does not infringe the ‘082 Patent.

76. An actual and justiciable controversy exists between CSI and Defendants with respect to the ‘082 Patent, and CSI is entitled to a declaratory judgment that the ‘082 Patent is not infringed by CSI’s manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product.

77. An actual and justiciable controversy exists between CSI and Defendants with respect to the ‘082 Patent, and CSI is entitled to a declaratory judgment that CSI is the owner of all right, title, and interest in the ‘082 Patent.

COUNT II
**Declaratory Judgment of Non-Infringement by Ownership of the ‘156 Patent
(Against QMax and Perry)**

78. CSI incorporates by reference each of the preceding paragraphs of this Complaint as if fully set forth herein.

79. The importation, manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product does not infringe the ‘156 Patent.

80. An actual and justiciable controversy exists between CSI and Defendants with respect to the ‘156 Patent, and CSI is entitled to a declaratory judgment that the ‘156 Patent is not infringed by CSI’s manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product.

81. An actual and justiciable controversy exists between CSI and Defendants with respect to the '156 Patent, and CSI is entitled to a declaratory judgment that CSI is the owner of all right, title, and interest in the '156 Patent.

COUNT III
**Declaratory Judgment of Non-Infringement by Ownership of the '310 Patent
(Against QMax and Perry)**

82. CSI incorporates by reference each of the preceding paragraphs of this Complaint as if fully set forth herein.

83. The importation, manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product does not infringe the '310 Patent.

84. An actual and justiciable controversy exists between CSI and Defendants with respect to the '310 Patent, and CSI is entitled to a declaratory judgment that the '310 Patent is not infringed by CSI's manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product.

85. An actual and justiciable controversy exists between CSI and Defendants with respect to the '310 Patent, and CSI is entitled to a declaratory judgment that CSI is the owner of all right, title, and interest in the '310 Patent.

COUNT IV
**Breach of Employment Contract
(Against Perry)**

86. CSI incorporates by reference each of the preceding paragraphs of this Complaint as if fully set forth herein.

87. CSI hired and specifically directed Perry to invent, devise, and otherwise create solutions for CSI's customers.

88. Perry understood that the purpose of his employment with CSI was to invent, devise, and otherwise create solutions for CSI's customers.

89. Perry's employment agreement with CSI included an implied obligation to assign all rights, title, and interest in any intellectual property he developed in connection with his employment at CSI.

90. CSI fully performed its obligations under its employment agreement with Perry by, *inter alia*, compensating Perry for his inventive activities.

91. The above described conduct of Perry in filing applications for the Patents-in-Suit without assigning all right, title, and interest in the Patents-in-Suit to CSI constitutes a breach of the employment agreement between Perry and CSI.

92. Perry's breach was unjustified and done knowingly, willfully, maliciously, and with a reckless disregard for CSI's rights.

93. Perry's breach of the employment agreement, unless enjoined, will result in CSI suffering irreparable damage.

94. CSI has no adequate remedy at law.

COUNT V
Misappropriation of Trade Secrets
(Against all Defendants)

95. CSI incorporates by reference each of the preceding paragraphs of this Complaint as if fully set forth herein.

96. By reason of and during the course of their employment with CSI, Perry, Kobylarz, and Gaines obtained access to and became acquainted with certain of CSI's trade secrets and confidential business information, including, but not limited to

information regarding simulation and modeling of heat transfer equipment, product prototypes, product sourcing, product pricing, margins, and customer lists.

97. Upon information and belief, Defendants misappropriated some or all of this information for their own benefit and exploitation.

98. The information misappropriated by Defendants constitutes trade secrets subject to protection under the North Carolina Trade Secrets Protection Act, N.C. Gen. Stat §§ 66-152 *et seq.*

99. This information derives independent economic value by not being accessible, through proper means, to competitors, which can profit from its use or disclosure.

100. CSI took adequate measures under the circumstances to maintain the secrecy of this information.

101. In violation of North Carolina Trade Secrets Protection Act and North Carolina common law, Defendants continue to misappropriate CSI's trade secrets for their own use in order to unfairly compete with CSI.

102. Defendants have profited from the use of CSI's trade secret information.

103. By reason of the foregoing acts, CSI has been and will continue to be damaged in that it is being deprived of a substantial part of the benefits it would have derived from its trade secret information, in which CSI has invested a substantial amount of time and money to develop and protect.

104. Defendants misappropriation of CSI's trade secrets, unless enjoined, will result in CSI suffering irreparable damage.

105. CSI has no adequate remedy at law.

106. Upon information and belief, this misappropriation was willful and malicious within the meaning of N.C. Gen. Stat. § 66-154(c) and -154(d), entitling CSI to an award of punitive damages and reasonable attorneys' fees.

COUNT VI
North Carolina Unfair Competition
(Against QMax and Perry)

107. CSI incorporates by reference each of the preceding paragraphs of this Complaint as if fully set forth herein.

108. The conduct of Perry and QMax described above is conduct in or affecting commerce.

109. The conduct of Perry and QMax constitutes unfair or deceptive acts, practices, and methods of competition in violation of N.C. Gen. Stat. § 75-1.1.

110. On information and belief, the conduct of Perry and QMax has been deliberate, willful, intentional, and in bad faith.

111. The wrongful conduct of Perry and QMax has caused CSI to suffer and, absent intervention of the Court, will cause CSI to continue to suffer actual damages and damage to its business, reputation, and goodwill.

112. The wrongful conduct of Perry and QMax has caused CSI to suffer and, absent intervention of the Court, will cause CSI to continue to suffer irreparable harm for which there is no adequate remedy at law.

PRAYER FOR RELIEF

In view of the foregoing, CSI asks that this Court grant the following relief:

A. Declare that CSI is the owner of all right, title, and interest in the '082 Patent;

- B. Declare that CSI is the owner of all right, title, and interest in the ‘156 Patent;
- C. Declare that CSI is the owner of all right, title, and interest in the ‘310 Patent;
- D. Declare that CSI’s importation, manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product does not infringe the ‘082 Patent;
- E. Declare that CSI’s importation, manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product does not infringe the ‘156 Patent;
- F. Declare that CSI’s importation, manufacture, use, sale, or offer for sale of the HΔT[®] Tracing Product does not infringe the ‘310 Patent;
- G. Order Defendants to assign all right, title, and interest in the ‘082 Patent to CSI;
- H. Order Defendants to assign all right, title, and interest in the ‘156 Patent to CSI;
- I. Order Defendants to assign all right, title, and interest in the ‘310 Patent to CSI;
- J. Order Defendants to assign all right, title, and interest in Provisional Patent Appl. Ser. No. 61/120,425 and U.S. Provisional Patent Appl. Ser. No. 61/167,023, as well as all domestic and foreign applications and patents claiming priority in, or otherwise related to, U.S. Provisional Patent Appl. Ser. No. 61/120,425 and U.S. Provisional Patent Appl. Ser. No. 61/167,023 to CSI.
- K. Order Defendants to assign all right, title, and interest in U.S. Provisional Patent Appl. Ser. No. 61/306,233 and the related PCT Appl. No. US2011/025415 as well

as all domestic and foreign applications and patents claiming priority in, or otherwise related to U.S. Provisional Patent Appl. Ser. No. 61/306,233.

L. Find that Perry breached his implied agreement to assign all right, title, and interest in any intellectual property developed during the course of his employment with CSI;

M. Find that Defendants have misappropriated CSI's trade secrets;

N. Order Defendants to destroy all articles, works, and data compilations incorporating CSI's trade secrets;

O. Find that Defendants have committed unfair and deceptive acts in violation of North Carolina statutory law;

P. Order an accounting and render judgment against Defendants for all profits wrongfully derived by Defendants by their unfair and deceptive acts;

Q. Order an accounting and render judgment against Defendants for all profits wrongfully derived by Defendants by reason of misappropriation of trade secrets and breach of contract;

R. Order Defendants to disgorge to CSI all wrongfully derived profits;

S. Award all damages adequate to compensate CSI for Defendants' acts of misappropriation of trade secrets and breach of contract;

T. Award CSI punitive damages;

U. Award CSI treble damages pursuant to N.C. Gen. Stat. § 75-16.

V. Award CSI its costs and reasonable attorneys' fees to the extent permitted by law;

W. Award CSI prejudgment and post-judgment interest on all amounts awarded; and

X. Award CSI such other and further relief as the Court deems just and proper.

Plaintiff hereby demands a trial by jury of all issues in this action so triable.

Respectfully submitted,

Dated: May 10, 2016

s/ J. Mark Wilson

J. Mark Wilson

N.C. State Bar No. 25763

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