

**IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
(Richmond Division)**

E. I. du PONT de NEMOURS AND)
COMPANY,)
)
Plaintiff,)
)
v.)
)
KOLON INDUSTRIES, INC.)
)
Defendant.)
_____)

Civil Action No. 3:09CV00058

**KOLON INDUSTRIES, INC.’S MEMORANDUM OF LAW IN SUPPORT OF ITS
MOTION TO STAY THE PERMANENT INJUNCTION PENDING APPEAL**

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I. INTRODUCTION

This Court has issued a wide-ranging injunction that, among other things, prohibits Kolon, “with no geographic limitation” and for a period of twenty years, from manufacturing, using, marketing, promoting, selling, distributing, offering for sale, or soliciting customers for any para-aramid products. D.I. 2054 at 2 (the “Injunction Order”). Considering the drastic consequences of the Injunction Order upon Kolon and innocent third parties – [REDACTED] employees and contractors in Kolon’s Heracron® business, worldwide customers, and the South Korean military – Kolon asks that the injunction be stayed pending appeal. All equitable factors militate in favor of a stay. Here, the injunction inflicts upon Kolon “serious irreparable harm – the uncompensated death of its business,” *Cavel Int’l, Inc. v. Madigan*, 500 F.3d 544, 546 (7th Cir. 2007); Kolon has a strong likelihood of success on the merits on multiple grounds; DuPont (which has never claimed loss of a single sale to Kolon) would suffer no concrete injury from a stay; and the injunction will cause widespread hardship not only for Kolon but also for innocent third parties. This Court should stay the injunction pending appeal.

II. ARGUMENT

A. In Balancing the Equities, this Court Requires a Lesser Showing of Probability of Success When (as Here) the Irreparable Injury Is Extreme.

Rule 62(c) of the Federal Rules of Civil Procedure provides that a district court may grant a stay pending the outcome of an appeal from an interlocutory order or final judgment that grants an injunction. In determining whether to grant a stay, a district court must consider the following: (1) whether the movant has made a showing that it is likely to succeed on the merits; (2) whether the movant would be irreparably injured absent a stay; (3) whether issuance of the stay would substantially injure the other parties interested in the proceeding; and (4) whether the public interest favors the issuance of a stay. *Hilton v. Braunskill*, 481 U.S. 770, 776 (1987); *see*

also *WV Ass'n of Club Owners & Fraternal Servs., Inc. v. Musgrave*, 553 F.3d 292, 298 (4th Cir. 2009).

The strength of the showing required on any one factor depends on the others; for example, the movant need only show a substantial case on the merits if the other factors weigh in favor of a stay. *Hilton*, 481 U.S. at 778. Evaluation of a stay request places the district court “in the odd position of deciding the likelihood that the issuance or scope of the [Injunction Order] is somehow improper, even though the court obviously believes that the [Injunction Order] is proper.” *Cooper v. U.S. Postal Serv.*, 246 F.R.D. 415, 418 (D. Conn. 2007). This Court need not question its injunction decision, however; it need only evaluate the possibility of Kolon’s succeeding on one or more issues on appeal that would affect the injunction, and recognize that “[t]he necessary ‘level’ or ‘degree’ of possibility of success will vary according to the court’s assessment of the other stay factors.” *Mohammed v. Reno*, 309 F.3d 95, 101 (2d Cir. 2002) (quoting *Wash. Metro. Area Transit Comm’n v. Holiday Tours, Inc.*, 559 F.2d 841, 843 (D.C. Cir. 1977)). Thus, a court may “grant[] a stay pending appeal where the likelihood of success is not high but the balance of hardships favors the applicant,” for “[t]he probability of success that must be demonstrated is inversely proportional to the amount of irreparable injury plaintiff[] will suffer absent the stay. Simply stated, more of one excuses less of the other.” *Id.* (internal quotation marks omitted).

B. The Balance of Equities Favors a Stay.

1. Kolon Will Suffer Extreme Hardship if a Stay Is Not Granted.

The injunction is devastating: it spells the death of Kolon’s Heracron® business, enjoining Kolon on a worldwide basis from selling, marketing or producing para-aramid

products.¹ See D.I. 2054 at 2; *Cavel*, 500 F.3d at 545-46 (granting stay pending appeal after noting that plaintiff's business would fail if temporarily closed). A prohibition on selling or producing Heracron® for the substantial number of months that the appeal will remain pending will inflict substantial hardships on Kolon. Kolon will be unable to recover the cost of producing embargoed inventory, and it will be unable to earn any revenue on its approximately [REDACTED]

¹ In its entirety, the Injunction Order requires the following:

- A) “Kolon, its parents, subsidiaries, affiliates, employees, officers and directors are permanently enjoined from processing, publishing, disclosing, or using in any form or for any purpose the 149 trade secrets of [DuPont], as described in Exhibit P-1255 . . . (‘DuPont’s Trade Secrets’);
- B) Kolon is enjoined—effective immediately, for a period of twenty years, and without geographic limitation—from “manufacturing, using, marketing, promoting, selling, distributing, offering for sale, or soliciting customers for any para-aramid products”;
- C) By October 1, 2012, Kolon must return to DuPont all documents and other media reflecting DuPont’s Trade Secrets (including any copies);
- D) Kolon must “immediately . . . remove DuPont’s Trade Secrets from all of its competitive computers and computer networks and those of its officers, directors, agents and employees”;
- E) By October 1, 2012, Kolon must file a pleading under oath and on penalty of perjury stating that it has complied with C) and D) above;
- F) By October 31, 2012, Kolon must allow a forensic expert (approved by the Court but at DuPont’s expense) sufficient access to Kolon’s computers and computer networks to confirm that DuPont’s trade secrets have been removed;
- G) By October 31, 2012, Kolon must “account to DuPont for all uses made of DuPont’s Trade Secrets, including, but not limited to, identifying each and every person exposed to DuPont’s Trade Secrets, identifying each and every location at which DuPont’s Trade Secrets were stored, and identifying all disclosures of DuPont’s Trade Secrets outside Kolon, with such identification to include disclosure, intentional or inadvertent, to any para-aramid competitor, customer or supplier”; and
- H) Within 24 hours of the entry of the this INJUNCTION ORDER, Kolon must deliver a copy of the injunction order (excluding the list of trade secrets in P-1255) to “its parents, subsidiaries, officers, directors and employees,” and by September 14, 2012, it must “file a pleading certifying its compliance with this paragraph.”

D.I. 2054 at 2-4.

██████ in investment in the Heracron® business or to capture ██████████ in annual sales. *See* Ex. 1 (Declaration of Han Yung Park), ¶¶ 8, 11. It will be forced to lay off as many as █████ workers, including those with specialized skills and para-aramid fiber manufacturing experience, many of whom will likely seek employment with other companies and will be unavailable to resume work if the injunction is overturned on appeal. *See* Ex. 1 (Declaration of Han Yung Park), ¶ 9; D.I. 1619, Ex. 4; Ex. 5 (Declaration of Dae Young Kim), ¶¶ 6-7. Indeed, another Korean company has just entered the para-aramid business and may hire laid-off employees. *See* Ex. 1 (Declaration of Han Yung Park), ¶ 9. Moreover, the interruption of supply to its customers will damage Kolon's goodwill and relationships with customers, and many may end up entering into long term contracts with other fiber suppliers that may prevent Kolon from recapturing their business if it prevails on appeal. Ex. 1 (Declaration of Han Yung Park), ¶¶ 10-12. Finally, Kolon would be unable to recover any of the foregoing losses from the massive, albeit temporary, disruption of its Heracron® business. Kolon's inability to recover damages caused by failure to stay the injunction weighs in favor of granting a stay. *See Cavel*, 500 F.3d at 546 (granting stay pending appeal noting that plaintiff "could not obtain monetary relief from the defendants" in the event the trial court's judgment was reversed). A shutdown of a defendant's business causing unrecoverable financial losses and business detriment is quintessential irreparable injury that ordinarily justifies a stay pending appeal. *See id.* at 546; *Doran v. Salem Inn, Inc.*, 422 U.S. 922, 932 (1975).

2. **Kolon Is Likely to Prevail on the Merits on Appeal.**

Kolon needs only to demonstrate that its appeal raises a "substantial legal question" when the other factors support a stay. *Microstrategy, Inc. v. Bus. Objects, S.A.*, 661 F. Supp. 2d 548, 559 (E.D. Va. 2009) (internal quotations omitted). Were the standard higher, "a stay would be

warranted only in the unlikely event a movant could persuade the district judge that his or her decision was probably incorrect.” *Id.* (internal quotations omitted); *see also Wash. Metro.*, 559 F.2d at 843 (“The court is not required to find that ultimate success by the movant is a mathematical probability, and indeed, as in this case, may grant a stay even though its own approach may be contrary to movant’s view of the merits.”). Here, Kolon has a strong likelihood of success on appeal, and at a minimum a substantial case on the merits, thus warranting a stay in light of the extreme hardship to Kolon and third parties.

DuPont bore the burden of proving that each of its alleged secrets (1) was not generally known or readily ascertainable; (2) derived value by virtue of not being generally known or readily ascertainable; and (3) was subject to reasonable measures to protect secrecy. Va. Code § 59.1-336 (“Trade secret” definition); *Dionne v. Se. Foam Converting & Packaging, Inc.*, 397 S.E.2d 110, 113 (Va. 1990). In order to prove use of the trade secret in production, for each trade secret DuPont had to prove active employment or exploitation of the trade secret, with knowledge that the information had been derived or acquired by improper means enumerated in the statute, and that the use encompassed either all or a substantial part of the information asserted as a trade secret. Va. Code § 59.1-336 (“Misappropriation”); *Penalty Kick Mgmt. Ltd. v. Coca Cola Co.*, 318 F.3d 1284, 1293 (11th Cir. 2003). In order to shut down the entire production line and bar Heracron® sales, DuPont had (at a minimum) to prove that “the trade secrets form such an integral and substantial part of a comprehensive manufacturing process or technology that, absent the misappropriated trade secrets, the defendant would not be able independently to manufacture or design a comparable product.” *Gen. Elec. Co. v. Sung*, 843 F. Supp. 776, 780 (D. Mass 1994) (citing *Head Ski Co. v. Kam Ski Co.*, 158 F. Supp. 919, 924 (D.

Md. 1958)).² Kolon is substantially likely to prevail on the merits of its appeal on multiple grounds, and be granted a new trial, judgment as a matter of law, or at least reversal of the injunction.

a. The Fourth Circuit Is Substantially Likely to Find that this Court's Erroneous Evidentiary Rulings Prejudiced Kolon and Warrant a New Trial.

The Fourth Circuit is likely to find that Kolon was prejudiced by a number of this Court's erroneous rulings prior to and during trial that, individually or collectively, warrant a new trial. Among the major errors are the following:

First, this Court erred in categorically excluding evidence from DuPont's epic patent litigation in the 1980s with Akzo Nobel, its only major para-aramid competitor at the time. D.I. 1146. In that litigation, DuPont disclosed large amounts of technical information in public court files and open-court sessions that were not previously disclosed in patents.³ Except for specified documents, DuPont, in correspondence with Akzo, also [REDACTED] [REDACTED] thus allowing its competitor unfettered use of the technical information from the litigation, much of which is publicly available in the National Archives. D.I. 1201 at 166:6-169:24.

² The inextricable-connection test may *arguendo* apply to defendants who built their production lines upon acquiring trade secrets, but not to a defendant that operated a commercial production line prior to the alleged trade-secret acquisition, and a general shutdown injunction of a production line (as opposed to an injunction on trade-secret use) is never warranted in this circumstance. D.I. 1619 at 21-24.

³ D.I. 515, Ex. 3 at K00628130-134; Ex. [REDACTED] [REDACTED] D.I. 515, Ex. 3 at K00628134 (“[i]n court sessions a lot of information which was not in patents was disclosed, and there were a lot of interested experts,” and noting that disclosures benefited new entrants).

After initially misrepresenting that the documents did not exist, DuPont produced 30 boxes of *Akzo* documents on August 27, 2010, after the close of discovery. Three days later, DuPont filed a motion in limine to exclude all *Akzo* documents. Despite having just begun its review, Kolon in its opposition identified multiple exhibits in public Federal Circuit joint appendices that corresponded to asserted trade secret information (and offered to brief the full extent of disclosure when review was complete). D.I. 515 at 8-9 & n.6.

This Court categorically, and erroneously, excluded all *Akzo* evidence as irrelevant and likely to confuse the jury. D.I. 1146. As an initial matter, it was improper for the district court to issue a sweeping preclusion order *in limine* absent any showing by DuPont that *all* of the voluminous *Akzo* evidence lacked relevance or would create confusion, which it never attempted. *United States v. Lentz*, 524 F.3d 501, 525 (4th Cir. 2008) (“Where the evidence is probative, the balance under Rule 403 should be struck in favor of admissibility, and evidence should be excluded only sparingly.”) (internal quotations omitted). Nor is the Court’s reasoning likely to withstand scrutiny on appeal. This Court ruled that there was no evidence that a public joint appendix in a high-profile case constituted a public disclosure of trade secrets (even though the appendix was jointly submitted by DuPont’s main competitor); ruled without analysis that Kolon “has not established” that the sample appendix exhibits disclosed asserted trade secrets (even though that is a jury question and DuPont bears the burden of proving trade secrecy); ruled that the DuPont-Akzo correspondence on declassification was inconclusive (which, while untrue, at most creates a jury question requiring explication by a witness); and ruled that straightforward evidence of unrestricted disclosure of the alleged trade secrets in the *Akzo* litigation to the general public or to a competitor would confuse the jury. D.I. 1146.

Even apart from the question of whether the asserted trade secrets were disclosed in *Akzo*, the Court improperly ruled that the jury could not even be informed of the *Akzo* litigation. *See* Ex. 3 (Trial Tr. 6:8-13, 29:3-11, 31:14-16; 2331:16-18). As a result, the Court forbade Kolon to call witnesses to testify regarding the declassification of trial exhibits and whether the documents provided to Dr. Edward Schulz (a witness in the *Akzo* litigation who later served as a Kolon consultant) constituted non-confidential information. *See* Ex. 3 (Trial Tr. 88:10-89:10, 105:17-107:1). The information that Dr. Schulz received in the *Akzo* litigation comprised a substantial part of the information DuPont asserted as trade secrets in this case. *See* D.I. 509, Ex. 4. The court's unjustified exclusion of all *Akzo* evidence prejudiced Kolon on multiple critical issues decided by the jury, including whether: (1) the asserted information was secret; (2) DuPont took reasonable measures to protect secrecy; (3) Kolon (which had directed its patent attorney to follow the *Akzo* litigation and was aware of the public disclosures, *see* D.I. 515, Ex. 2 at K00977214) knew or had reason to know that the asserted information received from Dr. Schulz constituted trade secrets; and (4) Kolon used trade secrets knowing that its consultant Schulz had acquired the trade secret information by improper means. *See* Va. Code. Ann. 59.1-336.

Second, this Court improperly issued other rulings eviscerating Kolon's defense on the element of whether each asserted trade secret "[i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Va. Code. Ann. 59.1-336. This Court erroneously excluded the testimony of Larry Evans (D.I. 1151), a highly qualified expert on trade-secret protection in the chemical and petroleum industry. Drawing on his 45 years of experience, Evans opined, among other things: that DuPont's unclear and inconsistently implemented confidentiality policies were an unreasonable means of maintaining trade secrets in a large corporation, Ex. 4 (Evans Report ¶¶ 35-39); that DuPont failed to conduct adequate training

necessary to maintain trade secrets when its company policy was to patent and publish technical information of possible commercial significance, *id.* ¶¶ 40-41; that only DuPont’s “confidential-special control” designations (which were not placed on the documents Kolon received) were consistent with corporate trade-secret protection practice, while optional “confidential” markings and “internal use only” designations are not typically or reasonably used to identify trade secret information, *id.* ¶¶ 42-47; and that DuPont (which did not even adopt a specific trade secret policy until 2007) was inconsistent and deficient in its implementation of policies, particularly in controlling employee access to information, devising nondisclosure agreements with third parties, providing guidance to employees on how to identify confidential information, and ensuring information was kept secure by foreign factories and licensees, *id.* ¶¶ 48-93. Even though experiential expert testimony is admissible, *United States v. Wilson*, 484 F.3d 267, 274 (4th Cir. 2007), this Court erroneously excluded Evans’s testimony because he did not apply an objective, externally defined reasonableness standard. *See* D.I. 1151. But here the statutory test (reasonableness under the circumstances) does not admit of a fixed external standard, and Evans’s testimony regarding the deviation of DuPont trade-secret protection policies from best practices at other companies and the weaknesses and ineffectiveness of its procedures, policies, and training in his experience is appropriate experiential expert testimony that would have assisted the trier of fact on this issue. The ruling was highly prejudicial because Evans was Kolon’s only affirmative witness on this element of a misappropriation claim, and DuPont trumpeted to the jury at closing that Kolon “didn’t have” an expert to rebut their witness on reasonable secrecy measures. Ex. 3 (Trial Tr. 5426:7-9).

This Court compounded the error by (1) permitting DuPont over Kolon’s objection to use its own experiential expert witness (Levey) even though the expert was not aware of the specific

trade secrets asserted and thus could not testify whether the asserted information was “the subject of efforts that are reasonable under the circumstances to maintain its secrecy,” Va. Code. Ann. 59.1-336, and (2) prohibiting Kolon from adducing critical evidence of DuPont’s first adoption and revision of corporate trade-secret policies beginning in 2007 as evidence of the inadequacy of its prior confidentiality measures, improperly declaring this evidence inadmissible under the subsequent-remedial-measure rule of Federal Rule of Evidence 407. *See, e.g.*, Ex. 3 (Trial Tr. 157:8–165:16). The Fourth Circuit has held that Rule 407 does not apply to remedial measures taken *by nondefendants* because it “is based on the policy of encouraging *potential defendants* to remedy hazardous conditions without fear that their actions will be used as evidence against them.” *TLT-Babcock, Inc. v. Emerson Elec. Co.*, 33 F.3d 397, 400 (4th Cir. 1994) (emphasis added) (third-party repairs admissible). The Court’s rulings unjustifiably deprived Kolon of a defense on this element.

Third, [REDACTED]

[REDACTED], whereupon Dr. Schulz (on the advice of his independent counsel) invoked the Fifth Amendment in response to certain deposition questions from both parties. The Court improperly (1) granted DuPont’s request to instruct the jury that it could draw an adverse inference *against Kolon* from Dr. Schulz’s invocation of the Fifth Amendment, and (2) at the same time excluded all of Dr. Schulz’s deposition testimony favorable to Kolon on the same subject matter. *See* D.I. 1280.

The granting of an adverse inference against Kolon for Schulz’s invocation of the Fifth Amendment was improper on multiple grounds. Schulz was never an employee or officer of Kolon or subject to its control (and indeed some of the questions about which he refused to testify predated his consulting relationship with Kolon); his invocation of the Fifth Amendment

cannot be treated as the equivalent a “vicarious admission” by Kolon, nor was Schulz in effect “a noncaptioned party in interest” in this litigation. *See LiButti v. United States*, 107 F.3d 110, 123-24 (2d Cir. 1997). Furthermore, the “extreme sanction” of an adverse inference, *Morris v. Union Pacific Railroad.*, 373 F.3d 896, 900 (8th Cir. 2004), could not be deemed “trustworthy under all of the circumstances,” *LiButti*, 107 F.3d at 124, because it was allowed even when Schulz’s actual testimony was favorable to Kolon and when DuPont presented no independent evidence of certain facts (*e.g.*, Schulz’s source for the documents, D.I. 1247, Ex. 2 Schulz Tr., Vol. II, pp. 225:17-25; 226:7-227:12). *See Doe ex rel. Rudy-Glanzer v. Glanzer*, 232 F.3d 1258, 1264 (9th Cir. 2000) (An “adverse inference can only be drawn when independent evidence exists of the fact to which the party refuses to answer.”). Regardless, this Court’s decision to *both* grant an adverse inference *and* bar Kolon from introducing Schulz’s contrary testimony misled the jury and deprived Kolon of its right to present rebuttal testimony. *Stevenson v. Union Pac. R.R. Co.*, 354 F.3d 739, 750 (8th Cir. 2004) (denial of opportunity to present rebuttal evidence improperly converts a permissive inference into an irrebuttable presumption). Rather than grant an adverse inference against Kolon, the district court should have simply (1) allowed Kolon to present Dr. Schulz’s deposition testimony and (2) permitted DuPont to play the deposition excerpts in which he invoked the Fifth Amendment to impeach that testimony. *See Rosebud Sioux Tribe v. A & P Steel, Inc.*, 733 F.2d 509, 522 (8th Cir. 1984). The vast majority of the technical trade secrets underlying the injunction were based on Schulz’s disclosures, and Kolon was prejudiced by the order permitting the jury (without hearing contrary evidence from Schulz) to draw an adverse inference against Kolon on essential questions of whether the asserted information constituted trade secrets and whether misappropriation occurred.

b. JMOL Should Have Been Granted to Kolon.

As an independent reason, JMOL should have been granted to Kolon because DuPont adduced no proof that the asserted trade-secret information “[d]erives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.” Va. Code 59.1-336. The term “readily ascertainable” means that the information is “ascertainable with reasonable ease . . . by proper means, such as from publicly available information such as trade journals, reference books, or any published materials.” Ex. 3 (Trial Tr. 5549:6-12); *see also* Unif. Trade Secrets Act, § 1 cmt., 14 U.L.A. 439 (1990); *Bernier v. Merrill Air Eng’rs*, 770 A.2d 97, 108 (Me. 2001). DuPont’s expert witness did not make the required systematic search of patents and publications to determine the ready ascertainability of this information, examining only a “few dozen” patents, Ex. 3 (Trial Tr. 2555:16-21), even though there is vast public literature (including DuPont patents and publications) on aramid manufacturing technology, *see* Ex. 3 (Trial Tr. 3931:22-3932:8). Because its expert misconceived the “readily ascertainable” standard as concerned solely with the effort required to *create* the information independently, DuPont offered no adequate evidence on the “readily ascertainable” claim element.⁴

Nor did its expert address the requirement that, to be a trade secret, the information must “[d]erive[] independent economic value, actual or potential” from not being known to or readily ascertainable by those who can exploit its value (*i.e.*, it must yield competitive advantage as a

⁴ *See* Ex. 3(Trial Tr. 2434:23-2435:9

result of secrecy). Va. Code § 59.1-336 (emphasis added); 1-1 Roger M. Milgrim and Eric E. Bensen, *Milgrim on Trade Secrets* § 1.03 (“only secrets affording a demonstrable competitive advantage may be properly considered trade secrets”). DuPont’s witnesses never addressed the derivation requirement; they testified in conclusory fashion that the information “had value” or had functional utility in the manufacturing process, and, separately, that the information was not generally known or readily ascertainable, but not that information had value derived from those conditions of secrecy. D.I. 1738, Ex. 3. Because DuPont failed to adduce proof on this claim element, the judgment will not withstand appeal.

c. DuPont Failed to Prove Production Use of Its Trade Secrets.

As noted by the Court at the November 16, 2011 injunction hearing, DuPont did not provide evidence sufficient to demonstrate production use. *See, e.g.*, D.I. 1701 at Tr. 80:11-13 (“The Court: They’ve pretty well demonstrated how you didn’t prove production use by the things Mr. Pade presented there it looks to me like.”). DuPont was required to show that Kolon used the whole, or at least a substantial part, of each of DuPont’s claimed secrets in its production line. *See, e.g., Penalty Kick*, 318 F.3d at 1293 (plaintiff must prove that the defendant “used a ‘substantial portion’ of the plaintiff’s trade secret to create an improvement or modification that is ‘substantially derived’ from the plaintiff’s trade secret.”); *Fast Food Gourmet, Inc. v. Little Lady Foods, Inc.*, No. 05 C6022, 2007 WL 1673563, at *5 (N.D. Ill. June 8, 2007) (“[A] party cannot demonstrate misappropriation simply by showing that the defendant used only part of the combination comprising the secret.”).

The standard (and indeed the only logical) way for a plaintiff to prove use of a manufacturing trade secret is to show, for each of the technical trade secrets, that the defendant has actually employed that equipment specification or operating parameter in its production line.

Yet DuPont *never* adduced any such proof at trial (with arguably one exception) (*see* D.I. 1619 at 25); indeed, the first time it ventured to link its use evidence to specific trade secrets, partially and inadequately, was in its reply brief in support of its injunction motion.

DuPont secured a unanimous verdict on the 149 trade secrets (68 technical secrets and 81 business trade secrets) on a theory of “reference use,” arguing in closing that that jury could find “use” of not just some, but *all* of the trade secrets, based solely on evidence that Kolon kept copies of the technical consultant documents “in a safe” in its R&D center because “[i]f you want something for reference, that is use.” *See* Ex. 3 (Trial Tr. 5521:4-21). Because retention for future use is not use, DuPont later abandoned that theory in its post-trial briefs as inconsistent with VUTSA use standard. *See* D.I. 1746 at 9-14 & n. 9; D.I. 1826 at 5.

Because this Court could not rely directly on the jury verdict to justify a production injunction, this Court summarily incorporated by reference DuPont’s Exhibit 5 to its opposition to Kolon’s motion for judgment as a matter of law (D.I. 1695). But this Court has never even addressed Kolon’s showing that Exhibit 5 does not establish use, much less production use. *See* D.I. 1738, Ex. 4. Such a summary incorporation by reference is not only unsupported by the record, but it falls far short of the court’s duty to “find the facts specially.” Fed. R. Civ. P. 52(a)(1).

The Court also relied on certain claimed similarities between DuPont’s and Kolon’s production lines. But no witness ever testified that those similarities (encompassing matters such as [REDACTED], D.I. 1535 at 3-5) met the statutory definition of a trade secret. Nor did DuPont ever prove *misappropriation* of those features. Use of a trade secret constitutes misappropriation (and can support an injunction) only upon a

showing that Kolon's knowledge of the trade secret was (1) acquired by improper means, (2) derived from a person who acquired it by improper means, (3) acquired under circumstances giving rise to a duty of secrecy on Kolon's part, or (4) derived from a person under a duty to maintain its secrecy or limit its use. Va. Code Ann. § 59.1-336. DuPont conceded at closing that it had no evidence of *how* Kolon acquired knowledge of the alleged common features of its line, thereby unwittingly conceding a failure of proof. *See* Ex. 3 (Trial Tr. 5405:2-7) (“[W]e showed you evidence that Kolon copied several pieces of DuPont equipment. We don't know where they got the information.”). Indeed, DuPont conceded that these features were part of Kolon's line before April, 2006, which is when the consultants who allegedly disclosed trade secrets in breach of continuing duties to DuPont commenced work for Kolon. *See* D.I. 1535 at 5.⁵ Kolon's expert witness testified that Kolon, which developed and operated its commercial production line prior to 2006, did not use any of the asserted trade secrets. *See* D.I. 1619, Ex. 2 & Ex. A to Ex. 2, Ex. 3 (collating trial testimony and exhibits establishing nonuse). DuPont never attempted to contradict Kolon's evidence of how its production line actually operated.

Second, rather than attempt to show actual use of the specific trade secrets in Kolon's production line, DuPont pointed to snippets of language in Kolon meeting minutes and consulting reports that it claimed were suggestive of use of information obtained by consultants. All of the statements upon which DuPont relied were vaguely worded and do not refer to asserted trade secrets. *See* D.I. 1738, Ex. 4 at 1. For example, DuPont relies on *one sentence fragment* in P-669, at K00972207 – which states [REDACTED]

⁵ This Court even noted that DuPont “nailed [itself] to the mat with that statement in terms of a sequence of events[.]” D.I. 1701 at 20:25-21:1; *see also* 23:19-21 (“Court: That's true, but the misappropriated trade secrets that were at issue here were misappropriated in 2006, after that plant was built according to you.”)).

has been established.” *Salazar v. Buono*, 130 S.Ct. 1803, 1818 (2010); *Kentuckians for Commonwealth, Inc. v. Rivenburgh*, 317 F.3d 425, 436 (4th Cir. 2003).

The remedy for any use violation should be to prohibit use of the specific trade secret for which a violation has been shown. Courts have issued wholesale production injunctions only in circumstances where the defendant did not have a prior commercial line and built its line on the misappropriated trade secrets. *See Sung*, 843 F. Supp. at 781; *Head Ski Co.*, 158 F. Supp. at 924. Even in those circumstances, the plaintiff must meet the high burden of proving that there is an “inextricable connection” between the production line and proven trade secret misappropriation, namely that “the trade secrets form such an integral and substantial part of a comprehensive manufacturing process or technology that, absent the misappropriated trade secrets, the defendant would not be able independently to manufacture or design a comparable product.” *Sung*, 843 F. Supp. at 780 (citing *Head Ski Co.*, 158 F. Supp. at 924). To prove such a connection, “it is pertinent whether the defendant had a significant and comparable, pre-existing design of its own prior to the misappropriation of the trade secrets.” *Id.*

Not only are production injunctions inappropriate in this context, but DuPont presented no evidence on the issue of inextricable connection, which was not tried to the jury. DuPont cannot refuse to prove where in the production line Kolon used any particular trade secret (which, if proven, could be designed around), and then claim that because the “proof” of use is vague, Kolon’s entire production line should be shut down. The inextricable-connection test requires not just a simple showing of production use, but rather an analysis of the relationship of current trade secret use to Kolon’s current, ongoing production operations. DuPont presented not a scintilla of evidence regarding Kolon’s current production facilities, much less whether its current production operations are inextricably connected to DuPont’s trade secrets or whether

Kolon would *currently* be able to produce comparable product but for its use of DuPont's trade secrets. Indeed, during the jury trial DuPont successfully objected repeatedly to any testimony on the Heracron® production process except as it related to use or nonuse of a specific trade secret.⁶ DuPont simply established no factual predicate for a "shutdown" injunction. *See O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064, 1070 (N.D. Cal. 2005).

Finally, this Court should acknowledge that there is at least a substantial question whether (1) the Fourth Circuit would consider its brief *Erie* discussion in *Capital Tool & Manufacturing Co. v. Maschinenfabrik Herkules*, 837 F.2d 171, 172-73 (4th Cir. 1988), to be "controlling circuit law," D.I. 2051 at 29, when the actual holding in that case was that federal law governed preliminary injunctions, which are not subject to *Erie*, and (2) whether the Fourth Circuit would regard that discussion to trump the many Supreme Court cases holding that equitable relief is governed exclusively by federal law. D.I. 1987 at 3-9. This Court did not find the existence of the irreparable injury that is essential under *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006), which alone would require reversal. Finally, the factors that this Court considered to be significant in its balancing of the harms analysis – DuPont's loss of exclusive rights to the asserted trade secret information and the public interest against misappropriation – would at most justify an injunction against retention, use or disclosure (*i.e.*, recurrence of statutory violations). It would not justify the massive shut-down injunction from which it will be virtually impossible for Kolon to escape in the next 20 years.

⁶ *See, e.g.*, Ex. 3 (Trial Tr. 4004:1-16, 4007:9-4009:5 ("the issue in this case is whether Kolon obtained our trade secrets. It [is] not Kolon's Heracron® process"), 4013:24-4014:4 (court ruling requiring examination to be tied to use of a trade secret because the "issue is not how [Kolon] got into the business ... [or] how they run their whole plant"), 4018:20-4019:21 (restricting questioning on use of vendors)).

3. **A Stay Would Not Injure DuPont.**

The third *Hilton* factor is whether issuance of the stay would substantially injure the other parties interested in the proceeding. *Hilton v. Braunskill*, 481 U.S. at 776. DuPont has never demonstrated that it has suffered or is suffering *any* harm. Even though it claimed that Kolon misappropriated trade secrets beginning in 2006, DuPont did not claim that it suffered any damages in the form of lost sales, lost profits, or otherwise. It sought no preliminary injunction. In its permanent injunction papers, DuPont did not point to any evidence of lost customers, profits, or goodwill. Nor did it show that it actively competes for the customers to whom Kolon sells Heracron® products, that it offers products directly competitive with the specific products that Kolon currently sells, or that Kolon had obtained any competitive advantage vis-à-vis DuPont by use of trade secrets. *See O2 Micro*, 399 F. Supp. 2d at 1070 (denying production injunction because the plaintiff “fail[ed] to show any competitive advantage, much less any advantage that can only be eliminated by the drastic measure of a production injunction”). Instead, DuPont offered only an abstract claim that ongoing use of a trade secret is *ipso facto* irreparable injury, impermissibly relying on the “possibility” of future or “presumed” injuries. *See Real Truth About Obama, Inc. v. Fed. Election Comm’n*, 575 F.3d 342, 344 (4th Cir. 2009). There is simply no showing of urgent need for the type of broad, ongoing, and damaging relief outlined in the Injunction Order. Whereas DuPont would suffer no monetary or other loss from this Court’s issuance of a stay, as described above, Kolon would face significant and unrecoverable losses from the disruption of its aramid production line. Thus, the balance of the hardships favors a stay of the Injunction Order pending appeal.

4. **The Public Interest Favors a Stay Because Of The Significant Harm To Innocent Third Parties.**

To the extent this private dispute implicates the public interest, a stay would serve the public interest because it avoids harm to innocent third parties. Current Heracron® customers would suffer time delays in the testing and qualification of substitute products if Heracron® production and distribution were halted. D.I. 1619, Exs. 6-7;⁷ Ex. 1 (Declaration of Han Yung Park), ¶ 11. The South Korean military uses Heracron® products in its body armor products, and the Deputy Minister of National Defense has opined that suspension of the availability of Heracron® could create problems with regard to delay, added expense, quality control, and maintenance of “a stable supply of products in emergency situations.”⁸ Similarly, a shutdown of Kolon’s operations would leave Kolon’s suppliers unable to replace sales planned for Kolon or to recoup investments made in reliance on Kolon’s future purchases. D.I. 1619, Exs. 8-10. Kolon will have to lay off substantial numbers of employees and contractors (estimated by [REDACTED] [REDACTED] [REDACTED], Ex. 5, ¶¶ 4-7), and the injunction will wreak havoc with the economy of Gumi in South Korea, where many local businesses depend on Kolon. Ex. 6 (Affidavit of Mayor Yoo-Chin Nam). The drastic and irreparable injury to Kolon, its likely success on the merits, the imminent harm to third parties, and the lack of concrete harm to DuPont all militate in favor of a stay.

⁷ This Court should have no objection to the submission of declarations in support of a stay motion. *See, e.g.*, Fed. R. App. P. 8(a)(2)(B)(ii).

⁸ D.I. 1619, Ex. 11; Ex. 1 (Declaration of Han Yung Park), ¶ 13; *see Republic Aviation Corp. v. Schenk*, 152 U.S.P.Q. 830, 834 (N.Y. Sup. Ct. 1967) (refusing to grant injunctive relief where the defendant’s products were valuable to the United States Air Force during its efforts in Vietnam).

C. **This Court May Order Security To Protect DuPont From Any Conceivable Injury.**

Because DuPont has never alleged or shown concrete financial injury, this Court should require no bond as security for the injunction. *See Thiry v. Carlson*, 891 F. Supp. 563, 568 (D. Kan. 1995) (holding that the “harm defendants may incur due to the issuance of an injunction pending appeal is sufficiently speculative that plaintiffs will not be required to post bond.”). To the extent that this Court deems security to be necessary to protect DuPont from conceivable injury, Kolon is prepared to post a bond of [REDACTED]. [REDACTED]. *See* Ex. 1 (Declaration of Han Yung Park), ¶ 11.

III. **CONCLUSION**

For the foregoing reasons, Kolon respectfully requests that the Court stay its Injunction Order pending the resolution of Kolon’s appeal.

Dated: August 31, 2012

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that, on August 31, 2012, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system, which will then send a notification of such filing (NEF) to counsel named below:

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