

Nos. 12-1260, 12-2070

**United States Court of Appeals
for the Fourth Circuit**

E. I. DUPONT DE NEMOURS & COMPANY,

Plaintiff – Appellee,

v.

KOLON INDUSTRIES INC.,

Defendant – Appellant.

*On Appeal from the United States District Court for the Eastern District of
Virginia in Case No. 3:09-cv-00058-REP (Hon. Robert E. Payne, Judge)*

**REDACTED FINAL OPENING BRIEF
FOR DEFENDANT-APPELLANT
KOLON INDUSTRIES, INC.**

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FEBRUARY 22, 2013

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT**DISCLOSURE OF CORPORATE AFFILIATIONS
AND OTHER INTERESTS****Nos. 12-1260 and 12-2070,****E.I. DuPont de Nemours and Co. v. Kolon Industries, Inc.**

Pursuant to FRAP 26.1 and Local Rule 26.1,

Kolon Corporation (formerly known as “Kolon Industries, Inc.”) who is Appellant, makes the following disclosure:

1. Is party/amicus a publicly held corporation or other publicly held entity? YES NO
2. Does party/amicus have any parent corporations? YES NO
If yes, identify all parent corporations, including grandparent and great-grandparent corporations:
3. Is 10% or more of the stock of a party/amicus owned by a publicly held corporation or other publicly held entity? YES NO
If yes, identify all such owners:
4. Is there any other publicly held corporation or other publicly held entity that has a direct financial interest in the outcome of the litigation (Local Rule 26.1(b))? YES NO
If yes, identify entity and nature of interest:

In 2010, following changes in Korean corporate rules, Kolon Corporation (then known as “Kolon Industries, Inc.”) adopted a holding company structure, separating its industrial manufacturing operations and assets into a newly-formed public company. The new company adopted the English name “Kolon Industries, Inc.,” while the original company, which retained the investment assets and portfolio management functions, adopted the English name “Kolon Corporation.” Kolon Corporation holds more than 10% of shares in the new Kolon Industries, Inc. In addition, the following publicly traded companies are also related entities:

Kolon Global Corporation Co., Ltd.

Kolon Plastics, Inc.
Kolon Life Science, Inc.
Kolon Fashion Material, Inc.

5. Is party a trade association? (amici curiae do not complete this question) YES NO

If yes, identify any publicly held member whose stock or equity value could be affected substantially by the outcome of the proceeding or whose claims the trade association is pursuing in a representative capacity, or state that there is no such member:

6. Does this case arise out of a bankruptcy proceeding? YES NO
If yes, identify any trustee and the members of any creditors' committee:

Dated: November 26, 2012

By: /s/ Igor V. Timofeyev
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JURISDICTIONAL STATEMENT

Appellant Kolon Industries, Inc. (“Kolon”) appeals a final judgment of the U.S. District Court for the Eastern District of Virginia. The district court entered a final money judgment in favor of Appellee E. I. du Pont de Nemours & Co. (“DuPont”) on November 22, 2011, and denied Kolon’s motions for judgment as a matter of law and a new trial on January 27, 2012. Kolon filed a protective appeal on February 24, 2012. The judgment became final upon entry of a permanent injunction on August 30, 2012, and Kolon appealed the next day.

The district court had jurisdiction under 28 U.S.C. § 1332. This Court has jurisdiction under 28 U.S.C. § 1291.

STATEMENT OF THE ISSUES

1. Whether the district court erroneously entered judgment for DuPont on unpleaded claims.
2. Whether the district court erred by not requiring DuPont to define its trade secrets with reasonable specificity.
3. Whether the district court abused its discretion by excluding evidence that was critical to Kolon’s defense—in particular, evidence that much of the claimed trade-secret material was already in the public domain, and that DuPont failed to take reasonable measures to preserve secrecy.

4. Whether the district court abused its discretion by granting DuPont sweeping adverse inferences against Kolon based on a third-party witness' invocation of the Fifth Amendment and Kolon's deletion of a limited number of tangentially relevant documents.

5. Whether the district court erred by applying Virginia law, rather than Korean law, to claims based on alleged misconduct that occurred in Korea.

6. Whether the district court erred by denying Kolon's motion for judgment as a matter of law based on DuPont's failure to carry its burden of proof on several elements of a trade-secret claim.

7. Whether the jury's \$919 million damage award was grossly excessive and based on speculative and unreliable expert testimony, and was the result of erroneous jury instructions.

8. Whether the district court erred by entering a 20-year worldwide shutdown injunction despite a complete lack of evidence that Kolon uses the alleged trade secrets in its production facilities.

9. Whether the district judge erred in not recusing himself or, alternatively, whether the case should be reassigned on remand as an exercise of this Court's sound discretion.

STATEMENT OF THE CASE

DuPont and Kolon are competitors in the market for high-strength para-aramid fibers. DuPont has been selling its “Kevlar” product since 1980, and Kolon introduced its “Heracron” product in 2005. Beginning in 2006, *after* its production facilities were already up and running, Kolon engaged five former DuPont employees as consultants to help improve its existing operations. Those consultants assured Kolon they were not sharing confidential DuPont information.

In February 2009, DuPont filed a complaint against Kolon in U.S. District Court for the Eastern District of Virginia alleging misappropriation of trade-secret material. Before trial, the district court granted every one of DuPont’s motions *in limine* and denied every one of Kolon’s. Most significantly, the court excluded a vast array of evidence showing that the so-called trade “secrets” actually involved publicly available information from DuPont’s patent filings and related litigation. The court also granted DuPont two sweeping adverse-inference instructions, on which DuPont relied heavily in its arguments to the jury.

On September 14, 2011, the jury found Kolon liable for misappropriation of all 149 alleged trade secrets and awarded DuPont a staggering \$919.9 million in damages. That figure was not based on DuPont’s actual damages (such as lost sales or lost profits, which DuPont never alleged, let alone proved) or the

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calculation of a reasonable royalty. Instead, the jury adopted DuPont's unprecedented damages theory that Kolon's misappropriation of a limited set of documents—[REDACTED]—entitled DuPont to [REDACTED]

[REDACTED] Those figures included costs associated with information that Kolon never received or that was already in the public domain. They were also based on a number of outlandish assumptions, such as the suggestion that Kolon—a Korean company with no U.S.-based manufacturing or R&D operations—would have set up an entire R&D operation in the United States, at U.S. wages, in order to replicate DuPont's trade-secret information.

Although the district court had already ordered Kolon to pay DuPont nearly a billion dollars for the entirety of [REDACTED], on August 30, 2012 it also entered a sweeping worldwide shutdown injunction that locks Kolon out of the para-aramid fiber market for the next 20 years. Kolon appealed the next day, and this Court granted Kolon's motion to stay the injunction pending appeal on September 18, 2012.

STATEMENT OF FACTS AND PROCEEDINGS BELOW

A. Background on DuPont and Kolon

DuPont is a chemical company that produces Kevlar, a high-strength “para-aramid” fiber used in ballistics, automotive, and industrial applications. After

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[REDACTED] DuPont commenced commercial production of Kevlar in 1980. JA-V-2160:10-2162:7.

[REDACTED]
[REDACTED]
JA-XXVII-13277; JA-XXXIII-16295, 16668-16669; JA-XVII-8072:2-8076:25.

Where there was [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] JA-XXVII-13278; JA-XXXIII-16306; JA-XVII-8077:7-19. DuPont would [REDACTED]
[REDACTED]

[REDACTED] JA-XXVII-13277-13278; JA-XXXIII-16295. Indeed, DuPont witnesses [REDACTED]

[REDACTED] JA-XVII-8075:3-17.

There is abundant public literature on para-aramid fiber technology, much of it owing to the patent and publication disclosures of DuPont and its long-time rival, Teijin (formerly Akzo Nobel). JA-XVI-7632-7637 ¶¶117-120; JA-II-891-895; JA-XIV-6271-6371; JA-XII-4960-5094. Tens of thousands of published patents relate to para-aramid fiber technology, many of which are now expired, and all of which

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involve the public disclosure of useful information. JA-X-4255 n.1; JA-XVI-7632 ¶78, 7632-7336 ¶¶117-119. DuPont itself has been granted more than 730 such patents, many disclosing technology used in commercial Kevlar production. JA-II-721-725; JA-XVI-7620 ¶117; JA-XXXIV-16782-16791; JA-XIX-8694:22-8695:08. There are also numerous vendors that sell para-aramid manufacturing equipment [REDACTED]

[REDACTED] JA-XVII-7878:14-7879:24; JA-V-2292:24-2293:3, 2305:5-2309:18; JA-XXXIV-16821-16823, 16833-16834. DuPont's trade-secret risk manager testified that [REDACTED]

[REDACTED]

[REDACTED] JA-XXXIII-16573-16618.

Kolon is a South Korean corporation with decades of experience producing synthetic fibers such as nylon and polyester. In 1979, Kolon began to research and develop para-aramid fibers, working with the state-owned Korea Advanced Institute of Science and Technology. JA-XIX-8926:6-22. Kolon identified more than 2,800 para-aramid patents; closely studied more than 800 of them; and secured approximately 200 patents arising from its own research-and-development efforts. JA-XIX-8758:22-8760:8; JA-XXXIII-16284; JA-XXXIII-16186; JA-XX-9396:18-

20. In the 1980s and 1990s, Kolon launched pilot projects for para-aramid pulp and fiber production. JA-XIX-8777:13-8778:11; JA-XVI-7614 ¶55.

Although it suspended research in the mid-1990s during the Asian financial crisis, Kolon resumed its efforts to develop commercial production in 2000. JA-XXXIII-16539; JA-XVI-7616 ¶63, 7618-7619 ¶¶72-74; JA-XI-4467-4468 ¶¶222-224. Kolon relied heavily on third-party equipment vendors in designing and building its production lines. JA-XIX-8780:12-19; JA-XI-4526 ¶404, 4530-4531 ¶¶407-08, 4581-4583 ¶466. Kolon began production and distribution of pulp product in 2005 and fiber in 2006. JA-XIX-8778:23-8780:11. In April 2006, *after* its production lines were up and running, Kolon hired several consultants—including former DuPont employees—to help improve its manufacturing technology and solve certain product quality issues. Consulting is quite common in the industry, JA-XIX-8782:8-15; JA-XXXIII-16527, and Kolon's consultants represented that they were not sharing any trade secrets or breaching any duties they owed to DuPont. *See* JA-XXXIII-16128; JA-XIV-6249.

B. The VUTSA and DuPont's Complaint

In February 2009, DuPont sued Kolon for, *inter alia*, misappropriation of trade secrets under the VUTSA, Va. Code § 59.1-336.¹ The VUTSA prohibits two types of conduct: (1) “Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means”; and (2) unauthorized “[d]isclosure or use of a trade secret of another” knowing or having reason to know that the information was improperly or mistakenly obtained. *Id.* The statute defines a “[t]rade secret” as “information, including but not limited to, a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives 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, and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” *Id.*

DuPont's complaint alleged misappropriation of information that a single Kolon consultant, Michael Mitchell, obtained during his former employment at DuPont's Richmond, Virginia facility. JA-I-264-71 ¶¶32-55.

¹ Kolon counterclaimed for antitrust violations, but the counterclaim was severed and is now on appeal to this Court in No. 12-1587.

During discovery, Kolon produced documents from a CD that Kolon obtained from Mitchell in Korea. Kolon also produced documents obtained in Korea from four other consultants (Schulz, Ross, Hoover, and Sumida) who were formerly employed by DuPont or a DuPont joint venture.

DuPont subsequently indicated that it intended to assert claims based on the other four consultants and the Mitchell CD. JA-XVI-7316-7377. Despite repeated requests from Kolon, DuPont never amended its complaint to add these claims, and the complaint does not allege any of the elements of a trade-secret claim for the later-discovered information. Nonetheless, that later-discovered information constitutes nearly all the trade-secret material underlying the enormous verdict. *See* JA-II-755-758.

C. Pre-Trial Proceedings

Six months before trial, Kolon objected to being tried on unpleaded claims, to the court's jurisdiction over claims of misappropriation occurring in Korea, and to the extraterritorial application of the Virginia trade-secret statute. JA-II-997-1001; JA-XV-6948-6979; JA-III-1327-1330. In that same motion, and by separate motion three months later, Kolon requested in the alternative that the court apply Korean law to alleged misconduct that occurred in Korea. JA-XV-6975-6976; JA-III-1363-1378. The district court denied Kolon's objections on the ground that

DuPont's complaint was broad enough to cover even claims of which DuPont was unaware at the time of filing. JA-IV-1938-1939. The court also summarily rejected Kolon's jurisdictional and extraterritoriality objections, *id.*, and declared that Kolon had forfeited application of Korean law. JA-IV-1943-1944.

Shortly before trial, the district court eviscerated Kolon's ability to mount a meaningful defense by granting every one of DuPont's motions *in limine* while denying every one of Kolon's. JA-IV-1891-1892, 1896-1902, 1918-36. Most significantly, the court excluded evidence showing that DuPont had disclosed many of the alleged trade secrets in the course of patent litigation with its primary rival, Akzo Nobel, in the 1980s. JA-IV-1918-1920; JA-XXXIV-17051-17069.

The district court also precluded Kolon from showing that the consultant who supplied Kolon with most of the alleged technical trade secrets (Dr. Schulz) had served as a DuPont witness in the *Akzo* case, and received many of the documents he ultimately provided to Kolon in the course of that litigation. JA-XXXIV-17051-17069; JA-XII-4906:13-20, 4908:13-16, 4910:7-4912:2. Schulz had informed Kolon that, to the best of his knowledge, all of the information he provided was public—*i.e.*, disclosed in patents, seminars, journals, or DuPont's patent litigation—and free of any confidentiality restrictions. JA-XIV-6223-6226; JA-XXXIII-16128; JA-XXXIII-16127; JA-XXV-12006-12008; JA-VI-2640.

The district court's evidentiary rulings also significantly undermined Kolon's argument that the alleged trade secrets were not protected under the VUTSA because DuPont failed to take "efforts that are reasonable under the circumstances to maintain [the] secrecy" of this material. Va. Code. § 59.1-336. In particular, the court excluded Kolon's expert testimony and other evidence on the reasonableness of DuPont's secrecy measures, JA-IV-1928; JA-V-2142:8-2150:16; JA-XXXIV-17039-17045, 17085-17090.

The district court also granted DuPont two sweeping adverse inferences. First, the court found that certain Kolon employees had destroyed documents in contravention of litigation holds issued by the company. JA-VIII-3468-3478. The court found no evidence that Kolon "encouraged and countenanced a policy of widespread deletion by key employees," or that there was "a conspiracy to delete relevant files and email items among Kolon's employees." JA-VIII-3468-3469. And Kolon was able to recover (or produce copies of) most of the documents, JA-VIII-3479-3482; JA-III-1131:12-1134:20, which proved to be of marginal relevance at trial. JA-XXXVI-17945-17947. Yet despite these findings, the district court instructed the jury that it may "infer that the deleted unrecovered information would have been unfavorable to Kolon and favorable to Dupont" on every issue in this case. JA-XX-9623:11-9624:12.

Second, because Schulz, a third-party witness whose testimony was not in any way controlled by Kolon, invoked the Fifth Amendment during his deposition, the district court twice instructed the jury that it could draw an adverse inference *against Kolon*. JA-XVIII-8335:9-8336:5; JA-XX-9624:25-9625:21. At the same time, the court excluded Schulz's deposition testimony favorable to Kolon. JA-VIII-3495-3497; JA-XXXIV-17046-17050. DuPont relied heavily on these adverse inferences in both its opening and closing statements to the jury. JA-V-2152:15-2153:1; JA-XX-9620:1-11; JA-XX-9617:3-9618:6.

D. DuPont's Evasive and Shifting Trade-Secret Definitions

DuPont's complaint does not identify the specific information that it claimed as a trade secret. JA-I-255-278. And DuPont's interrogatory responses merely identified broad categories of information or lengthy documents as trade secrets, without identifying the *specific information* that DuPont deemed protected. JA-I-483 ¶m; JA-XVI-7281-7315, 7316-7377. DuPont's expert report cited trade secrets not previously identified in its interrogatory responses and dramatically expanded the description of previously disclosed trade secrets, JA-XIII-5884-5914, yet the district court denied Kolon's motion to strike the new allegations. JA-II-593, 982-984, 985-986.

On October 25, 2010—after the close of fact and expert discovery—DuPont provided a list of 204 vaguely worded trade secrets from 111 different documents, typically without identifying specific information within those documents (some of which were hundreds of pages long). JA-XVI-7192-7245. On February 23, 2011, DuPont reduced the list to 192 trade secrets and added bullet points providing additional information about some (but not all) of the secrets. JA-XVI-7494-7522. Shortly before trial, DuPont dropped 37 trade secrets from the February list and compiled the remaining 155 alleged trade secrets in a “juror notebook.” JA-XXVI-12704-12736; JA-V-2242:1-17, 2258:2-24. DuPont ultimately tried to verdict 149 trade secrets. JA-VIII-3752-3802.

E. DuPont’s Trial Strategy and Proof

At trial, DuPont pursued a less-is-more strategy in which it sought to try the trade secrets *en masse* rather than provide individualized proof for each of the 149 alleged secrets. As its lawyers revealed after trial, DuPont decided that “there was too much information to display” and that it needed to “simplify that information for the jury so that we weren’t boring them to death.”²

As part of that simplification effort, DuPont presented information that did not map to the trade-secret descriptions in the juror notebook—or that came from

² Django Gold, *How They Won It: McGuireWoods, Crowell Score for DuPont*, at <http://www.crowell.com/files/2011-How-they-won-it.pdf> (Oct. 18, 2011).

documents not disclosed in the October or February lists—or documents identified only for different trade secrets. *See infra* 53-59. The district court allowed this, holding that so long as DuPont identified the documents in discovery, Kolon had adequate notice of the trade-secret definitions. JA-XVIII-8390:5-8394:6; JA-XX-9184:9-9187:3, 9433:20-9434:19; JA-V-2263:23-2265:13; JA-XVIII-8521:22-8528:10.

DuPont's failure to define specific trade secrets and stick with those definitions thwarted Kolon's ability to mount a defense. Given DuPont's October and February trade-secret listings, Kolon was prepared to show public disclosure and independent development of the broad definitions in the juror notebook. Yet DuPont argued at trial that the juror-notebook definitions were *not* the alleged trade secrets, and that the secrets were instead defined by portions of documents Kolon obtained from its consultants. JA-V-2272:13-16. The district court then limited Kolon to cross- and direct examination on only the specific document excerpts that DuPont relied on at trial. JA-XVIII-8128:16-8130:21; JA-V-2270:13-2272:16; *see* JA-XVII-7874:14-7875:2, 7923:6-7924:7; JA-V-2263:23-2265:8; JA-XVIII-8131:3-8139:9, 8220:1-8221:15. Kolon thus learned for the first time what many of the trade secrets were while DuPont's witness was on the stand, and could not cross-examine the witness regarding the juror-notebook definitions.

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In the same vein, the district court restricted Kolon's testimony about its independent technology development and the availability in the public domain of the information described in the juror-notebook definitions; instead the court limited Kolon to questions about the specific document excerpts *DuPont* presented at trial. JA-XIX-8761:6-8762:12, 8775:17-8776:17, 8781:20-8782:3, 8806:14-8811:20, 8916:11-8920:12, 8944:22-8946:6, 9099:17-9102:6. As a result, Kolon could not inform the jury about, among other things, the hundreds of patents (most expired) through which DuPont disclosed its para-aramid technology. JA-II-721; JA-XII-5204-5213; JA-XI-4482 ¶279; 4708-4857 ¶¶570-853; JA-XVI-7632-7636 ¶¶117-119. During post-trial briefing, DuPont reversed course yet again, asserting that the juror notebook, not the documentary proof, defined its trade secrets. JA-IX-3957:25-3960:9.

In the end, DuPont introduced only a limited set of documents that Kolon had obtained from its consultants as proof of all 149 trade secrets. For its technical trade secrets, which pertained to Kevlar manufacturing technology, DuPont presented 14 documents, [REDACTED]

The primary source of the technical trade secrets was a [REDACTED]

[REDACTED] JA-XXIII-10678-10957; JA-XIX-8920:13-8921:17, 8930:24-8931:12. [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED] JA-XXXIV-16773; JA-XVIII-8177:2-17; JA-XIX-8623:10-8625:2. For its asserted business trade secrets, which pertained to Kevlar marketing information, DuPont presented 19 other documents (mostly spreadsheets).³

F. DuPont's Damages Evidence

Even though only a small amount of mostly outdated trade-secret information formed the ultimate basis of the liability verdict, DuPont advanced an unprecedented theory of “unjust enrichment” propounded by its damages expert, John Jarosz. JA-VIII-3752-3802; JA-XVIII-8538:4-22. The accepted rule in trade-secret litigation is that unjust-enrichment damages are the defendant's *actual* pecuniary gains from illicit use of trade secrets, but DuPont argued that it was entitled to unjust-enrichment damages if Kolon acquired trade secrets, regardless of whether Kolon actually profited from, or even used, the information.

³ In addition to the 14 technical documents and 19 business documents, DuPont relied on 12 other documents in its post-trial briefs—such as drawings DuPont produced during discovery—that were never acquired by Kolon. JA-XXXVI-18054-18088; JA-XVII-7861:16-7862:12, 7863:21-7865:3; JA-XVIII-8515:14-21, 8516:18-8517:9; JA-XX-9203:5-14. DuPont also alleged for the first time at trial that certain notes from Kolon's meetings with consultants contained trade secrets.

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According to DuPont's expert, unjust enrichment should not be measured by the (relatively small) cost of reproducing a specific trade secret but [REDACTED]

[REDACTED] Thus, Jarosz opined that DuPont is entitled to recover from Kolon *every cent* of [REDACTED]

[REDACTED] JA-XVIII-8538:8-8550:10, 8561:10-8565:8; JA-XIX-8602:19-8605:10. Jarosz also viewed Koreans as incapable of performing the necessary R&D and marketing tasks, and therefore assumed that Kolon would have set up R&D and marketing organizations in the United States, halfway around the world from its headquarters and production facilities. JA-XVIII-8585:9-8586:14. This assumption allowed Jarosz to inflate the damage estimate nearly fourfold by using U.S. wages, rather than Korean wages, to calculate Kolon's avoided costs. *Id.*

Jarosz ultimately calculated unjust-enrichment damages for the limited trade-secret information obtained by Kolon at \$919.9 million [REDACTED]

[REDACTED] JA-XVIII-8584:13-21. The district court twice refused to exclude Jarosz's damages testimony as unreliable under Rule 702. JA-IV-1940-1942; JA-VIII-3498.

G. Verdict, Judgment, and Post-Judgment Proceedings

On September 14, 2011, the jury returned a verdict finding that Kolon misappropriated all 149 trade secrets by acquisition and by use, and that the misappropriation was willful and malicious. JA-VIII-3752-3802. The jury awarded the maximum damages calculated by Jarosz (\$919.9 million), and the district court added the statutory maximum punitive damages for a total judgment of \$920.25 million. JA-VIII-3933-3934. The court entered a final money judgment on November 22, 2011. The court summarily denied Kolon's motions for a new trial and/or judgment as a matter of law on January 27, 2012. JA-IX-4035-4038.

Nearly a year after the verdict, the district court entered a sweeping permanent injunction shutting down Kolon's global para-aramid fiber business. The court enjoined Kolon "for a period of twenty years ... and with no geographic limitation, from manufacturing, using, marketing, promoting, selling, distributing, offering for sale, or soliciting customers for any para-aramid products." JA-XXXVII-18459. The court also enjoined Kolon from disclosing or using DuPont's trade secrets, but did not list the actual trade-secret information in the injunction or a confidential appendix. *Id.*

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Kolon appealed the final judgment on August 31, 2012, and this Court granted Kolon's motion for a stay of the permanent injunction pending appeal on September 18, 2012.

SUMMARY OF ARGUMENT

As the \$919 million damages verdict and equally absurd twenty-year worldwide shutdown injunction attest, this case went badly off the tracks in the court below. A series of one-sided rulings eviscerated Kolon's ability to mount a defense and allowed DuPont to prove up 149 trade secrets *en masse* without specifically defining the trade secrets and satisfying every requisite element for each. As a result, there is insufficient evidence for many "trade secrets," and the entire proceedings were fundamentally skewed.

The errors that permeated the remedial phase are even more glaring. DuPont was allowed to prove the degree of Kolon's unjust enrichment by reference not to any actual pecuniary gain Kolon achieved from the trade secrets, but to [REDACTED]

[REDACTED] The latter has little to do with the former. Worse yet, DuPont refused to make necessary adjustments for technological improvements in the ensuing decades, publicly available information, information Kolon never received, and differential wage costs between Korea and the United States. The resulting jury award is grossly excessive

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and bears no rational relationship to Kolon's avoided costs or unjust enrichment.

And, despite ordering Kolon to pay DuPont nearly a billion dollars [REDACTED]

[REDACTED] the district court also deemed it necessary to impose a twenty-year worldwide shutdown injunction on Kolon's para-aramid fiber business.

I. From the filing of the complaint through the end of trial, the district court's erroneous procedural rulings significantly tilted the playing field in favor of DuPont.

The proceedings below deprived Kolon of the most fundamental guarantee of due process—notice. The vast majority of the trade-secret claims on which DuPont received judgment are mentioned nowhere in its complaint. Thus a case about one consultant in Richmond, Virginia morphed into a case about multiple consultants half a world away. And throughout the case, DuPont steadfastly refused to identify the specific information it intended to assert as trade secrets. DuPont partially provided this information for the first time in October 2010, after discovery had closed and expert reports had been filed. And DuPont's trade secrets continued to be a moving target at trial, with secrets being substantially recharacterized or even converted to combination secrets on the fly.

The district court also gutted Kolon's ability to mount a meaningful defense by excluding critical evidence showing that much of the asserted trade-secret material did not meet the definition of a trade secret under the VUTSA because it was already in the public domain as a result of DuPont's patent litigation in the mid-1980s. This evidence did not go to some peripheral matter but to the heart of whether the asserted trade secrets were secret at all. In a similar vein, the court erroneously excluded Kolon's expert testimony and other evidence on the inadequacy of DuPont's secrecy-preservation measures, which effectively obviated the need for DuPont to prove a critical element of its claims.

Compounding the prejudice resulting from its exclusion of plainly relevant evidence, the district court also issued two sweeping adverse-inference instructions, on which DuPont relied heavily in its arguments to the jury. One was based on the destruction of a limited number of documents after a failed litigation hold that were likely of marginal relevance, and the other was based on a *non-party's* invocation of the Fifth Amendment in response to questions from both DuPont and Kolon. The district court impermissibly permitted a spoliation adverse inference to be drawn as to every single issue in the case, and effectively converted the Fifth-Amendment adverse inferences into irrebuttable presumptions by barring Kolon from introducing relevant evidence in rebuttal.

II. In part because of the district court's willingness to try the 149 trade secrets *en masse*, DuPont failed to carry its burden of proof on several key elements of its trade-secret claims. Most notably, DuPont's expert witnesses failed to show that the claimed trade-secret material was "not reasonably ascertainable"—*i.e.*, secret, as opposed to simply the product of hard work by DuPont. Those witnesses readily conceded that they made no real attempt to determine whether the purported trade secrets had entered the public domain through DuPont's patent filings, litigation, or publications in research journals.

DuPont also failed to carry its burden of providing *individualized* proof of each element of a misappropriation claim for each of the 149 asserted trade secrets. Instead, DuPont sought to try its trade secrets *en masse*, by pointing to lengthy documents as the source of many secrets, without identifying the information within those documents that constituted trade-secret material. In many other instances, DuPont offered evidence at trial that was wholly unrelated to the trade-secret definitions it provided before trial in the juror notebook.

Moreover, DuPont failed to prove that Kolon actually *used* each of the 149 trade secrets in its production or marketing activities. At trial, DuPont advanced (and the jury accepted) a novel theory of "reference use," under which Kolon's mere *possession* of the information was sufficient to establish use. DuPont wisely

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abandoned that theory after trial, and its other evidence of use is plainly insufficient. Most of DuPont's evidence consisted of [REDACTED] [REDACTED] not actual current use. DuPont also sought to rely on general similarities between DuPont's and Kolon's production lines, but it failed to link those similarities to the specific trade secrets or to any proven misappropriation. And Kolon offered extensive evidence of its independent development of the features in question that DuPont was unable to rebut.

III. The jury's staggering \$919 million compensatory damage award was grossly excessive and bears no relation whatsoever to the harm (if any) DuPont incurred as a result of Kolon's actions. DuPont has not once alleged that it suffered actual damages or lost profits, nor has it sought a reasonable royalty for Kolon's use of its trade-secret material.

Instead, DuPont's damages theory was that Kolon was unjustly enriched because the trade secrets allowed Kolon to avoid development costs it would otherwise incur. Any such "avoided cost" theory would necessarily need to focus on Kolon's costs of developing the secrets in Korea post-2006 in light of intervening public disclosures and technological advances. Nonetheless, DuPont's expert based his damages estimate on [REDACTED]

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[REDACTED]. Not only are DuPont's historical costs an exceptionally bad proxy for Kolon's avoided costs, but DuPont also refused to make necessary adjustments for technological advances, public disclosures, information Kolon never received (let alone misappropriated), differential wages, and the like. The failure to adjust for lower Korean wages alone inflated the award almost four-fold. The resulting damages award is deeply flawed and grossly excessive.

IV. One would think that a nearly billion-dollar damage award encompassing [REDACTED] years would more than compensate DuPont for the misappropriation of a handful of outdated documents. But the district court did not stop there. It also entered a sweeping permanent injunction that bars Kolon from the para-aramid fiber business, around the world, for the next 20 years. Under either federal law or Virginia law, that injunction must be vacated.

This extraordinary injunction is not remotely tailored to remedying the actual harm DuPont incurred as a result of Kolon's alleged misconduct. Shutdown injunctions are impermissible under Virginia law, but even the courts that have ordered them do so only when the defendant built its manufacturing operations from scratch based on the misappropriated information. But Kolon conducted

decades of independent research and had a production line up and running *before* it received any DuPont information from its consultants. And DuPont failed to show that the trade-secret material was so inherently intertwined with Kolon's operations that it would have been impossible for Kolon to continue manufacturing Heracron without this information. The shutdown injunction also flouts international comity concerns, as it will deprive the South Korean military and law-enforcement agencies of their preferred source of material for body armor products.

STANDARD OF REVIEW

The district court's denial of Kolon's motion for a new trial is reviewed for abuse of discretion. *Buckley v. Mukasey*, 538 F.3d 306, 317 (4th Cir. 2008). The denial of Kolon's motion for judgment as a matter of law is reviewed *de novo*. *Saunders v. Branch Banking*, 526 F.3d 142, 147 (4th Cir. 2008).

This Court reviews the injunction for abuse of discretion, reviewing factual findings for clear error and legal conclusions *de novo*. *PBM Prods. v. Mead*, 639 F.3d 111, 126 (4th Cir. 2011). An injunction must be vacated if it is "broader in scope than that necessary to provide complete relief to the plaintiff." *Id.* at 128 (citation omitted).

ARGUMENT

I. THE DISTRICT COURT MADE A NUMBER OF CRITICAL PROCEDURAL ERRORS THAT PREVENTED KOLON FROM MOUNTING A FULL AND FAIR DEFENSE

When a state-law trade secret case involving a single consultant morphs into a nearly billion-dollar verdict involving 149 alleged trade secrets and conduct half a world away, it is a clear signal that something went badly awry in the case. Here, the erroneous and one-sided rulings began well before trial and continued unabated. The result was a complete denial of Kolon's ability to mount a meaningful defense or even learn in advance of the specific trade secrets it allegedly misappropriated. Each error, by itself, warrants setting aside the judgment; collectively, they explain the jury's facially absurd verdict and demand that Kolon be given a meaningful opportunity to defend itself on a level playing field.

A. The District Court Erroneously Granted Judgment on Unpleaded Claims

The most fundamental and basic guarantee of due process is notice. Without adequate notice, the other fundamental guarantee—an “opportunity to be heard”—is rendered meaningless. “[N]otice to the defendant of the allegations to be proven is essential to sustaining a cause of action.” *Gilbane Bldg. v. Fed. Reserve Bank*, 80 F.3d 895, 901 (4th Cir. 1996). Thus, trial of a claim not pleaded in the complaint is permitted only with the express or implied consent of the defendant.

Id.; see Fed. R. Civ. P. 15(b)(1) & (2); *Pinkley v. Frederick*, 191 F.3d 394, 400-02 (4th Cir. 1999) (vacating judgment premised on unpleaded claims).

DuPont's complaint, filed in February 2009, alleged misappropriation of DuPont information that a single Kolon consultant—Michael Mitchell—obtained during his former employment at DuPont's Richmond, Virginia facility. JA-I-264-270 ¶¶32-52. Count One, on which the entire \$919.9 million judgment is based, alleged that Kolon obtained information “from Mitchell” regarding “the costs, manufacturing data, processes and production capabilities of DuPont's Kevlar® manufacturing business.” JA-I-271 ¶55. DuPont alleged that “[t]his information” met the definition of a trade secret. *Id.* These allegations concerning Mitchell's information derived in Richmond not only set the basic framework for the case, but explained both the venue and the applicability of Virginia law.

DuPont subsequently formulated completely different allegations against Kolon based on actions by different consultants in a different country, but never amended its complaint. In February 2010, Kolon produced documents obtained in Korea from four other consultants: Schulz, Ross, Hoover, and Sumida. DuPont later indicated that it intended to raise trade-secret claims based on information

from these four consultants. JA-XVI-7316-7377.⁴ But DuPont never amended its complaint to state such claims and, indeed, refused to do so even after Kolon objected under Rule 15 to trial on unpleaded issues. JA-II-997-1001; JA-III-1327-1330; JA-V-2197:1-15.

The district court denied Kolon's objection on the ground that DuPont "adequately included within the scope of its Complaint, and has made adequate discovery with respect to, the trade secrets which the defendant seeks to characterize as 'newly alleged' in its motion." JA-IV-1938-1939. That holding was clear error. DuPont expressly limited Count One to the trade secrets obtained "from Mitchell." JA-I-271 ¶55. There is no reference to other consultants; indeed, DuPont did not even know of information from the other four consultants at the time of its complaint. Even if DuPont had identified the additional trade secrets it intended to assert during discovery (and it did not, *see infra* 30-35), discovery notice is insufficient. *Cf. Oliver v. Ralph's Grocery*, 654 F.3d 903, 909 (9th Cir. 2011) ("a disclosure made during discovery, including in an expert report, would rarely be an adequate substitute" for notice "in a properly pleaded complaint"). Regardless, Rule 15 requires *consent*, not merely notice, and Kolon made

⁴ DuPont also sought to raise new and different trade-secret claims based on a CD Mitchell brought to a meeting with Kolon in Korea.

unmistakably clear in its Rule 15 motion that it “does not and will not consent to a trial of unpleaded misappropriation claims.” JA-XV-6966.

Kolon was substantially prejudiced by DuPont’s failure to amend its complaint to add the new trade-secret claims. Kolon consented to specific jurisdiction only as to the *pleaded* claims involving the Mitchell trade secrets emanating from Richmond. DuPont’s litigation of additional, unpleaded claims thus deprived Kolon of the opportunity to raise jurisdictional defenses to those claims, many of which involved conduct that occurred entirely in Korea. *See* 5B Wright & Miller, Federal Practice and Procedure § 1351, at 299 n.30 (“the existence of personal jurisdiction for one claim will not provide the basis for another claim”); *Seiferth v. Helicopteros Atuneros*, 472 F.3d 266, 274-275 (5th Cir. 2006).

Kolon was also unable to conduct discovery targeted to the unpleaded claims, which involved different trade secrets, different acts of alleged misappropriation, different places and times, and different consultants. *See Deasy v. Hill*, 833 F.2d 38, 41 (4th Cir. 1987) (“A complaint is meant to state the issues of a case so that the parties can conduct discovery and present their cases intelligently.”). The judgment should accordingly be vacated as to trade secrets 1-

51 and 54-64, all of which rely entirely on non-Mitchell disclosures that were not alleged in DuPont's complaint.

B. DuPont Failed To Define its Alleged Secrets with Specificity

A plaintiff must “describe the subject matter of its alleged trade secrets in sufficient detail to establish each element of a trade secret.” *Trandes v. Guy F. Atkinson*, 996 F.2d 655, 661 (4th Cir. 1993). This requirement is critical, lest a claim based on the misappropriation of a specific trade secret—which, like other intellectual property rights, has specific metes and bounds—devolve into a generalized inquiry into whether competitive efforts were “fair.” Yet DuPont did not define its specific trade secrets until October 2010—three months after the close of fact discovery and a month after the close of expert discovery—and even then did so inadequately, in ways that allowed the claims to continue to morph. This gamesmanship severely prejudiced Kolon in its ability to conduct discovery, prepare expert testimony, research public disclosures of the claimed trade secrets, and present its defenses at trial.

Courts uniformly require plaintiffs to define their trade secrets with reasonable particularity at the *outset* of discovery to “enable[] defendants to form complete and well-reasoned defenses, ensuring that they need not wait until the eve of trial to effectively defend against charges of trade secret misappropriation.”

Computer Econ. v. Gartner Grp., 50 F. Supp. 2d 980, 985 (S.D. Cal. 1999); *AutoMed v. Eller*, 160 F. Supp. 2d 915, 926 (N.D. Ill. 2001) (“It is not enough to claim that defendants will be able to learn the details through discovery,” because the court must be able to “evaluate the relevance of plaintiff’s discovery and address any objections.”); *Porous Media v. Midland Brake*, 187 F.R.D. 598, 600 (D. Minn. 1999) (“Ordering the listing of trade secrets at the outset of the litigation is a common requirement,” and “[f]ailure to identify the trade secrets with sufficient specificity renders the Court powerless to enforce any trade secret claim.”); R. Milgrim & E. Bensen, *Milgrim on Trade Secrets* § 16.01[5], at 16-10 (2010).

Without this specificity requirement, trade-secret plaintiffs gain a significant “tactical advantage[]” by “provid[ing] little more than a list of high-level, generic categories in which its alleged secrets are said to reside.” *Perlan Therapeutics v. Superior Court*, 178 Cal. App. 4th 1333, 1344 (Cal. Ct. App. 2009) (citation omitted). Plaintiffs also face a strong temptation to “alter [their] list of trade secret claims as the case proceeds—sometimes dramatically, by replacing entire categories of information or technology, or by re-combining slippery, multi-element ‘combination trade secret’ claims into new subsets.” *Id.*

DuPont yielded to that temptation here, and then some, all with the district court's blessing. DuPont's complaint did not specify the alleged trade secrets at all, JA-I-258-271 ¶¶11-55, and its first interrogatory responses merely lumped the trade secrets into 14 broad categories. JA-I-474-488. After Kolon protested, JA-III-1323-1326; JA-I-548-559, 407-410, DuPont filed a supplemental response that identified 59 source *documents*, but did not identify what specific information within those lengthy documents constituted the secrets. JA-XVI-7281-7315. In its second supplemental interrogatory response, DuPont identified 16 broad trade-secret categories but once again failed to identify the specific alleged information. JA-XVI-7316-7377. Virginia, like other jurisdictions, refuses to recognize secrets alleged at such a general level. *Preferred Sys. Solutions v. GP Consulting*, 732 S.E.2d 676, 689 (Va. 2012) (affirming demurrer because complaint's "laundry list" did not identify what trade secrets defendant misappropriated); *AMP v. Fleischhacker*, 823 F.2d 1199, 1203 (7th Cir. 1987) (finding "long lists of general areas of information which contain unidentified trade secrets" to be insufficient).

DuPont's expert report cited approximately 75 new trade secrets that were not identified in the second supplemental interrogatory response; it also dramatically expanded the description of over 125 other trade secrets. JA-XIII-5884-5914. This was the first notice of these secrets that Kolon received, yet the

district court granted Kolon a mere 10-day extension to file its rebuttal report. JA-II-775. It was impossible for Kolon in that compressed period to take necessary discovery, conduct comprehensive public-domain searches, or identify and translate for its expert all of the documents germane to DuPont's 200-plus new trade-secret claims. Yet the district court denied Kolon's motions to strike the new trade-secret allegations in the expert reports, as well as Kolon's motions for summary judgment and sanctions for failure to specify trade secrets. JA-II-593; 982-986.

On October 25, 2010, after the close of discovery, DuPont for the first time enumerated 204 vaguely worded trade secrets from over 110 documents, typically without identifying the specific information within the often-lengthy documents that it claimed as trade secrets. JA-XVI-7192-7245. On February 23, 2011, DuPont reduced the list to 192 trade secrets. JA-XVI-7494-7522. Some, but not all, of the listed secrets included bullet points with additional details about what specific information DuPont was claiming. DuPont's shell game continued through trial, where even *after* presenting its case-in-chief, DuPont successfully resisted Kolon's attempts to pin down the asserted trade secrets. JA-XX-9307:12-9311:24. At the end of the day, DuPont's trial proof for the various trade secrets

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diverged significantly from its discovery disclosures. JA-XXXVI-18212-18265, 18266-18295; *infra* 53-59.

DuPont's gamesmanship—and the district court's failure to require DuPont to define its trade secrets specifically before the close of fact and expert discovery—materially prejudiced Kolon. Kolon was unable to depose DuPont witnesses about the specific information claimed as trade secrets or to subpoena equipment vendors to determine the scope of publicly available information. Moreover, the district court limited Kolon's expert to testifying about documents he discussed in his reports, even though the reports were filed months before DuPont offered its trade-secret definitions. JA-II-608:5-615:12; JA-XIX-9061:25-9063:6; JA-XX-9393:24-9396:9.

For example, DuPont first alleged a [REDACTED] [REDACTED] as trade-secret information in its February 23rd list. JA-XVI-7494-7522 (TS 27). This [REDACTED] was buried within a 279-page document (JA-XXIII-10678-10984) that was not cited in support of that trade secret until trial. *Compare* JA-XVII-8015:17-8016:24, *with* JA-XV-7192-7245 (TS 80). The district court forbade Kolon's expert to testify as to that trade secret, JA-XIX-9061:5-9063:6, as well as others, JA-XIX-8939:22-8940:12, 8947:7-8949:12, 8966:8-8967:2, and denied Kolon's motion for relief from newly alleged secrets, JA-XVI-7246-7272,

7273-7280; JA-IV-1894-1895. Moreover, the district court perversely allowed DuPont to introduce documents it had never previously disclosed as trade secret evidence, and then prevented Kolon's expert from addressing them. *Compare* JA-XXXVI-18066 (citing JA-XXVI-12373-12374 as evidence of TS 37), *with* JA-XX-9393:1-9396:9 (forbidding Kolon expert to address JA-XXVI-12373-12374).

Because of DuPont's gamesmanship, Kolon was forced to conduct discovery and prepare its defenses while aiming at a moving target—or no target at all. This Court should vacate the judgment below and grant Kolon a new trial in which DuPont is required to define its claimed trade secrets *at the outset of discovery* and abide by those definitions throughout trial.

C. The District Court Abused its Discretion by Excluding Plainly Relevant Evidence That Eviscerated Kolon's Defense

1. *Public disclosure of DuPont's alleged trade-secret material*

The "crucial characteristic of a trade secret" is, of course, "secrecy." *Dionne v. Southeast Foam*, 397 S.E.2d 110, 113 (Va. 1990). A party cannot recover on a trade secret claim if the information in question was already in the public domain at the time of the alleged misappropriation. *See Kewanee Oil v. Bicron Corp.*, 416 U.S. 470, 475 (1974) (trade secrets "must be secret, and must not be of public knowledge"); *Interlox Am. v. PPG Indus.*, 736 F.2d 194, 201 (5th Cir. 1984) (information that was "publicly available in the industry literature" is not a trade

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secret). The absence of public disclosure is no mere technicality. The distinguishing feature of trade-secret protection is that, unlike other forms of intellectual property rights that give limited protection in exchange for public disclosure, trade secret law allows potentially longer protection on the condition that public disclosure not occur. *See Kewanee Oil*, 416 U.S. at 475, 480 (patent laws require “disclosure” in exchange for “a right of exclusion for a limited period,” while “[t]he subject of a trade secret must be secret”).

The district court abused its discretion by excluding broad categories of evidence that Kolon sought to introduce to show that many of DuPont’s alleged trade secrets were not secret at all. Although a district court “generally has broad discretion in ruling upon the admissibility of evidence,” this discretion “does not extend to the exclusion of crucial relevant evidence necessary to establish a valid defense.” *United States v. Brazel*, 102 F.3d 1120, 1145 (11th Cir. 1997) (citation omitted).

In the 1980s, DuPont engaged in a widely publicized patent dispute with Akzo Nobel, DuPont’s only para-aramid competitor at the time. During that litigation, DuPont disclosed vast amounts of technical information about the Kevlar manufacturing process—even beyond its patent disclosures—in open court and public filings. JA-VI-2503 -2510; JA-XXXIV-16874 (49:25-50:3) [REDACTED]

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[REDACTED]

[REDACTED] JA-VIII-3379-3403. With few exceptions, DuPont agreed to

[REDACTED]

[REDACTED]

[REDACTED] JA-XXVII-13347-13349, 13287-13346, 13350-13351; JA-XXII-16047; JA-XXVII-13352-13353.

Much of the [REDACTED] information from the *Akzo* litigation was placed in a public joint appendix in the Federal Circuit, JA-XXVIII-13354-16046, and much remains publicly available in the National Archives, including the entire 624-page trial transcript and details of DuPont's manufacturing process now alleged to be trade secrets. JA-IV-2018:6-2021:24; JA-VI-2752; JA-VII-2853-3375; JA-VI-2640, 2373, 2644. The *Akzo* litigation was especially relevant given that Kolon's consultant, Schulz, served as a witness in that litigation and explained to Kolon that information he provided was made public therein. JA-XXXIV-16874 (50:10-16); JA-XXXIII-16129; JA-XIV-6223, 6249.

At least 42 of the trade secrets DuPont has asserted here involve information that was wholly or partially disclosed during the *Akzo* litigation. JA-XIV-6587. Yet, relying on Federal Rules of Evidence 401 and 403, the district court barred Kolon from introducing this evidence at trial and, remarkably, from even informing

the jury about the existence of the *Akzo* litigation or the massive disclosures therein. JA-IV-1918, 1985:14-25; JA-V-2130:8-13, 2133:3-11, 2134:14-16, 2335:16-18, 2336:5-6.

The court's reasoning for excluding evidence going to the heart of this case does not withstand scrutiny. The district court held that Kolon had not "established" that specific trade secrets were disclosed. JA-IV-1918-1920. In light of DuPont's failure to define its specific trade secrets and then stick by those definitions, this holding demonstrates the double-standard applied throughout the proceedings below. But, in any event, Kolon showed direct correspondence between the publicly available evidence from the *Akzo* case and DuPont's asserted trade secrets here. JA-XIV-6260-6261, 6587-6685; *compare, e.g.*, JA-XXII-10644 (chart that is sole basis for trade secrets 2-6), *with* JA-VI-2640 (chart of same process from the National Archives).

Equally important, whether DuPont's alleged trade-secret material was *actually* secret was a "decision[] to be made by the jury," not a basis for exclusion by the judge. *Raytheon v. Indigo*, 598 F. Supp. 2d 817, 822 (E.D. Tex. 2009). The *Akzo* evidence surely made it "less probable" that DuPont would carry its burden on that element of its claims, which is all Rule 401 requires. *See id.* (evidence that

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“certain trade secrets consist merely of information that was in the public domain at the time of the alleged misappropriation” was relevant and admissible).

The district court’s conclusion that [REDACTED] the *Akzo* evidence was “inconclusive and does not prove the waiver of any trade secret” similarly fails to withstand scrutiny. JA-IV-1918-1920. To the extent [REDACTED] left any question as to the documents’ secrecy, it is a question for the jury, not one of admissibility. More significantly, this basis for exclusion in no way applies to the information found at the National Archives, which is indisputably public. That information included the entire trial transcript, proposed findings detailing DuPont’s manufacturing process, and a process diagram disclosing numerous alleged trade secrets about which Schulz himself personally testified in the *Akzo* litigation. JA-VII-3181.

The district court also found under Rule 403 that the *Akzo* evidence would confuse the jury. But assessing public information and comparing it to alleged trade secrets is a necessary element of trade-secret litigation and cannot be dispensed with for fear of confusion. Trade-secret trials, like patent trials, can involve highly technical subject matter with a potential to confuse lay juries, but that does not excuse excluding probative evidence, let alone evidence that goes to

the heart of the case. *See, e.g., United States v. West*, 962 F.2d 1243, 1248 (7th Cir. 1992) (reversing exclusion of expert testimony that was “[no] more technical or confusing” than typical testimony in other cases). Especially in a case involving inherently complex subject matter, the balance under Rule 403 must “be struck in favor of admissibility,” *United States v. Lentz*, 524 F.3d 501, 525 (4th Cir. 2008), and the district court abused its discretion by excluding plainly relevant evidence based on a speculative possibility of “confusion.”

The court’s categorical exclusion of all *Akzo* evidence severely prejudiced Kolon’s defense. The *Akzo* evidence was not merely relevant—it was likely *dispositive* on several key issues in the case. Most obviously, this evidence would have shown that many asserted trade secrets were not secret at all. The *Akzo* evidence was also highly relevant to whether Kolon engaged in *intentional* misappropriation. For example, the excluded evidence would have shown that Kolon consultant Edward Schulz—a central witness for DuPont in the *Akzo* litigation—informed Kolon accurately that the information he was providing had been publicly disclosed in that litigation and elsewhere. JA-V-2136:10-2137:10, 2139:17-2141:1; JA-XIV-6249-6251, 6223-6226. The jury surely would have been less likely to find intentional misappropriation if it were aware of this evidence.

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2. *DuPont's failure to take reasonable measures to ensure secrecy*

The district court also eviscerated Kolon's ability to show the absence of "efforts that are reasonable under the circumstances to maintain its secrecy," Va. Code. § 59.1-336, by improperly excluding Kolon's expert. Kolon sought to introduce testimony from Larry Evans, a highly qualified expert on corporate trade-secret protection with approximately 45 years of experience in the field. Evans stood ready to explain that [REDACTED]

[REDACTED]

[REDACTED] JA-XXXVII-18522-18551 ¶¶35-93.

Even though experience-based expert testimony is admissible, *see United States v. Wilson*, 484 F.3d 267, 274 (4th Cir. 2007), the district court excluded Evans' testimony because he did not apply an objective, externally defined standard in his analysis. JA-IV-1928-1929. But the statutory test—whether the plaintiff's efforts to maintain secrecy were "reasonable under the circumstances," Va. Code. § 59.1-336—does not lend itself to a single, bright-line standard. Evans' testimony was based on his decades of experience in the field, and would have helped the jury understand how [REDACTED]

[REDACTED] This testimony

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easily satisfied the requirements of Rule 702, and the district court abused its discretion by excluding it and eviscerating Kolon’s statutory defense. Evans was Kolon’s only witness on secrecy measures, and DuPont trumpeted to the jury at closing that Kolon “didn’t have” an expert to rebut its own witness. JA-XX-9621:7-9.

The district court then compounded this error by ruling that evidence of

[REDACTED]

[REDACTED] JA-

XXVII-13120-13159, 13163-13186 [REDACTED]

[REDACTED] JA-V-2142-2150, 2296-2304, 2332-2333. That

ruling was deeply flawed.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

D. The District Court Erred by Allowing the Jury To Draw Sweeping and Unjustified Adverse Inferences Against Kolon

1. *A third-party witness' invocation of the Fifth Amendment does not justify an adverse inference against Kolon*

Although not mentioned in the complaint, Dr. Edward Schulz, a former DuPont employee and later Kolon consultant, was a critical witness, as he provided Kolon most of the information that DuPont asserted as trade secrets. Schulz had told Kolon at the time that the information he was providing was *not* trade-secret material because it was public information that had been [REDACTED] [REDACTED] in the *Akzo* case. JA-XIV-6223-6226. On the eve of his deposition in this case, years after Schulz's consulting agreement with Kolon ceased, federal prosecutors (working in coordination with DuPont) requested an interview with Schulz. JA-X-4240. Thereafter, Schulz invoked the Fifth Amendment in response to certain deposition questions from both parties.

At trial, the district court allowed DuPont's counsel to play clips of 27 pages of deposition testimony in which Schulz repeatedly invoked the Fifth Amendment in response to questions from DuPont about a number of key issues; the court once

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again employed a double standard and simultaneously *excluded* portions of Schulz's testimony that were favorable to Kolon and that rebutted the inference. JA-VIII-3495-3497. The court then instructed the jury that it could infer Schulz's testimony would have been favorable to DuPont and detrimental to Kolon. JA-XX-9625:6-21.

Those rulings were plainly mistaken. A third-party witness' invocation of the Fifth Amendment may be used against a party only where the party's relationship with (or control of) the witness renders the invocation tantamount to a vicarious admission. *See LiButti v. United States*, 107 F.3d 110, 121 (2d Cir. 1997) (collecting cases). Kolon's relationship with a former consultant, who had numerous other clients, does not remotely satisfy that standard.

In conducting this inquiry, courts analyze the nature of the relationship between the party and the witness, the degree of control the party has over the witness, the compatibility of interests, and the role of the witness in the litigation. *Id.* at 123-24. None of those factors supports an adverse inference against Kolon. Schulz is a former *DuPont* employee [REDACTED] JA-XXXIV-16905:15-16906:4. He was never an employee of Kolon. While he was once an independent contractor of Kolon, that relationship ended well before his deposition. Schulz simply has no current loyalty to Kolon that would lead him to

protect Kolon's interests by declining to answer. Kolon does not control Schulz's actions with respect to this case, and has not vested Schulz with any responsibility for this case that would justify treating his answers as a vicarious admission.

Kolon incurred severe prejudice from this improper adverse inference. The extreme sanction of an adverse inference, *Morris v. Union Pac. R.R.*, 373 F.3d 896, 900 (8th Cir. 2004), was particularly improper because Schulz's actual testimony was unquestionably *favorable* to Kolon, on matters such as whether DuPont publicly disclosed the trade-secret material and whether Kolon used this information to improve its manufacturing process. JA-XXVII-12968-13015; JA-XXXIII-16128; JA-XIV-6223-6226, 6249-6251; JA-XXXIV-16874 (49:25-50:9).

More generally, Fifth Amendment invocations are often of minimal probative value, given that "[a]n attorney might advise her or his client not to answer questions simply as a safety measure lest the client disclose information that she or he may not even know to be criminal." *Farace v. Indep. Fire Ins.*, 699 F.2d 204, 210-11 (5th Cir. 1983); see *Allstate Ins. v. James*, 845 F.2d 315, 320 (11th Cir. 1988). Schulz's attorney did just that. JA-X-4240. And precisely because he had no ongoing relationship with or loyalty to Kolon, Schulz had no incentive not to invoke the privilege. DuPont took full advantage of Schulz's

invocations by asking him a laundry list of questions to generate the broadest possible adverse inference on key issues. JA-XXVII-12968-13015.

Finally, the district court abused its discretion by refusing to allow Kolon to “offer a reasonable rebuttal to the [adverse] inference.” *Stevenson v. Union Pac. R.R.*, 354 F.3d 739, 750 (8th Cir. 2004). The court not only granted an adverse inference but also barred Kolon from introducing the portions of Dr. Schulz’s deposition testimony and related documents that were favorable to Kolon, such as his explanation of DuPont’s public disclosure of the trade-secret information and his role and receipt of documents in the *Akzo* litigation. JA-XXXIV-16865-16906. In doing so, the court effectively converted the adverse inference into an irrebuttable presumption. *Stevenson*, 354 F.3d at 750.

2. *Spoliation of a limited number of minimally relevant documents cannot justify a global adverse inference*

Adverse inferences may be granted for willful spoliation if “the evidence would have been relevant to an issue at trial and otherwise would naturally have been introduced into evidence.” *Vodusek v. Bayliner Marine*, 71 F.3d 148, 156 (4th Cir. 1995). The district court abused its discretion by issuing a blanket instruction permitting an adverse inference against Kolon on each and every issue in the case, without adequate showing by DuPont of the likely relevance of the missing documents.

The district court found that, after the filing of DuPont's complaint, certain Kolon documents were deleted despite litigation holds issued by Kolon. JA-VIII-3468-3478. Importantly, the court found no evidence that Kolon "encouraged and countenanced a policy of widespread deletion," or that Kolon's employees engaged in "a conspiracy to delete relevant files and email items." JA-VIII-3468-3469. Moreover, Kolon was able to recover or produce copies of most of the deleted documents, and the recovered documents were marginally relevant at best. JA-VIII-3479-3482; JA-XXXVI-17945-17947. Indeed, DuPont introduced only one out of the 12,393 recovered documents at trial. JA-XXXVI-17941 n.2, 17947.

As to the unrecoverable documents, the district court (over Kolon's objection, JA-XV-7135) instructed the jury that it may "infer that the deleted, unrecovered information would have been unfavorable to Kolon and favorable to DuPont" on every single issue in the case. JA-XX-9623-9624. That sweeping instruction was wholly improper. Even where documents have been deleted, the proponent of an adverse inference must still show, by circumstantial evidence, the "likely contents" of the document—*i.e.*, "any likelihood that the destroyed evidence would have been of the nature alleged by the party affected by its destruction." *Kronisch v. United States*, 150 F.3d 112, 127-28 (2d Cir. 1998).

DuPont failed to carry its burden of establishing that the deleted documents were likely relevant to this case. Kolon recovered the metadata for all of the deleted documents, which included date of creation, author, addressee, subject, size, date last accessed, and date last edited. JA-VIII-3414, 3419; JA-XVI-7150-7153. DuPont could have used this information—as well as other circumstantial evidence such as the position of the individual who deleted the documents and his involvement (if any) with the consultants—to establish the likely subject matter of the lost documents. It was wholly improper for the district court to permit an adverse inference on *every* issue in the case for all 149 trade secrets in the absence of any such showing. The district court’s instruction was especially prejudicial given DuPont’s flimsy (or non-existent) evidence on several core elements of a trade-secret claim. *See infra* 50-63; *Stepak v. Aetna*, No. H:90CV00886, 1994 WL 858045, at *20 (D. Conn. Aug. 29, 1994) (adverse inference “does not operate to create evidence in the absence thereof”).

E. The District Court Erroneously Applied Virginia Law

Unlike the original claims involving Mitchell and centered in Richmond, DuPont’s new unpleaded claims involved conduct occurring entirely in Korea. As a consequence, Kolon argued that: (1) Virginia law could not be constitutionally applied to the new claims, *see Edgar v. MITE Corp.*, 457 U.S. 624, 642-43 (1982);

Healy v. Beer Inst., 491 U.S. 324, 336 (1989); and (2) at a minimum, Korean law would apply through operation of Virginia's choice-of-law rules, which select "the law of the state in which the wrongful act took place, wherever the effects of that act are felt," *Milton v. IIT Research*, 138 F.3d 519, 522 (4th Cir. 1998). See JA-XV-6974-6975; JA-III-1357-1362. The district court deemed Kolon's objections untimely because Kolon had filed several pleadings and an expert report applying Virginia law. JA-IV-1943-1944.

That ruling was wrong and exacerbated the error of allowing DuPont to pursue unpleaded claims. A party may raise a choice-of-law issue at any time as long as it "give[s] the court and the defendants adequate notice of the need to research the foreign rules." *Hodson v. A.H. Robins*, 528 F. Supp. 809, 824 (E.D. Va. 1981). Generally, written notice is timely if provided at or before the final pretrial conference. *DP Aviation v. Smith*, 268 F.3d 829, 846-47 (9th Cir. 2001); 5 Wright & Miller, *Federal Practice and Procedure* § 1253 (3d ed. 2012). Here, Kolon gave notice in its Rule 15 motion five months before the pretrial conference, and again in its Rule 44.1 confirmation motion two months before the conference. JA-XV-6974-6975; JA-III-1357-1360. That would have sufficed even in a case in which the plaintiff's claims were not a moving target. See *Levin v. Dalva Bros.*,

459 F.3d 68, 73 (1st Cir. 2006) (finding issue raised the first day of trial to be timely).

But here any delays in raising the choice-of-law issue were attributable to DuPont, not Kolon. Because DuPont never amended its complaint to add the alleged misappropriation that took place in Korea, *see supra* 26-30, the need for the application of Korean law was never squarely raised. Moreover, Kolon was required to file its answer and motion to dismiss (pleadings relying on Virginia law) in *April 2009*, JA-I-279-284, long before DuPont sought to inject the Korea-based claims into the case.

II. KOLON WAS ENTITLED TO JUDGMENT AS A MATTER OF LAW

The district court should have granted judgment as a matter of law to Kolon because DuPont failed to carry its evidentiary burden on several critical elements of its trade-secret claims.

A. DuPont Failed To Prove That the Asserted Trade-Secret Material Was Not Generally Known or Readily Ascertainable

Under Virginia law, the plaintiff must prove that the information claimed as a trade secret was not “generally known” or “readily ascertainable.” 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.” JA-XX-9626:6-12; *see* Unif. Trade Secrets Act § 1, 14 U.L.A. at 439 cmt. (2005); *Hertz v. Luzenac*, 576 F.3d 1103, 1114 (10th Cir. 2009) (trade secret cannot be “easily ascertainable from public sources”). Even arcane information that is not generally known is not a trade secret if it can be ascertained through public sources such as patent filings, research or trade journals, or equipment vendors. *See* Restatement (Third) of Unfair Competition § 39 cmt. f (1995) (hereinafter, “*Restatement*”) (“... information that is disclosed in a patent or contained in published materials reasonably accessible to competitors does not qualify for protection [as a trade secret]”); *Conmar Prods. v. Universal Slide Fastener*, 172 F.2d 150, 155 (2d Cir. 1949).

DuPont’s expert did not apply the correct standard, which focuses on subsequent efforts to derive the information from publicly available sources. Instead, he focused on DuPont’s initial efforts and asserted that the alleged trade-secret information was not readily ascertainable because it “required a lot of time and effort and investment on the part of DuPont” and would take “at least that amount of effort for somebody else to do it.” JA-XVIII-8403:23-8404:9.⁵ But the difficulty of creating the information in the first instance is wholly irrelevant to whether it has subsequently entered the public domain.

⁵ *Accord* JA-XVIII-8411, 8417, 8424, 8434, 8439, 8441-8442, 8444, 8447, 8455, 8471, 8474, 8504-8511.

On that question, DuPont's expert (Jaffe) had almost nothing to say. Even though there is a vast public literature on aramid-manufacturing technology, JA-XIX-8694:22-8695:8, Jaffe barely scratched the surface of those public sources, examining only a "few dozen" patents, JA-XVIII-8499, and even "fewer" research journals, JA-XVIII-8501. He surely did not perform a comprehensive analysis of whether *each* of the 149 asserted trade secrets involved information that was "not readily ascertainable." See *Atmel v. Info. Storage*, 189 F.R.D. 410, 416 (N.D. Cal. 1999) (excluding testimony of plaintiff's expert who conducted no "survey of literature or other research" and relied on an "ignorance-is-bliss strategy" to avoid "discover[ing] evidence affirmatively showing public knowledge of one or more alleged secrets").

Yet Jaffe provided DuPont's only evidence on whether the asserted trade secrets were reasonably ascertainable. If a plaintiff's only evidence of a necessary element of a claim comes from an expert applying the wrong legal standard, then the claim fails as a matter of law. See *Chevron USA v. Heavin*, 204 F. App'x 361, 366 (5th Cir. 2006) (affirming dismissal of claim where plaintiff's expert "addressed the incorrect standard" of injury in workers' compensation case). The burden of showing that its asserted trade secrets were not readily ascertainable fell on DuPont, and it failed to carry that burden.

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B. DuPont Failed To Adduce Proof For Specific Trade Secrets and Improperly Sought to Try Numerous Secrets *En Masse*

The plaintiff bears “the burden of producing some evidence that [its information meets] the definition of a trade secret,” and must “describe the subject matter of its alleged trade secrets in sufficient detail to establish *each element of a trade secret.*” *Trandes*, 996 F.2d at 661 (emphasis added). That is, each trade-secret claim must be analyzed “separate and apart” from each other alleged secret. *Decision Insights v. Sentia Grp.*, 311 F. App’x 586, 594 (4th Cir. 2009); *see MicroStrategy v. Bus. Objects*, 331 F. Supp. 2d 396, 420-21 (E.D. Va. 2004) (court “must assess each alleged trade secret according to the requisite elements”).

Here, the district court improperly allowed DuPont to try 149 trade secrets *en masse*, so that DuPont could avoid boring the jury. But there is no “too big to fail” exception to the requirement that the plaintiff carefully and separately prove every element of every trade secret that is a basis for liability. DuPont’s *en masse* approach not only fundamentally skewed the proceedings, *see supra* 30-35, but resulted in an absence of evidence on necessary elements for many alleged secrets.

DuPont lumped many of the secrets into groups and asserted that the whole agglomeration met the statutory definition. For example, DuPont’s expert testified that 17 of the alleged [REDACTED] (TS 2-4, 9-21, 49) *in the aggregate* had independent value derived from not being generally known or

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reasonably ascertainable. JA-XVIII-8405-8411; JA-XXXVI-18139-18143, 18151. DuPont likewise presented only aggregate expert testimony for the alleged [REDACTED] [REDACTED] (TS 1, 8), JA-XVIII-8400-8404, and [REDACTED] [REDACTED] (TS 5-6), JA-XVIII-8414-8417.

As to other trade secrets, DuPont alleged they were comprised of certain documents in their entirety. But that impermissibly conflates a document with a specific trade secret that may be reflected in the document. “[A] document itself cannot be a trade secret, although it may contain trade secrets.” *Tao of Sys. Integration v. Analytical Servs.*, 330 F. Supp. 2d 668, 678 (E.D. Va. 2004). That is, “[i]t is not enough to point to broad areas of [information] and assert that something there must have been secret and misappropriated.” *Composite Marine Propellers v. Van Der Woude*, 962 F.2d 1263, 1266 (7th Cir. 1992); see *Preferred Sys.*, 732 S.E.2d at 689.

But this is precisely what DuPont sought to do to avoid boring the jury with a finely reticulated presentation for each of the 149 trade secrets that underlie the verdict. For example, DuPont claimed that all eleven of the [REDACTED] [REDACTED] (TS 51, 54-58, 60-64) were derived from a [REDACTED] [REDACTED] JA-XXXVI-18071-18073. DuPont impermissibly argued that the document *as a whole* was valuable and not generally known or readily ascertainable, without

distinguishing among the many purported trade secrets contained within that document. JA-XXXVI-18152-18153.⁶ Similarly, DuPont claimed in its post-trial briefing that TS 7 consisted of the entirety of eight trial exhibits, totaling 579 pages—even though no witness so testified, and even though two of the eight were also cited as proof of TS 31. JA-XXXVI-18056, 18064-18065. For the same reasons, Kolon is entitled to judgment as a matter of law on trade secrets 1-4, 10, 13, 21, 22, 27, 31, 49, and 67, in which DuPont simply pointed to a document without identifying the asserted trade-secret information *within* that document or applying the statutory standard to that information. JA-XXXVII-18296-18326; JA-XXXVI-17952.

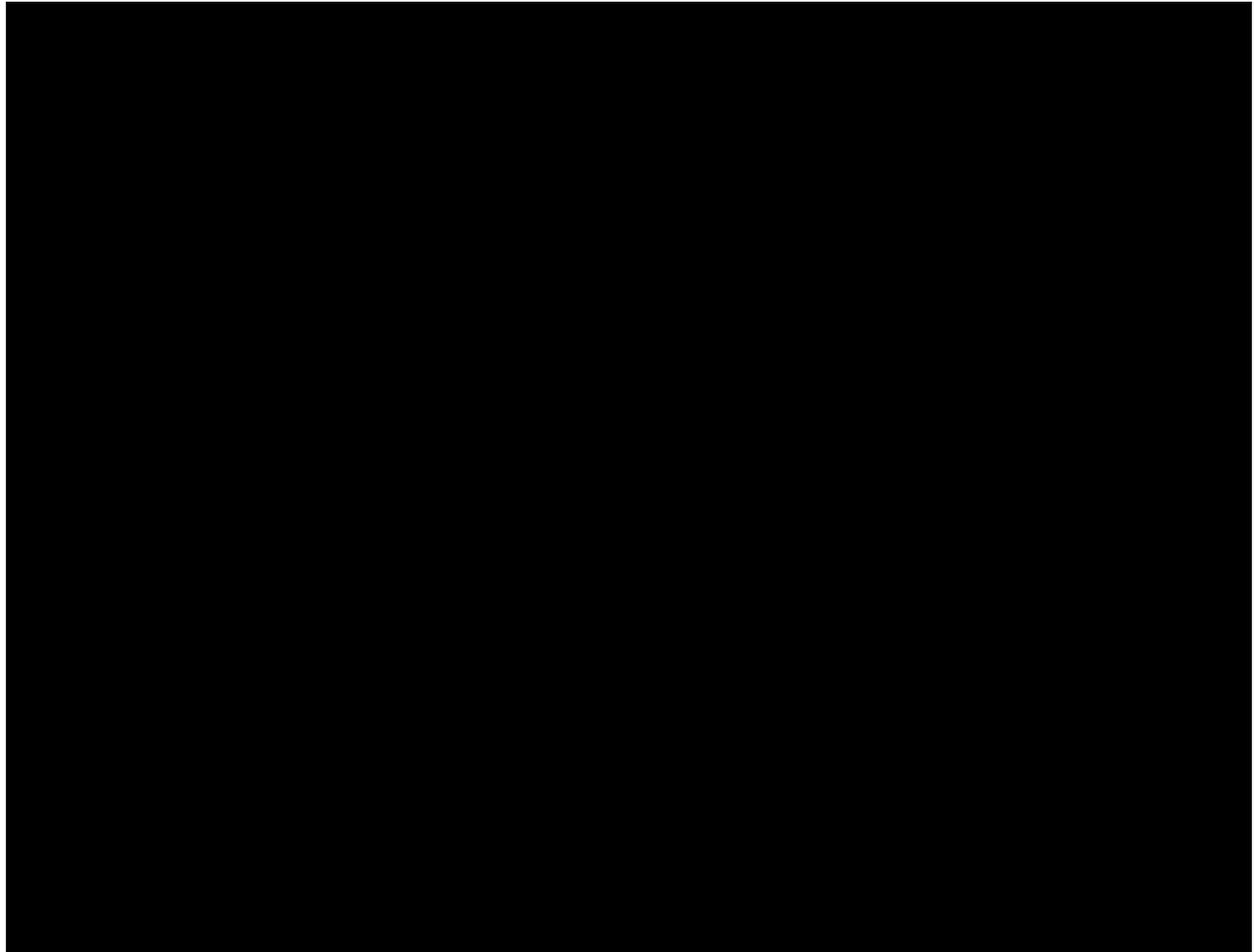
This strategy of trying trade-secret claims *en masse* might have been more convenient for DuPont (and less “boring” for the jury), but it flouts the bedrock principle that the plaintiff must prove *each* statutory element for *every* alleged secret. *Trandes*, 996 F.2d at 661. Because DuPont presented no individualized evidence regarding the trade secrets identified above, Kolon is entitled to judgment as a matter of law on each.

⁶ Indeed, for four of those secrets (51, 55, 60, and 64), there was no testimony that the specified information met the statutory definition.

C. Kolon is Entitled to Judgment as a Matter of Law to the Extent DuPont's Trial Proof Diverged from its Trade-secret Definitions

As noted above, *see supra* 33-34, DuPont first made a half-hearted effort to define individual trade secrets in the lists filed on October 25, 2010 and February 23, 2011. After dropping 37 trade secrets from the February 23rd list, DuPont renumbered the 155 remaining trade secrets and presented them to the jury in a so-called "juror notebook." JA-XXVI-12704-12736. But in many instances what DuPont presented at trial barely corresponded to the definitions in the juror notebook.

For example, at trial, DuPont presented a single-page flow chart as the only document containing TS 2 and 3.

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JA-XXII-10644; JA-XVII-7928-7931, 7937-7939; JA-XXXVI-18055. DuPont had not previously identified this chart as reflecting TS 2 or 3, JA-XXXVI-18213, and the chart does not contain several components of the trade secrets as defined in the notebook. TS 2 [REDACTED] JA-XXVI-12704-12736, [REDACTED] JA-XXII-10644 [REDACTED] [REDACTED] JA-XXXVII-18297-18298.

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In other instances, the documents upon which DuPont relied at trial were identified on the October list, but do not contain the information in the trade secret's definition. For example, DuPont introduced only one page of evidence regarding TS 12, but that document contains no information regarding [REDACTED]

[REDACTED]

[REDACTED] JA-XXIII-11123; JA-XXXVII-18303. Similarly, TS 33 [REDACTED]

[REDACTED]

but the lone page on which DuPont relied has [REDACTED]

[REDACTED]

JA-XX-9237:6-18; JA-XXIV-11258; JA-XXXVII-18314. Similar mismatches of trade-secret definitions and trial proof occurred for trade secrets 1, 4, 5, 7-8, 17, 21-22, 27-28, 32, 34, 37-41, 44, 48, 50, 72, 73, and 74. JA-XXXVII-18297-18328.

This mismatch problem was particularly acute with respect to “combination trade secrets,” in which the value of the trade secret is derived from the combination of partly or wholly public information into a secret compilation, method, process, or technique that yields competitive advantage. *Servo v. Gen. Elec.*, 393 F.2d 551, 554 (4th Cir. 1968); *Rivendell Forest Prods. v. Ga.-Pac.*, 28 F.3d 1042, 1046 (10th Cir. 1994). Because such trade secrets depend in part on

concededly public information—and because the jury’s determination of value or use depends on the unique combination being asserted—courts require precise identification of combination trade secrets to enable a proper defense. *See Nucar Consulting v. Doyle*, 2005 WL 820706, at *6, n.23 (Del. Ch. Apr. 5, 2005).

Even though the juror notebook identifies few combination secrets, DuPont’s witnesses frequently redefined trade secrets on the fly as combinations at trial after Kolon showed public disclosure of information in the trade-secret definitions. JA-XVII-7866, 7872-7873, 7880-7881, 7883, 7885. Indeed, DuPont asserted after the fact that most of its trade secrets were combinations. JA-XVIII-8520. But this eleventh-hour conversion of ordinary trade secrets into combination trade secrets left DuPont without proof that the combination met the statutory definition of a trade secret. It was DuPont’s burden to both identify any secrets being asserted as a combination and prove that the information *qua* combination qualified as a trade secret. Its failure to do so compels judgment as a matter of law as to its belated combination secrets (TS 4-6, 9, 11, 24, 26-28, 30-32, 34, 39-42, 44-46, 48, 51-69, 72-74, and 116-17).

D. DuPont Failed To Prove Misappropriation by Use

DuPont also failed to meet the statutory criteria for its alternative theory that Kolon engaged in unauthorized “use of a trade secret of another.” Va. Code

§ 59.1-336. The word “use” means “[t]o convert to one’s service,’ ‘to employ,’ ‘to avail oneself of,’ and ‘to carry out a purpose or action by means of.’” *Bailey v. United States*, 516 U.S. 137, 145 (1995) (citations omitted). Each of these definitions implies “action and implementation”—*i.e.*, “more than a showing of mere possession.” *Id.* at 144-45.

This natural and ordinary meaning of “use” applies with full force in the trade secret context. The *Restatement* defines “use” as “any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant,” such as “marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, [or] relying on the trade secret to assist or accelerate research or development.” *Restatement* § 40 cmt c; *see Penalty Kick Mgmt. v. Coca Cola*, 318 F.3d 1284, 1292-93 (11th Cir. 2003). The defendant must have used at least a “substantial portion” of the trade secret to create an “improvement or modification that is ‘substantially derived’” from the secret. *Id.*

DuPont obtained a jury verdict on use for all 149 secrets based on an unprecedented theory of “reference use,” arguing that mere *retention* of trade-secret information constitutes use—even if Kolon simply kept those documents “in a safe” in its R&D center. JA-XX-9622:4-21. DuPont subsequently abandoned that

theory in its post-trial briefing, arguing instead that Kolon did “actively employ” the trade-secret information in its processes or developments. JA-XXXVI-18046 & n.22. That belated assertion finds no support in the record.

DuPont did not offer one iota of evidence that Kolon used the business trade secrets (TS 52-53, 63, 65-67, 75-155) to solicit new customers or improve its marketing activities. *See Restatement* § 40 cmt. c. DuPont’s sole purported evidence of use was testimony that a CD from consultant Michael Mitchell was copied onto Kolon computers. JA-XXXVI-18193-18211. But while internal distribution might facilitate subsequent use, distribution is not use. It does not show that Kolon *actively employed* the business trade secrets to gain some competitive advantage. At most, it supports the invalid theory of passive “reference use” that DuPont wisely abandoned after trial.

As to the technical trade secrets (TS 1-51, 54-62, 64, 68-74), no DuPont witness contradicted Kolon’s extensive expert testimony showing that Kolon either did not use the asserted trade-secret information or independently developed it. JA-XIX-8682-9306; JA-XX-9318-9398; JA-XXXVII-18336-18457. DuPont relied principally on limited evidence of commonality between Kolon’s and DuPont’s production lines. JA-XXXVI-18047–18048, 17636-17638. But no witness testified that specific equipment similarities met the statutory definition of a trade

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secret or were “substantially derived” from a trade secret. *Penalty Kick*, 318 F.3d at 1293. Moreover, misappropriation-by-use requires proof that the information was improperly obtained (*i.e.*, through a breach of duty to DuPont by the consultants). Va. Code § 59.1-336.2.b. Here, however, DuPont conceded that these features were part of Kolon’s production line *before* Kolon first retained consultants in April 2006. JA-XXXVI-17636–17638.

DuPont further asserted that certain Kolon meeting minutes and consultant summaries showed that it used each of the 67 technical trade secrets, JA-XXXVI-18165-18211, but DuPont failed to map those documents to specific trade secrets. JA-XXXVII-18336–18457.⁷ For example, DuPont argued that documents JA-XXVI-12741-12745 and 12737-12740 proved use of 39 secrets. JA-XXXVI-18169-18193. But there was no trial testimony about JA-XXVI-12741-12745, and DuPont only tied JA-XXVI-12737-12740 to trade secrets 5-6. JA-XX-9421; JA-XX-9445-9447. In any event, these snippets of internal Kolon documents are clearly referring to *potential future use* of the information, as opposed to actual, current use. See JA-XXIV-11301-11311 [REDACTED]

[REDACTED] JA-XXIV-11375-11387 [REDACTED]

⁷ Kolon’s expert testified that these documents did not change his opinion of nonuse. JA-XX-9404-9411, 9413-9416, 9420-9432, 9435-9439, 9440-9447, 9448-9453.

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[REDACTED] JA-XXII-10405-10409 [REDACTED] JA-
XXIV-11255-11267 [REDACTED] JA-XXVI-12741-12745
[REDACTED] JA-XXVI-12737-12740 [REDACTED]
[REDACTED] JA-XXIII-11169-11185
[REDACTED] JA-XXVI-12645-
12653 [REDACTED] JA-XXII-10416-10417
[REDACTED]

[REDACTED]⁸ These vague references are plainly insufficient to show that Kolon *actually* used each and every technical trade secret.

Indeed, these statements of potential future use may not refer to DuPont's trade-secret material at all. They may be referring to information in the 147 (out of 167) technical documents provided by consultants that DuPont never asserted as trade secrets, JA-XXXVI-17880 ¶8, to publicly available information the consultants supplied Kolon,⁹ or to trade-secret claims DuPont dropped from its case, JA-IV-2064-2067; JA-XXXVI-17879 ¶¶6-7.

⁸ DuPont cited these nine documents for the vast majority of its technical trade secrets. JA-XXXVI-18165-18211. Other documents that were only descriptive or cited only for specific trade secrets, *e.g.*, JA-XXII-10342-10348, 10349-10366, 10389-10404; JA-XXIV-11364-11374; JA-XXVI-12483-12590; JA-XXVI-12654-1266; JA-XXXIII-16111-16126, likewise do not create a jury question on use, except Kolon concedes jury questions on TS 5-6.

⁹ JA-XXXIII-16129; JA-XXV-11969; JA-XXV-12025.

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III. THE \$919 MILLION DAMAGE AWARD WAS GROSSLY EXCESSIVE, AND WAS THE PRODUCT OF FLAWED JURY INSTRUCTIONS AND UNRELIABLE EXPERT TESTIMONY

Under the VUTSA, damages “can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.” Va. Code § 59.1-338.A. Alternatively, the plaintiff can seek a reasonable royalty for use of its trade secrets. *Id.* DuPont, a dominant para-aramid supplier, has not argued that it suffered actual losses from Kolon’s alleged misappropriation (such as lost customers or lost profits), nor has it sought a royalty.

Instead, DuPont advanced an unprecedented theory of unjust enrichment under which Kolon’s alleged misappropriation of a limited set of dated information—[REDACTED]—entitled DuPont [REDACTED]

[REDACTED] This calculation made no adjustment for [REDACTED] that Kolon never received or that DuPont had placed in the public domain. Moreover, even though DuPont’s theory was based on *Kolon’s* unjust enrichment—as to which [REDACTED] was only a (grossly inexact) proxy—DuPont’s expert chose to apply U.S., rather than Korean, wages, thus inflating the verdict fourfold.

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The jury accepted this absurd and legally invalid theory wholesale, returning a damages verdict for the shockingly disproportionate sum of \$919 million. That amount is grossly excessive as a matter of law. The verdict also flowed directly from two significant instructional errors, and from DuPont's expert testimony on damages, which contained several glaring omissions and was riddled with speculation and demonstrably false assumptions.

A. The District Court Failed To Properly Instruct the Jury Regarding the Proper Calculation of Avoided-Cost Damages

This Court "review[s] *de novo* claims that the jury instructions failed to correctly state the law." *Volvo v. Clark Mach.*, 510 F.3d 474, 484 (4th Cir. 2007). The district court misinstructed the jury on the legal standards governing unjust enrichment damages.

1. DuPont's core damages theory was that, instantaneously upon *acquisition* of any or all of the 149 alleged trade secrets, Kolon was unjustly enriched in the full amount of the costs to reproduce the trade secrets (as measured by [REDACTED]¹⁰). JA-XVIII-8538:4-8539:24, 8563:12-8565:8; 8597:18-24; JA-XIX-8617. But in trade-secret law, and in equity more generally,

¹⁰ In using the term "[REDACTED]

JA-XVIII-8567:23-8569:13, [REDACTED]

the plaintiff may recover unjust-enrichment damages for avoided costs only to the extent the defendant secured *actual cost savings* by using the trade secret.

Equity has long treated profits (including avoided costs) from illicit use of another's property as unjust enrichment. *Tilghman v. Proctor*, 125 U.S. 136, 148 (1888). But the defendant is liable only for "actual, not for possible, gains." *Id.* at 146. A company that misappropriates valuable secrets but then makes poor use of the information is not unjustly enriched by profits it never made. Instead, the profits for which the defendant must account "are not those which he might reasonably have made, but those which he *did make*, by the use of the plaintiff's invention." *Id.* Damages are limited to "the fruits of the advantage which [the defendant] derived from the use of that invention over what he would have had in using other means then open to the public." *Id.*

That rule applies with full force to trade-secret cases. There are "two basic methods for assessing damages for misappropriation of trade secrets: one, the damages sustained by the victim (the traditional common law remedy), and the other, the profits earned by the wrongdoer by the use of the misappropriated material." *Sperry Rand v. A-T-O*, 447 F.2d 1387, 1392 (4th Cir. 1971); *see Int'l Indus. v. Warren Petroleum*, 248 F.2d 696, 699 (3rd Cir. 1957); *Univ. Computing v. Lykes-Youngstown*, 504 F.2d 518, 539 (5th Cir. 1974) ("restitutionary remedy")

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limited to “the actual contribution the plaintiff’s trade secret made to the defendant’s commercial success”). The *Restatement* similarly provides that a defendant “is liable for the pecuniary loss to the other caused by the appropriation or for the actor’s *own pecuniary gain* resulting from the appropriation, whichever is greater.” *Restatement* § 45 (emphasis added). That is, the court must compare “the costs to the defendant of achieving the same result with and without the improper use of the trade secret.” *Id.* at cmt. d.

The starting point for the unjust-enrichment analysis thus should have been *Kolon’s* profits achieved through avoided-cost savings—

[REDACTED] *Kolon* thus sought an instruction that the jury could not award unjust-enrichment damages for avoided costs unless it found that *Kolon* enjoyed *actual* cost savings from using DuPont’s trade secrets. JA-VIII-3659, 3742-3743. But the district court rejected that instruction, JA-XX-9607:15-9616:8, and instead told the jury that it could award “the monetary value attributed to the benefit [that *Kolon* received] as a measure of DuPont’s damages,” JA-XX-9627:22-23.

That instruction misstated the governing legal standard, as the jury’s astronomical award attests. It opened the door for the jury to consider **[REDACTED]** **[REDACTED]** as a valid measure of “the monetary value attributed to the benefit.” But under the settled principles discussed above, *Kolon* does not

receive any “benefit” for purposes of unjust-enrichment damages unless it uses the trade-secret material to achieve actual cost savings. The Court’s instruction was stark error.

2. In accord with the common law rule, a jury may award damages only for unjust-enrichment that was *caused* by the alleged misappropriation. Va. Code § 59.1-338.A. Thus, a defendant is not unjustly enriched if the misappropriated information was already in the public domain. As this Court has explained, “the damages which [the plaintiff] may recover would be the cost of experimentation to discover the component or components not disclosed ... but not the cost of experimentation to discover the component or components which were [publicly] disclosed.” *Servo*, 393 F.2d at 556; *see Restatement* § 45 cmt. c (“[T]he value of a trade secret that has been destroyed through public disclosure is often speculative.”).

Kolon sought an instruction providing that the jury may not award DuPont compensatory damages for alleged trade-secret material that DuPont had publicly disclosed in patents or otherwise, JA-VIII-3659, 3742-3743, but the district court refused to give that instruction, JA-XX-9615:22-9616:8. That ruling was erroneous and prejudicial, especially given that DuPont placed much of the information generated by its historical Kevlar R&D in the public domain. A properly instructed

jury could not have awarded the grossly excessive \$919.9 million, a figure that unquestionably reflected costs of reproducing publicly available information. *See infra* 73-74.

B. A New Trial Must be Granted Because the Damage Award Was Grossly Excessive and Based on Unreliable Expert Testimony

The jury's \$919 million damage award was shockingly excessive and based solely on the legally flawed testimony of DuPont's expert witness. That award must be vacated.

Under Virginia law, the court must "correct" a verdict that is either "so excessive as to shock the conscience of the court and [] create the impression that the jury has been influenced by passion, corruption or prejudice, or has misconceived or misunderstood the facts or the law," or "so out of proportion to the injuries suffered to suggest that it is not the product of a fair and impartial decision." *Rutherford v. Zearfoss*, 272 S.E.2d 225, 227-28 (Va. 1980). If the size of the verdict "bears no reasonable relation to the damages disclosed by the evidence, it is manifestly unfair" and must be vacated. *Smithey v. Sinclair Refining*, 122 S.E.2d 872, 876 (Va. 1961). A verdict cannot be sustained when the only "tangible evidence" of harm is "limited" and "speculative." *Cretella v. Kuzminski*, 640 F. Supp. 2d 741, 761, 768 (E.D. Va. 2009).

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Expert testimony regarding damages is admissible only if it is (1) based upon sufficient facts or data; (2) is the product of reliable principles and methods; and (3) the expert has applied the principles and methods reliably to the facts of the case. Fed. R. Evid. 702; *Daubert v. Merrill Dow Pharm.*, 509 U.S. 579, 597 (1993); *Kumho Tire v. Carmichael*, 526 U.S. 137, 152 (1999) (expert must “employ[] in the courtroom the same level of intellectual rigor that characterizes the practice of an expert in the relevant field”).

Here, DuPont’s expert testimony regarding damages should have never gone to the jury. It was inherently unreliable, contained several glaring omissions, and was riddled with demonstrably false or speculative assumptions. Because those flaws both render the testimony inadmissible and make the resulting award excessive and unsustainable, Kolon addresses these issues together to avoid duplication.

1. *DuPont’s Expert Improperly Used [REDACTED] as a Proxy for Kolon’s Current Costs*

Unjust enrichment damages are the costs that the *defendant* avoided through misappropriation. *Tilghman*, 125 U.S. at 146. The inquiry is thus fundamentally about the *defendant’s ultimate cost savings*, not the [REDACTED]

[REDACTED] The proper inquiry focuses on what course Kolon would have taken—given its financial and market position, then-current research

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and production technology, and the information already in the public domain—if it had not engaged in misappropriation in 2006.

But DuPont's damages expert (John Jarosz) investigated none of this. JA-XVIII-8592:11-8599:1. Nor did he attempt to tie Kolon's unjust enrichment to specific trade secrets. Instead, he simply started with the assumption that [REDACTED] [REDACTED] represented a valid proxy for Kolon's unjust enrichment from the trade secrets as a whole. JA-XVIII-8538:5-8539:24; JA-XV-6729-6730. Jarosz could not have known the asserted trade secrets when he first presented his theory in May 2010, because DuPont had not yet *defined* them. Jarosz was merely informed of broad categories of information encompassed by the documents Kolon obtained from its consultants, JA-XIV-6511; JA-XV-6848-6849, and he admitted that he did not know precisely what the trade secrets covered or how much it would have cost *Kolon* to replicate this specific information. JA-XIV-6550:17-6551:10, 6554:7-6563:6; JA-XVIII-8593:9-8594:20; JA-XVIII-8598:1-25; JA-XIX-8601:2-17, 8602:4-18, 8606:4-14.

To estimate damages, Jarosz simply placed the undefined trade secrets into two categories—technical information and business information—and attempted to determine [REDACTED] in any period in which a Kolon consultant had access to the information. JA-XVIII-

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8540:13-8544:20, 8550:18-8551:8; JA-XIV-6511-6514; JA-XV-6849-6851; JA-XXXIV-16912-16913. When some trade secrets were later dropped, Jarosz made a wholly arbitrary 5% adjustment for the dropped secrets. JA-XIX-8607:9-8608:18, 8614:16-8616:4; JA-XXXIV-16913-16914. Thus, as calculated by DuPont's expert, the \$919 million damages figure included [REDACTED]

[REDACTED] JA-XVIII-8543:11-20, 8548:8-8549:6, 8550:18-8551:22, 8569:19-8570:21; JA-XXXIV-16912-16914.

That methodology makes no sense. [REDACTED] are not just a bad proxy for Kolon's cost savings decades later; they are no proxy at all. Indeed, DuPont essentially admits as much by conceding that logically necessary adjustments for intervening technological developments, publicly disclosed information, and differential wage scales are simply too difficult to make with any precision. *Infra* 73-79. Rather than excusing the need to make those adjustments, the massive disjunction between [REDACTED] and Kolon's cost savings demonstrates that DuPont's expert conducted the wrong inquiry, and that his damages estimates are wholly unreliable.

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a. *Technological advances*

Most obviously, [REDACTED] are a badly flawed proxy for Kolon's avoided costs because technological advances in [REDACTED] [REDACTED] would have made it far less expensive for Kolon [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] JA-XIX-8651:20-8654:10. [REDACTED]

[REDACTED]

[REDACTED] JA-XIX-

8654:11-8656:5. It was plainly unreasonable for Jarosz to assume that Kolon in the mid-2000s would have incurred [REDACTED]

[REDACTED] or to use the latter as a proxy for the former.

b. *Information in the public domain*

DuPont disclosed vast amounts of Kevlar R&D to the public through its patent applications and related litigation, as well as its journal publications. It is certainly true that [REDACTED]

[REDACTED] But a competitor seeking to replicate this information today could do so without incurring *any* costs, by merely reviewing the relevant patent or journal article. *See Servo*, 393 F.2d at 556. Yet Jarosz conceded that his calculations make

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no adjustment for publicly disclosed information. JA-XIV-6570:16-6571:17, 6572:12-21, 6580:20-6581:14; JA-XVIII-8564:23-8565:8. His sole justification for this glaring omission was that it would have been too hard to [REDACTED]

[REDACTED] JA-XIX-8620:25-8622:14.

But this difficulty only arises because [REDACTED] [REDACTED] are an inherently flawed proxy for Kolon's current costs. If DuPont had actually identified cost savings by Kolon associated with *specific* misappropriated trade secrets, then an adjustment for public information would have been unnecessary. Moreover, it is *DuPont's* burden to prove its entitlement to damages. The difficulty of making a critical calculation can hardly justify ignoring the issue altogether. The end result of Jarosz's flawed methodology is that Kolon was forced to compensate DuPont for the costs of replicating information that can be found by any interested observer on the Patent Office's website or in any number of other public sources.

c. *Information Kolon never received*

Moreover, [REDACTED] are an almost comically flawed proxy for Kolon's current costs because they encompass massive quantities of

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information that Kolon simply never received. Those amounts have no place in a proper calculation of unjust-enrichment damages.

The technical trade secrets were derived from a mere 16 documents— [REDACTED] [REDACTED]—that Kolon obtained from its consultants, plus internal Kolon reports on its consulting sessions. Most of the alleged trade secrets [REDACTED] [REDACTED] JA-XXIII-10678-10957; JA-XIX-8920:13-8921:17, 8930:24-8931:12. But [REDACTED]

[REDACTED] JA-XVII-8069:14-24. There was no evidence that Kolon obtained [REDACTED] [REDACTED] [REDACTED] [REDACTED] JA-XVII-7876:12-25; JA-XIX-8623:10-8625:8. Moreover, [REDACTED]

[REDACTED] JA-V-2252:20-2253:12.

As to [REDACTED]

[REDACTED] whose contents were largely disclosed in DuPont patent filings. JA-XVIII-

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8198:25-8201:23, 8210:5-8219:20. There was no evidence that Kolon received any information on [REDACTED]

[REDACTED] JA-XVIII-8201:2-8212:15.

DuPont's expert also included in his damages calculation the [REDACTED]

[REDACTED] even though there was no evidence that Kolon received *any* of this information. JA-XVIII-8113:25-8115:12, 8599:2-8600:6; JA-XIX-8647:10-20; JA-XV-6849; JA-XXXIV-16913. DuPont [REDACTED]

[REDACTED] JA-XX-9567:21-23, that are used in many different applications, including ballistic- and stab-resistant materials, fiber optic cable sheathing, and automotive, aerospace, marine, and railroad materials. JA-V-2164:23-2165:8, 2166:25-2169:21. DuPont [REDACTED]

[REDACTED] JA-V-2167:10-18; JA-XVIII-8113:25-8114:17, and [REDACTED] [REDACTED] JAXVII-8058:17-8059:8; JA-XVIII-8113:25-8114:17, 8119:24-8120:1. [REDACTED]

[REDACTED] JA-XVIII-8113:13-8114:23, even though DuPont conceded that this case does not involve trade secrets regarding Kevlar products or applications. JA-V-2171:7-2172:18.

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DuPont's expert defended his kitchen-sink approach on the ground that the various phases of the manufacturing process are "interdependent" and "interactive." JA-XXXIV-16931:21-16932:17; JA-XVIII-8598:11-24, 8599:19-8600:6. But even assuming (incorrectly) that [REDACTED]

[REDACTED] are the appropriate baseline, it would have been relatively straightforward to limit the damage award to the information that Kolon actually received. [REDACTED]

[REDACTED] JA-XXII-10638. And DuPont's technical witnesses acknowledged that [REDACTED]

[REDACTED] JA-XVIII-8210:11-24, 8174:8-14. For example, [REDACTED]

[REDACTED] JA-XVII-7693:23-7694:2.¹¹

DuPont also argued that its damages calculation was appropriate because [REDACTED]

[REDACTED] JA-XVIII-8551:4-8. [REDACTED]

[REDACTED]

¹¹ Kolon's expert testified without refutation that it would take approximately 58 man-years (at a cost of \$2.6 million) to generate the individual trade secrets based on information available to Kolon in 2006. JA-XX-9486:15-22, 9497:16-9499:14; JA-XXXIV-16922-16924.

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[REDACTED]

JA-XXVII-13267; JA-XVII-8070:6-8071:11; JA-V-2276:1-2279:21. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Similar errors infect the damage award for the misappropriation of business secrets. Jarosz opined that misappropriation of [REDACTED]

[REDACTED]

[REDACTED] and thus allowed Kolon to avoid those costs. JA-XVIII-8549:6-8550:10, 8589:8-24. But Jarosz did not even attempt to analyze whether the [REDACTED] related only to information that Kolon had received. JA-XIX-8603:25-8606:6; *see* JA-XV-6731-6732. Another DuPont witness (Dale Outhous) conceded that it [REDACTED]

[REDACTED]

[REDACTED] JA-XVIII-8318:18-23; *see* JA-XVIII-8321:3-8322:3. [REDACTED] is thus a grossly overbroad proxy for whatever cost savings Kolon might have obtained; by receiving [REDACTED] Kolon did not somehow magically benefit [REDACTED]

[REDACTED]

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DuPont's witnesses sought to justify their calculation on the ground that the business trade-secret documents [REDACTED]

[REDACTED] JA-XVIII-8318:18-8320:15. That is a glaring *non sequitur*. Even if Kolon received *some* information about [REDACTED] [REDACTED] this hardly suggests that Kolon was unjustly enriched in the amount of [REDACTED]

In sum, Kolon was not unjustly enriched by information it never received or information in the public domain. Because the VUTSA only authorizes damages for “unjust enrichment caused by misappropriation,” Va. Code § 59.1-338.A, damages based on the flawed DuPont proxy cannot be legally cognizable.

d. *Wage rates*

Finally, Jarosz inflated the damage award nearly fourfold—*i.e.* by approximately \$667 million, JA-XVIII-8585:19-20—by using [REDACTED] [REDACTED] as a proxy for Kolon's wages. That is, Jarosz assumed Kolon (before entering the market) would have set up an entire research organization in the United States with nearly 500 employees, all earning U.S. wages, which are nearly quadruple the Korean rate. JA-XVIII-8584:22-8586:14; JA-XV-6850.

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That assumption is nonsensical. Kolon has no research and manufacturing operations in the United States; all such operations (and its headquarters) are in Korea. Jarosz nonetheless relied on the preposterous suggestion that Kolon could not have [REDACTED] using Korean scientists, engineers, and businesspeople. That patronizing and offensive conclusion was not based on any comparative study of U.S. and Korean research capabilities.¹² Jarosz merely noted that Kolon failed to develop a commercially acceptable para-aramid product from 1979 to 1997 when it used “Korean resources,” and assumed that Kolon would not have hired Korean employees for future product development. JA-XVIII-8585:25-8586:5; JA-XV-6850 n.10; JA-XIV-6472-6474. But Jarosz simply assumed that this purported failure was caused by Korean ineptitude; he made no attempt to analyze other factors, such as the fact that Kolon’s quite successful initial research efforts were suspended due to the Asian financial crisis in the mid-1990s. JA-XIX-8777:13-8778:22.

¹² While not wishing to engage in the same kind of misguided comparison Jarosz indulged—which is legally irrelevant since Kolon’s avoided costs are self-evidently its costs where it actually operates—any consultation of hard data would have embarrassed Jarosz’s simplistic assumptions. In a recent study of math and science ability, Korean students ranked second in the world while U.S. students ranked eighth. *Mathematics and Science Achievement in an International Context*, Nat’l Center for Education Statistics, 12, Table 7 (Sept. 2009), <http://nces.ed.gov/pubs2009/2009001.pdf>. And another Korean company (Hyosung) produces competitive para-aramid products, as do Chinese companies. JA-V-2169:22-2170:3.

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Jarosz also suggested that Kolon's hiring of four ex-DuPont employees as consultants proved that Kolon would need to pay "U.S. rates[]" to obtain the resources, the people that it would need to successfully enter this business." JA-XVIII-8586:12-14. That, too, is a deeply flawed assumption. In fact, one of the four consultants (Sumida) is Japanese, not American. More fundamentally, if Kolon turned to American consultants for their Kevlar knowledge, that hardly suggests it would turn to Americans to develop the technology from scratch. The nationality of the consultants has more to do with DuPont's corporate location than with any innate superiority of American engineers or researchers.

As to marketing expenses, Jarosz did not explain why [REDACTED]

[REDACTED] JA-XVIII-8316:10-20, 8317:8-17—are a fair proxy of the costs that Kolon avoided by obtaining the business trade secrets. JA-XV-6732. He did not analyze Kolon's marketing department to assess whether it already performed the same functions, JA-XVIII-8592:15-20, 8594:10-8595:6; JA-XIV-6511-6514; JA-XV-6731-6733, nor offer any economic rationale as to why Kolon would build a U.S. marketing organization to support a Korean business.

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2. *DuPont's Estimates of [REDACTED] Were Flawed and Speculative*

Even assuming (incorrectly) that [REDACTED] were the proper measure of Kolon's current avoided costs, DuPont's estimation of [REDACTED] was rife with indefensible assumptions and speculation.

On the critical issue of [REDACTED]

[REDACTED] JA-XIX-8611:24-8612:24; JA-XX-9510:15-9511:10; JA-XV-6735. Instead, he relied principally on [REDACTED]

[REDACTED] JA-XVIII-8562:15-18; JA-XIX-8610:17-8613:3; JA-XVIII-8120:19-8121:6; JA-XXXIV-16913; JA-XV-6849-6850. But [REDACTED] acknowledged that his estimations could be more than 20% off in either direction in a given year. JA-XVIII-8120:3-4, 8141:20-8142:2. Indeed, the estimate of [REDACTED]

[REDACTED] JA-XVII-8052:3-17; JA-XX-9511:17-9512:6; JA-XV-6879.

After estimating [REDACTED] based on this web of speculation, Jarosz then arbitrarily reduced this figure by 5% to account for dropped trade-secret claims. JA-XIX-8607:9-8608:18, 8614:16-8616:4; JA-XXXIV-16913. This figure could hardly be anything but arbitrary, since DuPont's

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damages theory was an effort to reason backward from [REDACTED] [REDACTED] rather than attribute specific unjust enrichment to specific trade secrets; indeed, DuPont had previously disclaimed that apportionment was possible. JA-XV-6705.

Nonetheless, the truly arbitrary nature of the 5% adjustment is striking. The witness who offered this figure acknowledged that it was [REDACTED]

[REDACTED]

[REDACTED]

JA-XVIII-8115:17-24. This conceded back-of-the-envelope guesswork is not reliable expert testimony that can sustain a verdict of nearly a billion dollars. *See Oiness v. Walgreen*, 88 F.3d 1025, 1029, 1031-32 (Fed. Cir. 1996) (reversing damage award based on “vague estimation,” “gross extrapolation,” and “bald speculation by [plaintiff’s] expert”); *Shockley v. Arcan*, 248 F.3d 1349, 1362-64 (Fed. Cir. 2001); *Elcock v. Kmart*, 233 F.3d 734, 754-55 (3d Cir. 2000). And because the damage award was not apportioned among any *specific* trade secrets, the entire award must be vacated and remanded for further downward adjustment if this Court concludes, as it should, that DuPont did not carry its burden of proof on some or all of the alleged trade secrets.

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* * *

As Judge Posner has stated, “[f]or years we have been saying, without much visible effect, that people who want damages have to prove them, using methodologies that need not be intellectually sophisticated but must not insult the intelligence. *Post hoc ergo propter hoc* will not do; nor the enduring of simplistic extrapolation and childish arithmetic with the appearance of authority by hiring a professor to mouth damages theories that make a joke of the concept of expert knowledge.” *Schiller & Schmidt v. Nordisco*, 969 F.2d 410, 415 (7th Cir. 1992) (citations omitted).

The legal and analytical flaws with using [REDACTED] costs as a proxy for Kolon’s unjust enrichment decades later are obvious and profound. Indeed, the jury awarded DuPont more than 10 times [REDACTED] [REDACTED] JA-XXXVII-18504 ¶11. The notion that this amount represents Kolon’s “unjust enrichment” is facially absurd. Attributing this deeply flawed model to an “expert” hardly advances the ball. DuPont’s unprecedented damages theory was riddled with omissions and unwarranted assumptions, yet the district court admitted that testimony at trial and the jury fully embraced it. The resulting grossly excessive \$919 million verdict cannot stand.

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IV. THE PERMANENT INJUNCTION MUST BE VACATED

Not content with a billion-dollar damage award premised on the notion that Kolon would have to pay to [REDACTED] DuPont also moved for and obtained a sweeping permanent injunction that bars Kolon from the global para-aramid fiber market for twenty years. The district court thus forced Kolon to pay for the acquisition of the alleged trade secrets and then enjoined Kolon from using the information it just paid for.

That one-two punch aptly illustrates the completely one-sided nature of the proceedings below. But the fact that the massive damages award and the worldwide shutdown injunction cannot logically co-exist should not obscure the independent problems with each extraordinary and deeply flawed remedy.

A. DuPont's Damages Theory is Inconsistent with a Worldwide Shutdown Injunction

The VUTSA authorizes damages “caused by misappropriation,” and also provides that “misappropriation may be enjoined.” Va. Code §§ 59.1-337.A, 338.A. The money damages compensate the plaintiff for past use of its trade secrets, and the injunction bars future use, thus putting each party in the same position it would have been in but-for the misappropriation.

Here, however, the damage award swept far beyond compensation for unjust profits or cost savings Kolon achieved through the alleged misappropriation.

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Instead, [REDACTED]

[REDACTED] Worse yet, the court also ordered Kolon out of the para-aramid fiber business altogether. The result is an incredible windfall for DuPont,

[REDACTED] will continue to have exclusive use of the trade-secret material, *and* will benefit from a court order locking a competitor out of the marketplace.

Whatever the flaws of each individual remedy—and there are many—it cannot possibly be right that DuPont is entitled to *both* full compensation for 30 years of Kevlar R&D *and* a shutdown injunction barring Kolon from the para-aramid fiber market. That is punitive in the extreme.

B. Injunctive Relief is Governed by the Four-Factor Test under Federal Law, which DuPont Cannot Remotely Satisfy

State law may create a *right* to injunctive relief, but federal law governs the *manner* in which federal courts decide whether to issue such relief. That is, “[s]tate law cannot define the remedies which a federal court must give simply because a federal court in diversity jurisdiction is available as an alternative tribunal to the [s]tate’s courts.” *Guaranty Trust v. York*, 326 U.S. 99, 105-06 (1945); *see Pusey & Jones v. Hanssen*, 261 U.S. 491, 497-98 (1923) (a “federal court may [] be obliged to deny an equitable remedy which the plaintiff might have secured in state court”).

The district court relied on dicta in *Capital Tool v. Maschinenfabrik Herkules*, 837 F.2d 171, 172-73 (4th Cir. 1988), for the proposition that state law governs injunctive relief in diversity cases. JA-IX-4140-4143. But the Supreme Court has long held otherwise, even in diversity cases. *See Guaranty Trust*, 326 U.S. at 104-06; *Boyle v. Zacharie*, 31 U.S. 648, 658 (1832) (Story, J.); *Robinson v. Campbell*, 16 U.S. 212, 222-23 (1818); *SSMC v. Steffen*, 102 F.3d 704, 709 (4th Cir. 1996) (rejecting argument that state law determined remedies). Indeed, the Supreme Court recently reaffirmed that the familiar four-factor test for injunctions is familiar precisely because it applies whenever federal courts award injunctive relief, including in intellectual property cases. *See eBay v. MercExchange*, 547 U.S. 388, 393-94 (2006).¹³

Under federal law, injunctions do not issue “as a matter of course,” *Winter v. NRDC*, 555 U.S. 7, 32 (2008), even in intellectual property cases, *eBay*, 547 U.S. at 393-94. The burden is on the plaintiff to prove irreparable injury and the

¹³ Allowing state law to trump the familiar four-factor test for injunctions in diversity cases would have anomalous consequences. For example, this Court granted a stay pending appeal by applying, without objection from DuPont, the federal standard for such stays, which is virtually identical to the federal injunction standard. It would be quite strange to apply a federal standard for stays pending appeal of an injunction if the ultimate entitlement to an injunction were governed by a markedly different state-law standard.

inadequacy of legal remedies (such as money damages), and that the balance of hardships and the public interest tip in the plaintiff's favor. *Id.* at 391.

DuPont has never attempted to show irreparable injury resulting from Kolon's actions. This case has been pending for nearly four years, and DuPont has not asked for or received a preliminary injunction. DuPont, a dominant firm in the para-aramid market, has not shown or alleged that it lost sales or profits because of Kolon's actions, or even that it competes for the same customers as Kolon (such as the South Korean military). DuPont's lack of irreparable injury, by itself, is sufficient grounds to vacate the injunction.

Both the balance of hardships and the public interest also favor Kolon. In yet another one-sided procedural ruling, the district court held that these factors could only be established in an evidentiary hearing, which it refused to conduct. JA-IX-4098-4112. But it is well-established that a district court may rely on uncontested affidavits in deciding an injunction motion. *Lone Star Steakhouse v. Alpha of Virginia*, 43 F.3d 922, 938 (4th Cir. 1995). Here, DuPont did not contest the substance of Kolon's affidavits showing that a worldwide shutdown injunction would force Kolon to abandon a business it has spent decades developing, resulting in sizable losses of sunk investments, the layoffs of approximately 200 employees,

and the loss of substantial goodwill with customers and suppliers. JA-XXXVI-17911-17935.

On the other side of the ledger, this extraordinary injunction is clearly not necessary to protect DuPont's interests. DuPont has been a dominant firm in the para-aramid fiber market for the last 30 years, and will remain so whether or not this injunction is issued. DuPont can be made whole through an appropriately calculated award of money damages and a narrower injunction that is tailored to preventing the *specific* harm (if any) that was caused by Kolon's conduct. And it is surely not in the public interest to remove a competitor from the aramid fiber market; the result would likely be higher prices for the many users of these products.

C. Virginia Law Does Not Authorize a Worldwide “Shutdown” Injunction

Even if Virginia law applies, it neither compels nor justifies a sweeping global shutdown injunction. The VUTSA provides that “[a]ctual or threatened misappropriation may be enjoined.” Va. Code § 59.1-337.A. That expressly permissive language merely underscores that the district court has the modest authority to enjoin “misappropriation”—for example, by requiring Kolon to return trade-secret material to DuPont. Enjoining only “misappropriation” strikes an appropriate balance by making the plaintiff whole while still allowing the

defendant to design around the use of trade-secret material or negotiate a license on reasonable terms. But nothing in the VUTSA authorizes, let alone commands, the far greater authority to issue a worldwide shutdown order as a remedy for misappropriation of a limited number of decades-old trade secrets.

Nor does Virginia state law displace general principles of equitable relief. The statute's use of the word "may" instead of "must" makes clear that any injunction is discretionary. Va. Code § 59.1-337.A; *see Restatement* § 44 cmt. c (injunctive relief in trade-secret cases "remains subject to equitable principles"). And even if DuPont is entitled to *some* form of equitable relief, this hardly means it is entitled to anything like the injunction the district court issued here. Virginia courts have emphasized that "[i]f the harm that an injunction would cause to the defendant would be out of proportion to the injury the plaintiff seeks to remedy, a court of equity may properly deny injunctive relief." *Seventeen v. Pilot Life Ins.*, 205 S.E.2d 648, 653 (Va. 1974). Here, there is no serious question that a worldwide shutdown injunction is far broader than necessary to remedy the purely conjectural harm alleged by DuPont. The general equitable principles discussed above yield the same result under either federal law or Virginia law.

D. The Permanent Injunction Flouts International Comity Concerns

A federal court may enjoin conduct outside the United States only if that conduct would “have a significant effect on United States commerce, and then only after consideration of the extent to which the citizenship of the defendant ... might make issuance of the injunction inappropriate in light of international comity concerns.” *Nintendo v. Aeropower*, 34 F.3d 246, 250 (4th Cir. 1994).

The district court’s shutdown injunction raises severe comity concerns. Kolon sells Heracron to a number of military and law enforcement entities in Korea. Kolon has offered evidence showing that the military and other customers would face burdens, delay, and significant expense in testing and qualifying substitute products if Heracron is taken off the market. JA-XXXVI-17933-17935. The district court ignored this evidence, asserting in one sentence (with no citation) that “Kolon has made no showing that it even sells to military and law enforcement entities whose needs could not be otherwise met in the extant market.” JA-IX-4154.

To the contrary, Kolon’s undisputed evidence showed that the shutdown injunction would leave the Korean military—which serves alongside 28,000 U.S.

troops on the North Korean border¹⁴—without its preferred supplier of material for bullet-proof vests, and would require a multi-year process to locate, test, and implement a replacement supply of fiber. JA-XXXVI-17933-17935. Put simply, a U.S. court has instructed a South Korean corporation to shut down factories located in South Korea that produce critical supplies for the South Korean government and military. It is difficult to imagine a court order that gives less respect to “international comity concerns.” *Nintendo*, 34 F.3d at 250.

E. The Record Does Not Support a 20-Year Shutdown Injunction

Even if shutdown injunctions were legally permissible, the district court failed to make specific findings of production use of *each* trade secret that could justify such an expansive decree.

At the outset, the court erred by holding that the jury verdict on “use” estopped Kolon from contesting “production use” at the injunction stage. JA-IX-4104-4106. DuPont’s principal theory before the jury was that Kolon “used” the trade secrets by keeping them for future reference. *Supra* 60-62; JA-XX-9622:4-12. Even though it subsequently disclaimed that theory, DuPont’s evidence of use for most of the trade secrets was simply that Kolon maintained the alleged trade-secret information on its computer systems. JA-XXXVI-18165-181211 (TS 52-53,

¹⁴ DOD, *Obama Praises U.S. Troops’ Legacy in South Korea* (Mar. 25, 2012), <http://www.defense.gov/news/newsarticle.aspx?id=67675>.

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65-155). But that has nothing to do with whether Kolon was using the trade secrets in its production line. Because the jury did not actually and necessarily decide the question of production use, the district court erred in applying collateral estoppel on this issue at the injunction phase. *Fowler v. Land Mgmt. Groupe*, 978 F.2d 158, 163 (4th Cir. 1992).

In any event, the evidence did not remotely show that Kolon used every asserted trade secret in its production process. DuPont conducted multiple inspections of Kolon's facilities, JA-XVII-7698:6-13; JA-XVIII-8398:1-13, yet it put on no witness regarding production use. Nor did it rebut Kolon's extensive expert testimony showing how each trade secret is *not* embodied in its production lines. JA-XVII-18336-18457; JA-XXXVI-17884-17910 (summarizing trial testimony). In a candid moment, the district court observed that Kolon "pretty well demonstrated how [DuPont] didn't prove production use." JA-IX-3993:11-13. The court nonetheless rubber-stamped and incorporated DuPont's post-trial use exhibit, JA-IX-4117-4118—despite its obligation to "find the facts specially," Fed. R. Civ. P. 52(a)(1)—and found production use as to all of the technical trade secrets. That holding has no basis in the record.

To take just the most egregious examples, DuPont's witnesses did not dispute that Kolon: (1) does not produce [REDACTED] (TS 68-

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73); and (2) has never used [REDACTED] (TS 51-67) in its production line. JA-XVIII-8167:1-8168:3; JA-XIX-8681:6-7; JA-XX-9354:17-24; JA-XVIII-8195:22-8197:9, 8514:19-8515:1; JA-XIX-8680:5-7; JA-XX-9378:16-24. It was thus clear error for the district court to find production use of these trade secrets. Similarly, DuPont has asserted trade secrets in its [REDACTED] [REDACTED] (TS 26, 27, 35), but Kolon's equipment—which was purchased from a third-party vendor—fundamentally differs from DuPont's in a number of critical ways.

[REDACTED]

JA-XIX-8781:2-19, 9045:1-9048:13, 9128:18-9131:11; JA-XX-9157:5-9163:25, 9252:11-9253:9, 9332:14-15, 9392:18-9393:11; JA-XXVI-12381; JA-XXXIII-16143, 16199-16200; JA-XXII-10647.

Regardless, courts have issued extraordinary “shutdown” injunctions only in circumstances—not present here—where the defendant did not already have a commercial line and built its manufacturing operation from scratch based on the misappropriated trade secrets. *See Gen. Elec. v. Sung*, 843 F. Supp. 776, 780 (D. Mass 1994) (citing *Head Ski v. Kam Ski*, 158 F. Supp. 919, 924 (D. Md. 1958)). Even then, the plaintiff must meet the high burden of establishing an “inextricable connection” between the production line and the misappropriation such that “absent the misappropriated trade secrets, the defendant would not be able independently to manufacture or design a comparable product.” *Id.*

Kolon’s Heracron production line was based on research and development that began in 1980, and was up and running before Kolon obtained any information from the five consultants. JA-XIX-8763:18-8764:10, 8777:6-8781:9. And there was no showing of “inextricable connection” between the alleged trade secrets and Kolon’s production lines. Indeed, the district court *barred* Kolon from introducing evidence regarding its overall production process at trial, instead restricting it to showing nonuse of particular trade secrets. JA-XIX-8766:8-8767:16, 8770:2-8772:5, 8775:14-8777:4, 8781:20-8782:21. The court attempted to cobble together a finding of inextricable connection based on evidence that Kolon confronted quality issues with some products, JA-IX-4159-4160, but Kolon had already begun

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commercial sales of Heracron in 2005, with properties comparable to Kevlar. JA-XVII-8091:15-8111:3; JA-XVIII-8112; JA-XIX-8666-8667, 8778-8779.

In sum, DuPont “fail[ed] to show any competitive advantage, much less any advantage that can be eliminated only through the drastic measure of a production injunction.” *O2 Micro v. Monolithic Power*, 399 F. Supp. 2d 1064, 1070 (N.D. Cal. 2005). The district court also pulled from thin air the 20-year period of Kolon’s worldwide exclusion from the marketplace, which is especially inappropriate given that [REDACTED]

See 3M v. Pribyl, 259 F.3d 587, 609 (7th Cir. 2001). The shutdown injunction must be vacated.

F. The “Use” Injunction is Insufficiently Specific

Rule 65(d) mandates that “[e]very order granting an injunction must ... state its terms specifically; and describe in reasonable detail—and not by referring to the complaint or other [legal] document—the act or acts restrained or required.” Fed. R. Civ. P. 65(d)(1)(B)-(C); *see SEC v. Goble*, 682 F.3d 934, 952 (11th Cir. 2012) (prohibited conduct must be identified “within the four corners of the injunction”). Courts have routinely vacated injunctions in trade-secret cases that were not sufficiently clear about the conduct being enjoined. *See Corning v. Picvue Elecs.*,

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365 F.3d 156, 157 (2d Cir. 2004); *Roton Barrier v. Stanley Works*, 79 F.3d 1112, 1121-22 (Fed. Cir. 1996).

In addition to the worldwide shutdown injunction, the district court enjoined Kolon from “processing, publishing, disclosing, or using in any form or for any purpose the 149 trade secrets of [DuPont], described in Exhibit P-1255,” which is the juror notebook of summary trade-secret descriptions. JA-XXXVII-18459. But the notebook is an attorneys-eyes-only exhibit that remains under seal. And DuPont argued at trial that its trade-secret definitions are *not* limited to the notebook. *Supra* at 13-14. The “use” injunction does not comply with Rule 65(d) because it provides no notice to Kolon employees of the precise conduct being enjoined.

V. THE DISTRICT COURT SHOULD HAVE RECUSED HIMSELF BEFORE TRIAL BUT IN ALL EVENTS, THIS COURT SHOULD EXERCISE ITS DISCRETION TO REASSIGN THE CASE ON REMAND

The district judge also abused his discretion by not recusing himself when the conduct of his law partners during his tenure at McGuireWoods became a “matter in controversy” under 28 U.S.C. § 455(b)(2) and *In re Rodgers*, 537 F.2d 1196, 1198 (4th Cir. 1976). The district court erroneously ruled that the *Akzo* litigation—wherein [REDACTED] at issue in this case—was not a “matter in controversy,” even though it is at the heart of

Kolon's secrecy defense. JA-IX-4069, 4076. The recusal issue is briefed in full in the pending appeal of the judgment on Kolon's counterclaim in No. 12-1587.

But even if this Court does not find a basis for recusal, it should exercise its discretion to reassign this case on remand. In deciding whether to reassign a case, this Court has considered: whether the district judge would have "substantial difficulty in putting out of his or her mind previously expressed views or findings"; whether reassignment is needed to "preserve the appearance of justice"; and whether reassignment would lead to "waste and duplication" that is "out of proportion to any gain in preserving the appearance of fairness." *United States v. North Carolina*, 180 F.3d 574, 583 (4th Cir. 1999).

Here, the district court made repeated errors that produced a double-standard and fundamentally skewed the proceedings below. The trial of ill-defined trade secrets *en masse* and the preclusion of Kolon's ability to mount a meaningful defense all contributed to a proceeding that denied Kolon a fair trial, and the court's rulings on damages and injunctive relief were nothing short of egregious. In light of this long progression of serious errors—all in DuPont's favor—it is highly unlikely that the District Judge could set aside his "previously expressed views or findings" in this case. To avoid any recurrence of error and ensure that Kolon will

have the opportunity to defend itself on a level playing field, this Court should reassign the case on remand.

CONCLUSION

The final judgment and injunction should be vacated.

LOCAL RULE 34(a) STATEMENT

Pursuant to Local Rule 34(a), Kolon respectfully requests oral argument. Given the complexity and record-intensive nature of this appeal, and the presence of questions of first impression, oral argument would assist the Court's consideration.

Respectfully submitted,

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November 26, 2012

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

No. 12-1260LCaption: E. I. DuPont De Nemours v. Kolon Industries Inc.**CERTIFICATE OF COMPLIANCE WITH RULE 28.1(e) or 32(a)**

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(s) Igor V. Timofeyev

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Dated: 2/22/13

**United States Court of Appeals
for the Fourth Circuit**

E. I. DuPont De Nemours v. Kolon Industries Incorporated, No. 12-1260(L)

CERTIFICATE OF SERVICE

I, Elissa Matias, being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

Counsel Press was retained by PAUL HASTINGS LLP, Attorneys for Appellant, to print this document. I am an employee of Counsel Press.

On **February 22, 2013**, Counsel for Appellant has authorized me to electronically file the foregoing **FINAL OPENING BRIEF FOR DEFENDANT-APPELLANT (Sealed and Redacted Versions)** with the Clerk of Court using the CM/ECF System, which will send notice of such filing to the following registered CM/ECF users:

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The redacted final opening brief will be served via the ECF system as noted above. Pursuant to agreement between the parties, the sealed final opening brief will be served via email on the counsel listed below, with two paper copies each being sent via overnight delivery on the next business day:

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Four paper sealed copies and eight redacted copies will be filed with the Court on this date via Express Mail.

February 22, 2013

/s/ Elissa Matias
Counsel Press