

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 REPLY 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: February 22, 2013

By: /s/ Igor V. Timofeyev
Igor V. Timofeyev
Counsel for Appellant Kolon Industries, Inc.

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INTRODUCTION

DuPont spends much of its brief attempting to tar Kolon as a bad actor, accusing Kolon of “stealing” its proprietary information, and emphasizing the pending criminal indictments of Kolon and five of its executives. If the criminal process results in a conviction, then the court will sanction any offense. But Kolon’s opening brief detailed a series of rulings that effectively deprived Kolon of the ability to defend itself against charges that it misappropriated an ever-changing but never-defined welter of trade secrets. DuPont’s effort to shift attention to the criminal case hardly excuses the string of erroneous and one-sided procedural rulings in this *civil* case, nor does it justify the shockingly excessive \$920 million damage award and worldwide shutdown injunction.

Seeking to evade review on the merits, DuPont repeatedly asserts that Kolon has somehow “abandoned” nearly every argument in its brief. That suggestion is absurd. Every single one of the purportedly “abandoned” arguments is supported by relevant law and citations to the district court record, which is more than sufficient to satisfy FRAP 28(a)(9)(A). And one of the principal arguments is that DuPont’s misguided effort to try 149 trade secrets *en masse* deprived Kolon of a meaningful opportunity to defend itself. DuPont should not be allowed to replicate that tactic on appeal.

DuPont also mocks Kolon for raising a number of issues on appeal. But having lost every significant ruling in this case, Kolon offers no apologies for its comprehensive discussion of the district court's errors. It could be that Kolon is mistaken on every point of error; that is for this Court to decide. But it could also be that the remarkable series of cascading one-sided errors contributed to the nearly billion-dollar verdict and virtually unprecedented worldwide shutdown injunction. Kolon respectfully suggests that the latter view is correct: The errors were both pervasive and profound, and resulted in a fundamentally skewed and unfair proceeding and a grossly excessive set of remedies. The judgment below should be vacated and the case reassigned to a different judge on remand.

ARGUMENT

I. THE DISTRICT COURT'S ERRONEOUS AND ONE-SIDED PROCEDURAL RULINGS REQUIRE A NEW TRIAL.

A. The District Court Erroneously Granted Judgment on Unpleaded Claims.

DuPont does not dispute that Kolon's consent was required to try unpleaded claims or that Kolon withheld consent. Instead, DuPont argues that it *did* plead Kolon's alleged misappropriation of trade secrets from consultants other than Mitchell. But that revisionist effort falls short. The complaint mentions Mitchell 75 times; it does not mention Schulz, Ross, Hoover, or Sumida even once. And the

only misappropriation alleged in Count One—on which the entire judgment is based—involved information Kolon obtained from Mitchell. JA-I-255-256 ¶1, 264-268 ¶31, 271 ¶55. Indeed, DuPont was not even aware that Kolon had retained other consultants when it filed its complaint.

DuPont contends (at 16-17) that the complaint put Kolon on notice that the misappropriation claims encompassed “various DuPont employees” besides Mitchell. But Sumida—a Japanese professor—was *never* a DuPont employee. And the allegations that Kolon attempted to recruit “other” DuPont employees pertained to the dismissed conspiracy claim, not the misappropriation claim. JA-I-268 ¶43 (“[w]hile seeking and obtaining DuPont’s trade secrets as described above, Kolon *has also* made a concerted effort to recruit other current and former DuPont employees”).

DuPont’s conclusory allegation that “Defendants sought and misappropriated the Company’s confidential and proprietary information,” JA-I-270-271 ¶54, did not put Kolon on notice that misappropriation through other consultants was at issue. The very next paragraph clarified that “Defendants misappropriated DuPont’s trade secret information by entering into an agreement with Mitchell.” JA-I-271 ¶55. Regardless, DuPont’s generalized allegations did not supply “sufficient factual matter” to put Kolon on notice of 149 alleged trade secrets

acquired almost exclusively in Korea from five different consultants. *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2008); cf. *Preferred Systems v. GP Consulting*, 732 S.E.2d 676, 689 (Va. 2012) (plaintiff's failure to "identify what trade secrets GP misappropriated [or] ... how GP has used those secrets" provides insufficient notice of the nature and character of the trade-secret claims).

DuPont (at 17-18) is dismissive of the extent to which its pleading deficiencies prejudiced Kolon. But denial of a right not to be tried on unpleaded claims is itself prejudice: "notice of a claim is a defendant's entitlement, not a defendant's burden." *Rodriguez v. Doral Mortgage*, 57 F.3d 1168, 1172 (1st Cir. 1995). Regardless, the prejudice here is clear: Kolon would have vigorously contested personal jurisdiction with respect to unpleaded claims based on conduct in Korea that is outside the Virginia long-arm statute, Va. Code § 8.01-328.1(A)(4). Kolon also had no meaningful discovery as to unpleaded claims involving Sumida, which were first alleged after the close of fact discovery. JA-XIII-5832-5841; JA-XVI-7192-7245.

B. DuPont Failed To Define Its Alleged Secrets with Specificity.

Kolon is entitled to a new trial because DuPont failed to define its purported trade secrets with adequate specificity early in the proceeding. Kolon Br. 30-35.

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DuPont contends (at 20) that its second supplemental interrogatory response was a “60-page response with detailed information concerning the trade secrets.” But only a small fraction of it actually purports to identify the trade secrets; the balance mostly consisted of copy-and-pasted boilerplate language regarding DuPont’s secrecy efforts. JA-X-4313-4374. The response merely divides the secrets into 16 broad categories, with vague descriptions, such as [REDACTED]

[REDACTED]

[REDACTED] JA-X-4316. And DuPont only identified “representative” documents in each category, without identifying the specific pages of those often-lengthy documents on which the trade secrets could be found (even though Kolon had previously produced and identified all documents received from its five consultants). *See* JA-X-4316-4321.

DuPont’s first real attempt to define its trade secrets came on October 25, 2010—*after* the close of fact and expert discovery—and it changed those definitions yet again on February 23, 2011. Kolon Br. 33-35. DuPont defends its belated disclosures by arguing (at 22-23) that Kolon was on notice of these trade secrets based on information produced during discovery, but that is revisionist history. For example, DuPont first identified [REDACTED]

[REDACTED] as an element of trade secret 27 in the February 2011 list, JA-XVI-7504,

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but [REDACTED] was buried within a 279-page document (P-653) that DuPont had not yet identified as containing TS 27. JA-X-4340, 4344; JA-XVI-7217.¹ By the time DuPont identified the document and page containing [REDACTED] as trade-secret material in March 2011, JA-XVI-7531-7532, fact and expert discovery had closed. And, in a remarkable catch-22, the district court then barred Kolon's expert from testifying about the newly disclosed trade-secret information because he had not discussed it in his report. JA-XIX-9061-9063.

In sum, the record speaks for itself. A simple side-by-side comparison of DuPont's trade secret "identifications" reveals massive changes between each iteration; for many trade secrets, DuPont's trial proof was materially different from its earlier identifications. JA-XXXVI-18212-18265 (comparing DuPont's post-trial identifications to October 25, 2011 list).² Indeed, DuPont even refused to provide pin-point citations to trade-secret documents at trial, arguing with refreshing candor that it did not want to be "locked-in" to those identifications. JA-XX-9308-9309; JA-XVIII-8593:14-8594:1. Perhaps so, but a fair trial demanded that Kolon be given a meaningful target. Each of DuPont's countless changes to the asserted

¹ DuPont had previously cited P-653 in support of a *different* trade secret (TS 104), *see* JA-XVI-7222, but not in support of TS 80 (TS 27 in the February 23 list).

² For trade secrets 11, 22, and 23, among others, there was *no overlap* between the documents cited in the October 25, 2010 list and those offered at trial. JA-XXXVI-18218, 18222.

trade-secret information directly affected Kolon's defenses regarding economic value, public disclosure, independent development, and use. Despite Kolon's repeated objections, the district court refused to stop this gamesmanship, thus severely prejudicing Kolon's ability to conduct discovery, prepare expert testimony, research public disclosures, and present a meaningful defense at trial. Kolon Br. 31-32; JA-XIX-9094:6-9099:15; Trial Tr. 1942:19-1949:24.

C. The District Court Abused Its Discretion by Excluding Critical Evidence Regarding Whether DuPont Proved Each Element of a Trade-Secret Claim.

1. The district court abused its discretion by excluding broad swaths of evidence showing that many alleged trade secrets were not "secret" at all because DuPont disclosed much of this information during patent litigation with its sole competitor, Akzo Nobel, in the mid-1980s; those disclosures were squarely relevant to both liability and damages. Kolon Br. 35-40; 73-74.

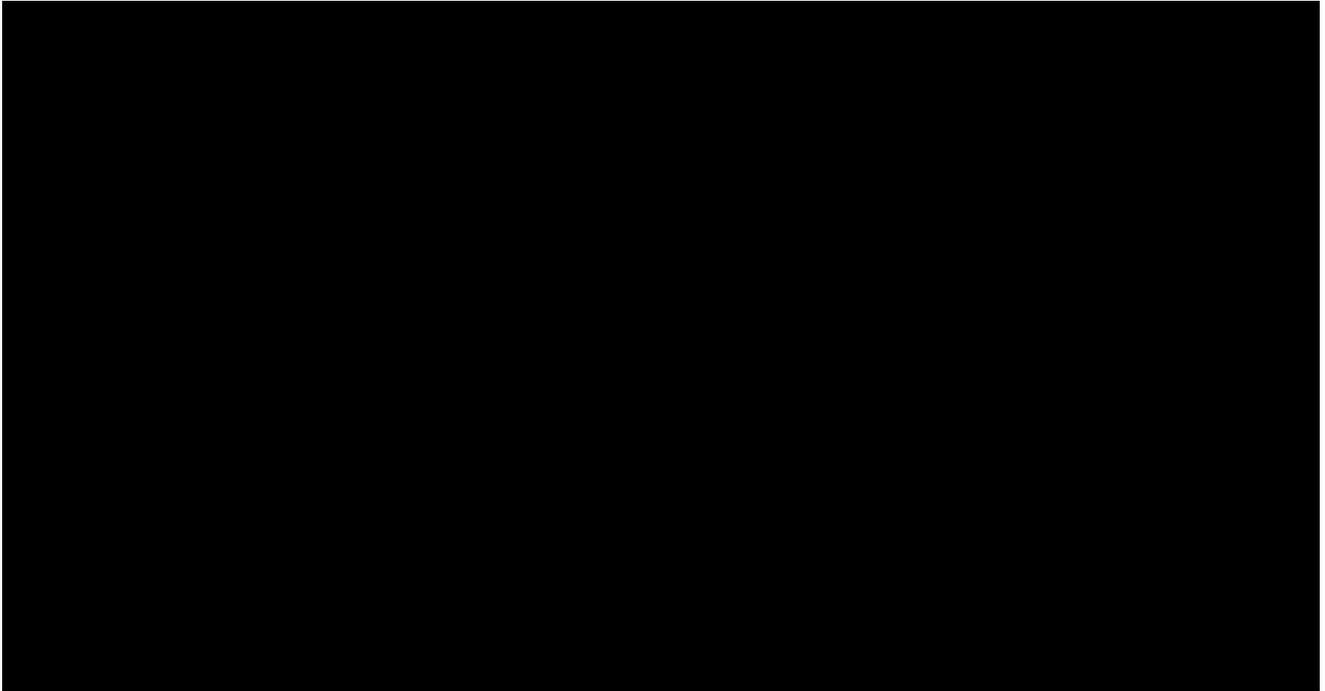
Like the district court, DuPont dismisses (at 24-28) the *Akzo* evidence as inadmissible because it did not "disclose[] a trade secret at issue in this case." But Kolon provided the district court with comprehensive tables showing direct correspondence between DuPont's alleged trade secrets and information that was publicly disclosed in the *Akzo* litigation. JA-XIV-6260-6261, 6587-6685. The district court simply chose to ignore all of this.

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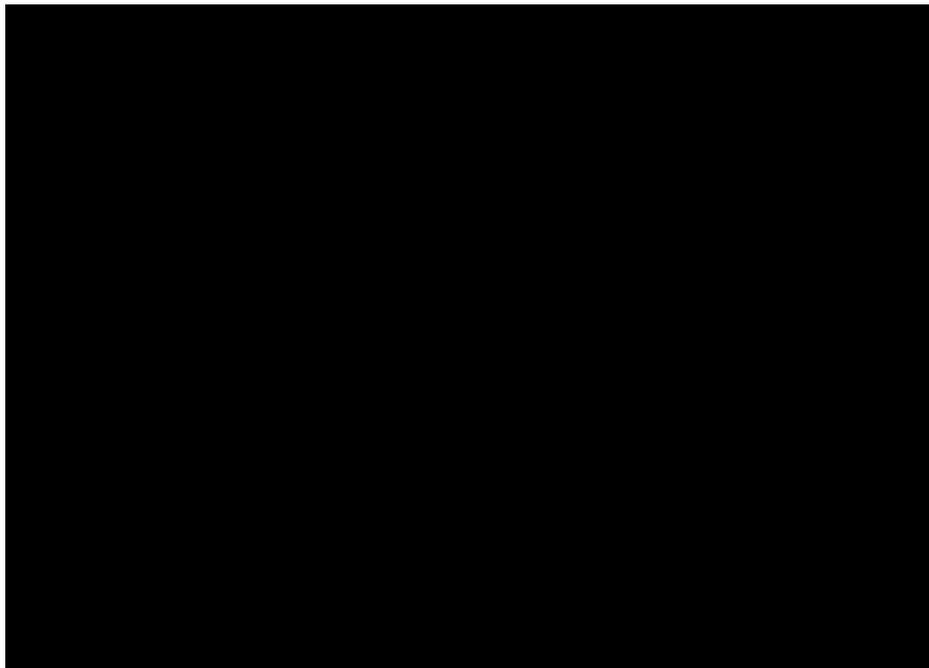
Regardless, whether an alleged trade secret was *actually* secret must be resolved by the jury, not by the court on a threshold evidentiary ruling. *See Raytheon v. Indigo*, 598 F. Supp. 2d 817, 822 (E.D. Tex. 2009). And public disclosures are surely relevant even if they do not disclose the precise trade secret *in toto*. *See Ruckelshaus v. Monsanto*, 467 U.S. 986, 1002 (1984) (“[T]he *extent* of the property right therein is defined by the *extent* to which the owner of the secret protects his interest from disclosure to others.”) (emphasis added). Evidence is relevant and admissible as long as it has “any tendency to make a fact more or less probable than it would be without the evidence.” F.R.E. 401. The *Akzo* evidence easily met that standard, as a jury aware of this evidence would have been far less likely to conclude that DuPont carried its burden of proving secrecy.

For example, a diagram of  disclosed during the *Akzo* litigation is extremely similar to the only document that DuPont relied upon for trade secrets 2-6. JA-XXXVI-18055-18056; *compare* JA-VI-2640, *with* JA-XXII-10644. DuPont asserts (at 25) that these two diagrams are “not the same,” but even a cursory glance reveals their substantial similarities:

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JA-VI-2640



JA-XXII-10644

If anything, the publicly available *Akzo* diagram (JA-VI-2640) provides even *more* information about 

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than the chart Kolon received from its consultant.

DuPont asserts that the *Akzo* evidence was not [REDACTED], quoting DuPont-Akzo correspondence stating that [REDACTED]

[REDACTED] JA-XXVII-13347-13348. But the very next sentence states that, [REDACTED]

[REDACTED] JA-XXVII-13347-13348. One *Akzo* witness described the trial as a [REDACTED]

[REDACTED] JA-XXXIV-16874, and observers noted that the *Akzo* disclosures “could even help third [parties] to join the aramid fibre market after 1990 when most Du Pont patents will expire,” JA-VI-2508.

DuPont (at 27) cites *Hoechst Diafoil v. Nan Ya Plastics*, 174 F.3d 411 (4th Cir. 1999), for the proposition that information in court files is not necessarily “generally known.” But that holding turned on the fact that the documents had been “*inadvertently* filed unsealed and [left] in the district court’s files for several months” before being re-sealed. *Id.* at 417 (emphasis added). That is a far cry from [REDACTED] information, JA-XXVII-13347-13348, that is currently available in the National Archives.

2. DuPont fares no better in defending the district court's decision to exclude Kolon's expert witness (Larry Evans) on the reasonableness of DuPont's effort to maintain secrecy. Kolon Br. 41-42.

DuPont (at 29) relies on cases analyzing whether expert testimony was "generally accepted" or "subjected to peer review." But those factors are only relevant to *scientific* testimony. There are "meaningful differences in how reliability must be examined with respect to expert testimony that is primarily experiential in nature as opposed to scientific." *United States v. Wilson*, 484 F.3d 267, 274 (4th Cir. 2007); *see* F.R.E. 702 (expert may be qualified based on "experience"). No one expects a security expert to rely on peer-reviewed literature. Instead, experience-based expert testimony is admissible as long as the expert explains how his experience led to his conclusions, why his experience is a sufficient basis for the opinion, and how the experience is reliably applied to the facts. *Wilson*, 484 F.3d at 274.

DuPont flatly mischaracterizes the record by asserting (at 29) that Evans "made up his own standard for use in this case." The standard is simply whether the plaintiff's protective measures were "reasonable under the circumstances." Va. Code § 59.1-336. Evans had been involved in the "formulation, implementation and enforcement of intellectual property policies" in the chemical industry for

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nearly 45 years, and was familiar with the “trade secret protection policies and practices of major U.S. companies.” JA-XXXVII-18507-18508 ¶¶1-2. This experience plainly qualified him to offer expert testimony about how DuPont’s trade-secret policies and practices stacked up against other firms in the industry. JA-XXXVII-18522-18551 ¶¶35-93.³ The district court abused its discretion by excluding this critical evidence.

As to DuPont’s [REDACTED], *see* Kolon Br. 42-43, DuPont ignores that Rule 407, by its terms, applies only to evidence used to prove “negligence; culpable conduct; a defect in a product or its design; or a need for a warning or instruction.” F.R.E. 407. No such claims are at issue here. DuPont is suing Kolon for trade-secret misappropriation, and the district court abused its discretion by holding that Rule 407 bars Kolon (the *defendant*) from introducing evidence of [REDACTED] [REDACTED] were inadequate.

* * *

The district court’s evisceration of Kolon’s core evidentiary defenses on several elements of a trade-secret claim would have been an abuse of discretion even in a run-of-the-mill case. But in a case where DuPont sought a billion dollars

³ Evans has offered expert testimony in a number of other trade-secret cases. JA-XXXVII-18517-18519 ¶¶25-27.

of damages and a worldwide shutdown injunction, those rulings were egregious. This Court should reverse the district court's one-sided evidentiary rulings and remand for a new trial in which Kolon is able to mount a full and fair defense to each element of DuPont's claims.

D. The Two Sweeping Adverse Inferences Were an Abuse of Discretion.

1. Dr. Schulz's invocations of the Fifth Amendment in response to deposition questions from both parties did not justify a sweeping adverse inference against Kolon alone. Kolon Br. 43-48. DuPont mischaracterizes Schulz's invocations as one-sided, claiming (at 33) that "Schulz favorably answered Kolon's questions but then refused to answer DuPont's questions on the same topics." In fact, Schulz refused to answer questions about his consultation with Kolon from *both* Kolon and DuPont. Schulz was forced to reiterate that refusal more times with DuPont because DuPont's counsel dwelled on subjects Schulz had made clear he would not discuss. JA-XXVII-12968-13015. DuPont's stubborn persistence should not be rewarded with an unjustified blanket adverse inference.

Regardless, the relevant considerations did not justify the inference that Schulz's answers would have been damaging to Kolon. The "most significant" factor is the nature of the relationship between the party and witness, which must justify treating the witness's invocation as tantamount to a party's vicarious

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admission. *LiButti v. United States*, 107 F.3d 110, 123 (2d Cir. 1997). Here, Schulz had no employment relationship with Kolon; he had merely consulted (non-exclusively) with Kolon as an independent contractor. Years after that arms-length relationship ended, there was no reason to believe that Schulz harbored loyalty to Kolon. *Id.* at 123. By contrast, Schulz was a former DuPont employee [REDACTED]. [REDACTED]. JA-XXXIV-16905-16906. If any party garnered Schulz's loyalty or exerted control over him, it was DuPont, not Kolon. Thus, the adverse inference did not "advance the search for the truth" because Schulz's invocations did not amount to vicarious admissions on behalf of Kolon. *LiButti*, 107 F.3d at 124; see *In re Urethane Antitrust Litig.*, 2013 WL 100250 (D. Kan. 2013).

That adverse inference necessarily prejudiced Kolon. DuPont asserts (at 34) that the adverse inference was unimportant in light of "other compelling evidence of Kolon's liability." But that is an about-face from DuPont's argument to the jury that Schulz's invocations of the Fifth Amendment were one of "three facts you need to know" about the case. The district court compounded this prejudice by excluding Schulz's testimony discussing DuPont's extensive public disclosures of the alleged trade-secret information. JA-XXXIV-16865-16906. This created a lose-lose proposition for Kolon: the blanket adverse inference suggested to the jury

that *all* of Schulz's testimony would have *implicated* Kolon, yet Kolon was barred from introducing portions of that testimony that were unquestionably *favorable* to Kolon.

DuPont incorrectly claims (at 34-35) that rebuttal evidence must go to the witness' reasons for invoking the Fifth Amendment to be admissible. But that artificial restriction has no basis in law or logic. The jury simply needs "sufficient information on which to base a rational decision of whether to apply the adverse inference." *Stevenson v. Union Pacific*, 354 F.3d 739, 750 (8th Cir. 2004). Schulz's *favorable* deposition testimony unquestionably met that standard.

2. Nor did the spoliation of some minimally relevant documents justify an adverse inference on *every* issue against Kolon. DuPont (at 37) paints Kolon as a bad actor that should not "profit from' its own wrongdoing." But even intentional destruction of evidence is "not the end of the story." *Kronisch v. United States*, 150 F.3d 112, 127 (2d Cir. 1998). Before an adverse inference may be drawn, courts "require some showing indicating that the destroyed evidence would have been relevant to the contested issue," even for completely destroyed documents. *Id.*

DuPont's claim (at 37-38) that it was impossible to know with *certainty* the contents of the deleted documents does not justify forgoing the exercise altogether.

Kronisch, 150 F.3d at 128-29. Indeed, DuPont did not even attempt to use the available metadata to show the likely subject matter of the missing documents. DuPont repeats (at 37-38) the refrain that there was “ample evidence” of relevance, but it fails to identify any such evidence. And DuPont has no response to the fact that it introduced only *one* out of the 12,393 recovered documents at trial.

Citing *Vodusek v. Bayliner Marine*, 71 F.3d 148 (4th Cir. 1995), DuPont asserts (at 36) that it is entitled to a “presumption of relevance” for the lost documents. In *Vodusek*, this Court noted that “[w]hile a finding of bad faith suffices to permit such an inference, it is not always necessary.” *Id.* at 156. But it did so in rejecting the plaintiff’s categorical argument that bad faith was essential to any spoliation claim. The Court did not suggest that bad faith obviated the need to show *relevance*. Quite the opposite. This Court held that the jury could “draw an adverse inference *if it found* that [the party] or her agents caused destruction or loss of *relevant evidence*.” *Id.* at 157 (emphasis added).

Residential Funding Corp. v. DeGeorge, 306 F.3d 99, 109 & n.4 (2d Cir. 2002), similarly confirmed that parties seeking an adverse inference bear the burden of submitting evidence to the jury of the relevance of the lost documents to the issue on which an adverse inference is sought. The court indicated that bad faith can serve as evidence of relevance, but did not hold that a threshold

determination of bad faith by the *court* short-circuits that evidentiary showing to the *jury*. In any event, under the circumstances of this case—where Kolon recovered most of the missing documents and where virtually no recovered documents were used at trial—presuming relevance would make no sense.

In sum, adverse inferences are intended to “level[] the evidentiary playing field” and put the innocent party in the same position he would have occupied but for the spoliation. *Vodusek*, 71 F.3d at 156. Such inferences are not intended to bestow a windfall. Applying an across-the-board adverse inference to every issue in this case—without any showing of relevance, and despite the demonstrated *irrelevance* of the recovered documents—served only to tilt the playing field heavily in DuPont’s favor.

E. The District Court Erroneously Applied Virginia Law.

The Supreme Court has held in no uncertain terms that the “Commerce Clause ... precludes the application of a state statute to commerce that takes place wholly outside of the State’s borders, whether or not the commerce has effects within the State.” *Healy v. Beer Institute*, 491 U.S. 324, 336 (1989) (citation omitted). This Court has similarly held that “Virginia’s choice of law rule selects 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). The

district court thus could not apply Virginia law to claims involving actions that occurred in Korea. Kolon Br. 48-50.

In defending the district court's rejection of Kolon's objection as untimely, DuPont notes (at 40) that "there is no bright-line rule holding that notice as late as the pretrial conference is reasonable." But courts have repeatedly recognized that a party's notice of its intent to raise an issue of foreign law is generally reasonable as long as it is given "before or during the pretrial conference." *DP Aviation v. Smiths Industries*, 268 F.3d 829, 847 (9th Cir. 2001). Regardless, the Court need not parse the outer limits of this doctrine because it is undisputed that Kolon raised the choice-of-law issue *five months* before the pretrial conference. JA-XV-6974-6975; JA-IV-1946-2001. Kolon was unable to raise that issue sooner because *DuPont* failed to plead the Korea-based trade-secret claims in its complaint. *Supra* 2-4.

DuPont complains (at 38-39) of insufficient "evidence concerning the location of the wrongs" and explanation of "how Korean law is different." But for nearly every trade secret, the only evidence DuPont introduced regarding acquisition and use involved conduct that occurred exclusively in Korea. And—even though the district court's refusal to conduct a proper choice-of-law analysis shortchanged Kolon's opportunity to consult "relevant material" on foreign law,

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Fed. R. Civ. P. 44.1—DuPont never disputed Kolon’s expert declaration explaining that Korean and Virginia trade secret-law differ materially. JA-III-1388-1391.

DuPont further argues (at 40) that Virginia law applied because “Kolon directed its efforts to steal trade secrets at DuPont’s Richmond plant.” Under Virginia law, however, courts must look to where “the wrongful act[s] took place” (Korea), not “wherever the effects of that act are felt.” *Milton*, 138 F.3d at 522. The district court clearly erred by applying Virginia law to alleged misappropriation that “took place” solely in Korea.

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

A. DuPont’s expert testimony was insufficient to show that each and every one of the 149 trade secrets was not “readily ascertainable” through public sources. Kolon Br. 50-52. DuPont contends (at 42) that its expert (Jaffe) reviewed an “extensive list” of patents, but Jaffe admitted that he examined only a [REDACTED] [REDACTED] JA-XVIII-8499, and [REDACTED], JA-XVIII-8501.

That haphazard review of a small sliver of the public literature on aramid technology was facially inadequate. *See Atmel v. Info. Storage*, 189 F.R.D. 410, 416 (N.D. Cal. 1999) (rejecting plaintiff’s “ignorance-is-bliss” approach to proving secrecy). Indeed, *DuPont itself* has been granted more than 730 aramid-technology patents, many of which disclosed Kevlar production technology. JA-II-721-725;

JA-XVI-7632 ¶117; JA-XXXIV-16782-16791; JA-XIX-8694-8695. More fundamentally, because Jaffe testified to the wrong legal standard, DuPont presented *no evidence* that the trade secrets were not readily ascertainable through public sources. Kolon Br. 51; *see Hoechst*, 174 F.3d at 419.⁴

DuPont suggests (at 41-42) that Kolon waived any sufficiency-of-the-evidence challenge by failing to bring a *Daubert* challenge to Jaffe's testimony. But Jaffe did not disclose his erroneous conception of "readily ascertainable" until trial. *See* JA-XII-5215-5383; JA-XIII-5413-5883. Regardless, the "admissibility" and "sufficiency" of expert testimony "necessitate different inquiries and involve different stakes," and the latter inquiry is more stringent than the former. *In re Joint Eastern & Southern Dist. Asbestos Litig.*, 52 F.3d 1124, 1132-33 (2d Cir. 1995); *see City of Tuscaloosa v. Harcross Chems.*, 158 F.3d 548, 564 (11th Cir. 1998). The admitted evidence must still be sufficient to meet the plaintiff's burden of proof.

B. Kolon is entitled to judgment as a matter of law to the extent DuPont failed to "assess *each alleged trade secret* according to the requisite elements."

⁴ DuPont asserts (at 43) that Kolon failed to identify public sources in which the trade secrets were publicly disclosed. That is incorrect, *see* JA-XXXIV-16857, but it was *DuPont* that bore the burden of proof on this issue.

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MicroStrategy v. Bus. Objects, 331 F. Supp. 2d 396, 420-21 (E.D. Va. 2004) (emphasis added); *see* Kolon Br. 52-55.

DuPont's defense of its *en masse* litigation strategy is unavailing.⁵ For example, DuPont claims (at 45) that there is a difference between testimony about trade secrets "in the aggregate," and testimony about "a number of trade secrets at the same time." But that is an obviously illusory distinction. For example, DuPont does not—and cannot—dispute that its expert testified about all 17 [REDACTED] [REDACTED] (and the four documents related to those secrets) at once, without explaining how each *individual* secret satisfied each element of the VUTSA. JA-XVIII-8405-8411; *see* JA-XVIII-8400-8404 (aggregate testimony on [REDACTED] [REDACTED] JA-XVIII-8414-8417 [REDACTED] This is simply not how trade-secret litigation is supposed to work. *See Decision Insights v. Sentia Grp.*, 311 F. App'x 586, 594 (4th Cir. 2009) (each trade secret must be analyzed "separate and apart" from the others).

C. Kolon is entitled to judgment as a matter of law to the extent DuPont's trial proof diverged from the trade-secret definitions in the "juror notebook." For

⁵ DuPont (at 44) faults Kolon for "relying almost entirely on post-trial submissions." But DuPont asserted factual support for its 149 trade-secret claims in post-trial exhibits, *see* JA-XXXVI-18054-18211, and Kolon responded in kind, *see* JA-XXXVI-18212-18457; JA-XXXVII-18296-18457. DuPont can hardly fault Kolon for relying on those exhibits.

example, DuPont sought to prove trade secrets 2 and 3 through a one-page chart that does not contain several components of the juror-notebook definitions. Kolon Br. 56-57; *see id.* at 58 (explaining similar deficiencies in proof of TS 12 and 33).

DuPont now attempts (at 47-48) to backfill these glaring omissions in its documentary proof by pointing to trial testimony from its witnesses Gabara, Moore, and Jaffe. But throughout this case DuPont consistently took the position that its trade secrets were contained *solely* within the documents Kolon received from its consultants: “[w]e have always said the trade secrets are defined in the documents that they stole. That’s how we defined them. That’s how we’re putting on the case. That’s what we’ve done the whole time.” JA-V-2272; Kolon Br. 14-15. Any other result would be untenable, as Kolon obviously could not have “misappropriated” information contained solely in after-the-fact witness testimony.

Kolon exhaustively detailed inconsistencies between the juror notebook definitions and DuPont’s documentary proof for more than two dozen trade secrets. JA-XXXVII-18297-18328. Kolon is entitled to judgment as a matter of law on each of these claims, as well as the combination trade secrets that DuPont identified for the first time in the middle of trial. Kolon Br. 58-59.

D. DuPont does not defend the “reference use” theory its counsel advanced at closing, whereby *retaining* secrets for future reference could amount to

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“use.” Instead, DuPont attempts to minimize the importance of this argument by claiming (at 50) that closing arguments “are not evidence.” But there is no hiding the fact that, in DuPont’s critical summation of its case, it encouraged the jury to infer “use” from evidence of document storage, JA-XXVII-12927, based on this untenable “reference use” theory.

DuPont’s claim (at 50-51) of “specific” and “extensive” evidence of actual trade-secret use is plainly deficient. For the business trade secrets, DuPont cites (at 50-51) exactly two pieces of evidence. The first is a Kolon e-mail (P-0370) that refers to [REDACTED] JA-XXII-10303. Potential future use is obviously a far cry from actual, current use. The second piece of evidence is testimony that Kolon employees retained certain DuPont business data on their computers. JA-V-2209-2216. But, once again, mere *retention* for future reference is insufficient to establish use, as DuPont recognized when it wisely abandoned that theory.

As to the technical trade secrets, DuPont primarily relies (at 52-53) on a few discrete similarities between certain equipment parts in the two companies’ production lines. But no witness testified that this handful of similar parts—all that DuPont could identify despite multiple plant inspections—met the definition of a trade secret or linked them to *any* of the 149 alleged trade secrets. *Cf.* JA-V-

2340:9-12 (admitting certain parts are not trade secrets). Nor did DuPont show that such information was misappropriated; to the contrary, DuPont concedes (at 54) that this equipment was in place *before* Kolon first retained consultants in 2006. JA-XIX-8780, 8842. DuPont asserts (at 53) that it offered pre-2006 evidence of misappropriation, but its only citation—a vague reference to a drawing of off-the-shelf equipment from Japan, accompanied by no evidence that the drawing is either a trade secret or misappropriated, JA-XIV-6089-6120—lends no support to the “use” verdict.

Finally, DuPont (at 51-52) points to minutes, transcripts, and internal documents as evidence of use, but it does not dispute that those materials at most refer to potential *future* use. DuPont maintains that the materials nonetheless support a use verdict because no Kolon employees testified that they did *not* use the trade secrets. That *ad hoc* recalibration of the burden of proof fails because DuPont is the plaintiff. Regardless, Kolon’s expert gave unrebutted testimony that Kolon did not use the trade secrets, Kolon Br. 60-61, leading even the district court to observe at one point that Kolon “pretty well demonstrated how [DuPont] didn’t prove production use.” JA-IX-3993. The use verdict reflects an unreasonable inference from thin reeds of vague evidence, notwithstanding overwhelming evidence to the contrary.

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III. THE \$920 MILLION DAMAGE AWARD WAS GROSSLY EXCESSIVE, AND WAS THE PRODUCT OF FLAWED JURY INSTRUCTIONS AND UNRELIABLE EXPERT TESTIMONY.

Not once in this case has DuPont attempted to show that it lost customers or profits as a result of Kolon's purported misappropriation of a limited number of outdated documents from the 1970s and 1980s. Nor has it sought to show that Kolon earned additional profits or achieved *actual* cost savings in its manufacturing operations by using the alleged trade-secret material.

Instead, DuPont argues that it is entitled to nearly a billion dollars of damages to recoup [REDACTED]

[REDACTED] In reaching those figures, DuPont's expert witness (Jarosz) made no adjustments for technological changes over the intervening three decades, publicly disclosed information, and information about Kevlar technology and applications that Kolon never received. That calculation is nonsensical on its face, and DuPont's halfhearted defense of its expert's so-called "methodology" does not withstand scrutiny.⁶

⁶ Because the damages issues are not "distinct and separable" from liability issues, this Court should grant a new trial on all issues if it vacates the damages award. *Gasoline Products v. Champlin Refining*, 283 U.S. 494, 500 (1931).

A. The District Court Gave Erroneous Instructions Regarding the Calculation of Avoided-Cost Damages.

The shockingly excessive damage award flowed directly from two instructional errors regarding the calculation of unjust-enrichment damages. Contrary to DuPont's suggestion (at 53-54), Kolon challenges the *legal error* in the instructions (which is reviewed *de novo*), not the failure to give its precise instruction.

1. The district court gave an erroneous and incomplete instruction because it failed to advise the jury that unjust-enrichment damages require pecuniary gain by the defendant, in the form of *actual* cost savings or profits achieved through *use* of the misappropriated information. *See* Kolon Br. 64-68; *Restatement* § 45 & cmts. b, c, f; JA-VIII-3659, 3742-3743 (proposed instructions).

DuPont suggests (at 54-56) that Virginia does not follow this well-established common-law rule. But this Court has expressly held that Virginia trade-secret law authorizes either “damages sustained by the victim” (actual damages) or “the profits earned by the wrongdoer *by the use of the misappropriated material*” (unjust enrichment damages). *Sperry Rand v. A-T-O*, 447 F.2d 1387, 1392 (4th Cir. 1971) (emphasis added).

Nothing in the VUTSA departs from the settled common law rule limiting unjust-enrichment damages to *actual* profits or cost savings achieved by the

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defendant. *See Tilghman v. Proctor*, 125 U.S. 136, 146 (1888) (defendant must account for “those [profits] which he *did* make, by the use of the plaintiff’s invention,” not “those which he might reasonably have made”). The VUTSA provides that “[d]amages *can include* ... the unjust enrichment caused by misappropriation.” Va. Code. § 59.1-338 (emphasis added).⁷ But this simply means that the plaintiff may prove unjust enrichment, not that every type of misappropriation *necessarily* gives rise to unjust enrichment. And the VUTSA provides no support whatsoever for DuPont’s unprecedented theory that, instantaneously upon *acquisition* of trade secrets, the defendant is unjustly enriched in the full amount of [REDACTED] related to the product in question.

Contrary to DuPont’s suggestion (at 56-58), the district court’s error was not rendered harmless by the jury’s finding of “use” for each of the 149 trade secrets. Even if Kolon were found to have used the trade-secret information to some extent, unjust-enrichment damages must be limited to Kolon’s actual cost savings from that use. Yet DuPont offered no evidence at all on this critical issue. Indeed, its expert prepared his report before DuPont had even *defined* its trade secrets, and he

⁷ Unless otherwise indicated, the statutory term “unjust enrichment” has its “accumulated settled meaning under common law and equity.” *Sinai Hospital v. Nat’l Benefit Fund*, 697 F.2d 562, 566 (4th Cir. 1982).

readily admitted that he did not know exactly what the trade secrets covered. JA-XIV-6511; JA-XV-6848-6849; JA-XIV-6550-6551, 6554-6563; JA-XVIII-8593-8594, 8598; JA-XIX-8601-8606. There was thus no evidentiary link whatsoever between the damage award and the use verdict.

In sum, a “hapless misappropriator” that obtains trade secrets but does not use them to achieve *actual* cost savings or earn additional profits might be held criminally liable for its actions—or be subject to equitable relief barring future use of that information—but cannot be held liable for unjust-enrichment damages. A party is not “enriched” at all if it has not put the misappropriated trade-secret material to profitable use. The district court’s erroneous and incomplete instruction on this critical issue requires a new trial on damages.

2. The district court further erred by refusing to instruct the jury that DuPont may not recover compensatory damages for information that had been publicly disclosed. Kolon Br. 67-69.

DuPont’s suggestion (at 57-59) that such an instruction would have been “redundant” is disingenuous. For purposes of *liability*, the district court properly instructed the jury that generally known or readily ascertainable information does not qualify as a trade secret (even as it excluded evidence plainly relevant to that issue, *see supra* 7-10). But the calculation of damages is an entirely separate

question. Even if the defendant is liable for misappropriation, it is hornbook law that *damages* cannot include “the cost of experimentation to discover the component or components which were [publicly] disclosed.” *Servo v. General Electric*, 393 F.2d 551, 556 (4th Cir. 1968). This rule is especially important in a case such as this one where the plaintiff primarily alleges “combinations of” trade secrets that consist of both public and non-public information. *Id.* at 554-56; *see* JA-XVIII-8520.⁸

Moreover, a proper instruction on damages was critical because DuPont’s expert explicitly *refused* to make any offsets to his calculations to account for information that had been publicly disclosed through, for example, DuPont’s 700-plus aramid-technology patents. JA-XIV-6570-6572, 6580-6581; JA-XVIII-8564-8565. Ironically, DuPont now asserts (at 65-67) that it was up to the *jury* to adjust damages downward to account for this abundance of publicly available information. But without proper instructions, it is unclear whether the jury even knew it had the power to make such adjustments.

⁸ The district court repeatedly excluded evidence of public disclosures. *See, e.g.*, JA-XIX-8810:6-23.

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

Under Rule 702 and the *Daubert* doctrine, expert testimony must be the product of reliable principles and methods. A damage award, in turn, must be vacated if it was premised on expert testimony that was “without any basis in economic reality” and “derived from speculative assumptions.” *Shockley v. Arcan*, 248 F.3d 1349, 1362-64 (Fed. Cir. 2001); see *Smithey v. Sinclair Refining*, 122 S.E.2d 872, 876 (Va. 1961) (damage award must be vacated if it “bears no reasonable relation to the damages disclosed by the evidence”).

DuPont repeatedly argues that Kolon is merely quibbling with the jury’s factual findings but, to the contrary, Kolon is challenging Jarosz’s entire *methodology*. Despite the label DuPont affixes to it, this was not in any way a traditional unjust-enrichment analysis. Instead, Jarosz used [REDACTED] [REDACTED] as a (grossly inexact) proxy for Kolon’s current costs of reproducing the trade secrets, while failing to make necessary adjustments for amounts that clearly had no place in the damage award. And Jarosz’s reports and testimony were riddled with “assumptions which are speculative and are not supported by the record.” *Tyger Constr. v. Pensacola Constr. Co.*, 29 F.3d 137, 142 (4th Cir. 1994). DuPont’s attempts to backfill the

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gaping holes in Jarosz's analysis are unavailing, and that unreliable testimony cannot support a nearly billion-dollar judgment.

1. [REDACTED] Are an Inherently Flawed Proxy for Kolon's Current Costs.

a. Jarosz's methodology was hopelessly flawed because he sought to compute damages based on [REDACTED] [REDACTED] rather than the costs that Kolon would have incurred *at the time of the misappropriation* if it reproduced the specific trade-secret material from scratch. Kolon Br. 70-72. Indeed, Jarosz's analysis was wholly divorced from the specific information that Kolon allegedly misappropriated; Jarosz readily admitted that he did not know exactly what information was included in the trade-secret claims, and he did not even attempt to estimate Kolon's costs of developing that particular information. *Id.*

Because of massive technological advances, it is far less expensive to reproduce the alleged trade secrets today than it was for DuPont to initially develop this information more than 40 years ago. DuPont asserts (at 65) that Kolon did not explain "*how* technological changes since the 1970s would have made it less costly for Kolon to replicate DuPont's R&D." But DuPont's own witness acknowledged that "considerabl[e]" advances in computing technology "have made R&D faster, more accurate, and more efficient." JA-XIX-8651-8654. He also testified about

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“substantial advances” in polymer chemistry, chemical engineering, and materials engineering over the four decades since DuPont developed its alleged trade-secret material. JA-XIX-8654. Bafflingly, Jarosz blinded himself to this progress and relied on the demonstrably false assumption that Kolon in the mid-2000s would have expended [REDACTED]

[REDACTED] are also a poor proxy for Kolon’s avoided costs because broad swaths of [REDACTED] have been publicly disclosed through patent filings, litigation, and research publications. Kolon Br. 5-6. For example, each of DuPont’s aramid-technology patents required a full disclosure of the claimed invention, and this information is easily accessible to any interested observer at <http://patft.uspto.gov/>.

DuPont’s primary response is to quote (at 66) a snippet of testimony discounting the value of the publicly disclosed information as [REDACTED] JA-XVII-8064-8065. But that testimony only referred to [REDACTED]

[REDACTED] Nor could it have. Each of those 700-plus patents required DuPont to demonstrate that the patent was a novel invention that advanced the prior art. Unless DuPont perpetrated a massive fraud on the PTO, failing to make any

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adjustment for related public disclosure is an extraordinary oversight. There is nothing [REDACTED] about it.

DuPont further asserts (at 66) that [REDACTED]

[REDACTED] If true, that actually supports Kolon as to damages. Jarosz's calculations made Kolon pay [REDACTED]

[REDACTED] To the extent there are material differences between the two, there is no basis for making Kolon pay for both.

[REDACTED] have no place in a proper calculation of *trade-secret* damages.

DuPont also relies (at 66) on testimony that [REDACTED]

[REDACTED]. JA-XVII-8085; JA-XVIII-8118; JA-XIX-8627-8630. But this does not change the fact that once a technology has been patented, it has been irrevocably placed in the public domain. Kolon had access to this information separate and apart from any alleged misappropriation, and cannot be held liable [REDACTED]

[REDACTED] See Va. Code § 59.1-338 (damages must be "caused by misappropriation").

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DuPont (at 67) seeks to distinguish this Court's decision in *Servo*, 393 F.2d 551, on the ground that a damages calculation should exclude the costs of developing publicly available information only if such apportionment is possible. But this Court held in no uncertain terms that damages for misappropriation of information "which was *not publicly disclosed* ... should be measured by [the defendant's] cost of acquiring the same information by its own experimentation." *Id.* at 553 (emphasis added). The Court further recognized that another company's costs of developing trade-secret material can serve as a proxy for the defendant's avoided costs only if the former costs can be "identified and segregated." *Id.* at 557. Yet DuPont has consistently taken the position in this case that [REDACTED]

[REDACTED] JA-XV-6705. *Servo* thus reinforces the flaws of Jarosz's whole enterprise of [REDACTED]

[REDACTED]

Equally indefensible is Jarosz's refusal to adjust his calculations to account for [REDACTED] that Kolon simply never received. Kolon Br. 74-79. DuPont concedes (at 67-68) that its trade-secret claims are premised on a mere 16 technical documents (mostly from the 1970s and 1980s), totaling 750

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pages. The notion that this tiny sliver of information covers the field of [REDACTED] [REDACTED] is nonsensical. Kolon was not “enriched” at all—much less “unjustly” so—by information it never received.

DuPont claims (at 67-68) that a [REDACTED] (P-0653) is a [REDACTED] But that document was [REDACTED] [REDACTED] when Kolon received it, and it contains [REDACTED]

[REDACTED] JA-XVII-7691; JA-XXXIV-16773; JA-VI-2506; JA-XVIII-8177; JA-XIX-8623-8625. Moreover, [REDACTED]

[REDACTED] JA-XVII-8069; JA-XIX-8920-8921, 4167-68.

Regardless, DuPont’s own witnesses testified that the [REDACTED] [REDACTED] JA-XVII-7693-7694. Even assuming, incorrectly, that this document provides [REDACTED]

[REDACTED]⁹ this would hardly justify forcing Kolon to [REDACTED]

⁹ DuPont’s witnesses merely described [REDACTED] [REDACTED] JA-XVII-7691-7694, 8068-8069.

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Moreover, DuPont has no response to the fact that Kolon received virtually no information from its consultants about [REDACTED]

[REDACTED] Kolon Br. 75; *see* JA-XVIII-8198-8212. Indeed, DuPont's own witnesses conceded that [REDACTED]

Kolon Br. 93-94. There was thus no colorable basis for forcing Kolon to [REDACTED]

[REDACTED]

[REDACTED]

Jarosz also failed to subtract [REDACTED]

[REDACTED] even though DuPont presented no evidence that Kolon received *any* such information. JA-XVIII-8113-8115, 8599-8600; JA-XIX-8647. DuPont concedes (at 69), and trial testimony confirms, that [REDACTED]

[REDACTED]. JA-XVII-8058-8059; JA-XVIII-8113-8120; DX-6286. Having received *none* of this research, Kolon cannot be held liable for these substantial sums.

DuPont suggests (at 70) that Kolon should pay [REDACTED]

[REDACTED] because [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] *see* Kolon Br. 79, and there is no basis whatsoever for Jarosz's assumption

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that [REDACTED].¹⁰ And Jarosz's further assumption that [REDACTED] [REDACTED]—and that he conveyed all of this information to Kolon—is farfetched. Kolon Br. 77-78.

As for the business trade secrets, DuPont asserts (at 70) that Kolon is liable [REDACTED] because Kolon received [REDACTED]. In fact, that figure refers to the total number of pages on the Mitchell CD; DuPont claimed only a fraction of this information (585 pages) as business trade secrets. JA-XXXVI-18054-18088. And DuPont's witnesses readily admitted that it did not take [REDACTED] [REDACTED] Kolon Br. 79-80. The \$85.5 million damage award for business trade is grossly disproportionate to any actual costs that Kolon avoided through its alleged misappropriation.

b. In defending Jarosz's failure to reduce his damages estimate to account for publicly disclosed information and information that Kolon never

¹⁰ DuPont asserts (at 69) [REDACTED], but fails to establish the documents' provenance. Indeed, most of the documents correspond to the time frame [REDACTED] JA-XXXV-17150:10-17160:2.

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received, DuPont repeatedly contends (at 66, 68-70) that it would have been too difficult to segregate its expenditures in this manner. But that argument is flatly inconsistent with the position DuPont has taken elsewhere. After DuPont dropped 41 alleged trade secrets before trial, Jarosz reduced his damages estimate by 5%, presumably because a damages calculation that was not linked to the extent of the misappropriation would have been laughably implausible. JA-XIX-8607-8608, 8614-8616; JA-XXXIV-16913.

To be sure, the 5% figure was [REDACTED] JA-XVIII-8115, and only underscores the arbitrariness of Jarosz's calculations. But Jarosz at least made *some* attempt to account for the 41 dropped trade secrets. His refusal to make *any* adjustments to account for technological changes since 1971, publicly available information, and information Kolon never received, renders his methodology indefensible and wholly unreliable.¹¹

DuPont, the plaintiff, bears the burden of “prov[ing] the amount of [] damages by using a proper method and factual foundation for calculating

¹¹ Kolon's expert (Wagner) performed a traditional unjust enrichment analysis that focused on how much it would have cost Kolon to re-create the *specific* trade-secret information in light of existing technology and information in the public domain at the time of the alleged misappropriation. JA-XX-9498-9499, 9575-9584. And Wagner provided extensive testimony about the omissions and baseless assumptions pervading Jarosz's analysis. JA-XX-9505-9507, 9510-9512, 9521-9525, 9565-9575. DuPont's repeated assertion (at 53-54, 55-56, 61, 73) that Jarosz and Wagner employed the “same” methodology does not withstand scrutiny.

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damages.” *Saks Fifth Avenue v. James*, 272 Va. 177, 189 (2006); *see id.* at 188 (“speculation and conjecture cannot form the basis of the recovery”). Jarosz’s inability or unwillingness to make the necessary adjustments hardly justifies saddling Kolon with a grossly overbroad damage award.¹² And the need to make these massive adjustments in the first place only reinforces that [REDACTED] [REDACTED] are a fundamentally flawed proxy for the costs Kolon allegedly avoided through misappropriation. *Servo*, 393 F.2d at 557 (use of a proxy is appropriate only if the costs of *developing the trade-secret material* can be “identified and segregated”).

Similarly, DuPont’s assertion (at 68) that Kolon [REDACTED] [REDACTED] is no defense at all. Even if true, this does not change the fact that Kolon received only [REDACTED] [REDACTED]

c. Finally, DuPont asserts (at 63-64) that Jarosz performed “several checks” to confirm the accuracy of his figures, but those “checks” are mere window dressing. For example, the ratio of [REDACTED] [REDACTED] *see* JA-XVIII-8570-8571, merely shows that [REDACTED]

¹² DuPont’s argument also fails on the facts. Significant evidence showed that it would have been straightforward to estimate damages on a more granular basis. Kolon Br. 77.

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[REDACTED] And the fact that [REDACTED]
[REDACTED]

JA-XVIII-8545, only confirms what no one doubts, namely that DuPont is a big company. Comparing Jarosz's absurdly large unjust-enrichment award to a few irrelevant bigger numbers does not provide meaningful "checks"; it only underscores the unreliability of Jarosz's overly simplistic methodology.

2. Jarosz Failed To Justify His Assumption About Wage Rates That Inflated the Damage Award by \$667 Million.

Jarosz inflated the damage award nearly *fourfold*—by \$667 million—by using [REDACTED] as a proxy for Kolon's costs, based on the assumption that Kolon would have hired a huge U.S.-based R&D staff to replicate the trade-secret information. JA-XVIII-8584-8586; JA-XV-6850. That is an absurd and baseless assumption. Kolon has *zero* research and manufacturing personnel in the United States, and it is nonsensical to suggest that Kolon would have set up a second, 300-person research organization halfway around the world from its headquarters and manufacturing facilities. Kolon Br. 80-81.

DuPont's only answer (at 71-72) is that Kolon had quality issues with its initial aramid fiber and eventually hired consultants from outside Korea. But there was undisputed evidence showing that Kolon suspended earlier development efforts during the Asian financial crisis. JA-XIX-8777-8778. There was no

evidence whatsoever that Kolon's earlier difficulties were caused by the inherent ineptitude of Korean scientists and engineers, rather than the difficulties of developing a complex new product. And the fact that Kolon hired four consultants from Japan and the United States to help with quality-control issues reveals nothing about where Kolon would have located its broader research operation.

DuPont does not even attempt to defend the use of U.S. wages to calculate damages for misappropriation of the business trade secrets. There was no suggestion that Kolon's marketing efforts in Korea were ineffective or inadequate, and it strains credulity to suggest that Kolon would have built a redundant 150-person marketing organization in the United States to support a Korean business. Kolon Br. 81-82.

IV. THE PERMANENT INJUNCTION MUST BE VACATED.

The district court compounded the error of its massive damages award with sweeping injunctive relief barring Kolon from the para-aramid fiber business for the next 20 years. While each remedy is independently flawed, the combination of the two is wildly disproportionate to any benefit Kolon obtained from its alleged misappropriation.

1. Although the VUTSA authorizes injunctive relief, this remains an extraordinary remedy, to be granted only when a party is threatened with injury for

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which he cannot obtain a sufficient remedy at law. DuPont acknowledges (at 76) that the billion-dollar damage award would be devastating for Kolon, which it suggests “cannot even afford the premium on an appeal bond.” Although DuPont asserts that this warrants a draconian permanent injunction, it actually underscores that the damages are more than sufficient to remedy Kolon’s alleged misconduct. *See DSC Communications v. Next Level Communications*, 107 F.3d 322, 328 (5th Cir. 1997) (“the money damages DSC recovered sufficiently compensated it for that injury, and the drastic solution of a permanent injunction is unnecessary”).

DuPont insists (at 76) that Kolon must pay the price, however “painful,” for its alleged wrongdoing. But this is not a criminal case in which the court’s role is to mete out punishment. Because of “the public interest in promoting competition, such punitive injunctions are ordinarily inappropriate in trade secret actions.” *Restatement* §44, cmt. c. And that rule has special force here, given that the damages award compensated DuPont not only for the trade-secret information, but

 Adding a 20-year shutdown injunction to the mix would serve no remedial purpose, and would result in a remarkable windfall for DuPont.

2. This case, moreover, fails to satisfy the traditional federal-law criteria for injunctive relief. DuPont disputes that the federal standard applies and

contends (at 77-80) that a statutory violation alone suffices to warrant injunctive relief under Virginia law. It theorizes that federal courts may *add* to state-law remedies but not *restrict* them.

That theory, however, is premised on dicta from *Capital Tool v. Maschinenfabrik Herkules*, 837 F.2d 171 (4th Cir. 1988), that lacks stare decisis weight. The Supreme Court has long held that federal law governs equitable remedies in diversity cases. Kolon Br. 87-88. And “even if a permanent injunction is permissible under state law, [a federal court] may still exercise its discretion to deny the permanent injunction.” *United Nat. Maintenance v. San Diego Convention Center*, 2012 WL 3861946, at *4 (S.D. Cal. 2012) (collecting cases). Discretion is particularly warranted here, where Virginia law *allows*, but does not require, the court to grant injunctive relief to a successful plaintiff. Va. Code. § 59.1-337(A).

The district court’s conclusion that the availability of injunctive relief under state law ended the inquiry thus reflected a clear error of law, and its refusal to require DuPont to satisfy the federal four-factor test flowed directly from that error. Any equitable balancing of those factors would have favored Kolon for the simple reason that DuPont has never attempted to show irreparable injury. Kolon Br. 88-90. And the public interest in competition is disserved by an injunction that goes

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far beyond enjoining misappropriation, by eliminating a competitor from the marketplace solely to punish Kolon.

3. The injunction is overbroad even under Virginia law. The VUTSA provides that “[a]ctual or threatened misappropriation may be enjoined.” Va. Code § 59.1-337(A). A shutdown injunction is not tailored to remedying “misappropriation.” *See Levisa Coal v. Consolidation Coal*, 662 S.E.2d 44, 61 (Va. 2008) (injunction must “rest[] on the sound judicial discretion to be exercised upon consideration of the nature and circumstances of a particular case”).

DuPont notes (at 83) that global shutdown injunctions are not unprecedented, but that hardly justifies this injunction on these facts. DuPont has never argued that it lost a single customer or one cent of profit because of Kolon’s conduct, and any purported unjust enrichment will be disgorged through money damages. Moreover, the 20-year term is drawn from thin air, and ludicrous given that most of the purported trade secrets [REDACTED] The injunction is thus manifestly “out of proportion to the [misappropriation] injury [DuPont] seeks to remedy.” *Seventeen v. Pilot Life*, 205 S.E.2d 648, 653 (Va. 1974).

4. The injunction’s overbreadth is further reflected in the offense to international comity of the forced shutdown of Korean factories that produce critical supplies for the Korean military and law enforcement. DuPont responds (at

83-84) by dismissing *Nintendo v. Aeropower*, 34 F.3d 246 (4th Cir. 1994), as a trademark case. But *Nintendo* holds more generally that, where extraterritorial injunctions are concerned, courts must take care to consider fully “concerns of international comity.” *Id.* at 251. Those concerns are squarely implicated here, given Kolon’s undisputed evidence that the injunction will deprive the Korean military of its preferred supplier of bullet-proof vests and force it into a multi-year replacement process. Kolon Br. 91-92.

DuPont’s remaining contentions—that the Korean government could have used the time since this suit began to find a replacement, and that DuPont could have been the Korean government’s preferred supplier but for the misappropriation—are pure speculation, and cannot justify the district court’s intrusion upon the sovereign prerogatives of a close U.S. ally.

5. In any event, the worldwide shutdown injunction is unsupported by the record. DuPont maintains (at 84) that Kolon was estopped by the jury verdict finding that Kolon “used” each of the alleged trade secrets. But even if the use verdict is upheld, the jury did not necessarily find *production* use (as opposed to testing, development, or reference use), and the documents upon which DuPont relied addressed only *potential future use*. Kolon Br. 61-63, 93-94.

DuPont further argues (at 85) that a shutdown injunction was warranted because the trade secrets were inextricable components of the production process. This happens, for example, where it is difficult to “distinguish[] further improper use or disclosure of the trade secret from independent discovery.” *Restatement* §44 cmt. d. But that was not this case here. Kolon’s para-aramid production dated back to 1980, decades before Kolon hired Mitchell, Schulz, Ross, Hoover, and Sumida as consultants. The district court further acknowledged that by 2005, Kolon was selling para-aramid products. The court nonetheless concluded that, until Kolon’s alleged misappropriation efforts began in 2006, Kolon’s processes were “slow” and its products not “consistent[.]” But *improvement* in Kolon’s operations after the alleged misappropriation hardly establishes that Kolon could not have independently manufactured para-aramid products without that misappropriation. Indeed, it is undisputed that Kolon *was* manufacturing para-aramid products before 2006.

6. Finally, the “use” injunction is insufficiently specific. The “specificity provisions of Rule 65(d) are no mere technical requirements,” *Schmidt v. Lessard*, 414 U.S. 473, 476 (1974), and “even emergency conditions have not warranted a departure from them,” 11A Wright & Miller, *Federal Practice and Procedure* § 2955. DuPont relies (at 87) on the juror notebook (P-1255) for the requisite

specificity, but DuPont insisted at trial that its trade secrets are the documents themselves, *not* the juror-notebook definitions. JA-V-2270-2272; Kolon Br. 14-15.

Regardless, the cross-reference to the juror notebook also violates Rule 65(d)'s express requirement that injunctions “describe in reasonable detail—and *not by referring to the complaint or other document*—the act or acts restrained or required.” *See also Petrello v. White*, 533 F.3d 110, 115-16 (2d Cir. 2008). That cross-reference is especially problematic because the notebook—as well as the trade-secret documents from trial—are attorneys-eyes-only, and cannot be accessed by Kolon employees without a modification of the protective order.

Finally, DuPont contends (at 87) that Kolon can consult the single in-house counsel granted access at trial to sealed proceedings, but she has no understanding of technical data and is prohibited from disclosing protected information to others. DuPont's concession that enjoined employees cannot make sense of the injunction without consulting a third party only underscores that the prohibited conduct is not specified “within the four corners of the injunction.” *SEC v. Goble*, 682 F.3d 934, 952 (11th Cir. 2012). The use injunction must be vacated.

V. THIS CASE SHOULD BE REASSIGNED ON REMAND.

The facts and history of this case speak for themselves. The district court eviscerated Kolon's ability to mount a defense through a remarkable series of one-

sided procedural rulings. The court then entered *both* a shockingly overbroad damages judgment *and* a worldwide shutdown injunction. If further proceedings are needed on remand, the interests of sound judicial administration counsel in favor of reassignment. The district judge would likely have “substantial difficulty in putting out of his ... mind” all of these “previously expressed views or findings” if the case is remanded. *United States v. North Carolina*, 180 F.3d 574, 583 (4th Cir. 1999). This Court should accordingly exercise its sound discretion to reassign the case on remand to ensure that Kolon can defend itself against DuPont’s serious allegations on a level playing field.

CONCLUSION

The final judgment and permanent injunction should be vacated and the case remanded and reassigned to a different judge.

Respectfully submitted,

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February 22, 2013

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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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:

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The redacted reply brief will be served via the ECF system as noted above.

Pursuant to agreement between the parties, the sealed reply brief will be served via email on the counsel listed below, with two paper copies each being sent via overnight delivery:

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

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