Stranger danger

Rick Darwin of Buchalter Nemer discusses the *DuPont v Kolon* trade secret case and how companies should protect themselves when hiring new staff

On 14 September 2011, a jury in the US District Court for the Eastern District of Virginia found a South Korean company, Kolon Industries, Inc, liable for misappropriating trade secrets from plaintiff EI du Pont de Nemours. The damages awarded to DuPont were staggering: $919 million, reported by *Bloomberg* to be the third largest jury verdict in the US in 2011. The case is fascinating on a number of levels, and involves elements of international crime and allegations of antitrust violations. More importantly, it offers some crucial lessons for any company that hires employees from its competitors, and for attorneys who litigate trade secret disputes.

DuPont has manufactured and sold a product called Kevlar for over 30 years. Kevlar is a high-strength para-aramid fibre used in bulletproof body armour, clothing and equipment (see picture). In 2005, Kolon entered the market with its own para-aramid fibre product, Heracron. From 2007 to 2008, Kolon hired a number of former DuPont employees who had been directly involved in the development, fabrication, and/or marketing of Kevlar. One of those employees was Michael Mitchell, who had worked in sales and technical positions for DuPont from 1982 until his termination in 2006, and whose last position related to Kevlar sales and marketing. After his termination from DuPont, Mitchell retained numerous documents and files reflecting DuPont's confidential information relating to Kevlar. In 2007, Mitchell entered into a consulting arrangement with Kolon. Mitchell later admitted that during the course of that consulting relationship, he ferried DuPont information to Kolon.

When DuPont learned of Mitchell's consulting relationship with Kolon, it initiated an investigation into his activities. Shortly thereafter, DuPont reached out to the Federal Bureau of Investigation (FBI). The FBI searched Mitchell's home and uncovered DuPont documents and computer files containing confidential and proprietary information. Mitchell ultimately pled guilty to theft of trade secrets and obstruction of justice, and was sentenced to 18 months in prison.

Picture: homeros / Shutterstock

On 3 February 2009, DuPont filed a civil suit against Kolon for the theft of trade secrets and confidential information. The jury's verdict in September 2011 appears to have been driven in large part by two factors:

- Mitchell's admitted theft of DuPont confidential materials; and
- A sanction issued by the court against Kolon based upon its large scale deletion and destruction of evidence.

The latter was the subject of an order issued by the court on 21 July 2011, in which it found that, as a consequence of Kolon's spoliation of evidence, the jury would be informed that certain Kolon employees, upon learning that DuPont had sued Kolon, deleted electronically stored information that would otherwise have been available to DuPont for use in supporting its case. The jury was further instructed that it was entitled to infer that the unrecoverable deleted information would have been helpful to DuPont's claims of trade secret theft, and harmful to Kolon.

Litigation holds: what not to do

The order granting DuPont's motion for sanctions provides a cringe-worthy narrative of widespread destruction of evidence. Among other things, the court found that Kolon and its employees had committed the following mistakes, mis-steps, and affirmative misconduct:

- Shortly after the lawsuit was filed, Kolon circulated a litigation hold notice to selected high-level executives, but never sent it to key employees who were in possession of relevant documents and materials;
- Kolon later circulated an English-language litigation hold notice to its employees in South Korea, most of whom spoke only Korean;
- Shortly after learning about DuPont's lawsuit, a group of Kolon employees held a meeting to discuss the deletion of files and folders containing confidential DuPont information. Screen shots from their computers showed that the same employees then marked multiple files on their computers with notes like "need to delete" and "remove all";
- Kolon employees ultimately deleted a total of 17,811 files and email items, over 9,000

of which contained "keywords" that were relevant to DuPont's claims;

- Throughout the litigation, Kolon management failed to adequately stress the importance of document preservation to its employees;
- Multiple Kolon employees intentionally and in bad faith deleted files and emails from their computers with knowledge that DuPont had filed a lawsuit; and
- At least five key employees and executives deleted emails specifically because they realised they could be helpful to DuPont's case.

Interestingly, DuPont was also found to have deleted emails (as part of its standard email deletion protocols), yet it avoided similar sanctions. The court found that there was no spoil of evidence because, at the time DuPont's first litigation hold notice was circulated (shortly after it discovered Mitchell's potential wrong doing, and prior to the initiation of the lawsuit), the scope of DuPont's knowledge was quite limited. The court also took into account DuPont's efforts to ensure the effectiveness of its litigation hold. Those efforts included promptly hiring counsel to assess its litigation hold obligations, periodically refreshing and updating its litigation hold notice, ensuring that foreign affiliates were aware of the litigation hold, and taking steps to ensure that departing employees transferred potentially relevant information to their successors. All of these factors contributed to the court's denial of Kolon's sanctions motion.

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Steps to take

For companies contemplating a trade secret action against a competitor, as well as those who find themselves on the receiving end of a trade secret lawsuit, the Kolon case offers some valuable insights into how to effectively institute a litigation hold, and how to avoid court-ordered sanctions.

Act promptly. One of the factors the court found persuasive in denying Kolon's motion for sanctions against DuPont was the fact that DuPont had instituted a litigation hold very early in its investigation into Mitchell's conduct. Kolon's own prompt circulation of a litigation hold notice after DuPont's lawsuit was filed (albeit an ineffective one) was also an important mitigating factor with respect to the severity of the sanctions ultimately issued by the court.

Continue to update the hold notice as the litigation evolves. The claims, parties, and witnesses almost always change during the course of a lawsuit. Be sure your litigation hold notice accurately reflects these changes, and that it is circulated to the right employees. DuPont's efforts to ensure that its litigation hold notice was updated and circulated to the proper employees was a factor considered by the court in denying sanctions against DuPont.

Do not assume that a litigation hold notice will be forwarded by executives and managers to their subordinates. Every employee who is potentially in possession of relevant documents and materials should receive the notice directly.

Advise foreign affiliates (if your company has them) of the litigation hold. When doing so, be sure the litigation hold notice is professionally translated so it is easily understood by foreign employees.

Written hold notices should be followed by telephone calls and/or face-to-face interviews with key employees, not only to ensure that they received and understood the notice, but to stress the importance of compliance. The court found Kolon's efforts in this respect lacking, and Kolon paid a very heavy price.

Lessons for companies who hire from their competitors

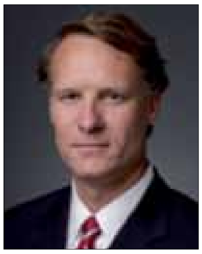
It goes without saying that if you are about to hire an employee from your competitor for the purpose of obtaining the competitor's confidential documents and materials, do not do it. Whether or not the materials actually constitute a protectable trade secret, you will be exposing your company to the risk of expensive litigation and potential liability for trade secret misappropriation, unfair competition, and interference with your competitor's business relationships.

The reality is that most companies hire people from their competitors for the benefit of their experience and expertise in the industry, not to obtain access to trade secrets. Nonetheless, employees moving from one company to another are often ignorant of the legal and contractual restrictions upon the retention and use of materials from their former employer, careless in their efforts to ensure they did not bring anything with them, or both. It is thus left up to the new employer to take reasonable steps to ensure that newly hired employees do not bring their former employer's confidential materials with them.

Do not simply assume that newly hired employees are already aware that they should not bring their former employer's documents and materials with them to their new job. Explain to them, in detail and in writing, that retaining their former employer's documents and materials is strictly forbidden, that your company does not want or need them, and that the employees will be subject to discipline and/or termination if they are found to have retained and used confidential and proprietary materials from another company. It is also a very good idea to require newly hired employees to sign contracts in which they represent and warrant that they have not retained any confidential materials or documents from their former employer. Finally, if you learn that another company's confidential and proprietary materials have already made their way into your company, quarantine them to ensure they cannot be accessed or used by anyone.

The object of these efforts is two-fold. First, they will minimise the chances that the confidential and proprietary materials of another company will find their way into your files, computers, and servers. Second, because mistakes happen, employees can be careless, and new hires are not always entirely honest, they will create a very persuasive written record demonstrating that your company did not encourage, aid, or abet the theft of a competitor's intellectual property, and in fact took affirmative steps to prevent it. If at some point your company's conduct is scrutinised by a judge or jury, these steps will pay dividends indeed.

Author



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