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Defendant PBM Graphics, Inc. (herein “PBM”), through counsel, hereby responds to Plaintiff’s Motion for Preliminary Injunction filed by NAPCO, Inc. (herein “NAPCO”) as follows:

## **I. INTRODUCTION**

NAPCO’s motion for preliminary injunction must be denied because NAPCO has failed to meet its burden of proof to obtain injunctive relief. NAPCO’s request for injunctive relief is based on nothing more than vague and conclusory allegations and the unsupported speculation of NAPCO’s President, James R. Proffit. Significantly, NAPCO has failed to even identify any trade secret allegedly misappropriated with sufficient particularity for entitlement to any relief. *Analog Devices, Inc. v. Michalski*, 157 N.C.App. 462, 468, 579 S.E.2d 449, 453 (2003)(“It is generally accepted that a plaintiff must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine whether misappropriation has or is threatened to occur.”). Other than vague references to a “registration method” and a “solution” for trimming cards, NAPCO does not identify any trade secrets allegedly misappropriated.<sup>1</sup>

NAPCO’s failure to identify its trade secrets is only a small part of NAPCO’s overall failure to demonstrate a likelihood of success on the merits of its claims. A careful reading of NAPCO’s complaint demonstrates that NAPCO freely and voluntarily provided PBM all its purported trade secrets in the hopes of getting future work from

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<sup>1</sup> NAPCO also mentions in its brief, without citation to any evidence, a “glue formulation.” See NAPCO PI Mem., p. 8. NAPCO has completely failed, however, to respond to discovery requests served on August 6, 2009, which seek the details of NAPCO’s alleged trade secrets.

PBM. Although NAPCO now believes PBM never intended to send NAPCO any work, the simple fact is that NAPCO shared its alleged trade secrets without negotiating any obligation on the part of PBM to maintain the secrecy of these purported trade secrets. For this reason, NAPCO now attempts to argue that a visitor's log signed by PBM employees visiting NAPCO to determine the status of testing, which was signed after NAPCO had been engaged to perform testing and after information concerning testing had already been shared with PBM, constitutes a confidentiality agreement between NAPCO and PBM. Not surprisingly, NAPCO cites no authority for this proposition.

NAPCO also does not offer any evidence of misappropriation by PBM other than Mr. Proffit's speculation that PBM must be misappropriating whatever trade secrets NAPCO is claiming. Proffit Affidavit ¶19 ("Based upon PBM's requests for disclosure of our development work to it and the limited amount of time required for PBM to move into production of the memorabilia cards after we confidentially disclosed the processes to PBM, PBM did not to the best of my knowledge, independently develop these processes."). In contrast to NAPCO's speculation, PBM has submitted affidavit testimony of Rick Jones and David Eastwood that demonstrates that PBM is not using any information or processes developed by NAPCO. Moreover, Mr. Jones and Mr. Eastwood describe PBM's development of its own methods of producing memorabilia cards in-house. PBM's production processes are distinctively different from any methods tried by NAPCO during testing for PBM, and PBM's methods have resulted in the production of quality, marketable memorabilia cards. Using its alleged trade secrets,

NAPCO failed to ever produce a marketable memorabilia card for PBM.<sup>2</sup>

It should be noted that PBM hired NAPCO to conduct testing for development of automated production processes needed to allow PBM to enter into a contract with the Upper Deck Company (herein “Upper Deck”). NAPCO’s testing was, however, completely unsuccessful. NAPCO could never produce anything more than poor quality memorabilia cards with uneven, torn and chipped edges. Cards with these defects failed to meet Upper Deck’s standards, as the cards were unacceptable for their intended purpose of being cherished collectibles. Due to NAPCO’s failure to develop any successful automated procedures, PBM was forced to develop production processes in-house to have any chance of doing business with Upper Deck. Thus, NAPCO cannot demonstrate a likelihood of success on the merits of its trade secret misappropriation claims.

NAPCO’s own actions also demonstrate that there is no risk of irreparable harm justifying the extraordinary remedy of a preliminary injunction. In its complaint, NAPCO alleges that PBM has misappropriated trade secrets and used them to produce memorabilia cards for Upper Deck “since as early as June 2008.” Complaint ¶30. NAPCO waited until May 2009, almost a year later, to file its complaint and motion for preliminary injunction. NAPCO’s delay is not surprising, because NAPCO has suffered no harm (and will suffer no harm). NAPCO and PBM are not, and never have been, competitors for work with Upper Deck or any other memorabilia card company. At best,

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<sup>2</sup> NAPCO acknowledged that it had not produced memorabilia cards meeting Upper Deck’s quality standards up through the termination of NAPCO and PBM’s dealings on the Upper Deck project. *See* Jones Affidavit, Exhibit K.

NAPCO was going to be a contract vendor to PBM for memorabilia cards. NAPCO was well aware that it was hired to develop automated production processes for use by *both* PBM and NAPCO. If NAPCO's development efforts had been successful, NAPCO would have been awarded a substantial amount of work by PBM. Put another way, NAPCO's reward for success was solely monetary. Thus, even assuming NAPCO could ultimately prove an actionable claim against PBM, monetary damages are sufficient to compensate NAPCO, See *Bd of Light and Water Comm's v. Parkwood Sanitary Dist.*, 49 N.C. App. 421, 423-424, 271 S.E.2d 402, 404 (1980) ("Where there is a full, complete and adequate remedy at law, the equitable remedy of injunction will not lie....[W]e do not find the injuries plaintiff complains of to be so pressing, immediate, irreparable and clearly established as to justify the extraordinary equitable remedy of a preliminary mandatory injunction. If plaintiff is successful in its suit, it can be fully compensated by money damages."). For these reasons, NAPCO is not entitled to any injunctive relief.

## **II. STATEMENT OF THE FACTS**

### **A. Background on NAPCO's Testing Work For PBM**

In early 2008, PBM began seeking business from Upper Deck and entered into discussions with Upper Deck concerning a potential deal under which PBM would supply Upper Deck with memorabilia cards or collector's cards. Jones Affidavit, ¶5. Memorabilia or collector's cards (herein "Cards") are similar in size to traditional trading cards or "baseball cards," but these cards differ in construction. *Id.*, ¶6. Cards are constructed with compartments that contain pieces of memorabilia such as swatches of jerseys, pieces of game gear, or similar collectable items. *Id.* To create this



compartment, it is necessary for memorabilia cards to be thicker than a traditional trading card. *Id.* This thickness is achieved by adhering several layers of material such as cardstock together and cutting through some but not all of the layers of material to create a compartment in the card. *Id.* Pieces of memorabilia are then inserted in the compartment and covered with a protective, decorative sheet. *Id.; see also* Jones Affidavit, Exhibit A.

During PBM's discussions with Upper Deck about potentially supplying Cards, Upper Deck explained to PBM precisely how Upper Deck's prior suppliers had manufactured Cards. Jones Affidavit, ¶7. The manufacturing techniques used by these prior suppliers all suffered from being incredibly labor intensive and inefficient. *Id.*, ¶8. Upper Deck's prior vendors had used very little automation in producing Cards, and the volume of Cards Upper Deck demanded on an annual basis required automation for PBM to be able to enter a contract with Upper Deck. *Id.* Furthermore, PBM needed to prove to Upper Deck that it could produce Cards meeting Upper Deck's high quality standards in a quick, efficient and cost effective manner. *Id.*, ¶9. Thus, in order to enter the contract for Upper Deck's work, PBM had to develop automated production method for Cards. *Id.*, ¶10.

In developing new production methods, PBM frequently enters into agreements with vendors to engage in testing to determine the viability of methods of production. *Id.*, ¶12. PBM had successfully used NAPCO as a contract vendor on a variety of projects in the past. *Id.*, ¶13. NAPCO had a reputation for fast and efficient production of various high quality products, and PBM's President, Rick Jones, had personally known

NAPCO's President, James R. "Rocky" Proffitt, for over 20 years. *Id.* Consequently, PBM contacted NAPCO on February 29, 2008 to inform NAPCO that PBM was going to seek NAPCO's assistance in testing the viability of automated production methods for producing Cards. *Id.*, ¶14 & Exhibit B; Proffitt Affidavit, ¶4. PBM shared little, if any, of the production methods learned from Upper Deck with NAPCO, because the labor intensive nature of these production methods made them unviable. Jones Affidavit, ¶15. PBM sought for NAPCO to come up with new methods and processes for the fast, efficient, and quality production of Cards. *Id.*

After making initial contact with NAPCO on February 29, 2008, PBM requested a proposal and quotation from NAPCO for the testing work. *Id.*, ¶16 & Exhibit C. PBM also provided NAPCO with a sample Card from Upper Deck, supplied NAPCO with specifications on the type and thickness of material to be used in manufacturing Cards, and informed NAPCO that "pin registration" would need to be used in the production process. Jones Affidavit, ¶17. NAPCO accepted the offer to perform such testing for PBM, and a purchase order was issued by PBM to NAPCO on April 14, 2008. *Id.*, ¶18 & Exhibit D.

It was PBM's hope that NAPCO would develop fast and efficient production processes for Cards that could be used by both NAPCO and PBM to produce Cards for Upper Deck. Jones Affidavit, ¶19. In fact, NAPCO and PBM discussed the transitioning of any successful production techniques developed by NAPCO to PBM. *Id.* These discussions included meetings at PBM where NAPCO representatives, including Mr.

Proffit, were present.<sup>3</sup> *Id.*, ¶20.

Given the volume of Cards a contract with Upper Deck required, neither PBM nor NAPCO were believed to be able to handle the production of Cards alone.<sup>4</sup> PBM was going to award NAPCO a large portion of the production of Cards, and handle the remainder of the production in-house at PBM. *Id.*, ¶20. Ultimately, NAPCO was never awarded the production of any Cards, because NAPCO failed to develop any automated production processes that could be used to successfully produce Cards meeting Upper Deck's standards. *Id.*, ¶¶21-22. Limitations of NAPCO's equipment also created an unacceptable amount of wasted material, which was going to be cost prohibitive, even if NAPCO perfected production processes. *Id.*, ¶¶67-69.

**B. NAPCO'S Failure To Produce Cards Meeting Upper Deck's Standards**

After accepting PBM's offer to conduct testing, NAPCO began forwarding PBM pricing quotes for the specific tooling that would be needed for the testing, and other costs associated with NAPCO's testing work. Jones Affidavit, ¶24 & Exhibit E. NAPCO subsequently submitted several invoices to PBM totaling \$22,215.22, which PBM paid in full. *See* Jones Affidavit, ¶25 & Exhibit F.

Before any automated processes for production of Cards could be developed, there were several obstacles that NAPCO had to be overcome in producing the Cards. *Id.*, ¶26. The first obstacle was successfully aligning and combining the various layers of material

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<sup>3</sup> NAPCO specifically referenced the transitioning of production to PBM in a cover letter accompanying a proposed supply agreement sent to PBM on June 16, 2008. *See* Jones Affidavit, Exhibit J.

<sup>4</sup> Since initiating production of Cards in-house, PBM's facilities have been working four shifts and running 24 hours a day trying to keep up with Upper Deck's demand.

necessary to achieve the multilayer construction of Cards. *Id.*, ¶27. The second obstacle was selecting an adhesive to glue each of the layers of the Cards. *Id.*, ¶28. The third obstacle was the precision cutting of Cards. *Id.*, ¶29. NAPCO's goal was to develop the fastest and most efficient way to accomplish these production tasks. *Id.*, ¶30.

From the beginning of NAPCO's work on the Upper Deck project, NAPCO struggled to find solutions to overcoming these obstacles. *Id.*, ¶31. NAPCO initially struggled with developing a means of lining up and maintaining alignment of the various layers of materials (such as cardstock) used in constructing the Cards. *Id.*, ¶32. The process of aligning various materials in the printing process is frequently referred to as "registration." *Id.*, ¶33.

Initially, NAPCO was attempting to use edge to edge registration. *Id.*, ¶34. Edge to edge registration is a process where you merely align the edges of sheets of material stacked on top of one another. *Id.*, ¶35. Based on PBM's experience in the printing industry, PBM knew edge to edge registration would not work for Cards, and PBM instructed NAPCO to use pin registration. *Id.*, ¶36.

Pin registration is a method of aligning materials that is accomplished by the use of flat tables or platforms with pins or studs extending up from the flat surface of the table or platform. *Id.*, ¶37. Material is placed on the pins or "pinned" in place such that pins hold the various pieces of material in place and aligned with one another. *Id.* Pin registration is widely known and has been widely used in the printing industry for years, and there is nothing confidential or proprietary about the use of pin registration in printing. *Id.*, ¶38. There are expired patents detailing pin registration, and descriptions

of pin registration widely available on the internet. *See* Appendix 1 hereto. There is also nothing complicated or sophisticated about the pin registration system used by PBM. *Id.*, ¶39. The pin registration tables PBM has used for the production of Cards were built in-house at PBM, and are constructed simply of plywood and standard lumber. *Id.* & Exhibit G; Eastwood Affidavit, ¶12.

Pin registration was essential in the production of the Cards because of a phenomenon known as sheet growth. Jones Affidavit, ¶40. In making Cards, several layers of material are glued on top of one another in a stack to form a multilayer card with sufficient thickness for a compartment to be cut into the Card to hold a piece of memorabilia. *Id.*, ¶41. The various layers of material forming the Cards are held together via some form of adhesive or glue. *Id.*, ¶42. In applying glue to porous material such as cardstock, the material will absorb moisture from the glue, and expand or grow in size. *Id.*, ¶43. This phenomenon is known in the industry as sheet growth. *Id.* Sheet growth prohibits the ability to use edge to edge registration, and a pin registration system must be used. *Id.*, ¶44.

Although NAPCO used pin registration in the production of Cards, NAPCO still experienced problems with proper registration of the Cards throughout its testing for PBM. *Id.*, ¶46. The precise glue formulation used by NAPCO is not known to PBM, but in testing by PBM to develop a glue formulation after NAPCO stopped working on the Upper Deck project, PBM learned that the use of glues that were too liquid in composition resulted in greater sheet growth and registration problems. Eastwood

Affidavit, ¶17.<sup>5</sup> It is believed that the composition of NAPCO's glue formulation likely contributed to NAPCO's failure to ever overcome registration problems. *Id.*, ¶16-17. NAPCO's glue formulation also posed other problems that NAPCO could never overcome. *Id.*, ¶18. The glues used by NAPCO were leaving visible lines and yellowish hazes on Cards, which was unacceptable to Upper Deck. *Id.*

In addition to never overcoming problems with registration and glue formulation, NAPCO also was unable to come up with an acceptable procedure for cutting Cards. Jones Affidavit, ¶50. NAPCO's cutting process for Cards resulted in angled cuts on the sides of the Cards, and chipping of the edges of the Cards. Jones Affidavit, Exhibit I. These defects in the cutting of Cards were completely unacceptable to Upper Deck as they resulted in a poor appearance to a Card being purchased as a collectable. Jones Affidavit, ¶51.

As a result of the problems NAPCO was encountering, members of PBM's Upper Deck team visited NAPCO's facilities to check on NAPCO's progress. *Id.*, ¶53. These visits were to determine the progress of NAPCO's work, as well as realistic timeframes for providing Cards to Upper Deck, and to assist in identifying solutions to production obstacles. *Id.* After weeks of NAPCO being unable to produce a marketable Card, PBM began having grave concerns about being able to enter into a contract with Upper Deck. *Id.*, ¶55. Upper Deck was prepared to enter into a contract with PBM, but would not do so until PBM demonstrated the ability to produce Cards meeting Upper Deck's quality

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<sup>5</sup> As will be discussed later, through trial and error and working with the glue manufacturers National Starch and Titan Adhesives, PBM was able to formulate glue that was more solid than liquid, thereby reducing sheet growth. Eastwood Affidavit, ¶17. This reduction in sheet growth addressed the problems PBM experienced in developing processes to produce Cards during its testing. *Id.*

standards. *Id.*, ¶56. Until PBM could prove its ability to meet Upper Deck's production standards and required volume of Cards, Upper Deck continued contracting with its former suppliers for Cards. *Id.*, ¶57.

On June 16, 2008, Jerry Pearce of NAPCO forwarded Rick Jones of PBM a cover letter and supply agreement as attachments to an email. *Id.*, ¶72 & Exhibit J. PBM viewed the supply agreement as putting the cart before the proverbial horse, as NAPCO had never successfully developed any automated production processes capable of producing marketable Cards. Jones Affidavit, ¶73. Mr. Jones responded to Mr. Pearce's email and the supply agreement by reiterating that NAPCO's cutting of the Cards was unacceptable to Upper Deck and that PBM was working to identify alternative solutions. *Id.*, ¶74 & Exhibit K. Mr. Pearce admitted that NAPCO's Cards had not meet Upper Deck's expectations. *Id.*, ¶75 & Exhibit K. Nevertheless, NAPCO refused to perform any more testing work for PBM on the Upper Deck project without a supply agreement in place. Jones Affidavit, ¶76.

Since NAPCO had never successfully produced Cards, PBM was not willing to execute a supply agreement, and PBM had no choice but to develop its own production processes or it would lose any chance of getting the Upper Deck contract. Consequently, Mr. Jones approached David Eastwood of PBM on June 16, 2008 and asked him to begin developing procedures for PBM to produce Cards in-house. *Id.* Eastwood spent the next year working with a team at PBM to develop automated production procedures for use by PBM. *Id.*

### C. PBM's Development Of Procedures To Produce Cards

PBM spent June and July of 2008 working to develop processes to successfully make its first Cards. Eastwood Affidavit ¶¶ & 23. PBM's initial production procedures were very labor intensive like Upper Deck's prior suppliers, but PBM slowly implemented new equipment to automate the production process. Jones Affidavit., ¶69.

The production processes PBM developed are not copies of any procedure or process developed by NAPCO. Jones Affidavit, ¶60; Eastwood Affidavit, ¶31. NAPCO could never produce Cards meeting Upper Deck's quality standards, and therefore, PBM had no interest in using any process NAPCO had tried.

PBM built pin registration tables in-house from standard lumber. Jones Affidavit, ¶61 & Exhibit G; Eastwood Affidavit, ¶12. NAPCO had no involvement in the design or construction of these tables, and they are different from the pin registration tables used by NAPCO. Eastwood Affidavit, ¶12 & 31. PBM purchased standard, off the shelf, gluing machines from the Pot Devin Company. *Id.*, ¶¶10-11. PBM worked with the glue manufacturers National Starch and Titan Adhesives to develop glues for use in the production of Cards. *Id.*, ¶17. PBM can state with absolute certainty that its adhesives are distinctly different from those used by NAPCO, because NAPCO was attempting to use hot set glues for Cards and PBM uses a cold set glue. *Id.*, ¶63.

PBM also moved forward with developing automated production processes, and purchasing equipment that NAPCO has never possessed. Jones Affidavit, ¶64-65. For example, PBM purchased a custom designed trim cutting machine for cutting the Cards, and PBM purchased robotics used for placement of memorabilia in the Cards. *Id.*, ¶¶ 21-



22; Jones Affidavit ¶65. NAPCO had been attempting to use early generation guillotine cutting machines to cut Cards in a single step. Eastwood Affidavit, ¶¶20-22. These types of guillotine cutters have been used widely in the printing industry for decades. *Id.* PBM uses a two stage cutting process. *Id.* The first cut is made by newer generation guillotine cutters with blade angles specifically ground for PBM's Card cutting. Eastwood Affidavit, ¶21. The second finish cut is done by the one of a kind machine built specifically for PBM to trim cut Cards. *Id.*, ¶22.

PBM's cutting processes also are much more cost effective than NAPCO's method of cutting. Jones Affidavit ¶67. Physical restrictions of NAPCO's machines only allowed 63 Cards to be cut from a sheet of material. *Id.*, ¶68. The remainder of a sheet of material was wasted. *Id.*, ¶¶68-69. PBM's cutting processes allow for 100 Cards to be cut from the same size sheet of material. *Id.*, ¶68. Even if NAPCO could have overcome its problems with the unacceptable chipping and angled cuts of Cards, the amount of waste generated from NAPCO's cutting procedures was going to be a huge obstacle to NAPCO supplying Cards to PBM for Upper Deck. Jones Affidavit ¶¶ 69-71. The Upper Deck project used customer owned material, and Upper Deck required stringent accounting of its customer owned material. *Id.*, ¶69. Upper Deck also requires detailed accounting of the number of Cards produced, the number of pieces of memorabilia used, and any waste of Cards or memorabilia. *Id.*

**D. NAPCO Freely And Voluntarily Disclosed The Results Of Its Testing Without Any Obligation On The Part Of PBM To Maintain Any Secrecy**

From February 29, 2008 through NAPCO's decision to terminate its work on the Upper Deck project in June of 2008, NAPCO never informed PBM that it contended any specific information, method, process, or anything else associated with the Upper Deck project was a trade secret, confidential or proprietary information owned by NAPCO. Jones Affidavit, ¶87; Eastwood Affidavit, ¶26. NAPCO freely shared the details of its testing with PBM both before and after PBM representatives visited NAPCO. Jones Affidavit ¶88; Eastwood Affidavit, ¶26. NAPCO and PBM never negotiated or executed any agreements concerning any restrictions on the use of the information they exchanged. The parties envisioned that any knowledge NAPCO might develop would be used by both NAPCO and PBM to produce Cards in tandem. Jones Affidavit ¶¶27-28.

The cover letter accompanying NAPCO's proposed supply agreement and the supply agreement itself reflect the lack of any restrictions on the use of knowledge or information gained from NAPCO's testing. Jones Affidavit, Exhibit J. Moreover, these documents indicate the parties' intent to transition production processes of NAPCO to PBM. *Id.* More specifically, the supply agreement contains no confidentiality or non-compete provisions, and the cover letter specifically references transitioning production to PBM. *Id.* Despite the absence of any restrictions on PBM, PBM has not disclosed any of NAPCO's testing outside of PBM, and has no interest in doing so. Jones Affidavit ¶89; Eastwood Affidavit, ¶30.

### **III. ARGUMENT**

#### **A. Overview of Plaintiff's Burden Of Proof In Seeking A Preliminary Injunction**

A preliminary injunction is an extraordinary measure, and will be issued only if (1) a plaintiff is able to show a likelihood of success on the merits of his case and (2) a plaintiff is likely to sustain irreparable loss unless the injunction is issued, or if, in the opinion of the Court, issuance is necessary for the protection of his rights during the course of litigation. *Analog*, 157 N.C.App. at 466, 579 S.E.2d at 452. "An injunction will not be issued merely to allay the fears and apprehensions or to soothe the anxieties of a party." *Travenol Labs., Inc. v. Turner*, 30 N.C.App. 686, 696, 228 S.E.2d 478, 486 (1976). "Nor will an injunction be issued to restrain one from doing that which he is not attempting to do." *Id.*, 228 S.E.2d at 486. Plaintiff must demonstrate that an "injury is immediate, pressing, irreparable and clearly established, or the party has done a particular act in order to evade an injunction which he knew had been or would be issued." *Parkwood*, 49 N.C. App. at 423, 271 S.E.2d at 404.

As discussed below, plaintiff's motion for a preliminary injunction should be denied because plaintiff cannot demonstrate a likelihood of success on the merits or any risk of immediate, irreparable harm.

#### **B. NAPCO Has Failed To Identify Any Trade Secret With Sufficient Particularity For Issuance of a Preliminary Injunction**

"To plead misappropriation of trade secrets, 'a plaintiff must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine whether misappropriation has or is

threatened to occur.” See *Visionair, Inc. v. James*, 167 N.C.App. 504, 510-511, 606 S.E.2d 359, 364 (2004)(citing *Analog*, 157 N.C.App. at 468, 579 S.E.2d at 453). A party’s mere allegation that it believes a defendant is using its trade secrets is general and conclusory, and will not support a claim for misappropriation or a preliminary injunction. See *Washburn v. Yadkin Valley Bank and Trust Co.*, 190 N.C.App. 315, 327, 660 S.E.2d 577, 586 (2008); *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F.Supp. 1477, 1484 (W.D.N.C. 1995)(preliminary injunctive relief inappropriate where trade secret described only in general terms and where evidence of blatant misappropriation not shown).

In the instant case, NAPCO fails to identify any trade secrets allegedly misappropriated with any level of particularity. NAPCO’s complaint, affidavit, and brief merely contain vague and conclusory references to production processes allegedly developed by NAPCO, which Mr. Proffitt “believes” PBM may be using. Mr. Proffitt does not offer any evidence to support his conjecture concerning PBM. Similarly, despite having the ability to submit evidence detailing its trade secrets and any purported misappropriation under seal, NAPCO offers no support for the existence of its alleged trade secrets.

The only clues concerning the trade secrets allegedly misappropriated are references to a “registration method,” see Complaint, ¶33, a reference to a “glue formulation,” see NAPCO PI Memo., p. 8, and references to processes for cutting Cards. See Complaint, ¶12. These vague references are not the least bit enlightening, and do not “delineate that which [PBM] is accused of misappropriating.” *Visionair*, 167 N.C.App. at 510-511, 606 S.E.2d at 364. Any production of Cards will require a registration

method, an adhesive or glue, and a cutting process. *See* Jones Affidavit, ¶¶ 26-30. There are a variety of ways of accomplishing these tasks.

Given NAPCO's failure to identify any specific trade secrets allegedly misappropriated with sufficient particularity, NAPCO has failed to demonstrate a likelihood of success on the merits, and NAPCO's motion for preliminary injunction should be denied. *See Visionair*, 167 N.C.App. at 511, 606 S.E.2d at 364 ("VisionAIR has failed to identify with any specificity the trade secrets allegedly misappropriated, mentioning only broad product and technology categories... Because VisionAIR has failed to identify specific trade secrets allegedly misappropriated, VisionAIR has not demonstrated likely success on the merits as to its claims for misappropriation of trade secrets.").

**C. NAPCO Has Failed To Demonstrate A Likelihood of Success In Proving The Existence of Any Trade Secrets**

North Carolina's Trade Secrets Protection Act defines a trade secret as follows:

"Trade secret" means business or technical information, including but not limited to a formula, pattern, program, device, compilation of information, method, technique, or process that:

- a. Derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use; and
- b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

N.C. Gen.Stat. § 66-152(3). As explained below, NAPCO's purported trade secrets fail to meet this definition because: (1) NAPCO's trade secrets have no commercial or economic value; and (2) NAPCO cannot demonstrate that it maintained sufficient secrecy over its purported trade secrets.

1. NAPCO's Purported Trade Secrets Have No Commercial or Economic Value

As detailed in the affidavits of Rick Jones and David Eastwood, PBM contracted with NAPCO for testing to determine the viability of automated production processes for Cards. Any successful production processes would be used by both PBM and NAPCO (as a contract vendor of PBM) to supply Cards to PBM's customer, Upper Deck. Throughout NAPCO's testing for PBM, NAPCO never successfully produced Cards meeting Upper Deck's quality standards. NAPCO's production processes consistently suffered from problems with registration of Cards (misalignment likely due to liquid content of glue), gluing of Cards (yellowish hazes on Cards), and irregular cutting of Cards (uneven, torn and chipped edges of Cards). Jerry Pearce, NAPCO's Executive Vice President, acknowledged continued production problems in a June 16, 2008 email that precipitated the end of NAPCO and PBM's dealings on the Upper Deck project. Jones Affidavit, Exhibit K. Furthermore, neither NAPCO nor PBM are currently using any of the production processes NAPCO claims to have developed. Thus, NAPCO's purported trade secrets have no commercial or economic value because they have never been shown to be capable of being used for their intended purpose and they are not being used.

2. NAPCO Cannot Demonstrate Reasonable Efforts To Maintain the Secrecy of Its Purported Trade Secrets

NAPCO also cannot establish that it took reasonable steps to maintain the secrecy of any trade secrets. As previously mentioned, PBM hired NAPCO to conduct testing on the viability of production processes to be used by *both* NAPCO and PBM. NAPCO and PBM did not execute any confidentiality or non-compete agreements upon entering into this testing relationship. The testing was a collaborative arrangement and NAPCO and PBM freely discussed and shared information concerning NAPCO's testing throughout their dealings. In the face of this collaborative arrangement, NAPCO now argues that the fact PBM employees signed a visitor log at NAPCO during a handful of visits gave rise to a contractual obligation on the part of PBM to maintain the confidentiality of unidentified trade secrets. *See* NAPCO PI Memo., p. 4.

NAPCO's argument is without merit for several reasons. First, NAPCO and PBM shared information concerning testing before any PBM employee ever visited or signed a visitor log. Jones Affidavit, ¶88; Eastwood Affidavit, ¶25. PBM first contacted NAPCO about testing on February 29, 2008. NAPCO's visitor log reflects that PBM employees first visited NAPCO concerning the Upper Deck project on April 23, 2008. *See* Complaint, Exhibit A. Prior to April 23, 2008, NAPCO and PBM were freely sharing information concerning the details of proposed testing for purposes of NAPCO quoting a price for testing and the necessary tooling. Based on these discussions, PBM issued its first purchase order on April 14, 2008. Jones Affidavit, Exhibit D.

Throughout PBM's dealings with NAPCO, NAPCO and PBM never discussed nor negotiated any prohibitions on the use of information PBM obtained from NAPCO. The fact is that NAPCO put no limitations on PBM's access to information or any restrictions on the use of this information. NAPCO's complaint and Mr. Proffit's affidavit are filled with the details of all the various ways NAPCO freely shared information with PBM. NAPCO fails to point to any similar litany of ways it put PBM on notice of prohibitions against disclosing testing information, or of any contention on the part of NAPCO (prior to the filing of this lawsuit) that any information NAPCO shared was confidential, proprietary or a trade secret of NAPCO.

Second, the language at the top of the visitor sign-in sheet on which NAPCO relies merely indicates that visitors "may" be exposed trade secrets. *See* Complaint, Exhibit A ("Upon entering this NAPCO facility, there may be items of a confidential or proprietary nature that belong to NAPCO..."). The visitor log implicitly requires further guidance from NAPCO concerning what NAPCO considers confidential or proprietary; otherwise, the language of the form merely requires a visitor to make a personal determination of what he or she believes may be confidential or proprietary to NAPCO. This type of determination is impossible in a collaborative testing setting absence further guidance.

Third, not surprisingly, NAPCO has failed to cite any precedent supporting the proposition that a visitor sign-in sheet alone can give rise to a contractual relationship prohibiting disclosure of information freely shared. After agreeing to conduct testing and sharing information without any limitations on the disclosure of information, NAPCO is now attempting to impose obligations on PBM never negotiated by the parties, based on a



visitor log signed during the middle of the parties' dealings. NAPCO cannot seriously maintain that the parties' course of dealings—free exchange of information—can be overridden by a visitor log. For these reasons, NAPCO has failed to demonstrate that it took reasonable steps to maintain the secrecy of any information, and consequently, NAPCO has failed to demonstrate a likelihood of success in establishing the existence of any trade secrets.

**D. NAPCO Has Failed To Demonstrate A Likelihood of Success in Establishing Misappropriation by PBM**

The North Carolina Trade Secrets Act defines misappropriation as the “acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.” N.C. Gen.Stat. § 66-152(1) (2005). NAPCO cannot establish any likelihood of proving PBM acquired, disclosed or used any trade secret without express or implied consent. Furthermore, PBM has put forth substantial evidence of independent development of its own production processes, which are distinctively different than those NAPCO was attempting to use during testing.

1. NAPCO Cannot Establish Acquisition Of Any Trade Secret Without Consent Because NAPCO Voluntarily and Freely Disclosed Its Purported Trade Secrets

The allegations in NAPCO's complaint make it clear that NAPCO freely disclosed any and all purported trade secrets it is claiming in this action during dealings with PBM. While NAPCO complains that the disclosure was based on misrepresentations concerning

PBM awarding NAPCO future work, NAPCO does not suggest that PBM learned any information from any source other than directly from NAPCO. Consequently, if PBM ever acquired any trade secrets from NAPCO, they were acquired with NAPCO's consent. Therefore, NAPCO's misappropriation claims must rest on proving either disclosure or use of trade secrets.

2. NAPCO Cannot Prove Disclosure Of Trade Secrets By PBM, And There Is No Risk Of Disclosure

NAPCO has not offered any evidence that PBM has disclosed any information allegedly learned from NAPCO to any third parties. PBM has offered, however, evidence showing that PBM had no interest in disclosing anything learned from NAPCO, because NAPCO's production processes did not work and are not being used by PBM. PBM also has offered evidence that PBM has not disclosed any information shared by NAPCO to any third parties. Thus, NAPCO cannot prove any disclosure of trade secrets or any risk of disclosure of trade secrets by PBM.

3. PBM Has Not Used Any Information Or Trade Secrets Of NAPCO, And NAPCO Has Offered No Evidence To The Contrary

NAPCO offers no evidence showing that PBM has used any trade secret of NAPCO. NAPCO merely speculates that PBM must be using NAPCO's purported trade secrets. NAPCO's speculation rests on the unsupported assumption that because PBM originally hired NAPCO to develop automated methods for producing cards, PBM must have been completely incapable of ever producing Cards. NAPCO attempts to justify its speculation by asserting that PBM was able to successfully produce Cards for Upper Deck too quickly to have developed its own production methods. Proffit Affidavit, ¶ 19.

NAPCO's speculation is unsupported by any evidence, and it cannot support preliminary injunctive relief. First, it should be noted that when PBM contacted NAPCO, PBM knew how to produce Cards. Upper Deck had shared with PBM the details of how prior vendors had constructed Cards, but these production methods were incredibly labor intensive. PBM's problem, and the reason it hired NAPCO to engage in testing, was to figure out how to mass produce quality Cards through *automated* processes. Mr. Proffitt alludes to this very fact in his affidavit. Proffitt Affidavit ¶4 ("PBM represented to NAPCO that PBM was incapable of producing the Cards through reliable *automated or semi-automated* processes and that NAPCO would be engaged to develop those processes to produce the cards on PBM's behalf")(emphasis added).

Second, the reality is that PBM's development time for product of its first sample Cards was roughly equivalent to NAPCO's purported development time. PBM first notified NAPCO about potential future work on the Upper Deck project on February 29, 2008. PBM and NAPCO discussed the equipment, tooling, and specifications for the testing through March 2008 in order to determine the cost of testing. PBM issued its first purchase order for testing on April 14, 2008. NAPCO ultimately refused to perform any more work for PBM after PBM refused to execute NAPCO's supply agreement sent on June 16, 2008. Thus, at most, NAPCO spent approximately two (2) months developing its purported trade secrets.

PBM began internal development of its own production processes on June 16, 2008. Jones Affidavit, ¶58; Eastwood Affidavit, ¶7. Using labor intensive production methods, PBM delivered its first sample Cards to Upper Deck in late July 2008.

Eastwood Affidavit, ¶23. PBM did not enter into full scale production of Cards until September of 2008, and PBM continued implementing new automation to its production process through to the present day. *Id.*, ¶¶23 & 32. Thus, NAPCO's timeline of PBM's production of Cards is flawed, and NAPCO has failed to establish any use of trade secrets by PBM to support its misappropriation claim.

4. PBM Has Offered Substantial Evidence Of Its Independent Development of Production Processes For Cards

NAPCO's trade secret misappropriation claims also fail because PBM independently developed its own production methods for Cards and has detailed that independent development through affidavit testimony. The affidavits of Rick Jones and David Eastwood, detail PBM's: (1) in-house construction of pin registration tables from simple lumber; (2) research and development of a glue formulation in coordination with glue manufacturers National Starch and Titan Adhesives; (3) research and development of a two stage cutting process for Cards; and (4) purchase of equipment NAPCO has never possessed or known about. PBM has offered evidence that pin registration is a standard practice in the printing industry, widely used in the printing industry, and widely known.

PBM also has offered evidence that NAPCO and PBM's glue formulations are completely different. PBM uses a cold set glue where NAPCO was attempting to use a hot set glue. Moreover, PBM's research and development suggests that NAPCO must have been using a glue formulation that was considerably more liquid based than PBM's formulation given the sheet growth NAPCO was experiencing.

PBM also has offered evidence that it cuts Cards differently than NAPCO. Whereas NAPCO was attempting to cut Cards in a single step with older style guillotine cutters, PBM developed a two step cutting process that uses newer guillotine cutters with blades specifically ground for Card cutting for a rough cut and a one of a kind trim cutting machine designed specifically for PBM for a final cut.

Finally, PBM has offered testimony from David Eastwood that based on his visit to NAPCO he is not aware of any similarity between the processes used by NAPCO and those used by PBM. Significantly, Mr. Eastwood was on the team that coordinated testing with NAPCO, and he was directly involved in the development of PBM's production process for Cards. In these capacities, Mr. Eastwood is uniquely qualified to compare NAPCO and PBM's production methods. PBM's strong evidence of independent development demonstrates that NAPCO has no likelihood of success on the merits of its claims.

**E. NAPCO's Delay In Filing Suit and Seeking Injunctive Relief Evidences A Lack of Any Immediate Threat of Irreparable Harm**

To be entitled to a preliminary injunction, a plaintiff must demonstrate that an "injury is immediate, pressing, irreparable and clearly established, or the party has done a particular act in order to evade an injunction which he knew had been or would be issued." *Parkwood*, 49 N.C. App. at 423, 271 S.E.2d at 404. A plaintiff's delay in seeking injunctive relief refutes any need for it. *Quince Orchard Valley Citizens Assoc., Inc. v. Hodel*, 872 F.2d 75, 80 (4th Cir. 1989) ("Since an application for a preliminary injunction is based upon an urgent need for the protection of [a] Plaintiff's rights, a long

delay in seeking relief indicates that speedy action is not required.”).

Where a plaintiff waits a considerable length of time before seeking injunctive relief, courts have routinely denied injunctive relief. *See, e.g., Quince*, 872 F.2d at 79-80 (holding that plaintiffs’ over six-month delay in seeking injunctive relief indicated “an absence of the kind of irreparable harm required to support the preliminary injunction”); *Southtec Orthopedics, Inc. v. Dingus*, 428 F. Supp. 2d 410, 420-21 (E.D.N.C. 2006) (denying plaintiff’s motion in part because of its six to nine week delay in filing suit); *John Lemmon Films, Inc. v. Atl. Releasing Corp.*, 617 F. Supp. 992, 996 (W.D.N.C. 1985) (“Perhaps even more telling of the absence of convincing proof that the Plaintiff would suffer irreparable harm is the Plaintiff’s delay in seeking an injunction. ... In so waiting ... [the Plaintiff] belied its claim that there is an urgent need for speedy action to protect its rights.”); *Majorica, S.A. v. R.H. Macy & Co., Inc.*, 762 F.2d 7 (2d Cir. 1985) (holding that the plaintiff was not entitled to a preliminary injunction because it waited years to seek relief); *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir. 1985).

NAPCO’s complaint demonstrates that NAPCO believed PBM was producing Cards using NAPCO’s trade secrets since at least June 2008. *See* Complaint ¶30. Despite this belief, NAPCO waited until May 6, 2009, almost a year later, to file its complaint and motion for preliminary injunction. NAPCO’s delay evidences the lack of any irreparable harm to support preliminary injunctive relief.

**F. Even Assuming Plaintiff Could Establish A Likelihood of Success on the Merits, Monetary Damages Will Fully Compensate NAPCO**

“Where there is a full, complete and adequate remedy at law, the equitable remedy of injunction will not lie.” *Id.*, 271 S.E.2d at 404; *see also Durham v. Public Service Co.*, 257 N.C. 546, 557, 126 S.E.2d 315, 323 (1962)(“Ordinarily, an injunction will not be granted where there is a full, adequate and complete remedy at law, which is as practical and efficient as is the equitable remedy.”). If monetary damages can fully compensate plaintiff, injunctive relief is inappropriate, because there is no irreparable harm. *Parkwood*, N.C. App. at 424, 271 S.E.2d at 404 (“[W]e do not find the injuries plaintiff complains of to be so pressing, immediate, irreparable and clearly established as to justify the extraordinary equitable remedy of a preliminary mandatory injunction. If plaintiff is successful in its suit, it can be fully compensated by money damages.”); *see also Southtec Orthopedics, Inc.*, 428 F. Supp. 2d at 418 (“[I]t is axiomatic that purely economic injury, such as that resulting from lost sales, profits or market share, does not constitute irreparable harm sufficient to warrant injunctive relief ...”) (internal citations omitted); *Bennett v. E. Rebuilders, Inc.*, 52 N.C. App. 579, 583-84, 279 S.E.2d 46, 50 (1981) (vacating an injunction because plaintiff had an adequate remedy through monetary damages).

In the event NAPCO could ever prevail on the merits of its claims, there is no reason to believe that NAPCO cannot be fully compensated by monetary damages. NAPCO and PBM are not, and never have been, competing for business or market share for Cards. NAPCO’s reward for successfully developing production processes for PBM would have been monetary – a contract to produce Cards for PBM. The detailed accounting requirements of Upper Deck make calculating the total number of Cards

manufactured and sold by PBM fairly simple. If NAPCO can produce Cards as it claims, NAPCO should be able to easily calculate its revenue, costs, and profits. Thus, there is nothing about this case that makes calculating damages any more complex or speculative than a typical breach of contract case. NAPCO even acknowledges that its damages can be calculated. *See* NAPCO PI Memo., p. 14. Thus, NAPCO's motion for preliminary injunction should be denied for this additional reason.

#### **IV. CONCLUSION**

Based on the foregoing arguments and authorities, PBM Graphics, Inc. respectfully submits that NAPCO, Inc.'s motion for preliminary injunction should be denied.

This the 30<sup>th</sup> day of September, 2009.

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**CERTIFICATE OF COMPLIANCE WITH  
BUSINESS COURT RULE 15.8**

The undersigned counsel hereby certifies that exclusive of the caption, table of contents, table of authorities, certificate of compliance and certificate of service, PBM Graphics, Inc.'s Response In Opposition to Motion for Preliminary Injunction complies with the formatting and word limitations of Business Court Rule 15.8

This the 30<sup>th</sup> day of September, 2009.

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## CERTIFICATE OF SERVICE

The undersigned hereby certifies that he is an attorney at law licensed to practice in the State of North Carolina and is a person of such age and discretion as to be competent to serve process.

That on September 30, 2009, he caused to be served a copy of the foregoing **PBM GRAPHICS, INC.'S RESPONSE IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION** in the manner indicated below and addressed as follows:

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