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STATE OF DELAWARE

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February 8, 2011

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Re: Lola Cars International Limited v. Krohn Racing, LLC, et al.  
C.A. No. 4479-VCN  
Lola Cars International Limited v. Krohn Racing, LLC, et al.  
C.A. No. 4886-VCN  
Date Submitted: February 4, 2011

Dear Counsel:

Defendant Proto-Auto LLC (“Proto-Auto”) has moved to enforce the Order and Final Judgment (the “Order”) entered to implement the Court’s post-trial memorandum opinion.<sup>1</sup> Proto-Auto seeks possession of its intellectual property (the “IP”) which consists primarily of a wind tunnel model and computer-aided design (“CAD”) files, including race vehicle drawings and design and engineering data. The

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<sup>1</sup> *Lola Cars Int’l Ltd. v. Krohn Racing, LLC*, 2010 WL 3314484 (Del. Ch. Aug. 2, 2010).

IP is currently held by Plaintiff Lola Cars International Limited (“Lola”).<sup>2</sup> The Order, dated October 5, 2010, was drafted, as requested by the Court, by the parties, and it provides, in pertinent part:

Lola is ordered to immediately provide Proto-Auto, LLC with possession of all intellectual property belonging to Proto-Auto, LLC pursuant to the Operating Agreement including the CAD files relating to Proto-Auto, LLC that are currently in the possession of Lola.<sup>3</sup>

Lola and Proto-Auto’s representatives undertook several efforts to achieve delivery of the CAD files to Proto-Auto. Unfortunately, they have been unsuccessful. Lola properly recognizes the CAD files to be a most valuable asset, the value of which would be diminished materially if the files are not maintained as confidential. At some point, Lola came to understand that the Order, as drafted, did nothing expressly to preserve confidentiality of the trade and design information contained within the CAD files. It has pursued an extensive effort to limit Proto-Auto’s control of the CAD files. For example, it has proposed placing the files on a remote server which Proto-Auto’s representative could view only on a password access basis; it has

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<sup>2</sup> A resolution of the debate regarding possession of the wind tunnel model has been reached. It calls for the shipping of the model by Lola to Proto-Auto within a few days. That resolution will suffice for current purposes. The IP also includes CFD files and certain backup data. Because the parties have focused their efforts regarding the remaining IP on the CAD files, the Court does so as well.

<sup>3</sup> Order ¶ 3(a).

offered to deliver a hard drive containing the CAD files, so long as it retains control over part of the password needed to access the files. It has suggested allowing Proto-Auto to review the CAD files on a laptop computer in the offices of Lola's attorneys. Other variations have been suggested. They all have one thing in common: ultimate control is maintained by Lola. At times, it has appeared the Defendant Jeff Hazell ("Hazell"), Proto-Auto's chief executive officer, acquiesced in some limitations on Proto-Auto's access to the CAD files but backed away any agreement before it could be memorialized.<sup>4</sup> In any event, any tentative agreement of this nature would not, without more, have modified the Order which controls the disputed issue.

Hazell is closely aligned with Defendant Krohn Racing, LLC ("Krohn Racing") which is one of the two members of Proto-Auto. Lola is the other member. Lola has initiated the deadlock resolution process of Proto-Auto's Limited Liability Agreement, which (at Section 10.2), in substance, allows either member to buy the other out through a Dutch auction. Krohn Racing claims to be unable to participate fairly in the process because it does not know the status of Proto-Auto's IP holdings. Lola, on the other hand, worries that Proto-Auto will give access and possibly control of the CAD files to Krohn Racing which, if Lola is the successful acquirer under the

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<sup>4</sup> See Transcript of Meeting (Dec. 8, 2010) between Hazell and Stephen Charsley at 52-55.

deadlock resolution process, would be a competitor of Lola and not entitled to the sensitive proprietary information. Lola frets that Krohn Racing would, at virtually no cost, obtain substantial and valuable confidential information for its advantage and to the detriment of Proto-Auto, if Proto-Auto were controlled by Lola. Lola argues that Krohn Racing has no rights to enforce here. In essence, it argues that Proto-Auto is acting for the benefit of Krohn Racing and not for the benefit of Proto-Auto. The Order, as it pertains to possession of the IP, runs only to the benefit of Proto-Auto, but Proto-Auto is justified in insisting that Lola comply with the Order. It is entitled to the current benefit of the relief mandated by the Order. Moreover, nothing prevents Proto-Auto from sharing the IP (which would, of course, include the CAD files) with its members, including Krohn Racing. Implicit—if not explicit—in Lola's argument is the prediction that Hazell and anyone called upon by him for help in reviewing the CAD files would be less than trustworthy.

It is against this background that the Court must bring the saga of the CAD files to a close. There is a certain urgency because the deadlock process has been suspended pending resolution of this debate.

Although the Order does not address the confidentiality of the CAD files, it is clear that preserving their confidentiality is important for Proto-Auto. Preserving

confidentiality protects Proto-Auto now and, furthermore, would protect whomever may end up as Proto-Auto's owner at the end of the deadlock process. Although Lola is suspicious (and perhaps understandably so) of the motives behind Hazell's insistence that Proto-Auto have possession of the CAD files, the Court has no reason to believe that Hazell would not comply with any order that it might enter to protect the confidentiality of the CAD files.<sup>5</sup> Moreover, the Order requires Lola to turn possession of the CAD files over to Proto-Auto. Allowing access to files stored on a shared website or on a hard drive protected by a shared password or on a laptop in Lola's attorneys' offices does not constitute possession.

Based on the testimony that the Court heard during the evidentiary hearing associated with the pending motion, the CAD files are available on a laptop held by Lola's attorneys and also on an external hard drive. A hard drive or laptop on which the files are stored shall be delivered to representatives of Proto-Auto as soon as possible. Full instructions on how to access the information on the device, including any necessary password, shall be provided. Hazell and whatever representatives he reasonably needs to review for completeness and accuracy the information on the

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<sup>5</sup> Lola is concerned that Simon Marshall, a former Lola employee who acknowledged pilfering Lola's trade secrets some time ago and who now works for Krohn Racing, should not be trusted with confidential information, regardless of whether he expressly undertakes a confidentiality obligation. The Court is not persuaded that any such risk currently exists.

device shall have full access to the device while it is in Proto-Auto's possession. Before accessing the files, Hazell and anyone who assists him in this effort shall first execute a confidentiality agreement, to be drafted by counsel, that, at a minimum, would require each person to agree to the personal jurisdiction of this Court, to commit not to transfer any information from the CAD files outside the control of Proto-Auto, to commit not to allow any party other than Proto-Auto a means by which it can benefit from the CAD files, and to agree not to retain any data from the CAD files. In short, any access to the CAD files will be fully and exclusively under the terms of the confidentiality provisions that the Court has prescribed. Moreover, in the event that Lola is the ultimate acquirer of the balance of the Proto-Auto interest, those Proto-Auto representatives associated with Krohn Racing (in particular, Hazell) shall cooperate fully in the redelivery of the device on which the CAD files are stored, the wind tunnel model, and any other Proto-Auto intellectual property to Lola.

Ultimately, the pending motion turns on the simple language of the Order. Lola has failed in its duty to provide possession of the CAD files, as well as the balance of the IP, to Proto-Auto. Its concerns, although not fanciful, were not

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addressed in the Order and no cause has been provided as to why Proto-Auto should not, subject to the terms set forth above, have possession of the CAD files.

Delivery of the CAD files and the wind tunnel model to Proto-Auto will resolve the primary concerns animating the Court's decision to stay the process. Only one day of the fifteen-day period prescribed for the deadlock process remained when the Court issued the status quo order on December 15, 2010. Nonetheless, Proto-Auto is entitled to a reasonable opportunity to verify the contents of the CAD files before the process that will determine its fate resumes. Accordingly, the status quo order staying the deadlock process will be lifted two weeks after Proto-Auto takes possession of the CAD files in the manner specified above.

**IT IS SO ORDERED.**

Very truly yours,

*/s/ John W. Noble*

JWN/cap  
cc: Register in Chancery-K