

No. 20-CI-003079

JEFFERSON CIRCUIT COURT
BUSINESS COURT DOCKET
DIVISION TEN (10)
JUDGE ANGELA MCCORMICK BISIG

ISCO INDUSTRIES, INC.

PLAINTIFF

vs.

ORDER REGARDING
MOTION TO DISMISS &
MOTION TO COMPEL

THOMAS W. O'NEILL

DEFENDANT

* * * * *

This matter is before the Court on two Motions. The first is a Motion to Dismiss filed by Defendant Thomas W. O'Neill ("O'Neill") on October 1, 2020. Plaintiff ISCO Industries, Inc. ("ISCO") filed a Response on November 2, 2020. O'Neill filed a Reply on November 17, 2020. The second is a Motion to Compel filed by ISCO on October 7, 2020. O'Neill filed a Response on November 2, 2020. ISCO filed a Reply on November 17, 2020.

The Court heard oral argument on November 20, 2020. The Honorable Theresa A. Canaday and the Honorable Carrie M. Mattingly represented ISCO. The Honorable Clark C. Johnson and the Honorable Michael T. Leigh represented O'Neill. The matter now stands submitted. The Court, having considered the written memoranda, oral argument, record in the case, and being otherwise sufficiently advised, rules as follows.

BACKGROUND

This case arises out of Plaintiff ISCO's former employment of Defendant O'Neill. ISCO employed O'Neill for approximately 20 years, including most recently as Chief Sales Officer

responsible for overall sales of ISCO's piping materials and solutions. ISCO alleges O'Neill's positions with the company provided him access to confidential information regarding its business operations and finances. ISCO further alleges that during the course of his employment, O'Neill executed a Restrictive Covenant Agreement (the "RCA") in which he agreed to maintain the confidentiality of ISCO's proprietary information for a period of twenty years, not to disparage the company, and to return company records after termination of his employment.

O'Neill resigned his employment with ISCO in early March 2020. ISCO contends he thereafter violated the RCA by 1) retaining physical and electronic ISCO documents and devices, 2) sharing confidential ISCO communications with his counsel and other third-parties and causing such communications to be attached to public filings objecting to a class settlement in litigation pending in Delaware (the "Delaware Litigation"), and 3) sharing confidential ISCO information with his counsel and other third-parties and causing such information to be included in a public class action complaint filed in the Western District of Kentucky (the "Kentucky Federal Litigation"). ISCO contends O'Neill also still retains confidential and privileged ISCO-related documents and data on his personal iPad and personal computer. ISCO therefore brought this Action stating claims against O'Neill for breach of contract, breach of fiduciary duty, unjust enrichment, conversion, and breach of the implied covenant of good faith and fair dealing.

On June 5, 2020, the judge presiding over the Delaware Litigation stated that O'Neill had "done a service" by filing his objections to the settlement release in that case. The objections resulted in modification of the settlement release, after which O'Neill withdrew the objections. On August 19, 2020, the judge presiding over the Kentucky Federal Litigation denied ISCO's unopposed motion to seal or redact the complaint, stating that the paragraphs allegedly

containing confidential business information include “only general and vague allegations regarding ISCO’s financial status” and do not contain information that “would be of any value to ISCO’s competitors.” O’Neill now moves for dismissal of ISCO’s Complaint, while ISCO has moved to compel O’Neill to respond to Discovery Requests.

MOTION TO DISMISS

1. O’Neill’s Argument

O’Neill argues that his statements in the Delaware and Kentucky Federal Litigations are protected by the judicial statements privilege. O’Neill contends that because the Delaware judge stated O’Neill had done a public service by filing his objections, there can be no finding that the filing is outside the scope of the privilege. O’Neill further asserts ISCO waived any objection to his disclosure of information in the Delaware Litigation by failing to move to redact or seal that disclosure.

O’Neill also maintains the Kentucky Federal judge did not find that his complaint there contained confidential information warranting sealing, and that there can therefore be no finding he disclosed information in the complaint in violation of the RCA. O’Neill further argues that ISCO’s breach of fiduciary duty claim fails because he did not have fiduciary duties after the termination of his employment. O’Neill maintains ISCO’s unjust enrichment claim fails because there is an express contract between the parties, and that its claim for breach of contract must be dismissed for failure to identify the provisions or promises breached. O’Neill similarly asserts ISCO’s conversion claim fails to identify any wrongfully taken materials, and that the claim is moot because he has previously provided ISCO a copy of the electronic files at issue and offered to delete them.

2. ISCO’s Argument

ISCO argues Kentucky law would not recognize an extension of the judicial statements privilege to a claim for breach of a contract such as a non-disclosure agreement, including because the privilege applies only to statements and not conduct such as disclosure of confidential information. ISCO further contends the statements of the Delaware judge are irrelevant because ISCO has not sued O'Neill for stating objections in the Delaware Litigation but rather for attaching confidential internal communications to that filing. ISCO asserts it also did not waive its claims by failing to move to seal or redact the disclosures in the Delaware Litigation.

ISCO further argues that the Kentucky Federal Court merely found that sealing was not warranted, not that the complaint filed there contained no confidential information. ISCO asserts that the elements required to afford the Kentucky Federal order preclusive effect, such as identity, actual litigation, and actual decision of the issues, are not present. ISCO also notes its claims are not limited to the Delaware and Kentucky Federal disclosures, but also include other alleged instances of retention and use of confidential information by O'Neill.

ISCO further argues O'Neill's fiduciary duty to maintain its confidential information continued after termination of his employment. ISCO also maintains it may pursue an unjust enrichment claim in the alternative to its breach of contract claims. ISCO asserts its Complaint also identifies with sufficient specificity the contract provisions breached by O'Neill as well as the property taken to support its conversion claim.

OPINION

1. *CR 12.02 Standard*

Civil Rule 12.02(f) provides that a defense may be made by motion for "failure to state a claim upon which relief can be granted." In reviewing a motion to dismiss for failure to state a

claim, “the pleadings should be liberally construed in a light most favorable to the plaintiff and all allegations taken in the complaint to be true.” Littleton v. Plybon, 395 S.W.3d 505, 507 (Ky. App. 2012). The Court “should not grant the motion unless it appears the pleading party would not be entitled to relief under any set of facts which could be proved in support of his claim.” Edmonson County v. French, 394 S.W.3d 410, 413 (Ky. App. 2013).

2. *The Delaware Disclosures*

Under the judicial statements privilege, statements made in the course of judicial proceedings are “absolutely privileged when material, pertinent, and relevant to the subject under inquiry.” Maggard v. Kinney, 576 S.W.3d 559, 567 (Ky. 2019). The privilege serves the public interest in favor of the “free and unfettered administration of justice.” Id. It applies with equal force to witness testimony and to statements made in pleadings filed in judicial proceedings. Halle v. Banner Indus. Of N.E., Inc., 453 S.W.3d 179, 184 (Ky. App. 2014). The privilege is not an immunity and thus does not bar a cause of action, but rather may operate to render the cause of action unsustainable if the claim is based exclusively on statements within the scope of the privilege. Maggard, 576 S.W.3d at 567.

Here, the Court finds that O’Neill’s disclosures in the Delaware Litigation are protected by the judicial statements privilege and therefore cannot sustain ISCO’s causes of action. As an initial matter, the Court disagrees with ISCO’s contention that the judicial statements privilege is inapplicable to breach of contract claims. Admittedly, there is no Kentucky authority directly addressing the issue and other jurisdictions cited by the Parties have reached differing conclusions. However, in weighing the relevant considerations the Court concludes that Kentucky law would allow for application of the judicial statements privilege to breach of contract claims.

Allowing the judicial statements privilege to apply to a breach of contract claim furthers the public interest in the free, open, and unfettered administration of justice and resolution of disputes just as the privilege does when applied to other types of claims. See Halle, 453 S.W.3d at 186 (determining whether judicial statements privilege applied to claims by examining whether it would further the purpose of the privilege). Indeed, awarding damages against a party who may have breached non-disclosure provisions by disclosing material, pertinent, and relevant information in judicial proceedings would chill such disclosures and significantly undercut the free, open, and unfettered administration of justice. Moreover, exempting breach of contract claims from the privilege would also allow parties to preemptively contract to block the free flow of information needed by the judicial system to ensure that justice is served in the resolution of disputes. Accordingly, the Court concludes that under Kentucky law, the judicial statement privilege may extend to breach of contract claims, at least where application of the privilege would further the public policy favoring the free and unfettered administration of justice. Id.

Having concluded that the judicial statement privilege may apply to breach of contract claims, the Court finds that the privilege applies to O'Neill's disclosures in the Delaware Litigation and thus renders ISCO's claims based upon those disclosures unsustainable as a matter of law. In addressing O'Neill's objections, the Delaware Court stated that "I think you have done a service in bringing the objections to light" and that the objections were consistent with the law. Motion, Ex. A at 7, 10.¹ Moreover, there appears to be no dispute that O'Neill's objections resulted in modification of the settlement to comply with the law. Accordingly, because

¹ The Court may consider the hearing transcript as a public record without converting ISCO's Motion to one for summary judgment. Netherwood v. Fifth Third Bank, Inc. 514 S.W.3d 558, 563-64 (Ky. App. 2017) (finding that reliance on public records did not convert motion to dismiss to motion for summary judgment).

O'Neill's disclosures occurred during the course of the Delaware Litigation and served the public interest in the free and unfettered administration of justice, they are privileged judicial statements that cannot serve as a basis for ISCO's claims.

3. *The Kentucky Federal Disclosures*

However, the Court does not find at this time that dismissal of ISCO's claims based upon O'Neill's disclosures in the Kentucky Federal complaint is warranted. First, the Court disagrees with O'Neill's contention that because the Kentucky Federal Court declined to seal the complaint, it necessarily found that the complaint does not contain information protected by the RCA. Rather, the Federal Court simply found that ISCO had failed to show the disclosures at issue "would cause clearly defined and serious injury to its current competitive standing in the marketplace." Motion, Ex. B at 4. That determination does not answer the separate question of whether the disclosed material meets the definition for information protected from disclosure under the RCA, including whether the information has value to ISCO and is not generally known to its competitors. See Complaint, Ex. A §§ 2.01(b), (c). Accordingly, the Court does not find that the Federal Court's determination that sealing of the complaint was not warranted is equivalent to a determination that the disclosed information is not within the scope of the RCA.

Second, the Court also does not find at this time that the Kentucky Federal disclosures are protected by the judicial statement privilege. As noted above, Kentucky law holds the privilege applicable where it would further the public interest in the free and unfettered administration of justice. See Halle, 453 S.W. at 186. Unlike the Delaware Litigation, at this time there is no evidence of record to allow for a determination of that issue with respect to the disclosures in the Kentucky Federal Litigation. As such, the Court finds that such a determination would be premature at this time. Finally, there is also plainly no basis for application of the judicial

statement privilege to the extent ISCO bases its claims on other disclosures occurring outside the course of any judicial proceeding.

4. *Remaining Arguments*

The Court also does not find dismissal warranted for the other reasons proffered by O'Neill. First, ISCO's claim for breach of fiduciary duty claim is not barred simply because the alleged conduct occurred after termination of O'Neill's employment. Rather, a fiduciary duty to protect fiducial confidences arising from the employment relationship continues even after termination of that relationship. Aero Drapery of Kentucky, Inc. v. Engdahl, 507 S.W.2d 166, 170 (Ky. 1974). Second, while ISCO may not recover on an unjust enrichment claim as to which there is a controlling contract, it may nonetheless pursue both a breach of contract claim and an unjust enrichment claim as alternative theories during the course of litigation. CR 8.05. Finally, the Court finds that the allegations of ISCO's Complaint are sufficiently specific to state claims for breach of contract and conversion. See Complaint ¶ 42 (alleging that O'Neill breached his agreements by keeping and using ISCO's confidential information); id. ¶¶ 67-70 (alleging that O'Neill unlawfully converted ISCO's confidential records and materials).

In sum, the Court finds that Kentucky's judicial statements privilege applies to O'Neill's disclosures in the Delaware Litigation and that ISCO therefore cannot prevail on claims based on those disclosures as a matter of law. However, the Court does not find that dismissal of ISCO's remaining claims are warranted at this time. Accordingly, O'Neill's Motion to Dismiss is GRANTED IN PART and DENIED IN PART. ISCO's claims against O'Neill based upon his disclosures in the Delaware Litigation are DISMISSED WITH PREJUDICE. Dismissal of ISCO's remaining claims is DENIED.

MOTION TO COMPEL

CR 26.02 sets forth the permissible scope of discovery in civil matters, providing that “[p]arties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action.” CR 26.02(1). Even if the information may be inadmissible at trial, parties may seek information that “appears reasonably calculated to lead to the discovery of admissible evidence.” *Id.* Trial courts “enjoy great leeway and discretion in entering and enforcing discovery orders.” Southern Fin. Life Ins. Co. v. Combs, 413 S.W.3d 921, 932 (Ky. 2013).

In applying these standards, the Court finds that ISCO’s Motion to Compel should be GRANTED IN PART and DENIED IN PART. The Court does not find the number of interrogatories propounded by ISCO, including subparts, excessive and will not prohibit them on grounds of numerosity. O’Neill’s numerosity objections are OVERRULED.

In the interests of judicial economy, the Court’s rulings as to each remaining individual Discovery Request are set forth below:

Discovery Request	Ruling	Basis
RFAs 4, 25	GRANTED	O’Neill must specify those portions of the Request he is admitting. CR 36.01(2).
RFAs 11, 13 RFPs 3, 11	GRANTED	O’Neill must provide a privilege log to support his privilege claims. <u>See Collins v. Braden</u> , 384 S.W.3d 154 (Ky. 2012).
RFAs 17-21	GRANTED	O’Neill must make reasonable inquiry, including accessing information known or readily obtainable by him, in answering. CR 36.01(2).
RFA 22	DENIED	The requested communications are protected by the attorney-client privilege.

Discovery Request	Ruling	Basis
RFA 23	DENIED	Information regarding the Delaware Litigation is no longer relevant given the Court's dismissal of ISCO's Delaware-related claims.
Interrogatory 2	GRANTED	O'Neill must respond even if he has not yet filed an Answer in this Action. O'Neill's response must include information requested by ISCO, including the substance of each person's knowledge.
Interrogatory 3	GRANTED	O'Neill must respond with the information requested and may not limit his response to only "substantive" discussions.
Interrogatories 4-6	GRANTED	The date on which O'Neill first consulted with or retained counsel is relevant to his privilege claims and discoverable.
Interrogatories 8, 11	DENIED	The Court will not compel O'Neill to provide particular answers conforming to information ISCO expected to be included.
Interrogatory 9	GRANTED IN PART, DENIED IN PART	O'Neill must supply the particular details requested. However, the Court will not compel O'Neill to provide particular answers conforming to information ISCO expected to be included.
Interrogatories 10, 12	GRANTED	O'Neill must respond and cannot rely upon ISCO's business records.
Interrogatory 13	GRANTED	O'Neill must access the devices available to him and respond.
Interrogatories 14, 15	GRANTED	O'Neill must supply the particular details requested.
RFP 1	DENIED	The Court cannot compel O'Neill to produce documents if none were identified in his Interrogatory Responses.
RFPs 4-7	DENIED	The Court cannot compel O'Neill to produce documents he states he does not have or of which he is unaware.

Discovery Request	Ruling	Basis
RFP 8	GRANTED	O'Neill must conduct a search and produce responsive documents, including copies of documents that were previously returned to ISCO. O'Neill must provide a privilege log to support his privilege claims. <u>See Collins v. Braden</u> , 384 S.W.3d 154 (Ky. 2012).
RFP 9	GRANTED	O'Neill must conduct a search and produce responsive documents, including copies of documents that were previously returned to ISCO.
RFP 10	DENIED	The contents of any retention agreement between O'Neill and his counsel are not relevant.

ORDER

WHEREFORE, IT IS HEREBY ORDERED AND ADJUDGED that Motion of the Defendant, Thomas W. O'Neill, to Dismiss is **GRANTED IN PART** and **DENIED IN PART**. Plaintiff ISCO Industries, Inc.'s claims against O'Neill based upon his disclosures in the Delaware Litigation are **DISMISSED WITH PREJUDICE**. Dismissal of ISCO's remaining claims is **DENIED**.

WHEREFORE, IT IS HEREBY ORDERED AND ADJUDGED that ISCO's Motion to Compel is **GRANTED IN PART** and **DENIED IN PART** as set forth supra at 9-11.

IT IS SO ORDERED this ____ day of _____, 2021.



Angela McCormick Bisig
 /s/ HON. ANGELA MCCORMICK BISIG
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 1/27/2021 4:07:13 PM ET

JUDGE ANGELA MCCORMICK BISIG
 DIVISION TEN (10)
 JEFFERSON CIRCUIT COURT

cc: Theresa A. Canaday
Carrie M. Mattingly
Clark C. Johnson
Michael T. Leigh