

No. 20-CI-003079

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

ISCO INDUSTRIES, INC.

PLAINTIFF

vs.

**ORDER REGARDING MOTION
FOR TEMPORARY INJUNCTION**

THOMAS W. O'NEILL

DEFENDANT

* * * * *

This matter is before the Court on Motion of the Plaintiff, ISCO Industries, Inc. ("ISCO") for a Temporary Injunction or, Alternatively, Temporary Restraining Order. The Motion was filed on May 26, 2020. Defendant Thomas W. O'Neill ("O'Neill") filed a Response on May 26, 2020.

The Court heard oral argument on May 27, 2020. The Honorable Theresa A. Canaday and the Honorable Carrie M. Mattingly represented ISCO. The Honorable Clark C. Johnson 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 involves a restrictive covenant agreement arising out of Plaintiff ISCO's employment of Defendant O'Neill. O'Neill was employed by ISCO for more than twenty years, most recently as the company's Chief Sales Officer. In the course of his employment, O'Neill

regularly attended board meetings and meetings with high-level executives, had access to a network drive containing confidential information, and participated in privileged discussions with internal and external counsel.

In 2013, O'Neill executed a Restrictive Covenant Agreement (the "RCA") with ISCO. The RCA includes a provision under which O'Neill agreed that during his employment and for twenty years thereafter he would maintain the confidentiality of ISCO's Proprietary Information, defined to include trade secrets and other confidential information. Verified Complaint, Ex. B at 2-3. O'Neill further specifically agreed he

will not reproduce, distribute, disclose, publish, or otherwise disseminate any Proprietary Information, in whole or in part, and will take no action causing, or fail to take any action necessary to prevent causing, any Proprietary Information to lose its character as Proprietary Information, nor will [he] use any such information for [his] own purposes or for the benefit of any Person (except the Company) under any circumstances.

Id. The RCA also includes a non-disparagement provision and a provision requiring O'Neill to return company records after the termination of his employment. Id. at 3-4.

O'Neill resigned from his employment with ISCO on March 3, 2020. ISCO now contends that O'Neill has since continued to maintain ISCO records on his personal iPad and home computer. ISCO further asserts that after his termination, O'Neill also shared confidential ISCO documents with his attorney, which were then attached to a public filing in litigation pending in the District of Delaware (the "Delaware Federal Litigation"). ISCO also maintains that O'Neill likewise provided confidential ISCO materials and information to his counsel that were incorporated into a Complaint publicly filed in the Western District of Kentucky (the "Kentucky Federal Litigation").

ISCO filed this Action on May 21, 2020 stating a number of claims, including that O'Neill has breached the RCA and his fiduciary duties by retaining and sharing ISCO's confidential records and information. ISCO now moves for a temporary injunction prohibiting O'Neill from any further use or disclosure of any confidential ISCO materials or information. ISCO also seeks additional injunctive relief requiring O'Neill to

- 1) identify third parties with whom he has already shared confidential ISCO materials or information;
- 2) return all ISCO records and property;
- 3) instruct his attorney to seek leave to amend the Kentucky Federal Complaint to remove all confidential ISCO information or, if such leave is not granted, seal that Complaint;
- 4) turn his personal devices over to his attorney to be made available for inspection, imaging, and copying; and
- 5) certify he has taken these actions, no longer possesses ISCO confidential materials or information, and henceforth will not make use of any such materials or information in violation of the RCA or applicable law.

1. *ISCO's Argument*

ISCO argues there is a substantial likelihood it will prevail on its claims because the RCA is valid and enforceable, and because the evidence will show O'Neill has violated both the RCA and his fiduciary duties. ISCO contends the RCA is reasonable in scope and protects the company's legitimate business interest in maintaining the confidentiality of proprietary records and information. ISCO further maintains the RCA is supported by valuable consideration in the form of O'Neill's stock appreciation rights and continued employment. ISCO asserts the filings in the Delaware and Kentucky Federal Litigations demonstrate that O'Neill unlawfully shared ISCO's confidential records and information with counsel, who then placed that information in the public record. ISCO further contends O'Neill also violated the RCA by failing to return ISCO's property and by disparaging ISCO in the Kentucky Federal Complaint.

ISCO also argues O'Neill's violations of the RCA and his fiduciary duties are not excused merely because he disclosed ISCO's confidential records and information in the course of litigation. ISCO notes that the RCA both prohibits disclosure for O'Neill's own purposes or for the benefit of anyone other than the company and allows ISCO to enforce the RCA even if O'Neill has a possible claim against the company. ISCO further contends the judicial statement privilege insulates a party from liability only for defamation and related claims, and not for claims related to conduct such as breach of a confidentiality agreement.

ISCO further argues it will face irreparable harm absent the entry of injunctive relief. ISCO notes that O'Neill agreed in the RCA that violations would result in irreparable harm to the company. ISCO also maintains that it cannot undo disclosures of its confidential records and information, and that such disclosures result in immeasurable harm to its goodwill and reputation.

ISCO also argues the equities weigh in favor of injunctive relief. ISCO asserts such relief will not unduly harm O'Neill because he voluntarily entered into the RCA. ISCO maintains such relief also will not harm anyone else, but rather will serve the public interest in the enforcement of business agreements. Finally, ISCO contends it is entitled to an award of its attorney's fees and costs in seeking injunctive relief.

2. O'Neill's Argument

O'Neill argues that ISCO cannot show it faces immediate irreparable harm because it did not seek injunctive relief until over a month after learning of the filing of the Kentucky Federal Complaint. O'Neill maintains this delay undermines any claim of urgency or immediacy by ISCO. O'Neill further asserts ISCO faces no harm because he has not disclosed any confidential information to ISCO's competitors, because the information disclosed in the Delaware and

Kentucky Federal Litigations is generalized and widely available to every ISCO employee, and because ISCO can in any event file a motion to seal the Kentucky Federal Complaint. O'Neill maintains that the boilerplate term in the RCA providing that violations will result in irreparable harm is not sufficient to invoke the injunctive powers of a court of equity.

O'Neill also argues ISCO is not likely to succeed on its claims. In particular, O'Neill maintains that the RCA is not enforceable to prevent disclosures in litigation because ISCO has no legitimate interest in keeping violations of the law secret and because the public has an interest in disclosure of unlawful conduct. O'Neill further asserts ISCO will not succeed on its breach of fiduciary duty claim because O'Neill owed no such duties to the company after the termination of his employment, and because any such duties would in any event not be violated by revelation of unlawful conduct by the company's officers. O'Neill also contends any statements in litigation enjoy absolute immunity from liability.

O'Neill further argues the equities strongly weigh against the issuance of injunctive relief. O'Neill asserts that confidentiality agreements prohibiting the disclosure of illegal conduct are contrary to public policy and therefore unenforceable.

OPINION

1. Temporary Injunction Standard

CR 65.04 allows for the entry of temporary injunctive relief "if it is clearly shown by verified complaint, affidavit, or other evidence that the movant's rights are being or will be violated by an adverse party and the movant will suffer immediate and irreparable injury, loss, or damage pending a final judgment." CR 65.04(1). The standard for the issuance of such relief is well-known:

[A]pplications for temporary injunctive relief should be viewed on three levels. First, the trial court should determine whether plaintiff has complied with CR 65.04 by showing irreparable injury. This is a mandatory prerequisite to the issuance of any injunction. Secondly, the trial court should weigh the various equities involved. Although not an exclusive list, the court should consider such things as possible detriment to the public interest, harm to the defendant, and whether the injunction will merely preserve the status quo. Finally, the complaint should be evaluated to see whether a substantial question has been presented. If the party requesting relief has shown a probability of irreparable injury, presented a substantial question as to the merits, and the equities are in favor of issuance, the temporary injunction should be awarded.

Maupin v. Stansbury, 575 S.W.2d 695, 699 (Ky. App. 1978).

A temporary injunction is an extraordinary remedy that is addressed to the sound discretion of the Court. Id. at 697-98. The requirements for such relief are intended “to insure that the injunction issues only where absolutely necessary to preserve a party’s rights pending the trial of the merits.” Id. at 698. Thus, “[b]ecause a temporary injunction often has the effect of enforcing a mere claim of the right, doubtful cases should await trial.” Id.

2. *Substantial Possibility of Success*

To obtain injunctive relief, the movant’s claims must present “‘a substantial question’ on the underlying merits of the case,” *i.e.* there must be “a substantial possibility that the movant will ultimately prevail.” SM Newco Paducah, LLC v. Kentucky Oaks Mall Co., 499 S.W.3d 275, 278 (Ky. 2016). The Court does not find at this time that ISCO has shown a substantial possibility it will prevail on its claims.

To the contrary, a substantial question remains as to whether O’Neill’s alleged disclosure of ISCO’s confidential information in the Delaware and Kentucky Federal Litigations would be protected by the judicial statements privilege. The judicial statements privilege “affords an absolute privilege to statements made . . . ‘in the institution of, or during the course and as a part of a judicial proceeding’ and that have ‘some relation to a proceeding that is contemplated in

good faith and under serious consideration.” Halle v. Banner Indus. of N.E., Inc., 453 S.W.3d 179, 184 (Ky. App. 2014). It “applies with equal force to statements in pleadings filed in judicial proceedings.” Id. Notably, the privilege “is rooted in public policy ‘which looks to the free and unfettered administration of justice.’” Id.

While the issue appears to be one of first impression under Kentucky law, a number of other jurisdictions have held that the judicial statement privilege may preclude liability for breach of a contract by statements made during the course of judicial proceedings, “at least where immunity from liability is consistent with the purpose of the privilege.” Rain v. Rolls-Royce Corp., 626 F.3d 372, 377-78 (7th Cir. 2010) (collecting cases). Kentucky courts have likewise assessed application of the privilege to various types of claims in terms of whether such application furthers the purpose of the privilege. Halle, 453 S.W.3d at 186 (noting that Kentucky’s “strong public policy for encouraging witnesses to crimes to come forward without fear of retaliation in the form of a civil lawsuit is undoubtedly furthered” by application of the judicial statement privilege to malicious prosecution claims); id. at 186 (noting the “sound reasoning” of other jurisdictions that application of the privilege to abuse of process claims “would not further the legitimate purposes of the privilege.”).

At this time, ISCO has made no showing that O’Neill’s alleged disclosures did not further the public interest in the free and unfettered administration of justice, or that O’Neill is otherwise unlikely to establish that such disclosures are protected by the judicial interest privilege. The Court also notes that Kentucky’s appellate courts have held the judicial statements privilege applicable not only to claims for defamation but also to various other claims including malicious prosecution, interference with business relationship, and fraud. Halle, 453 S.W.3d at 186-89. The Court is therefore not persuaded that the privilege is limited to

defamation claims as a matter of law. Accordingly, for the purposes of this Motion alone and without making an adjudication as to the merits, the Court does not find at this time that ISCO has established a substantial possibility that ISCO will ultimately prevail on its claims. The Court believes it is premature at this stage in the litigation to determine if a privilege applies to O'Neill's actions.

3. *Balancing of the Equities*

Courts also consider whether the equities weigh in favor of injunctive relief when determining whether such relief is warranted. Maupin, 575 S.W.2d at 699. As noted above, relevant considerations include “possible detriment to the public interest, harm to the defendant, and whether the injunction will merely preserve the status quo.” Id. Here, the Court finds that each of these factors weighs against entry of the requested injunctive relief.

First, the Court finds that inhibiting the ability of litigants to freely and openly state factual allegations and frame legal claims and arguments in pleadings and other court filings would significantly disserve the public interest. As noted above, Kentucky's public policy explicitly favors the “free and unfettered administration of justice.” Halle, 453 S.W.3d at 184. Implicit in this policy is a strong preference for both the peaceful resolution of disputes via a fair and open judicial process and protection of the right to obtain redress for legal wrongs. Both of these goals would be significantly hindered by injunctive relief limiting the allegations a claimant may make or by requiring such allegations to be made under seal. While ISCO undoubtedly has an important competing legitimate interest in the enforcement of its agreements and the protection of its confidential information, in balancing the relevant considerations the Court finds that interest outweighed by the public policy in favor of the free and unfettered administration of justice.

Second, the Court finds that the requested injunctive relief could result in harm to O'Neill and other persons, namely an inability to fully state any legal claims or arguments they may have. Third, the Court also finds that the requested injunctive relief would not merely preserve the status quo, but rather would require a number of significant affirmative acts by O'Neill including seeking amendment or sealing of the Kentucky Federal Complaint and surrendering his personal electronic devices to his counsel.

The Court also notes that enforcement of the requested injunctive relief would be difficult at best. Indeed, such an injunction would inevitably require a mini-trial as to what information and materials fall within the scope of the RCA. Finally, the Court notes that ISCO may in any event obtain some relief by filing a motion to seal the Kentucky Federal Complaint.

4. *Immediate and Irreparable Harm*

A party must show a probability of immediate and irreparable harm in order to obtain injunctive relief. CR 65.04(1); Maupin, 575 S.W.2d at 699 (“[Irreparable injury] is a mandatory prerequisite to the issuance of any injunction.”). The Court acknowledges that ISCO may indeed face irreparable harm as a result of public disclosure of its confidential information in judicial proceedings.¹ Moreover, such harm could result in competitive disadvantage and injury to ISCO’s reputation and goodwill, and thus could be difficult if not impossible to reduce to monetary damages. However, because the Court does not find at this time that ISCO has shown

¹ An injunction prohibiting O'Neill from disclosing ISCO’s confidential materials and information outside of any judicial process is not warranted because ISCO has not shown an immediate threat of any such conduct. See Auxier v. Commonwealth, 553 S.W.2d 286, 288 (Ky. App. 1977) (“Injunctive relief is proper only where the party seeking such relief has made a clear showing that his rights will be violated and that, as a result, he will suffer immediate and irreparable injury.”).

a substantial possibility it will ultimately prevail or that the equities weigh in favor of injunctive relief, the Court nonetheless does not find the requested injunctive relief warranted.

5. *Personal Devices*

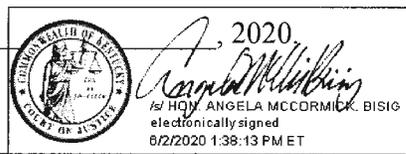
Separately, the Court also does not find ISCO’s request for an order requiring O’Neill to surrender his personal devices to his attorney for inspection and imaging by ISCO a proper subject of injunctive relief. Rather, such relief is more properly sought via discovery motion practice following the service of discovery requests and efforts to resolve any resulting disputes pursuant to JRP 402.

In sum, the Court does not find that ISCO has shown its claims present a substantial question on the merits or that the equities weigh in favor of injunctive relief. Thus, while ISCO may face irreparable harm, an injunction is not warranted. Finally, the issues regarding O’Neill’s personal devices are within the realm of discovery requests and, if necessary, discovery motion practice rather than injunctive relief. Accordingly, the Motion for Temporary Injunction or, Alternatively, Temporary Restraining Order is DENIED.

ORDER

WHEREFORE, IT IS HEREBY ORDERED AND ADJUDGED that Motion for Temporary Injunction or, Alternatively, Temporary Restraining Order by the Plaintiff, ISCO Industries, Inc., is **DENIED**.

IT IS SO ORDERED this ____ day of _____




 _____, 2020
 /s/ HON. ANGELA MCCORMICK BISIG
 electronically signed
 6/2/2020 1:38:13 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