IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

BEARD RESEARCH, INC. and CB RESEARCH & DEVELOPMENT, INC., Plaintiffs, v. MICHAEL J. KATES, et al., Defendants.	))))))))))	Civil Action No. 1316-VCP

ORDER

1. In this action, a chemical processing company has made a variety of claims against several former employees and their subsequent employers. After withdrawing certain claims that had been asserted in their Complaint, Plaintiffs, CB Research & Development, Inc. ("CB") and Beard Research, Inc. ("BR"), are pursuing five remaining counts. Count I alleges tortious interference with business relations against Defendants Alan Blize, Dr. Michael Kates, ASDI, Inc. ("ASDI"), and Advanced Synthesis Group, Inc. ("ASG"). Count II alleges misappropriation of trade secrets against Defendants Blize, Kates, ASDI, ASG, Dr. Garry Smith, Dr. Michael Wagaman, and Dr. Stephen Jones. In Count III, Plaintiffs assert a breach of contract claim against Kates, Smith, Wagaman, and Jones. Count IV accuses Kates of breaching a fiduciary duty owed to Plaintiffs. And, Count V alleges that Blize, ASDI, and ASG aided and abetted that breach of fiduciary duty.

2. On May 4, 2005, CB and BR filed a Verified Complaint against Kates, ASDI, ASG, Blize, Smith, Wagaman, and Jones. On September 15, 2005, Plaintiffs

amended their complaint to add Pfizer, Inc. ("Pfizer") as a Defendant. On May 23, 2006, Plaintiffs filed a Second Amended Verified Complaint (the "Complaint"). After a mediation conference, Plaintiffs settled their claims against Pfizer pursuant to a settlement agreement.[1] On September 30, 2008, Defendants filed a Motion for Summary Judgment. In addition, on October 6, 2008, Defendants filed a Motion to Exclude the Testimony of Plaintiffs' Damages Expert, Scott Jones, Ph.D. (the "Motion to Exclude") based on *Daubert v. Merrell Dow Pharmaceuticals, Inc.*,[2] as it has been applied by the Delaware courts. The parties submitted extensive briefing and the Court heard oral argument on both those motions.

3. At the pretrial conference held on March 6, 2009, I stated that, after carefully considering Defendants' Motion for Summary Judgment and Motion to Exclude, I had decided to deny the Motion for Summary Judgment in all respects based on the existence of genuine issues of material fact as to the matters addressed in that motion. I also indicated that I would deny the Motion to Exclude and admit the testimony of Dr. Jones without prejudice to the ability of Defendants to renew their challenge to his testimony under *Daubert* in the context of the post-trial briefing. The parties then tried this action from March 9 to 13, 2009. This Order memorializes, and briefly describes the primary grounds for, the rulings I made at the pretrial conference on

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[1] On December 15, 2008, the Court ordered that agreement produced to counsel for the remaining Defendants.

[2] 509 U.S. 579 (1993).

the Motions for Summary Judgment and to Exclude.[3] The Order is based solely on the record presented in connection with those motions and not upon evidence presented at trial.

I. THE MOTION FOR SUMMARY JUDGMENT

4. "Summary judgment is granted if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law."[4] When considering a motion for summary judgment, the evidence and the inferences drawn from the evidence are to be viewed in the light most favorable to the nonmoving party.[5] Summary judgment will be denied when the legal question presented needs to be assessed in the "more highly textured factual setting of a trial."[6] The Court "maintains the discretion to deny summary judgment if it decides that a more thorough development of the record would clarify the law or its application."[7]

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[3] At the pretrial conference, I also advised the parties that I had decided to grant in part and deny in part Plaintiffs' Motion for Sanctions for Spoliation of Evidence. I will address that motion in a separate document.

[4] *Twin Bridges L.P. v. Draper*, 2007 WL 2744609, at *8 (Del. Ch. Sept. 14, 2007) (citing Ct. Ch. R. 56(c)).

[5] *Judah v. Del. Trust Co.*, 378 A.2d 624, 632 (Del. 1977).

[6] *Schick, Inc. v. Amalgamated Clothing & Textile Workers Union*, 533 A.2d 1235, 1239 n.3 (Del. Ch. 1987) (citing *Kennedy v. Silas Mason Co.*, 334 U.S. 249, 257 (1948)).

[7] *Tunnell v. Stokley*, 2006 WL 452780, at *2 (Del. Ch. Feb. 15, 2006) (quoting *Cooke v. Oolie*, 2000 WL 710199, at *11 (Del. Ch. May 24, 2000)).

5. Defendants conceded the existence of triable issues of fact as to certain aspects of the trade secrets claims, but only against Kates, Smith, and ASG. Otherwise, Defendants sought summary judgment on all five remaining counts of the Complaint. Because I find there are genuine issues of material fact for each of the counts, I deny Defendants' motion.

A. The Challenge to Plaintiffs' Standing

6. On August, 1, 2005, CB entered into an asset purchase agreement (the "APA") with Adesis, Inc. ("Adesis"), whereby CB sold assets to Adesis for $3.4 million.[8] Defendants construe the APA to mean that "CB sold all of its assets to . . . Adesis, on August 1, 2005."[9] Thus, according to Defendants, because the right to bring the lawsuit is an asset and "all assets" were transferred, CB no longer has the right to pursue this lawsuit.[10] CB disputes that interpretation of the APA. I deny Defendants' Motion for Summary Judgment on this basis, because the agreement between CB and Adesis does not indicate conclusively that all of CB's assets, including the claims at issue here, were sold to Adesis. Drawing all inferences in CB's favor, I conclude CB may be able to demonstrate the requisite standing.

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8 The APA is attached as Exhibit 11 to Defendants' opening brief in support of their Motion for Summary Judgment, which will be cited to as "DOB." Plaintiffs' answering brief will be referred to as "PAB" and Defendants' reply as "DRB."

9 DOB at 16. Defendants do not dispute that CB "absorbed BR in the fall of 2004." *Id.* at 22. Accordingly, I treat BR and CB as one and the same for this aspect of the Motion for Summary Judgment.

10 *See* DOB at 21-24.

7. Because it takes the form of a syllogism, Defendants' argument relies upon the initial premise that all of CB's assets were sold. Besides passing citations to the contract as a whole, Defendants have not pointed to any specific provision of the contract indicating that all of CB's assets were sold. Defendants also have not identified any broadly encompassing language in the APA, such as the word "all."[11] Further, Section 1.a. of the APA lists a number of types of assets that were sold, including "the inventory, supplies, equipment, fixtures, merchandise, work in progress, accounts receivable, leaseholds, intellectual property, good will and customer list . . . of the Seller as set forth in Exhibit A." Yet, the assets at issue here, namely, the claims against Defendants, do not fit snugly into any of the listed asset classes. Thus, despite their repeated assertions to the contrary, Defendants have not demonstrated that the "plain meaning" of the contract supports their position.

8. Likewise, I find unavailing Defendants' claim that "[n]othing in the sale agreement indicates that CB retained the right to any lawsuit."[12] Under the doctrine of *expressio unius est exclusio alteris* (the expression of one thing means the exclusion of another), one reasonably could infer that the parties intended to exclude assets, such as

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[11] Although Defendants also cite to excerpts from the Rule 30(b)(6) deposition of CB and the deposition of Dr. Charles Beard, founder of the eponymous CB, that testimony does not directly imply that "all assets" were sold. *See* DOB at 16, citing Beard Dep. at 231-32; Baylis-Powell 30(b)(6) Dep. at 15. Indeed, the testimony supports the proposition that not all of the assets were sold.

[12] DOB at 16.

the claims here, that were not specifically identified in the APA.[13] Accordingly, I deny summary judgment on Defendants' contention that Plaintiffs lack standing.

B. Are Defendants Entitled to Summary Judgment on the Tortious Interference Claims?

9. Plaintiffs take a rather scattershot approach in their opposition to the Motion for Summary Judgment that tends to conflate two theories of tortious interference as applied to several different types of conduct by several Defendants, leaving the Court to sort through the rubble. The issues also are confused by the failure of Plaintiffs to respond with a separate section in their papers to the separate section of Defendants' briefing addressing the alleged breaches of contract upon which their claims of tortious interference with contract appear to be based.[14]

10. The torts of interference with contract and interference with prospective business relations are similar but not identical causes of action. To establish a claim for tortious interference with contract, "[t]here must be (1) a contract, (2) about which defendant knew and (3) an intentional act that is a significant factor in causing the breach

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[13] *See Active Asset Recovery, Inc. v. Real Estate Asset Recovery Servs., Inc.*, 1999 WL 743479, at *11 (Del. Ch. Sept. 10, 1999) (holding that including terms like "duplicating" and "telephone" charges while omitting the more general term "overhead" "speaks volumes") (citing Arthur L. Corbin, 3 *Corbin on Contracts* § 552 at 206 (1960) (explaining that under the rule of *expressio unius est exclusio alteris*, "[i]f one subject is specifically named, or if several subjects of a larger class are specifically enumerated, and there are no general words to show that other subjects of that class are included, it may reasonably be inferred that the subjects not specifically named were intended to be excluded")).

[14] *See* DOB at 45; DRB at 23. For the post-trial briefing, I expect the arguments as to each of the claims and each of the Defendants to be presented with greater clarity.

of such contract (4) without justification (5) which causes injury."[15] On the other hand, interference with prospective business relations requires (1) a reasonable probability of a business opportunity, (2) intentional interference by a defendant with that opportunity, (3) proximate causation, and (4) damages.[16] The main difference between the two, other than the existence of a contract, is that the tort of interference with prospective business relations "must be considered in light of a defendant's privilege to compete or protect his business interests in a fair and lawful manner."[17]

11. First, Plaintiffs claim tortious interference with a multi-year contract they had with Pfizer. This claim involves a number of disputed issues of material fact. Those issues include, for example, whether Pfizer breached the contract. The parties dispute whether Pfizer terminated the contract based on the "key man" clause, as Plaintiffs allege. The evidence of record on the Motion for Summary Judgment supports competing inferences in that regard.[18] There also appear to be genuine issues of material fact as to Pfizer's good faith in failing to agree with CB on a mutually acceptable replacement for Kates, and whether Defendants improperly contributed to Pfizer's

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15 *AeroGlobal Capital Mgmt., LLC v. Cirrus Indus., Inc.*, 871 A.2d 428, 437 n.7 (Del. 2005) (quoting *Aspen Advisors LLC v. UA Theater Co.*, 861 A.2d 1251, 1265-66 (Del. 2004)).

16 *Empire Fin. Servs., Inc. v. Bank of N.Y.*, 900 A.2d 92, 98 n.19 (Del. 2006) (quoting *DeBonaventura v. Nationwide Mut. Ins. Co.*, 419 A.2d 942, 947 (Del. Super. 1980)).

17 *DeBonaventura*, 419 A.2d at 947.

18 *See* Clark Dep. at 193, 275-80.

decision on that issue. Thus, I deny summary judgment on the part of Plaintiffs' tortious interference claim based on the Pfizer contract.

12. Second, Plaintiffs accuse Blize, Kates, ASDI, and ASG of tortiously interfering with employment contracts between CB and its employees in various respects. As discussed in paragraph 13, *infra*, Defendants argue that any such claim must fail because all of Plaintiffs' employees were "at-will employees." Plaintiffs counter, in part, by asserting that they had an oral contract with Kates under which he would remain in the employ of Plaintiffs throughout the three-year term of the Pfizer contract that began on January 1, 2003.[19] This raises an obvious statute of frauds issue, because under the alleged oral agreement Kates would stay on for the length of the Pfizer contract, but the term of that contract extended beyond one year. A contract that cannot be performed within a year generally falls within the statute of frauds.[20] Plaintiffs have not provided any legal support or persuasive argument for the position that this oral contract falls outside the statute of frauds or that it falls within any exception. Thus, to the extent Plaintiffs are making this claim, and I assume they are not,[21] it appears to be fatally flawed based on the statute of frauds. If Plaintiffs are asserting a claim for tortious interference with the alleged oral contract with Kates, however, and it somehow survives

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19 *See* DOB Ex. 3. Kates tendered his resignation from CB on January 6, 2004, and resigned from BR on February 13, 2004. *See* Kates Dep. at 70-72.

20 6 *Del. C.* § 2714(a).

21 As discussed in paragraph 20, Plaintiffs' claim for tortious interference with contract as to CB's employees seems to focus on their allegedly improper disclosure or use of Plaintiffs' confidential information, and not on the fact that a specific employee, such as Kates, left CB's employ.

a statute of frauds defense, there are material issues of fact in dispute that preclude summary judgment in Defendants' favor on that claim.

13. Plaintiffs appear to base another part of their tortious interference with contract claim on the existence of a contract between CB and all employees who left CB. In particular, Plaintiffs allege that, "[a]ll employees that left CB signed an employment manual wherein they agreed to protect the confidentiality of CB's information even after they left CB's employ."[22] In addition, CB notes that Wagaman signed an acknowledgement on April 27, 2004 (his last day of work) that all the information relating to CB's catalog information was "highly confidential."[23] In response, Defendants argue that there can be no tortious interference with the contracts of "at-will employees."[24] This contention would have some force, if Plaintiffs based their claim for tortious interference with contract on allegations that Defendants induced certain of CB's employees to leave their jobs with CB. I do not understand that to be CB's claim, however. Rather, Plaintiffs appear to argue not that the employees were something other than at-will employees (with the exception of Kates as noted above), but that the employees were under contractual obligations to maintain the confidentiality of CB's proprietary information.[25] Drawing all reasonable inferences in Plaintiffs' favor, as I

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22 *See* PAB at 39; *see also* Compl. ¶¶ 130-134.

23 PAB at 16 n.10, citing Ex. 27.

24 *See* DOB at 25-26; DRB at 8-9.

25 PAB at 29, 39. This distinction is important. Defendants refer the Court to three cases in support of their argument that "Delaware law does not permit a cause of action for tortious interference based on alleged interference with an 'at-will'

must on a motion for summary judgment, I conclude that there are genuine issues of material fact that preclude entry of summary judgment for Defendants on that part of Plaintiffs' tortious interference claims based on allegations that former employees of CB breached a contractual obligation of confidentiality.

14. Third, Plaintiffs claim that Blize, Kates, ASDI, and ASG interfered with prospective business relations with current and prospective customers. Defendants maintain there were no contracts between CB and any of the "one-off" customers, beyond the "one-off project" itself, and Plaintiffs do not dispute this.[26] Accordingly, this aspect of CB's claim does not involve any allegation of tortious interference *with contract*. As for tortious interference with prospective business relations, Defendants contend that CB had no protectable expectation that any customers would return again, so as a matter of law there can be no tortious interference with prospective business relations.[27] Nevertheless, a reasonable inference from the evidence on the pending motion, even if not the only one, is that CB may have had a legitimate expectation of continued business with at least some of its customers. The record contains evidence, for example, that CB was the "gold standard" among contract research organizations for the type of "one-off

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employment relationship." DRB at 9, citing DOB at 26 n.22. None of the three cases relied upon by Defendants addresses the enforceability of confidentiality agreements entered into by employers with at-will employees; rather, each cited case deals with the at-will employment itself. *See LeBlanc v. Redrow*, 2001 WL 428686, at *2 (Del. Super. Apr. 19, 2001); *Rizzo v. E.I. du Pont de Nemours & Co.*, 1989 WL 135651, at *1-2 (Del. Super. Oct. 31, 1989); *Park v. Ga. Gulf Corp.*, 1992 WL 714968, at *6 (D. Del. Sept. 14, 1992).

[26] DOB at 28-30.

[27] *Id.*

work" it did. In addition, CB presented evidence in the form of the deposition of Wayne Whittaker that Blize instructed Whittaker, while they both were employed by Defendant ASDI, to lock a CB customer list that Kates had brought with him in an ASDI safe.[28] Therefore, for purposes of the Motion for Summary Judgment, it is possible that CB may prevail on its claim that Kates and Blize, along with their employers, ASG and ASDI, intentionally interfered with CB's relations with its customers in a way that goes beyond one business's privilege to compete with another. Thus, I deny summary judgment as to this aspect of Plaintiffs' tortious interference claims.

C. Are Defendants Entitled to Summary Judgment on the Trade Secret Claims?

15. With respect to CB's claims for misappropriation of trade secrets, Defendants' argument rests largely on how many of the experimentals for making compounds used at ASDI or ASG can be attributed to the same experimentals used at CB or BR. In that regard, Defendants admit, for purposes of their summary judgment motion only, that there is sufficient evidence to support a reasonable inference that at least some of the experimentals or recipes for making compounds at issue came from CB's files.[29] Determining whether any additional ones did and whether any of the experimentals qualify as trade secrets requires consideration of highly technical and fact-intensive issues. Moreover, the organic chemistry involved is complex enough that it needs to be explained by the testimony of those knowledgeable in the relevant art, so that the Court

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[28] PAB at 23-24, citing Whittaker Dep. at 67-68.

[29] DOB at 18 n.7.

can make a studied and informed decision. The evidence adduced by CB on the motion for summary judgment relates to experimentals for significantly less than all the compounds for which CB alleges Defendants misappropriated CB's trade secrets. Yet, that evidence convinces me that I could not confidently, efficiently, or productively attempt to decide the claims related to those other compounds on the partial record presented in connection with the Motion for Summary Judgment.

D. Are Defendants Entitled to Summary Judgment on the Fiduciary Duty Claims Against Kates or Those Who Allegedly Aided and Abetted Kates?

16. Like the trade secret claims, the breach of fiduciary duty claim against Kates is heavily fact-laden. Defendants make one primarily legal argument, however, in that they contend the breach of fiduciary duty claim is preempted based on 6 *Del. C.* § 2007(a) of the Delaware Uniform Trade Secrets Act (the "DUTSA").[30] That section states the DUTSA "displaces conflicting tort, restitutionary and other law of this State providing civil remedies for misappropriation of a trade secret."[31] The Delaware Supreme Court has held that if "common law claims are based on the same alleged wrongful conduct as the trade secret claims, they are precluded under 6 *Del. C.* § 2007."[32]

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30 6 *Del. C.* § 2001 to § 2009.

31 6 *Del. C.* § 2007(a).

32 *Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 898 (Del. 2002).

The District of Delaware likewise notes that "the [preemption] issue has been stated as whether the failure of the misappropriation claim would doom the common law claim."[33]

17. Because Defendants waited until their reply brief to make this argument,[34] the record will benefit from additional factual and legal development by the parties on this issue.[35] To resolve the question of preemption, the Court must have a clear understanding of the precise parameters of both the trade secret claims and the breach of fiduciary duty claims. On the less than complete record before me on summary judgment, I cannot say definitively that a breach of fiduciary duty claim against Kates would be doomed if Defendants show, for example, that CB's experimentals were not trade secrets. Even if the experimentals do not qualify as trade secrets under the DUTSA, for example, they still might be valuable proprietary information of CB that Kates had a fiduciary duty not to disclose or use for his own benefit. It is conceivable, therefore, that the failure of CB's trade secret claim would not doom its breach of fiduciary duty claim. In addition, whether Kates can be liable for breach of fiduciary duty arising out of an agency or key managerial relationship at CB, as opposed to his directorial position at BR, is a question of fact depending on the circumstances of the former relationship. As

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33 *Ethypharm S.A. France v. Bentley Pharms., Inc.*, 388 F. Supp. 2d 426, 433 (D. Del. 2005) (citing *Smithfield Ham & Prods. Co. v. Portion Pac, Inc.*, 905 F. Supp. 346, 350 (E.D. Va. 1995)).

34 *Compare* DOB at 42-45 *with* DRB at 22.

35 *See Tunnell v. Stokley*, 2006 WL 452780, at *2 (Del. Ch. Feb. 15, 2006) (noting that the court "maintains the discretion to deny summary judgment if it decides that a more thorough development of the record would clarify the law or its application.") (quoting *Cooke v. Oolie*, 2000 WL 710199, at *11 (Del. Ch. May 24, 2000)).

Defendants concede, "[a]n issue of fact exists as to whether Kates qualifies as a 'key management personel [sic]' of CB."[36] I, therefore, deny Defendants' Motion for Summary Judgment on this count of the Complaint.

18. Likewise, the aiding and abetting breach of fiduciary duty claims against Blize, ASDI, and ASG are dependent on the factual circumstances surrounding the actions of Blize, ASDI, and ASG during the relevant time period, as well as the state of mind of Kates, Blize, ASDI, and ASG. For that reason and the reasons stated in the previous paragraph, I deny summary judgment as to the aiding and abetting count, as well. The only other aspect of the Motion for Summary Judgment dealt with damages and is addressed below in connection with the Motion to Exclude.

II. THE MOTION TO EXCLUDE

19. Defendants have moved under Delaware Rule of Evidence 702 and *Daubert v. Merrell Dow Pharmaceuticals, Inc.*,[37] as it has been applied in Delaware, to exclude the testimony of Plaintiffs' damages expert, Dr. Scott Jones. Defendants also seek essentially the same legal determination through their Motion for Summary Judgment.

20. Delaware Rule of Evidence 702 provides:

> If scientific, technical or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training or education may testify thereto in the form of opinion or otherwise, if (1) the

[36] DOB at 43 n.48.

[37] 509 U.S. 579 (1993).

> testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

Adopting the reasoning of *Daubert* and its progeny, the Delaware Supreme Court has held that when the "factual basis, data, principles, methods, or their application" contained in an expert's report are challenged, Rule 702 requires the court to decide if the expert's testimony "has a reliable basis in the knowledge and experience of [the relevant] discipline."[38]

21. Defendants seek to exclude Dr. Jones's testimony based on several different methodological errors related to his valuation of damages, including (i) an uncritical acceptance of and reliance on management's optimistic prognostications, (ii) a failure to account for the loss attributable to any downward trend in the overall market segment of the industry in which CB operated ("loss causation"), (iii) an error in arbitrarily selecting 2002, a banner year for CB, as the basis for calculating expected revenue and income in future years beyond 2004, (iv) a disregard for the effect the sale of CB assets to Adesis had on the total amount of damage suffered by CB, (v) double counting the independent value of the contract CB entered into with Pfizer and the value CB lost as a going concern based on Defendants' alleged misconduct, which includes losing the Pfizer contract, and (vi) the failure to segregate the amount of damage caused by the conduct underlying each of the different claims.

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[38] *M.G. Bancorporation, Inc. v. LeBeau*, 737 A.2d 513, 523 (Del. 1999) (quoting *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 149 (1999)).

22. Based on the extensive briefing on these issues, there are likely to be issues of both relevance and reliability regarding Dr. Jones's opinions. At the outset, however, I note that, although it is critical in a jury trial for a court to exercise its gatekeeper function in advance of allowing an expert to testify, the importance of addressing issues raised under *Daubert* and Rule 702 before an expert testifies is more attenuated in a bench trial. The damages theory propounded by Plaintiffs' expert is quite complicated, owing not only to a rather novel method he used, but also to the complicated facts of this case, including the sale of most of CB's assets, the loss causation issue, and the possibility that damage might have been caused by several different Defendants on several different theories. In large part because this is a bench trial, I consider it more prudent to hear the evidence at trial and consider the damages theory and Defendants' criticisms of it in the context of the full record. Moreover, it will be more efficient to consider the reliability of the expert's methodology after trial, because by then the Court will have had the benefit of hearing both sides' experts address the complex damages issues presented in this litigation. Accordingly, I deny both motions Defendants made challenging Plaintiffs' expert evidence on damages, but Defendants may continue to press those arguments after trial, as they deem appropriate.

III. CONCLUSION

23. For the reasons stated, therefore, IT IS HEREBY ORDERED that Defendants' Motion for Summary Judgment and Motion to Exclude are denied in all respects. Except as otherwise indicated herein, this Order is without prejudice to

Defendants' ability to pursue the same arguments made in these two motions in their post-trial briefing and argument.

/s/Donald F. Parsons, Jr.
Vice Chancellor