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December 15, 2004

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Re: Rockwell Automation, Inc. v. Kall
C.A. No. 526-N
Date Submitted: November 15, 2004

Dear Counsel:

Plaintiff Rockwell Automation, Inc. ("Rockwell") alleges that Defendant Jonathan J. Kall ("Kall"), a former employee: (1) misappropriated confidential information; (2) converted confidential information; and (3) breached his Employment Agreement (the "EA") by both disseminating confidential information and retaining confidential documents after his termination. Rockwell has moved, pursuant to Court of Chancery Rule 56, for summary judgment with respect to the conversion claim and the breach of the EA claim stemming from Kall's retention of documents. Kall has cross-moved for summary judgment seeking: (1) a declaration that he has not breached the EA by disseminating

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documents to his attorneys, accountants, and financial advisor; (2) authorization to retain documents subject to the Court's Order of July 2, 2004; and (3) attorneys' fees and costs. For the reasons discussed below, Rockwell's motion for summary judgment on its claim that Kall breached the EA by retaining Rockwell's confidential documents after his termination will be granted; otherwise, the motions will be denied.¹

I. BACKGROUND

Rockwell is a leading industrial automation company providing power, control, and information solutions. Kall is the former president and sole owner of Interwave Technology, Inc. ("Interwave"). Rockwell acquired substantially all of the assets of Interwave pursuant to the Asset Purchase Agreement (the "APA"), dated January 29, 2003. Kall became an employee of Rockwell pursuant to the EA, dated January 29, 2003. The APA and the EA were executed simultaneously. As the result of Rockwell's purchase of Interwave's assets, Kall received \$12

¹ The Court does not determine whether Kall breached the EA by disseminating Rockwell's confidential information to his agents.

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million and, pursuant to the Earn-Out provision of the APA, Kall could potentially receive additional payouts totaling \$12 million in years 1 and 3 of his employment.

Rockwell terminated Kall, purportedly for cause, on June 22, 2004.

The EA contains a number of provisions regarding confidentiality.

Section 8.2 of the EA, titled “Confidentiality and Surrender of Records,” provides:

Employee shall not during the Period of Employment or at any time thereafter . . . directly or indirectly give any “confidential records” to, or permit any inspection or copying of confidential records by, any individual or entity other than in the course of such individual’s or entity’s employment or retention by Employer, nor shall he retain, *and will deliver promptly to Employer, any of the same following termination of his employment.* For purposes hereof, “confidential records” means all correspondence, memoranda, files, manuals, books, lists, financial, operating or marketing records, magnetic tape, or electronic or other media or equipment of any kind which may be in Employee’s possession or under his control or accessible to him which contain any proprietary information as defined in Section 8.1 above. All confidential records shall be and remain the sole property of Employer during the Period of Employment and thereafter.²

Section 8.1, titled “Proprietary Information,” sets out a number of broad categories of information which are to be considered proprietary information under the EA and which the employee is not permitted to use directly or indirectly for his own

² Emphasis added.

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purposes or for the benefit of any person or entity other than Rockwell. Additionally, the employee may not disclose any proprietary information to any individual or entity unless such disclosure has been authorized in writing by Rockwell. The last portion of Section 8.1 reads:

However, proprietary information shall not include . . . (B) other non-sensitive information that may be disclosed by Employee in the ordinary course of business, the disclosure of which is not reasonably likely to materially adversely affect Employer's business operations, its relationships with customers, vendors or employees or the results of its operations.

Rockwell asserts that Kall breached the EA and converted Rockwell's confidential information by failing to return to Rockwell documents that were in his or his agents' possession after he was terminated on June 22, 2004.

II. ANALYSIS

A. Appropriate Standard

A party is entitled to summary judgment "if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits, if any, 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.”³ When the Court is faced with cross-motions for summary judgment the same standard must be applied to each of the parties’ motions and the mere existence of cross-motions does not necessarily indicate that summary judgment is appropriate for one of the parties.⁴ The moving party always has the burden to show the absence of any genuine issue of material fact.⁵

B. *Breach of Contract Claim*

In evaluating a contractual claim, the Court first reviews the contract “as a whole” to determine whether the parties’ intent can be understood through the words chosen by the parties or whether the chosen words are ambiguous.⁶

Contract terms are controlling when they establish the parties’ common meaning so that a reasonable person in the position of either party would have no expectations inconsistent with the contract language. When the provisions in controversy are fairly susceptible of different interpretations or may have two or more different

³ Court of Chancery Rule 56(c).

⁴ See *Motorola, Inc. v. Amkor Tech, Inc.*, 849 A.2d 931 (Del. 2004); *Kronenberg v. Katz*, 2004 WL 1152282, at *13 (Del. Ch.).

⁵ *Mell v. New Castle County*, 2003 WL 1919331, at *3 (Del. Ch.).

⁶ *In re Explorer Pipeline Co.*, 781 A.2d 705, 714 (Del. Ch. 2001) (citing *Supermex Trading Co., Ltd. v. Strategic Solutions Group, Inc.*, 1998 WL 229530 (Del. Ch.)). The EA is to be construed in accordance with Delaware law (EA, Section 9.4.). The APA is to be construed in accordance with Pennsylvania law (APA, Section 14.15.). Neither party has suggested that this distinction matters. Because Rockwell seeks relief under the EA, the Court looks to Delaware law.

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meanings, there is ambiguity. In those circumstances, the interpreting court must look beyond the language of the contract to ascertain the parties' intentions.⁷

Rockwell asserts that Kall and his agents are in possession of, and have refused to return, confidential records that Kall obtained during his employment and, therefore, Kall is in violation of Section 8.2 of the EA. Kall concedes that, for various reasons, either he or his agents have, after his termination, retained various documents that were obtained during his employment with Rockwell.⁸

Section 8.2 of the EA is unambiguous; it provides that upon the termination of employment, the employee must return to Rockwell all confidential documents in his possession.⁹ Kall argues that he is entitled to retain these documents in order to challenge his Year 1 payment under the Earn-Out provision of the APA, in order to renegotiate the Earn-Out provision, and in order to challenge his termination for

⁷ *Motorola*, 849 A.2d at 938 (construing contract governed by Illinois law and citing *Eagle Indus., Inc. v. DeVilbiss Health Care, Inc.*, 702 A.2d 1228, 1232-33 (Del. 1997)).

⁸ See Def.'s Op. Br. in Opp'n to Pl.'s Mot. For Summ. Judgment at 19-21; Def.'s Reply Br. at 1.

⁹ Kall acknowledges that the documents which he or his agents have retained contain proprietary information. There is no significant dispute between the parties as to the identity of the documents which are the subject of Rockwell's motion.

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cause. These arguments, however, fail to provide a sufficient basis to allow Kall to retain documents in violation of the clear language of the EA.

Section 13.1(f) of the APA gives Kall the right to challenge his Earn-Out Payment; it states:

Buyer shall prepare and maintain records and books of accounts which reasonably substantiate the Year One Earn-Out Payment and Year Three Earn-Out Payment (the "Records"). Such records shall be open to inspection and subject to audit by Seller's Representatives to the extent necessary to adequately permit evaluation and verification by Seller of the [Earn-Out] following Buyer's delivery of the applicable Earn-Out Statement referred to in Section 14.1(g). Inspections or audits of the Records shall only take place during normal working hours, upon reasonable advance written notice.

While Kall has the right to challenge his Earn-Out Payment, the provision authorizing such a contest also establishes the scope of, and procedure for, Kall's review of Rockwell documents. In no way does this provision empower Kall to retain any of the documents now held by him or his agents. To allow Kall to retain these documents would be to allow Kall to flout the clear provisions of both the EA and the APA and to allow Kall to engage in self-help. Documents that might assist Kall during his Earn-Out challenge do not form an exception to Section 8.2

of the EA and Kall is not permitted to retain these documents after termination.¹⁰

Furthermore, Kall's argument that he may retain certain documents for purposes of renegotiation of the Earn-Out provision has become moot because of Kall's termination.¹¹

In addition, Kall's argument that he may retain documents to assist in his challenge of his termination does not fall under any exception to Section 8.2 of the EA. Following a personnel review, Kall was directed by Rockwell to produce weekly performance reports starting in February 2004. Kall admits that he distributed these reports and the information that he used to prepare these reports to his agents. Kall simply asserts that, because he is challenging his termination, he is allowed to keep these documents to help him make his case. However, as clearly stated in Section 8.2 of the EA, Kall is not permitted to retain any proprietary

¹⁰ Not all of the documents retained by Kall or his agents are relevant to the Earn-Out dispute.

¹¹ Kall contends that Rockwell, when it cited his handling of the documents in its letter terminating him, made them the subject matter not only of this action but also of any litigation involving his termination; thus, he asserts that Rockwell has independently conferred upon him a right to retain the documents. As far as this action is concerned, the argument is circular. In substance, Kall appears to be arguing that Rockwell cannot retrieve the documents because, by complaining about how Kall has dealt with the documents, it has allowed him to retain them. If that were so, Rockwell could never recover the documents through litigation. As to any other dispute, Kall may seek access to the documents under the rules of the forum where the other dispute is addressed.

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information. If Kall desires to use such documents, he is free to seek them from Rockwell through the traditional routes available to him in the forum adjudicating his claims. He may not avoid his contractual obligations under the EA through self-help.¹²

There are no genuine issues of material fact with respect to this claim because both Kall and Rockwell agree that Kall retained certain documents. Furthermore, Kall concedes that the information he retained falls under the definition of confidential or proprietary information within Section 8.2. With no exceptions available to Kall to allow him to retain such confidential information, the Court concludes that as a matter of law Kall breached Section 8.2 of the EA by retaining Rockwell's confidential information after he was terminated. In short, no

¹² Kall tenders two other arguments that merit brief attention. First, he asserts that his possession of the documents is authorized by a temporary restraining order entered by this Court with the consent of the parties on July 2, 2004, which prohibited further dissemination of the documents and required Kall to provide a listing of Rockwell's proprietary documents in his possession or his agents' possession. Rockwell seeks the return of the listed documents. That order, however, preserved the *status quo* to enable consideration of Rockwell's claims on the merits. It certainly was not a permanent resolution. Second, Kall argues that Rockwell's actions constitute an amendment of the EA by conduct or by waiver of any right to disgorgement. As to recovery of the documents, Rockwell promptly sought their return. Even if Rockwell implicitly consented to Kall's sharing of some of the documents with his advisors, it does not follow that Rockwell has somehow lost its right to insist upon their return following his dismissal.

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reasonable person in Kall's position would have an expectation under the EA and the APA that he could retain the subject documents. Thus, Court grants Rockwell summary judgment on this claim.

C. Conversion

Conversion is the “act of dominion wrongfully exerted over the property of another, in denial of his right, or inconsistent with it.”¹³ The necessary elements of conversion are that Rockwell had a property interest in the confidential document; that Rockwell had a right to possession of the documents; and that Rockwell sustained damages.¹⁴ Obviously, Rockwell has a property interest in its confidential information. Furthermore, the Court has already concluded that Kall had no right to retain these documents, and, therefore, Rockwell had a right to possession of the confidential documents that Kall retained after he was terminated. However, there is a genuine issue of material fact with respect to what damages, if any, Rockwell has suffered as a result of Kall's retention of

¹³ *McGowan v. Ferro*, 2004 WL 2423570, at *19 (Del. Ch.) (quoting *Arnold v. Soc'y for Sav. Bancorp, Inc.*, 678 A.2d 533, 536 (Del. 1996)).

¹⁴ See *Facciolo Constr. Co. v. Bank of Del.*, 514 A.2d 413 (Del. 1986); *Goodrich v. E.F. Hutton Group, Inc.*, 542 A.2d 1200, 1203 (Del. Ch. 1988).

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Rockwell's confidential documents. Therefore, the Court denies Rockwell's motion for summary judgment with respect to its conversion claim.

D. Kall's Claims

The Court denies summary judgment with respect to Kall's request for a declaration that he did not breach the EA by disseminating documents to his agents. There are genuine issues of material fact as to how Kall came into possession of the various documents and whether Rockwell knew or should have been on notice of Kall's distribution of those documents. The Court also denies Kall's request to be allowed to retain the documents that still may be in his or his agent's possession. The Court has already concluded that Kall does not have a right to retain such documents. Lastly, as Kall has not been successful in his motion for summary judgment, he is not, under any rationale, entitled to attorneys' fees.

III. CONCLUSION

For the foregoing reasons, Rockwell is granted partial summary judgment with respect to its breach of Employment Agreement claim based on Kall's retention of confidential documents. Within ten days, Kall and his agents shall

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tender to Rockwell all confidential documents that may still be in their possession.¹⁵ The motions are otherwise denied.

IT IS SO ORDERED.¹⁶

Very truly yours,

/s/ John W. Noble

JWN/cap

cc: Register in Chancery-NC

¹⁵ There may be issues involving Kall's attorney-client privilege with respect to a limited number of documents. Kall shall, no later than twenty days from the date of this letter opinion, provide Rockwell with a log identifying those documents and the good faith basis for assertion of the privilege. The documents subject to a good faith claim of privilege need not be surrendered until the claims of privilege have been addressed.

¹⁶ This directive is expressly conditioned upon Rockwell's holding of all documents tendered by Kall or his agents in a separate repository in order that they may be available if needed in any subsequent proceeding between the parties.