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**STATE OF MINNESOTA
IN COURT OF APPEALS
A17-1043**

Higher Dimension Materials, Inc.,
Appellant,

vs.

Performance Fabrics, Inc., et. al.,
Respondents.

**Filed April 2, 2018
Affirmed
Connolly, Judge**

Washington County District Court
File No. 82-CV-15-1088

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Considered and decided by Halbrooks, Presiding Judge; Connolly, Judge; and
Reilly, Judge.

UNPUBLISHED OPINION

CONNOLLY, Judge

Appellant challenges the grant of summary judgment dismissing its claims against respondents on the ground that the claims were precluded by the award in an arbitration between appellant and one respondent. We affirm.

FACTS

Appellant Higher Dimension Materials, Inc. (HDM) manufactures a cut-resistant, flexible fabric (SuperFabric) used by respondent Performance Fabrics, Inc. (PFI), in its products.

In November 2011, HDM and PFI entered into the Amended and Restated License and Supply Agreement (the LSA), the successor to their previous License and Supply Agreements. The LSA provided that: (1) HDM would give PFI the exclusive right to make and sell certain products made from SuperFabric in some markets and nonexclusive rights in other markets; (2) the rights included using certain HDM intellectual property, including patents, patent applications, trademarks, and copyrights; (3) PFI was required to purchase all of its fabric from HDM; (4) HDM agreed to sell PFI fabric at certain prices; (5) PFI had to pay royalties on sales of finished goods made from SuperFabric; (6) if HDM could not supply the fabric PFI needed, PFI had the right to use HDM's intellectual property to continue to exercise its rights under the LSA; (7) PFI had to contract with HDM or its subsidiary HDR to make the fabric; (8) if HDR could not produce the needed fabric within 30 days, PFI could contract with a qualified third party that HDM approved, and (9) claims for money or economic damages arising from the relationship created by the LSA were to

be resolved by arbitration. The LSA was signed by the CEO of HDM, Dr. Young-Hwa Kim, and the CEO of PFI, respondent Steve Van Ermen.¹

In 2013, Van Ermen told the PFI board that he believed HDM might not be able to meet PFI's demand for SuperFabric, particularly if HDM filed for bankruptcy. Van Ermen asked HDM for assurance of its ability to supply but was not satisfied with the assurance HDM provided. Van Ermen informed HDM that PFI planned to create and produce a replacement fabric (R-fabric) but would not use R-fabric unless and until HDM could not supply the SuperFabric PFI needed.

To develop and produce the R-fabric, PFI's three corporate officers—Van Ermen, Brent Lohrmann, and Dave Selvius—decided to establish a related company, CFI. The co-managers of CFI were Van Ermen and Lohrmann, and all CFI staff were PFI employees; thus PFI and CFI were closely interrelated.

CFI hired respondent Dr. Richard Ollmann, a senior research scientist who had worked for HDM from 2008 until HDM terminated his employment in 2009, and respondent John Johnson, a former HDM vice-president who had left HDM two years earlier. Van Ermen told Ollmann and Johnson that PFI was obligated to source from HDM anything that was HDM's intellectual property, i.e., fabric or fabric-like products that were patented or on which patents were pending or had been applied for, and anything “conceived and developed” by HDM. PFI's employment agreements with Ollmann and Johnson required them to honor any obligations to former employers, and CFI agreed to

¹ There was at times a level of animosity between Kim and Van Ermen, which was reflected in the internal communications of both HDM and PFI.

indemnify them from claims arising from an alleged breach of those obligations, including confidentiality.

PFI and CFI commissioned a scientist to draft a white paper to establish that R-fabric is produced using information that is publicly available, and not on HDM's proprietary information. The white paper acknowledged that it was based on limited information about HDM's SuperFabric, but said there were many resins, formulating aids and processes, and supporting fabrics available from other manufacturers and suppliers. The scientist told Ollmann that the fabric Ollmann had described constituted "a totally new invention" in her company's opinion.

Ollmann formulated a resin for the R-fabric, based on a publicly available epoxy resin. Ollmann testified that he did not recall the HDM resin formula and used his own knowledge and publicly available materials. A scientist then employed by HDM reviewed Ollmann's lab books and testified that they showed that the base formula was similar to the resin Ollmann developed while working for HDM and that the modifications Ollmann made to the publicly available resin indicated that he was using knowledge gained while he worked at HDM.

HDM demanded arbitration on claims of breach of contract, misappropriation of trade secrets, and efforts to wrongfully acquire HDM's confidential and proprietary technology. The demand sought economic damages, a declaratory judgment, and a permanent injunction pursuant to the LSA. CFI began to produce R-fabric. PFI decided to use R-fabric in place of SuperFabric, a decision based on the amount PFI had spent in developing R-fabric, its distrust that HDM could supply PFI's fabric needs, and its belief

that HDM's trade secrets were not necessary to produce R-fabric. Ollmann resigned from PFI/CFI shortly after learning of the decision.

In March 2015, while the arbitration was pending, HDM brought an action in district court, alleging counts including: (1) trade secret misappropriation under the Minnesota Uniform Trade Secrets Act (MUTSA) (all respondents); (2) breach of LSA (PFI); (3) tortious interference with LSA (CFI); (4) tortious interference with LSA (Van Ermen); (5) breach of employment agreement (Johnson); (6) breach of employment agreement (Ollmann); (7) tortious interference with employment contracts (CFI); (8) tortious interference with employment contracts (PFI); (9) declaratory judgment (CFI); and (10) civil conspiracy (all respondents). The district court order referred to arbitration under the LSA the trade-secret-misappropriation count, the breach-of-the-LSA count, and the tortious-interference-with-employment-contract count.

In November 2015, HDM submitted a specification of its claims in the arbitration proceeding, setting out claims for: (1) failure to purchase only SuperFabric; (2) failure to pay royalties; (3) use of confidential information; (4) manipulation of orders; (5) violation of the covenant of good faith and fair dealing; (6) misappropriation of trade secrets under MUTSA; (7) copyright infringement; and (8) trademark infringement. HDM sought: (1) damages; (2) a declaration that LSA's exclusive license to PFI was null and void; (3) a permanent injunction against PFI's use of HDM's information; (4) a permanent injunction against PFI's manufacture or sale of R-fabric; and (5) attorney fees and costs.

An eight-day arbitration hearing in January and February 2016 resulted in a 50-page reasoned decision and award (the award). The arbitrator found that PFI had breached the

LSA by failing to purchase only HDM's SuperFabric and by not paying royalties, and granted HDM the \$177,323 it claimed to be owed in royalties. In accord with the LSA provision that the unsuccessful party was to pay "[t]he fees of the arbitrator(s) and other costs incurred by the parties in connection with such arbitration," the award required PFI to pay all arbitration expenses and fees. The arbitrator also granted HDM's request for an injunction against PFI's further manufacturing of R-fabric. But, the arbitrator found for PFI on HDM's claim 3 (use of confidential information), claim 4 (breach of LSA on purchase orders), claim 5 (breach of covenant of good faith and fair dealing), claim 7 (copyright infringement), and claim 8 (trademark infringement), and on HDM's claim of tortious interference with its former employees' confidentiality agreements. The parties' stipulation and an order confirming the award were filed with the district court.

Respondents moved for summary judgment on the claims remaining before the district court, arguing that appellant's case should be dismissed because the award was a final judgment that resolved all the issues. HDM moved for partial summary judgment, arguing that the award resolved all issues except damages on some counts and all issues except justification and damages on other counts. Following a hearing, the district court issued an order granting respondents' summary-judgment motion and dismissing the case and denying HDM's motion.

HDM challenges the grant of summary judgment, arguing that there is no preclusive effect from three of the award's determinations, namely the determinations that HDM is not entitled to damages for lost profits; that PFI did not act in bad faith, so HDM is not entitled to attorney fees under MUTSA; and that PFI did not breach the covenant of good

faith and fair dealing, so HDM is precluded from presenting evidence of Van Ermen's or CFI's malice in support of its tortious-interference claim.

D E C I S I O N

HDM explicitly challenges the grant of summary judgment dismissing its case on the ground that the doctrine of res judicata precludes litigation of matters already resolved by the award. On an appeal from a summary judgment, this court reviews de novo both whether there are any genuine issues of material fact and whether the district court erred in its application of the law. *STAR Ctrs., Inc. v. Faegre & Benson, LLP*, 644 N.W.2d 72, 76 (Minn. 2002). This court also reviews the application of res judicata de novo. *Rucker v. Schmidt*, 794 N.W.2d 114, 117 (Minn. 2011). "Res judicata not only applies to all claims actually litigated, but to all claims that could have been litigated in the earlier action." *Hauschildt v. Beckingham*, 686 N.W.2d 829, 840 (Minn. 2004).

1. Lost Profits

The award addressed HDM's claim for \$439,487 in lost profits:

HDM bases its claims for lost profits on . . . [the] testimony [of an HDM officer] that he took information from PFI on its sales of product with [R-fabric], and applied PFI's gross margins to compute [HDM's] profits had [HDM] made the sale. Paragraph 13(d) of the [LSA] provides that "[i]n no event will a party have any liability to another party under [the LSA] to any damages that consist of lost profits, loss of business or special damages." This forecloses an award of lost profits.

. . . Paragraph 13(d) refers not only to damages in indemnification but also "under [the LSA]."

The measure of damages would not, in any event, be lost gross profits. As claimant, HDM bears the burden of proving damages to a reasonable degree of certainty. The

information presented does not allow a computation of damages for lost net profits to a reasonable degree of certainty.

The award also considered lost profits in a section on legal fees and costs:

HDM further seeks an accounting for disgorgement of profits under [MUTSA]. Minn. Stat. § 325C.03(a) provides that “damages for misappropriation of trade secrets can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret.”

First, given the minimal [amount] of HDM’s information used, an award of disgorgement of profits is not in order. For the reasons noted above, no basis has been given on which such an award could be computed in any event. Second, the statute specifically provides for payment of a royalty for use of a trade secret. Here, the [LSA] already provides for payment of royalties, which have been computed and will be awarded.

Thus, the award granted HDM a royalty of \$177,323, the amount that HDM itself had computed as the royalty due, and concluded that HDM was entitled to neither lost profits nor disgorgement of profits.

The district court paraphrased Minn. Stat. § 325C.03(a) (2016), noted that HDM had been awarded a royalty payment, and said,

The arbitrator noted that the [LSA] specifically provides that no damages for lost profits may be awarded. *Despite this finding*, the arbitrator went on to find that HDM had not presented evidence that would allow a computation of lost net profits. HDM had the opportunity to litigate the issue of lost profits and other damages under MUTSA. . . . The finding that [respondent] PFI misappropriated trade secrets was based on the actions of [respondents] CFI and Ollmann. There is no evidence that [they] misappropriated any trade secrets that

were not considered by the arbitrator or that [they] caused any additional damages that were not considered by the arbitrator. The arbitrator's award of damages for the misappropriation of trade secrets claim by PFI [i.e., the royalty] forecloses an award of additional damages from the remaining [respondents].

(Emphasis added).

HDM relies on the fact that the award sets out two alternative reasons for not awarding lost profits, i.e., the LSA language and the finding that HDM had not presented evidence to support a computation of lost net profits, and on the district court's "Despite this finding" phrase, to argue that the award's finding that HDM had not presented evidence concerning the amount of lost profits was dicta and therefore did not preclude HDM from offering that evidence to the district court. HDM's argument implies that, whenever two or more reasons are provided for a conclusion, all reasons except the first are dicta. But "where there are two grounds, upon either of which the judgment of the trial court can be rested, and the appellate court sustains both, the ruling on neither is [dicta]." *State ex rel. Foster v. Naftalin*, 246 Minn. 181, 208, 74 N.W.2d 249, 266 (1956) (quotation omitted).

Moreover, "the modern rule [is] that a claimant may not re-litigate issues determined adversely to him in a prior action against another adversary, including issues relating to the damage he has sustained." Restatement (Second) of Judgments § 49 cmt. a (2017). HDM's lost-profit issue was determined adversely to HDM against PFI; HDM may not re-litigate the lost-profit issue against the other respondents.

The district court did not err in concluding that the award's conclusion that HDM was not entitled to lost profits is not dicta and that it precludes the litigation of the issue of HDM's entitlement to lost profits.

2. **Bad Faith**

MUTSA provides that “[i]f . . . willful and malicious misappropriation exists, the court may award reasonable attorney’s fees to the prevailing party.” Minn. Stat. § 325C.04

(iii) (2016). HDM sought attorney fees under MUTSA.

The award states:

[A] number of factors lead to a conclusion that [respondent] Dr. Ollmann used HDM’s information he gained while working there [i.e., at HDM]. . . .

. . . .
[But] CFI’s use of HDM’s information was not extensive. There is no indication that . . . Ollmann’s formulas made at HDM are those used in SuperFabric. Nor is there any evidence that the formula for the resin in [the] R-fabric is the same as for SuperFabric. Nonetheless, use of the information . . . Ollmann gained while at HDM to make the formula for resin in [the R-fabric] likely hastened the development of [the R-fabric,] which then replaced SuperFabric.

. . . .
. . . [MUTSA] only allows for recovery of fees for “willful and malicious misappropriation.” Minn. Stat. § 325C.04. While PFI did make some use of HDM’s trade secret information in formulating resin, such action was not willful and malicious.

The district court stated:

The arbitrator found that PFI made some use of HDM’s trade secret information in formulating resin for [R-fabric], specifically that Ollmann used HDM’s information that he gained while working for HDM. The arbitrator found that CFI’s use of HDM’s information was not extensive, but that use of the information that Ollmann gained while working for HDM “likely hastened the development of [the substitute] fabric, which then replaced SuperFabric.” . . . The arbitrator’s findings that PFI misappropriated trade secrets include findings that CFI and Ollmann misappropriated trade secrets.

. . . .

. . . The arbitrator specifically found that PFI's use of HDM's trade secret information in formulating resin was not willful and malicious. . . . PFI and CFI are intertwined to the extent that the arbitrator used the terms interchangeably and attributed CFI's actions to PFI. For example, PFI did not formulate the resin, CFI did, but as stated above, the arbitrator referred to PFI's use of trade secrets in formulating resin. PFI was found to have misappropriated trade secrets through the actions of Ollmann and CFI. HDM admits that CFI and Ollmann were in privity with PFI. HDM had the opportunity to present evidence on the issue of willfulness and maliciousness, not only as to PFI, but also as to CFI and Ollmann in the effort to prove that PFI acted willfully and maliciously. The issue[s] of whether PFI's, CFI's, or Ollmann's actions were willful and malicious all involve the same set of facts. HDM had a full and fair opportunity to litigate the issue. Further litigation of the issue is precluded.

HDM argues that Ollmann's "state[] of mind [is] not 'identical' to the state of mind of PFI." But Ollmann had been recruited by PFI to create and produce R-fabric; he had become a PFI employee. At arbitration, HDM argued, successfully, that Ollmann's acts made PFI liable for misappropriation; Ollmann's acts were the basis not only of the award's conclusion that PFI misappropriated HDM's trade secrets but also of its conclusion that the misappropriation was not willful and malicious. In the memorandum supporting its motion for partial summary judgment, HDM argued that "CFI and Ollmann were in privity with PFI." HDM does not explain how a corporation's "state of mind" can be different from the "state of mind" of those from whose acts the corporation's state of mind are inferred, nor how, given that PFI's misappropriation was not willful and malicious, the misappropriation of its agents—Ollmann and CFI—could have been willful and malicious.

The district court did not err in concluding that the award precluded any further litigation of the “willful and malicious” issue to enable HDM to recover attorney fees under MUTSA.

3. Covenant of Good Faith and Fair Dealing

The award dismissed HDM’s claim of PFI’s violation of the covenant of good faith and fair dealing:

Minnesota law requires a claim for breach of the duty of good faith and fair dealing to allege “a causal link between the alleged breach and the party’s claimed damages.” *La Societe Generale Immobiliere v. Minneapolis Community Development Agency*, 44 F.3d 629, 638 (8th Cir. 1994).

I find no violation of the covenant. While I have found that PFI’s creation and use of R-fabric violated the [LSA], I cannot say the violation was in bad faith. PFI was concerned that HDM would not be able to continue to supply fabric, a critical threat to its business. Indeed, it appears to have believed that HDM was in serious danger of going bankrupt and knew that Dr. Kim had consulted bankruptcy counsel. . . . Because HDM was PFI’s most important supplier, PFI’s concerns are understandable, although in hindsight they did not come to pass.

These concerns led PFI to seek further information about HDM’s financial condition and viability. . . . PFI has not been shown to have an ulterior motive in making inquiries about a business matter of critical importance: HDM’s continued ability to supply SuperFabric in light of its financial position.

PFI also started planning for the contingency that HDM would not be able to meet its obligations. This included continuing its business if HDM was no longer viable, which led it to explore an alternative source of fabric supply. . . .

PFI’s position on the proper interpretation of the [LSA] changed over time, as did its beliefs concerning the extent of HDM’s intellectual property. After a full presentation of evidence and study, I have concluded PFI’s interpretation of the [LSA]’s definition of Fabric and beliefs regarding HDM’s trade secret and patent rights were incorrect. But I do not

conclude that its actions were taken in bad faith. *See Sterling Capital Advisors, Inc. v. Herzog*, 575 N.W.2d 121, 125 (Minn. App. 1998) (bad faith is not found based on a mere mistake regarding one's rights or duties).

....

HDM has not proven a causal connection between PFI's alleged actions and any damage to HDM apart from damages caused by PFI's contractual breaches discussed above. This forecloses any additional relief based on its claim for breach of the covenant of good faith and fair dealing.

The district court agreed:

The arbitrator found that PFI's breach of the [LSA] was not in bad faith. The arbitrator considered internal communications of [respondents], information known to [respondents] regarding HDM's financial condition and allegations of manipulation of orders by [respondents]. . . . The arbitrator considered all of CFI's and Van Ermen's actions when determining whether PFI breached the [LSA] in bad faith. Ultimately, after examining all of the evidence before him, the arbitrator determined that the breach was not in bad faith. HDM had a full and fair opportunity to litigate the issue of bad faith on the part of CFI and Van Ermen. [Respondents'] motion for summary judgment on these counts is granted.

HDM argues that the determination that PFI did not act in bad faith does not preclude HDM's claim of tortious interference on the part of Van Ermen, who maliciously caused PFI to use R-fabric instead of SuperFabric.² But that claim is based on the premise that Van Ermen was the sole decision-maker, when the decision was made by all three PFI officers, not solely Van Ermen. Moreover, the award clearly concluded that the decision was devoid of malice: "PFI was concerned that HDM would not be able to continue to supply fabric, a critical threat to its business." There is no indication that, while PFI was

² HDM's tortious interference claim, if successful, could entitle HDM to legal expenses and lost profits.

concerned about its supply of the fabric essential to its operation, its CEO Van Ermen was concerned only with damaging HDM. As the award pointed out, no damage other than that resulting from the contractual breach was shown.

HDM also argues that the district court erred in stating that the same evidence was presented to both the arbitrator and the district court, asserting that the district court was presented with, and should have relied on, additional evidence. Assuming this to be true, HDM does not explain why evidence of Van Ermen's malice would not have been relevant to its claim that PFI acted in bad faith and therefore presented to the arbitrator. "Res judicata not only applies to all claims actually litigated, but to all claims that could have been litigated in the earlier action." *Hauschildt*, 686 N.W.2d at 840.

HDM also argues that the determination that PFI did not breach the covenant of good faith and fair dealing does not preclude HDM's claim of tortious interference on the part of CFI. The award first set out the five elements of tortious interference: (1) the existence of a contract; (2) the alleged wrongdoer's knowledge of the contract; (3) intentional procurement of the breach; (4) without justification; and (5) damages, *see Kallok v. Medtronic, Inc.*, 573 N.W.2d 356, 362 (Minn. 1998), then concluded that this claim failed: "CFI made some use of HDM's trade secrets in formulating the R-fabric resin. This was a breach of Dr. Ollmann's confidentiality agreement. No damages have, however, been proven apart from the damages based on breach of the [LSA] by PFI's substitution of R-fabric." Again, the failure of HDM to show damages from CFI's acts to support its claim of PFI's breach of the covenant of good faith and fair dealing meant that evidence of any such damages would be precluded from subsequent litigation.

“[A]rbitrators are the final judges of both law and fact; every reasonable presumption is to be exercised in favor of the finality and validity of the arbitration award, thus the scope of judicial review of an arbitration award is extremely narrow.” *Peggy Rose Revocable Trust v. Eppich*, 640 N.W.2d 601, 606 (Minn. 2002). The district court did not err in concluding that the arbitrator’s award is final and valid and dismissing the remaining claims.

Affirmed.