STATE OF MINNESOTA
IN COURT OF APPEALS
A17-1961

Adherent Laboratories, Inc.,
Respondent,

vs.

Mark DiPietro, et al.,
Appellants

Filed July 23, 2018
Affirmed
Worke, Judge

Hennepin County District Court
File No. 27-CV-16-2664

Philip J. Kaplan, Anthony Ostlund Baer & Louwagie P.A., Minneapolis, Minnesota (for respondent)

Kay Nord Hunt, Phillip A. Cole, Bryan R. Feldhaus, Lommen Abdo, P.A., Minneapolis, Minnesota (for appellants)

Considered and decided by Worke, Presiding Judge; Reyes, Judge; and Florey, Judge.

U N P U B L I S H E D O P I N I O N

WORKE, Judge

Appellants challenge the district court's denial of their motion to compel arbitration. We affirm.

FACTS

Appellant attorney Mark DiPietro was employed by appellant law firm Pauly DeVries Smith & Deffner LLC (appellants). From 2009 through 2015, appellants represented respondent Adherent Laboratories, Inc. (Adherent), a company working in hot melt adhesives. DiPietro was the attorney of record for patent applications for Adherent.

William Bunnelle was part owner of Adherent until he left in 2010 following a dispute. Bunnelle then began working for IFS Industries, Inc. (IFS). In 2012, Bunnelle sued Adherent, which resulted in an assignment executed in December 2012, whereby Bunnelle assigned certain intellectual-property rights to Adherent. Although DiPietro did not draft the assignment, he assisted Adherent's litigation counsel with it.

In 2014, Adherent learned that appellants were also representing IFS, and that DiPietro was the attorney of record for a patent application filed in March 2013 that identified Bunnelle as the inventor and IFS as the applicant. The patent application, which resulted in future patent applications identifying Bunnelle as the inventor, was based on intellectual property that Adherent owned as a result of the assignment.

In January 2016, Adherent sued appellants in Hennepin County, asserting that appellants prosecuted patents based on Adherent's intellectual property on behalf of Bunnelle and IFS. Adherent claimed that by doing so, appellants, among other things, breached a fiduciary duty owed as a result of the attorney-client relationship. Around the same time, Adherent sued Bunnelle and IFS in Ramsey County, asserting that Bunnelle and IFS obtained a patent based on Adherent's intellectual property. Adherent claimed,

among other things, that Bunnelle breached the assignment and IFS tortiously interfered with the assignment.

In March 2016, appellants moved to change venue to Ramsey County to consolidate the matters. The district court denied appellants' motion, noting that the Minnesota Supreme Court had already denied appellants' request to consolidate the matters. The district court stated that, while the matters shared similar underlying facts, "the parties and the claims are different." The Ramsey County case involved a claim against a former shareholder and employee for alleged breach of the assignment, whereas the Hennepin County case involved alleged misconduct by an attorney and law firm regarding, among other things, conflicts of interest and action related to the filing of patents.

In December 2016, appellants moved for summary judgment, claiming, among other things, that their simultaneous representation of Adherent and IFS did not violate the Minnesota Rules of Professional Conduct. Around the same time, the parties in both cases participated in mediation. Appellants and Adherent were unable to reach an agreement. But the parties in the Ramsey County case did reach an agreement, and on January 30, 2017, Adherent and Bunnelle and IFS entered into a written settlement agreement to resolve the matter. Relevant to this case, the settlement agreement includes section 2.8, which states:

> Any further litigation (other than litigation to enforce this Agreement) between Adherent and IFS (or any of its affiliates, officers, directors, shareholders, or any person for whom it is responsible in law) will be by means of arbitration . . . . Arbitration shall be under the rules of the American Arbitration Association [(AAA)].

In February 2017, appellants moved the district court to compel production of the settlement agreement. On March 28, 2017, the district court granted appellants' motion, and they received the settlement agreement the next day.

After receiving the settlement agreement, appellants filed a supplemental motion for summary judgment on March 31, 2017. Then, on April 3, appellants again moved for summary judgment, or in the alternative, to amend the answer. On April 18, appellants filed a second amended supplemental motion for summary judgment, or in the alternative, to amend the answer and assert a third-party complaint, claiming that the "[s]ettlement [a]greement opens a clear path to dismissal of the [c]omplaint in its entirety." Appellants claimed, among other things, that they were immune from liability with respect to the alleged conduct, the claims were barred by res judicata, and they were released under the terms of the settlement agreement.

On August 14, 2017, the district court granted appellants' summary-judgment motion in part and denied it in part. The district court determined that appellants knew that Adherent and Bunnelle had an adversarial relationship, and that appellants never sought Adherent's written consent to represent IFS or Bunnelle. The district court also determined that appellants began representing IFS prior to DiPietro assisting in the drafting of the assignment, and that appellants had available to them, in the course of their representation, Adherent's confidential information. The district court concluded that facts in the record showed that appellants improperly disclosed Adherent's confidential information.

The district court determined that summary judgment was not appropriate on Adherent's breach-of-fiduciary-duty claim because the record contained facts indicating

that appellants breached their duty of loyalty, duty of confidentiality, and duty to disclose. The district court also determined that summary judgment was not appropriate on Adherent's tortious-interference-with-contract claim because facts in the record supported Adherent's claim that appellants used language from Adherent's patent application in IFS's application, which procured Bunnelle's breach of the assignment.

As to the settlement agreement, the district court determined that appellants lacked standing to enforce it because they were not parties or third-party beneficiaries to the settlement agreement. The district court also denied appellants' request for leave to amend the answer and to assert counterclaims and third-party claims.

On August 21, 2017, appellants again moved to amend the answer and to reopen discovery. Then, on September 12, 2017, appellants moved the district court to compel arbitration based on the settlement agreement. On November 29, 2017, the district court denied appellants' motions. The district court determined that it, rather than an arbitrator, would decide whether an agreement to arbitrate existed between the parties. The district court next determined that appellants could not enforce the arbitration provision as nonparties to the settlement agreement because none of the three exceptions—equitable estoppel, agency, and third-party beneficiary—to the general rule that nonsignatories cannot compel arbitration applied. This appeal followed.

D E C I S I O N

Appellants challenge the district court's denial of their motion to compel arbitration. An appellate court will review de novo a district court's decision denying a motion to compel arbitration. *Johnson v. Piper Jaffray, Inc.*, 530 N.W.2d 790, 795 (Minn. 1995).

Authority to determine the issue of arbitrability

Appellants argue that the issue of arbitrability should have been decided by an arbitrator. "Whether a particular arbitration provision may be used to compel arbitration between a signatory and a nonsignatory is a threshold question of arbitrability." *Eckert/Wordell Architects, Inc. v. FJM Props. of Willmar, LLC*, 756 F.3d 1098, 1100 (8th Cir. 2014). It is presumed that "threshold questions of arbitrability are for a court to decide, unless there is clear and unmistakable evidence the parties intended to commit questions of arbitrability to an arbitrator." *Id.*

Here, the settlement agreement states: "Arbitration shall be under the rules of the [AAA]." Appellants claim that this is clear and unmistakable language that an arbitrator should decide the issue of arbitrability and that the district court erred in ruling on the issue. *See id.* ("[I]ncorporation of the AAA Rules into a contract requiring arbitration [has been held] to be a clear and unmistakable indication the parties intended for the arbitrator to decide threshold questions of arbitrability."). Adherent argues, however, that before the AAA rules can be invoked, the district court must decide whether appellants even have a right to enforce the settlement agreement. We agree. Although the settlement agreement states that arbitration will be under the AAA Rules, it also states that arbitration is reserved for "further litigation" and not "litigation to enforce" the settlement agreement. Appellants seek to enforce the arbitration clause in the settlement agreement. Therefore, it was for the district court to determine whether to enforce the settlement agreement and compel arbitration. The district court did not err in ruling on the threshold issue of arbitrability.

Not entitled to compel arbitration

Appellants argue that even if the district court appropriately determined the threshold issue of arbitrability, the district court erred in concluding that appellants lacked standing to compel arbitration. Appellants claim that based on the terms of the arbitration provision "as defined by the parties," they can compel arbitration.

An agreement to arbitrate is subject to contract interpretation. *Johnson*, 530 N.W.2d at 795. A court's primary goal in contract interpretation "is to ascertain and enforce the intent of the parties." *Valspar Refinish, Inc. v. Gaylord's, Inc.*, 764 N.W.2d 359, 364 (Minn. 2009). With a written agreement, this court determines the parties' intent "from the plain language of the instrument itself." *Travertine Corp. v. Lexington-Silverwood*, 683 N.W.2d 267, 271 (Minn. 2004). Contract language is given its plain and ordinary meaning, read in the context of the instrument as a whole. *Brookfield Trade Ctr., Inc. v. Cty. of Ramsey*, 584 N.W.2d 390, 394 (Minn. 1998). "A contract must be interpreted in a way that gives all of its provisions meaning." *Current Tech. Concepts, Inc. v. Irie Enters., Inc.*, 530 N.W.2d 539, 543 (Minn. 1995).

The arbitration provision provides: "Any further litigation (other than litigation to enforce this Agreement) between Adherent and IFS (or any of its *affiliates*, officers, directors, shareholders, *or any person for whom it is responsible in law*) will be by means of arbitration." (Emphasis added.) Appellants assert that they are affiliates and a party for whom IFS is responsible in law.

The settlement agreement defines affiliates as "any past, present, or future Entity that directly, or indirectly through one or more intermediaries, is Controlled by such Party

or is under common Control with such Party." This definition closely parallels the dictionary definition of affiliate: "A corporation that is related to another corporation by shareholdings or other means of control; a subsidiary, parent, or sibling corporation." *Black's Law Dictionary* 67 (9th ed. 2009). Appellants, as an outside law firm, do not fit into this corporate-family definition of affiliate. Additionally, in order for appellants to be an affiliate of IFS, they must be an entity. This excludes appellant DiPietro, as an individual, because the settlement agreement defines entity as "a corporation, company, firm, business, joint venture, partnership or other entity."

Finally, in order for appellants to be an affiliate of IFS, they must be controlled by IFS. The settlement agreement defines control as "possession, directly or indirectly, solely or jointly, of the power to direct or cause the direction of management, actions or policies of a legally recognizable entity, whether through the ownership of voting shares, by contract, or otherwise." This definition closely parallels the dictionary definition of control: "The direct or indirect power to govern the management and policies of a person or entity, whether through ownership of voting securities, by contract, or otherwise; the power or authority to manage, direct, or oversee." *Black's Law Dictionary* 378 (9th ed. 2009).

Appellants argue that they have a contractual relationship with IFS and that IFS, as the client, controlled the direction of appellants' actions. But, again, the definition seemingly contemplates a principal-agent relationship, and an attorney-client relationship is not analogous. *See id.* ("[T]he principal exercised control over the agent."); *Rucker v. Schmidt*, 794 N.W.2d 114, 120 (Minn. 2011) ("We have not had occasion to address

whether the attorney-client relationship is analogous to that of principal and agent and therefore sufficient to establish privity. We now conclude that it does not."). Additionally, while an attorney "shall abide by a client's decisions concerning the objectives of representation," that is the extent of a client's "control" over an attorney. *See* Minn. R. Prof. Conduct 1.2(a); *Rucker*, 794 N.W.2d at 120 (stating that an agent's duty in a principal-agent relationship is to act on behalf of the principal, an attorney's duty in an attorney-client relationship is to act on behalf of the client and on behalf of "the public as an officer of the court in the administration of justice"); *Hoppe v. Klapperich*, 224 Minn. 224, 240-41, 28 N.W.2d 780, 791 (1947) (stating that when an attorney's duties owed to his client conflict with those owed "to the public as an officer of the court in the administration of justice, the former must yield to the latter" (emphasis omitted)) .

Appellants also claim that they are a party for whom IFS is responsible in law because they may be entitled to indemnification if Bunnelle's conduct exposed them to litigation due to no fault of their own. But the district court determined in its summary-judgment order that there is evidence that appellants knew that Adherent and Bunnelle had an adversarial relationship, began representing IFS prior to DiPietro assisting in the drafting of the assignment, never sought Adherent's written consent to represent IFS or Bunnelle, and improperly disclosed Adherent's confidential information that it had available to them in the course of their representation. Adherent's breach-of-fiduciary-duty claim against appellants is based on appellants' conduct, not Bunnelle's conduct. Appellants would not be entitled to indemnification on Adherent's claims that appellants

breached their duty of loyalty, duty of confidentiality, and duty to disclose. Appellants are, therefore, not a party for whom IFS is responsible in law.

More importantly, "[i]n analyzing arbitration clauses, courts should enforce privately negotiated agreements to arbitrate, like other contracts, in accordance with their terms." *Onvoy, Inc. v. SHAL, LLC*, 669 N.W.2d 344, 349 (Minn. 2003) (quotation omitted). When the settlement agreement is read as a whole, giving meaning to all provisions, it shows that the parties did not intend to include appellants; indeed, it shows that the parties intended to exclude appellants. *See Brookfield Trade Ctr., Inc.*, 584 N.W.2d at 394 (stating that contract language is read in the context of the instrument as a whole); *Current Tech. Concepts, Inc.*, 530 N.W.2d at 543 (stating that a contract is interpreted in a manner that gives meaning to all provisions).

Section 2.7 of the settlement agreement provides: "IFS and Bunnelle quitclaim to Adherent any interest they have in any claim asserted by Adherent against [appellants in the Hennepin County case]. Nothing in this paragraph is intended to or shall constitute an admission for use in the [Hennepin County case]." Thus, IFS and Bunnelle surrendered to Adherent any interest necessary for Adherent to pursue its claims against appellants, demonstrating that the parties intended to exclude appellants from the settlement agreement.

Further, section 4.2 of the settlement agreement provides: "Unless retained by [appellants], the attorneys representing IFS and Bunnelle in this litigation will not discuss anything related to this litigation with [appellants], or anyone acting on their behalf." The parties included specific language preventing discussion with appellants about the

settlement agreement. This language also shows that the parties intended to exclude appellants from the settlement agreement. The settlement agreement read in its entirety, giving meaning to each provision, demonstrates that the parties did not intend to include appellants. *See Karim v. Werner*, 333 N .W.2d 877, 879 (Minn. 1983) (stating that a court's goal in construing a contract is to determine and give effect to the intent of the contracting parties); *Knudsen v. Transp. Leasing/Contract, Inc.*, 672 N.W.2d 221, 223 (Minn. App. 2003) (stating that a court "gives effect to the parties' intentions as expressed in the four corners of the instrument, and clear, plain, and unambiguous terms are conclusive of that intent"), *review denied* (Minn. Feb. 25, 2004). Therefore, because the parties did not intend to include appellants, and expressly excluded them, the district court did not err in determining that appellants could not compel arbitration.

Exceptions do not apply

Appellants argue that even if they cannot compel arbitration based on the plain language of the settlement agreement, they are entitled to compel arbitration under an exception permitting nonparties to enforce an arbitration clause.

"Generally, arbitration clauses are contractual and cannot be enforced by persons who are not parties to the contract." *Onvoy*, 669 N.W.2d at 356. There are three exceptions allowing a nonsignatory to a contract to compel arbitration: equitable estoppel, agency, and third-party beneficiary. *Id.* Adherent argues that appellants waived this issue on appeal because they failed to raise it in district court. "A reviewing court must generally consider only those issues that the record shows were presented and considered by the [district] court in deciding the matter before it." *Thiele v. Stich*, 425 N.W.2d 580, 582 (Minn. 1988)

(quotation omitted). Appellants may not have presented an argument on each exception in district court, but the district court considered and ruled on each exception. Therefore, we will examine each exception as it applies to appellants.

Equitable estoppel

"Equitable estoppel prevents a signatory from relying on the underlying contract to make his or her claim against the nonsignatory." *Onvoy*, 669 N.W.2d at 356. Equitable estoppel may compel arbitration for a nonsignatory when a signatory's claim references or presumes the existence of the agreement containing the arbitration clause; or the claim involves a close relationship between the signatory and nonsignatory, "raising allegations of substantially interdependent and concerted misconduct." *Dominium Austin Partners, LLC v. Lindquist*, No. C5-00-2010, 2001 WL 950085, at *8 (Minn. App. Aug. 21, 2001) (quotation omitted), *review denied* (Minn. Oct. 24, 2001). Adherent's claims against appellants are not premised on the settlement agreement. The issues giving rise to the lawsuit occurred years before Adherent entered into the settlement agreement. Further, Adherent's claims against appellants are different than their claims against Bunnelle and IFS. Our supreme court declined to consolidate the matters and the district court denied the motion to change venue because of their differences. This exception does not apply.

Agency

Principles of agency work to "effectuate the intent of the signatory parties to protect individuals acting on behalf of the principal in furtherance of the agreement." *Onvoy*, 669 N.W.2d at 356. Here, the parties did not intend to protect appellants when the settlement agreement was executed. In addition, Adherent's claims against appellants are not based

entirely on appellants' conduct "on behalf" of IFS and Bunnelle. Adherent's breach-of-fiduciary-duty claim is based on appellants' alleged breach of their duty of loyalty, duty of confidentiality, and duty to disclose. Appellants owed these duties to Adherent independently of appellants' relationship with IFS and Bunnelle. Moreover, our supreme court has held that the attorney-client relationship is not analogous to that of principal and agent. *Rucker*, 794 N.W.2d at 120. This exception does not apply.

Third-party beneficiary

Third-party beneficiaries may enforce an arbitration clause if the "contracting parties intended the third party to directly benefit from the contract." *Onvoy*, 669 N.W.2d at 356 (quotation omitted). The district court determined that appellants are not third-party beneficiaries. The district court concluded that language in the settlement agreement "expressly states an intent not to confer any benefit upon [appellants]." The district court was correct. As previously analyzed, the settlement agreement expressly excluded appellants. This exception does not apply. The district court did not err in concluding that none of the exceptions allowing a nonsignatory to a contract to compel arbitration applied.

Waiver

Adherent argues that even if appellants had a right to compel arbitration, they waived that right. Although the district court did not reach Adherent's waiver argument, we may consider it here. *See Day Masonry v. Indep. Sch. Dist. 347*, 781 N.W.2d 321, 331 (Minn. 2010) (stating that when a party argues two grounds for relief and the district court's decision is based on only one, the party can "stress any sound reason for affirmance" on appeal even if not the one relied on by the district court); *see also SCI Minn. Funeral Servs.*,

Inc. v. Washburn-McReavy Funeral Corp., 779 N.W.2d 865, 873 (Minn. App. 2010) (stating that this court may consider issues that were presented to but not decided by the district court when the facts are undisputed and both parties have briefed the issue), *aff'd*, 795 N.W.2d 855 (Minn. 2011). Both parties briefed the issue. And the facts regarding the waiver issue are undisputed. Appellants argue that the issue of waiver is a question for the arbitrator under the AAA delegation clause in the settlement agreement. But we have already determined that, in this matter, issues of arbitrability are properly decided by the district court.

In determining whether a party has waived its right to arbitration, the Eighth Circuit applies a three-factor test. *Erdman Co. v. Phoenix Land & Acquisition, LLC*, 650 F.3d 1115, 1117 (8th Cir. 2011). A party waives arbitration when it "(1) knew of its existing right to arbitration; (2) acted inconsistently with that right; and (3) prejudiced the other party by its inconsistent actions." *Id.* "A party acts inconsistently with its right to arbitrate if the party substantially invokes the litigation machinery before asserting its arbitration right." *Id.* at 1118 (quotation omitted). Prejudice is measured on a case-by-case basis. *Id.* at 1119.

Adherent asserts that appellants knew about the arbitration clause months before moving to compel arbitration. The district court granted appellants' motion to compel production of the settlement agreement on March 28, 2017. Appellants received the settlement agreement on March 29, 2017. Appellants did not move the district court to compel arbitration until September 12, 2017. Additionally, appellants noted in a motion filed on April 18, 2017, that the settlement agreement included an arbitration clause that

"by its terms does not apply" because appellants sought to enforce the settlement agreement. The record supports Adherent's assertion that appellants were aware of the arbitration clause months before moving to compel arbitration.

Adherent asserts that appellants acted inconsistently with a right to arbitrate by continuing to litigate. After appellants received the settlement agreement, they (1) filed a supplemental motion for summary judgment; (2) moved for summary judgment, or in the alternative, to amend the answer; (3) filed a second amended supplemental motion for summary judgment, or in the alternative, to amend the answer and assert a third-party complaint; and (4) moved to amend the answer and reopen discovery. The record supports Adherent's assertion that appellants acted inconsistently with a right to compel arbitration by continuing to litigate.

Finally, Adherent claims that it was prejudiced because appellants delayed the filing of the motion to compel arbitration for several months, continued to pursue dispositive motions, and will merely reargue issues in arbitration that they lost in district court. The record is voluminous and the district court commented that the parties "flooded the [c]ourt with documents." The record supports Adherent's claim that it would be prejudiced by an order compelling arbitration because it prepared, filed, and argued many responsive motions. And it spent time and incurred attorney fees in response to appellants' many filings. Based on the record, even if appellants had a right to compel arbitration, which we conclude they do not, their actions would have waived that right.

Affirmed.