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4 UNITED STATES DISTRICT COURT  
5 WESTERN DISTRICT OF WASHINGTON  
6 AT TACOMA

7 ORGANIC ENERGY CONVERSION  
8 COMPANY, a Washington limited  
9 liability company,

10 Plaintiff,

11 v.

12 FLAMBEAU RIVER PAPERS, LLC, a  
13 Wisconsin limited liability company;  
14 FOUNTAINHEAD ENGINEERING,  
15 LTD., a Michigan limited liability  
16 company,

17 Defendants.

CASE NO. C09-5008BHS

ORDER DENYING  
DEFENDANTS' MOTION FOR  
SUMMARY JUDGMENT AND  
GRANTING DEFENDANTS'  
ALTERNATIVE MOTION  
TO STAY

18 This matter comes before the Court on Defendants' (1) motion for summary  
19 judgment (Dkt. 24); (2) motion, in the alternative, to stay proceedings (Dkt. 25); and (3)  
20 motion for protective order suspending discovery (Dkt. 26). The Court has considered the  
21 pleadings filed in support of and the declarations filed in opposition to these motions and  
22 the remainder of the file and hereby denies the motion for summary judgment, grants the  
23 motion to stay proceedings, and declines to rule on the motion for a protective order for  
24 the reasons stated herein.

25 **I. PROCEDURAL HISTORY**

26 On January 8, 2009, this matter was removed from Pierce County Superior Court  
27 (Case No. 08-2-14411-4). Dkt. 1. On January 9, 2009, Defendants moved the Court to  
28 dismiss the matter or, in the alternative, to stay the case. Dkt. 6. On March 17, 2009, the  
Court denied Defendants' motion to dismiss and declined to stay the case. Dkt. 18. On  
November 5, 2009, Defendants filed a motion for summary judgment (Dkt. 24); a motion,

1 in the alternative, to stay proceedings (Dkt. 25); and a motion for protective order  
2 suspending discovery (Dkt. 26).

## 3 **II. FACTUAL BACKGROUND**

4 Some of the parties to this action are also involved in a related matter in the Price  
5 County Circuit Court in Wisconsin (hereinafter “Wisconsin Court”). Defendants in this  
6 matter move the Court to either enter summary judgment in their favor (Dkt. 24) or, in the  
7 alternative, stay the proceedings pending the outcome of their Wisconsin case.

8 Defendants made a similar motion earlier in this litigation, which was denied. *See* Dkt.  
9 18. The facts outlined in that order denying Defendants’ motion are relevant here:

### 10 **A. The Wisconsin Action**

11 On June 19, 2008, Flambeau, Johnson Timber Corporation and  
12 William Johnson (collectively “Wisconsin Plaintiffs”) filed a complaint  
13 against Organic Energy Conversion Company (“OECC”) in Price County  
14 Circuit Court in Wisconsin. Dkt. 6-2. Johnson Timber is a Wisconsin  
15 corporation, and Mr. Johnson is its principal shareholder and chief  
16 executive officer. Mr. Johnson, a resident of Wisconsin, is also the CEO of  
17 Flambeau, as well as the sole member of Summit Lake Management, LLC,  
18 which is the managing member of Flambeau.

19 According to the complaint, in February 2008, OECC and Flambeau  
20 entered into a non-binding memorandum of understanding (“MOU”), which  
21 called for Flambeau to make a payment of \$600,000 to OECC that was to  
22 be used exclusively by OECC for the development and construction of a  
23 specified product. Under the MOU, OECC and Flambeau were to  
24 successfully test the product no later than April 1, 2008, and the product  
25 was to be delivered to Flambeau’s Park Falls, Wisconsin facility no later  
26 than May 1, 2008. Flambeau maintains that it paid the initial \$600,000 to  
27 OECC for production and development of the product.

28 When it became apparent that OECC could not deliver the product as  
promised, Mr. Johnson met with individuals purporting to be authorized  
representatives of OECC in an attempt to find a business solution to the  
problem. Those discussions led to the signing of a term sheet, which  
expressed the parties’ desire to explore a joint-venture type relationship  
relating to the product. Under the term sheet, all equipment and other items  
necessary for completion of the product would be delivered to the Park  
Falls facility, and OECC would dispatch an authorized representative to the  
facility to “ensure the successful manufacture and assembly” of the product.  
The Wisconsin Plaintiffs maintain that the term sheet is a non-binding  
document “merely setting forth the good-faith intentions of the parties for  
the structure of the joint-venture relationship. The term sheet  
explicitly calls for subsequent agreements to be reached and entered into  
between OECC and one or more of the [Wisconsin] Plaintiffs, although it  
does not identify which specific parties are to be participants in the  
contemplated joint venture.” *Id.* at 7. The term sheet also calls for a  
subsequent operating agreement to be entered into as part of the joint

1 venture relationship. The Wisconsin Plaintiffs maintain that the parties have  
2 not negotiated or entered into an operating agreement.

3 Additionally, the term sheet provided that once the operating  
4 agreement has been executed and the joint venture established, Mr. Johnson  
5 and/or one of the other Wisconsin Plaintiffs was to pay OECC \$1 million in  
6 ten equal installments. The Wisconsin Plaintiffs maintain that, although no  
7 joint venture had been established, Mr. Johnson, "as a gesture of good  
8 faith," caused the first installment to be made to OECC on May 2, 2008.

9 On May 28, 2008, Mr. Johnson received information from Butch  
10 Sadikay, who identified himself as a 50% owner of OECC, "caution[ing]  
11 Mr. Johnson from continuing to do business with OECC without further  
12 discussion between them." *Id.* at 8. Based on this information, as well as a  
13 subsequent phone conversation, the Wisconsin Plaintiffs believed that "it  
14 [did] not appear . . . that the individuals who signed the MOU and the term  
15 sheet were authorized to do so on behalf of [OECC]." *Id.*

16 Flambeau contends that it demanded an accounting of the \$600,000  
17 because OECC never completed the product. Flambeau further maintains  
18 that OECC has requested an installment payment pursuant to the term sheet,  
19 and that OECC characterized the term sheet as a "binding contract."

20 In the Wisconsin action, the plaintiffs seek a declaratory judgment  
21 that they owe no contractual obligations requiring payment to OECC. The  
22 Wisconsin Plaintiffs also seek an accounting for the \$600,000 Flambeau  
23 allegedly paid to OECC. OECC asserted several affirmative defenses in its  
24 answer, including (1) lack of personal jurisdiction, (2) improper jurisdiction  
25 and venue because key discussions and agreements took place in  
26 Washington where key witnesses still reside, and (3) improper jurisdiction  
27 and venue because Flambeau signed a written agreement promising that  
28 disputes arising out of the terms of the parties' relationship could only be  
commenced in Pierce County, Washington. *Id.*, 14-15.

## 16 **B. OECC's Washington Action**

17 On November 10, 2008, OECC filed a complaint against Flambeau  
18 and Fountainhead Engineering, Ltd. ("Fountainhead"), in Pierce County  
19 Superior Court in Washington. Dkt. 1, 9-13. On January 8, 2009,  
20 Defendants Flambeau and Fountainhead removed the Washington action to  
21 this Court. *Id.*, 1-5. OECC alleges two causes of action: (1) breach of  
22 contract based on Flambeau's and Fountainhead's alleged breach of a  
23 mutual non-disclosure agreement ("MNDA"), and (2) conversion based on  
24 Flambeau's and Fountainhead's alleged conversion of OECC's intellectual  
25 or other property. According to this complaint, OECC developed "valuable  
26 and confidential technology and process for non-thermal drying of biosolids  
27 and biomass." *Id.* at 10. This technology and process was the subject of a  
28 confidential patent application filed with the United States Patent and  
Trademark Office on December 12, 2007. OECC agreed to give access to  
this patent application to Flambeau and Fountainhead for the purpose of  
furthering a possible business relationship between the parties to develop,  
manufacture and sell a non-thermal biomass dryer to the timber industry  
(referred to by the parties as the "Possible Transaction"). To that end, the  
parties entered into the MNDA, which is dated December 11, 2007. The  
MNDA provides in part:

Neither Party will use, or permit any of its Representatives to  
use, any of the other Party's Confidential Information for any  
purpose other than in connection with the evaluation of the

1 Possible Transaction, and neither Party will make any such  
2 Confidential Information available to any Person for any other  
3 purpose whatsoever.  
4 Dkt. 1 at 16.

5 The MNDA also includes a provision that requires “any legal  
6 proceedings arising out of the terms of [the MDNA] . . . be commenced in  
7 the courts located in Pierce County [Washington].” *Id.* at 21.

8 OECC alleges that Flambeau and Fountainhead “repudiated the  
9 existence of any business relationship with [OECC]” and claimed to have  
10 built their own non-thermal biomass dryer with the assistance of Mr.  
11 Johnson and Johnson Timber. OECC maintains that Defendants’ biomass  
12 dryer wrongfully uses OECC’s confidential information in violation of the  
13 MNDA.

14 Since entry of this Court’s order, the Wisconsin Court has also entered a decision  
15 and order. *See* Dkt. 27, Declaration of Bradley C. Fulton (Fulton Decl.), Ex. A  
16 (reproducing the Wisconsin decision). The Wisconsin Court (1) exercised jurisdiction  
17 over the matter and (2) entered summary judgment as to certain issues, including its  
18 conclusion that the MOU and the joint venture agreement (a.k.a., the term sheet) were  
19 non-binding documents. *Id.* at 7-10.

20 Absent from the Wisconsin Court’s summary judgment order was whether the  
21 MNDA, the subject of the instant matter, is a binding agreement. *See id.* Nonetheless,  
22 Defendants claim that the Wisconsin decision disposes of this action by leaving no  
23 material facts in dispute and thereby entitling them to summary judgment. Dkt. 24.

### 24 III. DISCUSSION

#### 25 A. Defendants’ Summary Judgment Motion

26 Summary judgment is proper only if the pleadings, the discovery and disclosure  
27 materials on file, and any affidavits show that there is no genuine issue as to any material  
28 fact and that the movant is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c).  
The moving party has the initial burden of establishing the absence of a genuine issue of  
material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). If the moving party  
shows the absence of a genuine issue of material fact, the nonmoving party must go  
beyond pleadings and identify facts which show a genuine issue for trial. *Id.* at 324;  
*Hopkins v. Andaya*, 958 F.2d 881, 885 (9th Cir. 1992) (per curiam).

1 Defendants predicate their motion for summary judgment on the proposition that  
2 the Wisconsin Court's entry of summary judgment regarding the MOU and the joint  
3 venture agreement (a.k.a., the term sheet) acts to resolve the instant matter. *See* Dkt. 24.  
4 However, the matter before this Court arises out of a dispute over the legal effect of the  
5 MNDA, if any. *See, e.g.*, Dkt. 18 at 8. Previously, The Court denied Defendants' motion  
6 to dismiss or stay this action because of its concern that the Wisconsin Court could not or  
7 would not rule on the legal effect of the MNDA. *Id.* at 6-8 (order denying Defendants'  
8 first motion to dismiss). In fact, the Wisconsin Court's summary judgment ruling did not  
9 address or discuss the validity, if any, of the MNDA. Fulton Decl., Ex. A (reproducing  
10 the Wisconsin Court's opinion)

11 Although the Wisconsin Court appears to have decided some facts that potentially  
12 bear on the MNDA, Defendants do not adequately establish whether all relevant facts  
13 surrounding the legal effect of the MNDA, if any, were decided by the Wisconsin Court.  
14 *See id.*; *see also* Dkts. 24-25. Indeed, the Wisconsin Court never discussed the MNDA,  
15 which is central to the matter before this Court. *See* Dkt. 18 (discussing the nature of the  
16 MNDA and its bearing on the instant matter). As such, the Defendants have failed to meet  
17 their initial burden of establishing the absence of a genuine issue of material fact. *Celotex*,  
18 477 U.S. at 323.

19 Therefore, the Court denies Defendants' motion for summary judgment.

## 20 **B. Defendants' Alternative Motion to Stay**

21 Alternatively, Defendants move the Court to stay the proceedings before this Court  
22 pending the outcome of the Wisconsin Court case. Dkt. 25. Plaintiff did not file a  
23 response to this motion, but filed a declaration claiming that "nothing material has  
24 changed since the court first denied [D]efendants' request for a stay." Dkt. 34,  
25 Declaration of Nigel S. Malden (Malden Decl.) ¶ 7. However, the Court finds this  
26 assertion without discussion insufficient to counter Defendants' position.

27 The Court initially declined to stay this matter because:  
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1 [T]here is substantial doubt as to whether the Wisconsin action will provide  
2 complete and prompt resolution of the issues raised in the Washington  
3 action. While the MNDA, the MOU, and the term sheet appear to be  
4 interrelated, it is not clear that resolution of the dispute regarding the MOU  
5 and term sheet will resolve the dispute regarding the MNDA. Even  
6 assuming that the Wisconsin court could resolve Flambeau's claims  
7 regarding the MOU, the term sheet, and the accounting of the \$600,000 it  
8 paid OECC, it is not clear that the Wisconsin court could resolve OECC's  
9 claim that Flambeau and/or Fountainhead used confidential information in  
10 violation of the MNDA.

11 Dkt. 18 at 7-8. This reasoning was made before the case in Wisconsin had been  
12 developed. *Id.* Since that ruling, the matter has proceeded in Wisconsin and the  
13 Wisconsin Court has entered summary judgment regarding the MOU and the term sheet  
14 (the joint venture agreement). Fulton Decl., Ex. A (reproducing the Wisconsin decision).  
15 The Wisconsin Court will in due course also be deciding the accounting and other claims  
16 remaining in that action, which may bear on this instant matter. Fulton Decl. ¶¶ 5-7 (trial  
17 scheduled for March 24, 2010).

18 Defendants persuasively argue that the rulings of the Wisconsin Court, both on  
19 summary judgment and those that will occur during the trial beginning March 24, 2010,  
20 will either have some effect on the instant matter or completely resolve the instant matter.  
21 *See* Dkt. 25 (discussing the interrelated nature of the two suits). Plaintiff does not directly  
22 oppose this argument; rather, it simply claims that nothing material has changed since the  
23 prior decision of this Court to deny the request for stay. Dkt. 34, Nigel Decl. ¶ 3.  
24 However, at the time of that order (Dkt. 18), the Wisconsin Court had not entered any  
25 findings of fact or conclusions of law. Thus, contrary to Plaintiff's position, the Court  
26 finds the disposition of the Wisconsin case is itself a material change.

27 This Court previously noted that the MNDA, the MOU, and the term sheet appear  
28 to be interrelated. Dkt. 18 at 8. To the extent the rulings in Wisconsin bear on this action,  
it appears the Court may be bound by such rulings pursuant to the Full Faith and Credit  
Act, 28 U.S.C. § 1738. This Act requires the federal court to "give the same preclusive  
effect to a state-court judgment as another court of that State would give." *Exxon Mobil  
Corp. v. Saudi Basic Indus. Corp.*, 544 U.S. 280, 293 (2005) ("a federal court may be

1 bound to recognize the claim- and issue-preclusive effects of a state-court judgment”). It  
2 would therefore be in line with this Act and judicially efficient to stay this action pending  
3 the outcome of the Wisconsin action. Additionally, the resolution of the Wisconsin action  
4 will likely streamline this case. Staying this action while awaiting final determination of  
5 the action in Wisconsin may also eliminate duplicative discovery, motions, and other  
6 pretrial matters.

7 Therefore, the Court grants Defendants’ motion to stay this action pending the  
8 outcome of the Wisconsin action; and the parties are ordered to schedule a status  
9 conference with the Court immediately thereafter.

#### 10 **C. Other Issues**

##### 11 **1. Defendants’ Motion to Suspend Discovery**

12 Because the Court grants Defendants’ motion to suspend this action pending the  
13 conclusion of the Wisconsin action (Dkt. 25), it need not rule on their motion to suspend  
14 discovery (Dkt. 26).

##### 15 **2. Plaintiffs Apparent 56(f) Motion**

16 Because the Court grants Defendants’ motion to suspend this action pending the  
17 conclusion of the Wisconsin action (Dkt. 25), it need not rule on Plaintiff’s 56(f) motion  
18 to continue Defendants’ motion for summary judgment. Dkt. 37, Malden Decl. ¶ 2.

##### 19 **3. Sanctions**

20 Plaintiff’s request for sanctions is denied. Dkt. 34, Malden Decl. ¶ 4.  
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1 **IV. ORDER**

2 Therefore, it is hereby **ORDERED** as follows:

- 3 1. Defendants' motion for summary judgment (Dkt. 24) is **DENIED**.  
4 2. Defendants' motion to temporarily suspend proceedings (Dkt. 25) until after  
5 trial in Wisconsin and for a status conference immediately thereafter is  
6 **GRANTED**.

7 DATED this 21st day of December, 2009.

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10 BENJAMIN H. SETTLE  
11 United States District Judge  
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