SUPREME COURT OF MINNESOTA

Onvoy, Inc. v. SHAL, LLC

669 N.W.2d 344 (Minn. 2003) · No. Nos. C7-02-621, C7-02-702 · Decided September 25, 2003

SUMMARY

The Minnesota Supreme Court held that the Federal Arbitration Act governed the arbitration provision in a telecommunications lease affecting interstate commerce. It adopted a distinction between void and voidable contracts, concluding that ultra vires claims based on an irregular exercise of corporate authority were arbitrable, while an interested-director claim could be heard by a court if the transaction was void. The court also addressed when nonsignatory agents may enforce an arbitration agreement and remanded for further proceedings.

CASE DETAILS

COURT	Supreme Court of Minnesota
WRITING FOR THE COURT	Meyer, Justice; Anderson, Justice; Gilbert, Justice; Hanson, Justice
JURISDICTION	Minnesota
DECIDED	September 25, 2003
DOCKET	Nos. C7-02-621, C7-02-702
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Onvoy appealed from an order denying motions to dismiss and compel arbitration. The district court declined to compel arbitration under Minnesota law; the court of appeals reversed and held that the claims had to be arbitrated. The Minnesota Supreme Court granted further review.
STANDARD OF REVIEW	De novo review of arbitration clauses and arbitrability.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Onvoy, Inc. v. SHAL, LLC, Walter S. Clay, Robert K. Eddy, Darrel Westrum, Tom Dahl

TOPICS

appellate procedure · contracts · commercial litigation · corporate governance · partnership law

PRACTICE AREAS

commercial litigation · corporate law · contracts · appellate procedure

QUESTIONS PRESENTED

1. Whether the Federal Arbitration Act governed the arbitration clause because the fiber-optic lease affected interstate commerce.
2. Whether the phrase "arising under" broadly covered claims challenging the formation or validity of the lease.
3. Whether a claim that a contract is void, rather than merely voidable, must be decided by a court notwithstanding the arbitration clause.
4. Whether Onvoy's ultra vires claim would render the lease void or merely voidable.
5. Whether Onvoy's interested-director transaction claim could render the lease void under Minnesota law.
6. Whether nonsignatory individual defendants could enforce the arbitration clause under agency, equitable-estoppel, or third-party-beneficiary principles.

HOLDINGS

1. Because the lease involved interstate commerce, the Federal Arbitration Act governed the enforceability and scope of the arbitration clause, and inconsistent Minnesota arbitration law was preempted.
2. The phrase "arising under" in this lease's arbitration clause was broad enough to encompass some claims concerning contract formation, including the claims at issue subject to the void-versus-voidable analysis.
3. A party may litigate in court a claim that the contract containing the arbitration clause never legally existed, but a claim that the contract is merely voidable must be submitted to arbitration.
4. Onvoy's alleged failure to obtain the required corporate approvals constituted, at most, an irregularity in exercising corporate authority and would not render the lease void; the ultra vires claim therefore had to be arbitrated.
5. The interested-director claim could potentially establish that the lease was void, but the issue was not ripe for decision on the pleadings; the district court had to determine whether a statutory safe harbor applied and whether the transaction was void or merely voidable.
6. The individual defendants' ability to compel arbitration had to be reconsidered on remand. Agents of SHAL could invoke the arbitration clause to the same extent as SHAL, but agency did not extend to claims that the individuals breached duties owed directly to Onvoy; nonagents could invoke arbitration only if equitable estoppel or another applicable doctrine allowed it.

KEY QUOTATIONS

> *"parties may not be compelled to arbitrate claims if they have alleged that the contract at issue never legally existed."* (354)

> *"Therefore, allegations that a contract is void may be heard by a court, even if not specifically directed to the arbitration clause, while allegations that a contract is voidable must be sent to arbitration."* (354)

> *“It is now clear that Minnesota courts must apply the FAA to transactions that affect interstate commerce.”* (351)

FACTUAL BACKGROUND

Onvoy, a Minnesota telecommunications company, entered a ten-year fiber-optic network lease with SHAL on October 25, 1999. Several individuals involved in negotiating or approving the lease had affiliations with both Onvoy and SHAL, and Onvoy later alleged that the lease was substantially more expensive than market price and had not received approval required by amended corporate articles. The lease contained a mediation and arbitration clause covering unresolved disputes arising under the lease and selected Minnesota law.

PROCEDURAL HISTORY

Onvoy sued SHAL and individual defendants in Hennepin County District Court seeking reformation and later rescission of a fiber-optic lease, declaratory and injunctive relief, damages, attorney fees, and relief for unjust enrichment, conspiracy, fiduciary-duty breaches, and misrepresentation. The district court denied motions to dismiss and compel arbitration. The court of appeals reversed. The Supreme Court reversed the court of appeals and remanded for determination of whether the lease was void because of an interested-director transaction and whether the individual defendants could compel arbitration.

DISPOSITION

```
reversed_and_remanded
```

REMAND INSTRUCTIONS

The district court must determine whether the lease is void under Minn. Stat. § 302A.255 because of an interested-director transaction. If the lease is void, the interested-director claim may be heard in court; if it is only voidable, the claims must be arbitrated. The district court must also determine whether SHAL can compel arbitration and whether each individual defendant can compel arbitration based on agency, equitable estoppel, or another applicable doctrine. Agency does not extend to claims that the individuals breached duties owed directly to Onvoy.

CASES CITED

- Atcas v. Credit Clearing Corp., 292 Minn. 334, 197 N.W.2d 448 (1972)
- Johnson v. Piper Jaffray, Inc., 530 N.W.2d 790 (Minn. 1995)
- Volt Info. Sciences, Inc. v. Leland Stanford Jr. Univ., 489 U.S. 468 (1989)
- Green Tree Financial Corp.-Alabama v. Randolph, 531 U.S. 79 (2000)
- Allied-Bruce Terminix Cos. v. Dobson, 513 U.S. 265 (1995)
- Scherk v. Alberto-Culver Co., 417 U.S. 506 (1974)
- Battaglia v. McKendry, 233 F.3d 720 (3d Cir. 2000)
- Prima Paint Corp. v. Flood & Conklin Mfg. Co., 388 U.S. 395 (1967)
- Sphere Drake Ins. Ltd. v. Clarendon Nat'l Ins. Co., 263 F.3d 26 (2d Cir. 2001)

- Sandvik AB v. Advent Int'l Corp., 220 F.3d 99 (3d Cir. 2000)
- Three Valleys Mun. Water Dist. v. E.F. Hutton & Co., 925 F.2d 1136 (9th Cir. 1991)
- Chastain v. Robinson-Humphrey Co., 957 F.2d 851 (11th Cir. 1992)
- I.S. Joseph Co. v. Michigan Sugar Co., 803 F.2d 396 (8th Cir. 1986)
- Doctor's Associates, Inc. v. Casarotto, 517 U.S. 681 (1996)
- Shaw Group, Inc. v. Triplefine Int'l Corp., 322 F.3d 115 (2d Cir. 2003)
- Bell v. Kirkland, 102 Minn. 213, 113 N.W. 271 (1907)
- MS Dealer Serv. Corp. v. Franklin, 177 F.3d 942 (11th Cir. 1999)
- Pritzker v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 7 F.3d 1110 (3d Cir. 1993)
- Arnold v. Arnold Corp., 920 F.2d 1269 (6th Cir. 1990)
- Letizia v. Prudential Bache Secs., Inc., 802 F.2d 1185 (9th Cir. 1986)
- Prestressed Concrete, Inc. v. Adolfson & Peterson, Inc., 308 Minn. 20, 240 N.W.2d 551 (1976)
- Peggy Rose Revocable Trust v. Eppich, 640 N.W.2d 601 (Minn. 2002)
- UHC Mgmt. Co. v. Computer Scis. Corp., 148 F.3d 992 (8th Cir. 1998)
- Mastrobuono v. Shearson Lehman Hutton, Inc., 514 U.S. 52 (1995)
- Thiele v. Stich, 425 N.W.2d 580 (Minn. 1988)
- Dvorak v. Maring, 285 N.W.2d 675 (Minn. 1979)
- Spartz v. Rimnac, 296 Minn. 390, 208 N.W.2d 764 (1973)
- Aufderhar v. Data Dispatch, Inc., 452 N.W.2d 648 (Minn. 1990)
- State v. Camacho, 561 N.W.2d 160 (Minn. 1997)
- Minn. Min. & Mfg. Co. v. Travelers Indem. Co., 457 N.W.2d 175 (Minn. 1990)
- Kloss v. Jones & Co., 54 P.3d 1 (Mont. 2002)
- Doctor's Associates, Inc. v. Casarotto, 517 U.S. 681 (1996)
