STATE OF MINNESOTA
IN COURT OF APPEALS
A16-1234

Brian MacDonald,
Appellant,

vs.

Joseph Mattioli, III, et al.,
Respondents,

Teresa S. Weber,
Defendant.

Filed April 3, 2017
Reversed and remanded
Jesson, Judge

Dakota County District Court
File No. 19HA-CV-16-1586

Steven Moore, Danielle K. Nellis, Watje & Moore, Ltd., Minneapolis, Minnesota (for appellant)

Jon E. Paulson, Paulson Law Firm PLLC, Eagan, Minnesota (for respondents)

Considered and decided by Halbrooks, Presiding Judge; Worke, Judge; and Jesson, Judge.

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

JESSON, Judge

Appellant Brian MacDonald challenges the district court's dismissal of his shareholders' and unjust-enrichment causes of action in Dakota County District Court,

alleging that he was entitled to default judgment based on respondents' failure to answer the complaint and that the district court erred by dismissing the action as duplicative of a previously filed action in Hennepin County District Court. Because the district court did not fully address the threshold issue of jurisdiction, we reverse and remand for further proceedings.

FACTS

In early 2011, appellant Brian MacDonald became a member and a 50% owner in a limited-liability company, The North Country Woodshop, LLC. Later that year, North Country Woodshop engaged a firm owned by defendant Teresa Weber to provide consulting services. MacDonald alleges, however, that Weber worked to dilute his interest by creating ownership interests in, or preferential treatment for, other persons and entities with whom Weber had inside relationships, including respondents Joseph Mattioli III and LJ&J Enterprises, Inc., of which Mattioli was president. MacDonald alleges that without his knowledge, in 2012-13, his membership interest in North Country was reduced, and Mattioli or LJ&J gained an increased interest without making an investment. In 2012, MacDonald also received tax notices stating that North Country owed approximately $50,000 in unpaid payroll taxes, of which he was unaware and for which he would be personally liable. He asserts that after North Country sustained about $375,000 in ordinary business losses for the 2012 tax year, those losses were allocated entirely to LJ&J, even though he believed that neither Mattioli nor LJ&J had invested funds in North Country.

In November 2012, Mattioli and Weber formed American's Workshop Corporation, a competitor to North Country. In 2013, Mattioli and Weber arranged a stock-transfer

agreement, through which MacDonald transferred his membership interest in North Country and became a shareholder in America's Workshop.

MacDonald alleges that in 2014, without informing him, Mattioli and Weber approved a transaction in which America's Workshop sold substantially all of its assets to another limited liability company, International Workshops, LLC. According to MacDonald, America's Workshop also failed to provide him with corporate documents and financial records that he requested.

In 2015, MacDonald filed suit in Hennepin County District Court alleging breach-of-contract and shareholders'-rights actions against America's Workshop, Weber, and Mattioli. He also alleged a count of unjust enrichment against America's Workshop. MacDonald, however, was able to serve only America's Workshop, not Mattioli or Weber, in that action. In August 2015, America's Workshop filed for bankruptcy, and the Hennepin County case was stayed.

In November 2015, MacDonald initiated an action in Dakota County District Court, alleging actions against Mattioli and Weber based on failure to furnish corporate records and arbitrarily reducing his ownership interest in America's Workshop, *see* Minn. Stat. § 302A.751 (2016), and violation of MacDonald's rights to dissent from the sale to America's Workshop and receive fair value for his shares, *see* Minn. Stat. § 302A.471 (2016). MacDonald also alleged unjust enrichment by Mattioli and LJ&J based on failure to allocate any of North Country's tax losses to him. The record contains affidavits of service of the complaint on Mattioli—both individually and as a representative of LJ&J—

while he was present in Dakota County to attend a meeting of bankruptcy creditors. Weber could not be personally served.

Mattioli and LJ&J did not file an answer to the complaint, and MacDonald moved for default judgment. Mattioli and LJ&J then filed a "Motion to Deny Default Judgment and Dismiss Pleading," arguing, inter alia, that the defendants had answered in the Hennepin County lawsuit, which was still ongoing; that collateral estoppel should apply and that no jurisdiction existed because LJ&J lacked minimum contacts with Minnesota. MacDonald responded that the only defendant served in the Hennepin County action was America's Workshop, which had filed bankruptcy, and that collateral estoppel did not apply because there had been no final judgment.

After a hearing, the district court issued an order denying the motion for a default judgment and dismissing the matter without prejudice "for lack of jurisdiction." The district court found that motions had been filed and heard on the same facts in Hennepin County and concluded that "[t]he matter is not properly before the Dakota County District Court." This appeal follows.

D E C I S I O N

MacDonald argues that the district court erred by dismissing the action and abused its discretion by denying his motion for a hearing on default judgment. Respondents, on the other hand, argue that the district court did not err by determining that it "lack[ed] jurisdiction," based on the fact that a similar action had been filed in Hennepin County District Court.

At the outset, to review the district court's order, we must clarify the distinctions between personal and subject-matter jurisdiction, and between jurisdiction and venue. Subject-matter jurisdiction refers to the class of cases that a court is authorized to hear. *Kontrick v. Ryan*, 540 U.S. 443, 124 S. Ct. 906, 915 (2004). Personal jurisdiction refers to the court's authority to bind the parties to the action. *Id.* Jurisdiction presents a threshold issue that must be addressed before reaching the question of venue, which deals instead with the location and convenience of trial. *State v. Ebensteiner*, 690 N.W.2d 140, 149 (Minn. App. 2004), *review denied* (Minn. Mar. 15, 2005). Thus, a court must be able to exercise subject-matter jurisdiction over the controversy and personal jurisdiction over the defendants before determining whether venue in a certain location is proper. *See id.*

Here, the district court's order addressed respondents' argument that, because a similar action had been filed in another county, it was improper for the Dakota County District Court to hold a default hearing on MacDonald's claims. But this confuses the concepts of jurisdiction and venue. *See id.* It also presupposes that the district court had personal jurisdiction over all of the defendants in the Hennepin County action, including Mattioli, which is not the case because Mattioli was not served in that action. Whether personal jurisdiction exists presents a legal issue, which this court reviews de novo. *Juelich v. Yamazaki Mazak Optonics Corp.*, 682 N.W.2d 565, 569 (Minn. 2004).[1]

[1] We note that respondents also assert on appeal that the district court lacked subject-matter jurisdiction over the controversy. The substance of their argument, however, relates only to personal jurisdiction. *See Kontrick*, 540 U.S. at 455, 124 S. Ct. at 915) (clarifying difference between subject-matter and personal jurisdiction).

As the Minnesota Supreme Court "ha[s] long held, service of process is the means by which a court obtains personal jurisdiction over a defendant." *McCullough & Sons, Inc. v. City of Vadnais Heights*, 883 N.W.2d 580, 590 (Minn. 2016). Service of process may be made on an individual by delivering a copy of the summons to the individual personally, and as to a corporation by delivering a copy to an officer or agent of the corporation. Minn. R. Civ. P. 4.03(a), (c). Here, it is undisputed that Mattioli, a defendant in both actions, was not personally served in the Hennepin County matter. Therefore, with respect to the Hennepin County action, the district court had no personal jurisdiction over him, and any result in that action would not operate to bind him personally. *See Kontrick*, 540 U.S. at 455, 124 S. Ct. at 915. Further, because there was no final judgment on the merits in the Hennepin County matter, any issue raised in that action would have no preclusive effect on this action in Dakota County. *See Hauschildt v. Beckingham*, 686 N.W.2d 829, 840 (Minn. 2004) (stating requirements for the application of collateral estoppel, including a final judgment on the merits in prior action).

Respondents argue that the district court's order on jurisdiction was not in error because MacDonald made no affirmative showing that Mattioli, who is not a Minnesota resident, or LJ&J, which is not a Minnesota corporation, maintained sufficient minimum contacts with Minnesota to support personal jurisdiction. Minnesota courts may exercise personal jurisdiction over a nonresident corporation only if that corporation has sufficient minimum contacts with the state so that maintaining suit in the state "does not offend 'traditional notions of fair play and substantial justice.'" *Viking Eng'g & Dev., Inc. v. R.S.B. Enters., Inc.*, 608 N.W.2d 166, 169 (Minn. App. 2000) (quoting *Int'l Shoe Co. v.*

Washington, 326 U.S. 310, 316, 66 S. Ct. 154, 158 (1945)), *review denied* (Minn. May 23, 2000). If a nonresident has purposefully directed activities to residents of the forum state, and litigation results from injuries that arose from those activities, the nonresident has "fair warning" that it might be sued in the forum state. *Id*. In examining whether sufficient minimum contacts exist, Minnesota courts employ a five-factor test, examining the quantity of contacts, the nature and quality of contacts, the connection or relationship between the cause of action and the contacts, the state's interest in providing a forum and the parties' convenience. *Id*. at 169.

We agree that the issue of whether Minnesota courts may exercise jurisdiction over LJ&J, a nonresident corporation, implicates a minimum-contacts analysis. *See id*. But as discussed above, the exercise of personal jurisdiction over an individual, such as Mattioli, is subject to different requirements. *See* Minn. R. Civ. P. 4.03(a) (discussing personal service on an individual). A state court may generally exercise personal jurisdiction over any individual who may be "personally served within the territorial boundaries of the state." *Shamrock Dev,. Inc. v. Smith*, 754 N.W.2d 377, 383 (Minn. 2008).

Here, the complaint alleges a claim of unjust enrichment against LJ&J relating to the allocation of tax losses. Even if the summons and complaint was properly served on Mattioli as a corporate officer, whether the exercise of personal jurisdiction is proper as to the claim against LJ&J requires an examination of minimum contacts. *See Viking Eng'g*, 608 N.W.2d at 169. But the complaint also alleges claims against Mattioli individually relating to unjust enrichment and violations of Minnesota Statutes sections 302A.471 and 302A.751. *See* Minn. Stat. § 302A.467 (2016) (allowing for equitable relief if a

corporation, officer, or director violates a provision of the Minnesota Business Corporation Act). Therefore, if service was properly effected on Mattioli as an individual while he was in this state, the Minnesota court may exercise personal jurisdiction over him with respect to these claims without regard for minimum contacts. *See Shamrock*, 754 N.W.2d at 383.[2]

In its brief order, the district court made no findings as to whether minimum contacts existed with Minnesota as a forum state to determine if the exercise of personal jurisdiction over LJ&J was proper. Nor did the district court make findings on whether personal service was properly effected on Mattioli as an individual or as an officer of LJ&J to commence the action in Dakota County. These threshold issues must be resolved in order to reach additional issues, such as whether the defendants were required to file an answer and whether a hearing on the issue of default is warranted. We therefore remand to the district court to determine whether it had personal jurisdiction: (1) over Mattioli as an individual with respect to the section 302A counts and unjust-enrichment counts, based on personal service; and (2) over LJ&J as a corporation with respect to the unjust enrichment count, based on a minimum-contacts analysis and personal service on Mattioli as a corporate officer. The district court may reopen the record as necessary to address these issues. *State v. Perkins*, 582 N.W.2d 876, 879 (Minn. 1999) (permitting district courts to reopen the record to make fact findings on remanded issues). Should the district court determine that

[2] Respondents argue that MacDonald waived the argument that the district court had personal jurisdiction over the defendants by failing to present it below. But the record shows that MacDonald's attorney argued to the district court that Mattioli had been properly served in the Dakota County action, sufficiently preserving the issue for appellate review.

jurisdiction exists, further proceedings are appropriate to address additional issues raised, including whether MacDonald is entitled to default judgment.

Reversed and remanded.