PUBLICATIONS

Madugula v Taub: The Supreme Court Clarifies Some Shareholder Oppression Questions

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On July 15, 2014, the Michigan Supreme Court unanimously held in *Madugula v Taub* that shareholder claims for wrongful oppression brought under MCL 450.1489 are purely equitable in nature, triable only to the court without a jury, even when the relief sought is money damages. It further held that breach of a stockholders' agreement may be evidence of wrongful oppression, although it will not automatically establish a claim under the statute.

Plaintiff Madugula sued co-shareholder Taub following termination of Madugula's employment with defendant Dataspace, Inc., a closely held company. Madugula and Taub owned 36 percent and 64 percent, respectively, of Dataspace's outstanding stock. Madugula's complaint asserted several causes of action, all of which were dismissed prior to trial except his shareholder oppression claim under section 489.

The trial court permitted the jury to decide the oppression claim and to deliberate over all forms of relief sought by Mad-ugula. The jury awarded damages and also required the defendants to repurchase Madugula's shares at a price determined by the jury. Taub appealed, claiming that it was error to permit the jury to require repurchase of the shares, since this remedy is equitable in nature. Taub also asserted that Madugula's complaint centered on Taub's failure to observe the supermajority voting provisions of a stockholders' agreement; Taub maintained that such a claim could not be the basis for a shareholder oppression claim, only a breach of contract claim. The court of appeals rejected Taub's arguments and upheld the trial court. Taub sought leave to appeal to the Supreme Court.

In granting leave to appeal, the supreme court framed the following questions: (1) whether claims brought under section 489 are equitable claims to be decided by a court of equity; (2) whether the provisions of a stockholders' agreement can create

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shareholder interests protected by section 489; and (3) whether Madugula's interests as a shareholder were interfered with disproportionately by the actions of Taub, where Madugula retained his corporate shares and his corporate directorship.

Click here to read the complete analysis in the Michigan Business Law Journal.