



Court Declines to Dissolve Close Corporation Despite Deadlock

The Massachusetts Superior Court recently rejected a request to dissolve a closely-held corporation, despite its finding that the company was deadlocked.

Schudder v. Schudder involved allegations of breach of fiduciary duty among the shareholders of Hyannis Harbor Tours, Inc. (“HHT”), a close corporation that operates ferry service between Hyannis Harbor and Martha’s Vineyard and Nantucket. Frederic Schudder, II (“Skip”) owns 50% of HHT’s shares, and Skip’s cousins collectively own the other 50%. The parties cross-moved for summary judgment on Skip’s request for judicial dissolution of HHT pursuant to G.L. c. 156D, § 14.30(2)(ii).

The court first found that HHT’s shareholders were deadlocked in voting power and had repeatedly failed to elect a new Board of Directors to manage the company. However, the court explained that the potentially perpetual holdover Board of Directors, without more, was insufficient to supply the finding of “irreparable injury” that is necessary to grant statutory dissolution. The court noted that the Supreme Judicial Court has never directly analyzed the shareholder deadlock provision in § 14.30(2)(ii), but the court stated that if the injury to corporate democracy caused by a holdover board were sufficient to warrant dissolution, “the express ‘irreparable injury’ requirement of [the statute] would be superfluous.”

The court noted that it did not appear that the shareholder deadlock had caused severe corporate dysfunction or frustration of purpose or that HHT’s business was in jeopardy. Indeed, HHT had continued to flourish despite the inability to elect new directors. There was also no evidence that the deadlock had an adverse impact on HHT’s reputation, goodwill, customer relationships, or employee morale.

This case is an important reminder of how difficult it can be for members of close corporations to obtain judicial dissolution of a company.

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