

## CASE STUDY:

### Precedent-Setting Case Establishes New Law for Corporate “Deadlocks”

#### > SUMMARY:

(September 18, 2017, Boston, MA) Sheehan Phinney lawyer Charles Waters **wins in favor of his client**, resulting in new law by the Supreme Judicial Court of Massachusetts regarding private company “deadlock” disputes in *Koshy v. Sachdev*.

#### > BACKGROUND:

Our client, an equal owner and co-director of a **Massachusetts software company**, was in a stalemate with his partner, unable to agree on any major decisions, with years of intense antipathy and distrust including accusatory lawsuits against each other. The existing 2004 Massachusetts Corporate Dissolution Statute (a/k/a the “Deadlock Statute”) indicated dissolution as the only remedy, but there was no Massachusetts appellate decisions about what constituted a “deadlock.”

#### > OUTCOME:

The Court established a **four-factor test to identify the statutory criteria** for a “true deadlock.”

1. Have irreconcilable differences between directors resulted in corporate paralysis – that is, a stalemate in a primary management function of the business?
2. Is this a privately-owned business with evenly-divided ownership and without a ready market for ownership interests – thus, susceptible to deadlock and oppressive tactics associated with deadlock?
3. Is there evidence that one party has manufactured a dispute in order to engineer a deadlock and, thus, force dissolution or ownership change?
4. What is the degree and extent of antipathy and distrust between the deadlocked parties – do they preclude compromise to break the deadlock?

After determining that the deadlock concerning Sheehan Phinney’s client was irreconcilable as a matter of law, the Court agreed that **involuntary dissolution of a profitable business was “draconian.”** Additionally, the Court also clarified that “lesser remedies” are inherent in the Statute that permit the continuation of an ongoing concern, such as sale to a third party or buy-out of one party’s interests. It remanded the case to the lower court to consider the appropriate remedy.

**For Sheehan Phinney in Boston, call 1-617-897-5610 or email [pvoegelin@sheehan.com](mailto:pvoegelin@sheehan.com)**

Sheehan Phinney is a full service business law firm representing local, national and international clients with innovative approaches and practical solutions. Founded in 1937, Sheehan Phinney has grown to over 60 attorneys with four offices throughout New Hampshire and Massachusetts and is known for professional excellence, practical counsel and commitment to both its clients and the communities it serves. Sheehan Phinney is the exclusive member in New Hampshire of Lex Mundi, the world’s leading association of premier independent law firms.

Sheehan Phinney | 255 State Street, 5th Floor | Boston, MA 02109 | [sheehan.com](http://sheehan.com)