SUPREME COURT OF TEXAS

Lee C. Ritchie, et al. v. Ann Caldwell Rupe, as Trustee for the Dallas Gordon Rupe, III 1995 Family Trust

443 S.W.3d 856 (Tex. 2014) · No. 11-0447 · Decided June 20, 2014

SUMMARY

The Supreme Court of Texas held that the directors' refusal to meet with prospective purchasers of a minority shareholder's stock was not oppressive conduct under the Texas receivership statute. The Court further held that the statute did not authorize a court-ordered buyout of the minority shareholder's interests and declined to recognize a common-law cause of action for minority shareholder oppression. The Court reversed the court of appeals' judgment and remanded for consideration of the shareholder's breach-of-fiduciary-duty claim.

CASE DETAILS

COURT	Supreme Court of Texas
WRITING FOR THE COURT	Justice Boyd; Chief Justice Hecht; Justice Green; Justice Johnson; Justice Lehrmann; Justice Devine
JURISDICTION	Texas
DECIDED	June 20, 2014
DOCKET	11-0447
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Petition for review of a judgment of the Texas Fifth Court of Appeals affirming a finding of shareholder oppression and a trial-court order requiring Rupe Investment Corporation to purchase Rupe's shares.
STANDARD OF REVIEW	Statutory construction is reviewed de novo.
PRECEDENTIAL VALUE	Published precedential opinion of the Supreme Court of Texas
PARTIES	Lee C. Ritchie, Paula Dennard, Dennis Lutes, Rupe Investment Corporation v. Ann Caldwell Rupe, as Trustee for the Dallas Gordon Rupe, III 1995 Family Trust

TOPICS

corporate law · corporate governance · statutory interpretation · remedies · commercial litigation

PRACTICE AREAS

corporate law | commercial litigation | statutory interpretation | remedies

QUESTIONS PRESENTED

1. What does the term "oppressive" mean under former article 7.05 of the Texas Business Corporations Act and section 11.404 of the Texas Business Organizations Code?
2. Did the directors' refusal to meet with prospective purchasers constitute oppressive conduct under the receivership statute?
3. Does former article 7.05 authorize a court-ordered buyout of a minority shareholder's shares?
4. Should Texas recognize a common-law cause of action for minority shareholder oppression in a closely held corporation?

HOLDINGS

1. Directors or managers engage in oppressive actions under former article 7.05 and section 11.404 when they abuse their authority over the corporation with intent to harm one or more shareholders, act inconsistently with the honest exercise of business judgment, and thereby create a serious risk of harm to the corporation.
2. The directors' refusal to meet with Rupe's prospective purchasers was not oppressive conduct under the receivership statute.
3. Former article 7.05 authorizes only appointment of a rehabilitative receiver for oppressive actions; it does not independently authorize a court-ordered buyout of a minority shareholder's shares.
4. Texas does not recognize a new common-law cause of action for minority shareholder oppression in closely held corporations.

KEY QUOTATIONS

> *"We hold that this conduct was not "oppressive" under the statute on which the minority shareholder relies, and in any event, the statute does not authorize courts to order a corporation to buy out a minority shareholder's interests."*

> *"We thus reverse the court of appeals' judgment. Because the court of appeals upheld the judgment based on the oppression claim and did not reach the breach-of-fiduciary-duty claim, we remand the case to the court of appeals."*

> *"We decline to recognize a new common-law cause of action for "minority shareholder oppression" in closely held corporations."*

FACTUAL BACKGROUND

Rupe, trustee of a trust owning an 18 percent interest in closely held Rupe Investment Corporation, sought to sell her shares after relations with the controlling shareholders and directors deteriorated. The directors made redemption offers but declined to meet with prospective outside purchasers, citing the corporation's interests and

securities-law risks. A jury found for Rupe on her claims and valued the shares at $7.3 million, leading the trial court to order a corporate buyout.

PROCEDURAL HISTORY

Rupe sued the corporation and its directors, alleging oppressive conduct and breaches of fiduciary duty, and sought an accounting, valuation, and a buyout or receivership. The jury found largely for Rupe, and the trial court ordered the corporation to purchase her shares for $7.3 million. The court of appeals held that the directors' refusal to meet with prospective purchasers was oppressive, upheld the buyout remedy, and remanded for redetermination of the shares' value. The Texas Supreme Court reversed the oppression ruling and remanded because the court of appeals had not addressed the fiduciary-duty claim.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Remand to the court of appeals to address the breach-of-fiduciary-duty claim and any remedies available on that claim, consistent with the Supreme Court's holdings.

CASES CITED

- Texarkana College Bowl, Inc. v. Phillips, 408 S.W.2d 537 (Tex. Civ. App.—Texarkana 1966, no writ)
- In re Schmitz, 285 S.W.3d 451 (Tex. 2009)
- Balias v. Balias, 748 S.W.2d 253 (Tex. App.—Houston [14th Dist.] 1988, writ denied)
- Davis v. Sheerin, 754 S.W.2d 375 (Tex. App.—Houston [1st Dist.] 1988, writ denied)
- Atmos Energy Corp. v. Cities of Allen, 353 S.W.3d 156 (Tex. 2011)
- In re Allen, 366 S.W.3d 696 (Tex. 2012)
- In re Office of the Attorney General, 422 S.W.3d 623 (Tex. 2013)
- International Bankers Life Insurance Co. v. Holloway, 368 S.W.2d 567 (Tex. 1963)
- Gearhart Industries, Inc. v. Smith International, Inc., 741 F.2d 707 (5th Cir. 1984)
- Patton v. Nicholas, 279 S.W.2d 848 (Tex. 1955)
- Roberts v. Williamson, 111 S.W.3d 113 (Tex. 2003)
- Nabors Drilling, U.S.A., Inc. v. Escoto, 288 S.W.3d 401 (Tex. 2009)
- Humble Sand & Gravel, Inc. v. Gomez, 146 S.W.3d 170 (Tex. 2004)
- Thapar v. Zezulka, 994 S.W.2d 635 (Tex. 1999)
- Bird v. W.C.W., 868 S.W.2d 767 (Tex. 1994)
- Gaff v. Beard, 858 S.W.2d 918 (Tex. 1993)
- Meyer v. Cathey, 167 S.W.3d 327 (Tex. 2005)
- Associated Indemnity Corp. v. CAT Contracting, Inc., 964 S.W.2d 276 (Tex. 1998)
- Wingate v. Hajdik, 795 S.W.2d 717 (Tex. 1990)

- Mass v. Davis, 140 Tex. 398, 168 S.W.2d 216 (1942)
- Montgomery County Hospital District v. Brown, 965 S.W.2d 501 (Tex. 1998)
- Cavitt v. Amsler, 242 S.W. 246 (Tex. Civ. App.—Austin 1922, writ dism'd)

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