

AGREEMENTS

Shareholder Disputes

An early-stage guide to minority rights, unfair prejudice, and resolving disputes before they reach court.

Where disputes come from

Disputes between shareholders in a private company usually start with something ordinary: a director paid more than expected, a shareholder shut out of decisions, dividends withheld, or one owner taking the business in a new direction. They often escalate because the shareholders are also the directors, the employees and sometimes family.

This guide is about the early stages. It sets out what rights a minority shareholder has, where the law will help and what can be done before anyone starts court proceedings.

What a minority shareholder can rely on

A minority shareholder has no right to manage the company, but the law gives several protections:

- **The articles and any shareholders' agreement.** These are the first things to check. They may give rights to information, to a board seat or to a veto, and they may set a route for disputes.
- **Statutory rights.** A shareholder can inspect the statutory registers, receive accounts, and vote on matters reserved to members.
- **Unfair prejudice.** A member may ask the court for relief if the company's affairs are being conducted in a way that is unfairly prejudicial to the members' interests (section 994).
- **Derivative claims.** In limited circumstances a member can bring a claim on the company's behalf against a director for breach of duty, with the court's permission (Part 11 of the Act).
- **Just and equitable winding up.** In serious cases, a court may wind up the company (section 122 of the Insolvency Act 1986).

What counts as unfair

There is no fixed list. Courts look at the agreements between the shareholders, the expectations they had when they came together, and how the company has been run. Exclusion from management in a company that was built on joint participation, payments to directors that strip value out, or a refusal to give information are typical examples. Taking sides early rarely helps. Gathering the documents does.

Key points

- Start with the articles and any agreement. They often set the route.
- Court is a last resort. It is slow, expensive and public.
- Keep a record of what happened, with dates.
- Do not remove documents or change company records without advice.
- Directors owe duties to the company, not to a particular shareholder.
- Early mediation resolves many disputes.

Steps before court

1. **Gather the documents.** Articles, agreements, minutes, accounts, correspondence and the statutory registers.
2. **Stop the damage.** Check bank mandates and signing authority, but do not take unilateral action that could be seen as unfair in itself.
3. **Speak early.** A direct conversation, or a letter setting out concerns in neutral terms, often moves things forward.
4. **Use the agreement.** Many shareholders' agreements require escalation, mediation or a valuation before any claim.
5. **Mediate.** A mediator can help the owners reach a buy-out or a revised way of working. Courts expect parties to consider alternatives to litigation before issuing a claim.
6. **Consider an exit.** Many disputes end in one side buying the other out. A fair, independent valuation helps both sides.

Before you start

- What do the articles and any agreement say?
- Who are the directors, and who owns what?
- What exactly is the complaint?
- What documents exist to support it?
- What outcome is wanted: a buy-out, a change in how the company is run, or compensation?
- Is a solicitor needed now?

What the company should do

Keep the company running properly. Board meetings should be held, statutory filings kept up to date and accounts prepared on time. Directors should record their decisions and reasons, because later scrutiny will focus on them.

Where MTM can and cannot help

MTM supports and advises on the corporate side of a dispute, such as reviewing the articles and registers, preparing documents and filings, and helping with valuation evidence. MTM does not conduct litigation, and is not authorised to carry out reserved legal activities. If a claim looks likely, or has been issued, shareholders should instruct a solicitor, and we will work alongside them.

Costs and time

Court proceedings between shareholders are usually slow and costly, and the costs can be out of proportion to the value of the shares. The court has wide powers to order a buy-out, but the process is public, and the business can suffer while it runs. Many disputes are resolved after a clear exchange of positions, a mediation day and an independent valuation. Set a budget early and review it at each stage.

Protecting the business meanwhile

The company still has customers, employees and filings. Appoint someone to keep the day-to-day work going, keep the bank accounts and tax filings up to date, and avoid decisions that cannot be undone, such as selling major assets, until the position is clearer.

How MTM can help

0161 835 2080
client@mtmlp.co.uk

We help practices and their clients with the corporate groundwork of a dispute: reviewing articles and registers, preparing board and shareholder papers, supporting buy-outs and valuations, and making any filings. We do not conduct litigation. Where a dispute needs a solicitor, we will work with them and your client.