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California Court of Appeal Holds that a Corporation's Direct Cause of Action for Breach of Fiduciary Duty is Legal Rather than Equitable, Requiring a Trial by Jury

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In *ZF Micro Solutions, Inc. v. TAT Capital Partners, Ltd.*, 2022 WL 4090879 (Cal. App. Aug. 8, 2022), the Fourth Appellate District of the California Court of Appeal decided, as a matter of first impression, that a non-derivative breach of fiduciary duty cause of action seeking compensatory damages was legal rather than equitable, and therefore required a jury trial as a matter of law. The Court arrived at its conclusion by evaluating the right and relief requested. In so doing, the Court concluded that because the claim at hand exhibited all the characteristics of a cause of action at law, it was legal, rather than equitable, and should have been tried to a jury.

The appeal was limited to the issue of whether ZF Micro Solutions' ("ZF") cross-complaint against TAT Capital Partners, Ltd. ("TAT") should have been tried to a jury. ZF alleged that TAT "murdered its predecessor by inserting a board member who poisoned it." Specifically, ZF alleged that its predecessor company was unable to secure investment funds due to TAT's board representatives' disparaging the company's management. As a result, the predecessor company defaulted on a secured loan and its assets were foreclosed upon. ZF asserted that this conduct by the TAT board representative was a breach of that individual's fiduciary duty owed to the company. The trial court considered the cause of action for breach of fiduciary duty against a director equitable in nature rather than legal, and held a bench trial on that basis. The trial court entered judgment for TAT and ZF appealed, asserting this was error.

The Court of Appeal agreed with ZF, and reversed. The Court began by noting that although the California Constitution guarantees the right to a trial by jury, this right is limited to cases in which the "gist" of the action is legal, rather than equitable. First, the Court observed that more traditional breaches of directors' and majority shareholders' fiduciary duties are viewed as equitable. The Court did not locate any authority, however, addressing specifically whether the cause of action for breach of a director's duty brought directly by the corporation, as alleged here, was legal or equitable. Thus, the Court drew upon general law to assess the distinction. "[I]f the legal remedy of compensatory damages is adequate to complete justice between the parties," the Court observed, "a proper exercise of equitable justice will not give equitable relief." On that basis, the Court concluded that the "gist" of ZF's cause of action against TAT was a request for compensatory damages for destroying its predecessor corporation, a request that neither involved weighing equities nor nonmonetary relief. As such, the cause of action against TAT was legal in nature and required a jury trial. The Court's holding represents a meaningful distinction between direct actions for breach of fiduciary duty brought by a corporation, such as the one here, and derivative actions for breach of fiduciary duty brought by shareholders, which are traditionally equitable in nature, and thus not entitled to trial by jury.

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