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Ed Smith
CLERK OF THE SUPREME COURT
STATE OF MONTANA
Case Number: DA 14-0113

SYNOPSIS OF THE CASE

2015 MT 192, DA 14-0113: MASTERS GROUP INTERNATIONAL, INC., Third-Party Plaintiff and Appellee, v. **COMERICA BANK**, Third-Party Defendant and Appellant.[1]

The Montana Supreme Court has reversed a Butte jury's $52 million verdict against Comerica Bank and sent the case back for a new trial.

This case stems from a commercial financing relationship among the Butte Local Development Corporation (BLDC), Masters Group International, Inc. (Masters), and Comerica Bank (Comerica). Masters was an office supply business that sought to build a warehouse in Butte and obtained loans from BLDC for that purpose. Masters also obtained and—in the lead up to the financial crisis in 2008—defaulted on a $10.5 million loan from Comerica. In December 2008, Comerica offered to forbear on calling the loan until February 2009, to allow Masters to seek alternative financing. But on December 31, 2008, Comerica swept the accounts of Masters and its guarantors. Masters subsequently defaulted on its loans from BLDC.

BLDC sued Masters for its failure to pay its obligations. Masters in turn sued Comerica under theories of breach of contract, breach of the implied covenant of good faith and fair dealing, constructive fraud, deceit, wrongful offset, and interference with and loss of prospective economic opportunity. All claims between Masters and Comerica went to trial in January 2014. That same month, a unanimous jury found Comerica liable to Masters for a total of $52,037,593, including punitive damages. Comerica appealed.

The Court agreed unanimously that Masters' claims against Comerica should have been governed by Michigan law, not by Montana law, as the parties specified in numerous contracts throughout their commercial dealings that Michigan law would apply. Under Michigan law, Masters could not pursue tort claims or punitive damages stemming from Comerica's alleged breach of contract, so these claims should not have been tried before a jury. Five members of the Court determined that Masters could pursue its breach of contract and implied covenant of good faith and fair dealing claims, and that Masters submitted enough evidence to take these claims to trial. At trial, however, Masters presented irrelevant and prejudicial evidence concerning Comerica's receipt of federal Troubled Asset Relief Program (TARP) funds during the 2008 financial crisis. The Court concluded that these funds did not bear on the issue at trial: whether Comerica breached a contract to forbear. A majority of the Court found that Masters presented extensive

[1] This synopsis has been prepared for the convenience of the reader. It constitutes no part of the Opinion of the Court and may not be cited as precedent.

evidence on these funds and tied their availability directly to claims that Comerica improperly swept Masters' accounts and did not treat Masters fairly. In light of the manner in which the TARP evidence was presented and argued, the majority concluded that there is a reasonable possibility that the inadmissible evidence might have contributed to the jury's verdict, which necessitated vacating the verdict and remanding for a new trial. The Court noted that this conclusion did not affect the judgment in favor BLDC against Masters.

Two members of the Court would have determined as a matter of law that Masters and Comerica did not have a binding contract to forbear. They would have vacated the verdict and dismissed Masters' action. The two justices agreed, however, that given the Court's decision that the case properly went to the jury, the TARP evidence was irrelevant, prejudicial, and necessitated a new trial.

Three members of the Court agreed that Masters presented sufficient evidence to get to trial on its contract claims. They argued, however, that Masters' presentation of TARP evidence constituted harmless error and did not require complete reversal of the jury's verdict. They would have upheld damages awarded to Masters in the sum of $25,037,593.