SUPREME COURT OF THE STATE OF DELAWARE

In re Tesla Motors, Inc. Stockholder Litigation

In re Tesla Motors, Inc. Stockholder Litigation · No. No. 181, 2022 · Decided June 6, 2023

SUMMARY

The Delaware Supreme Court affirmed the Court of Chancery’s post-trial decision finding the 2016 all-stock acquisition of SolarCity Corporation by Tesla entirely fair. The court addressed the application of Delaware’s entire fairness standard, including the role of market evidence, the transaction process, the fair-price analysis, and the effect of the plaintiffs’ unsuccessful insolvency theory. The court held that the trial court committed no reversible error.

CASE DETAILS

COURT	Supreme Court of the State of Delaware
WRITING FOR THE COURT	Valihura, Justice; Seitz, Chief Justice; Vaughn, Justice; Traynor, Justice; Wallace, Judge
JURISDICTION	Delaware
DECIDED	June 6, 2023
DOCKET	No. 181, 2022
DISPOSITION	affirmed
PROCEDURAL POSTURE	Stockholder plaintiffs appealed from the Court of Chancery's post-trial opinion holding that the Tesla-SolarCity acquisition was entirely fair and that Elon Musk did not breach his fiduciary duties. The Delaware Supreme Court reviewed the decision under the entire fairness standard and affirmed.
STANDARD OF REVIEW	The Supreme Court reviewed factual findings under the deferential standard described in Levitt v. Bouvier, accepting findings supported by the record and resulting from an orderly and logical deductive process. Legal principles and their application were reviewed de novo, while findings based on expert financial testimony received a high level of deference.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Arkansas Teachers Retirement System, Roofers Local 149 Pension Fund, Oklahoma Firefighters Pension and Retirement System, KBC

Asset Management NV, Erste Asset Management GmbH, Stitching Blue Sky Active Large Cap Equity Fund USA v. Elon Musk

TOPICS

corporate law | fiduciary duty | corporate governance | appellate procedure | commercial litigation

PRACTICE AREAS

corporate law | corporate governance | fiduciary duty | appellate procedure | commercial litigation

QUESTIONS PRESENTED

1. Whether the Court of Chancery properly applied Delaware's entire fairness standard in evaluating the Tesla-SolarCity acquisition.
2. Whether the trial court's findings supported a determination of fair dealing despite Musk's participation in and influence over the transaction process.
3. Whether the trial court's fair-price analysis, including its treatment of market evidence, valuation evidence, future cash flows, synergies, Evercore's fairness opinion, and the stockholder vote, contained reversible legal error.
4. Whether the absence of a Tesla special committee required a finding that the transaction was unfair or a finding of fiduciary-duty liability.

HOLDINGS

1. The Court of Chancery properly evaluated the acquisition under the entire fairness standard, even though it assumed rather than decided that Musk was a controlling stockholder or that a majority of the Tesla Board was conflicted.
2. The trial court's unchallenged factual and credibility findings supported its determination that Musk carried his burden of proving fair dealing notwithstanding process flaws.
3. Delaware law does not require a board to form a special committee in every conflicted transaction. The failure to use a special committee subjects the transaction to entire fairness review but does not by itself establish liability or unfairness.
4. The Court of Chancery did not commit reversible error in determining that the acquisition price was fair, even though it erred in treating SolarCity's unaffected June 21, 2016 stock price as market evidence.
5. A transaction's review under entire fairness does not itself establish fiduciary-duty liability, and the acquisition was entirely fair on the trial record.

KEY QUOTATIONS

> *"The concept of fairness has two basic aspects: fair dealing and fair price."* (at 711)

> *"Entire fairness is a unitary test, and both fair dealing and fair price must be scrutinized by the Court of Chancery."* (III. Analysis)

> *“Although we continue to encourage the use of special negotiation committees as a “best practice,” nothing in Delaware law requires a board to form a special committee in a conflicted transaction.”* (IV.A.1.c)

FACTUAL BACKGROUND

Tesla acquired SolarCity in a 2016 all-stock transaction after Elon Musk, Tesla's largest stockholder and chief executive, advocated for the deal while also serving as SolarCity's largest stockholder and board chair. The Court of Chancery assumed that entire fairness applied because Musk may have been a controlling stockholder and because of potential conflicts among Tesla directors. Although the transaction process contained flaws, an independent Tesla director led negotiations, independent advisors conducted diligence, the final offer was reduced substantially from the initial offer, and Tesla stockholders overwhelmingly approved the transaction. The Court of Chancery found that SolarCity was solvent and valuable and that the acquisition price was fair.

PROCEDURAL HISTORY

Several stockholder actions challenging Tesla's 2016 all-stock acquisition of SolarCity were consolidated in the Court of Chancery. The Court of Chancery denied dismissal and summary judgment motions in relevant part, conducted a multi-day trial, assumed without deciding that entire fairness applied, and entered judgment for Musk after finding the transaction entirely fair. The Supreme Court affirmed.

DISPOSITION

affirmed

CASES CITED

- Kahn v. M & F Worldwide Corp., 88 A.3d 635 (Del. 2014)
- In re Tesla Motors, Inc. S’holder Litig., 2022 WL 1237185 (Del. Ch. Apr. 27, 2022)
- Corwin v. KKR Financial Holdings LLC, 125 A.3d 304 (Del. 2015)
- Musk v. Arkansas Teacher Retirement System, 184 A.3d 1292, 2018 WL 2072822 (Del. May 3, 2018) (ORDER)
- Levitt v. Bouvier, 287 A.2d 671 (Del. 1972)
- Cinerama, Inc. v. Technicolor, Inc., 663 A.2d 1156 (Del. 1995)
- Kahn v. Lynch Communication Systems, Inc., 669 A.2d 79 (Del. 1995)
- Kahn v. Tremont Corp., 694 A.2d 422 (Del. 1997)
- In re Pure Resources, Inc. Shareholders Litigation, 808 A.2d 421 (Del. Ch. 2002)
- Americas Mining Corp. v. Theriault, 51 A.3d 1213 (Del. 2012)
- Emerald Partners v. Berlin, 787 A.2d 85 (Del. 2001)
- Nixon v. Blackwell, 626 A.2d 1366 (Del. 1993)
- Rosenblatt v. Getty Oil Co., 493 A.2d 929 (Del. 1985)
- In re Cox Communications, Inc. Shareholders Litigation, 879 A.2d 604 (Del. Ch. 2005)
- Flood v. Synutra International Inc., 195 A.3d 754 (Del. 2018)

- In re CNX Gas Corp. Shareholders Litigation, 4 A.3d 397 (Del. Ch. 2010)
- In re Trados Inc. Shareholder Litigation, 73 A.3d 17 (Del. Ch. 2013)
- Emerald Partners v. Berlin, 840 A.2d 641 (Del. 2003) (ORDER)
- ACP Master, Ltd. v. Sprint Corp., 184 A.3d 1291 (Del. 2018) (ORDER)
- S. Muoio & Co. LLC v. Hallmark Entertainment Investments Co., 35 A.3d 419 (Del. 2011) (ORDER)
- Global GT LP v. Golden Telecom, Inc., 993 A.2d 497 (Del. Ch. 2010), aff'd, 11 A.3d 214 (Del. 2010)
- Dell, Inc. v. Magnetar Global Event Driven Master Fund Ltd., 177 A.3d 1 (Del. 2017)
- Sinclair Oil Corp. v. Levien, 280 A.2d 717 (Del. 1971)
- In re Walt Disney Co. Derivative Litigation, 906 A.2d 27 (Del. 2006)