

CALIFORNIA COURT OF APPEAL, FIRST APPELLATE DISTRICT, DIVISION
THREE

Norman v. Strateman

Norman · No. A170356 · Decided June 20, 2025

SUMMARY

The California Court of Appeal held that a settlement resolving derivative claims on behalf of a limited liability company required judicial review and approval. Because the trial court did not independently determine whether the settlement was fair and reasonable and free from fraud, overreaching, or collusion, the court reversed and remanded for the required review, with notice to shareholders to the extent practicable.

CASE DETAILS

COURT	California Court of Appeal, First Appellate District, Division Three
WRITING FOR THE COURT	Petrou, J.; Fujisaki, Acting P. J.; Rodriguez, J.
JURISDICTION	California Court of Appeal, First Appellate District, Division Three
DECIDED	June 20, 2025
DOCKET	A170356
DISPOSITION	vacated
PROCEDURAL POSTURE	Appeal from a judgment enforcing a settlement agreement and dismissing derivative claims and cross-claims, and from the related order denying the appellant's motion to set aside the settlement.
STANDARD OF REVIEW	Abuse of discretion. The appellate court does not reweigh settlement factors or substitute its judgment for that of the trial court, but a trial court's failure to exercise the required discretion is itself an abuse of discretion.
PRECEDENTIAL VALUE	Published and certified for publication
PARTIES	Donald Norman v. Patrick Strateman, Jamie Strateman

TOPICS

- shareholder derivative suits
- limited liability companies
- corporate law
- appellate procedure
- civil procedure

PRACTICE AREAS

QUESTIONS PRESENTED

1. Whether the complaint included derivative claims requiring judicial approval of any settlement and dismissal.
2. Whether the settlement was judicially reviewed and approved as required for a derivative action settlement.
3. Whether the trial court's failure to conduct the required review was harmless error or was forfeited by Norman's failure to raise the issue when the settlement was placed on the record.

HOLDINGS

1. At least the claims alleging mismanagement of Intersango, self-dealing with company assets, and failure to monetize company assets were derivative claims. Because the settlement purported to resolve all claims, those derivative claims were included in the settlement.
2. A shareholder plaintiff may not settle and dismiss a corporation's derivative cause of action without judicial review and approval. The court must determine whether the settlement is fair and reasonable to the corporation and its shareholders and is not the product of fraud, overreaching, or collusion.
3. Neither the settlement judge's participation in recording or mediating the agreement nor the trial judge's abbreviated consideration of the enforcement and set-aside motions constituted the required independent judicial review and approval.
4. The failure to conduct meaningful judicial review was not harmless, and Norman did not forfeit or invite the error by failing to raise the approval requirement when the settlement was placed on the record.

KEY QUOTATIONS

“A shareholder plaintiff in a derivative action must obtain court approval before settling and dismissing the corporation’s cause of action.” (at 8)

“In sum, derivative claim settlements require judicial review and approval, evaluating factors similar to those considered in class action settlements.” (at 17)

“Accordingly, enforcing the settlement, without first reviewing whether the settlement was fair and reasonable, constituted an abuse of discretion.” (at 17)

FACTUAL BACKGROUND

Norman, Patrick Strateman, and Amir Taaki established Intersango LLC, a cryptocurrency exchange. After Patrick closed the exchange, Norman filed claims alleging mismanagement, breach of fiduciary duty, self-dealing, conversion, and failure to return company assets; Patrick filed related cross-claims against Norman. The parties later settled all claims and cross-claims on the record, but the settlement was not independently reviewed and approved by the court before the trial court enforced it and dismissed the action.

PROCEDURAL HISTORY

During trial, the parties placed settlement terms on the record before a settlement judge. Norman later challenged enforceability and moved to set aside the settlement, arguing that the derivative claims required judicial approval. The trial court granted the Stratemans' motion to enforce, denied Norman's motion, and entered judgment dismissing the claims with prejudice. The Court of Appeal vacated the order and judgment and remanded for judicial review and approval of the settlement.

DISPOSITION

vacated

REMAND INSTRUCTIONS

The order granting the motion to enforce, the order denying the motion to set aside, and the subsequent judgment are vacated without prejudice. The trial court must conduct the necessary review of the settlement, including whether it is fair and reasonable and not the product of fraud, overreaching, or collusion, and should provide notice of the review hearing to all shareholders to the extent practicable. If the court later approves the settlement, it may reinstate its prior orders at its discretion. The parties shall bear their own costs on appeal.

CASES CITED

- Merco Construction Engineers, Inc. v. Municipal Court (1978) 21 Cal.3d 724, 729
- Grosset v. Wenaas (2008) 42 Cal.4th 1100, 1108
- Desaigoudar v. Meyercord (2003) 108 Cal.App.4th 173, 183
- Jones v. H.F. Ahmanson & Co. (1969) 1 Cal.3d 93, 106-107
- Denevi v. LGCC, LLC (2004) 121 Cal.App.4th 1211, 1221
- Avikian v. WTC Financial Corp. (2002) 98 Cal.App.4th 1108, 1115
- Nelson v. Anderson (1999) 72 Cal.App.4th 111, 124
- Gaillard v. Natomas Co. (1985) 173 Cal.App.3d 410, 419
- Whitten v. Dabney (1915) 171 Cal. 621, 631-632
- Ensher v. Ensher, Alexander & Barsoom, Inc. (1960) 187 Cal.App.2d 407, 410
- Sirott v. Superior Court (2022) 78 Cal.App.5th 371, 381
- Robbins v. Alibrandi (2005) 127 Cal.App.4th 438, 449
- Dunk v. Ford Motor Co. (1996) 48 Cal.App.4th 1794, 1800-1803
- Moniz v. Adecco USA, Inc. (2021) 72 Cal.App.5th 56, 76-77
- Kullar v. Foot Locker Retail, Inc. (2008) 168 Cal.App.4th 116, 130, 133
- Cellphone Termination Fee Cases (2010) 186 Cal.App.4th 1380, 1389
- Fadeeff v. State Farm General Ins. Co. (2020) 50 Cal.App.5th 94, 104
- Westwood Temple v. Emanuel Center (1950) 98 Cal.App.2d 755
- CLD Construction, Inc. v. City of San Ramon (2004) 120 Cal.App.4th 1141, 1145
- Blue Water Sunset, LLC v. Markowitz (2011) 192 Cal.App.4th 477, 491
- Gong v. RFG Oil, Inc. (2008) 166 Cal.App.4th 209, 215

- Bowser v. Ford Motor Co. (2022) 78 Cal.App.5th 587, 610
- Saucillo v. Peck (9th Cir. 2022) 25 F.4th 1118, 1133
- In re Volkswagen "Clean Diesel" Marketing Litig. (9th Cir. 2018) 895 F.3d 597, 612-613
- Barnes, Crosby, Fitzgerald & Zeman, LLP v. Ringler (2012) 212 Cal.App.4th 172, 184

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