UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Raymond Alton Priddy v. Asher B. Edelman; Martin Warshofsky v. Fruehauf Corporation

883 F.2d 438 (6th Cir. 1989) · No. Nos. 88-1299, 88-1867 · Decided July 28, 1989

SUMMARY

The Sixth Circuit affirmed summary judgment against Raymond Priddy on his fiduciary-duty, injunction-violation, and related claims arising from the takeover of Fruehauf Corporation. The court also affirmed denial of leave to amend the complaint and upheld approval of a settlement in a related shareholder class action, concluding that the settlement would stand because the judgment in Priddy's individual action was affirmed.

CASE DETAILS

COURT	United States Court of Appeals for the Sixth Circuit
WRITING FOR THE COURT	David A. Nelson; Milburn; Nelson; Peck, Senior Circuit Judge
JURISDICTION	Federal
DECIDED	July 28, 1989
DOCKET	Nos. 88-1299, 88-1867
DISPOSITION	affirmed
PROCEDURAL POSTURE	Priddy appealed from summary judgment entered against him on the claims in his original complaint and denial of leave to amend. He also appealed approval of a related class-action settlement in which he was an objecting shareholder. The Sixth Circuit considered the merits appeal first and then reviewed the settlement approval.
STANDARD OF REVIEW	Summary judgment was reviewed under the standard applicable to the absence of a genuine issue of material fact and entitlement to judgment as a matter of law. Denial of leave to amend was reviewed for abuse of discretion. Approval of the class-action settlement was reviewed for abuse of discretion.
PRECEDENTIAL VALUE	Published federal appellate opinion; precedential within the Sixth Circuit.
PARTIES	Raymond Alton Priddy v. Asher B. Edelman, Fruehauf Corporation, other defendants-appellees

TOPICS

business judgment rule · breach of fiduciary duty · corporate governance · motion to amend · class actions

PRACTICE AREAS

corporate law · commercial litigation · civil procedure · securities law

QUESTIONS PRESENTED

1. Whether summary judgment was proper on Priddy's common-law breach-of-fiduciary-duty claims against Fruehauf's directors.
2. Whether the directors' conduct in conducting the auction and approving the revised Merrill offer was subject to the business judgment rule rather than entire-fairness review.
3. Whether Priddy stated a viable breach-of-fiduciary-duty claim against the Edelman defendants as minority shareholders.
4. Whether Priddy abandoned or failed to preserve his claim under section 14(d)(7) of the Williams Act.
5. Whether the district court abused its discretion by denying leave to amend after the discovery and motion deadlines had passed.
6. Whether the district court abused its discretion in approving the Warshofsky class-action settlement.

HOLDINGS

1. The directors' decision was properly evaluated under the business judgment rule, not the more stringent entire-fairness standard, because the record showed a disinterested board acting in good faith and with due care in conducting the auction.
2. The directors did not breach their fiduciary duties merely by approving a transaction in which the Edelman group received expense reimbursement and a higher effective per-share return than other shareholders.
3. The Edelman defendants, who never owned more than 9.3 percent of Fruehauf's outstanding shares, owed no fiduciary duty to fellow shareholders based solely on their minority-shareholder status or their commencement of litigation.
4. The district court acted within its discretion in denying leave to amend where Priddy waited nearly fifteen months, moved after the discovery cutoff and filing of summary-judgment motions, and proposed entirely new theories without seeking an extension or offering an explanation.
5. The district court did not abuse its discretion in approving the class settlement as fair and equitable.

KEY QUOTATIONS

> *“Having effectively put Fruehauf on the auction block, the directors assumed the role of "auctioneers charged with getting the best price for the stockholders at a sale of the company."”*

> *“A party is not entitled to wait until the discovery cutoff date has passed and a motion for summary judgment has been filed on the basis of claims asserted in the original complaint before introducing entirely different*

> *legal theories in an amended complaint."*

> *"Putting the defendants "through the time and expense of continued litigation on a new theory, with the possibility of additional discovery, would be manifestly unfair and unduly prejudicial.""*

FACTUAL BACKGROUND

An investor group led by Asher Edelman and a competing Merrill group each pursued control of Fruehauf Corporation through tender offers. After a court-ordered bidding contest, Fruehauf's board and a special committee approved a revised Merrill offer that included the purchase of the Edelman group's shares and approximately $21 million in claimed expense payments. Priddy challenged the transaction, alleging breaches of fiduciary duty and related violations, but did not seek to enjoin completion of the takeover. Shareholder class actions were later settled, and Priddy objected to the settlement.

PROCEDURAL HISTORY

Priddy filed suit challenging Fruehauf's acquisition by the Merrill group and asserting fiduciary-duty, injunction-violation, best-price, and related claims. The Eastern District of Michigan granted defendants summary judgment, denied Priddy's cross-motion for summary judgment, and denied leave to amend as untimely and futile. In the related Warshofsky and Steiner class actions, the district court approved a settlement; Priddy objected and appealed. The Sixth Circuit denied the motions to dismiss the merits appeal and affirmed both district court judgments.

DISPOSITION

affirmed

CASES CITED

- Plaza Securities Co. v. Fruehauf Corp., 643 F. Supp. 1535 (E.D. Mich. 1986)
- Edelman v. Fruehauf Corp., 798 F.2d 882 (6th Cir. 1986)
- Aronson v. Lewis, 473 A.2d 805 (Del. 1984)
- In re Estate of Butterfield, 418 Mich. 241, 341 N.W.2d 453 (1983)
- Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc., 506 A.2d 173 (Del. 1986)
- In re J.P. Stevens & Co., 542 A.2d 770 (Del. Ch. 1988)
- City Capital Associates Limited Partnership v. Interco, Inc., 551 A.2d 787 (Del. Ch. 1988)
- Unocal Corp. v. Mesa Petroleum Co., 493 A.2d 946 (Del. 1985)
- Gilbert v. El Paso Co., 490 A.2d 1050 (Del. Ch. 1984)
- Young v. Higbee Co., 324 U.S. 204 (1945)
- Pearson v. Ecological Science Corp., 522 F.2d 171 (5th Cir. 1975)
- Field v. Trump, 850 F.2d 938 (2d Cir. 1988)
- Wright v. Holbrook, 794 F.2d 1152 (6th Cir. 1986)
- Duchon v. Cajon Co., 791 F.2d 43 (6th Cir. 1986) (per curiam)

- Addington v. Farmers' Elevator Mutual Insurance Co., 650 F.2d 663 (5th Cir. 1981)
- Acri v. International Association of Machinists & Aerospace Workers, 781 F.2d 1393 (9th Cir. 1986)
- Jones v. Hamelman, 869 F.2d 1023 (7th Cir. 1989)
- Feldman v. Allegheny International, Inc., 850 F.2d 1217 (7th Cir. 1988)
- Parker v. Joe Lujan Enterprises, 848 F.2d 118 (9th Cir. 1988)
- Ascon Properties, Inc. v. Mobil Oil Co., 866 F.2d 1149 (9th Cir. 1989)
- Troxel Manufacturing Co. v. Schwinn Bicycle Co., 489 F.2d 968 (6th Cir. 1973)
- Clark Equipment Co. v. International Union, Allied Industrial Workers, 803 F.2d 878 (6th Cir. 1986) (per curiam)
- Laskey v. International Union (UAW), 638 F.2d 954 (6th Cir. 1981) (per curiam)
- Russ v. Federal Mogul Corp., 112 Mich. App. 449, 316 N.W.2d 454 (1982)

INSTRUCTIONS FOR AN AI ASSISTANT