

SUPREME COURT OF MISSISSIPPI

Bailey Brake Farms, Inc. v. Trout

116 So. 3d 1064 (Miss. 2013) · Decided May 23, 2013

SUMMARY

The Mississippi Supreme Court held that a chancery court improperly set aside a binding arbitration award determining the value of shares in a closely held corporation. The court reversed and rendered judgment reinstating the arbitration award, while leaving the corporation’s waiver of assessments undisturbed. On cross-appeal, the court affirmed the denial of the shareholders’ late motion to amend and their request for prejudgment interest.

CASE DETAILS

|                       |                                                                                                                                                                                                                                                                                                                       |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COURT                 | Supreme Court of Mississippi                                                                                                                                                                                                                                                                                          |
| WRITING FOR THE COURT | Kitchens, Justice; Waller, C.J.; Randolph, P.J.; Lamar, J.; Chandler, J.; Pierce, J.; King, J.; Coleman, J.                                                                                                                                                                                                           |
| JURISDICTION          | Mississippi                                                                                                                                                                                                                                                                                                           |
| DECIDED               | May 23, 2013                                                                                                                                                                                                                                                                                                          |
| DISPOSITION           | reversed_and_remanded                                                                                                                                                                                                                                                                                                 |
| PROCEDURAL POSTURE    | Bailey Brake Farms appealed the chancery court's decision setting aside a binding arbitration valuation and ordering the corporation to pay substantially more for the shareholders' stock. The shareholders cross-appealed the denial of their motion to amend the complaint and the denial of prejudgment interest. |
| STANDARD OF REVIEW    | A trial court's decision to grant or deny a motion to amend a pleading is reviewed for abuse of discretion, absent a mistake of law, which is reviewed de novo. Judicial review of an arbitration award is limited to the narrow statutory grounds for vacatur or modification.                                       |
| PRECEDENTIAL VALUE    | published                                                                                                                                                                                                                                                                                                             |
| PARTIES               | Bailey Brake Farms, Inc. v. Ron Nassar, George Calvin "Bud" Trout                                                                                                                                                                                                                                                     |

TOPICS

- contracts
- breach of contract
- corporate law
- commercial litigation
- appellate procedure

PRACTICE AREAS

## QUESTIONS PRESENTED

1. Whether the buy-sell agreement required binding arbitration or merely an appraisal subject to the chancellor's discretion.
2. Whether the chancellor had a statutory basis to set aside the arbitrators' stock valuation for undue means or an incomplete award.
3. Whether the chancellor abused his discretion by denying the shareholders' motion to amend their complaint five and a half years after filing.
4. Whether the shareholders were entitled to prejudgment interest under Mississippi law or the buy-sell agreement.

## HOLDINGS

1. The agreement required binding arbitration, not a nonbinding appraisal, because it expressly referred to arbitrators and made their valuation binding on the corporation and shareholders.
2. The chancellor lacked a sufficient legal and evidentiary basis to set aside the arbitration award because the order did not establish corruption, fraud, undue means, excess of authority, or an incomplete award under Mississippi Code section 11-15-23.
3. The chancery court did not abuse its discretion by denying the shareholders' motion to amend their complaint five and a half years after filing when they offered no adequate justification for the delay and the amendment would have substantially changed the nature of the litigation.
4. The shareholders were not entitled to prejudgment interest because they did not demand it in their original complaint and the contractual interest provision applied only when the corporation had agreed to purchase stock at an arbitrated value and was more than thirty days late in making payment.

## KEY QUOTATIONS

*"Because the valuation was an arbitration award, as contemplated by the legally valid and binding contract, it is binding on the parties absent very narrow circumstances which are prescribed by statute."* (1068)

*"Thus, when competent and fully informed parties expressly contract to arbitrate their disputes, their rights are 'narrower than in judicial trials, for there is no review or correction of errors of the judgment, either upon the law or facts....'"* (1068)

*"We find that the chancellor incorrectly substituted his own judgment for the arbitration award and treated it as if it was a recommendation from a special master."* (1069)

*"A request for 'general relief' in a complaint seeking equitable relief would not give the defendant notice of a claim for prejudgment interest."* (1071)

## FACTUAL BACKGROUND

Bailey Brake Farms and its shareholders entered identical stock subscription and buy-sell stock restriction agreements. After Nassar and Trout attempted to tender their shares, the parties could not agree on fair market value, so the dispute proceeded to arbitration as required by the agreements. The arbitrators valued Nassar's interest at \$47,235.88 and Trout's at \$45,323.88, but the chancellor rejected those valuations and ordered the corporation to pay approximately three times those amounts.

## PROCEDURAL HISTORY

Nassar and Trout filed an action in the Lafayette County Chancery Court seeking declaratory and injunctive relief after attempting to tender their shares under a buy-sell agreement. The chancellor referred valuation to binding arbitration, initially adopted the special master's recommendation enforcing arbitration, and later rejected the arbitrators' valuation and ordered a substantially higher purchase price. The Supreme Court of Mississippi reversed and rendered judgment on the direct appeal, reinstated the arbitration award, and affirmed on the cross-appeal.

## DISPOSITION

reversed\_and\_remanded

## REMAND INSTRUCTIONS

The chancery court's final order was reversed and judgment was rendered in favor of Bailey Brake Farms, reinstating the arbitration award. The corporation's waiver of assessments remained undisturbed. The cross-appeal was affirmed.

## CASES CITED

- IP Timberlands Operating Co. v. Denmiss Corp., 726 So. 2d 96 (Miss. 1998)
- Adams Cmty. Care Center, LLC v. Reed, 37 So. 3d 1155 (Miss. 2010)
- Marcoin, Inc. v. Hammond, 368 So. 2d 1257 (Miss. 1979)
- Margerum v. Bud's Mobile Homes, Inc., 823 So. 2d 1167 (Miss. 2002)
- Hutto v. Jordan, 204 Miss. 30, 36 So. 2d 809 (1948)
- Craig v. Barber, 524 So. 2d 974 (Miss. 1988)
- Jenkins v. Meagher, 46 Miss. 84 (1871)
- Hutzler v. City of Jackson, 38 So. 3d 1116 (Miss. 2010)
- Pratt v. City of Greenville, 804 So. 2d 972 (Miss. 2001)
- Barry v. Reeves, 47 So. 3d 689 (Miss. 2010)
- Webb v. Braswell, 930 So. 2d 387 (Miss. 2006)
- Upchurch Plumbing, Inc. v. Greenwood Utilities Comm'n, 964 So. 2d 1100 (Miss. 2007)