SUPREME COURT OF DELAWARE

Blaustein v. Lord Baltimore Capital Corp.

84 A.3d 954 (Del. 2014) · Decided January 21, 2014

SUMMARY

The Delaware Supreme Court affirmed the Court of Chancery's refusal to permit claims alleging that directors breached fiduciary duties by declining to repurchase a minority stockholder's shares at a more favorable price. The court held that directors of a closely held corporation have no general fiduciary duty to repurchase minority shares, and that the shareholders' agreement imposed no duty to negotiate or pay full value. The court also held that the implied covenant of good faith and fair dealing could not add terms omitted from the agreement, while noting that the allegations might support a fraud-in-the-inducement theory that had not been presented.

CASE DETAILS

COURT	Supreme Court of Delaware
WRITING FOR THE COURT	Berger, Justice; Berger; Holland; Jacobs; Ridgely; Witham
JURISDICTION	Delaware
DECIDED	January 21, 2014
DISPOSITION	affirmed
PROCEDURAL POSTURE	Appeal from the Court of Chancery's denial of leave to amend the complaint to add fiduciary-duty and implied-covenant claims, and grant of summary judgment on the implied-covenant claim.
STANDARD OF REVIEW	The Supreme Court reviewed the denial of leave to amend for futility under the Rule 12(b)(6) dismissal standard. It assumed arguendo that the implied-covenant issue should be reviewed under Court of Chancery Rule 15(a), but concluded that amendment would be futile.
PRECEDENTIAL VALUE	published precedential Delaware Supreme Court opinion
PARTIES	Susan M. Blaustein v. Lord Baltimore Capital Corp., Louis B. Thalheimer

TOPICS

corporate governance · fiduciary duty · shareholder derivative suits · implied covenant of good faith · appellate procedure

PRACTICE AREAS

corporate law | contracts | appellate procedure | commercial litigation

QUESTIONS PRESENTED

1. Whether directors of a closely held corporation owe a common-law fiduciary duty to consider and negotiate a repurchase of a minority stockholder's shares through a non-conflicted board process.
2. Whether Blaustein stated a direct fiduciary-duty claim based on the directors' refusal to negotiate a repurchase at a more favorable price.
3. Whether Blaustein stated a derivative fiduciary-duty claim where she made no demand and alleged only conclusory demand-futility facts.
4. Whether the implied covenant of good faith and fair dealing supplied a contractual right to good-faith negotiation or a full-value repurchase when the shareholders' agreement gave the company and stockholder discretion over whether and at what price to repurchase shares.

HOLDINGS

1. Directors of a closely held corporation have no general fiduciary duty to repurchase the stock of a minority stockholder, and a minority stockholder has no inherent right to sell shares to the company at full value or any other price.
2. The alleged self-interest of the directors did not establish a direct fiduciary-duty claim because Blaustein had no right to demand a repurchase, a full-value price, or a non-conflicted board process under common law or the shareholders' agreement.
3. A stockholder cannot maintain a derivative claim without pleading either a wrongful refusal of demand or demand futility with particularity; the mere existence of a control group is insufficient to excuse demand.
4. The implied covenant of good faith and fair dealing does not create a duty to negotiate a reasonable repurchase price or a right to a full-value repurchase where the contract expressly gives the parties discretion whether and at what price to complete the transaction.

KEY QUOTATIONS

> *"Under common law, the directors of a closely held corporation have no general fiduciary duty to repurchase the stock of a minority stockholder."* (84 A.3d at 958)

> *"The implied covenant of good faith and fair dealing cannot be employed to impose new contract terms that could have been bargained for but were not."* (84 A.3d at 959)

FACTUAL BACKGROUND

Blaustein acquired shares in the closely held Delaware corporation Lord Baltimore Capital Corporation under a shareholders' agreement containing a permissive stock-repurchase provision. After a ten-year period, she attempted to sell her shares, asserting that Louis Thalheimer had orally promised she could withdraw at full value. Thalheimer and the board would offer no more than a price reflecting a 52% discount from net asset value, and Blaustein alleged that the Thalheimer directors were conflicted because of personal tax interests.

PROCEDURAL HISTORY

Blaustein sued Lord Baltimore and Louis Thalheimer in the Court of Chancery for promissory estoppel, breach of fiduciary duty, and breach of the implied covenant of good faith and fair dealing. The Court of Chancery dismissed all claims except the implied-covenant claim, later granted summary judgment on that claim, and denied Blaustein leave to amend to add new fiduciary-duty and implied-covenant claims. The Delaware Supreme Court affirmed.

DISPOSITION

affirmed

CASES CITED

- Tooley v. Donaldson, Lufkin & Jenrette, Inc., 845 A.2d 1031, 1033 (Del. 2004)
- Nemec v. Shrader, 991 A.2d 1120 (Del. 2010)
- Nixon v. Blackwell, 626 A.2d 1366 (Del. 1993)
- Cartanza v. Lebeau, 2006 WL 903541, at *2 (Del. Ch. Mar. 28, 2006)
- Stone ex rel. AmSouth Bancorporation v. Ritter, 911 A.2d 362, 370 (Del. 2006)
- Aronson v. Lewis, 473 A.2d 805, 815 (Del. 1984)
- Aronson v. Lewis, 473 A.2d 805, 817 (Del. 1984)
- Khanna v. McMinn, 2006 WL 1388744, at *15 (Del. Ch. May 9, 2006)
- Gerber v. Enterprise Products Holdings, LLC, 67 A.3d 400, 418 (Del. 2013)
- Zim v. VLI Corp., 681 A.2d 1050, 1060-1061 (Del. 1996)
- Blaustein v. Lord Baltimore Capital Corp., 2012 WL 2126111 (Del. Ch. May 31, 2012)
- Blaustein v. Lord Baltimore Capital Corp., 2013 WL 1810956 (Del. Ch. Apr. 30, 2013)