SUPREME COURT OF DELAWARE

Gantler v. Stephens

965 A.2d 695 (Del. 2009) · No. No. 132, 2008 · Decided January 27, 2009

SUMMARY

The Delaware Supreme Court reviewed the dismissal of a shareholder breach-of-fiduciary-duty action involving First Niles Financial's rejection of potential merger offers, a proposed share reclassification, and alleged proxy-disclosure deficiencies. The court held that the complaint adequately alleged facts sufficient to overcome the business judgment presumption and state fiduciary-duty and disclosure claims. The court reversed the Court of Chancery's dismissal and remanded for further proceedings.

CASE DETAILS

COURT	Supreme Court of Delaware
WRITING FOR THE COURT	Jacobs, Justice; Steele, Chief Justice; Holland, Justice; Berger, Justice; Ridgely, Justice
JURISDICTION	Delaware
DECIDED	January 27, 2009
DOCKET	No. 132, 2008
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Shareholders appealed the Court of Chancery's dismissal under Court of Chancery Rule 12(b)(6) of claims alleging breaches of fiduciary duty and disclosure duties arising from the rejection of merger offers and approval of a share reclassification.
STANDARD OF REVIEW	De novo review of a Rule 12(b)(6) dismissal. Dismissal is proper only when it appears with reasonable certainty that, under any set of facts that could be proven to support the claims, the plaintiff would not be entitled to relief; well-pleaded allegations are accepted as true and reasonable inferences are drawn in favor of the nonmoving party.
PRECEDENTIAL VALUE	Published Delaware Supreme Court opinion; precedential and decided en banc.
PARTIES	Leonard T. Gantler, Patricia A. Cetrone, John Gernat, Patricia Gernat, Paul Mitchell, Marsha Mitchell v. William L. Stephens, P. James Kramer, William S. Eddy, Daniel E. Csontos, Robert I. Shaker, Lawrence Safarek, First Niles Financial, Inc.

TOPICS

fiduciary duty · duty of loyalty · business judgment rule · corporate governance · appellate procedure

PRACTICE AREAS

Delaware corporate law · fiduciary duty litigation · shareholder litigation · mergers and acquisitions · appellate procedure

QUESTIONS PRESENTED

1. Whether the complaint adequately pleaded that the directors breached their fiduciary duty of loyalty by sabotaging the sales process, rejecting a merger offer, and terminating the process for self-interested reasons.
2. Whether the Court of Chancery properly applied the business judgment presumption rather than entire fairness review to the directors' alleged disloyal conduct.
3. Whether corporate officers owe fiduciary duties of care and loyalty identical to those owed by directors under Delaware law.
4. Whether the proxy statement's representation that the board carefully deliberated before rejecting a merger offer was materially misleading.
5. Whether shareholder approval ratified the challenged reclassification when shareholder approval was statutorily required and the proxy statement was alleged to be materially misleading.

HOLDINGS

1. The complaint adequately pleaded facts supporting a reasonable inference that a majority of First Niles's directors acted disloyally to preserve personal positions, compensation, or outside business interests. Those allegations rebutted the business judgment presumption and stated a cognizable fiduciary-duty claim.
2. Unocal enhanced scrutiny did not apply because the complaint did not allege defensive action taken in response to a hostile takeover or similar external threat.
3. Corporate officers of Delaware corporations owe fiduciary duties of care and loyalty identical to those owed by corporate directors.
4. The complaint adequately alleged that the proxy statement was materially misleading because it represented that the board had carefully deliberated before rejecting the First Place merger offer, although the complaint alleged that the board rejected the offer without discussion.
5. The shareholder vote did not ratify the challenged reclassification because shareholder approval was statutorily required and the proxy statement was alleged to contain a material misrepresentation. The common-law shareholder-ratification doctrine is limited to fully informed shareholder approval of director action that does not legally require shareholder approval.

KEY QUOTATIONS

> *“We now explicitly so hold.”* (709)

> *“To restore coherence and clarity to this area of our law, we hold that the scope of the shareholder ratification doctrine must be limited to its so-called "classic" form; that is, to circumstances where a fully informed shareholder vote approves director action that does not legally require shareholder approval in order to become legally effective.”* (713)

> *“Moreover, the only director action or conduct that can be ratified is that which the shareholders are specifically asked to approve.”* (713)

FACTUAL BACKGROUND

First Niles Financial's board initiated a process to sell the company and received bids from several potential purchasers. Company officers and directors allegedly delayed or withheld due diligence materials, rejected a value-enhancing offer without discussion, and pursued a reclassification designed to reduce the number of publicly held common shares and preserve management's positions and related business interests. The board later recommended the reclassification in a proxy statement that represented the merger offer had been rejected after careful deliberation, although the complaint alleged that the board had rejected it without meaningful discussion. Shareholders approved the reclassification, but the unaffiliated shareholder vote passed by only a bare majority.

PROCEDURAL HISTORY

The plaintiffs filed an action in the Court of Chancery challenging the defendants' handling of a potential sale of First Niles, the company's reclassification proposal, and the related proxy statement. The Court of Chancery dismissed all claims, applying the business judgment presumption and concluding that shareholder approval ratified the reclassification. The Supreme Court of Delaware reversed the dismissal of all counts and remanded.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The judgment of the Court of Chancery was reversed as to all counts, and the case was remanded for further proceedings consistent with the Opinion.

CASES CITED

- Feldman v. Cutaia, 951 A.2d 727, 730-31 (Del. 2008)
- Dunlap v. State Farm Fire & Cas. Co., 878 A.2d 434, 438 (Del. 2005)
- VLIW Tech., LLC v. Hewlett-Packard Co., 840 A.2d 606, 610-11 (Del. 2003)
- In re General Motors (Hughes) S'holder Litig., 897 A.2d 162, 168 (Del. 2006)
- Unocal v. Mesa Petroleum Co., 493 A.2d 946, 954 (Del. 1985)
- In re Santa Fe Pac. Corp. S'holder Litig., 669 A.2d 59, 68, 71 (Del. 1995)

- Unitrin, Inc. v. Am. Gen. Corp., 651 A.2d 1361, 1372 n.9 (Del. 1995)
- Shamrock Hldgs., Inc. v. Polaroid Corp., 559 A.2d 257, 271 (Del. Ch. 1989)
- Kahn v. MSB Bancorp, Inc., 1998 WL 409355, at *3-*4 (Del. Ch. July 16, 1998), aff'd, 734 A.2d 158 (Del. 1999) (Table)
- Aronson v. Lewis, 473 A.2d 805, 812 (Del. 1984)
- Cinerama, Inc. v. Technicolor, Inc., 663 A.2d 1156, 1162 (Del. 1995)
- McMullin v. Beran, 765 A.2d 910, 917 (Del. 2000)
- Emerald Partners v. Berlin, 726 A.2d 1215, 1221 (Del. 1999)
- TW Servs., Inc. v. SWT Acquisition Corp., 1989 WL 20290, at *10-*11 (Del. Ch. Mar. 2, 1989)
- Pogostin v. Rice, 480 A.2d 619, 627 (Del. 1984), overruled on other grounds by Brehm v. Eisner, 746 A.2d 244 (Del. 2000)
- Brehm v. Eisner, 746 A.2d 244 (Del. 2000)
- Ryan v. Gifford, 935 A.2d 258, 266 (Del. Ch. 2007)
- Guth v. Loft, Inc., 5 A.2d 503, 510 (Del. 1939)
- Cede & Co. v. Technicolor, Inc., 634 A.2d 345, 361 (Del. 1993)
- Stroud v. Grace, 606 A.2d 75, 84-85 (Del. 1992)
- Arnold v. Soc'y for Sav. Bancorp, Inc., 650 A.2d 1270, 1277, 1280 (Del. 1994)
- In re Staples, Inc. S'holders Litig., 792 A.2d 934, 953-54 (Del. Ch. 2001)
- State of Wisc. Inv. Bd. v. Bartlett, 2000 WL 238026, at *8 (Del. Ch. Feb. 24, 2000)
- McMillan v. Intercargo Corp., 1999 WL 288128, at *9 (Del. Ch. May 3, 1999)
- In re Wheelabrator Technologies, Inc. S'holders Litig., 663 A.2d 1194, 1202 & n.4 (Del. Ch. 1995)
- Solomon v. Armstrong, 747 A.2d 1098, 1114-15 (Del. Ch. 1999), aff'd, 746 A.2d 277 (Del. 2000) (Table)
- Smith v. Van Gorkom, 488 A.2d 858, 889-90 (Del. 1985)
- Michelson v. Duncan, 407 A.2d 211, 219 (Del. 1979)
- Harbor Fin. Partners v. Huizenga, 751 A.2d 879, 896 (Del. Ch. 2000)
- Williams v. Geier, 671 A.2d 1368, 1379 n.24 (Del. 1996)