

IDT, Founder Beat Lawsuit Over \$3.1 Billion Straight Path Deal

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- Judge cites ‘flagrant breaches’ by IDT chairman Howard Jonas
- But ‘manifestly unfair’ maneuvers did investors no actual harm

IDT Corp. and founder Howard Jonas on Tuesday defeated shareholder litigation over the \$3.1 billion sale of an affiliate, Straight Path Communications Inc., to Verizon Communications Inc.

Vice Chancellor Sam Glasscock III issued a complex 83-page ruling criticizing Jonas for manipulating the transaction but finding that his wrongdoing didn’t inflict any harm on minority investors. The judge awarded “nominal damages” to the shareholder leading the case without specifying an amount. Nominal damages—meant to show which side was right in principle—often take the form of a trivial award such as \$1.

Glasscock, writing for Delaware’s Chancery Court, acknowledged that most of the allegations against Jonas and IDT were proven at trial. But though Jonas “used his control to seize the corporate machinery” and acted in “a manifestly unfair manner” when he settled a legal claim belonging to Straight Path, the claim was so weak that “it had no economic value” in the first place, the judge said.

IDT CEO Shmuel Jonas—a son of Howard, the company’s board chairman—praised the ruling in a statement Tuesday. IDT is “very pleased” that “the charges the plaintiffs advanced for years have now been resolved,” he said.

‘A Flawed Asset’

The lawsuit, filed in 2017, concerned an indemnification clause stemming from Straight Path’s earlier spinoff from IDT that required the former parent company to reimburse certain losses. Before the sale to Verizon, independent members of the Straight Path board began considering ways to preserve an indemnification claim against IDT that could have been worth as much as \$293 million.

Jonas—who had significantly more family wealth in IDT—learned of the plan and, exploiting his

control over Straight Path, got its board to settle the claim for just \$10 million, according to Glasscock's ruling. The maneuver prompted the shareholder claims. The judge let the case move forward several times before presiding over a trial in December 2022.

But he ultimately ruled for Jonas and IDT, stressing that the indemnification claim "was, in many ways, a flawed asset." For one thing, it was an impediment to the Verizon deal, which gave investors a huge windfall, the judge said. Just as importantly, the claim wasn't legally viable, so if the board had successfully set it aside "for Straight Path's stockholders, that asset would have had no value," according to Glasscock.

Although the "bullying" by Jonas led to an unfair transaction tainted by his "flagrant breach of duty," minority investors "therefore suffered no damages as a result of the coerced settlement," the judge said.

Jonas and IDT are represented by Richards, Layton & Finger PA; McCollom D'Emilio Smith Uebler LLC; and Cyrulnik Fattaruso LLP. The investor leading the case, Ardell Howard, is represented by Labaton Sucharow LLP and Bernstein Litowitz Berger & Grossmann LLP.

The case is [In re Straight Path Comms. Inc. Consol. S'holder Litig.](#) , Del. Ch., No. 2017-0486, 10/3/23

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