

Karmanos alleges fraud in new lawsuit against Compuware

By JC Reindl, Detroit Free Press 5:10 p.m. EST November 3, 2015

Peter Karmanos says he cashed out his Compuware stock for well over \$50 million.



(Photo: Salwan Georges Special to the Detroit Free Press)

Peter Karmanos Jr. has filed his own shareholder lawsuit against [Compuware \(http://www.compuware.com/\)](http://www.compuware.com/), the Detroit-based company he founded, claiming a proposed settlement with other Compuware shareholders is too small.

The Karmanos' lawsuit, which also names his four young sons as co-plaintiffs, alleges fraud and blackmail were involved in the company's decision last year to sell itself to private equity firm Thoma Bravo for \$2.4 billion, or \$10.92 per share, a price that Karmanos argues was unfair and that undervalued Compuware.

Peter Karmanos personally received more than \$52.5 million from his Compuware shares -- not including an additional \$16.5 million that he was awarded earlier this year by an arbitrator after Karmanos sued the company for firing him as a consultant and for canceling his remaining stock options. The company is still appealing the \$16.5 million award.

Compuware's board voted to fire Karmanos for cause in response to [profane comments \(http://archive.freep.com/article/20130920/BUSINESS06/309200094/Peter-Karmanos-Goodfellows-Compuware-comments-board-Elliott-Management\)](http://archive.freep.com/article/20130920/BUSINESS06/309200094/Peter-Karmanos-Goodfellows-Compuware-comments-board-Elliott-Management)he made regarding board members and the company's largest shareholder, an activist New York hedge fund called Elliott Management that had sought a sale. Karmanos retired from day-to-day work at Compuware in March 2013.



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[The untold tale of Compuware, Karmanos and a bitter breakup](http://www.freep.com/story/money/2015/07/25/karmanos-compuware-saga-detroit/30464355/)

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The Karmanos lawsuit was filed last week in Wayne County Circuit Court. It seeks unspecified damages and potentially the unwinding of the Compuware - Thoma Bravo deal.

"Frankly, they felt that the settlement did not provide any economic benefit to them," the Karmanos' attorney, Sharon Almonrode of The Miller Law Firm in Rochester, said Tuesday. "It did not address many of the issues that were raised in our complaint, and accordingly, they opted out."

She did not say how much money additional Peter Karmanos believes he and his sons are due.

The Karmanos lawsuit contends that Compuware was worth more than what it sold for and that key information was missing from the materials distributed before the shareholder vote, such as Peter Karmanos' interest in perhaps buying parts of Compuware.

It also accuses the company's largest shareholder -- activist hedge fund Elliott Management -- of having "engaged in blackmail, and the other defendants succumbed to the blackmail instead of reporting it to the relevant authorities."

Besides Compuware, the lawsuit names as defendants former Compuware board members or executives including Gurminder Bedi, Fritz Henderson, William Grabe, Bob Paul and Daniel Follis. Thoma Bravo and Elliott Management are also named.

The sale of Compuware to the Thoma Bravo private equity firm was [overwhelmingly approved \(/story/money/business/michigan/2014/12/09/compuware-shareholders-vote-sale/20142521/\)](http://www.freep.com/story/money/business/michigan/2014/12/09/compuware-shareholders-vote-sale/20142521/) by Compuware shareholders in a December 2014 vote. Prior to the vote, the deal had prompted several shareholder class-action lawsuits that consolidated into one case in Wayne County Circuit Court.

Lawyers on both sides of that case reached an agreement that involved Compuware disclosing additional information before the shareholder vote to show why the deal made sense.

Under the terms of the case's proposed settlement, the plaintiffs' lawyers would declare that the extra information "empowered the shareholders of Compuware to make a fully informed decision" when voting. The settlement is still pending in court. (It also proposes that Compuware pay the plaintiffs' lawyers \$525,000 for their fees.)

But Karmanos is not part of that main shareholder lawsuit. He and his four young sons, who are minors, opted out of the earlier lawsuit to retain their right to file a separate lawsuit. The sons' mother, Danialle Karmanos, is acting as their custodian in the lawsuit.

The alleged blackmail was the compiling of dossiers with information on certain board members by an Elliott Management portfolio manager, including a remark to Compuware's then-CEO Bob Paul about the vintage Aston Martin sports car that Paul kept at home in his garage and that few people knew about.

A Compuware representative said the company doesn't comment on legal matters. Elliott Management said in a statement that "(it) is pleased to have been involved in a process that maximized value for Compuware shareholders." Former CEO Paul did not return a message seeking comment.



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(<http://www.freep.com/story/sports/nhl/red-wings/2015/10/31/peter-karmanos-jr/74948240/>)

Steven Harms, an adjunct professor in business of Walsh College, said shareholder lawsuits are fairly common in corporate deals but can be tough to win.

"They have a steep road to climb in order to prevail," Harms said. "My guess is that as a lawyer for 39 years, more are lost than won."

Since the December sale, Compuware has been split into two main pieces. Its mainframe business is still headquartered in Detroit on the fourth floor of what was formerly known as the Compuware building.

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