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Delaware Chancery Court Provides Clarity on Default Fiduciary Duties Owed by a Manager of a Limited Liability Company

On January 27, the Court of Chancery of the State of Delaware found that a manager of a limited liability company owes traditional fiduciary duties of loyalty and care unless the limited liability company's operating agreement specifically modifies or eliminates such duties.

The case involved claims by the minority members of Peconic Bay, LLC that Peconic's manager breached its fiduciary duties in connection with the manager's purchase of Peconic and the process through which the manager established the price for such sale (which the court described as a "sham auction").

The court noted that the Delaware Limited Liability Company Act (the Act) does not explicitly provide that managers or members of a limited liability company owe fiduciary duties in such roles, but that Section 18-1104 of the Act specifically contemplated an overlay of equitable principles. Because of such application of equitable principles, together with the statutory authority given by Section 18-1101 of the Act to eliminate certain fiduciary duties in an operating agreement and the legislative history of the Act, the court held that traditional fiduciary duties apply to the manager of a limited liability company.

Because Peconic's operating agreement did not expressly modify or eliminate the duties of loyalty or care owed by Peconic's manager, the court held that the manager owed such duties to Peconic's minority members.

Auriga Capital Corporation v. Gatz Properties, LLC and William Gatz, No. 4390-CS (Del. Chanc. January 27, 3012).

Click [here](#) to read the Opinion.