

Corporate & Financial Weekly Digest

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Fiduciary Duty Imputation Case Proceeds to Trial

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The U.S. District Court for the District of New Jersey denied a motion for partial summary judgment, ruling that the contested issue, whether a conceded breach of fiduciary duty by two individual defendants could be imputed to corporate defendants, should go to trial.

The individual defendants, former employees of the plaintiff corporation, created two entities (the corporate defendants in this suit) without the plaintiff's knowledge and during their employment. One of the corporate defendants sold equipment at a profit to the plaintiff. One of the individual defendants was responsible for determining what equipment plaintiff purchased from both the corporate defendant and other companies. The other corporate defendant competed with the plaintiff directly.

The court ruled that based on the interactions between the corporate defendants and the plaintiff, the corporate defendants could not owe the plaintiff a fiduciary duty. However, under New Jersey law, the fiduciary duties owing to the plaintiff by the individual defendants could be imputed to the corporate defendants. The court noted that a number of critical facts remained undeveloped, "including whether and how the individual defendants utilized the corporate veil to facilitate the breach of their duties." Accordingly, because the absence of these facts on the record signaled a genuine issue of material fact, summary judgment was precluded. (*Vibra-Tech Engineers, Inc. v. Kavalek*, No. 08-2646 (NLH), 2011 WL 111417 (D.N.J. Jan. 13, 2011))

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