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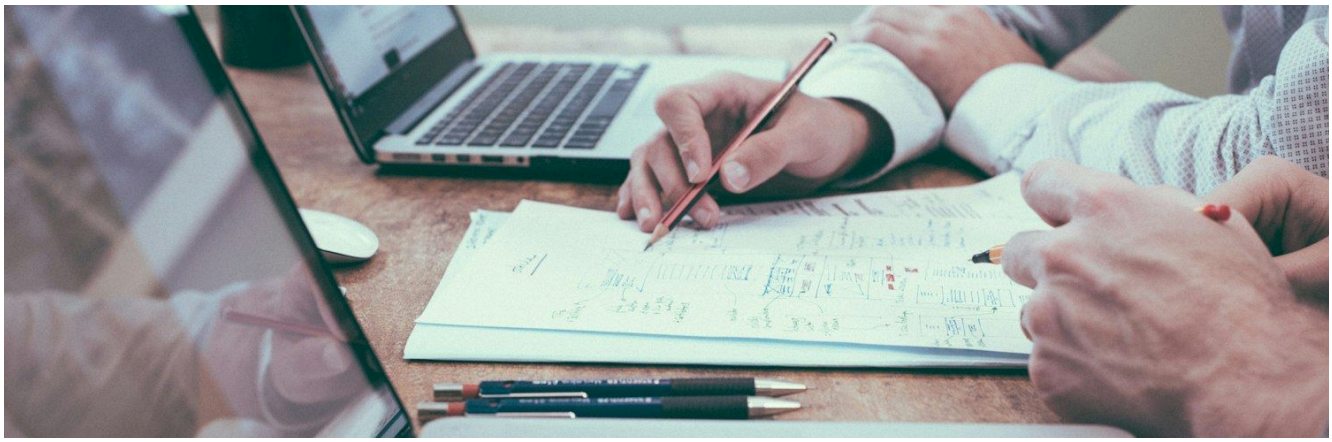
PRACTICE GUIDE · CORPORATE GOVERNANCE

Director and Officer Fiduciary Duties

Grand Park Law Group · 2026



A. **The Duty of Care (Corp. Code § 309)**

Cal. Corp. Code § 309 codifies the duty of care: a director must act "in good faith, in a manner such director believes to be in the best interests of the corporation and its shareholders, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances." Section 309(b) permits good-faith reliance on officers, employees, professionals, and board committees, provided the director has no knowledge that would render reliance unwarranted. Section 309(c) provides that a director who performs the duties of section 309 has no liability based on any alleged failure to discharge those duties.

B. **The Duty of Loyalty**

The duty of loyalty, although not codified with the precision of § 309, is enforced through statutes governing self-dealing transactions (§§ 310, 17704.09(b) for LLC managers) and the doctrines of corporate opportunity and unjust enrichment. Section 310 cleanses interested-director transactions where (i) material facts are disclosed and a majority of disinterested directors or shareholders approves, or (ii) the transaction is "just and reasonable" to the corporation. Loyalty cases frequently turn on candor: failure to disclose a material conflict will defeat the protection of § 310 and strip the transaction of business-judgment deference.

C. **The Business Judgment Rule**

California's business judgment rule has both a common-law branch and a statutory branch. The common-law rule presumes that directors acted on an informed basis, in good faith, and in the honest belief that the action was in the company's best interests. Section 309(c) supplies the statu-

tory analog. The presumption is rebutted by evidence of fraud, bad faith, conflict of interest, or gross negligence — but, importantly, courts will not second-guess the substantive merits of a decision insulated by the rule.

D. **Ahmanson Controlling-Shareholder Duties**

In *Jones v. H.F. Ahmanson & Co.* (1969) 1 Cal.3d 93, the California Supreme Court held that majority shareholders in a closely-held corporation owe fiduciary duties of "good faith and inherent fairness" to the minority. *Ahmanson* arose from a controlling group's creation of a holding company that captured the public-trading premium of the savings-and-loan to the exclusion of minority holders. The decision is the doctrinal cornerstone for California freeze-out and oppression litigation: where controllers use their power to confer benefits on themselves to the exclusion of, or in disproportion to, the minority, the burden shifts to the controllers to prove the **inherent fairness** of the transaction. *Ahmanson* duties extend to controlling members of LLCs and managing members under analogous reasoning. *See also Stephenson v. Drever* (1997) 16 Cal.4th 1167 (extending close-corporation protections to a former employee-shareholder whose buy-sell rights survived termination).

Practice	Corporate Governance
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