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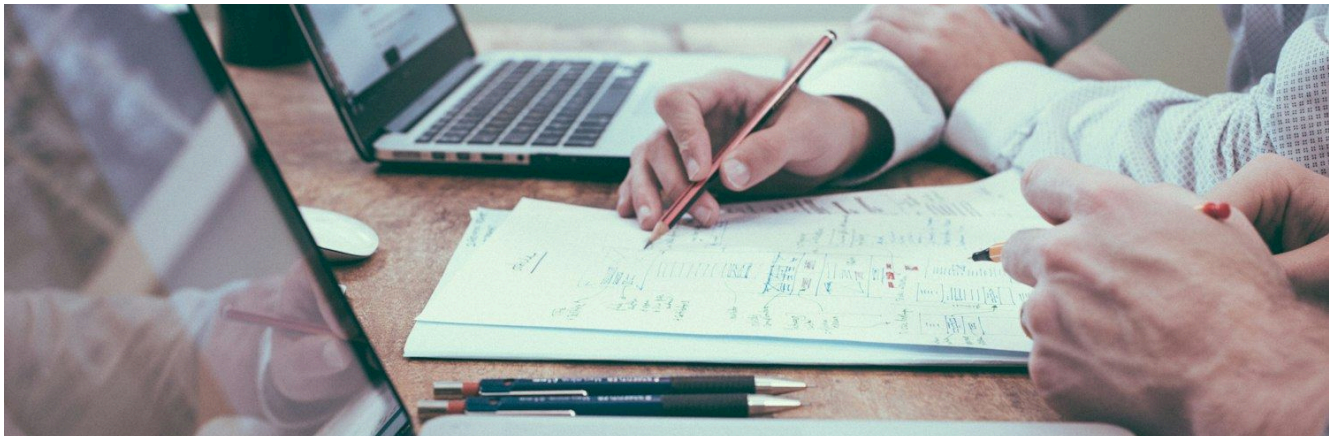
PRACTICE GUIDE · CORPORATE GOVERNANCE

Partnership and LLC Disputes

Grand Park Law Group · 2026



A. Operating Agreement Enforcement

The operating agreement is the controlling document for most LLC disputes. RULLCA gives the agreement broad authority — it can allocate management, define distributions, customize voting, restrict transfers, and modify default fiduciary duties (within the limits of § 17701.10(c)). California courts enforce operating-agreement provisions like contracts, applying ordinary principles of contract interpretation, the parol evidence rule, and the implied covenant of good faith and fair dealing. Where the agreement is silent, RULLCA's default rules govern. Where the agreement conflicts with a non-waivable RULLCA provision, the statute controls.

B. Manager / Managing-Member Fiduciary Claims

Managers of manager-managed LLCs and managing members of member-managed LLCs owe fiduciary duties of loyalty and care under § 17704.09. The duty of loyalty includes the obligations to account for property, profits, and benefits derived from LLC transactions, to refrain from dealing with the LLC as or on behalf of an adverse party, and to refrain from competing with the LLC in the conduct of its activities. *Feresi v. The Livery, LLC* (2014) 232 Cal.App.4th 419, applied these principles to invalidate a self-dealing transaction in which a managing member had encumbered LLC property to secure a personal debt without proper disclosure or consent — a paradigmatic loyalty breach. *Feresi* also emphasized that the implied covenant of good faith and fair dealing operates as a backstop where the operating agreement does not specifically prohibit the conduct at issue.

C. Member Expulsion and Dissociation Buyouts

RULLCA permits expulsion of a member by court order under § 17706.02(e) for (i) conduct related to LLC activities that materially and adversely affects the LLC, (ii) a willful or persistent material breach of the operating agreement or duty of good faith, or (iii) conduct making it not reasonably practicable to carry on the LLC with the member. Following dissociation, the dissociated member is entitled to the buyout and accounting rights specified in the operating agreement; if the agreement is silent, the LLC is not required by default to redeem the dissociated interest, but the member may pursue § 17707.03 dissolution and the resulting fair-value buyout.

D. Capital Account and Distribution Disputes

Capital accounts, distribution waterfalls, and tax allocations are common flashpoints. Disputes typically arise from (i) disproportionate distributions to insiders disguised as "guaranteed payments" or "consulting fees"; (ii) capital calls structured to dilute non-contributing members below operating-agreement thresholds; and (iii) mid-stream amendments to the distribution waterfall. The implied covenant, *Ahmanson*-style controlling-member duties, and § 17704.09 loyalty obligations all bear on these disputes. Discovery in such cases is heavily document-driven: K-1s, capital-account ledgers, distribution histories, and tax returns are the workhorses.

Practice	Corporate Governance
Topics	LLC & Partnership Disputes · Fiduciary Duty
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