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Law Firm Retained to Represent LLC Owes No Duty to Owner or Officer of LLC

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Reynolds v. Henderson & Lyman, No. 17-1999, 2018 U.S. App. LEXIS 25850 (7th Cir. Sep. 12, 2018)

Brief Summary

The Seventh Circuit Court of Appeals affirmed the grant of summary judgment to defendant law firm on the basis that the law firm did not have an attorney-client relationship or owe a duty to a co-owner and manager of an LLC.

Complete Summary

Plaintiff was the co-owner and manager of an LLC. He filed suit against the defendant law firm for legal malpractice. According to the plaintiff, the defendant firm provided him with bad advice causing him to violate federal laws when he drafted the LLC's financial statements. Plaintiff never asked the law firm, however, to represent him personally. Instead, the defendant only represented the LLC. The district court granted summary judgment in favor of the defendant because plaintiff did not have a personal attorney-client relationship with defendant. Plaintiff appealed. His primary argument on appeal was that he was essentially a third-party beneficiary to the attorney-client relationship. Plaintiff's reasoning was that his personal interests were very closely tied to the interests of the LLC, such that their interests were indistinguishable.

The Seventh Circuit affirmed the district court's decision and relied on longstanding Illinois law that have consistently held that neither shared interests, nor shared liability give rise to third-party liability. Third party liability in Illinois requires a plaintiff to have been a direct and intended beneficiary. It is not enough that the officers or owners of a business entity are at risk of personal liability to morph the benefits of a law firm's representation of a business into direct and intended benefits for the owners or officers. Lawyers and law firms only owe a duty of care to those whom they were hired for the primary purpose of benefitting. Illinois courts have consistently held that when a law firm is hired to represent a business entity, the representation is to benefit the business entity, not the owners or officers.

The Seventh Circuit went on to explain that they cannot change Illinois law, but even if they could, the Court agreed with the law. Holding otherwise would begin to erode the purpose of an LLC or business in the first place—an owner or officer cannot use the legal protections of an LLC, but then "cast them aside"

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when it comes to attorney-client relationships. The court thus concluded that the plaintiff failed to demonstrate an attorney-client relationship or a duty owed to him to support his legal malpractice claim. Under well-settled Illinois law, a plaintiff must prove five elements to prevail on a claim for legal malpractice: "(1) an attorney-client relationship; (2) a duty arising out of that relationship; (3) a breach of that duty; (4) causation; and (5) actual damages." *Wash. Grp. Int'l, Inc. v. Bell, Boyd & Lloyd, LLC*, 383 F.3d 633, 636 (7th Cir. 2004) (quoting *Griffin v. Goldenhersh*, 323 Ill.App.3d 398, 404 (2001)).

Plaintiff also argued on appeal that a jury was required to decide whether a duty was owed in a professional negligence matter. However, federal law holds that the question of whether a duty exists is a question of law for the judge. And, even if duty were a question for a jury, Illinois law holds that representation of a business entity is for the benefit of the business, not the owners and officers, which was again fatal to plaintiff's alleged claim.

Finally, plaintiff argued there was a breach of contract claim against the defendant, but the Seventh Circuit determined that the claim was duplicative and failed for the same reason: there was no contract with plaintiff, only the LLC and not for the benefit of plaintiff.

Significance of Opinion

With this decision, the Seventh Circuit reaffirmed longstanding Illinois law—you must have an attorney-client relationship to support a malpractice claim, and a law firm retained to represent an LLC owes no duty to an owner or manager of the LLC.

For more information, please contact Terrence P. McAvoy or Alyssa Johnson.

Reddick v. Suits, 2011 IL App (2d) 100480, ¶ 44.
Schechter v. Blank, 254 Ill.App.3d 560, 564 (1993).
Dunn v. Menard, Inc., 880 F.3d 899, 906 (7th Cir. 2018).