

Lawsuit Alleges Breaches of Fiduciary Duty and Failure to Properly Disclose Related Party Transactions for Personal Aircraft

March 16, 2015 | Client Update | 2-minute read

A derivative suit filed in the United States District Court for the Western District of Washington alleges that Nordstrom violated securities laws in not fully disclosing aircraft-related costs in its proxy statements and that the board breached its fiduciary duties in approving the related party transactions without analyzing the actual expenses.

Nordstrom maintained an aviation department for its two company planes and eight personal planes owned by members of the Nordstrom family. According to the complaint, for many years the proxy statements have disclosed that the company charged the Nordstrom family market prices for these related party services, and that the payments received from the Nordstrom family exceed the estimated cost to the company of providing these services.

Plaintiff and counsel sought and obtained the company's books and records, and now alleges that the board "has never conducted any analysis of the costs of providing the services to the Nordstrom family." Specific costs figures that the plaintiff cites are redacted in the complaint, but it appears that there were perhaps 12 pilots and a team of maintenance, office and administrative staff to manage planes, schedule flights, and keep detailed records for tax reporting and other purposes.

The complaint alleges that the Governance Committee did not seek a full accounting of the costs prior to approving the transactions, and the Nordstrom family did not properly pay the proportion of the costs related to the time that the pilots and ground maintenance crew spent attending to the Nordstrom family and their personal planes, in addition to the administrative assistance. The 2014 proxy statement stated that the cost estimates were based on a survey conducted by a "leading independent aircraft research company of competitive market rates."

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.