

Business law/partnerships/limited liability company/fiduciary duties to partners/business restructuring/conversion

*Lach v. Man O' War, LLC* (2005-SC-001014-DG, Supreme Court 2008)

A dispute arose in a limited partnership after the relationship between one of the general partners and a limited partner deteriorated. The limited partnership was formed for the purpose of leasing and developing shopping centers. The only other general partner was terminally ill with cancer and desperately tried to resolve the dispute for the benefit of the business before his death. He attempted to solve the matter by proposing the appointment of two new general partners who would replace him after his death. The disgruntled limited partner refused to agree to the proposal. The general partners decided the best course of action was to restructure the partnership. A new LLC was formed and the partnership transferred its interest to the LLC. After the transfer occurred, the original partnership was dissolved and its assets were transferred to the partners in the same proportion as their previous ownership. Not happy with the decision, the disgruntled limited partner refused to sign a document ratifying the restructuring and as result lost her voting right in the LLC. Her profit sharing interest remained the same but she could no longer vote on any management issues. Upset with the action taken by the majority of the owners she filed suit alleging invalid conversion and breach of fiduciary duties. MGM represented a general partner. Both the trial and appellate courts ruled in favor of the newly formed LLC and the general partners, finding that the restructuring did not amount to conversion and that the action taken by the majority of owners was actually carried out to preserve the best interest of all of the owners. The Court also found that no fiduciary duties had been breached and that the restructuring had been within the powers of the general partners. Ultimately, the Supreme Court reversed the ruling creating the first published law in Kentucky on limited liability companies.