SUPREME COURT OF MONTANA

Pankratz Farms, Inc. v. Pankratz

2004 MT 180 (2004) · No. 02-707 · Decided July 13, 2004

SUMMARY

The Montana Supreme Court reviewed a dispute among family members concerning a farming and ranching operation organized through partnerships and a corporation. The Court held that, after finding statutory grounds for dissolution, the district court was required to dissolve and wind up the partnership under Montana law rather than order a buyout of one partner's interest. It reversed in part and remanded for liquidation, a full accounting, and distribution of the partnership's net assets, while addressing related issues concerning fiduciary duties, wrongful discharge, and attorney fees.

CASE DETAILS

COURT	Supreme Court of Montana
WRITING FOR THE COURT	Justice Jim Rice; Justice John Warner; Justice W. William Leaphart; Justice Patricia O. Cotter; Justice Jim Regnier
JURISDICTION	Montana
DECIDED	July 13, 2004
DOCKET	02-707
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Marvin Pankratz appealed from consolidated bench-trial findings, conclusions, and judgment concerning partnership dissolution, valuation, fiduciary-duty claims, wrongful discharge, shareholder oppression, evidentiary issues, and appointment of a special master. Pankratz Farms, Inc. and the Partnership cross-appealed the denial of attorney fees and costs.
STANDARD OF REVIEW	Findings of fact are reviewed for clear error; conclusions of law are reviewed for correctness; evidentiary rulings are reviewed for abuse of discretion; appointment of a special master is reviewed for abuse of discretion.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Marvin Pankratz, Pankratz Farms, Inc., Pankratz Brothers, Pankratz Grain, Pankratz Trucking, David Pankratz, Donald Pankratz, Kenneth Pankratz, James Pankratz v. Pankratz Farms, Inc., Marvin Pankratz,

Pankratz Brothers, Pankratz Grain, Pankratz Trucking, David Pankratz, Donald Pankratz, Kenneth Pankratz, James Pankratz

TOPICS

partnership law | dissolution | fiduciary duty | wrongful termination | statutory interpretation

PRACTICE AREAS

partnership law | corporate law | commercial litigation | employment law | remedies

QUESTIONS PRESENTED

1. Whether the District Court was required to dissolve and wind up the Partnership after finding statutory grounds for judicial dissolution.
2. Whether the District Court properly determined Marvin's fractional partnership interest and accounted for attorney fees and expenses.
3. Whether Marvin was equitably estopped from claiming damages arising from the formation of Pankratz Grain and its leasing of Partnership property.
4. Whether the District Court properly dismissed Marvin's wrongful-discharge and shareholder-oppression claims.
5. Whether the appointment of the special master and challenged evidentiary rulings were proper.
6. Whether the Corporation and Partnership were entitled to attorney fees and costs.

HOLDINGS

1. When a district court finds grounds for judicial dissolution under section 35-10-624(5), MCA, the statute requires dissolution and winding up of the partnership; the court may not instead compel a partner to sell his interest while allowing the Partnership to continue.
2. The Court did not reach the merits of the valuation sub-issues because the Partnership must be dissolved and wound up; on remand, the District Court must conduct a full accounting of the Partnership's assets and obligations.
3. The District Court correctly determined that Marvin retained a one-sixth, or 16 percent, interest in the Partnership because he knew of the negotiations to purchase Larry's interest and did not participate, and the transaction did not mortgage Marvin's interest or obligate him to Larry.
4. Marvin was equitably estopped from claiming damages resulting from the formation of Pankratz Grain or its subsequent leasing of Partnership property because all six elements of equitable estoppel were established by clear and convincing evidence.
5. The District Court properly dismissed Marvin's wrongful-discharge claim because the salary reduction did not terminate his employment and his failure to perform reasonable assigned duties supplied good cause for the later termination.

6. The District Court properly dismissed the shareholder-oppression claim because the corporation's conduct was not harsh, dishonest, or wrongful and did not constitute a departure from fair dealing.
7. The District Court did not abuse its discretion by appointing Duane Smith as special master because he had the necessary accounting expertise and was subject to professional accounting standards and limited court-defined duties.
8. The Corporation was entitled to statutory costs as the prevailing party, the Partnership was not entitled to costs because it had to be dissolved, and neither entity was entitled to attorney fees under Montana's equitable exception to the American Rule.

KEY QUOTATIONS

> *"Here, § 35-10-624(5), MCA, clearly requires dissolution and winding up of a partnership upon entry of a judicial decree, which has been issued upon the application of a partner, finding that the economic purpose of the partnership is likely to become unreasonably frustrated, or that it is not otherwise reasonably practicable to carry on the partnership in conformity with the partnership agreement."* (¶ 51)

> *"Because estoppel is based upon the equitable principle that a party cannot, through his intentional conduct, act, or omission, induce another party to unknowingly and detrimentally alter its position, and then subsequently deny the just and legal consequences of his conduct, act, or omissions, see § 26-1-601, MCA, and each of the six elements of equitable estoppel have been satisfied, we hold the District Court did not err in concluding Marvin was estopped from claiming damages as a result of the formation of Grain or its subsequent leasing of Partnership property."* (¶ 69)

> *"Affirmed in part, reversed in part, and remanded for further proceedings consistent with this opinion."* (¶ 95)

FACTUAL BACKGROUND

The Pankratz family operated farming and ranching businesses through a corporation and several partnerships. Marvin owned a one-sixth interest in the Partnership and was employed by the Corporation until his employment was terminated after he failed to perform assigned duties. After Marvin refused to sign documents needed to preserve federal farm-program benefits, the other partners formed Pankratz Grain and transferred operational activity to it, using Partnership property. The resulting conflict led to claims for breach of the partnership agreement, fiduciary-duty violations, wrongful discharge, oppression, dissolution, and an accounting.

PROCEDURAL HISTORY

Pankratz Farms, Inc. sued Marvin for possession of a farm house, and Marvin counterclaimed for wrongful discharge and shareholder oppression. Marvin later filed claims against the corporation, several partnerships, and family members for breach of the partnership agreement, fiduciary-duty violations, conversion, and fraud, seeking dissolution, accounting, and equitable relief; the actions were consolidated. After a bench trial with an advisory jury, the District Court found grounds for partnership dissolution but ordered Marvin to sell his interest to the Partnership rather than dissolve and liquidate it. The Supreme Court affirmed portions of the judgment, reversed the buyout order, and remanded for dissolution, winding up, liquidation, accounting, and determination of the corporation's costs.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Reverse the order requiring Marvin to sell his one-sixth Partnership interest. Remand for proceedings under the Revised Uniform Partnership Act to dissolve and wind up the Partnership, liquidate its assets, satisfy Partnership obligations, distribute the net surplus in cash according to the partners' interests, and conduct a full accounting. Determine the Corporation's recoverable costs on remand.

CASES CITED

- Hidden Hollow v. Field, 2004 MT 153, 321 Mont. 505
- Ray v. Nansel, 2002 MT 191, 311 Mont. 135, 53 P.3d 870
- McCormick v. Brevig, 2004 MT 179, 322 Mont. 112
- Schuff v. A.T. Klemens & Son, 2000 MT 357, 303 Mont. 274, 16 P.3d 1002
- Selley v. Liberty Northwest Ins. Corp., 2000 MT 76, 299 Mont. 127, 998 P.2d 156
- Jarvenpaa v. Glacier Electric Co-Op, Inc., 271 Mont. 477, 898 P.2d 690 (1995)
- Fox v. 7L Bar Ranch Co., 198 Mont. 201, 645 P.2d 929 (1982)
- Maloney v. Home and Investment Center, Inc., 2000 MT 34, 298 Mont. 213, 994 P.2d 1124
- Schweiker v. McClure, 456 U.S. 188, 102 S. Ct. 1665, 72 L. Ed. 2d 1 (1982)
- Foy v. Anderson, 176 Mont. 507, 580 P.2d 114 (1978)
