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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Gas Co., Investors Reach Deal On Corporate Conversion Plan

By **Jeff Montgomery**

Law360 (June 25, 2018, 8:40 PM EDT) -- Legacy Reserves LP and public investors reported a tentative settlement Monday in a Delaware Chancery Court dispute over the gas producer's corporate conversion plan, with preferred unitholders to receive extra shares potentially worth tens of millions of dollars after challenging threatened losses under the plan's initial terms.

With a ruling on a preliminary injunction still pending, the investors' attorney Carmella P. Keener of Rosenthal Monhait & Goddess PA told Vice Chancellor J. Travis Laster that the two sides had "reached an agreement to resolve these matters," outlined in a memorandum of understanding filed with the court.

Under the plan, the oil and gas well master limited partnership would grant preferred unitholders roughly 49 percent to 69 percent more shares in a proposed new "C corporation" than the plan presented to investors in March, depending on the category of units held.

Based on the closing, \$6.70-per-unit public price for Legacy on Monday, the 10.3 million extra shares would be worth about \$71.9 million, although the energy company's price fluctuates daily and market pricing of Legacy corporation shares, rather than LP units, has not been established.

Legacy said in a company statement that it "entered into the memorandum of understanding solely to avoid the costs, disruption, delay and distraction of further litigation, and without admitting the validity of any allegations made in the complaints in the actions."

Attorneys for the investors said in the MOU that they believe the unitholders' claims have merit "but recognize that the defendants would continue to assert legal and factual defenses to their claims."

Earlier this month, Carol S. Shahmoon of CSS Legal Group PLLC, an attorney for the investors, argued during a preliminary injunction hearing that Legacy's original conversion plan "adjusted" as much as \$280 million in capital holdings by "just wiping that out." Shahmoon later characterized the potential conversion as a "massive transfer of wealth."

The figure represented the loss of an estimated \$42 million in undistributed dividends as well as the total value of the \$25-per-unit liquidation buyout payment the investors argued they would be owed for millions of units if Legacy tried to convert them to common shares trading at far lower rates.

In addition to the changed conversion rate agreement, the MOU provided broad releases from liability claims, and included an agreement by attorneys for the unitholders to work for a stay and eventual dismissal of a separate investor suit targeting the same conversion terms in the District Court for Midland County, Texas.

During the preliminary injunction hearing on June 4, Shireen A. Barday of Kirkland & Ellis LLP, counsel for Legacy, told Vice Chancellor Laster that the company's master limited partnership structure had fallen out of favor with investors, with a conversion to a corporation needed to assure better access to capital and other benefits.

Barday said "the balance of hardship falls firmly in favor" of Legacy, given its need to improve its

access to capital markets and investment options.

During the same arguments, Vice Chancellor Laster asked Barday to explain why the partnership could avoid offering the original liquidation redemption rather than a forced conversion under the general partner's plan.

"Why doesn't it follow from that that you can't do this?" Vice Chancellor Laster asked. "If you don't have the ability to do that to which I'm entitled, why do you get to give me something else?"

The preferred unitholders are represented by Carmella P. Keener of Rosenthal Monhait & Goddess PA and Carol S. Shahmoon and Gregory E. Keller of CSS Legal Group PLLC.

Legacy Reserves and its affiliates are represented by Gregory V. Varallo, Robert L. Burns, Matthew W. Murphy and Diana Juskowicz of Richards Layton & Finger PA, and Yosef J. Riemer, Shireen A. Barday, Mark B. Salomon and Jonathan G.C. Fombonne of Kirkland & Ellis LLP

The case is In Re Legacy Reserves LP Preferred Unitholder Litigation, case number 2018-0225, in the Court of Chancery of the State of Delaware.

--Additional reporting by Rachel Graf. Editing by Aaron Pelc.

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