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Business

"It's a shame family disputes get to this point."

Jack Gay, attorney for Lees Inn owner Lester Lee



MATT KRYGER / The Star

COLD COMFORT: Brothers Robert Lee (left) and Donald Lee (right), with attorney David Wright, won a \$7.5 million judgment for their father's trust. A judge ruled their uncle, Lester Lee, manipulated the family business.

A fractured family business

LEGAL FIGHT CLAIMS BROTHER TORE CLAN APART BY WRESTING CONTROL OF MOTEL CHAIN, USING IT FOR HIS OWN INTERESTS

By John Russell

john.russell@indystar.com

Lester and William Lee's motel business was off to a modest start. Despite having built a handful of budget inns in small towns around Indiana, they didn't have much to show for a decade worth of work.

So the Lees called a family meeting in the mid-1980s and committed to making the company something bigger.

"The way I remember, the comment was made: 'Let's go for broke,'" said Robert Lee, son of one of the founders.

So the close-knit family went to work on that strategy, setting off to build motels in towns across Indiana and three other states. And it paid off — until it tore apart the family.

The two brothers from a small town in Southern Indiana built Lees Inns of America into a discount motel chain with revenues of \$20 million. Then Lester began to push his brother out of the picture. And William's sons fought their uncle in court, claiming he was squeezing their side of the family out of the business.

How the company grew and then struggled provides a glimpse into how even a tight-knit family business can run into big problems when one member or another wants control.

It also shows how minority shareholders in a small business can fight back if they think they



LEES INNS OF AMERICA

» **HEADQUARTERS:** North Vernon, Ind.

» **PRESIDENT:** Lester Lee.

» **FOUNDED:** 1974.

» **DESCRIPTION:** A chain of budget motels, numbering more than 20 in four states at its peak.

» **REVENUES:** Not disclosed. In the company's best year, 1996, it earned \$1.5 million in profits on revenues of more than \$20 million, according to former treasurer Donald Lee.

» **OTHER INTERESTS:** The company has held interests in various subsidiaries, included Lees Inn Management Corp. (management services), Hospitality Designers and Consultants (provider of interior design services), Prime Construction Management (construction services) and State Mortgage Corp. (mortgage broker and finance services).

Source: Jennings Circuit Court records

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Fractured

» It's unclear whether the chain has many assets left.

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are getting squeezed.

Starting out

Like many brothers, Lester and William had remarkably different personalities. But the two found a way to blend their skills to make their business work.

Lester, his nephews say, was the extroverted, entrepreneurial brother, skilled as a salesman and dealmaker. And he was ambitious. After graduating from North Vernon High School, Lester went into the Marine Corps, then into farming and construction. He got a real estate license. Over the years, he picked up numerous skills by taking correspondence courses in construction, drafting, accounting and engineering, according to a 1996 profile by the Indiana Chamber of Commerce magazine.

William was the quiet brother, less interested in the public eye, more interested in the nuts and bolts of a business.

The brothers were close. Lester and William bought houses on the same road in the same subdivision that their father, Robert B. Lee, had built. They raised their families in that same neighborhood in North Vernon, a small Indiana town about 50 miles north of Louisville, Ky. They socialized frequently. Every Fourth of July, the two families would go to the grandparents' house and shoot off fireworks over a lake.

"Everyone got along well," said Robert, 54, William's son. "We had a lot of fun."

Lester began a construction business. In the 1970s, he began building hotels for Cecil Day of

Days Inns, along with some others. He began to see how hotel developers could make money.

"I was in the construction business, and that's what got me into lodging," he told *Indiana Business* magazine in 2004.

In 1974, Lester and William decided to start their own motel company, Lees Inns of America, as 50-50 partners.

To fund operations, they pooled their money, and later raised \$5 million in a stock sale.

Within a few years, they had built a handful of motels, and sold a few of them.

But by the mid-1980s, the company treasury was down to a few hundred thousand dollars.

"At that time, we all sat down as a family and committed ourselves to make the company something bigger," said Donald Lee, another son of William's.

They got busy, and divided up duties. Lester, the president, ran the company and oversaw the big picture. William managed the family's plant, which made modular parts for motel buildings. The factory put the modules on semi-trailers, which hauled them to the sites.

William's sons also got involved. Robert became construction supervisor, overseeing the flurry of building, as the company dug up ground and erected modular motels in Anderson, Shelbyville, Muncie, Plainfield and other small cities.

Donald, the first one in the family with a college degree, managed the finances and dealt with the banks.

In a blur of activity, the company raised enough money to build 17 hotels from 1986 to 1991 in Indiana, Illinois, Ohio and Michigan.

A year or two later, it resumed construction, this time building

from scratch on each site, allowing more flexibility on architectural design. The company moved into slightly larger markets, including Lafayette and Cincinnati. The goal was to grow from a regional chain to a national one.

In 1996, Donald said, Lees Inns of America had its best year, posting annual profits of \$1.5 million on revenues of more than \$20 million.

"We wanted to keep growing," said Robert. "Find the next site. Keep at it."

Brother takes control

Eventually, Lester managed to get majority control of the company by buying stock back from other shareholders who wanted out. The company eventually went private, and Lester wound up owning slightly more than 50 percent of the business, giving him legal control.

But his business interests went beyond the motel industry.

Lester had many businesses on the side. They included a Ready-Mix concrete company, Maxim Truck manufacturing and Crossworld International consulting.

He needed money to keep them going.

"Lester came downstairs into the treasury department and instructed my assistant to write him a check for several hundred thousand dollars," Donald said. "She told Lester she needed to check with me. He hit the roof. He wanted complete control of everything."

The company eventually lent the money to Lester. But he wanted still more, Donald said. Lester wanted to merge his Maxim Truck company into Lees Inns, with the hotel company assuming Maxim's debts. Several family members denied his request. Maxim eventually declared

bankruptcy.

Robert Lee approached his uncle in early 1997 and suggested he give up day-to-day control and pass the company management to Donald. Instead, in March 1997, Lester fired Robert. A few months later, Lester also fired Donald.

Lester's brother, William Lee, died in 2001 after a long battle with diabetes. But his sons, convinced their family's interests were being squeezed out, fought back. The two sides went to court.

Robert and Donald Lee say they have spent more than \$1 million taking their uncle to court to save their interests.

Today, they have a legal victory. A few months ago, a judge in Jennings Circuit Court ruled that Lester had unfairly manipulated the company's affairs and engaged in constructive fraud. He ordered the company to pay William's trust \$7.5 million in compensation, interest and fees.

Lester, through his lawyer, Jack Gay, declined to be interviewed but is appealing the ruling.

The judge's findings of fact show how Robert and Donald's uncle gained control. Lester kicked them off the board and replaced them with his immediate family members, including his son, Larry Lee, president of Lees Ready Mix & Trucking, a concrete company. Larry Lee later pleaded guilty to price-fixing in a federal crackdown on the concrete business in Indiana.

Lester's family was unfamiliar with the business, and he used them as rubber stamps, the judge found. "The board never denied or questioned Lester any motion or request he made," the judge wrote.

The board went along with Lester's requests on many fronts. Lester's annual compensation climbed from an average of

\$146,000 during the years Robert and Donald were members of the board to \$344,764 in 1999, two years after they were fired.

Lester, who owned the office building in which the company was headquartered, raised the annual rent from \$23,997 in 1995 to \$87,120 in 2000.

During this time, Lester borrowed \$1.3 million from Lees Inns for various outside purposes. The judge ruled that he received substantially increased compensation, including salaries and bonuses.

"He was a businessman who had financial stresses, and he needed cash for his other businesses," said David Wright, the lawyer representing Donald and Robert Lee.

That was money that the company could have used to refurbish its aging motels, said Wright.

The judge, ruling that Lester's actions improperly promoted his interest in the company to the detriment of the minority shareholders, wrote: "The court finds that Lester Lee engaged in manipulation and control of the corporate affairs of LIA."

Robert and Donald Lee say they still don't know what the company is worth. The last valuation they have seen was done in 2000, but much has changed since then.

"The company has sold off most of its hotels, if not all of them," Wright said. "We don't know what's left."

The two sides of the family are strained and often don't speak to each other.

"It's kind of sad," Donald said. "We all grew up together. We were all close. Now it's come to this."

"It's a shame family disputes get to this point," said Lester's lawyer, Jack Gay.

★ Call Star reporter John Russell at (317) 444-6283.