

NO. C-1-PB-14-001245

IN RE: § **IN THE PROBATE COURT**
§
§ **NO. 1 OF**
§
TEL OFFSHORE TRUST § **TRAVIS COUNTY, TEXAS**

**INDIVIDUAL TRUSTEES' FIRST AMENDED RESPONSE TO
ATTORNEY AD LITEM'S REQUEST FOR DISCLOSURES**

TO: The Unit Holders of the TEL Offshore Trust, by and through the Attorney Ad Litem, Glenn M. Karisch, located at 301 Congress Avenue, Suite 1910, Austin, TX 78701.

Pursuant to Rule 194 of the Texas Rules of Civil Procedure, Gary C. Evans, Jeffrey S. Swanson, and Thomas H. Owen, Jr., as Individual Trustees of the TEL Offshore Trust (“Individual Trustees”), hereby serve the following First Amended Responses to Attorney Ad Litem’s Request for Disclosures.

REQUEST FOR DISCLOSURE (a):

The correct names of the parties to this lawsuit.

RESPONSE:

The Bank of New York Mellon Trust Company, N.A., as Corporate Trustee, and Gary C. Evans, Jeffrey S. Swanson, and Thomas H. Owen, Jr., as Individual Trustees of the TEL Offshore Trust.

REQUEST FOR DISCLOSURE (b):

The names, address, and telephone number of any potential parties.

RESPONSE:

Individual Trustees note that Danny Conwill has been sued in this lawsuit.

REQUEST FOR DISCLOSURE (c):

The legal theories and, in general, the factual basis of Individual Trustees’ claims and or defenses.

RESPONSE:

The Individual Trustees' Counterclaim asks the Court to modify the Trust Agreement to allow the Trust to terminate by approval of a court of competent jurisdiction, and further asks the Court to terminate the Trust. The Individual Trustees also seek reimbursement of expenses incurred by the Individual Trustees and fees owed to the Individual Trustees, pursuant to Sections 6.06, 7.04, 7.05, and 7.06 of the Trust Agreement. The Trust further seeks attorneys' fees and costs pursuant to Section 114.064 of the Texas Trust Code and Section 7.06 of the Trust Agreement. Further, the Individual Trustees are entitled to indemnification and full reimbursement from the Trust Estate against and from any and all liability, expense (including counsel fees and expenses incurred in preparing for and defending claims or suits), claim, damage, or loss incurred by the Trustees pursuant to Section 7.03 of the Trust Agreement. The Individual Trustees also assert a first priority lien pursuant to Section 7.03 of the Trust Agreement to the monies in the segregated Trust account holding the proceeds of the sale of the Trust's Overriding Royalty Interest that was created pursuant to the Final Judgment and Order of the Court dated January 15, 2016 in Cause No. C-1-PB-16-000096. For additional legal theories and facts supporting the Individual Trustees' claims, see the Individual Trustees' operative Answer and Counterclaim.

Purporting to act on behalf of the Trust and all of its beneficiaries, the Ad Litem attempts to extract damages from the trustees of the Trust for alleged breaches of fiduciary duty. The Ad Litem has no standing to pursue a *de facto* securities class action against the Trustees and the Ad Litem may not seek damages on behalf of the whole Trust. Further, the Individual Trustees' compensation never exceeded what the Trust Agreement allows. In fact, the Individual Trustees obtained less fees than the Trust Agreement expressly permits and in certain years, no fees at all. Charging no compensation or less compensation than the Trust Agreement allows is not a breach of any duty that the Individual Trustees owe to Trust beneficiaries. Moreover, the Trust Agreement's exculpatory clause shields the Trustees from liability for breach of fiduciary duty unless that breach was committed with gross negligence, bad faith, or fraud. No such breaches occurred by the Individual Trustees. The Individual Trustees have at all times acted competently, prudently, in good faith, in the interest of the Trust, and in accordance with its obligations under the Trust Agreement. The Ad Litem's claims are also barred by limitations and the discovery rule does not apply to prevent such bar by limitations. Further, the Ad Litem is not entitled to any damages on behalf of the unit holders, including attorneys' fees and costs, from the Trust.

The Trustees' responsibilities are set forth in the Trust Agreement. The Trustees have no power to "engage in any business or investment activity, except as permitted in Section 6.09, of any kind whatsoever." *Trust Agreement* at ¶ 6.05. In addition, "[t]he Trustees shall be under no obligation to diversify the Trust's assets or to dispose of any wasting assets." *Id.* at ¶ 6.14. In other words, the Trustees have no duty to do what the Ad Litem claims they have should have done – *i.e.*, sell the Trust assets earlier than they did.

The Trust Agreement makes clear that the Trustees owe no duties other than those specifically enumerated in the agreement. As set forth in Section 3.04, "[t]he sole interest of each owner of a Unit shall be his pro rata portion of the Beneficial Interest and the obligations of the Trustees expressly created under this Trust Agreement with respect to the Beneficial Interest."

Trust Agreement at ¶ 3.04. As stated above, not only does the Trust Agreement not “expressly create” any duty to sell “wasting assets,” but it specifically eliminates any such duty.

Nothing in the Trust Agreement imposes, let alone expressly creates, any affirmative duty on the Trustees to seek a judicial modification or termination of the Trust. To the contrary, Section 10.01 states that “[n]o person shall have the right or power to terminate, revoke, alter, amend or change this Trust Agreement or any provisions hereof except as expressly provided in Article IX or in this Article X.” *Trust Agreement* at ¶ 10.01. Articles IX and X permit termination only in narrow circumstances, such as where “the total future net revenues attributable to the Overriding Royalty Interest, as determined by independent petroleum engineers as of the end of any year, are less than \$2 million” or where termination was approved by the affirmative vote of unitholders holding a majority of the Trust units. *Trust Agreement* at ¶ 9.01(a)-(b). Nothing in the Trust Agreement obligates the Trustees to call a meeting to seek termination, let alone to seek a judicial modification of the agreement.

The Trust Agreement likewise forecloses the Ad Litem’s claim that the Trustees breached their duties by continuing to pay Trust expenses and accept compensation during the years after Hurricane Ike (and by borrowing funds from the a third party to pay Trust expenses). The Trust Agreement expressly authorizes the Trustees to “use all money received by the Trust for the payment of all liabilities of the Trust, including but not limited to all expenses, taxes, and liabilities incurred of all kinds, compensation to the Trustees for their services pursuant to Sections 7.04 and 7.05 hereof, and compensation to such parties as may be consulted pursuant to Section 7.06 hereof.” *Trust Agreement* at ¶ 6.06. In the event “the cash on hand is not sufficient to pay liabilities of the Trust then due . . . , the Trustees are authorized, but not required, to borrow . . . such amounts as are required after use of any available Trust funds to pay such liabilities” *Id.* at ¶ 6.08. “In the event of such borrowings, the Trustees shall suspend further Trust distributions . . . until the indebtedness created by such borrowing has been paid in full.” *Id.* The Trust Agreement also permits the Trustees to “sell all or a portion of” any Trust assets to pay liabilities. *Id.* at ¶ 6.04.

During the years after Hurricane Ike, investors in TELOZ were free to sell their units if they disagreed with the Trustees’ decisions regarding the future of the Trust. TELOZ’s public SEC filings expressly disclosed the challenges posed by Hurricane Ike and the risks that redevelopment may not occur. Investors could thus decide for themselves whether they wanted to buy or sell units in light of TELOZ’s public disclosures. While the Ad Litem asserts it should have been obvious to the Trustees from day one that a profitable redevelopment of the Trust properties was hopeless, the market plainly did not share that view.

For further answer, see the Individual Trustees’ operative pleadings (Amended Answer and Amended Counterclaim) regarding the Attorney Ad Litem’s claim, which is incorporated herein for all purposes.

REQUEST FOR DISCLOSURE (d):

The amount and method of calculating economic damages.

RESPONSE:

The Individual Trustees are seeking their attorneys' fees and costs, which are accruing.

REQUEST FOR DISCLOSURE (e):

The name, address and telephone number of persons having knowledge of relevant facts, and a brief statement of each identified person's connection with the case.

RESPONSE:

Gary C. Evans
c/o Daniel M. McClure
Norton Rose Fulbright US, L.L.P.
1301 McKinney, Suite 5100
Houston, TX 77010
Telephone: (713) 651-5159

Mr. Evans is an individual trustee of the Trust and has knowledge concerning the Trust.

Jeffrey S. Swanson
c/o Daniel M. McClure
Norton Rose Fulbright US, L.L.P.
1301 McKinney, Suite 5100
Houston, TX 77010
Telephone: (713) 651-5159

Mr. Swanson is an individual trustee of the Trust and has knowledge concerning the Trust.

Thomas H. Owen, Jr.
c/o Daniel M. McClure
Norton Rose Fulbright US, L.L.P.
1301 McKinney, Suite 5100
Houston, TX 77010
Telephone: (713) 651-5159

Mr. Owen is an individual trustee of the Trust and has knowledge concerning the Trust.

Daniel Conwill
601 Poydras Street, Suite 2525
New Orleans, Louisiana 70130
(504) 527-0333

Mr. Conwill is a former individual trustee for the Trust and has knowledge concerning the Trust.

Michael Ulrich

c/o Craig A. Haynes
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Telephone: (214) 969-1700

Mr. Ulrich is a representative of Bank of New York Mellon Trust Company and has knowledge concerning the Trust.

Sarah Newell
c/o Craig A. Haynes
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Telephone: (214) 969-1700

Ms. Newell is a Vice President of the Bank of New York Mellon Trust Company and has knowledge concerning the Trust.

George Wilson
Robert K. Hempel
DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244
(214) 368-6391

Mr. Wilson and Mr. Hempel have knowledge concerning the Trust's assets.

Robert W. Poindexter
Alex Kuiper
Chevron
6001 Bollinger Canyon Road, D2062
San Ramon, California 94583-2324
(925) 842-0752

Mr. Poindexter and Mr. Kuiper work with Chevron and may have knowledge concerning the Trust.

RNR Production Land and Cattle Company, Inc.
Roy T. Rimmer
Paul Willingham
c/o Shannon H. Ratliff
Ratliff Law Firm PLLC
600 Congress Avenue, Suite 23100
Austin, Texas 78701

Telephone: (512) 493-9601

RNR Production Land and Cattle Company, Inc. is a unit holder and a Plaintiff in this lawsuit.

Albert and Joyce Speisman, Unit Holders
c/o R. James George, Jr.
Attorney at Law
114 West 7th Street, Suite 1100
Austin, Texas 78701
Telephone: (512) 495-1400

The Speismans are unit holders and Plaintiffs in this lawsuit.

Broadridge
33 Boston Post Road, Floor 1
Marlborough, MA 01752
Telephone: (631) 254-7067

Broadridge acts on behalf of certain brokers/owners to distribute proxies, quarterly reports and other communications from the Trust to the unit holders.

American Stock Transfer & Trust Co, LLC (“AST”)
Barbara Robbins
Sr. Vice President, Regional Manager
Dallas, TX
Telephone: (972) 684-5306

AST maintains lists of registered Unit Holders of the Trust.

All Unit Holders of the TEL Offshore Trust, consisting of known Record Holders, known Non-Objecting Beneficial Owners, and known Objecting Beneficial Owners.

The Individual Trustees incorporate by reference all of those person identified in any other parties’ Responses to Request for Disclosure and reserve the right to call as a witness at trial any person listed by any other party in response to requests for disclosure under Tex. R. Civ. P. 194.

The Individual Trustees further state that their investigation continues and it reserves its right to supplement its responses to these disclosures as further information becomes available.

REQUEST FOR DISCLOSURE (f):

- (f) for any testifying expert:
- (1) the expert’s name, address and telephone number;

- (2) the subject matter on which the expert will testify;
- (3) the general substance of the expert's mental impressions and opinions and a brief summary of the basis for them, or if the expert is not retained by, employed by, or otherwise subject to the control of the responding party, documents reflecting such information;
- (4) if the expert is retained by, employed by, or otherwise subject to the control of the responding party:
 - (A) all documents, tangible things, reports, models, or data compilations that have been provided to, reviewed by, or prepared by or for the expert in anticipation of the expert's testimony; and,
 - (B) the expert's current resume and bibliography.

RESPONSE:

Please refer to Petitioners' Designation of Expert Witnesses filed on November 16, 2015. The Individual Trustees will supplement in accordance with the Scheduling Order.

REQUEST FOR DISCLOSURE (g):

Any discoverable and insuring agreements described in Rule 192.3(f).

RESPONSE:

Any responsive document will be produced.

REQUEST FOR DISCLOSURE (h):

Any settlement agreements described in Rule 192.3(g).

RESPONSE:

None.

REQUEST FOR DISCLOSURE (i):

Any witness statements described in Rule 192.3(h).

RESPONSE:

None.

REQUEST FOR DISCLOSURE (l):

- (l) the name, address, and telephone number of any person who may be designated as a responsible third party.

RESPONSE:

None.

Respectfully submitted,

NORTON ROSE FULBRIGHT US, LLP

/s/ Peter A. Stokes

Peter Stokes (Texas Bar No. 24028017)

peter.stokes@nortonrosefulbright.com

Paul Trahan (Texas Bar No. 24003075)

paul.trahan@nortonrosefulbright.com

98 San Jacinto Boulevard, Suite 1100

Austin, Texas 78701-4255

Telephone: (512) 474-5201

Facsimile: (512) 536-4598

Daniel M. McClure (Texas Bar No. 13427400)

dan.mcclure@nortonrosefulbright.com

1301 McKinney, Suite 5100

Houston, TX 77010

Telephone: (713) 651-5159

Facsimile: (713) 651-5246

ATTORNEYS FOR INDIVIDUAL TRUSTEES
GARY C. EVANS, JEFFREY S. SWANSON,
AND THOMAS H. OWEN, JR.

CERTIFICATE OF SERVICE

I hereby certify that, on December 5, 2016, a true and correct copy of the foregoing has been served by mail and email on counsel for RNR Production Land and Cattle, and by email on Ad Litem, counsel for Ad Litem, counsel for the Corporate Trustee, and counsel for Albert and Joyce Speisman. All other interested parties in this matter will be served in accordance with the Court's Order Directing Method of Service of Discovery dated June 9, 2016.

/s/ Peter A. Stokes
Peter Stokes