

Liquidation: Optimizing Outcomes for Closely-Held Businesses Owned in Trust

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AGENDA

Fiduciary's role in liquidating businesses owned in a Trust

Case Example: Family Timber Estate

- Background and mandate
- Operations and Financials & Reporting
- Litigation, Negotiations & Dispute Resolution
- The Liquidation Process
 - Broker selection and management
 - Timber, Minerals, Real Estate
 - Summary

Supporting Case Studies

Closely-Held Liquidations: Common Pitfalls

Due Diligence

SETTING THE STAGE

Fiduciary's role in liquidating businesses owned in a Trust

- Closely held businesses frequently sit inside trusts and estates with no ready market and no exit plan
- Fiduciaries inherit operating risk: employees, contracts, environmental exposure, tax deadlines
- Beneficiary disputes may prompt liquidation or trigger other directives per trust documents / partnership agreements
- Litigation, audits and other events may create expedited timelines
- Lack of consensus and agreement on go-forward plans
- **Objective:** overcome liquidity issues, lack of consensus and agreement on go-forward plans, and other challenges to effect an orderly, value-maximizing wind-down

Today's focus:

Process, Pitfalls,
Due Diligence &
Practical Lessons

FAMILY TIMBER ESTATE

Background

The Business

- Family trust owning a \$200M+ portfolio of 42,000 acres of timberland, mineral mining assets, oil & gas leases, and personal property
- Management: forestry, operations, and accounting were outsourced



The Family Trust/Ownership

- Ownership:
 - 99% - Family Trust, Limited Partner with Corporate Trustee
 - 1% - Management Company, General Partner
- 6 Beneficiaries:
 - Spread across two aligned family camps
 - 12.5%–25% each

FAMILY TIMBER ESTATE

Mandate

Need for a Fiduciary

- Corporate Trustee sought a fiduciary due to disputes among Trust's beneficiaries over operations and management spanning 7 years and costing over \$10M
- **Trustee's goals for Fiduciary:** take possession of the estate, operate it, sell the assets, and distribute proceeds to the partners

Our Roles

- Court-appointed Liquidator, pursuant to Texas law (April 2021 – June 2023)
- Receiver (June 2023 – closing)



FAMILY TIMBER ESTATE

Operations and Financials & Reporting

Operations

- Took possession of the estate in role of General Partner
- Oversaw and stabilized operations
 - Forestry field operations
 - Timberland operations: harvesting, hunting leases, and oil & gas lease administration



Financials & Reporting

- Regularly reported ongoing operational and financial information to the Trustee and all beneficiaries
- Managed Financial Books, Records & Reporting
- Sole bank signatory
- Managed Tax Accountants
- Managed reporting to Corporate Trustee, beneficiaries, attorneys and court as necessary

FAMILY TIMBER ESTATE

Litigation, Negotiations & Dispute Resolution

Litigation & Negotiations

- Dispute over the interpretation of the Limited Partnership Agreement related to the closely-held business led to expensive, protracted litigation spanning 7 years and costing \$10 M+ in legal fees that resulted in an arbitration award by one of the family factions
- Addressed numerous land-related lawsuits
- Negotiated revised contracts with third parties
- Assisted with the dissolution of beneficiaries' limited liability company

Dispute Resolution

- Attempted to build consensus amongst parties as to a potential partitioning of the land to allow for a distribution in kind, engaged valuation group to refresh a prior valuation and assess all tracts to propose a fair and equitable partition plan
- Beneficiaries disagreed about liquidating the Family Timber Estate
- Provided a platform for the family to present their opinions in a non-controversial manner
- Researched and communicated specific information about asset values, historical financial statements to align beneficiaries

THE LIQUIDATION PROCESS

Five phases from appointment to final distribution

Fiduciary required to follow instructions provided by the various partnership and family agreements, the Arbitrator, and the Court



BROKER SELECTION AND MANAGEMENT

A disciplined, documented, defensible process

Stage	What we did	Why it matters	Fiduciary takeaway	OUTCOME
Scoping	Matched asset classes to broker specialties	Different target markets for timber, minerals, and real estate	One broker rarely focuses on all assets	Timber, minerals, and surplus real property marketed separately for best outcomes
Selection	Competitive RFP; track record, comps, fee structure	Creates a documented, defensible record	Avoid relationship-based appointments	Engaged firm with team of land and commercial brokers
Engagement	Defined scope, exclusivity, term, and reporting	Prevents scope creep and stale listings	Cap terms; require renewal	Defined scope, term, and reporting for each engagement
Management	Weekly pipeline reviews and buyer-by-buyer tracking	Brokers manage price; the liquidator manages process	Fiduciary owns the outcome	~ \$200M for real estate + mineral rights and other assets

LIQUIDATION EXECUTION

Timberland and Mineral Rights

> \$200M in Proceeds
for the Estate



Timberland

- Gross real estate sales generated nearly \$200 million, comprised of two distinct transactions:
- Bulk of 42,000-acre timberland property marketed to timber land buyers sold for \$176M, a record-breaking price for a private-to-private timberland transaction in East Texas
- Remaining 411 acres marketed to home developers sold for additional \$22M

Mineral Rights

- Mineral rights were marketed and sold separately netting \$2.5M
- Mineral lease income generated an additional \$666K during the period

LIQUIDATION EXECUTION

Real Estate

Real Estate Management

- Sequenced the portfolio: bulk institutional timberland sale first, residual tracts and minerals after
- Reviewed access, title, boundary, and lease issues (hunting and oil & gas) before marketing
- Evaluated land partition plans and in-kind distribution options for individual beneficiaries against a cash sale



Transaction

- Reviewed claims from family members and beneficiaries, including indemnification of legal fees
- Reserved for taxes, fees, and operating costs before each distribution, with input from beneficiaries' counsel
- Total cash receipts of \$197.6 million against \$203.2 million of payments, including distributions

FAMILY TIMBER ESTATE

Summary

- Successfully resolved contentious issues among beneficiaries to facilitate sales transactions
- Successfully sold all assets for \$200M+ for the estate
- Distributions to partners of \$199.7M
- **Approximately two years from appointment to final wind-down**

SUPPORTING CASE STUDIES

Same Playbook, Different Facts

CASE STUDY

Closely held family business owned managed by a professional fiduciary

Workstream	Situation	What we did	Fiduciary lesson	Status
Family & ownership	11 family corporations and businesses in disarray; overlapping family, owner, and manager roles	Clarified decision rights and reporting lines; professionalized asset, property, and accounting management	Governance first, transactions second	11 entities, each with its own accounting and annual tax return
Real estate portfolio	3-10 properties in each of the 11 corporations - roughly 35 to 100 in all - with no hold/sell discipline	Hold, improve, or sell analysis per asset; took over leasing and property management; built forward-looking cash models	Test highest and best use on every asset	Income-producing real estate stabilized with reliable cash flow
Cash & Investments	Multiple managers and advisors, no oversight	Managed the managers; consolidated reporting	Fiduciary retains the oversight duty	Single consolidated view across all managers
Back office	Weak accounting and operating controls	Rebuilt accounting, controls, and reporting	Clean books drive buyer confidence	Reliable reporting in place; tax strategies implemented
Corporate Compliance & Tax Strategies	30 years of unfiled returns, Franchise Tax Board penalties, and entities out of good standing	Liaised with the FTB, negotiated closing agreements, and managed the tax accountants	Compliance gaps compound until a fiduciary owns them	Good standing restored; closing agreements in negotiation

COMMON PITFALLS

Where corporate trustee engagements go wrong



Treating the business as an investment, not an enterprise



Reliance on management for information



Unclear decision rights between trustee and management



Chasing value over fiduciary defensibility



Family dynamics mistaken for business problems



Trust liquidity needs vs. company capital needs



Delayed intervention after early warning signs



Assuming a sale is the only solution

DUE DILIGENCE CHECKLIST

A practical checklist for trustees and fiduciaries

- Verify before you value: independent inventory, title, and condition reports
- Read the governing documents first — partnership agreements often dictate the process
- Separate the operator role from the seller role; both need dedicated capacity
- Stabilize cash, controls, and reporting before marketing anything
- Run a competitive, documented broker process for each asset class
- Test highest and best use — the current use is rarely the most valuable one
- Sequence closings around tax and distribution consequences
- Communicate with beneficiaries on a fixed cadence, in writing

THANK YOU

Questions and follow-up



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