

TEXAS PACIFIC LAND TRUST
Form 10-Q
August 06, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _____ to _____

Commission File Number: 1-737

Texas Pacific Land Trust
(Exact Name of Registrant as Specified in Its Charter)

NOT APPLICABLE
(State or Other Jurisdiction of
Incorporation
or Organization)

75-0279735
(I.R.S. Employer
Identification No.)

1700 Pacific Avenue, Suite 2770, Dallas,
Texas
(Address of Principal Executive Offices)

75201
(Zip Code)

(214) 969-5530
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes " No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | |
|-------------------------|---------------------------|---|
| Large Accelerated Filer | Accelerated Filer | T |
| Non-Accelerated Filer | Smaller reporting company | " |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No T

Cautionary Statement Regarding Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding management's expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding the Trust's future operations and prospects, the markets for real estate in the areas in which the Trust owns real estate, applicable zoning regulations, the markets for oil and gas, production limits on prorated oil and gas wells authorized by the Railroad Commission of Texas, expected competition, management's intent, beliefs or current expectations with respect to the Trust's future financial performance and other matters. All forward-looking statements in this Report are based on information available to us as of the date this Report is filed with the Securities and Exchange Commission, and we assume no responsibility to update any such forward-looking statements, except as required by law. All forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the factors discussed in Item 1A "Risk Factors" of Part I of our Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2008, and in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TEXAS PACIFIC LAND TRUST
BALANCE SHEETS

| Assets | June 30, 2009 (Unaudited) | December 31, 2008 |
|---|---------------------------------|----------------------|
| Cash and cash equivalents | \$8,442,221 | \$9,654,379 |
| Accrued receivables | 1,556,746 | 1,172,281 |
| Other assets | 31,994 | 79,986 |
| Prepaid income taxes | – | 982,350 |
| Notes receivable for land sales | 17,021,998 | 17,656,227 |
| Water wells, leasehold improvements, furniture and equipment – at cost less accumulated depreciation | 86,792 | 78,307 |
| Real estate acquired: (10,793 acres at June 30, 2009 and December 31, 2008) | 1,161,504 | 1,161,504 |
| Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned: | | |
| Land (surface rights) situated in twenty counties in Texas – 951,760 acres in 2009 and 952,455 acres in 2008 | – | – |
| Town lots in Loraine and Morita – 541 lots in 2009 and 2008 | – | – |
| 1/16 nonparticipating perpetual royalty interest in 386,988 acres in 2009 and 2008 | – | – |
| 1/128 nonparticipating perpetual royalty interest in 85,414 acres in 2009 and 2008 | – | – |
| | \$28,301,255 | \$30,785,034 |
| Liabilities and Capital | | |
| Accounts payable and accrued expenses | \$537,019 | \$786,848 |
| Income taxes payable | 612,441 | – |
| Other taxes payable | 124,083 | 201,863 |
| Unearned revenues | 438,374 | 438,374 |
| Deferred taxes | 5,072,459 | 5,141,275 |
| Pension plan liability | 732,759 | 692,002 |
| Total liabilities | 7,517,135 | 7,260,362 |
| Capital: | | |
| Certificates of Proprietary Interest, par value \$100 each; outstanding 0 certificates | – | – |
| Sub-share Certificates in Certificates of Proprietary Interest, par value \$.03 1/3 each; outstanding: 10,053,069 Sub-shares in 2009 and 10,206,146 | – | – |

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| | | |
|-----------------------------------|--------------|--------------|
| Sub-shares in 2008 | | |
| Other comprehensive income (loss) | (602,104) | (629,075) |
| Net proceeds from all sources | 21,386,224 | 24,153,747 |
| Total capital | 20,784,120 | 23,524,672 |
| | \$28,301,255 | \$30,785,034 |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST
STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Income: | | | | |
| Rentals, royalties and sundry income | \$3,411,120 | \$4,811,644 | \$4,947,679 | \$8,967,543 |
| Land sales | 523,010 | 192,000 | 523,010 | 639,040 |
| Interest income from notes receivable | 308,694 | 349,319 | 621,113 | 701,318 |
| | 4,242,824 | 5,352,963 | 6,091,802 | 10,307,901 |
| Expenses: | | | | |
| Taxes, other than income taxes | 162,055 | 257,104 | 271,673 | 473,894 |
| General and administrative expenses | 589,081 | 430,084 | 1,132,010 | 1,069,861 |
| | 751,136 | 687,188 | 1,403,683 | 1,543,755 |
| Operating income | 3,491,688 | 4,665,775 | 4,688,119 | 8,764,146 |
| Interest income earned from investments | 17,063 | 82,735 | 34,162 | 163,324 |
| Income before income taxes | 3,508,751 | 4,748,510 | 4,722,281 | 8,927,470 |
| Income taxes | 1,079,902 | 1,530,888 | 1,531,280 | 2,779,091 |
| Net income | \$2,428,849 | \$3,217,622 | \$3,191,001 | \$6,148,379 |
| Average number of sub-share certificates and equivalent sub-share certificates outstanding | | | | |
| | 10,092,773 | 10,432,250 | 10,120,410 | 10,447,546 |
| Basic and dilutive earnings per sub-share certificate | \$.24 | \$.31 | \$.32 | \$.59 |
| Cash dividends per sub-share certificate | \$- | \$- | \$.19 | \$.18 |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST
STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|--------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$3,191,001 | \$6,148,379 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred taxes | (68,816) | (153,337) |
| Depreciation and amortization | 12,000 | 15,600 |
| Changes in operating assets and liabilities: | | |
| Accrued receivables and other assets | (336,473) | (808,996) |
| Real estate acquired | - | (77,952) |
| Notes receivable for land sales | 634,229 | 474,341 |
| Accounts payable, accrued expenses and other liabilities | (259,881) | (498,034) |
| Prepaid income taxes | 1,594,791 | 176,898 |
| Net cash provided by operating activities | 4,766,851 | 5,276,899 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (20,485) | (20,846) |
| Net cash used in investing activities | (20,485) | (20,846) |
| Cash flows from financing activities: | | |
| Purchase of Sub-share Certificates in Certificates of Proprietary Interest | (4,028,080) | (4,130,587) |
| Dividends paid | (1,930,444) | (1,884,668) |
| Net cash used in financing activities | (5,958,524) | (6,015,255) |
| Net decrease in cash and cash equivalents | (1,212,158) | (759,202) |
| Cash and cash equivalents, beginning of period | 9,654,379 | 10,153,202 |
| Cash and cash equivalents, end of period | \$8,442,221 | \$9,394,000 |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS

JUNE 30, 2009

- (1) In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of Texas Pacific Land Trust (the "Trust") as of June 30, 2009 and the results of its operations for the three month and six month periods ended June 30, 2009 and 2008, respectively, and its cash flows for the six month periods ended June 30, 2009 and 2008, respectively. The financial statements and footnotes included herein should be read in conjunction with the Trust's annual financial statements as of December 31, 2008 and 2007 and for each of the years in the three year period ended December 31, 2008 included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2008.
- (2) No value has been assigned to the land held by the Trust other than parcels which have been acquired through foreclosure and a limited number of parcels which have been acquired because they were offered for sale and were contiguous to parcels already owned by the Trust. Consequently, no allowance for depletion is computed, and no charge to income is made, with respect thereto, and no cost is deducted from the proceeds of the land sales in computing gain or loss thereon.
- (3) The Sub-shares and the Certificates of Proprietary Interest are freely interchangeable in the ratio of one Certificate of Proprietary Interest for 3,000 Sub-shares or 3,000 Sub-shares for one Certificate of Proprietary Interest.
- (4) The Trust's effective Federal income tax rate is less than the 34% statutory rate because taxable income is reduced by statutory percentage depletion allowed on mineral royalty income.
- (5) The results of operations for the three month and six month periods ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.
- (6) The Trust invests cash in excess of daily requirements primarily in bank deposit and savings accounts, certificates of deposit, and U. S. Treasury bills with maturities of ninety days or less. Such investments are deemed to be highly liquid debt instruments and classified as cash equivalents for purposes of the statements of cash flows.

Supplemental cash flow information for the six month periods ended June 30, 2009 and 2008 is summarized as follows:

| | 2009 | 2008 |
|-------------------|-----------|-------------|
| Income taxes paid | \$169,441 | \$2,565,000 |

- (7) SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for the way public business enterprises are to report information about operating segments. SFAS No. 131 utilizes the management approach as a basis for identifying reportable segments. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. The Trust's management views its operations as one segment and believes the only significant activity is managing the land which was conveyed to the Trust in 1888. The Trust's management makes decisions about resource allocation and performance assessment based on the same

financial information presented in these financial statements. Managing the land includes sales and leases of such land, and the retention of oil and gas royalties.

(8) Certain 2008 amounts have been reclassified to conform to the 2009 presentation in the Financial Statements.

Item Management's Discussion and Analysis of Financial Condition and Results of Operations

2.

The following discussion and analysis should be read together with (i) the factors discussed in Item 1A "Risk Factors" of Part I of our Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2008, (ii) the factors discussed in Part II, Item 1A "Risk Factors," if any, of this Quarterly Report on Form 10-Q and (iii) the Financial Statements, including the Notes thereto, and the other financial information appearing elsewhere in this Report. Period-to-period comparisons of financial data are not necessarily indicative, and therefore should not be relied upon as indicators, of the Trust's future performance. Words or phrases such as "does not believe" and "believes", or similar expressions, when used in this Form 10-Q or other filings with the Securities and Exchange Commission, are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Results of Operations for the Quarter Ended June 30, 2009 Compared to the Quarter Ended June 30, 2008

Earnings per sub-share certificate were \$.24 for the second quarter of 2009, compared to \$.31 for the second quarter of 2008. Total operating and investing revenues were \$4,259,887 for the second quarter of 2009 compared to \$5,435,698 for the second quarter of 2008, a decrease of 21.6%. This decrease in revenue and earnings was due primarily to a decrease in oil and gas royalty income and, to a much lesser extent, a decrease in interest income, which were partially offset by increases in easement and sundry income and land sales.

Land sales during the second quarter of 2009 totaled \$523,010, representing the sale of 695 acres at an average price of approximately \$753 per acre, compared to \$192,000 during the second quarter of 2008, representing the sale of 640 acres at an average price of \$300 per acre.

Rentals, royalties and sundry income were \$3,411,120 for the second quarter of 2009, compared to \$4,811,644 for the second quarter of 2008, a decrease of 29.1%. This decrease resulted from a decrease in oil and gas royalty income, which was partially offset by an increase in sundry income.

Oil and gas royalty revenue was \$2,262,244 for the second quarter of 2009, compared to \$4,097,109 for the second quarter of 2008, a decrease of 44.8%. Oil royalty revenue was \$1,791,631 for the second quarter of 2009, a decrease of 43.0% from the second quarter of 2008. Crude oil production subject to the Trust's royalty interest increased 33.2% for the second quarter of 2009 compared to the second quarter of 2008, but this increase in volume was more than offset by a 57.2% decrease in the average price per royalty barrel received during the 2009 quarter compared to 2008. Gas royalty revenue was \$470,613 for the second quarter of 2009, a decrease of 50.7% from the second quarter of 2008. This decrease in gas royalty revenue resulted from a 57.7% decrease in the average price of gas sold, which more than offset a 16.7% increase in the volume of gas produced.

Easement and sundry income was \$964,394 for the second quarter of 2009 compared to \$531,294 during the second quarter of 2008, an increase of 81.5%. This increase is primarily due to an increase in sundry income due to a damage settlement with a large oil company and an increase in easement income. This category of income is unpredictable and may vary significantly from quarter to quarter.

Interest income, including interest on investments, was \$325,757 for the second quarter of 2009, compared to \$432,054 for the second quarter of 2008, a decrease of 24.6%. Interest on notes receivable

for the second quarter of 2009 was \$308,694, a decrease of 11.6% compared to the second quarter of 2008. As of June 30, 2009, notes receivable for land sales were \$17,021,998 compared to \$19,151,281 at June 30, 2008, a decrease of 11.1%. Sundry interest was \$17,063 for the second quarter of 2009, a decrease of 79.4% from the second quarter of 2008. Sundry interest fluctuates based on cash on hand for investment and interest rates on short-term investments.

Taxes, other than income taxes decreased 37.0% for the second quarter of 2009 compared to the second quarter of 2008. This decrease is attributable to a decrease in oil and gas production taxes which resulted from the decrease in oil and gas revenue discussed above.

General and administrative expenses for the second quarter of 2009 were \$589,081, compared to \$430,084 during the second quarter of 2008, an increase of 37.0%. This increase was largely due to an increase in legal fees.

Results of Operations for the Six Months Ended June 30, 2009 Compared to the Six Months Ended June 30, 2008

Earnings per sub-share certificate were \$.32 for the first six months of 2009, compared to \$.59 for the first six months of 2008. Total operating and investing revenues were \$6,125,964 for the first six months of 2009 compared to \$10,471,225 for the first six months of 2008, a decrease of 41.5%. This decrease in revenue and earnings was primarily due to decreases in oil and gas royalty income and, to a lesser extent, decreases in interest income, land sales and sundry income during the first six months of 2009 compared to the first six months of 2008.

Land sales during the first six months of 2009 totaled \$523,010, representing the sale of 695 acres at an average price of approximately \$753 per acre, compared to \$639,040 during the first six months of 2008, representing the sale of approximately 1,758 acres at an average price of approximately \$364 per acre.

Rentals, royalties, and sundry income were \$4,947,679 for the first six months of 2009 compared to \$8,967,543 for the first six months of 2008, a decrease of 44.8%. This decrease resulted primarily from a decrease in oil and gas royalty income and, to a much lesser extent, a decrease in sundry income.

Oil and gas royalty revenue was \$3,454,983 for the first six months of 2009 compared to \$7,367,948 for the first six months of 2008, a decrease of 53.1%. Oil royalty revenue was \$2,603,581 for the first six months of 2009, a decrease of 52.8% from the first six months of 2008. Crude oil production subject to the Trust's royalty interest increased 10.7% for the first six months of 2009 compared to the first six months of 2008, but this increase in volume was more than offset by a 57.4% decrease in the average price per royalty barrel received during the first six months of 2009 compared to the first six months of 2008. Gas royalty revenue was \$851,402 for the first six months of 2009, a decrease of 53.9% from the first six months of 2008. This decrease in gas royalty revenue resulted from a decrease of 20.7% in the volume of gas produced and a decrease of 41.9% in the average price of gas sold in the 2009 period.

Easement and sundry income was \$1,218,725 for the first six months of 2009 compared to \$1,327,242 for the first six months of 2008, a decrease of 8.2%. This category of income is unpredictable and may vary significantly from period to period.

Interest income, including interest on investments, was \$655,275 for the first six months of 2009 compared to \$864,642 for the first six months of 2008, a decrease of 24.2%. Interest on notes receivable for the first six months of 2009 was \$621,113, a decrease of 11.4% from the comparable period of 2008. As of June 30, 2009, notes receivable from land sales were \$17,021,998 compared to \$19,151,281 at June 30, 2008, a decrease of 11.1%. Sundry interest was \$34,162 for the first six months of 2009, a decrease

of 79.1% from the 2008 period. Sundry interest fluctuates based on cash on hand for investment and interest rates on short-term investments.

Taxes, other than income taxes decreased 42.7% for the first six months of 2009 compared to the first six months of 2008. This decrease is attributable to a decrease in oil and gas production taxes which resulted from the decrease in oil and gas revenue discussed, above.

General and administrative expenses for the first six months of 2009 were up 5.8% compared to the first six months of 2008 due primarily to an increase in legal fees and, to a lesser extent, an increase in pension plan expense.

Liquidity and Capital Resources

The Trust's principal sources of liquidity are revenues from oil and gas royalties, lease rentals and receipts of interest and principal payments on the notes receivable arising from land sales. In the past, those sources have generated more than adequate amounts of cash to meet the Trust's needs and, in the opinion of management, should continue to do so in the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

3.

There have been no material changes in the information related to market risk of the Trust since December 31, 2008.

Item 4. Controls and Procedures

4.

Pursuant to Rule 13a-15, management of the Trust under the supervision and with the participation of Roy Thomas, the Trust's Chief Executive Officer, and David M. Peterson, the Trust's Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as of the end of the Trust's fiscal quarter covered by this Report on Form 10-Q. Based upon that evaluation, Mr. Thomas and Mr. Peterson concluded that the Trust's disclosure controls and procedures are effective in timely alerting them to material information relating to the Trust required to be included in the Trust's periodic SEC filings.

There have been no changes in the Trust's internal control over financial reporting during the Trust's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in response to Item 1A “Risk Factors” of Part I of the Trust’s Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) During the second quarter of 2009, the Trust repurchased Sub-share certificates as follows:

| Period | Total Number of Sub-shares Purchased | Average Price Paid per Sub- share | Total Number of Sub- shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Sub-shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|---|---|--|---|
| April 1, through April 30, 2009 | 24,764 | \$27.18 | – | – |
| May 1, through May 31, 2009 | 21,872 | \$29.89 | – | – |
| June 1, through June 30, 2009 | 24,641 | \$33.15 | – | – |
| Total | 71,277* | \$30.08 | – | – |

* The Trust purchased and retired 71,277 Sub-shares in the open market.

Item 6. Exhibits

| | |
|------|--|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |

32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

8

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXAS PACIFIC LAND TRUST
(Registrant)

Date: August 6, 2009

By: /s/ Roy Thomas
Roy Thomas, General Agent,
Authorized Signatory and Chief
Executive
Officer

Date: August 6, 2009

By: /s/ David M. Peterson
David M. Peterson, Assistant General
Agent,
and Chief Financial Officer

INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

