

TEXAS PACIFIC LAND TRUST
Form 10-Q
November 05, 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 September 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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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	Accelerated Filer	<input checked="" type="checkbox"/>
Filer		
Non-Accelerated	Smaller reporting company	<input type="checkbox"/>
Filer		

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

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	September 30, 2009 (Unaudited)	December 31, 2008
Cash and cash equivalents	\$ 7,531,495	\$ 9,654,379
Accrued receivables	1,589,871	1,172,281
Other assets	7,999	79,986
Prepaid income taxes	53,273	982,350
Notes receivable for land sales	16,678,145	17,656,227
Water wells, leasehold improvements, furniture and equipment – at cost less accumulated depreciation	80,792	78,307
Real estate acquired: (10,793 acres at September 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	–	–
	\$ 27,103,079	\$ 30,785,034
Liabilities and Capital		
Accounts payable and accrued expenses	\$ 493,461	\$ 786,848
Other taxes payable	154,083	201,863
Unearned revenues	438,374	438,374
Deferred taxes	4,963,139	5,141,275
Pension plan liability	753,137	692,002
Total liabilities	6,802,194	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: 9,978,587 Sub-shares in 2009 and 10,206,146 Sub-shares in 2008	–	–
Other comprehensive income (loss)	(588,619)	(629,075)

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Net proceeds from all sources	20,889,504	24,153,747
Total capital	20,300,885	23,524,672
	\$ 27,103,079	\$ 30,785,034

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST
STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Income:				
Rentals, royalties and sundry income	\$3,055,608	\$5,469,108	\$8,003,287	\$14,436,651
Land sales	--	184,400	523,010	823,440
Interest income from notes receivable	302,656	339,415	923,769	1,040,733
	3,358,264	5,992,923	9,450,066	16,300,824
Expenses:				
Taxes, other than income taxes	157,203	286,161	428,876	760,055
General and administrative expenses	406,512	587,937	1,538,522	1,657,798
	563,715	874,098	1,967,398	2,417,853
Operating income	2,794,549	5,118,825	7,482,668	13,882,971
Interest income earned from investments	11,855	41,255	46,017	204,579
Income before income taxes	2,806,404	5,160,080	7,528,685	14,087,550
Income taxes	852,704	1,566,566	2,383,984	4,345,657
Net income	\$1,953,700	\$3,593,514	\$5,144,701	\$9,741,893
Average number of sub-share certificates and equivalent sub-share certificates outstanding				
	10,019,767	10,367,017	10,070,246	10,406,889
Basic and dilutive earnings per sub-share certificate				
	\$.19	\$.35	\$.51	\$.94
Cash dividends per sub-share certificate				
	\$—	\$—	\$.19	\$.18

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$5,144,701	\$9,741,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(178,136)	(504,329)
Depreciation and amortization	18,000	23,400
Changes in operating assets and liabilities:		
Accrued receivables and other assets	(345,603)	(1,025,805)
Real estate acquired	–	(77,952)
Notes receivable for land sales	978,082	1,526,813
Accounts payable, accrued expenses and other liabilities	(239,576)	(370,026)
Prepaid income taxes	929,077	407,861
Net cash provided by operating activities	6,306,545	9,721,855
Cash flows from investing activities:		
Purchase of fixed assets	(20,485)	(25,677)
Net cash used in investing activities	(20,485)	(25,677)
Cash flows from financing activities:		
Purchase of Sub-share Certificates in Certificates of Proprietary Interest	(6,478,500)	(7,000,410)
Dividends paid	(1,930,444)	(1,884,668)
Net cash used in financing activities	(8,408,944)	(8,885,078)
Net (decrease) increase in cash and cash equivalents	(2,122,884)	811,100
Cash and cash equivalents, beginning of period	9,654,379	10,153,202
Cash and cash equivalents, end of period	\$7,531,495	\$10,964,302

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS

SEPTEMBER 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 September 30, 2009 and the results of its operations for the three month and nine month periods ended September 30, 2009 and 2008, respectively, and its cash flows for the nine month periods ended September 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) On September 15, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ System ("ASC" or the "Codification") became the official authoritative source of nongovernmental accounting principles generally accepted in the United States of America ("GAAP"). Rules and interpretations of the U.S. Securities and Exchange Commission (the "SEC") also remain sources of GAAP for us. The Codification does not change GAAP; instead it introduces a structure arranged within Topics, Subtopics, Sections and Paragraphs. Codification Sections which include the actual guidelines are based on the nature of the content (e.g., scope, recognition, measurement, etc.) and are standardized throughout the Codification. New authoritative GAAP will be communicated via an "Accounting Standards Update" (an "ASU"), a new FASB document. References to legacy GAAP citations (e.g., SFAS, EITF, FIN, etc.) now refer to the Codification topic numbers. There was no change to our consolidated financial statements upon adoption.
- (3) We evaluate events that occur after the balance sheet date but before financial statements are, or are available to be, issued to determine if a material event requires our amending the financial statements or disclosing the event. We evaluated subsequent events through October 28, 2009, the date we issued these financial statements.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) The results of operations for the three month and nine month periods ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.
- (8) 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 nine month periods ended September 30, 2009 and 2008 is summarized as follows:

	2009	2008
Income taxes paid	\$1,804,441	\$4,225,000

(9) ASC 280, "Segment Reporting," establishes standards for the way public business enterprises are to report information about operating segments. In accordance with ASC 280, the Trust 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.

(10) 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 September 30, 2009 Compared to the Quarter Ended September 30, 2008

Earnings per sub-share certificate were \$.19 for the third quarter of 2009 compared to \$.35 for the third quarter of 2008. Total operating and investing revenues were \$3,370,119 for the third quarter of 2009 compared to \$6,034,178 for the third quarter of 2008, a decrease of 44.1%. This decrease in revenue was due primarily to decreases in oil and gas royalties and, to a much lesser extent, land sales and interest income.

No land sales occurred during the third quarter of 2009. Land sales totaled \$184,400 during the third quarter of 2008, representing the sale of 447 acres and 87 town lots at an average price of \$400 per acre.

Rentals, royalties and sundry income were \$3,055,608 for the third quarter of 2009 compared to \$5,469,108 for the third quarter of 2008, a decrease of 44.1%. This decrease resulted primarily from a decrease in oil and gas income

which was partially offset by an increase in sundry income.

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Oil and gas royalty revenue was \$2,254,192 for the third quarter of 2009 compared to \$4,656,168 for the third quarter of 2008, a decrease of 51.6%. Oil royalty revenue was \$1,827,856 for the third quarter of 2009, a decrease of 47.5% from the third quarter of 2008. Crude oil production subject to the Trust's royalty interest increased 5.6% in the third quarter of 2009, but this increase in volume was more than offset by a 50.3% decrease in the average price per royalty barrel received during the 2009 third quarter compared to the 2008 third quarter. Gas royalty revenue was \$426,336 for the third quarter of 2009, a decrease of 63.7% from the third quarter of 2008. This decrease resulted from a decrease of 2.2% in the volume of gas produced and a 62.9% decrease in the average price of gas sold.

Easement and sundry income was \$688,450 for the third quarter of 2009, a decrease of 2.1% from the third quarter of 2008. This category of income is unpredictable and may vary significantly from quarter to quarter.

Interest income, including interest on investments, was \$314,511 for the third quarter of 2009 compared to \$380,670 for the third quarter of 2008, a decrease of 17.4%. Interest income is comprised of interest on notes receivable from land sales and sundry interest from short-term investments of cash on hand. Interest on notes receivable was \$302,656 for the third quarter of 2009 compared to \$339,415 for the third quarter of 2008, a decrease of 10.8%. As of September 30, 2009 notes receivable for land sales were \$16,678,145 compared to \$18,098,809 at September 30, 2008, a decrease of 7.8%. Sundry interest was \$11,855 for the third quarter of 2009 compared to \$41,255 for the third quarter of 2008, a decrease of 71.3%. Sundry interest fluctuates based on cash on hand for investment and interest rates on short-term investments.

Taxes, other than income taxes decreased 45.1% for the third quarter of 2009 compared to the third 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 third quarter of 2009 were \$406,512 compared to \$587,937 during the third quarter of 2008, a decrease of 30.9%. This decrease in expenses is due primarily to a decrease in legal expenses.

Results of Operations for the Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Earnings per sub-share certificate were \$.51 for the first nine months of 2009 compared to \$.94 for the first nine months of 2008. Total operating and investing revenues were \$9,496,083 for the first nine months of 2009 compared to \$16,505,403 for the first nine months of 2008, a decrease of 42.5%. This decrease in revenue and earnings was due primarily to decreases in oil and gas royalty revenue and, to a lesser extent, declines in land sales, interest income and sundry income during the first nine months of 2009 compared to the first nine months of 2008.

Land sales totaled \$523,010 for the first nine months of 2009, representing the sale of 695 acres at an average price of approximately \$753 per acre. In the comparable period of 2008, land sales totaled \$823,440, representing the sale of 2,205 acres and 87 town lots at an average price of approximately \$371 per acre.

Rentals, royalties, and sundry income were \$8,003,287 for the first nine months of 2009 compared to \$14,436,651 for the first nine months of 2008, a decrease of 44.6%. This decrease resulted primarily from decreases in oil and gas royalty income and, to a much lesser extent, sundry income.

Oil and gas royalty revenue was \$5,709,175 for the first nine months of 2009 compared to \$12,024,116 for the first nine months of 2008, a decrease of 52.5%. Oil royalty revenue was \$4,431,438 for the first nine months of 2009, a decrease of 50.8% from the first nine months of 2008. Crude oil production subject to the Trust's royalty interest increased 9.0% for the first nine months of 2009 compared to the first nine months of 2008, but this increase in volume was more than offset by a 54.9% decrease in the average price per royalty barrel received during the first nine months of 2009.

compared to the first nine months of 2008. Gas royalty revenue was \$1,277,737 for the first nine months of 2009, a decrease of 57.7% from the first nine months of 2008. This decrease in gas royalty revenue resulted from a decrease of 17.4% in the volume of gas produced and a 48.8% decrease in the average price of gas sold during the first nine months of 2009 compared to the first nine months of 2008.

Easement and sundry income was \$1,907,175 for the first nine months of 2009 compared to \$2,030,290 for the first nine months of 2008, a decrease of 6.1%. This category of income is unpredictable and may vary significantly from period to period.

Interest income, including interest on investments, was \$969,786 for the first nine months of 2009 compared to \$1,245,312 for the first nine months of 2008, a decrease of 22.1%. Interest income is comprised of interest on notes receivable from land sales and sundry interest from short-term investments of cash on hand. Interest on notes receivable for the first nine months of 2009 was \$923,769, a decrease of 11.2% from the comparable period of 2008. As of September 30, 2009, notes receivable from land sales were \$16,678,145 compared to \$18,098,809 at September 30, 2008, a decrease of 7.8%. Sundry interest was \$46,017 for the first nine months of 2009, a decrease of 77.5% from the first nine months of 2008. Sundry interest income fluctuates based on cash on hand for investment and interest rates on short-term investments.

Taxes, other than income taxes decreased 43.6% for the first nine months of 2009 compared to the first nine 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 decreased 7.2% for the first nine months of 2009 compared to the first nine months of 2008. This decrease in expenses is due primarily to a decrease in legal expenses.

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

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

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 third 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
July 1, through July 31, 2009	20,883	\$33.78	—	—
August 1, through August 31, 2009	31,799	\$33.76	—	—
September 1, through September 30, 2009	21,800	\$30.80	—	—
Total	74,482*	\$32.90	—	—

* The Trust purchased and retired 74,482 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.

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: November 5, 2009

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

Date: November 5, 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.