

TEXAS PACIFIC LAND TRUST
Form 10-Q
November 06, 2008

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, 2008

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

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, 2007, 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

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|---|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 10,964,302 | \$ 10,153,202 |
| Accrued receivables | 2,640,282 | 1,540,341 |
| Other assets | 8,237 | 82,373 |
| Prepaid Federal income taxes | -- | 62,914 |
| Notes receivable for land sales | 18,098,809 | 19,625,622 |
| Water wells, leasehold improvements, furniture and equipment – at cost less accumulated depreciation | 111,008 | 108,731 |
| Real estate acquired: (10,793 acres at September 30, 2008 and 10,153 acres at December 31, 2007) | 1,161,504 | 1,083,552 |
| Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned: | | |
| Land (surface rights) situated in twenty counties in Texas – 952,455 acres in 2008 and 954,660 acres in 2007 | – | – |
| Town lots in Loraine and Morita – 541 lots in 2008 and 628 lots in Iatan, Loraine and Morita in 2007 | – | – |
| 1/16 nonparticipating perpetual royalty interest in 386,988 acres in 2008 and 2007 | – | – |
| 1/128 nonparticipating perpetual royalty interest in 85,414 acres in 2008 and 2007 | – | – |
| | \$ 32,984,142 | \$ 32,656,735 |
| Liabilities and Capital | | |
| Accounts payable and accrued liabilities | \$ 467,356 | \$ 1,142,444 |
| Federal income taxes payable | 344,947 | -- |
| Other taxes payable | 308,688 | 75,100 |
| Unearned revenues | 413,811 | 413,811 |
| Deferred taxes | 5,460,515 | 5,964,844 |
| Pension plan liability | 232,358 | 170,997 |
| Total liabilities | 7,227,675 | 7,767,196 |
| 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: 10,323,445 Sub-shares in 2008 and 10,488,375 Sub-shares in 2007 | – | – |

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| | | |
|---|---------------|---------------|
| Accumulated other comprehensive income (loss) | (247,729) | (257,842) |
| Net proceeds from all sources | 26,004,196 | 25,147,381 |
| Total capital | 25,756,467 | 24,889,539 |
| | \$ 32,984,142 | \$ 32,656,735 |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST
STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Income: | | | | |
| Rentals, royalties and sundry income | \$ 5,469,108 | \$ 2,785,644 | \$ 14,436,651 | \$ 8,385,051 |
| Land sales | 184,400 | 1,857,664 | 823,440 | 1,857,664 |
| Interest income from notes receivable | 339,415 | 365,460 | 1,040,733 | 1,105,006 |
| | 5,992,923 | 5,008,768 | 16,300,824 | 11,347,721 |
| Expenses: | | | | |
| Taxes, other than Federal income taxes | 314,571 | 159,356 | 982,625 | 500,794 |
| Basis in real estate sold | -- | 693,454 | -- | 693,454 |
| General and administrative expenses | 587,937 | 573,478 | 1,657,798 | 1,746,705 |
| | 902,508 | 1,426,288 | 2,640,423 | 2,940,953 |
| Operating income | 5,090,415 | 3,582,480 | 13,660,401 | 8,406,768 |
| Interest income earned from investments | 41,255 | 76,064 | 204,579 | 283,008 |
| Income before Federal income taxes | 5,131,670 | 3,658,544 | 13,864,980 | 8,689,776 |
| Federal income taxes | 1,538,156 | 1,123,409 | 4,123,087 | 2,611,077 |
| Net income | \$ 3,593,514 | \$ 2,535,135 | \$ 9,741,893 | \$ 6,078,699 |
| Average number of sub-share certificates and equivalent sub-share certificates outstanding | | | | |
| | 10,367,017 | 10,530,958 | 10,406,889 | 10,559,717 |
| Basic and dilutive earnings per sub-share certificate | \$.35 | \$.24 | \$.94 | \$.58 |
| Cash dividends per sub-share certificate | \$ -- | \$ -- | \$.18 | \$.16 |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST
STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 9,741,893 | \$ 6,078,699 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred taxes | (504,329) | (424,472) |
| Depreciation and amortization | 23,400 | 26,100 |
| Changes in operating assets and liabilities: | | |
| Accrued receivables and other assets | (1,025,805) | (389,073) |
| Real estate acquired | (77,952) | 693,455 |
| Notes receivable for land sales | 1,526,813 | 666,543 |
| Accounts payable, accrued expenses and other liabilities | (370,026) | 417,493 |
| Federal income taxes payable | 407,861 | (227,250) |
| Net cash provided by operating activities | 9,721,855 | 6,841,495 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (25,677) | (34,547) |
| Net cash used in investing activities | (25,677) | (34,547) |
| Cash flows from financing activities: | | |
| Purchase of Sub-share Certificates in Certificates of Proprietary Interest | (7,000,410) | (5,031,753) |
| Dividends paid | (1,884,668) | (1,696,780) |
| Net cash used in financing activities | (8,885,078) | (6,728,533) |
| Net increase in cash and cash equivalents | 811,100 | 78,415 |
| Cash and cash equivalents at beginning of period | 10,153,202 | 8,524,177 |
| Cash and cash equivalents at end of period | \$ 10,964,302 | \$ 8,602,592 |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

- (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, 2008 and the results of its operations for the three month and nine month periods ended September 30, 2008 and 2007, respectively, and its cash flows for the nine month periods ended September 30, 2008 and 2007, respectively. The financial statements and footnotes included herein should be read in conjunction with the Trust's annual financial statements as of December 31, 2007 and 2006 and for each of the years in the three year period ended December 31, 2007 included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2007.
- (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 nine month periods ended September 30, 2008 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, temporary cash investments in loan participation agreements 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, 2008 and 2007 is summarized as follows:

| | 2008 | 2007 |
|---------------------------|-------------|-------------|
| Federal income taxes paid | \$4,225,000 | \$3,271,068 |

- (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) On June 20, 2007, the Trustees of the Trust authorized a five-for-one split of its Sub-share certificates. The additional Sub-shares resulting from the split were distributed on July 12, 2007. Sub-share and per Sub-share amounts reflected throughout the unaudited financial statements and the notes thereto have been retroactively adjusted for the split.

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, 2007, (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, 2008 Compared to the Quarter Ended September 30, 2007

Earnings per sub-share certificate were \$.35 for the third quarter of 2008 compared to \$.24 for the third quarter of 2007. Total operating and investing revenues were \$6,034,178 for the third quarter of 2008 compared to \$5,084,832 for the third quarter of 2007, an increase of 18.7%. This increase in revenue was due primarily to increases in oil and gas royalties and sundry income, which were partially offset by declines in land sales and interest income, during the third quarter of 2008 compared to the third quarter of 2007.

In the third quarter of 2008, land sales totaled \$184,400, representing the sale of 447 acres and 87 town lots at an average price of \$400 per acre. In the comparable period of 2007, land sales totaled \$1,857,664, representing the sale of 1,539 acres at an average price of approximately \$1,207 per acre.

Rentals, royalties and sundry income were \$5,469,108 for the third quarter of 2008 compared to \$2,785,644 for the third quarter of 2007, an increase of 96.3%. This increase resulted primarily from increases in oil and gas and sundry income.

Oil and gas royalty revenue was \$4,656,168 for the third quarter of 2008 compared to \$2,189,938 for the third quarter of 2007, an increase of 112.6%. Oil royalty revenue was \$3,481,436 for the third quarter of 2008, an increase of 114.6% from the third quarter of 2007. Crude oil production subject to the Trust's royalty interest increased 11.8% in the third quarter of 2008, and the average price per royalty barrel of crude oil increased 91.8% in the 2008 third quarter compared to the 2007 third quarter. Gas royalty revenue was \$1,174,732 for the third quarter of 2008, an increase of 106.9% from the third quarter of 2007. This increase resulted from an increase of 35.7% in the volume of gas produced, and a price increase of 52.5%.

Easement and sundry income was \$703,048 for the third quarter of 2008, an increase of 44.2% from the third quarter of 2007. The increase in sundry income was primarily attributable to an increase in the number of easements and increased oil company damage payments. This category of income is unpredictable and may vary significantly from

quarter to quarter.

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Interest income, including interest on investments, was \$380,670 for the third quarter of 2008 compared to \$441,524 for the third quarter of 2007, a decrease of 13.8%. 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 \$339,415 for the third quarter of 2008 compared to \$365,460 for the third quarter of 2007, a decrease of 7.1%. As of September 30, 2008 notes receivable were \$18,098,809 compared to \$20,135,589 at September 30, 2007, a decrease of 10.1%. Sundry interest was \$41,255 for the third quarter of 2008 compared to \$76,064 for the third quarter of 2007, a decrease of 45.8%. Sundry interest fluctuates based on cash on hand for investment and interest rates on short-term investments.

Taxes, other than Federal income taxes increased 97.4% for the third quarter of 2008 compared to the third quarter of 2007. This increase is attributable to an increase in oil and gas production taxes which resulted from the increase in oil and gas revenue discussed above, as well as a revised margin tax imposed by the State of Texas.

General and administrative expenses for the third quarter of 2008 were \$587,937 compared to \$573,478 during the third quarter of 2007, an increase of 2.5%.

Results of Operations for the Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007

Earnings per sub-share certificate were \$.94 for the first nine months of 2008 compared to \$.58 for the first nine months of 2007. Total operating and investing revenues were \$16,505,403 for the first nine months of 2008 compared to \$11,630,729 for the first nine months of 2007, an increase of 41.9%. This increase in revenue and earnings was due primarily to increases in oil and gas royalty revenue and sundry income, which were partially offset by declines in land sales and interest income, during the first nine months of 2008 compared to the first nine months of 2007.

In the first nine months 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. In the comparable period of 2007, land sales totaled \$1,857,664, representing the sale of 1,539 acres at an average price of approximately \$1,207 per acre. During the first nine months of 2008, the Trust purchased 640 acres of land located in Reeves County, Texas from the State of Texas for an aggregate purchase price of \$77,952, or approximately \$122 per acre. While the Trust is generally not a purchaser of land, the parcels purchased (which were among others offered for sale by the state) were interspersed among parcels already owned by the Trust. The purchase of these parcels will make the Trust's holdings in Reeves County more contiguous.

Rentals, royalties, and sundry income were \$14,436,651 for the first nine months of 2008 compared to \$8,385,051 for the first nine months of 2007, an increase of 72.2%. This increase resulted primarily from increases in oil and gas royalty income and sundry income.

Oil and gas royalty revenue was \$12,024,116 for the first nine months of 2008 compared to \$6,853,638 for the first nine months of 2007, an increase of 75.4%. Oil royalty revenue was \$9,002,854 for the first nine months of 2008, an increase of 79.5% from the first nine months of 2007. Crude oil production subject to the Trust's royalty interest decreased 0.5% in the first nine months of 2008, but this slight decrease in volume was more than offset by an 80.4% increase in the average price per royalty barrel received during the first nine months of 2008 compared to the first nine months of 2007. Gas royalty revenue was \$3,021,262 for the first nine months of 2008, an increase of 64.4% from the first nine months of 2007. This increase in gas royalty revenue resulted from an increase of 40.5% in the volume of gas produced and a 17.0% increase in the average price of gas sold during the first nine months of 2008 compared to the first nine months of 2007.

Easement and sundry income was \$2,030,290 for the first nine months of 2008 compared to \$1,159,092 for the first nine months of 2007, an increase of 75.2%. The increase in sundry income resulted primarily from an increase in the number of easements and increased oil company damage payments. This category of income is unpredictable and may vary significantly from period to period.

Interest income, including interest on investments, was \$1,245,312 for the first nine months of 2008 compared to \$1,388,014 for the first nine months of 2007, a decrease of 10.3%. 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 2008 was \$1,040,733, a decrease of 5.8% from the comparable period of 2007. As of September 30, 2008, notes receivable from land sales were \$18,098,809 compared to \$20,135,589 at September 30, 2007, a decrease of 10.1%. Sundry interest was \$204,579 for the first nine months of 2008, a decrease of 27.7% from the first nine months of 2007. Sundry interest income fluctuates based on cash on hand for investment and interest rates on short-term investments.

Taxes, other than Federal income taxes increased 96.2% for the first nine months of 2008 compared to the first nine months of 2007. This increase is attributable to an increase in oil and gas production taxes which resulted from the increase in oil and gas revenue discussed above, as well as a revised margin tax imposed by the State of Texas.

General and administrative expenses decreased 5.1% for the first nine months of 2008 compared to the first nine months of 2007.

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, 2007.

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 Trust'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, 2007.

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

(c) During the third quarter of 2008, 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, 2008 | 26,106 | \$44.34 | – | – |
| August 1, through August 31, 2008 | 8,276 | \$39.69 | – | – |
| September 1, through September 30, 2008 | 35,083 | \$39.44 | – | – |
| Total | 69,465* | \$41.31 | – | – |

* The Trust purchased and retired 69,465 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 6, 2008

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

Date: November 6, 2008

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. |