

TEXAS PACIFIC LAND TRUST

Form 10-Q

November 03, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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(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, 2016

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**

**75-0279735**

(State or Other Jurisdiction of Incorporation  
or Organization)

(I.R.S. Employer  
Identification No.)

**1700 Pacific Avenue, Suite 2770, Dallas, Texas 75201**

(Address of Principal Executive Offices) (Zip Code)

**(214) 969-5530**

(Registrant's Telephone Number, Including Area Code)

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(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

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  
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

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### **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 on Form 10-K for the year ended December 31, 2015, 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.*

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****TEXAS PACIFIC LAND TRUST****BALANCE SHEETS**

|                                                                                                                | <b>September<br/>30,<br/>2016<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2015</b> |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------|
| <b>ASSETS</b>                                                                                                  |                                                   |                                  |
| Cash and cash equivalents                                                                                      | \$45,496,176                                      | \$45,011,969                     |
| Accrued receivables                                                                                            | 7,001,383                                         | 3,787,534                        |
| Other assets                                                                                                   | 68,209                                            | 121,426                          |
| Prepaid income taxes                                                                                           | 202,494                                           | —                                |
| Notes receivable for land sales                                                                                | 94,971                                            | 139,114                          |
| Water wells, vehicles, furniture, and equipment – at cost less accumulated depreciation                        | 584,964                                           | 260,901                          |
| Real estate acquired: (10,065 acres at September 30, 2016 and 10,065 at December 31, 2015)                     | 1,114,601                                         | 1,114,601                        |
| Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned:           |                                                   |                                  |
| Land (surface rights) situated in eighteen counties in Texas – 877,606 acres in 2016 and 878,268 acres in 2015 | —                                                 | —                                |
| 1/16 nonparticipating perpetual royalty interest in 373,777 acres in 2016 and 2015                             | —                                                 | —                                |
| 1/128 nonparticipating perpetual royalty interest in 85,414 acres in 2016 and 2015                             | —                                                 | —                                |
|                                                                                                                | <b>\$54,562,798</b>                               | <b>\$50,435,545</b>              |
| <b>LIABILITIES AND CAPITAL</b>                                                                                 |                                                   |                                  |
| Accounts payable and accrued expenses                                                                          | \$1,342,067                                       | \$868,807                        |
| Income taxes payable                                                                                           | —                                                 | 634,911                          |
| Other taxes payable                                                                                            | 325,263                                           | 167,290                          |
| Unearned revenue                                                                                               | 9,546,211                                         | 2,579,406                        |
| Deferred taxes                                                                                                 | 185,210                                           | 163,213                          |
| Pension plan liability                                                                                         | 380,658                                           | 333,239                          |
| Total liabilities                                                                                              | 11,779,409                                        | 4,746,866                        |

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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: 7,950,961 Sub-shares in 2016 and 8,118,064 Sub-shares in 2015 | —            | —            |
| Other comprehensive loss                                                                                                                                             | (1,180,340 ) | (1,248,906 ) |
| Net proceeds from all sources                                                                                                                                        | 43,963,729   | 46,937,585   |
| Total capital                                                                                                                                                        | 42,783,389   | 45,688,679   |
|                                                                                                                                                                      | \$54,562,798 | \$50,435,545 |

See accompanying notes to financial statements.

**TEXAS PACIFIC LAND TRUST****STATEMENTS OF INCOME AND TOTAL COMPREHENSIVE INCOME****(Unaudited)**

|                                                                                                                                    | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------|--------------------------------------------|--------------|
|                                                                                                                                    | <b>2016</b>                                 | <b>2015</b>  | <b>2016</b>                                | <b>2015</b>  |
| Income:                                                                                                                            |                                             |              |                                            |              |
| Oil and gas royalties                                                                                                              | \$8,454,876                                 | \$6,060,645  | \$20,932,329                               | \$18,285,504 |
| Land sales                                                                                                                         | 485,505                                     | 1,888,635    | 571,505                                    | 22,316,635   |
| Easements and sundry income                                                                                                        | 5,200,748                                   | 10,091,161   | 20,470,691                                 | 23,697,100   |
| Other income                                                                                                                       | 124,623                                     | 139,017      | 373,655                                    | 400,753      |
|                                                                                                                                    | 14,265,752                                  | 18,179,458   | 42,348,180                                 | 64,699,992   |
| Expenses:                                                                                                                          |                                             |              |                                            |              |
| Taxes, other than income taxes                                                                                                     | 497,244                                     | 362,556      | 1,238,046                                  | 1,081,136    |
| General and administrative expenses                                                                                                | 676,332                                     | 590,984      | 2,123,860                                  | 1,702,248    |
|                                                                                                                                    | 1,173,576                                   | 953,540      | 3,361,906                                  | 2,783,384    |
| Operating income                                                                                                                   | 13,092,176                                  | 17,225,918   | 38,986,274                                 | 61,916,608   |
| Interest income earned from investments                                                                                            | 7,500                                       | 7,290        | 19,286                                     | 21,243       |
| Income before income taxes                                                                                                         | 13,099,676                                  | 17,233,208   | 39,005,560                                 | 61,937,851   |
| Income taxes                                                                                                                       | 4,170,264                                   | 5,771,859    | 12,672,980                                 | 20,894,401   |
| Net income                                                                                                                         | \$8,929,412                                 | \$11,461,349 | \$26,332,580                               | \$41,043,450 |
| Other comprehensive income – periodic pension costs, net of income taxes of \$12,909, \$4,527, \$38,728, and \$13,582 respectively | 22,855                                      | 23,975       | 68,566                                     | 71,924       |
| Total comprehensive income                                                                                                         | \$8,952,267                                 | \$11,485,324 | \$26,401,146                               | \$41,115,374 |
| Average number of sub-share certificates and equivalent sub-share certificates outstanding                                         | 7,984,936                                   | 8,190,757    | 8,025,222                                  | 8,226,185    |
| Basic and dilutive earnings per sub-share certificate on net income                                                                | \$1.12                                      | \$1.40       | \$3.28                                     | \$4.99       |
| Cash dividends per sub-share certificate                                                                                           | \$—                                         | \$—          | \$.31                                      | \$.29        |

See accompanying notes to financial statements.





**TEXAS PACIFIC LAND TRUST****STATEMENTS OF CASH FLOWS****(Unaudited)**

|                                                                                   | <b>Nine Months<br/>Ended September 30,</b> |               |
|-----------------------------------------------------------------------------------|--------------------------------------------|---------------|
|                                                                                   | <b>2016</b>                                | <b>2015</b>   |
| Cash flows from operating activities:                                             |                                            |               |
| Net income                                                                        | \$26,332,580                               | \$41,043,450  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                            |               |
| Deferred taxes                                                                    | 21,997                                     | (237,637 )    |
| Depreciation and amortization                                                     | 18,674                                     | 13,799        |
| (Gain) loss on disposal of fixed assets                                           | 8,201                                      | (712 )        |
| Changes in operating assets and liabilities:                                      |                                            |               |
| Accrued receivables and other assets                                              | (3,160,632 )                               | (797,628 )    |
| Prepaid income taxes                                                              | (202,494 )                                 | 815,937       |
| Notes receivable for land sales                                                   | 44,143                                     | 784,001       |
| Accounts payable, accrued expenses and other liabilities                          | 7,714,023                                  | (1,424,737 )  |
| Income taxes payable                                                              | (634,911 )                                 | 2,468,351     |
| Net cash provided by operating activities                                         | 30,141,581                                 | 42,664,824    |
| Cash flows from investing activities:                                             |                                            |               |
| Proceeds from sale of fixed assets                                                | 18,000                                     | 25,000        |
| Purchase of fixed assets                                                          | (368,938 )                                 | (111,646 )    |
| Net cash used in investing activities                                             | (350,938 )                                 | (86,646 )     |
| Cash flows from financing activities:                                             |                                            |               |
| Purchase of Sub-share Certificates in Certificates of Proprietary Interest        | (26,799,253 )                              | (20,819,786 ) |
| Dividends paid                                                                    | (2,507,183 )                               | (2,402,460 )  |
| Net cash used in financing activities                                             | (29,306,436 )                              | (23,222,246 ) |
| Net increase in cash and cash equivalents                                         | 484,207                                    | 19,355,932    |
| Cash and cash equivalents, beginning of period                                    | 45,011,969                                 | 26,814,759    |
| Cash and cash equivalents, end of period                                          | \$45,496,176                               | \$46,170,691  |

See accompanying notes to financial statements.



**TEXAS PACIFIC LAND TRUST**

**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

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, 2016 and the results of its operations for the three month and nine month periods ended September 30, 2016 and 2015, respectively, and its cash flows for the nine month periods ended September 30, 2016 and 2015, respectively. The financial statements and footnotes included herein should be read in conjunction with the Trust's annual financial statements as of December 31, 2015 and 2014 and for each of the years in the three year period ended December 31, 2015 included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2015. Beginning with the second quarter of 2015, the Trust updated the format of the revenue section in the Statements of Income and Total Comprehensive Income to provide more detail regarding revenue sources.

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 November 3, 2016, the date we issued these financial statements.

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.

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.

The Trust's effective Federal income tax rate is less than the 35% statutory rate because taxable income is reduced by statutory percentage depletion allowed on mineral royalty income.

The results of operations for the three month and nine month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year.

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The Trust invests cash in excess of daily requirements primarily in bank deposit and savings accounts and (7) certificates of deposit 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, 2016 and 2015 is summarized as follows:

|                   | 2016          | 2015          |
|-------------------|---------------|---------------|
| Income taxes paid | \$ 13,525,307 | \$ 17,886,479 |

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 (8) 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 and any other land thereafter acquired. 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.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “*Revenue Recognition (Topic 606): Revenue from Contracts with Customers*” (“ASU 2014-09”). This ASU introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to (9) enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 31, 2017, including interim periods within that reporting period. The Trust is currently evaluating the new guidance to determine the impact it will have on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*” (“ASU 2016-02”). This ASU requires lessees to recognize on the balance sheet, the assets and liabilities arising from leases with terms of more than twelve months. This ASU also requires both qualitative and quantitative disclosures sufficient to enable investors (10) and other users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from these leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Trust is currently evaluating the new guidance to determine the impact it will have on our financial statements.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*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 on Form 10-K for the year ended December 31, 2015, (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, 2016 Compared to the Quarter Ended September 30, 2015**

Earnings per Sub-share certificate were \$1.12 for the third quarter of 2016, compared to \$1.40 for the third quarter of 2015. Total operating and investing revenues were \$14,273,252 for the third quarter of 2016 compared to \$18,186,748 for the third quarter of 2015, a decrease of 21.5%. This decrease in revenue and earnings was due primarily to decreases in easements and sundry income and land sales. These decreases were partially offset by an increase in oil and gas royalty revenue.

Oil and gas royalty revenue was \$8,454,876 for the third quarter of 2016, compared to \$6,060,645 for the third quarter of 2015, an increase of 39.5%. Oil royalty revenue was \$5,942,203 for the third quarter of 2016, an increase of 35.9% from the third quarter of 2015 when oil royalty revenue was \$4,371,573. Crude oil production subject to the Trust's royalty interests increased 58.6% in the third quarter of 2016 compared to the third quarter of 2015. This increase in production was partially offset by a 14.3% decrease in the average price per royalty barrel of crude oil during the third quarter of 2016 compared to the third quarter of 2015. Gas royalty revenue was \$2,512,673 for the third quarter of 2016, an increase of 48.8% from the third quarter of 2015 when gas royalty revenue was \$1,689,072. This increase in gas royalty revenue resulted from a volume increase of 31.2% in the third quarter of 2016 compared to the third quarter of 2015, in addition to a 13.2% increase in the average price received.

In the third quarter of 2016, the Trust sold approximately 647 acres of land for a total of \$485,505, or approximately \$750 per acre. In the third quarter of 2015, the Trust sold approximately 267.85 acres for a total of \$1,888,635, or approximately \$7,051 per acre.

Easements and sundry income was \$5,200,748 for the third quarter of 2016, a decrease of 48.5% compared to the third quarter of 2015 when easements and sundry income was \$10,091,161. This decrease resulted primarily from a decrease in pipeline easement income and, to a lesser extent, seismic permit income. These decreases were partially offset by an increase in sundry income. The Trust is currently moving toward the use of term easements (in lieu of perpetual) which will require us to gradually recognize the income for easements over the life of the agreement, in lieu of recognizing it all at the beginning of the term of the easement. As a result, \$3,240,403 of easement income received in the third quarter of 2016 was deferred and therefore not reflected in the statements of income and total comprehensive income. This was also the primary reason for the 270.1% increase in unearned revenue. This category of income is unpredictable and may vary significantly from quarter to quarter.

Other income, including interest on investments, was \$132,123 for the third quarter of 2016 compared to \$146,307 for the third quarter of 2015, a decrease of 9.7%. Grazing lease income was \$122,769 for the third quarter of 2016, compared to \$133,333 for the third quarter of 2015, a decrease of 7.9%. Interest on notes receivable for the third quarter of 2016 was \$1,854, a decrease of 67.4% compared to the third quarter of 2015 when interest on notes receivable was \$5,684. This decrease is primarily due to principal prepayments received on notes due to the Trust. As of September 30, 2016, notes receivable for land sales were \$94,971 compared to \$139,114 at September 30, 2015, a decrease of 31.7%. Interest income earned from investments was \$7,500 for the third quarter of 2016, compared to \$7,290 for the third quarter of 2015, an increase of 2.9%. Interest on investments is affected by such variables as cash on hand for investment and the rate of interest on short-term investments.

Taxes, other than income taxes, were \$497,244 for the third quarter of 2016 compared to \$362,556 for the third quarter of 2015, an increase of 37.1%. This increase is primarily attributable to an increase in oil and gas production taxes which resulted from the increase in oil and gas royalty revenues discussed above.

General and administrative expenses were \$676,332 for the third quarter of 2016 compared to \$590,984 for the third quarter of 2015, an increase of 14.4%. This increase was primarily due to increases in employment expenses, and to a lesser extent, legal fees.



**Results of Operations for the Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015**

Earnings per Sub-share certificate were \$3.28 for the first nine months of 2016, compared to \$4.99 for the first nine months of 2015. Total operating and investing revenues were \$42,367,466 for the first nine months of 2016 compared to \$64,721,235 for the first nine months of 2015, a decrease of 34.5%. This decrease in revenue and earnings was due primarily to decreases in land sales and easements and sundry income, which were partially offset by an increase in oil and gas royalty revenue.

Oil and gas royalty revenue was \$20,932,329 for the first nine months of 2016, compared to \$18,285,504 for the first nine months of 2015, an increase of 14.5%. Oil royalty revenue was \$15,387,710 for the first nine months of 2016, an increase of 10.8% from the first nine months of 2015 when oil royalty revenue was \$13,884,267. Crude oil production subject to the Trust's royalty interests increased 52.3% in the first nine months of 2016 compared to the first nine months of 2015. This increase in production was offset by a 27.2% decrease in the average price per royalty barrel of crude oil during the first nine months of 2016 compared to the first nine months of 2015. Gas royalty revenue was \$5,544,619 for the first nine months of 2016, an increase of 26.0% from the first nine months of 2015 when gas royalty revenue was \$4,401,237. This increase in gas royalty revenue resulted from a volume increase of 38.6% in the first nine months of 2016 compared to the first nine months of 2015, which was partially offset by a price decrease of 9.2%.

During the first nine months of 2016, the Trust sold approximately 656 acres of land for a total of \$571,505 or approximately \$871 per acre. In the first nine months of 2015, the Trust sold approximately 20,900 acres for a total of \$22,316,635, or approximately \$1,068 per acre.

Easements and sundry income was \$20,470,691 for the first nine months of 2016, a decrease of 13.6% compared to the first nine months of 2015 when easements and sundry income was \$23,697,100. This decrease resulted primarily from a decrease in pipeline easement income, which was partially offset by an increase in sundry income. The Trust is currently moving toward the use of term easements (in lieu of perpetual) which will require us to gradually recognize the income for easements over the life of the agreement, in lieu of recognizing it all at the beginning of the term of the easement. As a result, \$5,726,314 of easement income received in the first nine months of 2016 was deferred and therefore not reflected in the statements of income and comprehensive income. This was also the primary reason for the 270.1% increase in unearned revenue. This category of income is unpredictable and may vary significantly from quarter to quarter.

Other income, including interest on investments, was \$392,941 for the first nine months of 2016 compared to \$421,996 for the first nine months of 2015, a decrease of 6.9%. Grazing lease income was \$367,078 for the first nine months of 2016, compared to \$362,375 for the first nine months of 2015, an increase of 1.3%. Interest on notes receivable for the first nine months of 2016 was \$6,577, a decrease of 82.9% compared to the first nine months of

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2015 when interest on notes receivable was \$38,378. This decrease is primarily due to principal prepayments received on notes due to the Trust. As of September 30, 2016, notes receivable for land sales were \$94,971 compared to \$139,114 at September 30, 2015, a decrease of 31.7%. Interest income earned from investments was \$19,286 for the first nine months of 2016, compared to \$21,243 for the first nine months of 2015, a decrease of 9.2%. Interest on investments is affected by such variables as cash on hand for investment and the rate of interest on short-term investments.

Taxes, other than income taxes, were \$1,238,046 for the first nine months of 2016 compared to \$1,081,136 for the first nine months of 2015, an increase of 14.5%. This increase is primarily attributable to an increase in oil and gas production taxes which resulted from the increase in oil and gas royalty revenue discussed above.

General and administrative expenses were \$2,123,860 for the first nine months of 2016 compared to \$1,702,248 for the first nine months of 2015, an increase of 24.8%. This increase is primarily due to an ongoing project to enhance the information systems of the Trust and, to a lesser extent, an increase in non-recurring legal fees and employment expenses.

## **Liquidity and Capital Resources**

The Trust's principal sources of liquidity are revenues from oil and gas royalties, easements and sundry income, and 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, 2015.

### **Item 4. Controls and Procedures**

Pursuant to Rule 13a-15, management of the Trust under the supervision and with the participation of David M. Peterson, the Trust's Chief Executive Officer, and Robert J. Packer, 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. Peterson and Mr. Packer 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 on Form 10-K for the year ended December 31, 2015.

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

(c) During the third quarter of 2016, the Trust repurchased Sub-share certificates as follows:

| <u>Period</u>                     | <b>Total<br/>Number of<br/>Sub-shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per<br/>Sub-share</b> | <b>Total<br/>Number<br/>of<br/>Sub-shares<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans<br/>or<br/>Programs</b> | <b>Maximum<br/>Number (or<br/>Approximate<br/>Dollar<br/>Value) of<br/>Sub-shares<br/>that<br/>May Yet Be<br/>Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|-----------------------------------|---------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| July 1, through July 31, 2016     | 20,803                                                  | \$ 168.95                                           | —                                                                                                                                       | —                                                                                                                                                                   |
| August 1, through August 31, 2016 | 24,723                                                  | \$ 174.43                                           | —                                                                                                                                       | —                                                                                                                                                                   |

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|                                         |        |             |   |   |
|-----------------------------------------|--------|-------------|---|---|
| September 1, through September 30, 2016 | 18,146 | \$ 204.84   | — | — |
| Total                                   | 63,672 | * \$ 181.31 | — | — |

\* The Trust purchased and retired 63,672 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.

101.INS XBRL Instance

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation

101.DEF XBRL Taxonomy Extension Definition

101.LAB XBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

## 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 3, 2016

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

Date: November 3, 2016

By: /s/ Robert J. Packer  
Robert J. Packer, Chief Financial Officer

## INDEX TO EXHIBITS

| <b>EXHIBIT<br/>NUMBER</b> | <b><u>DESCRIPTION</u></b>                                                                                     |
|---------------------------|---------------------------------------------------------------------------------------------------------------|
| 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. |
| 101.INS                   | XBRL Instance                                                                                                 |
| 101.SCH                   | XBRL Taxonomy Extension Schema                                                                                |
| 101.CAL                   | XBRL Taxonomy Extension Calculation                                                                           |
| 101.DEF                   | XBRL Taxonomy Extension Definition                                                                            |
| 101.LAB                   | XBRL Taxonomy Extension Labels                                                                                |
| 101.PRE                   | XBRL Taxonomy Extension Presentation                                                                          |