CROSS TIMBERS ROYALTY TRUST
Form 10-Q
November 10, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-10982

Cross Timbers Royalty Trust

(Exact name of registrant as specified in its charter)

Texas	**75-6415930**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
Southwest Bank	
Trustee	
P.O. Box 962020, Fort Worth, Texas	**76162-2020**
(Address of principal executive offices)	**(Zip Code)**

(855) 588-7839

(Registrant s telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if change 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 x 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of units of beneficial interest outstanding, as of the latest practicable date:

Outstanding as of October 1, 2014
6,000,000

Table of Contents

CROSS TIMBERS ROYALTY TRUST

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

		Page
	Glossary of Terms	3
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	4
	Report of Independent Registered Public Accounting Firm	5
	Condensed Statements of Assets, Liabilities and Trust Corpus at September 30, 2014 and December 31, 2013	6
	Condensed Statements of Distributable Income for the Three and Nine Months Ended September 30, 2014 and 2013	7
	Condensed Statements of Changes in Trust Corpus for the Three and Nine Months Ended September 30, 2014 and 2013	8
	Notes to Condensed Financial Statements	9
Item 2.	Trustee s Discussion and Analysis	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	17
Item 4.	Controls and Procedures	17
PART II.	**OTHER INFORMATION**	
Item 1A.	Risk Factors	18
Item 6.	Exhibits	18
	Signatures	19

Table of Contents

CROSS TIMBERS ROYALTY TRUST

GLOSSARY OF TERMS

The following are definitions of significant terms used in this Form 10-Q:

Bbl	Barrel (of oil)
Mcf	Thousand cubic feet (of natural gas)
MMBtu	One million British Thermal Units, a common energy measurement
net proceeds	Gross proceeds received by XTO Energy from sale of production from the underlying properties, less applicable costs, as defined in the net profits interest conveyances.
net profits income	Net proceeds multiplied by the applicable net profits percentage of 75% or 90%, which is paid to the trust by XTO Energy. Net profits income is referred to as royalty income for income tax purposes.
net profits interest	An interest in an oil and gas property measured by net profits from the sale of production, rather than a specific portion of production. The following defined net profits interests were conveyed to the trust from the underlying properties: *90% net profits interests* - interests that entitle the trust to receive 90% of the net proceeds from the underlying properties that are royalty or overriding royalty interests in Texas, Oklahoma and New Mexico. *75% net profits interests* - interests that entitle the trust to receive 75% of the net proceeds from the underlying properties that are working interests in Texas and Oklahoma.
royalty interest (and overriding royalty interest)	A nonoperating interest in an oil and gas property that provides the owner a specified share of production without any production expense or development costs.
underlying properties	XTO Energy s interest in certain oil and gas properties from which the net profits interests were conveyed. The underlying properties include royalty and overriding royalty interests in producing and nonproducing properties in Texas, Oklahoma and New Mexico, and working interests in producing properties located in Texas and Oklahoma.
working interest	An operating interest in an oil and gas property that provides the owner a specified share of production that is subject to all production expense and development costs.

Table of Contents

CROSS TIMBERS ROYALTY TRUST

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The condensed financial statements included herein are presented, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to such rules and regulations, although the trustee believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the trust s latest Annual Report on Form 10-K. In the opinion of the trustee, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the assets, liabilities and trust corpus of the Cross Timbers Royalty Trust at September 30, 2014, and the distributable income and changes in trust corpus for the three- and nine-month periods ended September 30, 2014 and 2013, have been included. Distributable income for such interim periods is not necessarily indicative of distributable income for the full year. The condensed financial statements as of September 30, 2014, and for the three-month and nine-month periods ended September 30, 2014 and 2013 have been subjected to a review by PricewaterhouseCoopers LLP, the trust s independent registered public accounting firm, whose report is included herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Unitholders of Cross Timbers Royalty Trust and

Southwest Bank, Trustee:

We have reviewed the accompanying condensed statement of assets, liabilities and trust corpus of Cross Timbers Royalty Trust (the Trust) as of September 30, 2014, and the related condensed statements of distributable income and changes in trust corpus for the three-month and nine-month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Trustee.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed interim financial statements for them to be in conformity with the basis of accounting described in Note 1.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets, liabilities and trust corpus as of December 31, 2013, and the related statements of distributable income and changes in trust corpus for the year then ended (not presented herein), and in our report dated March 14, 2014, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed statement of assets, liabilities and trust corpus as of December 31, 2013 is fairly stated in all material respects in relation to the statement of assets, liabilities and trust corpus from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Houston, TX

November 10, 2014

Table of Contents

CROSS TIMBERS ROYALTY TRUST

Condensed Statements of Assets, Liabilities and Trust Corpus

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and short-term investments	**$ 1,617,831**	$ 1,143,391
Interest to be received	**3**	29
Net profits interests in oil and gas properties net (Note 1)	**11,164,455**	11,791,689
	$ 12,782,289	$ 12,935,109
LIABILITIES AND TRUST CORPUS		
Distribution payable to unitholders	**$ 1,617,834**	$ 1,143,420
Trust corpus (6,000,000 units of beneficial interest authorized and outstanding)	**11,164,455**	11,791,689
	$ 12,782,289	$ 12,935,109

The accompanying notes to condensed financial statements are an integral part of these statements.

Table of Contents

CROSS TIMBERS ROYALTY TRUST

Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Net profits income	**$ 4,672,606**	$ 4,227,291	**$ 12,918,239**	$ 10,244,910
Interest income	**281**	86	**403**	203
Total income	**4,672,887**	4,227,377	**12,918,642**	10,245,113
Administration expense	**135,267**	62,813	**410,808**	323,843
Distributable income	**$ 4,537,620**	$ 4,164,564	**$ 12,507,834**	$ 9,921,270
Distributable income per unit (6,000,000 units)	**$ 0.756270**	$ 0.694094	**$ 2.084639**	$ 1.653545

The accompanying notes to condensed financial statements are an integral part of these statements.

Table of Contents

CROSS TIMBERS ROYALTY TRUST

Condensed Statements of Changes in Trust Corpus (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Trust corpus, beginning of period	**$ 11,413,277**	$ 12,206,851	**$ 11,791,689**	$ 12,532,729
Amortization of net profits interests	**(248,822)**	(209,174)	**(627,234)**	(535,052)
Distributable income	**4,537,620**	4,164,564	**12,507,834**	9,921,270
Distributions declared	**(4,537,620)**	(4,164,564)	**(12,507,834)**	(9,921,270)
Trust corpus, end of period	**$ 11,164,455**	$ 11,997,677	**$ 11,164,455**	$ 11,997,677

The accompanying notes to condensed financial statements are an integral part of these statements.

Table of Contents

CROSS TIMBERS ROYALTY TRUST

Notes to Condensed Financial Statements (Unaudited)

1. Basis of Accounting

The financial statements of Cross Timbers Royalty Trust are prepared on the following basis and are not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles (GAAP):

Net profits income recorded for a month is the amount computed and paid by XTO Energy Inc., the owner of the underlying properties, to the trustee for the trust. XTO Energy is a wholly owned subsidiary of Exxon Mobil Corporation. Net profits income consists of net proceeds received by XTO Energy from the underlying properties in the prior month, multiplied by net profit percentages of 90% for the 90% net profits interests, and 75% for the 75% net profits interests.

Costs deducted in the calculation of net proceeds for the 90% net profits interests generally include applicable taxes, transportation, marketing and legal costs, and do not include production expense or development costs. For the 75% net profits interests, costs deducted in the calculation of net proceeds include production expense, development costs, applicable taxes, transportation, marketing and legal costs, operating charges and other costs.

Net profits income is computed separately for each of five conveyances under which the net profits interests were conveyed to the trust. If monthly costs exceed revenues for any conveyance, such excess costs must be recovered, with accrued interest, from future net proceeds of that conveyance and cannot reduce net proceeds from the other conveyances.

Interest income, interest to be received and distribution payable to unitholders include interest to be earned on net profits income from the monthly record date (last business day of the month) through the date of the next distribution to unitholders.

Trust expenses are recorded based on liabilities paid and cash reserves established by the trustee for liabilities and contingencies.

Distributions to unitholders are recorded when declared by the trustee.

The trustee routinely reviews the Trust s net profits interests in oil and gas properties for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If an impairment event occurs and it is determined that the carrying value of the Trust s net profits interests may not be recoverable, an impairment will be recognized as measured by the amount by which the carrying amount of the net profits interests exceeds the fair value of these assets, which would likely be measured by discounting projected cash flows. There is no impairment of the assets as of September 30, 2014.

The financial statements of the trust differ from those prepared in conformity with U.S. GAAP because revenues are recognized when received rather than accrued in the month of production, expenses are recognized when paid rather than when incurred, and certain cash reserves may be established by the

Table of Contents

trustee for contingencies which would not be recorded under U.S. GAAP. This comprehensive basis of accounting other than U.S. GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission, as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with U.S. GAAP, directing such entities to accrue or defer revenues and expenses in a period other than when such revenues were received or expenses were paid. Because the trust s financial statements are prepared on the modified cash basis, as described above, most accounting pronouncements are not applicable to the trust s financial statements.

The initial carrying value of the net profits interests of $61,100,449 represents XTO Energy s historical net book value for the interests on February 12, 1991, the creation date of the trust. Amortization of the net profits interests is calculated on a unit-of-production basis and is charged directly to trust corpus. Accumulated amortization was $49,935,994 as of September 30, 2014 and $49,308,760 as of December 31, 2013.

2. Income Taxes

For federal income tax purposes, the trust constitutes a fixed investment trust that is taxed as a grantor trust. A grantor trust is not subject to tax at the trust level. Accordingly, no provision for income taxes has been made in the financial statements. The unitholders are considered to own the trust s income and principal as though no trust were in existence. The income of the trust is deemed to have been received or accrued by each unitholder at the time such income is received or accrued by the trust and not when distributed by the trust.

All revenues from the trust are from sources within Texas, Oklahoma or New Mexico. Because it distributes all of its net income to unitholders, the trust has not been taxed at the trust level in New Mexico or Oklahoma. While the trust has not owed tax, the trustee is required to file a return with Oklahoma reflecting the income and deductions of the trust attributable to properties located in that state, along with a schedule that includes information regarding distributions to unitholders. Texas does not impose a state income tax, so no part of the trust s income will be subject to income tax at the trust level in Texas.

Each unitholder should consult his or her own tax advisor regarding income tax requirements, if any, applicable to such person s ownership of trust units.

Unitholders should consult the Trust s latest annual report on Form 10-K for a complete discussion of federal and state tax matters.

3. Contingencies

Several states have enacted legislation requiring state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its tax counsel, the trustee believes that it is not required to withhold on payments made to the unitholders. However, regulations are subject to change by the various states, which could change this conclusion. Should amounts be withheld on payments made to the trust or the unitholders, distributions to the unitholders would be reduced by the required amount, subject to the filing of a claim for refund by the trust or unitholders for such amount.

Table of Contents

4. Excess Costs

XTO advised the trustee that a missing payment from a purchaser caused costs to exceed revenues by a total of $166 ($125 net to the trust) on properties underlying the Oklahoma working interest in June 2014. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO advised the trustee that increased oil production led to the full recovery of excess costs, plus accrued interest, of $166 ($125 net to the trust) in July 2014. There were no excess costs remaining at September 30, 2014.

Lower oil prices caused costs to exceed revenues by a total of $42,061 ($31,546 net to the trust) on properties underlying the Texas working interest in January 2014. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO advised the trustee that higher oil prices and decreased costs led to the full recovery of excess costs, plus accrued interest, of $42,177 ($31,633 net to the trust) in February 2014.

Lower oil prices in January 2013 and increased costs related to the timing of cash expenditures in January and March 2013 caused costs to exceed revenues by a total of $148,300 ($111,225 net to the trust) in January and March 2013 on properties underlying the Texas working interest. XTO advised the trustee that increased costs related to the timing of cash expenditures caused costs to exceed revenues by a total of $103,563 ($77,672 net to the trust) in April 2013 on properties underlying the Texas working interest. However, these excess costs did not reduce net proceeds from the remaining conveyances. Decreased costs in February 2013 and May 2013 and increased oil prices in June 2013 led to the partial recovery of excess costs, plus accrued interest, of $210,823 ($158,117 net to the trust) on properties underlying the Texas working interest. Increased oil prices and decreased costs led to the full recovery of excess costs, plus accrued interest, of $42,445 ($31,834 net to the trust) in third quarter 2013.

5. Other Proceeds

The calculation of net profits income for the quarter ended March 31, 2014 included $519,071 ($467,164 net to the trust), which includes interest of $210,242 ($189,218 net to the trust), related to a one-time purchaser refund for deductions attributable to coal seam gas wells located in the San Juan Basin for the period December 1997 through May 2006.

Item 2. Trustee s Discussion and Analysis.

The following discussion should be read in conjunction with the trustee s discussion and analysis contained in the trust s 2013 Annual Report on Form 10-K, as well as the condensed financial statements and notes thereto included in this Quarterly Report on Form 10-Q. The trust s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available on the trust s web site at www.crt-crosstimbers.com.

Distributable Income

Quarter

For the quarter ended September 30, 2014, net profits income was $4,672,606 compared to $4,227,291 for third quarter 2013. This 11% increase in net profits income is primarily the result of increased oil production ($0.3 million) and higher oil prices ($0.1 million). See Net Profits Income on the following page.

11

Table of Contents

After considering interest income of $281 and administration expense of $135,267, distributable income for the quarter ended September 30, 2014 was $4,537,620, or $0.756270 per unit of beneficial interest. Administrative expense for the quarter increased $72,454 from the prior year quarter. For third quarter 2013, distributable income was $4,164,564, or $0.694094 per unit. Distributions to unitholders for the quarter ended September 30, 2014 were:

Record Date	Payment Date	Distribution per Unit
July 31, 2014	August 14, 2014	$ 0.231299
August 29, 2014	September 15, 2014	0.255332
September 30, 2014	October 15, 2014	0.269639
		$ 0.756270

Nine Months

For the nine months ended September 30, 2014, net profits income was $12,918,239 compared to $10,244,910 for the same 2013 period. This 26% increase in net profits income is primarily the result of higher oil and gas prices ($2.0 million), increased oil and gas production ($1.1 million) and a one-time purchaser refund ($0.5 million), partially offset by increased taxes, transportation and other costs ($0.7 million) and increased development costs ($0.3 million). See Net Profits Income below.

After considering interest income of $403 and administration expense of $410,808, distributable income for the nine months ended September 30, 2014 was $12,507,834, or $2.084639 per unit of beneficial interest. Administrative expense for the nine months ended September 30, 2014 increased $86,965 from the prior year nine-month period. For the nine months ended September 30, 2013, distributable income was $9,921,270, or $1.653545 per unit.

Net Profits Income

Net profits income is recorded when received by the trust, which is the month following receipt by XTO Energy and generally two months after oil production and three months after gas production. Net profits income is generally affected by three major factors:

- oil and gas sales volumes,
- oil and gas sales prices, and
- costs deducted in the calculation of net profits income.

Because properties underlying the 90% net profits interests are royalty and overriding royalty interests, the calculation of net profits income from these interests only includes deductions for production and property taxes, legal costs, and marketing and transportation charges. In addition to these costs, the calculation of net profits income from the 75% net profits interests includes deductions for production expense and development costs since the related underlying properties are working interests.

12

Table of Contents

The following is a summary of the calculation of net profits income received by the trust:

	Three Months Ended September 30 *(a)*		Increase	Nine Months Ended September 30 *(a)*		Increase
	2014	**2013**	**(Decrease)**	**2014**	**2013**	**(Decrease)**
Sales Volumes						
Oil (Bbls) *(b)*						
Underlying properties	**56,975**	52,610	8%	**163,222**	150,569	8%
Average per day	**619**	572	8%	**598**	552	8%
Net profits interests	**27,843**	24,422	14%	**72,280**	61,636	17%
Gas (Mcf) *(b)*						
Underlying properties	**459,856**	466,967	(2%)	**1,264,100**	1,230,628	3%
Average per day	**5,053**	5,132	(2%)	**4,630**	4,508	3%
Net profits interests	**405,610**	408,904	(1%)	**1,141,196**	1,072,785	6%
Average Sales Prices						
Oil (per Bbl)	**$ 95.31**	$ 92.63	3%	**$ 93.21**	$ 85.67	9%
Gas (per Mcf)	**$ 6.64**	$ 6.72	(1%)	**$ 7.24**	$ 6.23	16%
Revenues						
Oil sales	**$ 5,430,150**	$ 4,873,198	11%	**$ 15,214,006**	$ 12,899,449	18%
Gas sales	**3,054,331**	3,138,774	(3%)	**9,152,358**	7,672,885	19%
Total Revenues	**8,484,481**	8,011,972	6%	**24,366,364**	20,572,334	18%
Costs						
Taxes, transportation and other *(e)*	**992,434**	1,088,750	(9%)	**3,036,596**	2,543,613	19%
Production expense *(c)*	**1,385,907**	1,302,755	6%	**4,184,137**	4,199,068	
Development costs	**672,596**	735,825	(9%)	**2,482,570**	2,109,070	18%
Excess costs *(d)*	**166**	42,445	(100%)	**116**	1,405	(92%)
Total Costs	**3,051,103**	3,169,775	(4%)	**9,703,419**	8,853,156	10%
Other Proceeds						
Interest income *(e)*				**210,242**		
Net Proceeds	**$ 5,433,378**	$ 4,842,197	12%	**$ 14,873,187**	$ 11,719,178	27%
Net Profits Income	**$ 4,672,606**	$ 4,227,291	11%	**$ 12,918,239**	$ 10,244,910	26%

(a) Because of the interval between time of production and receipt of royalty income by the trust, (1) oil and gas sales for the quarter ended September 30 generally represent oil production for the period May through July and gas production for the period April through June and (2) oil and gas sales for the nine-months ended September 30 generally represent oil production for the period November through July and gas production for the period October through June.

(b)

Oil and gas sales volumes are allocated to the net profits interests based upon a formula that considers oil and gas prices and the total amount of production expense and development costs. As product prices change, the trust s share of the production volumes is impacted as the quantity of production to cover expenses in reaching the net profits break-even level changes inversely with price. As such, the underlying property production volume changes may not correlate with the trust s net profit share of those volumes in any given period. Therefore, comparative discussion of oil and gas sales volumes is based on the underlying properties.

(c) Production expense is primarily from seven working interest properties in the 75% net profits interest. Six of these properties are not operated by XTO Energy or ExxonMobil. Production expense includes an overhead charge which is deducted and retained by the operator. As of September 30, 2014, this charge was $36,845 per month (including monthly overhead charge of $5,264 which XTO Energy deducts as operator of the Hewitt Unit) and is subject to adjustment each May based on an oil and gas industry index.

(d) See Note 4 to Condensed Financial Statements.

(e) See Note 5 to Condensed Financial Statements.

Table of Contents

The following are explanations of significant variances on the underlying properties from third quarter 2013 to third quarter 2014 and from the first nine months of 2013 to the comparable period in 2014:

Sales Volumes

Oil

Oil sales volumes increased 8% for third quarter and the first nine months of 2014 as compared with the same 2013 periods primarily because of increased production from new wells and workovers and the timing of cash receipts, partially offset by natural production decline.

Gas

Gas sales volumes decreased 2% for third quarter 2014 as compared with the same 2013 period primarily because of natural production decline and the timing of cash receipts, partially offset by increased production from new wells and workovers. Gas sales volumes increased 3% for the first nine months of 2014 as compared with the same 2013 period primarily because of increased production from new wells and workovers and the timing of cash receipts, partially offset by natural production decline.

The estimated rate of natural production decline on the underlying oil and gas properties is approximately 6% to 8% a year.

Sales Prices

Oil

The average oil price increased 3% to $95.31 per Bbl for the third quarter and increased 9% to $93.21 per Bbl for the nine-month period. Oil prices are expected to remain volatile. The third quarter 2014 oil price is primarily related to production from May through July 2014, when the average NYMEX price was $103.17 per Bbl. The average NYMEX price for August and September 2014 was $94.65 per Bbl. At October 22, 2014, the average NYMEX futures price for the following twelve months was $79.31 per Bbl.

Gas

Gas prices for the third quarter decreased 1% to $6.64 per Mcf and for the nine-month period increased 16% to $7.24 per Mcf. Natural gas prices are affected by the level of natural gas liquids prices, North American production, weather, crude oil prices, the U.S. economy and storage levels and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The third quarter 2014 gas price is primarily related to production from April through June 2014, when the average NYMEX price was $4.67 per MMBtu. The average NYMEX price for July through September 2014 was $4.06 per MMBtu. At October 22, 2014, the average NYMEX futures price for the following twelve months was $3.68 per MMBtu.

Table of Contents

Costs

Taxes, Transportation and Other

Taxes, transportation and other decreased 9% for the third quarter primarily because of decreased gas production taxes related to lower gas revenues and decreased other deductions as a percentage of oil and gas revenues, partially offset by increased property taxes related to increased valuations. Taxes, transportation and other increased 19% for the nine-month period primarily because of increased oil and gas production taxes and other deductions related to higher oil and gas revenues, partially offset by a one-time purchaser refund for coal seam gas deductions.

Production Expense

Production expense increased 6% for the third quarter primarily because of increased repairs and maintenance and facility costs, partially offset by decreased outside operated costs.

Development Costs

Development costs decreased 9% for the third quarter primarily because of the timing of expenditures and decreased activity and costs related to non-operated Texas and Oklahoma oil properties underlying the 75% net profits interest. Development costs increased 18% for the nine-month period primarily because of the timing of expenditures and increased activity and costs related to non-operated Texas and Oklahoma oil properties underlying the 75% net profits interest.

Excess Costs

XTO advised the trustee that a missing payment from a purchaser caused costs to exceed revenues by a total of $166 ($125 net to the trust) on properties underlying the Oklahoma working interest in June 2014. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO advised the trustee that increased oil production led to the full recovery of excess costs, plus accrued interest, of $166 ($125 net to the trust) in July 2014. There were no excess costs remaining at September 30, 2014.

Lower oil prices caused costs to exceed revenues by a total of $42,061 ($31,546 net to the trust) on properties underlying the Texas working interest in January 2014. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO advised the trustee that higher oil prices and decreased costs led to the full recovery of excess costs, plus accrued interest, of $42,177 ($31,633 net to the trust) in February 2014.

Lower oil prices in January 2013 and increased costs related to the timing of cash expenditures in January and March 2013 caused costs to exceed revenues by a total of $148,300 ($111,225 net to the trust) in January and March 2013 on properties underlying the Texas working interest. XTO advised the trustee that increased costs related to the timing of cash expenditures caused costs to exceed revenues by a total of $103,563 ($77,672 net to the trust) in April 2013 on properties underlying the Texas working interest. However, these excess costs did not reduce net proceeds from the remaining conveyances. Decreased costs in February 2013 and May 2013 and increased oil prices in June 2013 led to the partial recovery of excess costs, plus accrued interest, of $210,823 ($158,117 net to the trust) on properties underlying the Texas working interest. Increased oil prices and decreased costs led to the full recovery of excess costs, plus accrued interest, of $42,445 ($31,834 net to the trust) in third quarter 2013.

15

Table of Contents

Other Proceeds

The calculation of net profits income for the quarter ended March 31, 2014 included $519,071 ($467,164 net to the trust), which includes interest of $210,242 ($189,218 net to the trust), related to a one-time purchaser refund for deductions attributable to coal seam gas wells located in the San Juan Basin for the period December 1997 through May 2006.

Trustee Resignation

U.S. Trust, Bank of America Private Wealth Management, a division of Bank of America, N.A., as Trustee of the Cross Timbers Royalty Trust, announced that at the special meeting of the trust s unitholders held on June 20, 2014, the unitholders of the trust voted to approve the proposal to appoint Southwest Bank as successor trustee of the Trust effective August 29, 2014.

Contingencies

Several states have enacted legislation requiring state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its tax counsel, the trustee believes that it is not required to withhold on payments made to the unitholders. However, regulations are subject to change by the various states, which could change this conclusion. Should amounts be withheld on payments made to the trust or the unitholders, distributions to the unitholders would be reduced by the required amount, subject to the filing of a claim for refund by the trust or unitholders for such amount.

Forward-Looking Statements

Statements in this report relating to future plans, predictions, events or conditions are forward-looking statements. All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements regarding the net profits interests, underlying properties, development activities, development, production and other costs and expenses, oil and gas prices and differentials to NYMEX prices, distributions to unitholders and industry and market conditions, are forward-looking statements that are subject to risks and uncertainties which are detailed in Part I, Item 1A of the trust s Annual Report on Form 10-K for the year ended December 31, 2013, which is incorporated by this reference as though fully set forth herein. XTO Energy and the trustee assume no duty to update these statements as of any future date.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in the trust s market risks from the information disclosed in Part II, Item 7A of the trust s Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, the trustee carried out an evaluation of the effectiveness of the trust s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the trustee concluded that the trust s disclosure controls and procedures are effective in timely recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the trust in the reports that it files or submits under the Securities Exchange Act of 1934 and are effective in ensuring that information required to be disclosed by the trust in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the trustee to allow timely decisions regarding required disclosure. In its evaluation of disclosure controls and procedures, the trustee has relied, to the extent considered reasonable, on information provided by XTO Energy. There has not been any change in the trust s internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the trust s internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1.

Not applicable.

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Part I, Item 1A of the trust s Annual Report on Form 10-K for the year ended December 31, 2013.

Items 2 through 5.

Not applicable.

Item 6. Exhibits.

(a) Exhibits.

Exhibit Number and Description	
(31)	Rule 13a-14(a)/15d-14(a) Certification
(32)	Section 1350 Certification
(99)	Items 1A, 7 and 7A to the Annual Report on Form 10-K for Cross Timbers Royalty Trust filed with the Securities and Exchange Commission on March 14, 2014 (incorporated herein by reference)

Table of Contents

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.

CROSS TIMBERS ROYALTY TRUST
By SOUTHWEST BANK, TRUSTEE

By /s/ NANCY G. WILLIS
Nancy G. Willis
Vice President

EXXON MOBIL CORPORATION

Date: November 10, 2014

By /s/ BETH E. CASTEEL
Beth E. Casteel
Vice President Upstream Business Services

19