

CROSS TIMBERS ROYALTY TRUST

Form 10-Q

August 01, 2011

[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 June 30, 2011

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)

Edgar Filing: CROSS TIMBERS ROYALTY TRUST - Form 10-Q

**Texas**  
(State or other jurisdiction of  
incorporation or organization)  
**U.S. Trust, Bank of America**  
**Private Wealth Management**

**75-6415930**  
(I.R.S. Employer Identification No.)

**P.O. Box 830650, Dallas, Texas**  
(Address of principal executive offices)

**75283-0650**  
(Zip Code)

**(877) 228-5084**  
(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  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  (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

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

Outstanding as of July 1, 2011

6,000,000

**Table of Contents**

**CROSS TIMBERS ROYALTY TRUST**

**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Glossary of Terms</u>	3
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	4
<u>Condensed Statements of Assets, Liabilities and Trust Corpus at June 30, 2011 and December 31, 2010</u>	5
<u>Condensed Statements of Distributable Income for the Three and Six Months Ended June 30, 2011 and 2010</u>	6
<u>Condensed Statements of Changes in Trust Corpus for the Three and Six Months Ended June 30, 2011 and 2010</u>	7
<u>Notes to Condensed Financial Statements</u>	8
Item 2. <u>Trustee's Discussion and Analysis</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	14
Item 4. <u>Controls and Procedures</u>	15
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1A. <u>Risk Factors</u>	15
Item 6. <u>Exhibits</u>	15
<u>Signatures</u>	16

**Table of Contents**

**CROSS TIMBERS ROYALTY TRUST**

**GLOSSARY OF TERMS**

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

<i>Bbl</i>	Barrel (of oil)
<i>Mcf</i>	Thousand cubic feet (of natural gas)
<i>MMBtu</i>	One million British Thermal Units, a common energy measurement
<i>net proceeds</i>	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
<i>net profits income</i>	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.
<i>net profits interest</i>	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:  <i>90% net profits interests</i> 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  <i>75% net profits interests</i> interests that entitle the trust to receive 75% of the net proceeds from the underlying properties that are working interests in Texas and Oklahoma
<i>royalty interest (and overriding royalty interest)</i>	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
<i>underlying properties</i>	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.
<i>working interest</i>	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 June 30, 2011, and the distributable income and changes in trust corpus for the three- and six-month periods ended June 30, 2011 and 2010, have been included. Distributable income for such interim periods is not necessarily indicative of distributable income for the full year.

**Table of Contents****CROSS TIMBERS ROYALTY TRUST****Condensed Statements of Assets, Liabilities and Trust Corpus**

	<b>June 30, 2011</b> (Unaudited)	<b>December 31, 2010</b>
<b>ASSETS</b>		
Cash and short-term investments	<b>\$ 1,916,703</b>	\$ 1,413,665
Interest to be received	<b>9</b>	37
Net profits interests in oil and gas properties - net (Note 1)	<b>13,959,258</b>	14,521,347
	<b>\$ 15,875,970</b>	\$ 15,935,049
<b>LIABILITIES AND TRUST CORPUS</b>		
Distribution payable to unitholders	<b>\$ 1,916,712</b>	\$ 1,413,702
Trust corpus (6,000,000 units of beneficial interest authorized and outstanding)	<b>13,959,258</b>	14,521,347
	<b>\$ 15,875,970</b>	\$ 15,935,049

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)**

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net profits income	<b>\$ 4,569,004</b>	\$ 4,599,294	<b>\$ 8,919,857</b>	\$ 8,868,374
Interest income	<b>49</b>	88	<b>143</b>	142
Total income	<b>4,569,053</b>	4,599,382	<b>8,920,000</b>	8,868,516
Administration expense	<b>138,923</b>	115,978	<b>265,696</b>	286,536
Distributable income	<b>\$ 4,430,130</b>	\$ 4,483,404	<b>\$ 8,654,304</b>	\$ 8,581,980
Distributable income per unit (6,000,000 units)	<b>\$ 0.738355</b>	\$ 0.747234	<b>\$ 1.442384</b>	\$ 1.430330

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)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Trust corpus, beginning of period	<b>\$ 14,241,961</b>	\$ 15,763,725	<b>\$ 14,521,347</b>	\$ 16,188,498
Amortization of net profits interests	<b>(282,703)</b>	(385,407)	<b>(562,089)</b>	(810,180)
Distributable income	<b>4,430,130</b>	4,483,404	<b>8,654,304</b>	8,581,980
Distributions declared	<b>(4,430,130)</b>	(4,483,404)	<b>(8,654,304)</b>	(8,581,980)
Trust corpus, end of period	<b>\$ 13,959,258</b>	\$ 15,378,318	<b>\$ 13,959,258</b>	\$ 15,378,318

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 Bank of America, N.A., as 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 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 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 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.

## **Table of Contents**

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 \$47,141,191 as of June 30, 2011 and \$46,579,102 as of December 31, 2010.

### **2. Federal Income Taxes**

For federal income tax purposes, the trust constitutes a fixed investment trust which is taxed as a grantor trust. A grantor trust is not subject to tax at the trust level. 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.

The net profits interests constitute economic interests in oil and gas properties for federal income tax purposes. Unitholders must report their share of the net profits income as ordinary income from oil and gas properties and are entitled to claim depletion with respect to such income. The classification of the trust's income for purposes of the passive loss rules may be important to a unitholder. Net profits income generally is treated as portfolio income and does not offset passive losses.

Some trust units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a customer in street name, collectively referred to herein as middlemen). Therefore, the trustee considers the trust to be a non-mortgage widely held fixed investment trust (WHFIT) for U.S. federal income tax purposes. U.S. Trust, Bank of America Private Wealth Management, EIN: 56-0906609, Post Office Box 830650, Dallas, Texas. 75283-0650, telephone number 1-877-228-5084, email address trustee@crosstimerstrust.com, is the representative of the trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the trust as a WHFIT. Tax information is also posted by the trustee at [www.crosstimerstrust.com](http://www.crosstimerstrust.com). Notwithstanding the foregoing, the middlemen holding trust units on behalf of unitholders, and not the trustee of the trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such trust units, including the issuance of IRS Forms 1099 and certain written tax statements. Unitholders whose trust units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the trust units.

Unitholders should consult their tax advisors regarding trust tax compliance 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 withholding be required 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**

*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 2010 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.crosstimertrust.com](http://www.crosstimertrust.com).

**Distributable Income**

*Quarter*

For the quarter ended June 30, 2011, net profits income was \$4,569,004 compared to \$4,599,294 for second quarter 2010. This 1% decrease in net profits income is the result of lower gas prices (\$0.6 million) and decreased oil and gas sales volumes (\$0.4 million), partially offset by higher oil prices (\$0.8 million) and decreased production expense (\$0.1 million). See **Net Profits Income** on following page.

After considering interest income of \$49 and administration expense of \$138,923, distributable income for the quarter ended June 30, 2011 was \$4,430,130, or \$0.738355 per unit of beneficial interest. Administrative expense for the quarter increased 20% from the prior year quarter primarily because of the timing of expenditures. For second quarter 2010, distributable income was \$4,483,404, or \$0.747234 per unit. Distributions to unitholders for the quarter ended June 30, 2011 were:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>
April 29, 2011	May 13, 2011	\$ 0.195491
May 31, 2011	June 14, 2011	0.223412
June 30, 2011	July 15, 2011	0.319452
		\$ 0.738355

## **Table of Contents**

### *Six Months*

For the six months ended June 30, 2011, net profits income was \$8,919,857 compared to \$8,868,374 for the same 2010 period. This 1% increase in net profits income is the result of higher oil prices (\$1.1 million) and decreased taxes, transportation and other costs (\$0.1 million), partially offset by lower gas prices (\$0.7 million) and decreased gas sales volumes (\$0.5 million). See **Net Profits Income** below.

After considering interest income of \$143 and administration expense of \$265,696, distributable income for the six months ended June 30, 2011 was \$8,654,304, or \$1.442384 per unit of beneficial interest. Administrative expense for the six months ended June 30, 2011 decreased 7% from the prior year six-month period primarily because of the timing of expenditures. For the six months ended June 30, 2010, distributable income was \$8,581,980, or \$1.430330 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.

**Table of Contents**

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

	Three Months			Six Months		
	Ended June 30 (a) 2011	2010	Increase (Decrease)	Ended June 30 (a) 2011	2010	Increase (Decrease)
<b>Sales Volumes</b>						
Oil (Bbls) (b)						
Underlying properties	46,469	49,349	(6%)	99,298	99,511	-
Average per day	522	554	(6%)	549	550	-
Net profits interests	26,438	25,071	5%	55,485	50,757	9%
Gas (Mcf) (b)						
Underlying properties	451,570	476,018	(5%)	920,006	997,549	(8%)
Average per day	5,017	5,289	(5%)	5,055	5,481	(8%)
Net profits interests	397,962	418,665	(5%)	811,081	876,342	(7%)
<b>Average Sales Prices</b>						
Oil (per Bbl)	\$ 93.79	\$ 74.83	25%	\$ 86.08	\$ 72.83	18%
Gas (per Mcf)	\$ 7.04	\$ 8.36	(16%)	\$ 6.86	\$ 7.61	(10%)
<b>Revenues</b>						
Oil sales	\$ 4,358,283	\$ 3,692,939	18%	\$ 8,548,032	\$ 7,247,734	18%
Gas sales	3,177,894	3,977,277	(20%)	6,310,969	7,595,469	(17%)
Total Revenues	7,536,177	7,670,216	(2%)	14,859,001	14,843,203	-
<b>Costs</b>						
Taxes, transportation and other	1,064,470	1,081,070	(2%)	2,018,499	2,164,486	(7%)
Production expense (c)	1,029,347	1,177,507	(13%)	2,153,345	2,265,205	(5%)
Development costs	101,311	122,270	(17%)	296,003	193,356	53%
Total Costs	2,195,128	2,380,847	(8%)	4,467,847	4,623,047	(3%)
<b>Net Proceeds</b>	<b>\$ 5,341,049</b>	<b>\$ 5,289,369</b>	<b>1%</b>	<b>\$ 10,391,154</b>	<b>\$ 10,220,156</b>	<b>2%</b>
<b>Net Profits Income</b>	<b>\$ 4,569,004</b>	<b>\$ 4,599,294</b>	<b>(1%)</b>	<b>\$ 8,919,857</b>	<b>\$ 8,868,374</b>	<b>1%</b>

(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 June 30 generally represent oil production for the period February through April and gas production for the period January through March and (2) oil and gas sales for the six-months ended June 30 generally represent oil production for the period November through April and gas production for the period October through March.

(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.

## Edgar Filing: CROSS TIMBERS ROYALTY TRUST - Form 10-Q

- (c) Production expense is primarily from seven working interest properties in the 75% net profits interest. Five of these properties are not operated by XTO Energy or Exxon Mobil. Production expense includes an overhead charge which is deducted and retained by the operator. As of June 30, 2011, this charge was \$34,211 per month (including monthly overhead charges of \$2,666 which XTO Energy deducts as operator of the Penwell Unit and \$4,507 which Exxon Mobil deducts as operator of the Hewitt Unit) and is subject to adjustment each May based on an oil and gas industry index.

## **Table of Contents**

The following are explanations of significant variances on the underlying properties from second quarter 2010 to second quarter 2011 and from the first six months of 2010 to the comparable period in 2011:

### **Sales Volumes**

#### *Oil*

Oil sales volumes decreased 6% for second quarter 2011 as compared with the same 2010 period primarily because of natural production decline. Oil sales volumes remained relatively flat for the first six months of 2011 as compared with the same 2010 period primarily because natural production decline was partially offset by the timing of cash receipts.

#### *Gas*

Gas sales volumes decreased 5% for second quarter 2011 and 8% for the first six months of 2011 as compared with the same 2010 periods primarily because of natural production decline and the timing of cash receipts, partially offset by increased production from new wells and workovers.

The 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 25% to \$93.79 per Bbl for the second quarter and 18% to \$86.08 per Bbl for the six-month period. Oil prices are expected to remain volatile. The second quarter 2011 oil price is primarily related to production from February through April 2011, when the average NYMEX price was \$101.00 per Bbl. The average NYMEX price for May and June 2011 was \$98.69 per Bbl. At July 18, 2011, the average NYMEX futures price for the following twelve months was \$98.32 per Bbl.

#### *Gas*

Gas prices for the second quarter decreased 16% to \$7.04 per Mcf and for the six-month period decreased 10% to \$6.86 per Mcf. Natural gas prices are affected by the level of North American production, weather, crude oil and natural gas liquids prices, the U.S. economy, storage levels and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The second quarter 2011 gas price is primarily related to production from January through March 2011, when the average NYMEX price was \$4.11 per MMBtu. The average NYMEX price for April through June 2011 was \$4.31 per MMBtu. At July 18, 2011, the average NYMEX futures price for the following twelve months was \$4.74 per MMBtu.

## **Table of Contents**

### **Costs**

#### *Taxes, Transportation and Other*

Taxes, transportation and other decreased 2% for the second quarter and 7% for the six-month period primarily because of decreased gas production taxes related to lower gas revenues, partially offset by increased oil production taxes related to higher oil revenues.

#### *Production Expense*

Production expense was 13% lower for the second quarter and 5% lower for the six-month period primarily because of decreased repairs and maintenance, carbon dioxide injection, power and fuel and plugging and abandonment costs, partially offset by increased outside operated costs. In addition, decreased production expense for the six-month period was also partially offset by increased labor costs.

#### *Development*

Development costs decreased 17% for the second quarter primarily due to the timing of cash disbursements. Development costs increased 53% for the six-month period primarily because of increased activity and costs related to Texas and Oklahoma properties underlying the 75% net profits interest.

### **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 withholding be required 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, 2010, 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.

#### *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, 2010.



**Table of Contents**

*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 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.

**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, 2010.

*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 February 24, 2011 (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 BANK OF AMERICA, N.A., TRUSTEE

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

EXXON MOBIL CORPORATION

By */s/* PATRICK T. MULVA  
Patrick T. Mulva  
Vice President and Controller

Date: August 1, 2011