PERMIAN BASIN ROYALTY TRUST
Form 10-Q
November 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period ended September 30, 2018

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 1-8033

PERMIAN BASIN ROYALTY TRUST

(Exact Name of Registrant as Specified in the Permian Basin Royalty Trust Indenture)

Texas	**75-6280532**

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Royalty Trust Management

Simmons Bank

2911 Turtle Creek Boulevard

Suite 850

Dallas, Texas 75219

(Address of Principal Executive Offices; Zip Code)

(855) 588-7839

(Registrant s Telephone Number, Including Area Code)

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of Units of beneficial interest of the Trust outstanding at November 1, 2018: 46,608,796.

PERMIAN BASIN ROYALTY TRUST

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The condensed financial statements included herein have been prepared by Simmons Bank as Trustee for the Permian Basin Royalty Trust (the Trust), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Effective February 20, 2018, Simmons Bank (the Trustee) became the new trustee for the Trust. 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. It is suggested that these condensed interim financial statements and notes thereto 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 Permian Basin Royalty Trust at September 30, 2018, the distributable income for the three-month and nine-month periods ended September 30, 2018 and 2017 and the changes in trust corpus for the nine-month periods ended September 30, 2018 and 2017, have been included. The distributable income for such interim periods is not necessarily indicative of the distributable income for the full year.

The condensed interim financial statements as of September 30, 2018 and for the three-month and nine-month periods ended September 30, 2018 and 2017, included herein, have been reviewed by Weaver and Tidwell, L.L.P., an independent registered public accounting firm, as stated in their report appearing herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Unit Holders of Permian Basin Royalty Trust and

Simmons Bank, Trustee

Dallas, Texas

Results of Review of Interim Financial Statements

We have reviewed the accompanying condensed statement of assets, liabilities and trust corpus of Permian Basin Royalty Trust (the Trust) as of September 30, 2018 and the related condensed statements of distributable income for the three-month and nine-month periods ended September 30, 2018 and 2017 and changes in trust corpus for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collective referred to as the condensed interim financial statements or interim financial information). 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 modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in Note 2 to the condensed interim financial statements, these condensed interim financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Basis for Review Results

These condensed 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) (PCAOB). 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 PCAOB, 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.

/s/ WEAVER AND TIDWELL, L.L.P.

Dallas, TX

November 2, 2018

PERMIAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and short-term investments	$ 3,604,578	$ 3,421,419
Net overriding royalty interests in producing oil and gas properties (net of accumulated amortization of $10,490,271 and $10,446,173 at September 30, 2018 and December 31, 2017, respectively)	484,945	529,043
TOTAL ASSETS	$ 4,089,523	$ 3,950,462
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit holders	$ 2,554,578	$ 2,371,419
Commitments and reserves for contingencies (Note 6)	1,050,000	1,050,000
Trust corpus 46,608,796 Units of beneficial interest authorized and outstanding	484,945	529,043
TOTAL LIABILITIES AND TRUST CORPUS	$ 4,089,523	$ 3,950,462

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

PERMIAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	THREE MONTHS ENDED September 30, 2018	THREE MONTHS ENDED September 30, 2017
Royalty income	$ 7,236,350	$ 6,095,517
Interest income	6,994	3,270
	7,243,344	6,098,787
General and administrative expenditures	(186,501)	(198,472)
Distributable income	$ 7,056,843	$ 5,900,315
Distributable income per Unit (46,608,796 Units)	$ .15	$ .13

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

PERMIAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	NINE MONTHS ENDED September 30, 2018	NINE MONTHS ENDED September 30, 2017
Royalty income	$ 24,578,777	$ 23,121,478
Interest income	19,224	8,608
	24,598,001	23,130,086
General and administrative expenditures	(1,181,813)	(1,068,926)
Distributable income	$ 23,416,188	$ 22,061,160
Distributable income per Unit (46,608,796 Units)	$ .50	$ .47

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

PERMIAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

	NINE MONTHS ENDED September 30, 2018	NINE MONTHS ENDED September 30, 2017
Trust corpus, beginning of period	$ 529,043	$ 603,119
Amortization of net overriding royalty interests	(44,098)	(52,370)
Distributable income	23,416,188	22,061,160
Distributions declared	(23,416,188)	(22,061,160)
Total Trust Corpus, end of period	$ 484,945	$ 550,749
Distributions per Unit	$ .50	$ .47

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

PERMIAN BASIN ROYALTY TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. TRUST ORGANIZATION AND PROVISIONS

The Permian Basin Royalty Trust (Trust) was established as of November 1, 1980. Simmons Bank (Trustee) is Trustee for the Trust. The net overriding royalties conveyed to the Trust include (1) a 75% net overriding royalty in Southland Royalty Company s fee mineral interest in the Waddell Ranch in Crane County, Texas (the Waddell Ranch properties) and (2) a 95% net overriding royalty carved out of Southland Royalty Company s major producing royalty properties in Texas (the Texas Royalty properties). The net overriding royalty for the Texas Royalty properties is subject to the provisions of the lease agreements under which such royalties were created. The net overriding royalties above are collectively referred to as the Royalties.

On November 3, 1980, Units of Beneficial Interest (Units) in the Trust were distributed to the Trustee for the benefit of Southland Royalty Company s shareholders of record as of November 3, 1980, who received one Unit in the Trust for each share of Southland Royalty Company common stock held. The Units are traded on the New York Stock Exchange.

Burlington Resources Oil & Gas Company LP (BROG), a subsidiary of ConocoPhillips, is the interest owner for the Waddell Ranch properties and Riverhill Energy Corporation (Riverhill Energy), formerly a wholly owned subsidiary of Riverhill Capital Corporation (Riverhill Capital) and formerly an affiliate of Coastal Management Corporation (CMC), is the interest owner for the Texas Royalty properties. BROG currently conducts all field, technical and accounting operations on behalf of BROG with regard to the Waddell Ranch properties. Riverhill Energy currently conducts the accounting operations for the Texas Royalty properties.

In February 1997, BROG sold its interest in the Texas Royalty properties to Riverhill Energy.

The Trustee was advised that in the first quarter of 1998, Schlumberger Technology Corporation (STC) acquired all of the shares of stock of Riverhill Capital. Prior to such acquisition by STC, CMC and Riverhill Energy were wholly owned subsidiaries of Riverhill Capital. The Trustee was further advised that in connection with STC s acquisition of Riverhill Capital, the shareholders of Riverhill Capital acquired ownership of all of the shares of stock of Riverhill Energy. Thus, the ownership in the Texas Royalty properties referenced above remained in Riverhill Energy, the stock ownership of which was acquired by the former shareholders of Riverhill Capital.

On January 9, 2014, Bank of America N.A. (as successor to The First National Bank of Fort Worth) gave notice to Unit holders that it would be resigning as trustee of the Trust subject to certain conditions that included the appointment of Southwest Bank as successor trustee. At a Special Meeting of Trust Unit holders, the Unit holders approved the appointment of Southwest Bank as successor trustee of the Trust once the resignation of Bank of America N.A. took effect and also approved certain amendments to the Trust Indenture. The effective date of Bank of America N.A. s resignation and the effective date of Southwest Bank s appointment as successor trustee was August 29, 2014. Effective October 19, 2017, Simmons First National Corporation (SFNC) completed its acquisition of First Texas BHC, Inc., the parent company of Southwest Bank. SFNC is the parent company of Simmons Bank. SFNC merged Southwest Bank with Simmons Bank effective February 20, 2018. The defined term Trustee as used herein shall refer to Bank of America N.A. for periods prior to August 29, 2014, and shall refer to Southwest Bank for periods from August 29, 2014 through February 19, 2018 and shall refer to Simmons Bank for periods on and after February 20, 2018.

The terms of the Trust Indenture provide, among other things, that:

the Trust shall not engage in any business or commercial activity of any kind or acquire any assets other than those initially conveyed to the Trust;

the Trustee may not sell all or any part of the Royalties unless approved by holders of 75% of all Units outstanding in which case the sale must be for cash and the proceeds promptly distributed;

the Trustee may establish a cash reserve for the payment of any liability which is contingent or uncertain in amount;

the Trustee is authorized to borrow funds to pay liabilities of the Trust; and

the Trustee will make monthly cash distributions to Unit holders (see Note 3).

2. ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Trust are prepared on the following basis:

Royalty income recorded for a month is the amount computed and paid to the Trustee on behalf of the Trust by the interest owners. Royalty income consists of the amounts received by the owners of the interest burdened by the Royalties from the sale of production less accrued production costs, development and drilling costs, applicable taxes, operating charges and other costs and deductions multiplied by 75% in the case of the Waddell Ranch properties and 95% in the case of the Texas Royalty properties.

Trust expenses, consisting principally of routine general and administrative costs, recorded are based on liabilities paid and cash reserves established out of cash received or borrowed funds for liabilities and contingencies.

Distributions to Unit holders are recorded when declared by the Trustee.

Royalty income is computed separately for each of the conveyances under which the Royalties were conveyed to the Trust. If monthly costs exceed revenues for any conveyance (excess costs), such excess costs cannot reduce royalty income from other conveyances, but is carried forward with accrued interest to be recovered from future net proceeds of that conveyance.

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) because revenues are not accrued in the month of production, expenses are recorded when paid and certain cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP. Amortization of the Royalties calculated on a unit-of-production basis is charged directly to trust corpus. This comprehensive basis of accounting other than 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*.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting periods. Actual results may differ from such estimates.

Contingencies

Contingencies related to the underlying properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders.

Distributable Income Per Unit

Basic distributable income per Unit is computed by dividing distributable income by the weighted average of Units outstanding. Distributable income per Unit assuming dilution is computed by dividing distributable income by the weighted average number of Units and equivalent Units outstanding. The Trust had no equivalent Units outstanding for any period presented. Therefore, basic distributable income per Unit and distributable income per Unit assuming dilution are the same.

New Accounting Pronouncements

In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers. This update amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods and services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The Trust adopted this standards update, as required, in the first quarter of 2018, but the adoption of this standard did not have a significant impact on its financial statements due to the modified cash basis of reporting used by the Trust.

3. NET OVERRIDING ROYALTY INTERESTS AND DISTRIBUTION TO UNIT HOLDERS

The amounts to be distributed to Unit holders (Monthly Distribution Amounts) are determined on a monthly basis. The Monthly Distribution Amount is an amount equal to the sum of cash received by the Trustee during a calendar month attributable to the Royalties, any reduction in cash reserves and any other cash receipts of the Trust, including interest, reduced by the sum of liabilities paid and any increase in cash reserves. If the Monthly Distribution Amount for any monthly period is a negative number, then the distribution will be zero for such month. To the extent the distribution amount is a negative number, that amount will be carried forward and deducted from future monthly distributions until the cumulative distribution calculation becomes a positive number, at which time a distribution will be made. Unit holders of record will be entitled to receive the calculated Monthly Distribution Amount for each month on or before 10 business days after the monthly record date, which is generally the last business day of each calendar month.

The cash received by the Trustee consists of the amounts received by owners of the interest burdened by the Royalties from the sale of production less the sum of applicable taxes, accrued production costs, development and drilling costs, operating charges and other costs and deductions, multiplied by 75% in the case of the Waddell Ranch properties and 95% in the case of the Texas Royalty properties.

4. FEDERAL 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 federal income tax at the trust level. The Unit holders are considered for federal tax purposes 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 Unit holder at the time such income is received or accrued by the Trust and not when distributed by the Trust. If the Trust borrows funds to pay liabilities of the Trust, as contemplated in the Trust Indenture, tax-exempt Unit holders could be required to recognize unrelated business taxable income.

5. STATE TAX CONSIDERATIONS

All revenues from the Trust are from sources within Texas, which does not impose an individual income tax. Texas imposes a franchise tax at a rate of 0.75% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statutes. Entities subject to the Texas franchise tax generally include trusts and most other types of entities that provide limited liability protection, unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from certain passive sources, including royalties from mineral properties and other non-operated mineral interest income, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas franchise tax as passive entities. The Trust has been and expects to continue to be exempt from Texas franchise tax as a passive entity. Because the Trust should be exempt from Texas franchise tax at the Trust level as a passive entity, each Unit holder that is a taxable entity under the Texas franchise tax generally will be required to include its portion of Trust revenues in its own Texas franchise tax computation. This revenue is sourced to Texas under provisions of the Texas Administrative Code providing that such income is sourced according to the principal place of business of the Trust, which is Texas.

Unit holders should consult their tax advisors regarding state tax requirements, if any, applicable to such Unit holder s ownership of Trust units.

6. COMMITMENTS AND CONTINGENCIES

Contingencies related to the Underlying Properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders.

7. SUBSEQUENT EVENTS

Subsequent to September 30, 2018, the Trust declared a distribution on October 19, 2018 of $0.055098 per Unit payable on November 15, 2018 to Unit holders of record on October 31, 2018.

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Item 2. Trustee s Discussion and Analysis
Forward Looking Information

Certain information included in this report contains, and other materials filed or to be filed by the Trust with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Trust) may contain or include, forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such forward looking statements may be or may concern, among other things, capital expenditures, drilling activity, development activities, production efforts and volumes, hydrocarbon prices and the results thereof, and regulatory matters. Although the Trustee believes that the expectations reflected in such forward-looking statements are reasonable, such expectations are subject to numerous risks and uncertainties and the Trustee can give no assurance that they will prove correct. There are many factors, none of which are within the Trustee s control, that may cause such expectations not to be realized, including, among other things, factors such as actual oil and gas prices and the recoverability of reserves, capital expenditures, general economic conditions, actions and policies of petroleum-producing nations and other changes in the domestic and international energy markets. Such forward looking statements generally are accompanied by words such as estimate, expect, predict, anticipate, goal, shou assume, believe, or other words that convey the uncertainty of future events or outcomes.

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

For the quarter ended September 30, 2018, royalty income received by the Trust amounted to $7,236,350 compared to royalty income of $6,095,517 during the third quarter of 2017. The in royalty income is primarily attributable to an increase in oil and gas pricing offset by a decrease in production of oil and gas for the quarter ending September 30, 2018, as compared to the quarter ended September 30, 2017. Average oil and gas prices were $60.19 and $3.64 for the quarter ending September 30, 2018 compared to $43.72 and $3.11 for the quarter ended September 30, 2017.

Interest income for the quarter ended September 30, 2018, was $6,994 compared to $3,270 during the third quarter of 2017. The increase in interest income is primarily attributable to substantially increased amounts of funds available for investment. Total expenses during the third quarter of 2018 amounted to $186,501 compared to $198,472 during the third quarter of 2017. The decrease in total expenses can be primarily attributed to decreased expense for professional services.

These transactions resulted in distributable income for the quarter ended September 30, 2018, of $7,056,843 or $.15 per Unit of beneficial interest. Distributions of $0.057454, $0.039143 and $0.054808 per Unit were made to Unit holders of record as of July 31, 2018, August 31, 2018, and September 28, 2018, respectively. For the third quarter of 2017, distributable income was $5,900,315 or $.13 per Unit of beneficial interest.

Royalty income for the Trust for the third quarter of the calendar year is associated with actual oil and gas production for the period of May, June and July 2018 from the properties from which the Trust s net overriding royalty interests (Royalties) were carved. Oil and gas sales attributable to the Royalties and the properties from which the Royalties were carved are as follows:

	Third Quarter	
	2018	**2017**
Royalties:		
Oil sales (Bbls)	101,892	120,217
Gas sales (Mcf)	329,291	419,229
Properties From Which The Royalties Were Carved:		
Oil:		
Total oil sales (Bbls)	214,069	236,214
Average per day (Bbls)	2,327	2,568
Average price per Bbl	$ 60.19	$ 43.72
Gas:		
Total gas sales (Mcf)	969,476	1,074,084
Average per day (Mcf)	10,538	11,675
Average price per Mcf	$ 3.54	$ 3.11

The average received price of oil increased to an average price per barrel of $60.19 per Bbl in the third quarter of 2018, compared to $43.72 per Bbl in the third quarter of 2017 due to worldwide market variables. The Trustee has been advised by ConocoPhillips that for the period of August 1, 1993, through September 30, 2018, the oil from the Waddell Ranch properties was being sold under a competitive bid to a third party. The average price of gas (including natural gas liquids) increased from $3.11 per Mcf in the third quarter of 2017 to $3.55 per Mcf in the third quarter of 2018 due to change in overall market variables.

Since the oil and gas sales attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), the production amounts in the Royalties section of the above table do not provide a meaningful comparison. Oil sales volumes decreased and gas sales volumes decreased from the Underlying Properties (as defined in the Trust s Annual Report on Form 10-K for the year ended December 31, 2017) for the applicable period in 2018 compared to 2017.

Capital expenditures for drilling, remedial and maintenance activities on the Waddell Ranch properties during the third quarter of 2018 totaled $5,200 as compared to $572,000 for the third quarter of 2017. ConocoPhillips has informed the Trustee that the 2018 capital expenditures budget has been approved at $4.3 million (gross) for the Waddell Ranch properties. The total amount of capital expenditures for 2017 with regard to the Waddell Ranch properties totaled $3.2 million (gross).

The Trustee has been advised that there were 0 workover wells completed, 0 new wells completed, 0 new wells in progress and 0 workover wells in progress during the three months ended September 30, 2018, as compared to 0 workover wells completed, 0 new wells completed, 0 new wells in progress and 0 workover wells in progress for the three months ended September 30, 2017, on the Waddell Ranch properties. There were various facility projects in progress for the third quarter of 2018.

Lease operating expenses and property taxes totaled $6.75 million (gross) for the third quarter of 2018, compared to $5 million (gross) for the same period in 2017 on the Waddell Ranch properties due to increased maintenance work.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, royalty income received by the Trust amounted to $24,578,777 compared to royalty income of $23,121,478 for the nine months ended September 30, 2017. The increase in royalty income is primarily attributable to a reduction of capital expenditures by the operator and an increase in oil and gas prices for the nine months ending September 30, 2018, as compared to the nine months ended September 30, 2017. Average oil and gas prices were $59.11 and $3.51 for the nine months ending September 30, 2018 compared to $45.72 and $3.14 for the nine months ended September 30, 2017.

Interest income for the nine months ended September 30, 2018, was $19,224 compared to $8,608 during the nine months ended September 30, 2017. The increase in interest income is primarily attributable to substantially increased amounts of funds available for investment. Total expenses during the nine months ending September 30, 2018, amounted to $1,181,813 compared to $1,068,926 during the nine months ended September 30, 2017. The increase in total expenses can be primarily attributed to increased expense for professional services.

These transactions resulted in distributable income for the nine months ended September 30, 2018 of $23,416,188, or $0.50 per Unit. For the nine months ended September 30, 2017, distributable income was $22,061,160, or $0.47 per Unit.

Royalty income for the Trust for the nine months ended September 30, 2018, is associated with actual oil and gas production for the period November 2017 through July 2018 from the properties from which the Royalties were carved. Oil and gas production attributable to the Royalties and the properties from which the Royalties were carved are as follows:

	Nine Months Ended	
	2018	**2017**
Royalties:		
Oil sales (Bbls)	354,843	298,085
Gas sales (Mcf)	1,204,229	1,100,970
Properties From Which The Royalties Were Carved:		
Oil:		
Total oil sales (Bbls)	673,710	720,729
Average per day (Bbls)	2,450	2,630
Average price per Bbl	$ 59.11	$ 45.72
Gas:		
Total gas sales (Mcf)	2,976,747	3,228,715
Average per day (Mcf)	10,825	11,784
Average price per Mcf	$ 3.51	$ 3.14

The average received price of oil increased during the nine months ended September 30, 2018 to $59.11 per barrel compared to $45.72 per barrel for the same period in 2017. The increase in the average price of oil is primarily due to worldwide market variables. The increase in the average price of gas (including natural gas liquids) from $3.14 per Mcf for the nine months ended September 30, 2017, to $3.51 per Mcf for the nine months ended September 30, 2018, is primarily the result of a change in overall market variables.

Since the oil and gas sales volumes attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), the production amounts in the Royalties section of the above table do not provide a meaningful comparison. Both oil and gas sales volumes from the properties from which the Royalties are carved have decreased for the applicable period of 2018 compared to 2017.

Capital expenditures for the Waddell Ranch properties for the nine months ended September 30, 2018 totaled $0.6 million (gross) compared to $1.2 million (gross) to the Trust for the same period in 2017. ConocoPhillips has previously advised the Trust that the 2018 capital expenditures budget for the Waddell Ranch properties is $4.3 million (gross).

The Trustee has been advised that 0 workover wells were completed and 0 new wells were completed (0 vertical, 0 horizontal) on the Waddell Ranch properties during the nine months ended September 30, 2018, as compared to 0 workover wells completed and 0 new wells completed on the Waddell Ranch properties during the nine months ended September 30, 2017. There were various facility projects in progress for the third quarter of 2018.

Lease operating expenses and property taxes totaled $17.5 million for the nine months ended September 30, 2018, compared to $11.9 million for the same period in 2017. The increase in lease operating expense is primarily attributable to increased spending on facilities and maintenance.

Calculation of Royalty Income

The Trust s royalty income is computed as a percentage of the net profit from the operation of the properties in which the Trust owns net overriding royalty interests. These percentages of net profits are 75% and 95% in the case of the Waddell Ranch properties and the Texas Royalty properties, respectively. Royalty income received by the Trust for the three months ended September 30, 2018 and 2017, respectively, were computed as shown in the table below:

	THREE MONTHS ENDED SEPTEMBER 30			
	2018		2017	
	WADDELL RANCH PROPERTIES	TEXAS ROYALTY PROPERTIES	WADDELL RANCH PROPERTIES	TEXAS ROYALTY PROPERTIES
Gross proceeds of sales from the Underlying Properties				
Oil proceeds	$ 8,783,168	$ 4,100,713	$ 7,115,106	$ 3,211,420
Gas proceeds	2,952,887	452,202	2,941,147	401,527
Other (adjustment)	67,244		54,404	
Total	11,803,299	4,552,915	10,110,657	3,612,947
Less:				
Severance tax:				
Oil	396,372	134,987	316,070	124,355
Gas	110,358	25,973	(29,322)	18,469
Other				
Lease operating expense and property tax:				
Oil and gas	6,750,047	360,000	5,044,748	375,000
Capital expenditures	5,198		572,564	
Total	7,261,975	520,960	5,904,060	517,824
Net profits	4,541,324	4,031,955	4,206,597	3,095,123
Net overriding royalty interests	75%	95%	75%	95%
Royalty income	$ 3,405,993	3,830,357	$ 3,154,948	2,940,367

Critical Accounting Policies and Estimates

A disclosure of critical accounting policies and the more significant judgments and estimates used in the preparation of the Trust s financial statements is included in Item 7 of the Trust s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to the critical accounting policies during the nine months ended September 30, 2018.

Distributable Income Per Unit

Basic distributable income per Unit is computed by dividing distributable income by the weighted average of Units outstanding. Distributable income per Unit assuming dilution is computed by dividing distributable income by the weighted average number of Units and equivalent Units outstanding. The Trust had no equivalent Units outstanding for any period presented. Therefore, basic distributable income per Unit and distributable income per Unit assuming dilution are the same.

New Accounting Pronouncements

In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers. This update amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods and services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The Trust adopted this standards update, as required, in the first quarter of 2018, but the adoption of this standard did not have a significant impact on its financial statements due to the modified cash basis of reporting used by the Trust.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Not applicable due to the Trust s status as a smaller reporting company.

Item 4. Controls and Procedures

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission issued an updated version of its Internal Control Integrated Framework (the 2013 Framework) which helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. As of the end of the period covered by this report, the Trustee carried out an evaluation of the effectiveness of the design and operation of the Trust s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 based on the criteria established in the 2013 Framework. 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 Burlington Resources Oil & Gas Company LP, the owner of the Waddell Ranch properties, and Riverhill Energy Corporation, the owner of the Texas Royalty properties. 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 1A. Risk Factors

Risk factors relating to the Trust are contained in Item 1A of the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. No material change to such risk factors has occurred during the nine months ended September 30, 2018.

Items 2 through 5.

Not applicable.

Item 6. Exhibits

4.1 Permian Basin Amended and Restated Royalty Trust Indenture dated June 20, 2014, between Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) and The First National Bank of Fort Worth (now Simmons Bank), as Trustee, heretofore filed as Exhibit 4.1 to the Trust s Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarterly period ended June 30, 2014, is incorporated herein by reference. *

4.2 Net Overriding Royalty Conveyance (Permian Basin Royalty Trust) from Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) to The First National Bank of Fort Worth (now Simmons Bank) as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit (4)(b) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980, is incorporated herein by reference. * (P)

4.3 Net Overriding Royalty Conveyance (Permian Basin Royalty Trust) from Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) to The First National Bank of Fort Worth (now Simmons Bank), as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit (4)(b) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980, is incorporated herein by reference. * (P)

10.1 Registration Rights Agreement dated as of July 21, 2004, by and between Burlington Resources Inc. and Bank of America, N.A., as trustee of Permian Basin Royalty Trust, heretofore filed as Exhibit 10.1 to the Trust s Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarterly period ended June 30, 2004, is incorporated herein by reference. *

10.2 Underwriting Agreement dated December 15, 2005, among the Permian Basin Royalty Trust, Burlington Resources, Inc., Burlington Resources Oil & Gas L.P. and Lehman Brothers Inc. and Wachovia Capital Markets, LLC as representatives of the several underwriters, heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on December 19, 2005, is incorporated herein by reference. *

10.3 Underwriting Agreement dated August 2, 2005, among the Permian Basin Royalty Trust, Burlington Resources, Inc., Burlington Resources Oil & Gas L.P. and Goldman Sachs & Co. and Lehman Brothers Inc. as representatives of the several underwriters, heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on August 8, 2005, is incorporated herein by reference. *

10.4 Underwriting Agreement dated August 17, 2006, among Permian Basin Royalty Trust, ConocoPhillips, Burlington Resources Oil & Gas Company LP and Lehman Brothers Inc. and Wachovia Capital Markets, LLC as representatives of the several underwriters heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on August 22, 2006, is incorporated herein by reference. *

31.1 Certification by Ron E. Hooper, Senior Vice President Royalty Trust Management of Simmons Bank, Trustee of Permian Basin Royalty Trust, dated November 2, 2018 and submitted pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate by Simmons Bank, Trustee of Permian Basin Royalty Trust, dated November 2, 2018 and submitted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

* A copy of this Exhibit is available to any Unit holder, at the actual cost of reproduction, upon written request to the Trustee, Simmons Bank, 2911 Turtle Creek Boulevard, Suite 850, Dallas, Texas 75219.

(P) Paper exhibits.

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.

SIMMONS BANK,
TRUSTEE FOR THE
PERMIAN BASIN ROYALTY TRUST

By: /s/ RON E. HOOPER
Ron E. Hooper
SVP Royalty Trust Management

Date: November 2, 2018

(The Trust has no directors or executive officers.)