

TEXAS PACIFIC LAND TRUST
Form 10-K
March 15, 2007
-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

OR

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

For the transition period from _____ to _____.

Commission file No.: 1-737

TEXAS PACIFIC LAND TRUST

(Exact Name of Registrant as Specified in its Charter)

Not Applicable
(State or Other Jurisdiction of

75-0279735
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

1700 Pacific Avenue, Suite 1670

Dallas, Texas
(Address of Principal Executive Offices)

75201
(Zip Code)

Registrant's telephone number, including area code: (214) 969-5530

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Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of Each Exchange on Which Registered |
|-------------------------------------------------------------------------------------------|-------------------------------------------|
| Sub-shares in Certificates of Proprietary Interest (par value \$.16-2/3 per share) | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One)

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2006) was approximately \$313,434,844.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

Cautionary Statement Regarding Forward-Looking Statements

Statements in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding management's expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding the Trust's future operations and prospects, the markets for real estate in the areas in which the Trust owns real estate, applicable zoning regulations, the markets for oil and gas, production limits on prorated oil and gas wells authorized by the Railroad Commission of Texas, expected competition, management's intent, beliefs or current expectations with respect to the Trust's future financial performance and other matters. All forward-looking statements in this Report are based on information available to us as of the date this Report is filed with the Securities and Exchange Commission, and we assume no responsibility to update any such forward-looking statements, except as required by law. All forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance,

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prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the factors discussed in Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART I

Item 1. Business

(a) **General Development of Business.** The registrant (hereinafter called "Texas Pacific" or the "Trust") was organized under a Declaration of Trust, dated February 1, 1888, to receive and hold title to extensive tracts of land in the State of Texas, previously the property of the Texas and Pacific Railway Company, and to issue transferable Certificates of Proprietary Interest pro rata to the holders of certain debt securities of the Texas and Pacific Railway Company. The Trustees are empowered under the Declaration of Trust to manage the lands with all the powers of an absolute owner, and to use the lands and the proceeds of sale of the lands, either to pay dividends to the Certificate holders or to buy in and cancel outstanding Certificates. The Trust's income is derived primarily from land sales, oil and gas royalties, grazing leases, and interest on investments. This method of operation has continued through the present. During the last five years there has not been any reorganization, disposition of any material amount of assets not in the ordinary course of business (although in the ordinary course of business Texas Pacific does sell or lease large tracts of land owned by it), or any material change in the mode of conducting business.

Texas Pacific's income from oil and gas royalties has been limited in the past by the level of production authorized for prorated wells each year by the regulations of the Railroad Commission of Texas. The monthly percentage of allowable production has averaged 100% in recent years, but, because of the limited capacity of older wells and other operating problems, the percentage permitted by the Commission could not be produced by most operators.

(b) **Financial Information about Industry Segments.** Texas Pacific does not have identifiable industry segments, although, as shown in the Statements of Income included in the financial statements incorporated by reference in Item 8 of this Report on Form 10-K, land sales, oil and gas royalties and interest income are the major contributors to the income of Texas Pacific. The Trust's management views its operations as one segment and believes the only significant activity is managing the land which was conveyed to the Trust in 1888. Managing the land includes sales and leases of such land and the retention of oil and gas royalties. See the Statements of Income for additional sources of income for the last three (3) years of Texas Pacific.

(c) **Narrative Description of Business.** As previously indicated, the business done and intended to be done by Texas Pacific consists of sales and leases of land owned by it, retaining oil and gas royalties, temporary cash investments and the overall management of the land owned by it.

- (i) During the last three fiscal years the following items have accounted for more than fifteen percent (15%) of consolidated revenues.

| | 2006 | 2005 | 2004 |
|-----------------------------|------|------|------|
| Oil and Gas Royalties | 38% | 54% | 22% |
| Land Sales | 36% | 24% | 70% |
| Easements and Sundry Income | 16% | - | - |

- (ii) Texas Pacific is not in the business of development of new products.
- (iii) Raw materials are not necessary to the business of Texas Pacific.
- (iv) Patents, trademarks, licenses, franchises or concessions held are not material to any business of Texas Pacific.
- (v) The business of Texas Pacific is not seasonal in nature, as that term is generally understood, although land sales may vary widely from year to year and quarter to quarter.
- (vi) The business of Texas Pacific does not require Texas Pacific to maintain any particular amount or item of working capital.

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- (vii) During 2006, Texas Pacific received \$780,555, or approximately 8.9 percent of its oil and gas royalty income, from 34 leases operated by Chevron U.S.A., Inc.
 - (viii) Backlogs are not relevant to an understanding of Texas Pacific's business.
 - (ix) No material portion of Texas Pacific's business is subject to renegotiation or termination at the election of the Government.
 - (x) The Trust does not have competitors, as such, in that it sells, leases and generally manages land owned by it and, to that extent, any owner of property located in areas comparable to the Trust is a potential competitor.
 - (xi) Research activities relating to the development of new products or services or to the improvement of existing products or services are not material to the Trust's business.
 - (xii) Compliance with Federal, State and local provisions that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, have had no material effect upon the capital expenditures, earnings and competitive position of Texas Pacific. To date, Texas Pacific has not been called upon to expend any funds for these purposes.
 - (xiii) As of February 28, 2007, Texas Pacific had eight (8) full-time employees.
- (d) Financial Information about Geographic Areas. Texas Pacific does not have any foreign operations. For each of its last three fiscal years, all of the Trust's revenues have been derived from, and all of its long-lived assets have been located in, the United States.

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(e) Available Information. The Trust does not maintain an Internet website. Accordingly, it does not make its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available free of charge on or through an Internet website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (the SEC). However, the Trust will voluntarily provide electronic or paper copies of any such reports and amendments, free of charge, upon written request addressed to: Texas Pacific Land Trust, 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201, Attention: General Agent.

Item 1A: Risk Factors.

An investment in our securities involves a degree of risk. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently deem immaterial may also have a material adverse effect on us. If any of the following risks actually occur, our financial condition, results of operations, cash flows or business could be harmed. In that case, the market price of our securities could decline and you could lose part or all of your investment.

Our revenues from the sale of land are subject to substantial fluctuation. We are a passive seller of land and land sales are subject to many factors that are beyond our control.

Land sales vary widely from year to year and quarter to quarter. The total dollar amount, the average price per acre, and the number of acres sold in any one year or quarter should not be assumed to be indicative of land sales in the future. The Trust is a passive seller of land and does not actively solicit sales of land. The demand for, and the sale price of, any particular tract of the Trust's land is influenced by many factors, including, the national and local economies, the rate of residential and commercial development in nearby areas, livestock carrying capacity and the condition of the local agricultural industry, which itself is influenced by range conditions and prices for livestock and agricultural products. Approximately 99% of the Trust's land is classified as ranch land and intermingled with parcels owned by third parties to form ranching units. The Trust's ability to sell ranch land is, therefore, largely dependent on the actions of adjoining landowners.

The Trust's remaining holdings of land in metropolitan areas are limited.

The sale price of land suitable for development in metropolitan areas is generally substantially higher than the price of land in rural or ranching areas. The Trust's remaining holdings of land suitable for development in metropolitan areas are limited.

The Trust is not an oil and gas producer. Its revenues from oil and gas royalties are subject to the actions of others.

The Trust is not an oil and gas producer. Its oil and gas income is derived from perpetual non-participating oil and gas royalty interests which it has retained. As wells age the costs of production may increase and their capacity may decline absent additional investment. However, the owners and operators of the oil and gas wells make all decisions as to investments in, and production from, those wells and the Trust's royalties will be dependent upon decisions made by

those operators, among other factors. The Railroad Commission of the State of Texas sets authorized production levels for pro rated wells by regulation. The monthly percentage of allowable production has averaged 100% in recent years. However, in the past the Trust's income from oil and gas royalties has been limited by the production levels authorized by the Railroad Commission and we cannot assure you that they may not be so limited in the future.

The Trust's oil and gas royalty revenue is dependent upon the market prices of oil and gas which fluctuate.

The oil and gas royalties which the Trust receives are dependent upon the market prices for oil and gas. The market prices for oil and gas are subject to national and international economic and political conditions and, in the past, have been subject to significant price fluctuations. While the Trust's oil and gas royalties have benefited from recent increases in the market prices for oil and gas, we cannot assure you that future decreases in the market prices of oil and gas will not occur. If such decreases in the market prices of oil and gas do occur they may have an adverse effect on our oil and gas royalty revenues.

If the liability of holders of Certificates of Proprietary Interest and Sub-shares were to be found to be governed by the laws of Texas, holders of Certificates of Proprietary Interest and Sub-shares might be held to have personal liability for claims against the Trust, to the extent such claims exceeded the assets of the Trust.

The Declaration of Trust which established the Trust was executed and delivered in New York. Under the laws of the State of New York, the holders of Certificates of Proprietary Interest and Sub-shares are not subject to any personal liability for the acts or obligations of the Trust. The assets of the Trust are located in Texas. Under the laws of the State of Texas the holders of Certificates of Proprietary Interest and Sub-shares may be held personally liable with respect to claims against the Trust, but only after the assets of the Trust first have been exhausted. Thus, if a court were to hold that the liability of holders of Certificates of Proprietary Interest and Sub-shares for obligations is governed by the laws of Texas, rather than New York, it is possible that holders of Certificates of Proprietary Interest and Sub-shares might be held to have personal liability for claims against the Trust to the extent such claims exceeded all of the Trust's assets.

The Trustees are not subject to annual election and, as a result, the ability of the holders of Certificates of Proprietary Interest and Sub-shares to influence the policies of the Trust may be limited.

Directors of a corporation are generally subject to election at each annual meeting of stockholders or, in the case of staggered boards, at regular intervals. Under the Declaration of Trust, however, the Trust is not required to hold annual meetings of holders of Certificates of Proprietary Interest and Sub-shares to elect Trustees and Trustees generally hold office until their death, resignation or disqualification. As a result, the ability of holders of Certificates of Proprietary Interest and Sub-shares to effect changes in the Board of Trustees, and the policies of the Trust, is significantly more limited than that of the stockholders of a corporation.

Our results of operations for any quarter are not necessarily indicative of our results of operations for a full year.

Sales of land fluctuate from quarter to quarter. Revenues from oil and gas royalties may also fluctuate from quarter to quarter based upon market prices for oil and gas and production decisions made by the operators. As a result, the results of our operations for any particular quarter are not necessarily indicative of the results of operations for a full year.

Item 1B: Unresolved Staff Comments.

Not Applicable.

Item 2: Properties.

Texas Pacific Land Trust owns the surface estate in 966,392 acres of land located in 20 counties in the western part of Texas. The Trust also owns a 1/128 nonparticipating perpetual oil and gas royalty interest under 85,414 acres of land and a 1/16 nonparticipating perpetual oil and gas

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royalty interest under 386,988 acres of land in the western part of Texas. At December 31, 2006, grazing leases were in effect on 98.9 percent or approximately 955,611 acres of the Trust's land. Approximately 37,121 acres of land were sold in 2006. This figure includes 20,078 acres which were purchased by the Trust during 2006 because they were interspersed with 7,680 acres already owned by the Trust. The purchase enabled the Trust to sell both parcels as one ranching unit. The Trust leases office space in Dallas, Texas.

Item 3: Legal Proceedings.

Texas Pacific is not involved in any material pending legal proceedings.

Item 4: Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

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PART II

Item 5: Market for Registrant's Common Equity, Related Security Holder Matters and Issuer Purchases of Equity Securities.

The principal United States market on which Sub-shares in the Trust's Certificates of Proprietary Interest are traded is the New York Stock Exchange. The range of reported sales prices for Sub-shares on the New York Stock Exchange for each quarterly period during the past two fiscal years was as follows:

| | 2006 | | 2005 | |
|-------------|-----------|-----------|-----------|-----------|
| | High | Low | High | Low |
| 1st Quarter | \$ 149.50 | \$ 136.50 | \$ 157.25 | \$ 106.00 |
| 2nd Quarter | 150.50 | 139.00 | 180.67 | 142.45 |
| 3rd Quarter | 174.25 | 140.00 | 183.50 | 157.00 |
| 4th Quarter | 221.00 | 151.00 | 157.56 | 114.00 |

Certificates of Proprietary Interest and Sub-shares are interchangeable in the ratio of one Certificate for 600 Sub-shares or 600 Sub-shares for one Certificate of Proprietary Interest. Texas Pacific has paid a regular dividend once a year for the preceding 50 years. The regular dividend was \$.65 per Sub-share in 2006 and \$.55 per Sub-share in 2005 and was paid during the first quarter of each year. In addition, Texas Pacific paid a special dividend of \$2.10 per Sub-share during the fourth quarter of 2006. Texas Pacific is not a party to any agreement that would limit its ability to pay dividends in the future, although any future dividends are subject to the discretion of the Board of Trustees and will depend upon the Trust's earnings, capital requirements and financial position, applicable requirements of law, general economic conditions and other factors considered relevant by the Board of Trustees.

The approximate numbers of holders of Certificates of Proprietary Interest and Sub-shares, respectively, as of January 31, 2007, were as follows:

| | |
|----------------------------------------------------|------------|
| Certificates of Proprietary Interest | |
| Sub-shares in Certificates of Proprietary Interest | 508 |
| TOTAL | 508 |

The Trust did not sell any equity securities during the year ended December 31, 2006.

During the fourth quarter of 2006, the Trust repurchased Sub-share certificates as follows:

| <u>Period</u> | <u>Total Number of Sub-shares Purchased</u> | <u>Average Price Paid per Sub-share</u> | <u>Total Number of Sub-shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number (or Approximate Dollar Value) of Sub-shares that May Yet Be Purchased Under the Plans or Programs</u> |
|---------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| October 1, through October 31, 2006 | 4,400 | \$ 155.45 | - | - |
| November 1, through November 30, 2006 | 4,600 | \$ 169.64 | - | - |
| December 1, through December 31, 2006 | 2,200 | \$ 193.32 | - | - |
| Total | <u>11,200*</u> | \$ 168.72 | - | - |

* The Trust purchased and retired 11,200 Sub-shares in the open market.

Item 6: Selected Financial Data.

The selected financial data set forth below for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, were derived from our audited financial statements. The data presented below should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements and Notes thereto incorporated by reference in Item 8 Financial Statements and Supplementary Data.

| | Year Ended December 31, | | | | |
|------------------------------------|--------------------------------|---------------|---------------|--------------|--------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
| Gross income | \$ 23,022,482 | \$ 15,407,641 | \$ 29,140,610 | \$ 9,953,329 | \$ 9,122,098 |
| Expenses | 6,143,467 | 3,234,913 | 3,368,175 | 2,358,086 | 2,028,478 |
| Income before Federal income taxes | 16,879,015 | 12,172,728 | 25,772,435 | 7,595,243 | 7,093,620 |
| Federal income taxes | 5,309,153 | 3,660,141 | 8,359,477 | 2,265,092 | 2,192,834 |

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Year Ended December 31,

| Net income | \$ 11,569,862 | \$ 8,512,587 | \$ 17,412,958 | \$ 5,330,151 | \$ 4,900,786 |
|------------------------------------------|---------------|--------------|---------------|--------------|--------------|
| Net income per Sub-share | \$ 5.41 | \$ 3.92 | \$ 7.89 | \$ 2.34 | \$ 2.09 |
| Dividends per Sub-share | \$ 2.75 | \$.55 | \$ 2.25 | \$.75 | \$.40 |
| Average number of Sub-shares outstanding | 2,139,129 | 2,172,931 | 2,208,190 | 2,274,212 | 2,347,467 |

As of December 31,

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total assets, exclusive of property with no assigned value | \$ 32,467,548 | \$ 32,304,893 | \$ 31,149,178 | \$ 18,321,900 | \$ 18,735,307 |

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read together with the factors discussed in Item 1A Risk Factors and with the Financial Statements, including the Notes thereto, and the other financial information appearing elsewhere in this Report. Period-to-period comparisons of financial data are not necessarily indicative, and therefore should not be relied upon as indicators, of the Trust's future performance. Words or phrases such as does not believe and believes, or similar expressions, when used in this Form 10-K or other filings with the SEC, are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Results of Operations

The Trust's primary sources of income are revenue derived from sales of land, either for cash or a combination of cash and mortgage notes, and revenue derived from the Trust's land and mineral interests.

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2006 Compared to 2005

Total operating revenues and investing revenues in 2006 aggregated \$23,022,482, an increase of \$7,614,841, or 49.4%, from the \$15,407,641 of total operating revenues and investing revenues recorded in 2005. This increase resulted from increases in land sales, easement and sundry income, oil and gas royalty revenue and interest on investments, which more than offset a decline in interest on notes receivable and a slight decline in grazing lease income. Earnings per Sub-share certificate were \$5.41 for 2006 compared to \$3.92 in 2005. The Trust purchased and retired 36,000 Sub-shares during 2006, leaving 2,122,575 Sub-shares outstanding at December 31, 2006.

Land sales in 2006 were \$8,201,447 compared to \$3,700,116 in 2005, an increase of 121.7%. A total of 37,121 acres were sold in 2006 at an average price of \$221 per acre, compared to 14,606 acres in 2005 at an average price per acre of \$253.

Although the Trust is generally not a purchaser of land, in 2006 the Trust purchased an aggregate of 20,078 acres in Upton County which were interspersed with 7,680 acres of other land owned by the Trust. The purchase enabled the Trust to sell the entire 27,758 acres as one ranching unit.

Rentals, royalties and other income (including interest on investments) were \$14,821,035 in 2006 compared to \$11,707,525 in 2005, an increase of 26.6%.

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Oil and gas royalty revenue in 2006 was \$8,773,512 compared to \$8,264,836 in 2005, an increase of 6.2%. Oil royalty revenue was \$5,947,643 and gas royalty revenue was \$2,825,869 in 2006. Crude oil production from Trust royalty wells decreased 10.1% in 2006 from 2005 production levels, but this decrease in the volume of crude oil production was more than offset by a 21.7% increase in the average price for crude oil during 2006 compared to 2005. Total gas production increased 1.0% in 2006 compared to 2005, while the average price of gas decreased 1.0% in 2006 compared to 2005. The average prices per royalty barrel of crude oil for 2006 and 2005 were \$62.90 and \$51.70, respectively.

Grazing lease income in 2006 was \$484,759 compared to \$486,156 in 2005.

Interest revenue (including interest on investments) was \$1,911,193 in 2006 compared to \$1,749,529 in 2005, an increase of 9.2%. Interest on notes receivable amounted to \$1,349,909 in 2006 compared to \$1,503,671 in 2005. At year end 2006, notes receivable from land sales were \$20,802,132 compared to \$19,083,848 at year end 2005. Interest on investments amounted to \$561,284 in 2006 and \$245,858 in 2005, respectively. Total principal cash payments on notes receivable were \$3,116,595 in 2006.

Easement and sundry income revenue in 2006 was \$3,651,571 compared to \$1,207,004 in 2005. The increase in easement and sundry income revenue was primarily attributable to approximately \$1.2 million of seismic income and approximately \$1.4 million of oil company damage settlements received in 2006. Easement and sundry income is unpredictable and may vary significantly from period to period.

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Taxes, other than Federal income taxes were \$659,305 in 2006 compared to \$648,814 in 2005. Oil and gas production taxes were \$485,570 in 2006 compared to \$462,059 in 2005. Ad valorem taxes were \$126,746 in 2006 compared to \$141,640 in 2005. The Trust's basis in real estate sold, which is included in total expenses, was \$3,374,023 in 2006 compared to \$0 in 2005. All other expenses were \$2,110,139 in 2006 compared to \$2,586,099 in 2005.

2005 Compared to 2004

The Trust's total operating revenues and investing revenues in 2005 aggregated \$15,407,641, a decrease of \$13,732,969, or 47.1%, from the aggregate of \$29,140,610 of total operating revenues and investing revenues recorded in 2004. This decrease resulted from a decrease in revenue from the sale of land, discussed below, which was only partially offset by increases in all other sources of revenue. Earnings per Sub-share certificate were \$3.92 for 2005 compared to \$7.89 in 2004. The Trust purchased and retired 35,700 Sub-shares during 2005, leaving 2,158,575 Sub-shares outstanding at December 31, 2005.

Land sales in 2005 were \$3,700,116 compared to \$20,277,226 in 2004, a decrease of 81.8%. Land sales in 2004 had been significantly higher than normal, however, primarily as a result of a single sale of approximately 1,429 acres of land suitable for development located in El Paso County for \$19,234,300. A total of 14,606 acres were sold in 2005 at an average price of \$253 per acre, compared to 12,023 acres in 2004 at an average price per acre of \$1,687. The Trust's remaining holdings of land suitable for development in metropolitan areas are limited.

Although the Trust is generally not a purchaser of land, in 2005 the Trust purchased an aggregate of 5,547 acres in Culberson and Reeves counties which was offered for sale by the State of Texas. The land purchased is adjacent to other land owned by the Trust and was purchased because management believed that it would enhance the value of the Trust's existing holdings in the area by making them larger and more contiguous. The average purchase price of the land purchased was \$56.88 per acre.

Rentals, royalties and other income (including interest on investments) were \$11,707,525 in 2005 compared to \$8,863,384 in 2004, an increase of 32.1%.

Oil and gas royalty revenue in 2005 was \$8,264,836 compared to \$6,534,455 in 2004, an increase of 26.5%. Oil royalty revenue was \$5,439,240 and gas royalty revenue was \$2,825,596 in 2005. Crude oil production from Trust royalty wells decreased 7.5% in 2005 from 2004 production levels, but this decrease in the volume of crude oil production was more than offset by a 36.7% increase in the average price for crude oil during 2005 compared to 2004. Total gas production decreased 10.6% in 2005 compared to 2004, but the decrease in production levels was more than offset by a 41.7% increase in the average price of gas in 2005 compared to 2004. The average prices per royalty barrel of crude oil for 2005 and 2004 were \$51.70 and \$37.82, respectively.

Grazing lease income in 2005 was \$486,156 compared to \$244,103 in 2004. Prior to 2004, grazing lease rentals were recorded on the cash method which approximated the accrual method. For 2004, the Trust recorded a one-time charge in the amount of \$228,418 to record grazing lease rental on the accrual method. Since the amount was deemed immaterial to the

financial statements as a whole, the financial statements for prior periods have not been restated. Cash receipts from grazing leases were \$490,330 in 2005 compared to \$472,521 in 2004.

Interest revenue (including interest on investments) was \$1,749,529 in 2005 compared to \$1,138,307 in 2004, an increase of 53.7%. Interest on notes receivable amounted to \$1,503,671 in 2005 compared to \$1,066,395 in 2004. At year end 2005, notes receivable from land sales were \$19,083,848 compared to \$22,251,684 at year end 2004. Interest on investments amounted to \$245,858 in 2005 and \$71,912 in 2004, respectively. Total principal cash payments on notes receivable were \$4,824,346 in 2005.

Easement and sundry income revenue in 2005 was \$1,207,004 compared to \$946,519 in 2004.

Taxes, other than Federal income taxes were \$648,814 in 2005 compared to \$603,301 in 2004. Oil and gas production taxes were \$462,059 in 2005 compared to \$365,273 in 2004. Ad valorem taxes were \$141,640 in 2005 compared to \$194,236 in 2004. The Trust's basis in real estate sold, which is included in total expenses, was \$0 in 2005 and \$715,712 in 2004. All other expenses were \$2,586,099 in 2005 compared to \$2,049,162 in 2004.

Liquidity

The Trust's principal sources of liquidity are its revenues from oil and gas royalties, lease rentals and receipts of interest and principal payments on the notes receivable arising from its sales of land. In the past these sources have generated more than adequate amounts of cash to meet the Trust's needs and, in the opinion of management, should continue to do so in the foreseeable future.

Off-Balance Sheet Arrangements

The Trust has not engaged in any off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

As of December 31, 2006, the Trust's known contractual obligations were as follows:

| <u>Contractual Obligations</u> | <u>Payment Due by Period</u> | | | | |
|-------------------------------------------------------------------------------|------------------------------|-----------------------------|----------------------|----------------------|------------------------------|
| | <u>Total</u> | <u>Less than 1 Year</u> | <u>1-3 Years</u> | <u>3-5 Years</u> | <u>More than 5 Years</u> |
| Long-term debt obligations | \$ | \$ | \$ | \$ | \$ |
| Capital lease obligations | | | | | |
| Operating lease obligations | 132,342 | 51,786 | 80,556 | | |
| Purchase obligations | | | | | |
| Other long-term liabilities reflected on the Trust's balance sheet under GAAP | | | | | |
| Total | \$ 132,342 | \$ 51,786 | \$ 80,556 | \$ | \$ |

Effects of Inflation

We do not believe that inflation has had a material impact on our operating results. We cannot assure you, however, that future increases in our costs will not occur or that any such increases that may occur will not adversely affect our results of operations.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. It is our opinion that we fully disclose our significant accounting policies in the Notes to the Financial Statements. Consistent with our disclosure policies, we include the following discussion related to what we believe to be our most critical accounting policies that require our most difficult, subjective or complex judgment.

Valuation of Notes Receivable - Management of the Trust monitors delinquencies to assess the propriety of the carrying value of its notes receivable. At the point in time that notes receivable become delinquent, management reviews the operations information of the debtor and the estimated fair value of the collateral held as security to determine whether an allowance for losses is required. Any required allowance for losses is recorded in the period of determination. At December 31, 2006, and 2005, there were no significant delinquencies and, as such, no allowances for losses have been recorded.

Valuation of Real Estate Acquired Through Foreclosure - The value of real estate acquired through foreclosure is established at the lower of cost or fair value less disposition costs at the date of foreclosure. Cost is considered to be the aggregate of the outstanding principal and interest, past due ad valorem taxes and other fees associated with the foreclosure. Subsequent to the foreclosure date, valuations are periodically performed or obtained by management when events or changes in circumstances indicate that the full carrying amount may not be recoverable. At such time, a valuation allowance is established to reduce the carrying value to the estimated fair value. Valuation of the real estate is based on the estimates of management and is subject to judgment. At December 31, 2006 and 2005, no valuation allowances were recorded.

Gain Recognition on Land Sales - Accounting principles generally accepted in the United States of America dictate the manner in which the gain or loss on the sale of land is recorded. The Trust has established policies for the sale of land which result in the full accrual method of gain recognition. This policy generally requires that the Trust receive a minimum cash down payment of 25% of the sales price on each sale and that any related notes receivable require regular principal and interest payments, payable over terms from 5 to 15 years.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk.

The Trust's primary market risk exposure relates to changes in interest rates related to its notes receivable. To limit the impact of interest rate changes, the Trust enters into fixed rate notes receivable that approximate the current interest rate for land sales at the time. As a result, the Trust's only interest rate risk is the opportunity loss should interest rates increase. The

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following table summarizes expected maturities of the Trust's notes receivable. As the interest rates represent rates which management believes are current rates on similar land sales, the Trust believes the fair values of its notes receivable approximate the carrying amounts.

| <u>Year Ending December 31</u> | <u>Maturity</u> |
|--------------------------------|----------------------|
| 2007 | \$ 1,253,608 |
| 2008 | 1,331,007 |
| 2009 | 1,358,637 |
| 2010 | 1,389,744 |
| 2011 | 1,535,052 |
| Thereafter | 13,934,084 |
| | <u>\$ 20,802,132</u> |

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Year Ending December 31

Maturity

The Trust's remaining financial instruments consist of cash, temporary cash investments and accounts payable and other liabilities and the carrying amounts of these instruments approximate fair value due to the short-term nature of these instruments.

Item 8: Financial Statements and Supplementary Data.

See the Index to Financial Statements included in Item 15. The Financial Statements listed therein are incorporated herein by reference to pages F-1 through F-18 of this Report on Form 10-K.

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A: Controls and Procedures.

(a) Disclosure Controls and Procedures.

Pursuant to Rule 13a-15, management of the Trust under the supervision and with the participation of Roy Thomas, the Trust's Chief Executive Officer, and David M. Peterson, the Trust's Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as of the end of the Trust's fiscal year covered by this Report on Form 10-K. Based upon that evaluation, Mr. Thomas and Mr. Peterson concluded that the Trust's disclosure controls and procedures are effective in timely alerting them to material information relating to the Trust required to be included in the Trust's periodic SEC filings.

(b) Management's Report on Internal Control over Financial Reporting.

Management of the Trust is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Management has assessed the effectiveness of the Trust's internal control over financial reporting as of December 31, 2006 using the criteria set forth by the

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Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on that assessment, management believes that the Trust's internal control over financial reporting was effective as of December 31, 2006.

(c) Attestation Report of Registered Public Accounting Firm.

The Trust's independent registered public accountants have issued an audit report on management's assessment of the Trust's internal control over financial reporting. This audit report appears on page F-1 of this Report.

(d) Changes in Internal Control over Financial Reporting.

There were no changes in the Trust's internal control over financial reporting during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Item 9B: Other Information.

Not applicable.

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PART III

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Item 10: Directors, Executive Officers of the Registrant and Corporate Governance.

(a) Trustees:

| <u>Name</u> | <u>Age</u> | <u>Position and Offices Held With Registrant</u> | <u>Period During Which Person Has Served in Office</u> |
|--------------------|------------|-------------------------------------------------------------------|---------------------------------------------------------------------------|
| Maurice Meyer III | 71 | Trustee, Chairman of the Trustees and Chairman of Audit Committee | Trustee since February 28, 1991; Chairman of Trustees since May 28, 2003. |
| John R. Norris III | 53 | Trustee | Trustee since June 7, 2000. |
| James K. Norwood | 65 | Trustee and Member of Audit Committee | Trustee since June 14, 2006. |

(b) Executive Officers:

| <u>Name</u> | <u>Age</u> | <u>Position and Offices Held With Registrant</u> | <u>Period During Which Person Has Served in Office</u> |
|-------------------|------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Roy Thomas | 60 | General Agent, Chief Executive Officer and Secretary | General Agent and Secretary of the Trust since January 1, 1995 and Chief Executive Officer since November 12, 2002. Mr. Thomas had previously served as Assistant General Agent from December 1, 1992 through December 31, 1994. |
| David M. Peterson | 41 | Assistant General Agent and Chief Financial Officer | Assistant General Agent since January 1, 1997 and Chief Financial Officer since November 12, 2002. |

The Trustees hold office until their death, resignation or disqualification. The General Agent, Chief Executive Officer and Secretary and the Assistant General Agent and Chief Financial Officer hold office until their death, resignation, discharge or retirement pursuant to the Texas Pacific Land Trust Revised Employees Pension Plan. No executive officer was selected to be an officer pursuant to any arrangement or understanding between him and any other person or persons other than the Trustees acting solely in their capacity as such.

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(c) Certain Significant Employees. The Trust does not employ any person who is not an executive officer who makes or is expected to make significant contributions to the business of the Trust.

(d) Family Relations. There are no family relationships among any of the Trustees and executive officers of the Trust.

(e) Business Experience.

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| Name of Trustee or Executive Officer | Principal Occupation or Employment During the Past Five Years |
|---------------------------------------------|----------------------------------------------------------------------------------|
| Maurice Meyer III | Former Vice Chairman of Henderson Brothers; personal investments |
| John R. Norris III | Attorney; Calloway, Norris & Burdette, Dallas, Texas |
| James K. Norwood | Licensed Real Estate Appraiser; James K. Norwood, Inc. |
| Roy Thomas | General Agent, Chief Executive Officer and Secretary of Texas Pacific Land Trust |
| David M. Peterson | Assistant General Agent and Chief Financial Officer of Texas Pacific Land Trust |

(f) Involvement in Certain Legal Proceedings. During the past five years, no Trustee or executive officer has been involved in any event reportable under this caption.

(g) Promoters and Control Persons. Not applicable.

Section 16(a) Beneficial Ownership Reporting Compliance

Mr. Norwood filed his Initial Report of Beneficial Ownership of Securities on Form 3 late. The form was due within ten days following Mr. Norwood's election as a Trustee on June 14, 2006, but was not filed until March 1, 2007.

Code of Ethics

The Trust has adopted a code of ethics applicable to its chief executive officer, chief financial officer and certain other employees. The Trust will provide a copy of the code of ethics free of charge to any person upon written request addressed to: Texas Pacific Land Trust, 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201, Attention: General Agent.

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Changes in Procedures Regarding Nomination of Trustees

There have been no material changes to the procedures by which security holders may recommend nominees to the Trust's Board of Trustees.

Audit Committee

The Trust has a standing Audit Committee of its Board of Trustees. The current members of the Audit Committee are Messrs. Meyer and Norwood.

Audit Committee Financial Expert

The Board of Trustees has determined that no current member of the Board of Trustees serving on the Trust's Audit Committee would meet the requirements of the definition of "audit committee financial expert" set forth in the applicable rules of the SEC. The terms of the Trust, which was established in 1888, and governing law would require an amendment of the Trust in order to add new Trustees who would satisfy the requirements of the definition. Any amendment of the Trust to do so would necessarily involve judicial proceedings and an expensive time-consuming process with no assurance that an individual meeting the requirements of the definition, who would be willing to serve as Trustee given the modest compensation offered (\$2,000 per annum, \$4,000 per annum for the Chairman), could be located. The Audit Committee consists of two independent Trustees, each of whom has been determined by the Board of Trustees to be qualified, in their judgment, to monitor the performance of management, the Trust's internal accounting operations and the independent auditors and to be qualified to monitor the disclosures of the Trust. In addition, the Audit Committee has the ability to retain its own independent accountants, attorneys and other advisors, whenever it deems appropriate, to advise it. As a result, the Board of Trustees believes that the time and expense involved in an amendment of the Trust, with no assurance that an individual meeting the requirements of the definition of "audit committee financial expert" could be persuaded to become a member of the Board of Trustees, would not be in the best interests of the Trust at this time.

Item 11: Executive Compensation.

Compensation Discussion and Analysis

The Trust's compensation programs are designed to reward the performance of the Named Executive Officers in achieving the Trust's primary goals of protecting and maintaining the assets of the Trust. The compensation program consists principally of a salary and an annual cash bonus. Salaries are reviewed annually and the amount of the cash bonus is determined by the Nominating, Compensation and Governance Committee of the Trustees based upon an evaluation of the Named Executive Officer's performance against the goals and objectives of the Trust.

The Trust has not incorporated equity-related or other long-term compensation elements in its compensation programs. The Declaration of Trust pursuant to which the Trust was created empowers the Trustees to use the lands originally contributed to the Trust either to pay dividends to the certificate holders or to repurchase and cancel outstanding certificates. In view of that

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general directive to the Trustees, the issuance of equity to executive officers has not been made a part of the Trust's compensation program.

As part of its compensation program the Trust maintains both a qualified defined benefit pension plan and a qualified defined contribution plan which are both available to employees generally, as well as the Named Executive Officers. These plans are designed to assist employees in planning adequately for their retirement.

The Nominating, Compensation and Governance Committee has the sole authority to determine the compensation of the General Agent and Chief Executive Officer of the Trust. The Committee obtains and considers recommendations from the General Agent in connection with its review and approval of the annual compensation, including the amount of annual bonus, paid to the Assistant General Agent and Chief Financial Officer.

Summary Compensation Table

The following table sets forth information concerning compensation for services in all capacities awarded to, earned by, or paid to, the Trust's Chief Executive Officer and its Chief Financial Officer, who are its only executive officers (collectively, the "Named Executive Officers"):

| Name and Position | Year | Salary (\$) | Bonus (\$) | Change in Pension Value (\$)(1) | All Other Compensation (2)(3) | Total (\$) |
|---------------------------------|------|-------------|------------|---------------------------------|-------------------------------|------------|
| Roy Thomas | 2006 | \$ 180,625 | \$ 23,000 | \$ 42,959 | \$ 10,838 | \$ 257,422 |
| General Agent, Chief | 2005 | \$ 175,417 | \$ 17,000 | \$ 59,290 | \$ 10,525 | \$ 262,232 |
| Executive Officer and Secretary | 2004 | \$ 170,417 | \$ 17,000 | \$ 52,026 | \$ 10,225 | \$ 249,668 |
| David M. Peterson | 2006 | \$ 120,625 | \$ 12,500 | \$ 6,111 | \$ 7,238 | \$ 146,474 |
| Assistant General Agent | 2005 | \$ 110,833 | \$ 10,000 | \$ 9,993 | \$ 6,650 | \$ 137,476 |
| and Chief Financial Officer | 2004 | \$ 100,833 | \$ 10,000 | \$ 7,483 | \$ 6,050 | \$ 124,366 |

- (1) Represents the aggregate change in the actuarial present value of the Named Executive Officer's accumulated benefit under all defined benefit and actuarial pension plans (including supplemental plans) from the pension plan measurement date used for financial statement reporting purposes with respect to the Trust's audited financial statements for the prior completed fiscal year to the pension plan measurement date used for financial statement reporting purposes with respect to the Trust's audited financial statements for the covered fiscal year.
- (2) Represents contributions by the Trust to the account of the Named Executive Officer under the Trust's defined contribution retirement plan.
- (3) The aggregate value of the perquisites and other personal benefits, if any, received by the named Executive Officer for all years presented have not been reflected in the table

because the amount was below the Securities and Exchange Commission's \$10,000 threshold for disclosure.

Pension Benefits

| <u>Name</u> | <u>Plan Name</u> | <u>Number of Years Credited Service (#)</u> | <u>Present Value of Accumulated Benefit (\$)</u> | <u>Payments during Last Fiscal Year</u> |
|-------------------|--------------------------------------------------|---------------------------------------------|--------------------------------------------------|-----------------------------------------|
| Roy Thomas | Texas Pacific Land Trust Employees Pension Plan | 20.0 | \$ 379,764 | \$ 0 |
| David M. Peterson | Texas Pacific Land Trust Employee's Pension Plan | 11.5 | \$ 43,580 | \$ 0 |

The Texas Pacific Land Trust Revised Employees Pension Plan is a noncontributory defined benefit pension plan qualified under Section 401 of the Internal Revenue Code in which the employees, excluding the Trustees, participate. The remuneration covered by the Plan is Salary. The Plan provides a normal retirement benefit equal to 1.5% of a participant's average Salary for the last five years prior to retirement for each year of Credited Service under the Plan. Credited Service is earned from the participant's date of membership in the Plan, which is generally not the participant's date of hire by the Trust. For information concerning the valuation method and material assumptions used in quantifying the present value of the Named Executive Officers' current accrued benefits, see Note 5 of the Notes to Financial Statements incorporated by reference in Item 8 of this Report.

As of December 31, 2006, the annual accrued normal retirement benefits are estimated to be \$50,508 and \$17,622 for Mr. Thomas and Mr. Peterson, respectively.

The Plan provides for early retirement after 20 years of service with the Trust. Early retirement benefits are calculated in the same manner as the normal retirement benefit, but are reduced by 1/15 for each of the first five years and 1/30 for each of the next five years that benefits commence prior to normal retirement. If benefits commence more than 10 years prior to normal retirement, the early retirement benefit payable at age 55 is reduced actuarially for the period prior to age 55. The annual early retirement benefit payable to Mr. Thomas as of January 1, 2007 is estimated to be \$34,513. Mr. Peterson is not currently eligible for an early retirement benefit.

Trustee Compensation Table

| <u>Name</u> | <u>Fees Earned or Paid in Cash (\$) (1)</u> | <u>Total (\$)</u> |
|--------------------|---------------------------------------------|-------------------|
| Maurice Meyer III | \$ 4,000 | \$ 4,000 |
| John R. Norris III | \$ 2,000 | \$ 2,000 |
| James K. Norwood | \$ 2,000 | \$ 2,000 |

- (1) As Chairman, Mr. Meyer receives \$4,000 annually for his services as Chairman of the Trustees. Each of the other Trustees receives \$2,000 annually for his services as such.

Employment Agreements

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The Trust is not a party to any employment agreements with any of its Named Executive Officers. There is no compensation plan or arrangement with respect to any individual named in the Summary Compensation Table that results, or will result, from the resignation, retirement or any other termination of such individual's employment or from a change in control of Texas Pacific or from a change in the individual's responsibilities following a change in control of Texas Pacific.

Compensation Committee Interlocks and Insider Participation

Each of the Trustees is a member of the Nominating, Compensation and Governance Committee of the Trustees. None of the Trustees is, or has been in the past, an officer or employee of the Trust. None of the Trustees had any relationship requiring disclosure by the Trust pursuant to Item 404 of Regulation S-K. There are no interlocking relationships requiring disclosure by the Trust pursuant to Item 407(e)(4)(iii) of Regulation S-K.

Compensation Committee Report

The Nominating, Compensation and Governance Committee has reviewed and discussed the Compensation Disclosure and Analysis section of this Item 11 and, based on such review and discussion, recommended that it be included in this Report.

Maurice Meyer III

John R. Norris III

James K. Norwood

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Security Holder Matters.

The Trust does not maintain any compensation plans (or individual compensation arrangements) under which equity securities of the Trust are authorized for issuance.

(a) Security Ownership of Certain Beneficial Owners. The following table sets forth information as to all persons known to the Trust to be the beneficial owner of more than 5% of the Trust's voting securities (Certificates of Proprietary Interest and Sub-share Certificates). The Certificates of Proprietary Interest and Sub-share Certificates are freely interchangeable in the ratio of one Certificate of Proprietary Interest for six hundred Sub-shares or six hundred Sub-shares for one Certificate of Proprietary Interest, and are deemed to constitute a single class.

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| Name and Address | Number of Securities Beneficially Owned | Type of Securities | Percent of Class |
|---------------------------------------------------------------------------------------|-----------------------------------------|------------------------|------------------|
| Mercury Real Estate Advisors L.L.C.(1) 100 Field Point Road Greenwich, CT 06830 | 163,772 | Sub-share certificates | 7.7% |

(1) The information set forth herein with respect to the securities beneficially owned by Mercury Real Estate Advisors L.L.C. (Mercury) is based on a Schedule 13D/A filed by Mercury, dated November 16, 2006. The Schedule 13D/A indicates that it is a joint filing on behalf of Mercury and Messrs. David R. Jarvis and Malcolm F. MacLean IV. The Schedule 13D/A indicates that Mercury is an investment advisor and that the shares reported in the Schedule 13D/A are held by certain entities of which Mercury is the investment advisor. The Schedule 13D/A further indicates that Messrs. Jarvis and MacLean are the managing members of Mercury. The Schedule 13D/A states that Mercury, Mr. Jarvis and Mr. MacLean have shared voting and dispositive power with respect to all of the Sub-shares reported. The address of Messrs. Jarvis and MacLean is the same as the address of Mercury.

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(b) Security Ownership of Management: The following table sets forth information as to equity securities (Certificates of Proprietary Interest and Sub-share Certificates) beneficially owned directly or indirectly by all Trustees, naming them, and by all Trustees and executive officers of the registrant, as a group:

| <u>Title and Class (1)</u> | <u>Name of Beneficial Owner</u> | <u>Amount and Nature of Ownership on January 31, 2007</u> | <u>Percent of Class</u> |
|----------------------------|--------------------------------------|-----------------------------------------------------------|-------------------------|
| Sub-share certificates: | Maurice Meyer III | 14,950(2) | * |
| Sub-share certificates: | John R. Norris III | 200 | * |
| Sub-share certificates: | James K. Norwood | 200 | * |
| Sub-share certificates: | Roy Thomas | 100 | * |
| Sub-share certificates: | David M. Peterson | -- | -- |
| Sub-share certificates: | All Trustees and Officers as a Group | 15,450 | .73% |

*Indicates ownership of less than 1% of the class.

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- (1) The Certificates of Proprietary Interest and Sub-share Certificates are freely interchangeable in the ratio of one Certificate of Proprietary Interest for six hundred Sub-shares or six hundred Sub-shares for one Certificate of Proprietary Interest, and are deemed to constitute a single class. The figures set forth in the table represent Sub-share certificates. On January 31, 2007, no Trustee or executive officer was the beneficial owner, directly or indirectly, of any Certificates of Proprietary Interest.
- (2) Does not include 2,300 Sub-shares owned by the wife of Mr. Meyer in which Mr. Meyer disclaims any beneficial ownership.
- (c) Changes in Control. Texas Pacific has no knowledge of any arrangement that may result in any change of control of the Trust.

Item 13: Certain Relationships and Related Transactions, and Director Independence.

- (a) Transactions with Related Persons. There are no reportable transactions or currently proposed transactions between Texas Pacific and any Trustee or executive officer of Texas Pacific or any security holder of Texas Pacific or any member of the immediate family of the foregoing persons.
- (b) Review, Approval or Ratification of Transactions with Related Persons. Transactions with Trustees, executive officers or five percent or greater stockholders, or immediate family members of the foregoing, which might require disclosure pursuant to paragraph (a), above, would be subject to review, approval or ratification by the Nominating, Compensation and Governance Committee of the Trustees. That Committee is composed of all of the Trustees. The Committee's charter empowers it to review any transactions, including loans, which may confer any benefit upon any Trustee, executive officer or affiliated entity to confirm compliance with the Trust's Code of Conduct and Ethics and applicable law. The Committee has not adopted specific standards for evaluating such transactions beyond that mentioned above, because it is the sense of the Trustees that the activities and procedures of the Committee should remain flexible so that it may appropriately respond to changing circumstances.
- (c) Transactions with Promoters. Not applicable.
- (d) Independence. Each Trustee is an independent director within the meaning of the applicable rules of the New York Stock Exchange. Each member of the Audit and the Nominating, Compensation and Governance Committees of the Trustees is independent within the meaning of the applicable committee independence standards of the New York Stock Exchange.

Item 14: Principal Accountant Fees and Services.

All professional services rendered by Lane Gorman Trubitt, L.L.P. (Lane Gorman Trubitt) during 2006 and 2005 were furnished at customary rates. A summary of the fees which Lane Gorman Trubitt billed the Trust for services provided in 2006 and 2005 is set forth below:

Audit Fees. Lane Gorman Trubitt billed the Trust approximately \$66,500 in 2006 and \$58,900 in 2005 in connection with its audits of the financial statements and internal controls over financial reporting of the Trust in 2006 and 2005.

Audit-Related Fees. Lane Gorman Trubitt did not bill the Trust any amount for audit-related services in either 2006 or 2005 not included in Audit Fees , above.

Tax Fees. Lane Gorman Trubitt did not bill the Trust for any tax fees in 2006 or 2005.

Other Fees. Lane Gorman Trubitt did not bill the Trust any other fees in either 2006 or 2005.

The Audit Committee has established a policy requiring approval by it of all fees for audit and non-audit services to be provided by the Trust s independent registered public accountants, prior to commencement of such services. Consideration and approval of fees generally occurs at the Committee s regularly scheduled meetings or, to the extent that such fees may relate to other matters to be considered at special meetings, at those special meetings.

None of the fees described above under the captions Audit-Related Fees, Tax Fees and Other Fees were approved by the Committee pursuant to the de minimis exception set forth in Rule 2-01(c)(7)(i)(C) under SEC Regulation S-X.

PART IV

Item 15: Exhibits and Financial Statement Schedules.

(a) Financial Statements.

The following financial statements are filed as a part of this Report on Form 10-K and appear on pages F-1 through F-18 hereof:

Report of Independent Registered Public Accounting Firm

Balance Sheets December 31, 2006 and 2005

Statements of Income Years Ended December 31, 2006, 2005 and 2004

Statements of Net Proceeds from All Sources Years Ended December 31, 2006, 2005 and 2004

Statements of Cash Flows Years Ended December 31, 2006, 2005 and 2004

Notes to Financial Statements

All schedules have been omitted because the required information is contained in the financial statements or related notes, or is not applicable or immaterial.

(b) Exhibits.

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Report on Form 10-K.

(c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 15th day of March, 2007.

TEXAS PACIFIC LAND TRUST

By: /s/ Roy Thomas

Roy Thomas,
General Agent, Chief Executive
Officer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 15th day of March, 2007.

| Signature | Title(s) |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <p style="text-align: center;">/s/ Roy Thomas</p> <hr/> <p style="text-align: center;">Roy Thomas</p> | <p>General Agent, Chief Executive Officer and Secretary (Principal Executive Officer)</p> |
| <p style="text-align: center;">/s/ David M. Peterson</p> <hr/> <p style="text-align: center;">David M. Peterson</p> | <p>Assistant General Agent and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)</p> |
| <p style="text-align: center;">/s/ Maurice Meyer III</p> <hr/> <p style="text-align: center;">Maurice Meyer III</p> | <p>Chairman of the Trustees</p> |
| <p style="text-align: center;">/s/ John R. Norris III</p> <hr/> <p style="text-align: center;">John R. Norris III</p> | <p>Trustee</p> |
| <p style="text-align: center;">/s/ James K. Norwood</p> <hr/> <p style="text-align: center;">James K. Norwood</p> | <p>Trustee</p> |

Item 15(a): Financial Statements

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| Balance Sheets - December 31, 2006 and 2005 | F-3 |
| Statements of Income - Years Ended December 31, 2006, 2005 and 2004 | F-4 |
| Statements of Net Proceeds From All Sources - Years Ended December 31, 2006, 2005 and 2004 | F-5 |
| Statements of Cash Flows - Years Ended December 31, 2006, 2005 and 2004 | F-6 |
| Notes to Financial Statements | F-7 |

All schedules have been omitted because the required information is contained in the financial statements or related notes, or is not applicable or immaterial.

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Report of Independent Registered Public Accounting Firm

To the Trustees and Certificate Holders

Texas Pacific Land Trust

We have audited the accompanying balance sheets of Texas Pacific Land Trust as of December 31, 2006 and 2005 and the related statements of income, net proceeds from all sources, and cash flows for each of the years in the three-year period ended December 31, 2006. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Texas Pacific Land Trust maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Texas Pacific Land Trust's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of Texas Pacific Land Trust's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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A trust's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A trust's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the trust; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the trust are being made only in accordance with authorizations of management and trustees of the trust; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the trust's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Pacific Land Trust as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that Texas Pacific Land Trust maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by COSO. Furthermore, in our opinion, Texas Pacific Land Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

/s/ Lane Gorman Trubitt, L.L.P.

Dallas, Texas

February 14, 2007

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TEXAS PACIFIC LAND TRUST

BALANCE SHEETS

December 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--------|-------------|-------------|
| ASSETS | | |

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| ASSETS | 2006 | 2005 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 8,524,177 | \$ 9,626,984 |
| Accrued receivables | 1,154,605 | 1,114,921 |
| Other assets | 92,169 | 320,481 |
| Prepaid Federal income taxes | | 228,570 |
| Notes receivable for land sales (\$1,253,608 due in 2007 and \$1,263,769 due in 2006) (note 2) | 20,802,132 | 19,083,848 |
| Water wells, leasehold improvements, furniture, and equipment at cost less accumulated depreciation | 117,458 | 91,764 |
| Real estate acquired (notes 2 and 4) | 1,777,007 | 1,838,325 |
| Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned (note 2): | | |
| Land (surface rights) situated in twenty counties in Texas 955,827 acres in 2006 and 971,449 acres in 2005 | | |
| Town lots in Iatan, Loraine, and Morita, Texas 628 lots | | |
| 1/16 nonparticipating perpetual royalty interest in 386,987.70 acres | | |
| 1/128 nonparticipating perpetual royalty interest in 85,413.60 acres | | |
| Total assets | <u>\$ 32,467,548</u> | <u>\$ 32,304,893</u> |
| LIABILITIES AND CAPITAL | | |
| Accounts payable and accrued liabilities | \$ 653,733 | \$ 420,188 |
| Federal income taxes payable | 213,780 | |
| Other taxes payable | 57,800 | 54,822 |
| Unearned revenue (note 2) | 415,060 | 407,723 |
| Deferred taxes (note 6) | 6,408,682 | 6,808,490 |
| Pension plan liability | 279,091 | |
| Total liabilities | <u>8,028,146</u> | <u>7,691,223</u> |
| Capital (notes 1, 2 and 8): | | |
| Certificates of Proprietary Interest, par value \$100 each; Outstanding 0 Certificates | | |
| Sub-share Certificates in Certificates of Proprietary Interest, par value \$.16 2/3 each; outstanding 2,122,575 Sub-shares in 2006 and 2,158,575 Sub-shares in 2005 | | |
| Other comprehensive income | (336,788) | |
| Net proceeds from all sources | 24,776,190 | 24,613,670 |
| Total capital | <u>24,439,402</u> | <u>24,613,670</u> |
| Total liabilities and capital | <u>\$ 32,467,548</u> | <u>\$ 32,304,893</u> |

See accompanying notes to financial statements.

TEXAS PACIFIC LAND TRUST

STATEMENTS OF INCOME

Years Ended December 31, 2006, 2005 and 2004

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|----------------------------------------|----------------------|---------------------|----------------------|
| Income: | | | |
| Oil and gas royalties | \$ 8,773,512 | \$ 8,264,836 | \$ 6,534,455 |
| Grazing lease rentals | 484,759 | 486,156 | 244,103 |
| Land sales | 8,201,447 | 3,700,116 | 20,277,226 |
| Interest income from notes receivables | 1,349,909 | 1,503,671 | 1,066,395 |
| Easements and sundry income | 3,651,571 | 1,207,004 | 946,519 |
| | <u>22,461,198</u> | <u>15,161,783</u> | <u>29,068,698</u> |
| Expenses: | | | |
| Taxes, other than Federal income taxes | 659,305 | 648,814 | 603,301 |
| Salaries and related employee benefits | 892,372 | 847,684 | 818,757 |
| General expense, supplies, and travel | 555,367 | 487,231 | 442,646 |
| Basis in real estate sold | 3,374,023 | | 715,712 |
| Legal and professional fees | 617,266 | 1,163,146 | 741,092 |
| Commissions to local agents | | 51,247 | 493 |
| Depreciation | 37,134 | 28,791 | 38,174 |
| Trustees compensation | 8,000 | 8,000 | 8,000 |
| | <u>6,143,467</u> | <u>3,234,913</u> | <u>3,368,175</u> |
| Operating income | 16,317,731 | 11,926,870 | 25,700,523 |
| Interest income from investments | 561,284 | 245,858 | 71,912 |
| | <u>16,879,015</u> | <u>12,172,728</u> | <u>25,772,435</u> |
| Federal income taxes (note 6): | | | |
| Current | 5,527,613 | 4,689,294 | 4,581,244 |
| Deferred | (218,460) | (1,029,153) | 3,778,233 |
| | <u>5,309,153</u> | <u>3,660,141</u> | <u>8,359,477</u> |
| Net income | <u>\$ 11,569,862</u> | <u>\$ 8,512,587</u> | <u>\$ 17,412,958</u> |
| Net income per Sub-share Certificate | <u>\$ 5.41</u> | <u>\$ 3.92</u> | <u>\$ 7.89</u> |

See accompanying notes to financial statements.

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TEXAS PACIFIC LAND TRUST**STATEMENTS OF NET PROCEEDS FROM ALL SOURCES**

Years Ended December 31, 2006, 2005 and 2004

| | Sub-share Certificates of Proprietary Interest | Other Comprehensive Income (Loss) | Net Proceeds From All Sources | Total |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------|---------------|
| Balances at December 31, 2003 | 2,248,375 | \$ - | \$ 13,990,973 | \$ 13,990,973 |
| Net income | - | - | 17,412,958 | 17,412,958 |
| Cost of 54,100 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled | (54,100) | - | (3,737,308) | (3,737,308) |
| Dividends paid - \$2.25 per Sub-share Certificate | - | - | (4,961,364) | (4,961,364) |
| Balances at December 31, 2004 | 2,194,275 | - | 22,705,259 | 22,705,259 |
| Net income | - | - | 8,512,587 | 8,512,587 |
| Cost of 35,700 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled | (35,700) | - | (5,400,790) | (5,400,790) |
| Dividends paid - \$.55 per Sub-share Certificate | - | - | (1,203,386) | (1,203,386) |
| Balances at December 31, 2005 | 2,158,575 | - | 24,613,670 | 24,613,670 |
| Net income | - | - | 11,569,862 | 11,569,862 |
| Provision for unfunded pension status; adopted SFAS No. 158, net of income taxes of \$181,348 | - | (336,788) | - | (336,788) |
| Total comprehensive income | - | - | - | \$ 11,233,074 |
| Cost of 36,000 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled | (36,000) | - | (5,534,661) | (5,534,661) |
| Dividends paid - \$2.75 per Sub-share Certificate | - | - | (5,872,681) | (5,872,681) |
| Balances at December 31, 2006 | 2,122,575 | \$ (336,788) | \$ 24,776,190 | \$ 24,439,402 |

See accompanying notes to financial statements.

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TEXAS PACIFIC LAND TRUST

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006, 2005 and 2004

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 11,569,862 | \$ 8,512,587 | \$ 17,412,958 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Deferred taxes | (399,808) | (1,029,153) | 3,778,233 |
| Depreciation and amortization | 37,134 | 28,791 | 38,174 |
| Changes in operating assets and liabilities: | | | |
| Accrued receivables and other assets | 188,628 | (123,256) | (325,406) |
| Real estate acquired | 61,318 | (315,501) | 715,712 |
| Notes receivable for land sales | (1,718,284) | 3,167,836 | (11,750,083) |
| Accounts payable, accrued expenses and other liabilities | 186,163 | 265,056 | 531,421 |
| Federal income taxes payable | 442,350 | (174,299) | (239,532) |
| Net cash provided by operating activities | <u>10,367,363</u> | <u>10,332,061</u> | <u>10,161,477</u> |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets | (62,828) | (43,846) | (33,110) |
| Net cash used in investing activities | <u>(62,828)</u> | <u>(43,846)</u> | <u>(33,110)</u> |
| Cash flows from financing activities: | | | |
| Purchase of Sub-share Certificates in Certificates of Proprietary Interest | (5,534,661) | (5,400,790) | (3,737,308) |
| Dividends paid | (5,872,681) | (1,203,386) | (4,961,364) |
| Net cash used in financing activities | <u>(11,407,342)</u> | <u>(6,604,176)</u> | <u>(8,698,672)</u> |
| Net increase (decrease) in cash and cash equivalents | (1,102,807) | 3,684,039 | 1,429,695 |
| Cash and cash equivalents, beginning of period | 9,626,984 | 5,942,945 | 4,513,250 |
| Cash and cash equivalents, end of period | <u>\$ 8,524,177</u> | <u>\$ 9,626,984</u> | <u>\$ 5,942,945</u> |

| 2006 | 2005 | 2004 |
|-------|-------|-------|
| _____ | _____ | _____ |
| _____ | _____ | _____ |

See accompanying notes to financial statements.

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements

December 31, 2006, 2005 and 2004

(1) Nature of Operations

Texas Pacific Land Trust (Trust) was organized under a Declaration of Trust, dated February 1, 1888, to receive and hold title to extensive tracts of land in the State of Texas, previously the property of the Texas and Pacific Railway Company, and to issue transferable Certificates of Proprietary Interest pro rata to the original holders of certain debt securities of the Texas and Pacific Railway Company.

The Trust is organized to manage land, including royalty interests, for the benefit of its owners. The Trust's income is derived primarily from land sales, oil and gas royalties, grazing and sundry leases, interest on notes receivable, and interest on investments.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The most significant accounting policies include the valuation of real estate and royalty interests assigned through the 1888 Declaration of Trust and revenue recognition policies.

The presentation of certain prior year amounts were changed to conform to current year presentation.

(b) Use of Estimates

The preparation of financial statements in accordance with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

(c) Revenue Recognition

Oil and gas royalties

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Oil and gas royalties (royalties) are received in connection with royalty interests owned by the Trust. Royalties are recognized as revenue when crude oil and gas products are removed from the respective underground mineral reserve locations. Royalty payments are generally received one to three months after the crude oil and gas products are removed. An accrual is included in accrued receivables for amounts not received during the month removed based on historical trends.

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

The Trust has analyzed public reports of drilling activities by the oil companies with which it has entered into royalty interest leases in an effort to identify unpaid royalties associated with royalty interests owned by the Trust. Rights to certain royalties believed by the Trust to be due and payable may be subject to dispute with the oil company involved as a result of disagreements with respect to drilling and related engineering information. Disputed royalties are recorded when these contingencies are resolved. The Trust received income of \$4,000, \$42,560, and \$330,496 in 2006, 2005 and 2004, respectively, related to past production due to settlements of claims for unpaid oil and gas royalties.

Grazing lease rentals

The Trust leases land to the ranching industry for grazing purposes. Lease income is recognized when earned. These leases generally require fixed annual payments and terms range from three to five years. Lease cancellations are allowed. Advance lease payments are deferred (unearned revenue) and amortized over the appropriate accounting period. Lease payments not paid are recorded as accrued receivables.

Land sales

Income is recognized on land sales during the periods in which such sales are closed and sufficient amounts of cash down payments are received using the full accrual method of gain recognition. For Federal income tax purposes, such sales are recognized on the installment method. The sales price of land sales are reflected as income and the cost (basis) of the respective parcels of land are reflected as expenses as these parcels of land are not primarily held as income-producing operating properties.

Interest income earned from notes receivable

Interest income is recognized when earned, using the simple interest method. Accrued interest not received is reflected in accrued receivables.

Easements and sundry income

Easement contracts represent contracts which permit companies to install pipe lines, pole lines and other equipment on land owned by the Trust. Easement income is recognized when the Trust receives a signed contract and when the Trust makes available the respective parcel of land to the grantee.

Sundry income represents sundry (diverse) leasing arrangements to companies in a wide array of industries, including: agricultural, oil and gas, construction, and other industries. Lease income is recognized when earned. These leases generally require fixed annual payments or royalties. Lease terms generally range from month-to-

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

month arrangements to ten years. Lease cancellations are allowed. Advance lease payments are deferred and amortized over the appropriate accounting period. Lease payments not paid are included in accrued receivables.

(d) Statements of Cash Flows

Cash and cash equivalents consist of bank deposit accounts and temporary cash investments in loan participation agreements. The Trust considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Trust maintains its cash and cash equivalents in a large financial institution. The Trust monitors the credit quality of this institution and does not anticipate any losses.

Cash disbursed for income taxes in 2006, 2005 and 2004 was \$5,129,000, \$4,875,000, and \$4,829,676, respectively. New loans made by the Trust in connection with land sales amounted to \$4,834,897, \$1,656,510, and \$14,992,021 for the years ended December 31, 2006, 2005 and 2004, respectively.

(e) Accrued Receivables

Accrued receivables consist primarily of amounts due under oil and gas royalty leases and unpaid interest on notes receivable for land sales. Accrued receivables are reflected at their net realizable value based on historical royalty and interest receipt information and other factors anticipated to affect valuation. A valuation allowance is recorded if amounts expected to be received are considered impaired. No allowance was considered necessary at December 31, 2006 and 2005.

(f) Depreciation

Provision for depreciation of depreciable assets is made by charges to income at straight-line and accelerated rates considered to be adequate to amortize the cost of such assets over their useful lives, which generally range from three to five years.

(g) Notes Receivable for Land Sales

Notes receivable for land sales (notes receivable) consists of installment notes received as partial payment on land sales and are reflected at the principal amounts due net of an allowance for loan losses, if any. The Trust generally receives cash payments on land sales of 25% or more. Thereafter, annual principal and interest payments are required by the Trust. Notes receivable bear interest rates ranging from 7.0% to 9.5% as of December 31, 2006 and are secured by first lien deeds of trust on the properties sold. The weighted average interest rate is 7.2% as of December 31, 2006. The annual installments on notes are generally payable over terms of 10 to 15 years. There is no penalty for prepayment of principal, and prepayments in 2006,

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

2005 and 2004 were \$1,849,801, \$3,516,738, and \$2,395,754, respectively. The interest rates on notes receivable are considered comparable with current rates on similar land sales and, accordingly, the carrying value of such notes receivable approximates fair value.

Management of the Trust monitors delinquencies to assess the propriety of the carrying value of its notes receivable. At the point in time that notes receivable become delinquent, management reviews the operations information of the debtor and the estimated fair value of the collateral

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held as security to determine whether an allowance for losses is required. There was no allowance for uncollectible notes receivable at December 31, 2006, 2005, or 2004.

Three customers represented approximately 82% of notes receivable in 2006 and two customers represented approximately 72% of notes receivable in 2005.

The maturities of notes receivable for each of the five years subsequent to December 31, 2006 are:

| Year ending December 31: | |
|--------------------------|---------------|
| 2007 | \$ 1,253,608 |
| 2008 | 1,331,007 |
| 2009 | 1,358,637 |
| 2010 | 1,389,744 |
| 2011 | 1,535,052 |
| Thereafter | 13,934,084 |
| | <hr/> |
| | \$ 20,802,132 |
| | <hr/> |

(h) *Real Estate Acquired*

While the Trust is generally not a purchaser of land, parcels are purchased from time to time at the discretion of the Trustees. Newly acquired real estate is recorded at cost.

Real estate acquired through foreclosure is recorded at the aggregate of the outstanding principal balance, accrued interest, past due ad valorem taxes, and other fees incurred relating to the foreclosure.

Real estate acquired is carried at the lower of cost or market. Valuations are periodically performed or obtained by management whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments, if any, are recorded by a charge to net income and a valuation allowance if the carrying value of the property exceeds its estimated fair value. Minimal, if any, real estate improvements are made to land.

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

(i) *Real Estate and Royalty Interests Assigned Through the 1888 Declaration of Trust*

The fair market value of the Trust's land and royalty interests was not determined in 1888 when the Trust was formed; therefore, no value is assigned to the land, town lots, royalty interests, Certificates of Proprietary Interest, and Sub-share Certificates in Certificates of Proprietary Interest in the accompanying balance sheets. Consequently, in the statements of income, no allowance is made for depletion and no cost is deducted from the proceeds of original land sales. Even though the 1888 value of real properties cannot be precisely determined, it has been concluded that the effect of this matter can no longer be significant to the Trust's financial position or results of operations. For Federal income tax purposes, however, deductions are made for depletion, computed on the statutory percentage basis of income received from royalties. Minimal, if any, real estate improvements are made to land.

(j) *Net Income per Sub-share*

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The cost of Sub-share Certificates purchased and retired is charged to net proceeds from all sources. Net income per Sub-share Certificate is based on the weighted average number of Sub-share Certificates in Certificates of Proprietary Interest and equivalent Sub-share Certificates of Proprietary Interest outstanding during each period (2,139,129 in 2006, 2,172,931 in 2005, and 2,208,190 in 2004).

(k) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which was effective for the Trust on December 31, 2006. SFAS No. 158 required that the Trust record a liability for the unfunded amount of its pension plan. The unfunded amount of its pension plan amounts to the difference between the pension liability and fair value of plan assets. Retrospective application was not allowed. This statement had no impact on the statements of income. Previously unrecognized prior service cost and net actuarial

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

losses were recorded by increasing the pension plan liability and charging other comprehensive income for \$336,788, net of income taxes of \$181,348. Prior service cost and net actuarial losses will be amortized to periodic pension expense in future periods. See note 5 for additional disclosure.

No other recent accounting pronouncements have significantly affected the Trust.

(m) Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income for 2006 consisted of a charge, net of income taxes, representing the unfunded status of the Trust's pension plan. No comprehensive income items existed in 2005 and 2004.

(3) Segment Information

Segment information has been considered in accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures About Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for the way public business enterprises are to report information about operating segments. SFAS No. 131 utilizes the management approach as a basis for identifying reportable segments. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. The Trust's management views its operations as one segment and believes the only significant activity is managing the land, which was conveyed to the Trust in 1888. Managing the land includes sales and leases of such land, and the retention of oil and gas royalties. The cost structure of the Trust is centralized and not segmented.

(4) Real Estate Acquired

Real estate acquired included the following activity for the years ended December 31, 2006 and 2005:

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| | 2006 | | 2005 | |
|-------------------------|-------------|--------------|-----------|--------------|
| | Acres | Book Value | Acres | Book Value |
| Balance at January 1: | 12,118.84 | \$ 1,838,325 | 6,571.92 | \$ 1,522,824 |
| Additions | 20,077.77 | 3,312,705 | 5,546.92 | 315,501 |
| Sales | (21,632.04) | (3,374,023) | - | - |
| Balance at December 31: | 10,564.57 | \$ 1,777,007 | 12,118.84 | \$ 1,838,325 |

No valuation allowance was necessary at December 31, 2006 and 2005.

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

(5) Employee Benefit Plans

The Trust has a defined contribution plan available to all regular employees having one or more years of continuous service. Contributions are at the discretion of the Trustees of the Trust. The Trust contributed \$40,334, \$38,973 and \$37,346 in 2006, 2005, and 2004, respectively.

The Trust has a noncontributory pension plan (Plan) available to all regular employees having one or more years of continuous service. The Plan provides for normal retirement at age 65. Contributions to the Plan reflect benefits attributed to employees' services to date, as well as services expected in the future. Plan assets consist primarily of investments in Banc of America Common Trust Fund.

The following table sets forth the Plan's changes in benefit obligation, changes in fair value of plan assets, and funded status as of December 31, 2006 and 2005 using a measurement date of December 31, 2006:

| | 2006 | 2005 |
|---------------------------------------------------|--------------|--------------|
| Change in projected benefits obligation: | | |
| Projected benefit obligation at beginning of year | \$ 2,429,460 | \$ 2,208,081 |
| Service cost | 87,193 | 79,628 |
| Interest cost | 137,124 | 131,164 |
| Actuarial loss (gain) | (80,020) | 108,236 |
| Benefits paid | (97,649) | (97,649) |
| Projected benefit obligation at end of year | \$ 2,476,108 | \$ 2,429,460 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | \$ 2,025,408 | \$ 1,817,083 |
| Actual return on plan assets | 119,258 | 105,974 |
| Contributions by employer | 150,000 | 200,000 |
| Benefits paid | (97,649) | (97,649) |

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| | <u>2006</u> | <u>2005</u> |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Fair value of plan assets at end of year | \$ 2,197,017 | \$ 2,025,408 |
| Unfunded status | \$ (279,091) | \$ (404,052) |
| Unrecognized net actuarial loss | 433,437 | 520,655 |
| Unamortized prior service cost | 84,699 | 98,755 |
| Prepaid benefit cost | \$ 239,045 | \$ 215,358 |
| Prepaid benefit cost | \$ 239,045 | |
| Recognized net actuarial loss at December 31, 2006 in accordance with adoption of SFAS No. 158 to other comprehensive income | (433,437) | |

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

| | <u>2006</u> | <u>2005</u> |
|------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|
| Recognized prior service cost at December 31, 2006 in accordance with adoption of SFAS No. 158 to other comprehensive income | (84,699) | |
| Total, before income taxes | (518,136) | |
| Pension plan liability, after adoption of SFAS No. 158 | \$ (279,091) | |

Amounts recognized in the balance sheets consist of:

Before adoption of SFAS 158

| | <u>2006</u> | <u>2005</u> |
|-------------------------------------|-------------|-------------|
| Prepaid benefit cost (other assets) | \$ 239,045 | \$ 215,358 |

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| | <u>2006</u> | <u>2005</u> |
|------------------------|-------------------|-------------------|
| Accrued benefit cost | - | - |
| Net amounts recognized | <u>\$ 239,045</u> | <u>\$ 215,358</u> |

After adoption of SFAS 158

| | <u>2006</u> | <u>2005</u> |
|------------------------|---------------------|-------------------|
| Assets | \$ - | \$ 215,358 |
| Liabilities | (279,091) | - |
| Net amounts recognized | <u>\$ (279,091)</u> | <u>\$ 215,358</u> |

The accumulated benefit obligation of the Plan was \$1,926,015 and \$1,864,147 as of December 31, 2006 and 2005, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the following ten year period:

| For the year ended December 31, | Amount |
|------------------------------------|-----------|
| 2007 | \$ 97,272 |
| 2008 | 97,087 |
| 2009 | 97,118 |
| 2010 | 97,539 |
| 2011 | 121,983 |
| 2012 to 2016 | 1,020,072 |

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

Net periodic benefit cost for the years ended December 31, 2006, 2005 and 2004 include the following components:

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| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------------------------------------------|-------------------|-------------------|-------------------|
| Components of net periodic benefit cost: | | | |
| Service cost | \$ 87,193 | \$ 79,628 | \$ 70,500 |
| Interest cost | 137,124 | 131,164 | 124,316 |
| Expected return on plan assets | (138,423) | (123,804) | (107,768) |
| Amortization of unrecognized gains | 26,363 | 19,125 | 14,634 |
| Amortization of prior service cost | 14,056 | 14,056 | 17,787 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net periodic benefit costs | \$ 126,313 | \$ 120,169 | \$ 119,469 |

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| Weighted average assumptions used to determine benefit obligations as of December 31: | | | |
| Discount rate | 6.00% | 5.75% | 6.00% |
| Rate of compensation increase | 7.29 | 7.29 | 7.29 |
| Weighted average assumptions used to determine benefit costs for the years ended December 31: | | | |
| Discount rate | 6.00% | 6.00% | 6.25% |
| Expected return on plan assets | 7.00 | 7.00 | 7.00 |
| Rate of compensation increase | 7.29 | 7.29 | 7.29 |

The Plan's asset allocations at December 31, 2006, and 2005 by asset category are as follows:

| Asset Category | Percentage of Plan Assets at December 31 | |
|-------------------|-------------------------------------------------|-------------------|
| | <u>2006</u> | <u>2005</u> |
| Equity securities | 25% | 36% |
| Debt securities | 62 | 64 |
| Other (cash) | 13 | 64 |
| | <u> </u> | <u> </u> |
| Total | 100% | 100% |

The Plan has a formal investment policy statement. The Plan's investment objective is balanced income, with a moderate risk tolerance. This objective emphasizes current income through a 60% to 80% allocation to fixed income securities, complemented by a secondary consideration for capital appreciation through an equity allocation in the range of 20% to

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December 31, 2006, 2005 and 2004

40%. No fixed income securities are reflected at the end of 2005 due to a temporary reallocation of investment monies. Diversification and liquidity are achieved through investment in mutual funds rather than individual securities. The asset allocation is reviewed annually with respect to the target allocations and rebalancing adjustments and/or target allocation changes are made as appropriate. The Trust's current funding policy is to maintain the Plan's fully funded status on an ERISA minimum funding basis.

The expected return on plan assets assumption of 7.0% was selected by the Trust based on historical real rates of return for the current asset mix and an assumption with respect to future inflation. The rate was determined based on a long-term allocation of about two-thirds fixed income and one-third equity securities; historical real rates of return of about 2.5% and 8.5% for fixed income and equity securities, respectively; and assuming a long-term inflation rate of 2.5%.

The required minimum contribution under ERISA is expected to be zero for 2007; however, the Trust may make some discretionary contributions to the Plan, the amounts of which have not yet been determined.

(6) Federal Taxes on Income

The Trust is taxed as if it were a corporation. Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before Federal income taxes as a result of the following:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--------------------------------------------|---------------------|---------------------|---------------------|
| Computed tax expense at the statutory rate | \$ 5,738,865 | \$ 4,138,728 | \$ 8,762,628 |
| Reduction in income taxes resulting from: | | | |
| Statutory depletion | (477,969) | (451,152) | (354,514) |
| Other, net | 48,257 | (27,435) | (48,637) |
| | <u>\$ 5,309,153</u> | <u>\$ 3,660,141</u> | <u>\$ 8,359,477</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------------------------------------------|---------------------|---------------------|
| Basis difference in pension plan liability | \$ 181,348 | \$ |
| Total deferred tax liability | 181,348 | |
| Basis differences in real estate acquired through foreclosure | 437,531 | 451,233 |
| Deferred installment revenue on land sales for tax purposes | 6,152,499 | 6,357,257 |
| Total deferred tax liability | <u>6,590,030</u> | <u>6,808,490</u> |
| Net deferred tax liability | <u>\$ 6,408,682</u> | <u>\$ 6,808,490</u> |

TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2006, 2005 and 2004

(7) Lease Commitments

The Trust is a lessee under an operating lease in connection with its administrative offices located in Dallas, Texas. This lease agreement requires monthly rent of approximately \$4,500 and expires in June 2009. Future minimum lease payments were as follows at December 31, 2006:

| Year Ending | | Amount |
|--------------|----|---------|
| December 31, | | |
| 2007 | \$ | 51,786 |
| 2008 | | 53,430 |
| 2009 | | 27,126 |
| | \$ | 132,342 |

Rent expense amounted to \$50,142, \$48,498, and \$51,746 for the years ended December 31, 2006, 2005, and 2004, respectively.

(8) Capital

Certificates of Proprietary Interest (Certificates) and Sub-share Certificates in Certificates of Proprietary Interest (Sub-shares) are exchangeable in the ratio of one Certificate to 600 Sub-shares. No Certificates were exchanged for Sub-shares in 2006 and 2005.

The number of Certificates authorized for issuance at a given date is the number then outstanding plus one/six-hundredth of the number of Sub-shares then outstanding. The number of Sub-shares authorized for issuance at a given date is the number then outstanding plus six hundred times the number of Certificates then outstanding.

The Declaration of Trust was executed and delivered in New York. In the opinion of counsel for the Trust, under the laws of the State of New York, the Certificate and Sub-share Certificate holders are not subject to any personal liability for the acts or obligations of the Trust.

The assets of the Trust are located in Texas. In the opinion of Texas counsel, under the laws of the State of Texas, the Certificate and Sub-share Certificate holders may be held personally liable with respect to claims against the Trust, but only after the assets of the Trust first have been exhausted.

(9) Oil and Gas Producing Activities (Unaudited)

The Trust's share of oil and gas produced, all of which is from royalty interests, was as follows for the years ended December 31, 2006, 2005 and 2004, respectively: oil (in barrels) 94,557, 105,208, and 113,794, and gas (in thousands of cubic feet) 477,343,

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TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

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December 31, 2006, 2005 and 2004

472,508, and 528,614. Reserves related to the Trust's royalty interests are not presented because the information is unavailable.

(10) Selected Quarterly Financial Data (Unaudited)

The following tables present unaudited financial data of the Trust for each quarter of 2006 and 2005:

| | Quarter ended | | | |
|--------------------------------------|----------------------|-----------------------|------------------|-------------------|
| | December 31, 2006 | September 30, 2006 | June 30, 2006 | March 31, 2006 |
| Income | \$ 9,708,697 | \$ 4,802,539 | \$ 5,012,478 | \$ 3,498,768 |
| Income before Federal income taxes | \$ 5,574,656 | \$ 4,178,133 | \$ 4,311,222 | \$ 2,815,004 |
| Net income | \$ 3,800,222 | \$ 2,857,702 | \$ 2,959,319 | \$ 1,952,619 |
| Net income per Sub-share Certificate | \$ 1.79 | \$ 1.34 | \$ 1.38 | \$ 0.91 |

| | Quarter ended | | | |
|--------------------------------------|----------------------|-----------------------|------------------|-------------------|
| | December 31, 2005 | September 30, 2005 | June 30, 2005 | March 31, 2005 |
| Income | \$ 4,240,084 | \$ 4,523,076 | \$ 4,065,220 | \$ 2,579,261 |
| Income before Federal income taxes | \$ 3,057,043 | \$ 3,766,027 | \$ 3,416,582 | \$ 1,933,076 |
| Net income | \$ 2,181,008 | \$ 2,600,803 | \$ 2,378,203 | \$ 1,352,573 |
| Net income per Sub-share Certificate | \$ 1.01 | \$ 1.20 | \$ 1.09 | \$ 0.62 |

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INDEX OF EXHIBITS

| Exhibit Number | Description |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Texas Pacific Land Trust, Declaration of Trust, dated February 1, 1888, by Charles J. Canda, Simeon J. Drake, and William Strauss, Trustees (incorporated herein by reference to Exhibit 3.1 to the Trust's |

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| | |
|------|-----------------------------------------------------------------------------------------------------|
| | Annual Report on Form 10-K for the year ended December 31, 2002). |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |