

CROSS TIMBERS ROYALTY TRUST  
Form 10-Q  
April 25, 2008  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

Commission File Number: 1-10982

## Cross Timbers Royalty Trust

(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of  
incorporation or organization)

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

U.S. Trust, Bank of America  
Private Wealth Management

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

75283-0650  
(Zip Code)

(877) 228-5084

(Registrant's telephone number, including area code)

NONE

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(Former name, former address and former fiscal year, if change since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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

Outstanding as of April 1, 2008

6,000,000

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**CROSS TIMBERS ROYALTY TRUST**

**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008**

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**CROSS TIMBERS ROYALTY TRUST**

**GLOSSARY OF TERMS**

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

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

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**CROSS TIMBERS ROYALTY TRUST**

**PART I - FINANCIAL INFORMATION**

*Item 1. Financial Statements.*

The condensed financial statements included herein are presented, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to such rules and regulations, although the trustee believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the trust's latest Annual Report on Form 10-K. In the opinion of the trustee, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the assets, liabilities and trust corpus of the Cross Timbers Royalty Trust at March 31, 2008, and the distributable income and changes in trust corpus for the three-month periods ended March 31, 2008 and 2007, have been included. Distributable income for such interim periods is not necessarily indicative of distributable income for the full year.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Bank of America, N.A., as Trustee

for the Cross Timbers Royalty Trust:

We have reviewed the accompanying condensed statement of assets, liabilities and trust corpus of the Cross Timbers Royalty Trust as of March 31, 2008 and the related condensed statements of distributable income and changes in trust corpus for the three-month periods ended March 31, 2008 and 2007. These condensed financial statements are the responsibility of the trustee.

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

The accompanying condensed financial statements are prepared on a modified cash basis as described in Note 1 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets, liabilities and trust corpus of the Cross Timbers Royalty Trust as of December 31, 2007, and the related statements of distributable income and changes in trust corpus for the year then ended (not presented herein), included in the trust's 2007 Annual Report on Form 10-K, and in our report dated February 25, 2008, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed statement of assets, liabilities and trust corpus as of December 31, 2007 is fairly stated, in all material respects, in relation to the statement of assets, liabilities and trust corpus included in the trust's 2007 Annual Report on Form 10-K from which it has been derived.

KPMG LLP

Fort Worth, Texas

April 24, 2008

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

|  | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--|---|------------------------------|
| <b>ASSETS</b>  |   |                              |
| Cash and short-term investments  | \$ 1,913,378                              | \$ 1,757,903                 |
| Interest to be received  | 1,360                                     | 2,245                        |
| Net profits interests in oil and gas properties - net (Note 1)                   | 18,093,224                                | 18,387,752                   |
|  | <b>\$ 20,007,962</b>                      | <b>\$ 20,147,900</b>         |
| <b>LIABILITIES AND TRUST CORPUS</b>  |   |                              |
| Distribution payable to unitholders  | \$ 1,914,738                              | \$ 1,760,148                 |
| Trust corpus (6,000,000 units of beneficial interest authorized and outstanding) | 18,093,224                                | 18,387,752                   |
|  | <b>\$ 20,007,962</b>                      | <b>\$ 20,147,900</b>         |

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

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**Table of Contents****CROSS TIMBERS ROYALTY TRUST****Condensed Statements of Distributable Income (Unaudited)**

|   | <b>Three Months Ended<br/>March 31</b> |              |
|---|--|--------------|
|   | <b>2008</b>                            | <b>2007</b>  |
| Net profits income                              | <b>\$ 6,885,854</b>                    | \$ 4,699,186 |
| Interest income                                 | <b>6,478</b>                           | 9,772        |
| Total income                                    | <b>6,892,332</b>                       | 4,708,958    |
| Administration expense                          | <b>126,054</b>                         | 160,508      |
| Distributable income                            | <b>\$ 6,766,278</b>                    | \$ 4,548,450 |
| Distributable income per unit (6,000,000 units) | <b>\$ 1.127713</b>                     | \$ 0.758075  |

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



**Table of Contents****CROSS TIMBERS ROYALTY TRUST****Condensed Statements of Changes in Trust Corpus (Unaudited)**

|                                       | <b>Three Months Ended<br/>March 31</b> |               |
|---------------------------------------|--|---------------|
|                                       | <b>2008</b>                            | <b>2007</b>   |
| Trust corpus, beginning of period     | <b>\$ 18,387,752</b>                   | \$ 19,679,502 |
| Amortization of net profits interests | <b>(294,528)</b>                       | (332,679)     |
| Distributable income                  | <b>6,766,278</b>                       | 4,548,450     |
| Distributions declared                | <b>(6,766,278)</b>                     | (4,548,450)   |
| Trust corpus, end of period           | <b>\$ 18,093,224</b>                   | \$ 19,346,823 |

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

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**CROSS TIMBERS ROYALTY TRUST**

**Notes to Condensed Financial Statements (Unaudited)**

**1. Basis of Accounting**

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

- Net profits income recorded for a month is the amount computed and paid by XTO Energy Inc., the owner of the underlying properties, to Bank of America, N.A., as trustee for the trust. Net profits income consists of net proceeds received by XTO Energy from the underlying properties in the prior month, multiplied by net profit percentages of 90% for the 90% net profits interests, and 75% for the 75% net profits interests.

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

- Net profits income is computed separately for each of five conveyances under which the net profits interests were conveyed to the trust. If monthly costs exceed revenues for any conveyance, such excess costs must be recovered, with accrued interest, from future net proceeds of that conveyance and cannot reduce net proceeds from the other conveyances.
- Interest income, interest to be received and distribution payable to unitholders include interest to be earned on net profits income from the monthly record date (last business day of the month) through the date of the next distribution to unitholders.
- Trust expenses are recorded based on liabilities paid and cash reserves established by the trustee for liabilities and contingencies.
- Distributions to unitholders are recorded when declared by the trustee.

The financial statements of the trust differ from those prepared in conformity with U.S. GAAP because revenues are recognized when received rather than accrued in the month of production, expenses are recognized when paid rather than when incurred, and certain cash reserves may be established for contingencies which would not be accrued under U.S. GAAP. This comprehensive basis of accounting other than U.S. GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission, as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

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

The initial carrying value of the net profits interests of \$61,100,449 represents XTO Energy's historical net book value on February 12, 1991, the creation date of the trust. Amortization of the net profits interests is calculated on a unit-of-production basis and is charged directly to trust corpus. Accumulated amortization was \$43,007,225 as of March 31, 2008 and \$42,712,697 of December 31, 2007.

### **2. Contingencies**

Several states have enacted legislation to require state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its state tax counsel, XTO Energy has advised the trustee that it believes the trust is not subject to these withholding requirements. However, regulations are subject to change by the various states, which could change this conclusion. Should the trust be required to withhold state taxes, distributions to the unitholders would be reduced by the required amount, subject to the unitholder's right to file a state tax return to claim any refund due.

### **3. Reversion Agreement**

Certain of the properties underlying the 90% net profits interests were subject to a reversion agreement between XTO Energy and an unrelated party. The agreement called for XTO Energy to transfer 25% of its interest in those properties to the third party when net amounts received by XTO Energy from the properties subject to the agreement equal the purchase price of the properties plus a 1% per month return on the unrecovered purchase price, known as payout. At the time payout occurred, net proceeds payable to the trust and trust distributions to unitholders were reduced. XTO Energy informed the trustee that payout occurred effective with the July 2007 distribution, which was paid on August 14, 2007, thereby reducing the July 2007 distribution and all future distributions by approximately 5%.

### **4. Lawsuit Settlements**

From time-to-time, XTO Energy receives net proceeds for the underlying properties related to significant lawsuit settlements, including related interest income. Because of the size and nature of these settlements, XTO Energy has informed the trustee that it believes these should be considered one-time, or nonrecurring, events. Since most of the properties in the trust are nonoperated, these adjustments are generally not known to XTO Energy until reported by the purchaser. These settlements are included and reported in net profits income in the month received by the trust, which is generally the month following receipt by XTO Energy.

In January 2008, the calculation of net profits income includes a lawsuit settlement of \$827,446 related to underpayment of royalties on underlying properties in the San Juan Basin. Included in this settlement was estimated interest of \$212,654 and additional gas revenue of \$614,792. The total settlement, net to the trust, was \$744,702, or \$0.12 per unit. Based on additional information received by XTO Energy in April 2008, the amount allocated to interest income was increased to \$348,916. This reallocation did not change the total lawsuit settlement.

In second quarter 2008, the trust received additional proceeds from a lawsuit settlement of approximately \$700,000 related to the underpayment of royalties on underlying properties in the San Juan Basin. The total settlement, net to the trust, will be approximately \$630,000, or \$0.11 per unit.

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*Item 2. Trustee's Discussion and Analysis.*

The following discussion should be read in conjunction with the trustee's discussion and analysis contained in the trust's 2007 annual report, as well as the condensed financial statements and notes thereto included in this quarterly report on Form 10-Q. The trust's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available on the trust's web site at [www.crosstimberstrust.com](http://www.crosstimberstrust.com).

**Distributable Income**

For the quarter ended March 31, 2008, net profits income was \$6,885,854 compared to \$4,699,186 for first quarter 2007. This 47% increase in net profits income is the result of higher oil and gas prices and lawsuit settlement proceeds included in first quarter 2008, partially offset by decreased oil and gas production primarily due to payout occurring under the reversion agreement. See **Net Profits Income**, **Other Proceeds** and **Reversion Agreement** below.

After considering interest income of \$6,478 and administration expense of \$126,054, distributable income for the quarter ended March 31, 2008 was \$6,766,278, or \$1.127713 per unit of beneficial interest. Administration expense for the quarter decreased 21% from the prior year quarter primarily because of the timing of expenditures. For first quarter 2007, distributable income was \$4,548,450, or \$0.758075 per unit. Distributions to unitholders for the quarter ended March 31, 2008 were:

| Record Date       | Payment Date      | Distribution per Unit |
|-------------------|-------------------|-----------------------|
| January 31, 2008  | February 14, 2008 | \$ 0.459769           |
| February 29, 2008 | March 14, 2008    | 0.348821              |
| March 31, 2008    | April 14, 2008    | 0.319123              |
|                   |                   | \$ 1.127713           |

**Net Profits Income**

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

oil and gas sales volumes,

oil and gas sales prices, and

costs deducted in the calculation of net profits income.

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

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

|                                 | <b>Three Months<br/>Ended March 31 (a)</b> |                     | <b>Increase<br/>(Decrease)</b> |
|---------------------------------|--|---------------------|--------------------------------|
|                                 | <b>2008</b>                                | <b>2007</b>         |                                |
| <b>Sales Volumes</b>            |  |                     |                                |
| Oil (Bbls) (b)                  |  |                     |                                |
| Underlying properties           | 57,619                                     | 65,005              | (11%)                          |
| Average per day                 | 626  | 707                 | (11%)                          |
| Net profits interests           | 32,787                                     | 29,468              | 11%                            |
| Gas (Mcf) (b)                   |  |                     |                                |
| Underlying properties           | 503,759                                    | 608,703             | (17%)                          |
| Average per day                 | 5,476                                      | 6,616               | (17%)                          |
| Net profits interests           | 448,374                                    | 527,564             | (15%)                          |
| <b>Average Sales Prices</b>     |  |                     |                                |
| Oil (per Bbl)                   | \$85.60                                    | \$51.69             | 66%                            |
| Gas (per Mcf) (c)               | \$10.55                                    | \$7.40              | 43%                            |
| <b>Revenues</b>                 |  |                     |                                |
| Oil sales                       | \$ 4,932,096                               | \$ 3,359,911        | 47%                            |
| Gas sales (c)                   | 5,313,683                                  | 4,504,081           | 18%                            |
| Total Revenues                  | 10,245,779                                 | 7,863,992           | 30%                            |
| <b>Costs</b>                    |  |                     |                                |
| Taxes, transportation and other | 1,156,988                                  | 1,071,371           | 8%                             |
| Production expense (d)          | 944,516                                    | 963,330             | (2%)                           |
| Development costs               | 353,661                                    | 468,551             | (25%)                          |
| Total Costs                     | 2,455,165                                  | 2,503,252           | (2%)                           |
| <b>Other Proceeds</b>           |  |                     |                                |
| Interest Income (c)             | 212,654                                    | -                   | -                              |
| <b>Net Proceeds</b>             | <b>\$ 8,003,268</b>                        | <b>\$ 5,360,740</b> | <b>49%</b>                     |
| <b>Net Profits Income</b>       | <b>\$ 6,885,854</b>                        | <b>\$ 4,699,186</b> | <b>47%</b>                     |

(a) Because of the interval between time of production and receipt of royalty income by the trust, oil and gas sales for the quarter ended March 31 generally represent oil production for the period November through January and gas production for the period October through December.

(b) Oil and gas sales volumes are allocated to the net profits interests based upon a formula that considers oil and gas prices and the total amount of production expense and development costs. Changes in any of these factors may result in disproportionate fluctuations in volumes allocated to the net profits interests. Therefore, comparative discussion of oil and gas sales volumes is based on the underlying properties.

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- (c) In first quarter 2008, \$827,446 was received related to a lawsuit settlement for underpayment of royalties on certain San Juan Basin properties. Included in this settlement was estimated interest of \$212,654. This settlement increased the average gas sales price by \$1.22 for the quarter ended March 31, 2008. The total one-time settlement, net to trust, was \$744,702, or \$0.12 per unit.
  
- (d) Includes an overhead charge which is deducted and retained by XTO Energy. As of March 31, 2008, this charge was \$28,524 per month (including a monthly overhead charge of \$2,558 which XTO Energy deducts as operator of the Penwell Unit) and is subject to adjustment each May based on an oil and gas industry index.

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The following are explanations of significant variances on the underlying properties from first quarter 2007 to first quarter 2008:

### **Sales Volumes**

#### *Oil*

Oil sales volumes decreased 11% from first quarter 2007 to first quarter 2008 primarily because of payout occurring under the reversion agreement and natural production decline, partially offset by the timing of cash receipts. See [Reversion Agreement](#) below.

#### *Gas*

Gas sales volumes decreased 17% from first quarter 2007 to first quarter 2008 primarily because of payout occurring under the reversion agreement, natural production decline and the timing of cash receipts. See [Reversion Agreement](#) below.

### **Sales Prices**

#### *Oil*

The first quarter 2008 average oil price was \$85.60 per Bbl, a 66% increase from the first quarter 2007 average price of \$51.69 per Bbl. Oil prices have risen primarily because of increasing global demand and supply shortage concerns, inadequate sour crude refining capacity and political instability. In the last few months of 2007 and early 2008, rising tension in the Middle East, weakness in the U.S. dollar and strong demand caused prices to reach record levels of almost \$120.00 per Bbl. Oil prices are expected to remain volatile. The average NYMEX price for February and March 2008 was \$100.03 per Bbl. At April 18, 2008, the average NYMEX futures price for the following twelve months was \$113.29 per Bbl. Recent trust oil prices have averaged approximately 7% lower than the NYMEX price.

#### *Gas*

The first quarter 2008 average gas price was \$10.55 per Mcf, a 43% increase from the first quarter 2007 average price of \$7.40 per Mcf. Excluding the effects of the lawsuit settlement in first quarter 2008, the average price was \$9.33. See [Other Proceeds](#) below. Although the U.S. went into the winter with above average gas in storage, a normal winter and lower liquified natural gas imports have led to normal gas storage levels. As a result, recent gas prices have increased to almost \$11.00 per MMBtu. Prices will continue to be affected by weather, the U.S. economy, the level of North American production and import levels of liquified natural gas. Natural gas prices are expected to remain volatile. The first quarter 2008 gas price is primarily related to production from October through December 2007, when the average NYMEX price was \$6.97. The average NYMEX price for January through March 2008 was \$8.03 per MMBtu. At April 18, 2008, the average NYMEX futures price for the following twelve months was \$11.04 per MMBtu. Recent trust gas prices have averaged approximately 35% higher than the NYMEX price.

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### **Costs**

#### *Taxes, Transportation and Other*

Taxes, transportation and other increased 8% for the first quarter primarily because of higher production taxes related to higher oil and gas revenues.

#### *Development*

Development costs decreased 25% for the first quarter primarily because of decreased activity and costs related to Texas and Oklahoma properties underlying the 75% net profits interests.

### **Contingencies**

Several states have enacted legislation to require state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its state tax counsel, XTO Energy has advised the trustee that it believes the trust is not subject to these withholding requirements. However, regulations are subject to change by the various states, which could change this conclusion. Should the trust be required to withhold state taxes, distributions to the unitholders would be reduced by the required amount, subject to the unitholder's right to file a state tax return to claim any refund due.

### **Reversion Agreement**

Certain of the properties underlying the 90% net profits interests were subject to a reversion agreement between XTO Energy and an unrelated party. The agreement called for XTO Energy to transfer 25% of its interest in those properties to the third party when net amounts received by XTO Energy from the properties subject to the agreement equal the purchase price of the properties plus a 1% per month return on the unrecouped purchase price, known as payout. At the time payout occurred, net proceeds payable to the trust and trust distributions to unitholders were reduced. XTO Energy informed the trustee that payout occurred effective with the July 2007 distribution, which was paid on August 14, 2007, thereby reducing the July 2007 distribution and all future distributions by approximately 5%.

### **Other Proceeds**

In January 2008, the calculation of net profits income includes a lawsuit settlement of \$827,446 related to underpayment of royalties on underlying properties in the San Juan Basin. Included in this settlement was estimated interest of \$212,654 and additional gas revenue of \$614,792. The total settlement, net to the trust, was \$744,702, or \$0.12 per unit. Based on additional information received by XTO Energy in April 2008, the amount allocated to interest income was increased to \$348,916. This reallocation did not change the total lawsuit settlement.

In second quarter 2008, the trust received additional proceeds from a lawsuit settlement of approximately \$700,000 related to the underpayment of royalties on underlying properties in the San Juan Basin. The total settlement, net to the trust, will be approximately \$630,000, or \$0.11 per unit.



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**Forward-Looking Statements**

This report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements regarding the net profits interests, underlying properties, development activities, development, production and other costs and expenses, oil and gas prices and differentials to NYMEX prices, supply shortages, distributions to unitholders, timing of payout under the reversion agreement and industry and market conditions, are forward-looking statements that are subject to risks and uncertainties which are detailed in Part I, Item 1A of the trust's Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated by this reference as though fully set forth herein. Although XTO Energy and the trustee believe that the expectations reflected in such forward-looking statements are reasonable, neither XTO Energy nor the trustee can give any assurance that such expectations will prove to be correct.

*Item 3. Quantitative and Qualitative Disclosures about Market Risk.*

There have been no material changes in the trust's market risks, as disclosed in Part II, Item 7A of the trust's Annual Report on Form 10-K for the year ended December 31, 2007.

*Item 4. Controls and Procedures.*

As of the end of the period covered by this report, the trustee carried out an evaluation of the effectiveness of the trust's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the trustee concluded that the trust's disclosure controls and procedures are effective in timely alerting the trustee to material information relating to the trust required to be included in the trust's periodic filings with the Securities and Exchange Commission. In its evaluation of disclosure controls and procedures, the trustee has relied, to the extent considered reasonable, on information provided by XTO Energy Inc. There has not been any change in the trust's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the trust's internal control over financial reporting.

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**PART II - OTHER INFORMATION**

*Item 1.*

Not applicable.

*Item 1A. Risk Factors.*

There have been no material changes in the risk factors disclosed under Part I, Item 1A of the trust's Annual Report on Form 10-K for the year ended December 31, 2007

*Items 2 through 5.*

Not applicable.

*Item 6. Exhibits.*

(a) Exhibits.

Exhibit Number

and Description

(15) Awareness letter of KPMG LLP

(31) Rule 13a-14(a)/15d-14(a) Certification

(32) Section 1350 Certification

(99) Items 1A, 7 and 7A to the Annual Report on Form 10-K for Cross Timbers Royalty Trust filed with the Securities and Exchange Commission on February 26, 2008 (incorporated herein by reference)

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CROSS TIMBERS ROYALTY TRUST  
By BANK OF AMERICA, N.A., TRUSTEE

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

XTO ENERGY INC.

Date: April 25, 2008

By */s/ LOUIS G. BALDWIN*  
Louis G. Baldwin  
Executive Vice President and Chief Financial Officer