

Enduro Royalty Trust  
Form 10-Q  
July 31, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2014**

**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 Number: 001-35333**

**ENDURO ROYALTY TRUST**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**45-6259461**  
**(I.R.S. Employer**  
**Identification No.)**

**The Bank of New York Mellon Trust Company, N.A.,**  
**Trustee**

**Global Corporate Trust**

**919 Congress Avenue, Suite 500**

**Austin, Texas**  
**(Address of principal executive offices)**

**78701**  
**(Zip Code)**

**1-512-236-6545**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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 Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2014, 33,000,000 units of beneficial interest in Enduro Royalty Trust were outstanding.



**Table of Contents**

**TABLE OF CONTENTS**

	<u>Glossary of Certain Oil and Natural Gas Terms</u>	1
	<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1.	<u>Financial Statements</u>	
	<u>Statements of Assets, Liabilities and Trust Corpus as of June 30, 2014 and December 31, 2013</u>	2
	<u>Statements of Distributable Income for the three and six months ended June 30, 2014 and 2013</u>	3
	<u>Statements of Changes in Trust Corpus for the three and six months ended June 30, 2014 and 2013</u>	4
	<u>Notes to Financial Statements</u>	5
Item 2.	<u>Trustee's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4.	<u>Controls and Procedures</u>	17
	<b><u>PART II OTHER INFORMATION</u></b>	
Item 1A.	<u>Risk Factors</u>	18
Item 6.	<u>Exhibits</u>	18
	<u>Signature</u>	19
	<u>Exhibit Index</u>	

**Table of Contents**

**GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS**

The following are definitions of significant terms used in this report.

*Bbl* One stock tank barrel of 42 U.S. gallons liquid volume, used herein in reference to crude oil and other liquid hydrocarbons.

*Boe* One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals approximately six Mcf of natural gas.

*Btu* A British Thermal Unit, a common unit of energy measurement.

*Completion* The installation of permanent equipment for the production of oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

*Differential* The difference between a benchmark price of oil and natural gas, such as the NYMEX crude oil spot, and the wellhead price received.

*Field* An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

*Gross acres or gross wells* The total acres or wells, as the case may be, in which a working interest is owned.

*MBbl* One thousand barrels of crude oil or condensate.

*MBoe* One thousand barrels of oil equivalent.

*Mcf* One thousand cubic feet of natural gas.

*MMBoe* One million barrels of oil equivalent.

*MMcf* One million cubic feet of natural gas.

*Net acres or net wells* The sum of the fractional working interests owned in gross acres or wells, as the case may be.

*Net profits interest* A nonoperating interest that creates a share in gross production from an operating or working interest in oil and natural gas properties. The share is measured by net profits from the sale of production after deducting costs associated with that production.

*NYMEX* New York Mercantile Exchange.

*NYSE* New York Stock Exchange.

*Plugging and abandonment* Activities to remove production equipment and seal off a well at the end of a well's economic life.

*Reservoir* A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

## Edgar Filing: Enduro Royalty Trust - Form 10-Q

*Working interest* The right granted to the lessee of a property to explore for and to produce and own oil, gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. *Financial Statements.*****ENDURO ROYALTY TRUST****Statements of Assets, Liabilities and Trust Corpus**

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 125,164	\$ 85,352
Net profits interest in oil and natural gas properties, net	548,969,757	571,311,115
Total assets	\$ 549,094,921	\$ 571,396,467
<b>LIABILITIES AND TRUST CORPUS</b>		
Trust corpus (33,000,000 units issued and outstanding)	\$ 549,094,921	\$ 571,396,467
Total liabilities and Trust corpus	\$ 549,094,921	\$ 571,396,467

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

Table of Contents**ENDURO ROYALTY TRUST****Statements of Distributable Income****(unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Income from net profits interest	\$ 6,348,293	\$ 9,295,577	\$ 18,211,724	\$ 20,508,333
Interest income				75
General and administrative expenses	(221,840)	(210,974)	(410,190)	(429,334)
Cash reserves used (withheld) for Trust expenses	(3,169)	85,965	(39,812)	154,216
<b>Distributable income</b>	<b>\$ 6,123,284</b>	<b>\$ 9,170,568</b>	<b>\$ 17,761,722</b>	<b>\$ 20,233,290</b>
Distributable income per unit (33,000,000 units)	\$ 0.185554	\$ 0.277896	\$ 0.538234	\$ 0.613130

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



Table of Contents**ENDURO ROYALTY TRUST****Statements of Changes in Trust Corpus****(unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended June 30,</b>	
	<b>June 30,</b>		<b>2014</b>	<b>2013</b>
	<b>2014</b>	<b>2013</b>		
Trust corpus, beginning of period	\$ 560,099,264	\$ 618,422,283	\$ 571,396,467	\$ 637,845,277
Cash reserves withheld (used) for Trust expenses	3,169	(85,965)	39,812	(154,216)
Distributable income	6,123,284	9,170,568	17,761,722	20,233,290
Distributions to unitholders	(6,123,284)	(9,170,568)	(17,761,722)	(20,233,290)
Amortization of net profits interest	(11,007,512)	(17,575,973)	(22,341,358)	(36,930,716)
Trust corpus, end of period	\$ 549,094,921	\$ 600,760,345	\$ 549,094,921	\$ 600,760,345

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

---

**Table of Contents**

**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**(unaudited)**

**1. ORGANIZATION OF THE TRUST**

***Formation of the Trust and Provisions for Liabilities and Expenses***

Enduro Royalty Trust (the Trust ) is a Delaware statutory trust formed in May 2011 pursuant to a trust agreement (the Trust Agreement ) among Enduro Resource Partners LLC ( Enduro ), as trustor, The Bank of New York Mellon Trust Company, N.A. (the Trustee ), as trustee, and Wilmington Trust Company (the Delaware Trustee ), as Delaware Trustee.

The Trust was created to acquire and hold for the benefit of the Trust unitholders a net profits interest representing the right to receive 80% of the net profits from the sale of oil and natural gas production from certain properties in the states of Texas, Louisiana and New Mexico held by Enduro as of the date of the conveyance of the net profits interest to the Trust (the Net Profits Interest ). The properties in which the Trust holds the Net Profits Interest are referred to as the Underlying Properties. Enduro is a Delaware limited liability company engaged in the production and development of oil and natural gas from properties located in the Rockies, the Permian Basin of west Texas and southeastern New Mexico, and the Arklatex region of Texas and Louisiana.

The Net Profits Interest is passive in nature and neither the Trust nor the Trustee has any management control over or responsibility for costs relating to the operation of the Underlying Properties. The Trust is not subject to any pre-set termination provisions based on a maximum volume of oil or natural gas to be produced or the passage of time. The Trust will dissolve upon the earliest to occur of the following:

the Trust, upon approval of the holders of at least 75% of the outstanding Trust Units, sells the Net Profits Interest;

the annual cash proceeds received by the Trust attributable to the Net Profits Interest are less than \$2 million for each of any two consecutive years;

the holders of at least 75% of the outstanding Trust Units vote in favor of dissolution; or

the Trust is judicially dissolved.

The Trustee may create a cash reserve to pay for future liabilities of the Trust and may authorize the Trust to borrow money to pay administrative or incidental expenses of the Trust that exceed its cash on hand and available reserves. At June 30, 2014 the Trust had \$125,164 of cash and cash equivalents, an increase of \$39,812 from the December 31, 2013 cash and cash equivalents balance of \$85,352. The Trustee may authorize the Trust to borrow from any person, including the Trustee, the Delaware Trustee or an affiliate thereof, although none of the Trustee, the Delaware Trustee

## Edgar Filing: Enduro Royalty Trust - Form 10-Q

or any affiliate of either of them intends to lend funds to the Trust. The Trustee may also cause the Trust to mortgage its assets to secure payment of the indebtedness. The terms of such indebtedness and security interest, if funds were loaned by the entity serving as Trustee or Delaware Trustee or an affiliate thereof, would be similar to the terms which such entity would grant to a similarly situated commercial customer with whom it did not have a fiduciary relationship. Under the terms of the Trust Agreement, Enduro provided the Trust with a \$1.0 million letter of credit to be used by the Trust in the event that its cash on hand (including available cash reserves) is not sufficient to pay ordinary course administrative expenses. If the Trust requires more than the \$1.0 million under the letter of credit to pay administrative expenses, Enduro has agreed to loan funds to the Trust necessary to pay such expenses. If the Trust borrows funds, draws on the letter of credit or Enduro loans funds to the Trust, no further distributions will be made to Trust unitholders until such amounts borrowed or drawn are repaid. Since its formation, the Trust has not borrowed any funds and no amounts have been drawn on the letter of credit.

Each month, the Trustee pays Trust obligations and expenses and distributes to Trust unitholders the remaining proceeds received from the Net Profits Interest. The cash held by the Trustee as a reserve against future liabilities or for distribution at the next distribution date must be invested in:

Interest-bearing obligations of the United States government;

Money market funds that invest only in United States government securities;

Repurchase agreements secured by interest-bearing obligations of the United States government; or

Bank certificates of deposit.

Alternatively, cash held for distribution at the next distribution date may be held in a noninterest-bearing account. At June 30, 2014 and December 31, 2013, the Trust did not have any cash on hand related to future distributions.

**Table of Contents**

**ENDURO ROYALTY TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**(unaudited)**

***Net Profits Interest Conveyance, Initial Public Offering and Secondary Offering***

On November 8, 2011, Enduro conveyed to the Trust, through the merger of a wholly owned subsidiary of Enduro with the Trust, the Net Profits Interest in exchange for 33,000,000 units of beneficial interest in the Trust (the Trust Units ). Immediately following the conveyance, Enduro completed an initial public offering of 13,200,000 Trust Units at \$22.00 per unit. After the completion of the initial public offering and as of December 31, 2012 and 2011, Enduro owned 19,800,000 Trust Units, or 60% of the issued and outstanding Trust Units.

On October 2, 2013, Enduro completed a secondary offering of 11,200,000 Trust Units at a price of \$13.85 per unit to the public. The Trust did not sell any units in the offering and did not receive any proceeds from the offering. After the completion of the secondary offering, and as of June 30, 2014 and December 31, 2013, Enduro owned 8,600,000 Trust Units, or 26% of the issued and outstanding Trust Units.

**2. BASIS OF PRESENTATION**

The accompanying Statement of Assets, Liabilities and Trust Corpus as of December 31, 2013, which has been derived from audited financial statements, and the unaudited interim financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Trust's 2013 Annual Report on Form 10-K.

In the opinion of the Trustee, the accompanying unaudited financial statements reflect all adjustments that are necessary for a fair presentation of the interim periods presented and include all the disclosures necessary to make the information presented not misleading.

The preparation of financial statements requires the Trustee to make estimates and assumptions that affect reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Although the Trustee believes that these estimates are reasonable, actual results could differ from those estimates.

The Trust uses the modified cash basis of accounting to report Trust receipts of income from the Net Profits Interest and payments of expenses incurred. The Net Profits Interest represents the right to receive revenues (oil and natural gas sales), less direct operating expenses (lease operating expenses and production and property taxes) and development expenses of the Underlying Properties plus any payments made or net payments received in connection with the settlement of certain hedge contracts, multiplied by 80%. Cash distributions of the Trust are made based on the amount of cash received by the Trust pursuant to terms of the conveyance creating the Net Profits Interest.

## Edgar Filing: Enduro Royalty Trust - Form 10-Q

Under the terms of the conveyance, the monthly Net Profits Interest calculation includes oil and natural gas revenues received as well as cash settlements for applicable hedge contracts received by Enduro during the relevant month. Monthly operating expenses and capital expenditures represent incurred expenses, and as a result, represent accrued expenses as well as expenses paid during the period.

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

- (a) Income from Net Profits Interest is recorded when distributions are received by the Trust;
- (b) Distributions to Trust unitholders are recorded when paid by the Trust;
- (c) Trust general and administrative expenses (which includes the Trustee's fees as well as accounting, engineering, legal, and other professional fees) are recorded when paid;
- (d) Cash reserves for Trust expenses may be established by the Trustee for certain future expenditures that would not be recorded as contingent liabilities under accounting principles generally accepted in the United States of America ( GAAP );
- (e) Amortization of the Net Profits Interest in oil and natural gas properties is calculated on a unit-of-production basis and is charged directly to the Trust corpus; and
- (f) The Net Profits Interest in oil and natural gas properties is periodically assessed whenever events or circumstances indicate that the aggregate value may have been impaired below its total capitalized cost based on the Underlying Properties. If an impairment loss is indicated by the carrying amount of the assets exceeding the sum of the undiscounted expected future net cash flows of the Net Profits Interest, then an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value determined using discounted cash flows.

Table of Contents

**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**(unaudited)**

The financial statements of the Trust differ from financial statements prepared in accordance with GAAP because revenues are not accrued in the month of production; cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP; expenses are recorded when paid instead of when incurred; and amortization of the net profits interest calculated on a unit-of-production basis is charged directly to trust corpus instead of as an expense. While these statements differ from financial statements prepared in accordance with GAAP, the modified cash basis of reporting revenues, expenses, and distributions is considered to be the most meaningful because monthly distributions to the Trust unitholders are based on net cash receipts.

This comprehensive basis of accounting other than GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*.

***New Accounting Pronouncements***

As the Trust's financial statements are prepared on the modified cash basis, most accounting pronouncements are not applicable to the Trust's financial statements. No new accounting pronouncements have been adopted or issued that would impact the financial statements of the Trust.

**3. NET PROFITS INTEREST IN OIL AND NATURAL GAS PROPERTIES**

The Net Profits Interest in oil and natural gas properties was recorded at its fair value on the date of conveyance. Amortization of the Net Profits Interest in oil and natural gas properties is calculated on a unit-of-production basis based on the Underlying Properties' production and reserves. Accumulated amortization as of June 30, 2014 and December 31, 2013 was \$177,030,243 and \$154,688,885, respectively.

**4. COMMODITY HEDGES**

The Trust is exposed to fluctuations in energy prices in the normal course of business due to the Net Profits Interest in the Underlying Properties. The revenues derived from the Underlying Properties depend substantially on prevailing crude oil prices and, to a lesser extent, natural gas prices. As a result, commodity prices affect the amount of cash flow available for distribution to the Trust unitholders. Lower prices may also reduce the amount of oil and natural gas that Enduro and its third party operators can economically produce. To mitigate the negative effects of a possible decline in oil and natural gas prices on distributable income to the Trust and to achieve more predictable cash flows, Enduro entered into hedge contracts with respect to approximately 51% of expected oil and natural gas production for 2013. Enduro did not enter into any hedge contracts relating to oil and natural gas volumes expected to be produced after 2013 and the terms of the Net Profits Interest prohibit Enduro from entering into new hedging arrangements burdening the Trust. As of December 31, 2013, all hedge contracts had matured. Consequently, all production attributable to the Trust in 2014 and thereafter is unhedged.

## **5. INCOME TAXES**

### ***Federal Income Taxes***

For federal income tax purposes, the Trust is a grantor trust and therefore is not subject to tax at the trust level. Trust unitholders are treated as owning a direct interest in the assets of the Trust, and each Trust unitholder is taxed directly on his pro rata share of the income and gain attributable to the assets of the Trust and entitled to claim his pro rata share of the deductions and expenses attributable to the assets of the Trust. The income of the Trust is deemed to have been received or accrued by each unitholder at the time such income is received or accrued by the Trust rather than when distributed by the Trust.

The deductions of the Trust consist of severance taxes and administrative expenses. In addition, each unitholder is entitled to depletion deductions because the Net Profits Interest constitutes economic interests in oil and gas properties for federal income tax purposes. Each unitholder is entitled to amortize the cost of the Trust Units through cost depletion over the life of the Net Profits Interest or, if greater, through percentage depletion. Unlike cost depletion, percentage depletion is not limited to a unitholder's depletable tax basis in the Trust Units. Rather, a unitholder is entitled to percentage depletion as long as the applicable Underlying Properties generate gross income.

**Table of Contents**

**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**(unaudited)**

Some Trust Units are held by a middleman, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust ( WHFIT ) for U.S. federal income tax purposes. The Bank of New York Mellon Trust Company, N.A., 919 Congress Avenue, Austin, Texas 78701, telephone number (512) 236-6545, is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the trustee at [www.enduroroyaltytrust.com](http://www.enduroroyaltytrust.com). Notwithstanding the foregoing, the middlemen holding units on behalf of unitholders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such units, including the issuance of IRS Forms 1099 and certain written tax statements. Unitholders whose units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.

The tax consequences to a unitholder of ownership of Trust Units will depend in part on the unitholder's tax circumstances. Unitholders should consult their tax advisors about the federal tax consequences relating to owning the Trust Units.

***State Taxes***

The Trust's revenues are from sources in the states of Louisiana, New Mexico and Texas. Because it distributes all of its net income to unitholders, the Trust should not be taxed at the trust level in Louisiana or New Mexico. While the Trust should not owe tax, the Trustee is required to file a return with Louisiana reflecting the income and deductions of the Trust attributable to properties located in that state. Texas does not impose a state income tax, so the Trust's income will not be subject to income tax at the trust level in Texas. Louisiana and New Mexico presently have income taxes which tax income of nonresidents from real property located within that state. Louisiana and New Mexico tax nonresidents on royalty income from the royalties located in that state. Louisiana and New Mexico also impose a corporate income tax which may apply to unitholders organized as corporations.

Texas imposes a franchise tax at a rate of 1% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statutes. Entities subject to tax generally include trusts unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from designated passive sources, including royalties from mineral properties and other income from other non-operating mineral interests, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas franchise tax as passive entities. While the Trust is intended to be exempt from Texas franchise tax at the Trust level as a passive entity, each unitholder that is considered a taxable entity under the Texas franchise tax would generally be required to include its portion of Trust net income in its own Texas franchise tax computation.

Each unitholder should consult his or her own tax advisor regarding state tax requirements, if any, applicable to such person's ownership of Trust Units.



**6. DISTRIBUTIONS TO UNITHOLDERS**

Each month, the Trustee determines the amount of funds available for distribution to the Trust unitholders. Available funds are the excess cash, if any, received by the Trust from the Net Profits Interest and other sources (such as interest earned on any amounts reserved by the Trustee) that month, over the Trust's liabilities for that month, subject to adjustments for changes made by the Trustee during the month in any cash reserves established for future liabilities of the Trust. Distributions are made to the holders of Trust Units as of the applicable record date (generally the last business day of each calendar month) and are payable on or before the 10th business day after the record date.

Table of Contents**ENDURO ROYALTY TRUST****NOTES TO FINANCIAL STATEMENTS****(unaudited)**

The following table provides information regarding the Trust's distributions paid during the six months ended June 30, 2014 and 2013:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>
<b>Six Months Ended June 30, 2014:</b>			
December 20, 2013	December 31, 2013	January 15, 2014	\$ 0.134090
January 21, 2014	January 31, 2014	February 14, 2014	\$ 0.117935
February 18, 2014	February 28, 2014	March 14, 2014	\$ 0.100655
March 21, 2014	March 31, 2014	April 14, 2014	\$ 0.070692
April 17, 2014	April 30, 2014	May 14, 2014	\$ 0.032496
May 20, 2014	May 30, 2014	June 13, 2014	\$ 0.082366
<b>Year to Date 2014</b>			<b>\$ 0.538234</b>
<b>Six Months Ended June 30, 2013:</b>			
December 20, 2012	December 31, 2012	January 15, 2013	\$ 0.139439
January 18, 2013	January 31, 2013	February 14, 2013	\$ 0.125276
February 15, 2013	February 28, 2013	March 14, 2013	\$ 0.070519
March 18, 2013	March 28, 2013	April 12, 2013	\$ 0.056553
April 19, 2013	April 30, 2013	May 14, 2013	\$ 0.124518
May 20, 2013	May 31, 2013	June 14, 2013	\$ 0.096825
<b>Year to Date 2013</b>			<b>\$ 0.613130</b>

**7. RELATED PARTY TRANSACTIONS**

Under the terms of the Trust Agreement, the Trust pays an annual administrative fee of \$200,000 to the Trustee and \$2,000 to the Delaware Trustee. During the three and six months ended June 30, 2014, the Trust paid \$50,100 and \$100,100, respectively, to the Trustee pursuant to the terms of the Trust Agreement. During the three and six months ended June 30, 2013, the Trust paid \$50,000 and \$100,451 respectively, to the Trustee pursuant to the terms of the Trust Agreement. The Trust did not pay any fees to the Delaware Trustee for the six months ended June 30, 2014 and 2013, respectively.

**8. SUBSEQUENT EVENTS**

On July 15, 2014, the distribution of \$0.075786 per Trust Unit, which was declared on June 20, 2014, was paid to Trust unitholders owning Trust Units as of June 30, 2014. The distribution consisted of net profits allocable to the Trust of \$2,560,940, less cash reserves withheld for future Trust expenses of approximately \$60,000.

Edgar Filing: Enduro Royalty Trust - Form 10-Q

On July 21, 2014, the Trust declared a distribution of \$0.103852 per unit to unitholders of record as of July 31, 2014. The distribution is expected to be paid to unitholders on August 14, 2014.

## **Table of Contents**

### **Item 2. *Trustee's Discussion and Analysis of Financial Condition and Results of Operations.***

References to the Trust in this document refer to Enduro Royalty Trust while references to Enduro in this document refer to Enduro Resource Partners LLC.

The following review of the Trust's financial condition and results of operations should be read in conjunction with the financial statements and notes thereto, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Trust's 2013 Annual Report on Form 10-K. The Trust's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other filings with the SEC are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

### **Forward-Looking Statements**

This 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 the statements under Trustee's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. Such statements may be influenced by factors that could cause actual outcomes and results to differ materially from those projected. No assurance can be given that such expectations will prove to have been correct. When used in this document, the words believes, expects, anticipates, intends or similar expressions are intended to identify such forward-looking statements. The following important factors, in addition to those discussed elsewhere in this Form 10-Q, could affect the future results of the energy industry in general, and Enduro and the Trust in particular, and could cause actual results to differ materially from those expressed in such forward-looking statements:

risks associated with the drilling and operation of oil and natural gas wells;

the amount of future direct operating expenses and development expenses;

the effect of existing and future laws and regulatory actions;

the effect of changes in commodity prices or alternative fuel prices;

conditions in the capital markets;

competition in the energy industry;

uncertainty of estimates of oil and natural gas reserves and production; and

cost inflation.

## Edgar Filing: Enduro Royalty Trust - Form 10-Q

You should not place undue reliance on these forward-looking statements. All forward-looking statements speak only as of the date of this Form 10-Q. The Trust does not undertake any obligation to release publicly any revisions to the forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events, unless the securities laws require us to do so.

This Form 10-Q describes other important factors that could cause actual results to differ materially from expectations of Enduro and the Trust, including under the caption Risk Factors. All subsequent written and oral forward-looking statements attributable to Enduro or the Trust or persons acting on behalf of Enduro or the Trust are expressly qualified in their entirety by such factors. The Trust assumes no obligation, and disclaims any duty, to update these forward-looking statements.

### **Overview**

The Trust is a statutory trust created under the Delaware Statutory Trust Act in May 2011. The business and affairs of the Trust are administered by the Trustee. The Trustee has no authority over or responsibility for, and no involvement with, any aspect of the oil and gas operations or other activities on the Underlying Properties. The Delaware Trustee has only minimal rights and duties that are necessary to satisfy the requirements of the Delaware Statutory Trust Act.

In connection with the closing of the initial public offering, on November 8, 2011, Enduro contributed the Net Profits Interest to the Trust in exchange for 33,000,000 newly issued Trust Units. The Net Profits Interest entitles the Trust to receive 80% of the net profits from the sale and production of oil and natural gas attributable to the Underlying Properties that are produced during the term of the Conveyance, which commenced on July 1, 2011.

The Trust is not subject to any pre-set termination provisions based on a maximum volume of oil or natural gas to be produced or the passage of time. The Trust will dissolve upon the earliest to occur of the following: (1) the Trust, upon approval of the holders of at least 75% of the outstanding Trust Units, sells the Net Profits Interest, (2) the annual cash proceeds received by the Trust attributable to the Net Profits Interest are less than \$2 million for each of any two consecutive years, (3) the holders of at least 75% of the outstanding Trust Units vote in favor of dissolution or (4) the Trust is judicially dissolved.

**Table of Contents**

The Trust is required to make monthly cash distributions of substantially all of its monthly cash receipts, after deducting the Trust's administrative expenses, to holders of record (generally the last business day of each calendar month) on or before the 10th business day after the record date.

The amount of Trust revenues and cash distributions to Trust unitholders depends on, among other things:

oil and natural gas sales prices;

volumes of oil and natural gas produced and sold attributable to the Underlying Properties;

production and development costs;

price differentials;

potential reductions or suspensions of production; and

the amount and timing of Trust administrative expenses.

Generally, cash payment is received by Enduro for oil production 30 to 60 days after it is produced and for natural gas production 60 to 90 days after it is produced.

**Table of Contents****Results of Operations**

*Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013*

The Trust's net profits income consists of monthly net profits attributable to the Net Profits Interest, which was determined as shown in the following table:

	<b>Three Months Ended June 30, 2014</b>	<b>2013</b>	<b>Increase (Decrease)</b>
<b>Gross profits:</b>			
Oil sales	\$ 19,315,162	\$ 17,571,781	10%
Natural gas sales	6,113,886	7,759,547	(21%)
<b>Total</b>	<b>25,429,048</b>	<b>25,331,328</b>	<b>0%</b>
<b>Costs:</b>			
<b>Direct operating expenses:</b>			
Lease operating expenses	7,052,000	7,950,000	(11%)
Compression, gathering and transportation	803,000	825,000	(3%)
Production, ad valorem and other taxes	2,057,000	1,575,000	31%
Development expenses	7,662,000	5,750,000	33%
<b>Total</b>	<b>17,574,000</b>	<b>16,100,000</b>	<b>9%</b>
Settlement of hedge contracts	80,318	2,388,143	(97%)
<b>Net profits</b>	<b>\$ 7,935,366</b>	<b>\$ 11,619,471</b>	<b>(32%)</b>
Percentage allocable to Net Profits Interest	80%	80%	
<b>Income from Net Profits Interest</b>	<b>\$ 6,348,293</b>	<b>\$ 9,295,577</b>	<b>(32%)</b>
Trust general and administrative expenses and cash withheld for expenses	225,009	125,009	80%
<b>Distributable income</b>	<b>\$ 6,123,284</b>	<b>\$ 9,170,568</b>	<b>(33%)</b>

The following table displays oil and natural gas sales volumes and average prices (excluding the effects of the hedging arrangements discussed in Note 4 of the Notes to Financial Statements) from the Underlying Properties, representing the amounts included in the net profits calculation for distributions paid during the three months ended June 30, 2014 and 2013:

	<b>Three Months Ended June 30,</b>		<b>Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>	
<b>Underlying Properties Production Volumes:</b>			
Oil (Bbls)	209,719	222,831	(6%)

Edgar Filing: Enduro Royalty Trust - Form 10-Q

Natural Gas (Mcf)	1,440,077	2,194,839	(34%)
Combined (BOE)	449,732	588,638	(24%)
<b>Average Prices:</b>			
Oil NYMEX (December February) (\$/Bbl)	\$ 97.74	\$ 92.78	5%
Oil Differential	\$ (5.64)	\$ (13.92)	(59%)
Oil prices realized (\$/Bbl)	\$ 92.10	\$ 78.86	17%
Natural gas NYMEX (November January) (\$/Mcf)	\$ 4.11	\$ 3.51	17%
Differential	\$ 0.14	\$ 0.03	367%
Natural gas prices realized (\$/Mcf)	\$ 4.25	\$ 3.54	20%

Net profits income received by the Trust amounted to \$6.3 million for the quarter ended June 30, 2014, a decrease of \$2.9 million, or 32%, from the \$9.3 million for the second quarter of 2013. The decreased net profits income was primarily due to a 97%, or \$2.3 million, decrease in income from the settlement of hedge contracts in the quarter ended June 30, 2014 as compared with the second quarter of 2013 and a 9%, or \$1.5 million, increase in operating and development expenses to \$17.6 million compared to \$16.1 million in the second quarter for 2013. The decrease in income from hedge contracts resulted from the maturation of the hedge contracts related to 2013 production. All production attributable to 2014 and thereafter for the Trust is unhedged.



**Table of Contents**

Oil sales included in the second quarter 2014 net profits interest calculation primarily relate to oil produced from the Underlying Properties from December 2013 to February 2014. Revenues from oil sales increased 10%, or \$1.7 million, as a result of the higher average price received for oil at the wellhead of \$92.10 per Bbl as compared to \$78.86 per Bbl during the second quarter of 2013. The increase in oil wellhead pricing was due to increased NYMEX prices as well as decreased basis differentials. Average oil prices received during the periods represented by the second quarter 2013 distribution were impacted by wider than historical basis differentials in the Permian Basin. This increase was partially offset by a decrease in oil volumes sold, which were 6% lower than the comparable period in 2013 due to natural production decline and the timing of payments received from third parties for the Underlying Properties.

Natural gas sales included in the second quarter of 2014 net profits interest calculation primarily related to natural gas produced from the Underlying Properties from November 2013 to January of 2014. Natural gas revenues for the quarter ended June 30, 2014 decreased by 21%, or \$1.6 million, compared to the second quarter of 2013. This decrease was a result of a 34% decline in production due to natural production declines. This decrease was partially offset by an increase of \$0.71 per Mcf in realized prices due to increased NYMEX prices.

Expenses for the second quarter of 2014 increased 9%, or \$1.5 million, from the second quarter of 2013 due to higher capital development expenses and production and ad valorem taxes in the second quarter of 2014. Capital expenses increased 33%, or \$1.9 million, to \$7.7 million as compared to the second quarter of 2013 due to participation in the Permian Basin Wolfcamp drilling program operated by Pioneer Natural Resources in the second quarter of 2014. Of the \$7.7 million spent on capital projects in the second quarter of 2014, \$4.2 million related to the following Rocker B wells drilled in the Wolfcamp reservoir:

<b>Well Name</b>	<b>County &amp; State</b>	<b>Working Interest</b>
Rocker B 40H	Reagan, TX	25.00%
Rocker B 41H	Reagan, TX	25.00%
Rocker B 42H	Reagan, TX	25.00%
Rocker B 43H	Reagan, TX	6.25%
Rocker B 44H	Reagan, TX	6.25%
Rocker B 45H	Reagan, TX	6.25%
Rocker B 46H	Irion, TX	6.25%
Rocker B 47H	Irion, TX	6.25%
Rocker B 48H	Irion, TX	6.25%
Rocker B 71H	Irion, TX	12.50%
Rocker B 72H	Irion, TX	12.50%
Rocker B 73H	Irion, TX	12.50%
Rocker B 74H	Irion, TX	12.50%

Capital development expenses for the second quarter of 2013 primarily related to two Permian oil wells in the Lost Tank field in southeastern New Mexico. Production and ad valorem taxes increased by \$0.5 million, or 31%, compared to the second quarter of 2013, due to downward adjustments in 2013 as 2012 ad valorem expense came in lower than expected. Increased expenses due to capital projects and taxes were partially offset by lower sales volumes, which decreased lease operating expenses incurred by 11%, or \$0.9 million, in the second quarter of 2014 compared to the second quarter of 2013.

General and administrative expenses and related cash withheld for expenses increased approximately \$0.1 million to \$0.2 million for the second quarter 2014 from the second quarter 2013. Cash withheld for general and administrative

Edgar Filing: Enduro Royalty Trust - Form 10-Q

expenses for the three months ended June 30, 2014 was higher primarily due to the Trust having a lower cash balance available to cover immediate expenses as of December 31, 2013 as compared to December 31, 2012.

**Table of Contents**

*Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013*

Net profits income for the six months ended June 30, 2014 and 2013 was determined as shown in the following table:

	<b>Six Months Ended June 30, 2014</b>	<b>Six Months Ended June 30, 2013</b>	<b>Increase (Decrease)</b>
<b>Gross profits:</b>			
Oil sales	\$ 40,258,786	\$ 37,277,669	8%
Natural gas sales	11,839,669	15,348,554	(23%)
<b>Total</b>	<b>52,098,455</b>	<b>52,626,223</b>	<b>(1%)</b>
<b>Costs:</b>			
<b>Direct operating expenses:</b>			
Lease operating expenses	14,377,000	15,850,000	(9%)
Compression, gathering and transportation	1,603,000	1,875,000	(15%)
Production, ad valorem and other taxes	3,985,000	3,500,000	14%
Development expenses	11,160,000	10,850,000	3%
<b>Total</b>	<b>31,125,000</b>	<b>32,075,000</b>	<b>(3%)</b>
Settlement of hedge contracts	1,791,200	5,084,193	(65%)
<b>Net profits</b>	<b>\$ 22,764,655</b>	<b>\$ 25,635,416</b>	<b>(11%)</b>
Percentage allocable to Net Profits Interest	80%	80%	
<b>Income from Net Profits Interest</b>	<b>\$ 18,211,724</b>	<b>\$ 20,508,333</b>	<b>(11%)</b>
Trust general and administrative expenses and cash withheld for expenses	450,002	275,043	64%
<b>Distributable income</b>	<b>\$ 17,761,722</b>	<b>\$ 20,233,290</b>	<b>(12%)</b>

The following table displays oil and natural gas sales volumes and average prices (excluding the effects of the hedging arrangements discussed in Note 4 of the Notes to Financial Statements) from the Underlying Properties, representing the amounts included in the net profits calculation for distributions paid during the six months ended June 30, 2014 and 2013:

	<b>Six Months Ended June 30, 2014</b>	<b>Six Months Ended June 30, 2013</b>	<b>Increase (Decrease)</b>
<b>Underlying Properties Production Volumes:</b>			
Oil (Bbls)	422,354	452,103	(7%)
Natural Gas (Mcf)	2,942,654	4,708,469	(38%)
Combined (BOE)	912,796	1,236,848	(26%)

<b>Average Prices:</b>			
Oil NYMEX (September-February)			
(\$/Bbl)	\$ 99.05	\$ 91.58	8%
Oil Differential	\$ (3.73)	\$ (9.13)	(59%)
Oil prices realized (\$/Bbl)	\$ 95.32	\$ 82.45	16%
Natural gas NYMEX (August-January)			
(\$/Mcf)	\$ 3.81	\$ 3.20	19%
Differential	\$ 0.21	\$ 0.06	250%
Natural gas prices realized (\$/Mcf)	\$ 4.02	\$ 3.26	23%

Net profits income received by the Trust amounted to \$18.2 million for the six months ended June 30, 2014, a decrease of \$2.3 million, or 11%, from the \$20.5 million for the first six months of 2013. The decrease was primarily due to a reduction of \$3.3 million in the settlement of hedge contracts as compared to the first six months of 2013, partially offset by a decrease of \$1.0 million in direct operating expenses. The decrease in income from hedge contracts resulted from the maturation of the hedge contracts related to 2013 production. All production attributable to 2014 and thereafter for the Trust is unhedged.

**Table of Contents**

Oil sales included in the first six months of 2014 net profits interest calculation primarily relate to oil produced from the Underlying Properties from September 2013 to February 2014. As compared to the first six months of 2013, oil sales increased 8% as a result of increases in the average price received due to increased NYMEX prices and a decrease in the oil differential. During the months represented by the first six months of 2014 net profits interest calculation, average oil prices increased by \$12.87 per Bbl as a result of a \$7.47 per Bbl increase in NYMEX coupled with a narrowing of basis differentials in the Permian Basin to an average of \$3.73 per Bbl in the first six months of 2014, compared to \$9.13 per Bbl for the first six months of 2013. Oil volumes declined 7% to 422 MBbls during the months included in the first six months net profits interest calculation in 2014, compared to 452 MBbls for the same period in 2013, mainly due to natural decline and, to a lesser extent, the timing of payments received from third parties for the Underlying Properties.

Natural gas sales included in the first six months of 2014 net profits interest calculation primarily related to natural gas produced from the Underlying Properties from August 2013 to January 2014. Natural gas sales included in the net profits interest calculation for the six months ended June 30, 2014 decreased 23% compared to the six months ended June 30, 2013 due to a 38% reduction in natural gas volumes from 4,708 MMcf in the first six months of 2013 to 2,943 MMcf in the first six months of 2014, partially offset by a \$0.76 per Mcf increase in realized prices, from \$3.26 per Mcf in the first six months of 2013 to \$4.02 per Mcf in the first six months of 2014. NYMEX natural gas prices increased 19% for the first six months of 2014 compared to the first six months of 2013, while the positive differential increased over the same period, contributing to an increase of 23% in the average prices received for natural gas in the six month period. Natural gas volumes reported during the six month period of 2014 were lower as a result of natural decline and the timing of payments received from third parties.

Expenses decreased \$1 million, or 3%, from the first half of 2013 net profits interest distribution calculation to the first half of 2014 primarily due to lower sales volumes, which decreased lease operating and transportation expenses incurred, partially offset by increases in production, ad valorem and other taxes and development expenses. Capital development expenses increased \$0.3 million to \$11.2 million in the first six months of 2014 as compared to the first six months of 2013. Of the \$11.2 million spent on capital projects in the first half of 2014, \$6.1 million related to the following Rocker B wells drilled in the Wolfcamp reservoir of the Permian Basin:

<b>Well Name</b>	<b>County &amp; State</b>	<b>Working Interest</b>
Rocker B 40H	Reagan, TX	25.00%
Rocker B 41H	Reagan, TX	25.00%
Rocker B 42H	Reagan, TX	25.00%
Rocker B 43H	Reagan, TX	6.25%
Rocker B 44H	Reagan, TX	6.25%
Rocker B 45H	Reagan, TX	6.25%
Rocker B 46H	Irion, TX	6.25%
Rocker B 47H	Irion, TX	6.25%
Rocker B 48H	Irion, TX	6.25%
Rocker B 71H	Irion, TX	12.50%
Rocker B 72H	Irion, TX	12.50%
Rocker B 73H	Irion, TX	12.50%
Rocker B 74H	Irion, TX	12.50%

Capital development expenses for the six months ended June 30, 2013 primarily relate to two Permian oil wells in the Lost Tank field in southeastern New Mexico. Production and ad valorem taxes increased by \$0.5 million, or 14%, compared to the first six months of 2013. Increases due to capital projects and taxes were offset by lower sales

volumes, which decreased lease operating expenses by 9%, or \$1.5 million, and transportation expenses by 15%, or \$0.3 million, in the first six months of 2014 compared to the first six months of 2013.

General and administrative expenses and cash withheld for expenses increased \$0.2 million from the first six months 2013 net profits interest calculation to the first six months 2014 calculation. Cash withheld for general and administrative expenses for the six months ended June 30, 2014 was higher primarily due to the Trust having a lower cash balance available to cover immediate expenses as of December 31, 2013 as compared to December 31, 2012.

### **Liquidity and Capital Resources**

The Trust's principal sources of liquidity are cash flow generated from the Net Profits Interest and borrowing capacity under the letter of credit described below. Other than Trust administrative expenses, including any reserves established by the Trustee for future liabilities, the Trust's only use of cash is for distributions to Trust unitholders. Available funds are the excess cash, if any, received by the Trust from the Net Profits Interest and other sources (such as interest earned on any amounts reserved by the Trustee) in that month, over the Trust's expenses paid for that month. Available funds are reduced by any cash the Trustee decides to hold as a reserve against future expenses.

## **Table of Contents**

The Trustee may create a cash reserve to pay for future liabilities of the Trust. If the Trustee determines that the cash on hand and the cash to be received are, or will be, insufficient to cover the Trust's liabilities, the Trustee may authorize the Trust to borrow money to pay administrative or incidental expenses of the Trust that exceed cash held by the Trust. The Trustee may authorize the Trust to borrow from any person, including the Trustee or the Delaware Trustee or an affiliate thereof, although none of the Trustee, the Delaware Trustee or any affiliate of either of them intends to lend funds to the Trust. The Trustee may also cause the Trust to mortgage its assets to secure payment of the indebtedness. The terms of such indebtedness and security interest, if funds were loaned by the entity serving as Trustee or Delaware Trustee or an affiliate thereof, would be similar to the terms which such entity would grant to a similarly situated commercial customer with whom it did not have a fiduciary relationship. In addition, Enduro provided the Trust with a \$1 million letter of credit to be used by the Trust in the event that its cash on hand (including available cash reserves) is not sufficient to pay ordinary course administrative expenses. Further, if the Trust requires more than the \$1 million under the letter of credit to pay administrative expenses, Enduro has agreed to loan funds to the Trust necessary to pay such expenses. If the Trust borrows funds, draws on the letter of credit or Enduro loans funds to the Trust, no further distributions will be made to Trust unitholders until such amounts borrowed or drawn are repaid. Except for the foregoing, the Trust has no source of liquidity or capital resources. The Trustee has no current plans to authorize the Trust to borrow money. Since the Trust's formation, it has not borrowed any funds and no amounts have been drawn on the letter of credit.

In prior periods, any amounts received by Enduro from the hedge contract counterparty upon settlement of the hedge contracts reduced the operating expenses related to the Underlying Properties in calculating the net profits. However, Enduro did not enter into any hedge contracts relating to oil and natural gas volumes expected to be produced after 2013 and the terms of the Net Profits Interest prohibit Enduro from entering into new hedging arrangements burdening the Trust. As of December 31, 2013, all hedge contracts had matured. Consequently, all production attributable to the Trust in 2014 and thereafter is unhedged.

The Trust pays the Trustee an administrative fee of \$200,000 per year. The Trust pays the Delaware Trustee a fee of \$2,000 per year. The Trust also incurs, either directly or as a reimbursement to the Trustee, legal, accounting, tax and engineering fees, printing costs and other expenses that are deducted by the Trust before distributions are made to Trust unitholders. The Trust also is responsible for paying other expenses incurred as a result of being a publicly traded entity, including costs associated with annual and quarterly reports to Trust unitholders, tax return and Form 1099 preparation and distribution, NYSE listing fees, independent auditor fees and registrar and transfer agent fees.

The Trust does not have any transactions, arrangements or other relationships with unconsolidated entities or persons that could materially affect the Trust's liquidity or the availability of capital resources.

## **Distributions Declared After Quarter End**

On July 21, 2014, the Trust declared a distribution of \$0.103852 per unit to unitholders of record as of July 31, 2014. The distribution is expected to be paid to unitholders on August 14, 2014.

## **Off-Balance Sheet Arrangements**

The Trust has no off-balance sheet arrangements. The Trust has not guaranteed the debt of any other party, nor does the Trust have any other arrangements or relationships with other entities that could potentially result in unconsolidated debt, losses or contingent obligations other than the commodity hedge contracts disclosed in the section Quantitative and Qualitative Disclosures About Market Risk.

### **New Accounting Pronouncements**

As the Trust's financial statements are prepared on the modified cash basis, most accounting pronouncements are not applicable to the Trust's financial statements. No new accounting pronouncements have been adopted or issued that would impact the financial statements of the Trust.

### **Critical Accounting Policies and Estimates**

Please read Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates of the Trust's 2013 Annual Report on Form 10-K for additional information regarding the Trust's critical accounting policies and estimates. There were no material changes to the Trust's critical accounting policies or estimates during the quarter ended June 30, 2014.



**Table of Contents**

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk.***  
**Commodity Price Sensitivity**

The Trust is exposed to fluctuations in energy prices in the normal course of business due to the Net Profits Interest in the Underlying Properties. The revenues derived from the Underlying Properties depend substantially on prevailing crude oil prices and, to a lesser extent, natural gas prices. Enduro has not entered into any hedge contracts relating to oil and natural gas volumes expected to be produced after 2013 and the terms of the Net Profits Interest prohibit Enduro from entering into new hedging arrangements burdening the Trust. As of December 31, 2013, all hedge contracts had matured. Consequently, all production attributable to the Trust in 2014 and thereafter is unhedged. Please read Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the Trust's 2013 Annual Report on Form 10-K for additional information.

**Item 4. *Controls and Procedures.***  
***Evaluation of Disclosure Controls and Procedures.***

The Trustee conducted an evaluation of the Trust's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Exchange Act). Based on this evaluation, the Trustee has concluded that the disclosure controls and procedures of the Trust were effective, as of the end of the period covered by this report, in ensuring that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Trustee to allow timely decisions regarding required disclosure.

Due to the nature of the Trust as a passive entity and in light of the contractual arrangements pursuant to which the Trust was created, including the provisions of (i) the Trust Agreement and (ii) the Conveyance of the Net Profits Interest, the Trustee's disclosure controls and procedures related to the Trust necessarily rely on (A) information provided by Enduro, including information relating to results of operations, the costs and revenues attributable to the Trust's interest under the conveyance and other operating and historical data, plans for future operating and capital expenditures, reserve information, information relating to projected production, and other information relating to the status and results of operations of the Underlying Properties and the Net Profits Interest, and (B) conclusions and reports regarding reserves by the Trust's independent reserve engineers.

***Changes in Internal Control over Financial Reporting.***

During the quarter ended June 30, 2014, there was no change in the Trust's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting. The Trustee notes for purposes of clarification that it has no authority over, and makes no statement concerning, the internal control over financial reporting of Enduro.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1A. *Risk Factors.***

Risk factors relating to the Trust are discussed in Item 1A of the Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. No material change to such risk factors occurred during the three months ended June 30, 2014.

**Item 6. *Exhibits.***

The exhibits listed in the accompanying index to exhibits are filed as part of the Quarterly Report on Form 10-Q.

Table of Contents

**SIGNATURE**

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.

**ENDURO ROYALTY TRUST**

By: THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A.

By: /s/ MIKE ULRICH  
Mike Ulrich  
*Vice President*

Date: July 31, 2014

The Registrant, Enduro Royalty Trust, has no principal executive officer, principal financial officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available, and none have been provided. In signing the report above, the Trustee does not imply that it has performed any such function or that such function exists pursuant to the terms of the Trust agreement under which it serves.

**Table of Contents****INDEX TO EXHIBITS****Exhibit****Number****Description**

2.1	Agreement and Plan of Merger of Enduro Royalty Trust and Enduro Texas LLC, dated as of November 3, 2011 by and between the Bank of New York Mellon Trust Company, N.A. as Trustee of Enduro Royalty Trust and Enduro Texas LLC. (Incorporated herein by reference to Exhibit 1.2 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
3.1	Certificate of Trust of Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 3.3 to the Registration Statement on Form S-1, filed on May 16, 2011 (Registration No. 333-174225))
3.2	Trust Agreement of Enduro Royalty Trust, dated as of May 3, 2011 by and between the Bank of New York Mellon Trust Company, N.A. as Trustee of Enduro Royalty Trust and Enduro Texas LLC. (Incorporated herein by reference to Exhibit 3.4 to the Registration Statement on Form S-1, filed on May 16, 2011 (Registration No. 333-174225))
4.1	Registration Rights Agreement, dated as of November 8, 2011, by and between Enduro Resource Partners LLC and Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
4.2	Amendment No. 1 to Registration Rights Agreement, dated as of November 8, 2012, by and between Enduro Resource Partners LLC and Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 4.2 to our Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 18, 2013 (File No. 1-35333))
10.1	Conveyance of Net Profits Interest, dated November 8, 2011, by and between Enduro Operating LLC and Enduro Texas LLC. (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
10.2	Supplement to Conveyance of Net Profits Interest, dated November 8, 2011, from Enduro Operating LLC, Enduro Texas LLC and the Bank of New York Mellon Trust Company, N.A. as Trustee of Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.