TORCH ENERGY ROYALTY TRUST
Form 10-K
February 03, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2011**

**OR**

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

**Commission file number 1-12474**

**TORCH ENERGY ROYALTY TRUST**

**(Exact Name of Registrant as Specified in its Charter)**

| | |
|---|---|
| **Delaware** | **74-6411424** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |

**Rodney Square North**

**1100 North Market Street**

**Wilmington, Delaware 19890**

**(Address of Principal Executive Offices; Zip Code)**

**(302) 636-6016**

**(Registrant s Telephone number, Including Area Code)**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:**

| Title of each class | Name of Each Exchange on Which Registered |
|---|---|
| Units of Beneficial Interest | New York Stock Exchange |

**SECURITIES REGISTERED PURSUANT TO SECTION 12 (G) OF THE ACT:** None

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

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

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(b) 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 x

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. <u>See</u> definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Small reporting company x |

Indicated by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter of 2013 was $912,111.

At January 27, 2014, there were 8,600,000 Units of Beneficial Interest of the Trust outstanding.

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Torch Energy Royalty Trust

Annual Report on Form 10-K

For the fiscal year ended December 31, 2011

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Torch Energy Royalty Trust

# PART I

## Item 1. Business.

This document 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. All statements other than statements of historical facts included in this document, including without limitation, statements under Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the financial position, estimated quantities and net present values of reserves of the Torch Energy Royalty Trust ( Trust ) and statements that include the words believe , expects , anticipates , intends , estimates , projects , target , goal , plans , objectives , should or variations are forward-looking statements. Torch Energy Advisors Incorporated ( Torch ) and the Trust can give no assurances that the assumptions upon which these statements are based will prove to be correct. Important factors that could cause actual results to differ materially from Torch s expectations ( Cautionary Statements ) are disclosed under Risk Factors elsewhere in this document. All subsequent written and oral forward-looking statements attributable to the Trust or persons acting on its behalf are expressly qualified by the Cautionary Statements.

### General

The Trust was formed effective October 1, 1993, pursuant to a trust agreement ( Trust Agreement ) among Wilmington Trust Company, not in its individual capacity but solely as trustee of the Trust ( Trustee ), Torch Royalty Company ( TRC ) and Velasco Gas Company, Ltd. ( Velasco ) as owners of certain oil and natural gas properties ( Underlying Properties ) and Torch Energy Advisors Incorporated ( Torch ) as grantor. TRC and Velasco created net profits interests ( Net Profits Interests ) which burden the Underlying Properties and conveyed such interests to Torch. The Trust was formed under the Delaware statutory trust act (formerly known as the Delaware business trust act). Torch conveyed the Net Profits Interests to the Trust in exchange for an aggregate of 8,600,000 units of beneficial interest ( Units ). Such Units were sold to the public through various underwriters in November 1993. During 2011, the working interest owners of the Underlying Properties were TRC, Torch E&P Company, Samson Lone Star Limited Partnership and Constellation Energy Partners LLC ( Working Interest Owners ).

The sole purpose of the Trust is to hold the Net Profits Interests, to receive payments from the Working Interest Owners, and to make payments to Unitholders. The Trust does not conduct any business activity and has no officers, directors or employees. The Trust and Trustee rely on third party service providers to perform administrative services for the Trust. Torch provided accounting, bookkeeping, informational and other services to the Trust related to the Net Profits Interests pursuant to the Administrative Services Agreement effective October 1, 1993 and an oral arrangement after termination of the Administrative Services Agreement on January 29, 2008 through April 1, 2008. From November 7, 2008 through December 23, 2008, Torch provided certain accounting services in connection with the Trust s preparation of its Form 10-K for the year ended December 31, 2007 pursuant to an agreement between the Trust and Torch dated November 7, 2008. To facilitate the winding down of the Trust, Torch currently provides certain accounting and other services for the Trust pursuant to an agreement with the Trust entered into on March 26, 2009. The initial term of the agreement expired on March 31, 2010 and was thereafter extended from year to year, up to the period ending August 30, 2013. Torch currently provides the Trust via letter agreement the administrative services historically provided by Torch to the Trust through December 31, 2013 consistent with past practice and (ii) from December 31, 2013 to April 30, 2014 shall provide services to the Trust in support of any tax correspondence (tax booklet) and tax filings that might be necessary for the year ended December 31, 2013 consistent with past practice and other related services necessary to complete the wind down of the Trust that are also consistent with past practice. Subsequently, the inability of the Trust to hire qualified services providers to assist in the wind down and liquidation of the Trust may have a material adverse effect on the operations of the Trust.

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Torch Energy Royalty Trust

The Trust has no officers, directors or employees. The Trust and Trustee rely solely on receiving accurate information, reports and other representations from Torch and other service providers to the Trust. In executing and submitting this report on behalf of the Trust and with respect to David A. Vanaskey in executing the certifications relating to this report, the Trustee and David A. Vanaskey have relied upon the accuracy of such reports, information and representations.

In connection with the formation of the Trust, TRC and Velasco contracted to sell the oil and natural gas production from the Underlying Properties to Torch Energy Marketing Inc. ( TEMI ), a subsidiary of Torch, under a purchase contract ( Purchase Contract ) which expired upon termination of the Trust on January 29, 2008 ( Termination Date ). See Marketing Arrangements in this section for oil and natural gas pricing information pertaining to the Underlying Properties. The Working Interest Owners receive payments reflecting the proceeds of oil and natural gas sold and aggregate these payments, deduct applicable costs and make payments to the Trustee each quarter for the amounts due to the Trust under the Net Profits Interests. Prior to the termination of the Trust, Unitholders received quarterly cash distributions relating to oil and natural gas produced and sold from the Underlying Properties. Following the termination of the Trust, the Trustee established a non-interest bearing segregated cash reserve account ( Cash Reserve ) for payment by the Trust of certain actual, contingent and uncertain liabilities of the Trust. See Note 4 of the Trust s accompanying financial statements for additional information concerning the Cash Reserve. Because no additional properties will be contributed to the Trust, the assets of the Trust deplete over time and a portion of each cash distribution made by the Trust is analogous to a return of capital.

The Underlying Properties constitute working interests in the Chalkley Field in Louisiana ( Chalkley Field ), the Robinson s Bend Field in the Black Warrior Basin in Alabama ( Robinson s Bend Field ), fields that produce from the Cotton Valley formations in Texas ( Cotton Valley Fields ) and fields that produce from the Austin Chalk formation in Texas ( Austin Chalk Fields ). The Underlying Properties represent interests in all productive formations from 100 feet below the deepest productive formation in each field to the surface when the Trust was formed. The Trust therefore has no interest in deeper productive formations. The Trust sold all of its Net Profits Interests attributable to the Underlying Properties in the Robinson s Bend Field on December 13, 2011. See Note 5 of the Trust s accompanying financial statements and Item 3. Legal Proceedings for additional information concerning the sale of the Robinson s Bend Field Net Profit Interests. On August 30, 2013, the Trust simultaneously signed and closed a purchase and sale agreement by and among the Trust, TRC, Torch E&P Company, N.M.L. Inc., of Texas (formerly Torch Energy Services, Inc.), and Torch, pursuant to which the Trust and the Torch Energy Louisiana Royalty Trust sold certain net profits interests attributable to the underlying working interests in certain fields that produce from the Cotton Valley Fields, Austin Chalk Fields and Chalkley Field for a purchase price of $3,258,330. The Trust is the sole beneficiary of the Torch Energy Louisiana Royalty Trust which held the Net Profits Interests in the fields in Louisiana. The buying parties were the successful bidder in the public auction of the net profit interests attributable to underlying working interests in the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field. The purchase agreement contains customary representations, warranties and covenants. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013).

In 2011, Net Proceeds paid to the Trust were reduced by $0.4 million as a result of TRC recouping overpayments made to the Trust in 1994 and 1995 pertaining to the Chalkley Field ( Chalkley Gas Volume Adjustment ). In 2010, Net Proceeds paid to the Trust with respect to net profits income generated in the Austin Chalk Fields were reduced by $826,000 (including interest expense of $70,000) to recoup overpayments to the Trust by TRC during the five year period ended December 31, 2009 (   Austin Chalk Gas Volume Adjustment  ). See Item 2. Properties.

Torch Energy Royalty Trust

Separate conveyances ( Conveyances ) were used to transfer the Net Profits Interests in each state. Net proceeds ( Net Proceeds ), generally defined as gross revenues received from the sale of production attributable to the Underlying Properties during any period less property, production, severance and similar taxes, and development, operating, and certain other costs (excluding operating and development costs from the Robinson s Bend Field prior to January 1, 2003), are calculated separately for each Conveyance. If, during any period, costs and expenses deducted in calculating Net Proceeds exceed gross proceeds under a Conveyance, neither the Trust nor Unitholders are liable to pay such excess directly, but the Trust will receive no payments for distribution to Unitholders with respect to such Conveyance until future gross proceeds exceed future costs and expenses plus the cumulative excess of such costs and expenses not previously recouped by the Working Interest Owners plus interest thereon. The complete definitions of Net Proceeds are set forth in the Conveyances.

On January 24, 2013, the Trust received notice from NYSE Regulation, Inc. ( NYSE Regulation ) informing the Trust that NYSE Regulation has determined to commence proceedings to delist the Trust s units from the New York Stock Exchange ( NYSE ), with trading of the units to be suspended prior to the opening of NYSE trading on January 30, 2013. NYSE Regulation informed the Trust that the delisting determination was based on the Trust s delay in filing its Annual Report for the year ended December 31, 2011 on Form 10-K and subsequent Quarterly Reports for the fiscal quarters ending in 2012 with the Securities and Exchange Commission. The Trust had previously utilized the six-month cure period under Section 802.01C of the NYSE Listed Company Manual and a subsequent three-month extension of the filing date for the Annual Report to January 16, 2013 from NYSE Regulation, the Trust was unable to file the Annual Report by this extended deadline. NYSE Regulation declined the Trust s request for further extension under Section 802.01C of the NYSE Listed Company Manual of the filing deadline. NYSE Regulation also noted that the average closing price of the Trust s units had previously fallen below the NYSE s continued listing minimum share price standard (Section 802.01E of the NYSE Listed Company Manual) of $1.00 over a consecutive 30 trading day period. Trading of the Units was suspended prior to the opening of NYSE trading on Wednesday, January 30, 2013. The Trust commenced trading on the Pink Sheets on that same day, under the symbol TRRU .

**Termination of the Trust and Liquidation of the Trust s Net Profits Interests**

The Trust received the affirmative vote of the Unitholders of more than 66 2/3% of the outstanding Units to terminate the Trust at the meeting of Unitholders held on January 29, 2008 (the Termination Date ). Upon termination of the Trust, among other things, the Trustee is required to sell the Net Profits Interests. Specifically, pursuant to Section 9.03(e) of the Trust Agreement if the property of the Trust Estate (as defined in the Trust Agreement) has not been sold prior to the end of one calendar year following the termination date, the Trustee, thereafter, must cause such assets to be sold at public auction.

On August 4, 2011, the Trust entered into a material definitive agreement for advisory and marketing services with an effective date of August 1, 2011 with respect to the sale of the Net Profits Interests pursuant to an agreement with PLS, Inc., a Texas corporation. The Trust notified Robinson s Bend Production II, LLC. ( RBP II ), a Delaware limited liability company and a subsidiary of Constellation Energy Partners LLC, on November 3, 2011 that it was the successful bidder in the public auction of the sale of the Net Profits Interests attributable to the Robinson s Bend Field. On December 13, 2011, the Trust entered into a purchase and sale agreement by and between RBP II pursuant to which the Trust agreed to sell, and RBP II agreed to purchase, all of the Trust s Net Profits Interests attributable to the Underlying Properties in the Robinson s Bend Field for a purchase price of $1,000,000. The sale signed and closed simultaneously on December 13, 2011.

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On August 30, 2013, the Trust also simultaneously signed and closed a purchase and sale agreement by and among the Trust, TRC, Torch E&P Company, N.M.L. Inc., of Texas (formerly Torch Energy Services, Inc.), and Torch, pursuant to which the Trust and the Torch Energy Louisiana Royalty Trust sold certain net profits interests attributable to the underlying working interests in certain fields that produce from the Cotton Valley Fields, Austin Chalk Fields and Chalkley Field for a purchase price of $3,258,330. The buying parties were the successful bidder in the public auction of the net profit interests attributable to underlying working interests in the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013).

On December 4, 2013, the Trust filed a Current Report on Form 8-K (the Initial Report ) to report the announcement of a quarterly distribution. The Trust filed Amendment No. 1 to the Initial Report on Form 8-K/A on December 5, 2013, which amended and restated the Initial Report in its entirety, and which was filed solely for the purpose of clarifying the per unit reference of the distribution. On December 13, 2013, the Trust filed Amendment No. 2 on Form 8-K/A which amends and restates the Initial Report and Amendment No. 1 in its entirety and revised the distribution amount down due to additional expenses forecasted in the wind down and liquidation of the Trust. On December 13, 2013, the Trust announced the distribution to the unitholders of $3,031,349 or $.35 per unit, payable on December 30, 2013 to unitholders of record on December 23, 2013. Immediately following the distribution the Cash Reserve was approximately $510,000. To the extent that any of the Cash Reserve remains after the payment of all of the Trust s expenses, the Trustee may make one or more additional cash distributions to the unitholders of record; however, no assurance can be made that any such distributions will occur.

The Trustee anticipates it will continue to consult with the Trust s and Trustee s financial and legal advisors in the wind down of the Trust.

**Legal Proceedings**

As previously disclosed by the Trust in certain of its filings with the Securities and Exchange Commission ( SEC ), the Trust and certain working interest owners (TRC, Torch E&P Company and Constellation Energy Partners LLC) of the Underlying Properties were involved in an arbitration proceeding relating to the proper calculation of the quarterly Net Profits Interests payments owed to the Trust following the termination of the Trust. The working interest owners contended that the pricing mechanism contained in the terminated Purchase Contract (including the sharing price and minimum price mechanism) should continue to be utilized to calculate the quarterly Net Profits Interests payments. In the arbitration proceeding, the Trustee, not in its individual capacity but solely as Trustee of the Trust, contended that the sharing price mechanism of the Purchase Contract (which determined the calculation of the Net Profits Interests prior to the termination of the Oil and Gas Purchase Contract) did not survive the termination of the Purchase Contract or the termination of the Trust. On April 11, 2008, Trust Venture Company, LLC, which owns the majority of Units in the Trust, submitted an unopposed request to intervene in the arbitration and became a party to the arbitration. Trust Venture Company, LLC agreed with the Trustee, and took the position in the arbitration, that the sharing price mechanism of the Purchase Contract did not survive the termination of the Purchase Contract or the termination of the Trust.

The hearing on the merits in the arbitration commenced on June 16, 2008 and was completed on June 20, 2008. On July 18, 2008, alternative dispute resolution provider JAMS, through a panel of three arbitrators ( Arbitrators ), released an award notice to all parties (the Award Notice ). In the Award Notice, the Arbitrators found that the Conveyances are not ambiguous and the pricing mechanism of the Purchase Contract is incorporated by reference into the Conveyances notwithstanding termination of the Purchase Contract. The Arbitrators therefore concluded that the pricing mechanism (including the sharing price and minimum price mechanism) continues to burden the Net Profits Interests and will do so for the life of the Conveyances. The Arbitrators also denied each party s request for fees and costs; each party was required to bear its own fees and costs related to the arbitration. The Trust and Trustee incurred expenses as a result of the arbitration and expect to continue to incur expenses, including but not limited to legal fees, as a result of the winding down of the Trust. See Item 3. Legal Proceedings for subsequent event information concerning the arbitration and Award Notice.

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Torch Energy Royalty Trust

**Marketing Arrangements and Price Sharing**

In connection with the formation of the Trust, TRC, Velasco and TEMI entered into the Purchase Contract which expired upon termination of the Trust. Pursuant to the Purchase Contract, TEMI was obligated to purchase all net production attributable to the Underlying Properties for an index price for oil and natural gas ( Index Price ), less certain gathering, treating and transportation charges, which were calculated monthly. The Index Price equals 97% of the weighted average spot market prices of oil and natural gas ( Average Market Prices ) at the four locations where TEMI sold production.

The Purchase Contract also provided that TEMI pay a minimum price ( Minimum Price ) for natural gas production, which is adjusted annually for inflation. When TEMI paid a purchase price based on the Minimum Price it received price credits ( Price Credits ), equal to the difference between the Index Price and the Minimum Price that it was entitled to deduct in determining the purchase price when the Index Price for natural gas exceeded the Minimum Price. In addition, if the Index Price for natural gas exceeded the sharing price, which is adjusted annually for inflation ( Sharing Price ), TEMI was entitled to deduct 50% of such excess ( Price Differential ) in determining the purchase price. TEMI had an annual option to discontinue the Minimum Price commitment. However, if TEMI discontinued the Minimum Price commitment, it would no longer be entitled to deduct the Price Differential in calculating the purchase price and would have forfeited all accrued Price Credits. TEMI had no outstanding Price Credits on the Termination Date and had not exercised its option to discontinue the Minimum Price Commitment prior to the Purchase Contract s expiration date.

Upon the Trust s termination, the Working Interest Owners utilized the same pricing mechanisms (including the Sharing Price and Minimum Price commitment mechanisms) as the expired Purchase Contract in calculating Net Proceeds due to the Trust. The Minimum Price was $1.99, $1.97 and $1.95 per MMBtu for 2011, 2010 and 2009, respectively. The Sharing Price was $2.46, $2.43 and $2.40 for 2011, 2010 and 2009, respectively. Following the Trust s termination, the Working Interest Owners also have the same annual option to discontinue the Minimum Price commitment. As of December 31, 2011, the Working Interest Owners had no outstanding Price Credits and had not exercised its right to discontinue the Minimum Price commitment.

Gas production is purchased at the wellhead. Therefore, Net Proceeds do not include any amounts received in connection with extracting natural gas liquids from such production at natural gas processing or treating facilities.

**Gathering, Treating and Transportation Arrangements**

The Purchase Contract, which expired upon the Trust s termination, entitled TEMI to deduct certain natural gas gathering, treating and transportation fees in calculating the purchase price for natural gas in the Robinson s Bend, Austin Chalk and Cotton Valley Fields. The amounts that were deducted in calculating the purchase price for such natural gas were set forth in the Purchase Contract and were not affected by the actual costs incurred by TEMI to gather, treat and transport natural gas. Upon the Trust s termination, the Working Interest Owners were entitled to deduct the same natural gas gathering, treating and transportation fees that had previously been deducted by TEMI pursuant to the Purchase Contract in calculating Net Proceeds due to the Trust.

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For the Robinson s Bend Field, a gathering, treating and transportation fee of $0.260 per MMBtu, adjusted annually for inflation ($0.335, $0.331 and $0.327 per MMBtu for 2011, 2010, and 2009, respectively), plus fuel usage equal to 5% of revenues is deducted in computing Net Proceeds due to the Trust. Additionally, a gathering fee of $0.05 per MMBtu is deducted in calculating the purchase price for production from 73 of the 426 wells in the Robinson s Bend Field. In computing Net Proceeds due to the Trust for the Austin Chalk Fields, $0.38 per MMBtu plus 17% of revenues are deducted as a fee to gather, treat and transport natural gas production. The purchase price for natural gas for production attributable to certain wells in the Cotton Valley Fields is reduced by a transportation fee of $0.045 per MMBtu.

During the years ended December 31, 2011, 2010 and 2009, gathering, treating and transportation fees deducted from the Net Proceeds calculations pertaining to production during the twelve months ended September 30, 2011, 2010 and 2009 in the Robinson s Bend, Austin Chalk and Cotton Valley Fields, totaled $0.9 million for the year ended December 31, 2011 and $1.0 million for each of the years ended December 31, 2010 and 2009. No amounts for gathering, treating or transportation are deducted in calculating the purchase price from the Chalkley Field.

**Net Profits Interests**

The Net Profits Interests entitle the Trust to receive 95% of the Net Proceeds attributable to oil and natural gas produced and sold from wells (other than infill wells) on the Underlying Properties. All of the Net Profits Interests have been sold as of August 2013 and the Trust is winding down its operations. In calculating Net Proceeds from the Robinson s Bend Field, operating and development costs incurred prior to January 1, 2003 were not deducted. In addition, the amounts paid to the Trust from the Robinson s Bend Field during any calendar quarter are subject to a volume limitation ( Volume Limitation ) equal to the gross proceeds from the sale of 912.5 MMcf of natural gas, less property, production, severance and related taxes. The Robinson s Bend Field production attributable to the Trust did not meet the Volume Limitation during the years ended December 31, 2011, 2010 and 2009. On December 13, 2011, the Trust sold all of its Net Profits Interests attributable to the Underlying Properties in the Robinson s Bend Field to RBP II. See Note 5 of the accompanying financial statements and Item 3. Legal Proceedings for additional information.

The Net Profits Interests also entitle the Trust to 20% of the Net Proceeds of wells drilled on the Underlying Properties since the Trust s establishment into formations in which the Trust has an interest, other than wells drilled to replace damaged or destroyed wells ( Infill Wells ). Infill Wells Net Proceeds ( Infill Well Net Proceeds ) represent the aggregate gross revenues received from Infill Wells less the aggregate amount of the following Infill Well costs: i) property, production, severance and similar taxes; ii) development costs; iii) operating costs; and iv) interest on the recovered portion, if any, of the foregoing costs computed at a rate of interest announced publicly by Citibank, N.A. in New York as its base rate.

**Availability of Reports**

The Trust s principal offices are located at Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890. The telephone number is (302) 636-6016. The Trust files quarterly and annual reports and other information with the SEC. You may read and copy any document that we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC s website at http://www.sec.gov and on our website, http://www.torchroyalty.com, which features all of our current SEC filings free of charge as soon as reasonably practicable after they are filed with the SEC. Information contained on the Trust s website or any other website referenced herein is not incorporated by reference into this report and does not constitute a part of this report.

Torch Energy Royalty Trust

**Widely Held Fixed Investment Trust Reporting Information**

Some Trust Units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name, collectively referred to herein as middlemen ). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust ( WHFIT ) for U.S. federal income tax purposes. Wilmington Trust Company, not in its individual capacity but solely as the Trustee for the Trust, Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890, telephone number (302) 636-6016, 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 on the Trust s website at http://www.torchroyalty.com. Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of Unitholders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such Trust Units. Unitholders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units. Each unitholder should consult his, her or its tax advisor for compliance matters.

**Item 1A. Risk Factors.**

You should carefully consider the following risk factors in addition to the other information included in this report. The risks set forth below are in addition to risks that apply to most businesses. All of the Net Profits Interests have been sold as of August 2013 and the Trustee is in the process of winding down and liquidating the Trust after the affirmative vote of the requisite number of Unitholders. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013 ). All of the Risk Factors set forth below are qualified in this regard. See Trust Termination below in this item for further information. The other Risk Factors set forth below should be considered in light of the wind up and liquidation of the Trust. If any of these risks or uncertainties actually occurs, the Trust s financial condition and results of operations and the future and current value of the Net Profits Interests could be materially adversely affected. Additional risks not presently known to the Trust or which the Trust considers immaterial based on information currently available to it may also materially adversely affect the Trust. Because of these factors, past financial performance should not be considered an indication of future performance.

**Trust Termination and Liquidation**

The Trust received the affirmative vote of the Unitholders of more than 66 2/3% of the outstanding Units to terminate the Trust at the meeting of Unitholders held on January 29, 2008. Upon termination of the Trust, among other things, the Trustee is required to sell the Net Profits Interests. Specifically, pursuant to Section 9.03(e) of the Trust Agreement if the property of the Trust Estate (as defined in the Trust Agreement) has not been sold prior to the end of one calendar year following the termination date, the Trustee, thereafter, must cause such assets to be sold at public auction. On August 4, 2011 the Trust entered into a material definitive agreement for advisory and marketing services with an effective date of August 1, 2011 with respect to the sale of the Net Profits Interests pursuant to an agreement with PLS, Inc., a Texas corporation.

The Trust notified RBP II on November 3, 2011 that it was the successful bidder in the public auction of the sale of the Net Profits Interests attributable to the Robinson s Bend Field. On December 13, 2011, the Trust entered into a purchase and sale agreement by and between RBP II pursuant to which the Trust agreed to sell, and RBP II agreed to purchase, all of the Trust s Net Profits Interests attributable to the Underlying Properties in the Robinson s Bend Field for a purchase price of $1,000,000. The sale signed and closed simultaneously on December 13, 2011.

On August 30, 2013, the Trust simultaneously signed and closed a purchase and sale agreement by and among the Trust, TRC, Torch E&P Company, N.M.L. Inc., of Texas (formerly Torch Energy Services, Inc.), and Torch, pursuant to which the Trust and the Torch Energy Louisiana Royalty Trust sold certain net profits interests attributable to the underlying working interests in certain fields that produce from the Cotton Valley

Fields, Austin Chalk Fields and Chalkley Field for a purchase price of $3,258,330. The buying parties were the successful bidder in the public auction of the net profit interests attributable to underlying working interests in the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field.

All of the Net Profits Interests have been sold as of August 2013 and the Trustee is in the process of winding down and liquidating the Trust after the affirmative vote of the requisite number of Unitholders. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013). The Trustee anticipates it will continue to consult with the Trust s and Trustee s financial and legal advisors in the wind down of the Trust.

**The Trust s continuing failure to timely file certain periodic reports with the SEC during the wind down and liquidation of the Trust may pose significant risks to the Trust s business, which could materially and adversely affect the Trust financial condition.**

The public trading price for the Units tends to be tied to the recent and expected levels of cash distribution on the Units. The amounts available for distribution by the Trust vary in response to numerous factors outside the control of the Trust, including prevailing prices for natural gas produced from the Trust s Net Profits Interests. There is no guarantee that distributions made to a Unitholder over the life of these depleting assets or distributions following a sale of the Net Profits Interests will equal or exceed the purchase price paid by the Unitholder.

All of the Net Profits Interests have been sold as of August 2013 and the Trustee is in the process of winding down and liquidating the Trust after the affirmative vote of the requisite number of Unitholders. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013).

**The Trust may have to lower the cash distributions or may not be able to pay distributions at all during the wind down and liquidation of the Trust.**

All of the Net Profits Interests have been sold as of August 2013 and the Trustee is in the process of winding down and liquidating the Trust after the affirmative vote of the requisite number of Unitholders. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013).

**Trust expenses may have an adverse impact on the distributions to Unitholders during the wind down and liquidation of the Trust.**

Trust expenses, Sarbanes-Oxley compliance and legal fees during the wind down and liquidation of the Trust may have an adverse effect on the ability of the Trust to pay quarterly distributions to the Unitholders. The Trustee has set up a cash reserve account pursuant to the Trust Agreement in order to provide the funds necessary for an orderly wind down and liquidation of the Trust.

**The estimated reserve quantities in this report are based on many assumptions that may prove to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially**

**affect the quantities and present value of the Trust s reserves.**

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Estimates of economically recoverable natural gas and oil reserves and of future net cash flows are based upon a number of variable factors and assumptions, all of which are to some degree speculative and may vary considerably from actual results. Prices for oil and natural gas are volatile and are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Trust and/or Torch. Therefore, actual production, revenues, taxes and development and operation expenditures may not occur as estimated.

Future results of the Trust will depend upon the ability of the owners of the Underlying Properties to develop, produce and sell their oil and natural gas reserves and the corresponding proceeds from such sales which may vary widely. The reserve data included herein are estimates only and are subject to many uncertainties. Actual quantities of oil and natural gas may differ considerably from the amounts set forth herein. In addition, different reserve engineers may make different estimates of reserve quantities and cash flows based upon the same available data. The present value, discounted at 10%, of future net cash flows from proved reserves attributable to the Net Profits Interests does not represent the fair market value of the proved reserves, or the price at which the Net Profits Interests could be sold. A determination of fair market value would involve consideration of many factors in addition to the present value, discounted at 10%. An impairment loss is recognized when the net carrying value of the Net Profits Interests exceeds its fair market value. During the year ended December 31, 2011, an impairment loss of $6.8 million was recognized. No impairment loss was recognized during the years ended December 31, 2010 and 2009.

**If it is determined that the Trust is subject to the Texas margin tax, the Trustee may have to withhold a disproportionate amount from future distributions to pay the tax liability.**

The Trustee does not intend to pay any amounts for the Texas margin tax for tax periods subsequent to January 1, 2008, based on the assumption that the Trust is exempt from tax as a passive entity; however, there is currently no clear statutory authority that the Trust meets requirements for the margin tax exemption as a passive entity. The effective date of the legislation was January 1, 2008, but the tax was generally imposed on revenues generated in 2007 and thereafter (earlier for certain fiscal year taxpayers). If it is subsequently determined that the Trust is not exempt from the margin tax, the Trust would be required to deduct and withhold from future distributions the amounts necessary to pay the margin tax for each of the four years ending December 31, 2008, 2009, 2010 and 2011, including the tax liability accruing on income distributed after December 2006 attributable to Trust revenues during the five years ended December 31, 2011 from which no tax was withheld. For more information about the Texas margin tax, see Note 3 to the Trust s accompanying financial statements.

*Federal Regulation*

The Underlying Properties are subject to the jurisdiction of FERC with respect to various aspects of natural gas operations including the marketing and production of natural gas. The Natural Gas Act and the Natural Gas Policy Act (collectively, the Acts ) mandate Federal regulation of interstate transportation of natural gas. The Natural Gas Wellhead Decontrol Act of 1989 terminated wellhead price controls on all domestic natural gas on January 1, 1993. Numerous questions have been raised concerning the interpretation and implementation of several significant provisions of the Acts and of the regulations and policies promulgated by FERC there under. A number of lawsuits and administrative proceedings have been instituted which challenge the validity of regulations implementing the Acts. In addition, FERC currently has under consideration various policies and proposals that may affect the marketing of natural gas under new and existing contracts. Accordingly, the Trust and Trustee is unable to predict the impact of any such government regulation.

In the past, Congress has been very active in the area of natural gas regulation. Legislation enacted in repeals incremental pricing requirements and natural gas use restraints previously applicable. At the present time, it is impossible to predict what proposals, if any, might actually be enacted by Congress or the various state legislatures and what effect, if any, such proposals might have on the Underlying Properties and the Trust.

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*State Regulation*

Many state jurisdictions have at times imposed limitations on the production of natural gas by restricting the rate of flow for natural gas wells below their actual capacity to produce and by imposing acreage limitations for the drilling of a well. States may also impose additional regulations of these matters. Most states regulate the production of natural gas, including requirements for obtaining drilling permits, the method of developing new fields, provisions for the unitization or pooling of natural gas properties, the spacing, operation, plugging and abandonment of wells and the prevention of waste of natural gas resources. The rate of production may be regulated and the maximum daily production allowable from natural gas wells may be established on a market demand or conservation basis or both.

**The market price for the Trust s Units may not reflect the value of the Net Profits Interests held by the Trust.**

The public trading price for the Trust Units tends to be tied to the recent and expected levels of cash distributions on the Trust Units. The amounts available for distribution by the Trust vary in response to numerous factors outside the control of the Trust, including prevailing prices for oil and natural gas produced from the Underlying Properties. The market price of the Trust Units is not necessarily indicative of the value that the Trust would realize if the Net Profits Interests were sold to a third party buyer. In addition, such market price is not necessarily reflective of the fact that, since the assets of the Trust are depleting assets, a portion of each cash distribution paid on the Trust Units should be considered by investors as a return of capital, with the remainder being considered as a return on investment. There is no guarantee that distributions made to a Unitholder over the life of these depleting assets or distributions following the sales of the Net Profits Interests will equal or exceed the purchase price paid by the Unitholder.

**Financial information of the Trust is not prepared in accordance with GAAP.**

The financial statements of the Trust are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the U.S., or GAAP. Although this basis of accounting is permitted for royalty trusts by the Securities and Exchange Commission, the financial statements of the Trust differ from GAAP financial statements because net profits income is not accrued in the month of production, expenses are not recognized when incurred and cash reserves may be established for certain contingencies that would not be recorded in GAAP financial statements.

**The Trust is dependent on certain service providers to provide various services, including wind-down services, to the Trust.**

The Trust and Trustee rely on third party service providers to perform administrative services, Sarbanes-Oxley compliance services and other services for the Trust. Torch provided accounting, bookkeeping, informational and other services to the Trust related to the Net Profits Interests pursuant to the Administrative Services Agreement effective October 1, 1993 and an oral arrangement after termination of the Administrative Services Agreement on January 29, 2008 through April 1, 2008.

On November 7, 2008, the Trust and Torch entered an agreement whereby Torch provided certain accounting services in connection with the preparation of the Trust s Form 10-K for the year ended December 31, 2007. Such service agreement expired December 23, 2008.

To facilitate the winding down of the Trust, Torch currently provides certain accounting and other services for the Trust pursuant to an agreement with the Trust entered into on March 26, 2009. The initial term of the agreement expired on March 31, 2010 and was thereafter extended from year to year, up to the period ending August 30, 2013. Torch currently provides the Trust via letter agreement the administrative services

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historically provided by Torch to the Trust through December 31, 2013 consistent with past practice and (ii) from December 31, 2013 to April 30, 2014 shall provide services to the Trust in support of any tax correspondence (tax booklet) and tax filings that might be necessary for the year ended December 31, 2013 consistent with past practice and other related services necessary to complete the wind down of the Trust that are also consistent with past practice. Subsequently, the inability of the Trust to hire qualified services providers to assist in the wind down and liquidation of the Trust may have a material adverse effect on the operations of the Trust.

**Unitholders have limited voting rights.**

Voting rights as a Unitholder are more limited than those of stockholders of most public corporations. For example, there is no requirement for annual meetings of Unitholders or an annual or other periodic re-election of the Trustee. Unlike corporations which are generally governed by boards of directors elected by their equity holders, the Trust is administered by a corporate trustee in accordance with the Trust Agreement and other organizational documents. The Trustee has extremely limited discretion in its administration of the Trust as set forth in the Trust s Trust Agreement.

## Item 1B. Unresolved Staff Comments.

The Trust does not currently have any unresolved Securities and Exchange Commission staff comments.

## Item 2. Properties.

**Description of the Underlying Properties**

*Chalkley Field*. The Underlying Properties in the Chalkley Field, located in Cameron Parish, Louisiana, include an average 16.2% working interest (12.1% net revenue interest) in five unitized wells (excluding Infill Wells) producing from the Miogyp B reservoir. As of December 31, 2011, one Infill Well has been drilled on the Underlying Properties in the Chalkley Field. The average working interest and net revenue interest (net to the Trust s 20% interest) for the Chalkley Infill Well is approximately 3.2% and 2.4%. These wells produce from a depth in excess of 14,000 feet. A subsidiary of ExxonMobil Corporation operates the wells.

*Robinson s Bend Field*. On December 13, 2011, the Trust sold all of its Net Profits Interests attributable to the Underlying Properties in the Robinson s Bend Field. See Note 5 of the accompanying financial statements and Item 3. Legal Proceedings for additional information. Prior to such sale, the Underlying Properties in the Robinson s Bend Field included an average 40.2% working interest (30.5% net revenue interest) in 392 wells (excluding Infill Wells) in the Robinson s Bend Field in the Black Warrior Basin of Alabama and 34 Infill Wells. The average working interest and net revenue interest of the Robinson s Bend Infill Wells (net to the Trust s 20% interest) was approximately 6.8% and 5.2%, respectively. All of the wells in the Robinson s Bend Field are operated by a third party, RBP II, a subsidiary of Constellation Energy Partners LLC.

*Cotton Valley Fields*. The Underlying Properties include an average 52.7% working interest (40.4% net revenue interest) in 41 wells (excluding Infill Wells) in four fields that produce from the Upper and Lower Cotton Valley formations in Texas. As of December 31, 2011, 32 Infill Wells have been drilled on the Underlying Properties in the Cotton Valley Fields. The average working interest and net revenue interest of the Cotton Valley Fields Infill Wells (net to the Trust s 20% interest) is approximately 14.0% and 11.3%, respectively. A subsidiary of Torch operates 40 of these wells. The remaining wells are operated by Samson Lone Star Limited Partnership ( Samson ).

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*Austin Chalk Fields*. The Underlying Properties include an average of 16.9% working interest (13.2% net revenue interest) in 59 wells in the Austin Chalk Fields of Central Texas. Production from these fields is derived primarily from the highly fractured Austin Chalk formation using horizontal drilling techniques. A subsidiary of Torch operates two wells in the Austin Chalk Fields. The remaining wells in the Austin Chalk Fields are operated by third parties.

All of the Net Profits Interests have been sold as of August 2013 and the Trustee is in the process of winding down and liquidating the Trust after the affirmative vote of the requisite number of Unitholders. The Trust no longer receives any proceeds from the Net Profits Interests for the Cotton Valley Fields, Austin Chalk Fields and the Chalkley Field as of the effective date of the purchase agreement for those fields (May 1, 2013).

**Oil and Natural Gas Reserves**

The pre-tax future net cash flows, discounted at 10%, attributable to the net proved reserves of the Net Profits Interests was approximately $8.2 million as of December 31, 2011. See Note 8 of the Trust s accompanying financial statements for additional information concerning the net proved reserves of the Net Profits Interests.

**Well Count and Acreage Summary**

The following table shows, as of December 31, 2011, the gross and net interest in oil and natural gas wells for the Underlying Properties:

| | Natural Gas Wells | | Oil Wells | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| Chalkley Field | 6 | 0.8 | | |
| Robinson s Bend Field (a) | | | | |
| Cotton Valley Fields | 73 | 25.4 | | |
| Austin Chalk Fields | 26 | 4.3 | 35 | 5.9 |
| Total | 105 | 30.5 | 35 | 5.9 |

The following table shows the gross and net acreage for the Underlying Properties as of December 31, 2011. A gross acre in the following table refers to the number of acres in which a working interest is burdened by the Trust s Net Profits Interests. The number of net acres is the sum of the fractional ownership of working interests burdened by the Trust s Net Profits Interests in the gross acres expressed as a whole number and percentages thereof. A net acre is deemed to exist when the sum of fractional ownership of working interests in gross acres equals one.

| | Acreage | |
|---|---|---|
| | Gross | Net |
| Chalkley Field | 2,152 | 348 |
| Robinson s Bend Field (a) | | |

| | | |
|---|---|---|
| Cotton Valley Fields | 4,411 | 2,606 |
| Austin Chalk Fields | 22,468 | 3,791 |
| Total | 29,031 | 6,745 |

(a) On December 13, 2011, the Trust sold all of its Net Profits Interests attributable to the Underlying Properties in the Robinson s Bend Field. See Note 5 and Item 3. Legal Proceedings for additional information.

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**Drilling Activity**

The following table sets forth the results of drilling activity for the Underlying Properties during the three years ended December 31, 2011. Gross wells, as it applies to wells in the following table, refers to the number of wells in which a working interest is owned directly by the owners of the Underlying Properties and Infill Wells ( Gross Well ). A net well ( Net Well ) represents the sum of the fractional ownership working interests in the Gross Wells expressed as whole numbers and percentages thereof.

All of the wells shown below represent Infill Wells drilled on the Underlying Properties. The Net Profits Interests entitle the Trust to 20% of Infill Well Net Proceeds which is defined as gross proceeds from the sale of production attributable to Infill Wells less all production, drilling and completion costs of such wells. Infill Well Net Proceeds are calculated by aggregating the proceeds and costs from Infill Wells on a state by state basis.

Development Wells Chalkley Field (a)

| | Gross | | | Net | | |
|---|---|---|---|---|---|---|
| | Productive | Dry Holes | Total | Productive | Dry Holes | Total |
| 2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2009 | 0 | 0 | 0 | 0 | 0 | 0 |

Development Wells Cotton Valley Fields

| | Gross | | | Net | | |
|---|---|---|---|---|---|---|
| | Productive | Dry Holes | Total | Productive | Dry Holes | Total |
| 2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2009 | 0 | 0 | 0 | 0 | 0 | 0 |

Development Wells Austin Chalk Fields

| | Gross | | | Net | | |
|---|---|---|---|---|---|---|
| | Productive | Dry Holes | Total | Productive | Dry Holes | Total |
| 2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2010 | 0 | 1 | 1 | 0 | 0.04 | 0.04 |
| 2009 | 0 | 0 | 0 | 0 | 0 | 0 |

Development Wells Robinson s Bend Field (b)

| | Gross | | | Net | | |
|---|---|---|---|---|---|---|
| | Productive | Dry Holes | Total | Productive | Dry Holes | Total |
| 2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2009 | 0 | 0 | 0 | 0 | 0 | 0 |

(a) In 2007, an Infill Well was drilled in the Chalkley Field for which the Trust has not received cash distributions. As of December 31, 2011, costs and expenses exceeded gross revenues by approximately $2.2 million (before inter