

DORCHESTER MINERALS, L.P.  
Form 10-Q  
August 03, 2017  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC. 20549**

**FORM 10-Q**

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

For the quarterly period ended **June 30, 2017**

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 **000-50175**

**DORCHESTER MINERALS, L.P.**

(Exact name of registrant as specified in its charter)

**Delaware**

**81-0551518**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**3838 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219**

Edgar Filing: DORCHESTER MINERALS, L.P. - Form 10-Q

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(214) 559-0300**

**None**

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.): Yes No

As of August 3, 2017, 32,279,774 common units representing limited partnership interests were outstanding.



**TABLE OF CONTENTS**

<b>DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS</b>	<b>1</b>
<b>PART I – FINANCIAL INFORMATION</b>	<b>1</b>
<b>ITEM 1. FINANCIAL STATEMENTS</b>	<b>1</b>
<b>CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2017 AND DECEMBER 31, 2016 (UNAUDITED)</b>	<b>2</b>
<b>CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)</b>	<b>3</b>
<b>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)</b>	<b>4</b>
<b>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>5</b>
<b>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b>	<b>7</b>
<b>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</b>	<b>11</b>
<b>ITEM 4. CONTROLS AND PROCEDURES</b>	<b>12</b>
<b>PART II – OTHER INFORMATION</b>	<b>12</b>
<b>ITEM 1. LEGAL PROCEEDINGS</b>	<b>12</b>
<b>ITEM 6. EXHIBITS</b>	<b>12</b>
<b>SIGNATURES</b>	<b>13</b>
<b>INDEX TO EXHIBITS</b>	<b>14</b>



**DORCHESTER MINERALS, L.P.**

**(A Delaware Limited Partnership)**

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

Statements included in this report that are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), are forward-looking statements. These statements can be identified by the use of forward-looking terminology including “may,” “believe,” “will,” “expect,” “anticipate,” “estimate,” “continue” or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other “forward-looking” information. In this report, the term “Partnership,” as well as the terms “DMLP,” “us,” “our,” “we,” and “its” are sometimes used as abbreviated references to Dorchester Minerals, L.P. itself or Dorchester Minerals, L.P. and its related entities.

These forward-looking statements are based upon management’s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and, therefore, involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements for a number of important reasons. Examples of such reasons include, but are not limited to, changes in the price or demand for oil and natural gas, changes in the operations on or development of our properties, changes in economic and industry conditions and changes in regulatory requirements (including changes in environmental requirements) and our financial position, business strategy and other plans and objectives for future operations. These and other factors are set forth in our filings with the Securities and Exchange Commission.

You should read these statements carefully because they discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other “forward-looking” information. Before you invest, you should be aware that the occurrence of any of the events described in this report could substantially harm our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common units could decline, and you could lose all or part of your investment.

**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

See attached financial statements on the following pages.

1

---

**DORCHESTER MINERALS, L.P.****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands)****(Unaudited)**

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$12,594	\$8,212
Trade and other receivables	4,542	4,332
Net profits interests receivable - related party	2,682	2,225
Total current assets	19,818	14,769
Other non-current assets	44	19
Property and leasehold improvements - at cost:		
Oil and natural gas properties (full cost method)	363,167	340,563
Accumulated full cost depletion	(291,788)	(288,163)
Total	71,379	52,400
Leasehold improvements	725	625
Accumulated amortization	(625 )	(602 )
Total	100	23
Total assets	\$91,341	\$67,211

**LIABILITIES AND PARTNERSHIP CAPITAL**

Current liabilities:		
Accounts payable and other current liabilities	\$1,657	\$252
Current portion of deferred rent incentive	-	23
Total current liabilities	1,657	275
Deferred rent incentive less current portion	60	-
Total liabilities	1,717	275

Commitments and contingencies (Note 2)



Partnership capital:		
General partner	1,788	1,809
Unitholders	87,836	65,127
Total partnership capital	89,624	66,936
Total liabilities and partnership capital	\$91,341	\$67,211

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

**DORCHESTER MINERALS, L.P.****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED INCOME STATEMENTS****(In Thousands except Income per Unit)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>2016</b>	<b>June 30, 2017</b>	<b>2016</b>
Operating revenues:				
Royalties	\$10,489	\$6,766	\$21,112	\$12,550
Net profits interests	309	1,708	1,969	1,731
Lease bonus	1,726	1,455	1,756	1,644
Other	29	80	443	210
Total operating revenues	12,553	10,009	25,280	16,135
Costs and expenses:				
Operating, including production taxes	1,051	771	2,038	1,278
Depreciation, depletion and amortization	1,893	2,255	3,648	4,491
General and administrative expenses	1,160	1,032	2,623	2,917
Total costs and expenses	4,104	4,058	8,309	8,686
Net income	\$8,449	\$5,951	\$16,971	\$7,449
Allocation of net income:				
General partner	\$330	\$201	\$630	\$261
Unitholders	\$8,119	\$5,750	\$16,341	\$7,188
Net income per common unit (basic and diluted)	\$0.26	\$0.19	\$0.53	\$0.24
Weighted average common units outstanding (000's)	30,693	30,675	30,684	30,675

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

**DORCHESTER MINERALS, L.P.****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(Unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
Net cash provided by operating activities	\$21,280	\$13,420
Cash flows provided by investing activities:		
Cash contributed in acquisition of royalty interests	608	-
Capital expenditures	(40 )	-
Total cash flows provided by investing activities	568	-
Cash flows used in financing activities:		
Distributions paid to general partner and unitholders	(17,466)	(11,034)
Increase in cash and cash equivalents	4,382	2,386
Cash and cash equivalents at beginning of period	8,212	7,136
Cash and cash equivalents at end of period	\$12,594	\$9,522
Non-cash investing and financing activities:		
Fair value of common units issued for acquisition of royalty interests	\$23,183	\$-

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



**DORCHESTER MINERALS, L.P.**

**(A Delaware Limited Partnership)**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1 Basis of Presentation:** Dorchester Minerals, L.P. is a publicly traded Delaware limited partnership that was formed in December 2001, and commenced operations on January 31, 2003. The condensed consolidated financial statements include the accounts of Dorchester Minerals, L.P. and its wholly-owned subsidiaries Dorchester Minerals Oklahoma LP, Dorchester Minerals Oklahoma GP, Inc., Maecenas Minerals LLP, and Dorchester-Maecenas GP LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring adjustments unless indicated otherwise) that are, in the opinion of management, necessary for the fair statement of our financial position and operating results for the interim period. Interim period results are not necessarily indicative of the results for the calendar year. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information. Per-unit information is calculated by dividing the income or loss applicable to holders of our Partnership’s common units by the weighted average number of units outstanding. The Partnership has no potentially dilutive securities and, consequently, basic and dilutive income per unit do not differ. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Partnership’s annual report on Form 10-K for the year ended December 31, 2016.

*Fair Value of Financial Instruments* - The carrying amount of cash and cash equivalents, trade receivables and payables approximates fair value because of the short maturity of those instruments. These estimated fair values may not be representative of actual values of the financial instruments that could have been realized as of quarter close or that will be realized in the future.

**2 Commitments and Contingencies:** The Partnership and Dorchester Minerals Operating LP, a Delaware limited partnership owned directly and indirectly by our general partner, are involved in legal and/or administrative proceedings arising in the ordinary course of their businesses, none of which have predictable outcomes and none of which are believed to have any significant effect on our consolidated financial position, cash flows, or operating results.

*Operating Leases* - We have entered into an operating lease agreement in the ordinary course of our business activities. The third amendment to our office lease was signed on April 17, 2017, for a term of 129 months beginning June 1, 2018. The lease is for our office space at 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas, and now expires in 2029. Under the third amendment to the office lease, monthly rental payments will range from \$25,000 - \$30,000 and the Partnership will receive a tenant improvement allowance of \$650,000. The Partnership recognizes a deferred rent liability for the rent escalations when the amount of straight-line rent exceeds the lease payments, and reduces the deferred rent liability when the lease payments exceed the straight-line rent expense. For the tenant improvement allowance, the Partnership will record a deferred rent liability and will amortize the deferred rent over the lease term as a reduction to rent expense once in use.

**3 Acquisition for Common Units:** On June 30, 2017, pursuant to a Contribution, Exchange and Purchase Agreement with DSD Royalty, LLC, a Texas limited liability company (“DSD”), the Partnership acquired producing and nonproducing royalty and mineral interests located in the Midland Basin in exchange for consideration valued at approximately \$23,183,000, half in cash (the “Cash Consideration”) and half in common units representing limited partner interests in the Partnership (“Common Units”), based on a price of \$14.98 per Common Unit (calculated based on the average closing price of Common Units during the period beginning 15 trading days immediately prior to the closing date and ending two trading days prior to the closing date) (the “DSD Agreement”). Prior to the closing of the DSD Agreement, the Partnership entered into a Participation Agreement with certain officers of the Partnership and entities affiliated with certain officers and directors of the Partnership (the “Participants”), pursuant to which the Partnership agreed to assign an undivided 50% interest in its rights under the DSD Agreement to the Participants in exchange for the Participants’ assumption of the obligation to pay the Cash Consideration on behalf of the Partnership (the “Participation Agreement”). On June 30, 2017, in connection with the closing of the DSD Agreement, the Participants contributed to the Partnership their respective assets received pursuant to the Participation Agreement in exchange for common units of the Partnership based on a price of \$14.98 per Common Unit (calculated in the same manner as the price of Common Units issued pursuant to the DSD Agreement) pursuant to Contribution and Exchange Agreements with the Partnership (the “Participant Contribution Agreements”). In accordance with the transactions contemplated by the DSD Agreement and the Participant Contribution Agreements, the Partnership issued to DSD and the Participants an aggregate of 1,604,343 Common Units pursuant to the Partnership’s registration statements on Form S-4. After the issuance, 6,395,657 Common Units remain available under the Partnership’s registration statements on Form S-4.

**DORCHESTER MINERALS, L.P.****(A Delaware Limited Partnership)**

**4 Distributions to Holders of Common Units:** Unitholder cash distributions per common unit since 2015 have been:

	Per Unit Amount		
	2017	2016	2015
First quarter	\$0.306700	\$0.147417	\$0.306553
Second quarter	\$0.322965	\$0.257977	\$0.167430
Third quarter		\$0.252224	\$0.194234
Fourth quarter		\$0.241475	\$0.199076

Distributions beginning with the second quarter of 2017 were paid on 32,279,774 units; previous distributions set forth above were paid on 30,675,431 units. The second quarter 2017 distribution will be paid on August 10, 2017. Fourth quarter distributions shown above are paid in the first calendar quarter of the following year. Our partnership agreement requires the third quarter cash distribution to be paid by November 14, 2017.

**5 New Accounting Pronouncements:** In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The guidance requires entities to recognize revenue using the following five-step model: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue as the entity satisfies each performance obligation. Adoption of this standard could result in retrospective application, either in the form of recasting all prior periods presented or a cumulative adjustment to equity in the period of adoption. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017.

Our Partnership's revenues are substantially attributable to oil and gas sales. Based on our initial review of our contracts, we believe the timing and presentation of revenues under ASU 2014-09 will be materially consistent with our current revenue recognition policy as described above. The Partnership will continue to monitor specific developments for our industry as it relates to ASU 2014-09.



In February 2016, the FASB issued ASU 2016-02, which requires lessees to record most leases on the balance sheet. Under the new guidance, lease classification as either a finance lease or an operating lease will determine how lease-related revenue and expense are recognized. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has lease commitments of approximately \$3 million that we believe would be subject to capitalization under ASU 2016-02. The lease obligations that will be in place upon adoption of ASU 2016-02 may be significantly different than our current obligations. Accordingly, at this time we cannot estimate the amount that will be capitalized when this standard is adopted.

**DORCHESTER MINERALS, L.P.**

**(A Delaware Limited Partnership)**

**item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion contains forward-looking statements. For a description of limitations inherent in forward-looking statements, see page 1 of this Form 10-Q.

**Overview**

We own producing and nonproducing mineral, royalty, overriding royalty, net profits and leasehold interests. We refer to these interests as the Royalty Properties. We currently own Royalty Properties in 574 counties and parishes in 25 states.

We own net profits overriding royalty interests (referred to as the Net Profits Interests, or "NPIs") in various properties owned by Dorchester Minerals Operating LP, a Delaware limited partnership owned directly and indirectly by our general partner. We refer to Dorchester Minerals Operating LP as the "operating partnership" or "DMOLP." We receive monthly payments equaling 96.97% of the net profits actually realized by the operating partnership from these properties in the preceding month. In the event that costs, including budgeted capital expenditures, exceed revenues on a cash basis in a given month for properties subject to a Net Profits Interest, no payment is made and any deficit is accumulated and carried over and reflected in the following month's calculation of net profit.

Each of the five NPIs have previously had cumulative revenue that exceeded cumulative costs, such excess constituting net proceeds on which NPI payments were determined. In the event an NPI has a deficit of cumulative revenue versus cumulative costs, the deficit will be borne solely by the operating partnership.

Minerals NPI production volumes and prices are within the consolidated financial statement