

TORCH ENERGY ROYALTY TRUST

Form 10-K

April 15, 2005

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004**

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 1-12474

TORCH ENERGY ROYALTY TRUST

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

74-6411424

(I.R.S. Employer Identification No.)

Rodney Square North

1100 North Market Street, Wilmington, Delaware

(Address of Principal Executive Offices)

19890

(Zip Code)

Registrant's telephone number, including area code: (302) 651-8775

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

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

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 .

The aggregate market values of outstanding units of beneficial interest of the registrant held by non-affiliates of the registrant at March 1, 2005 and June 30, 2004 were approximately \$63.0 million and \$50.5 million, respectively.

As of March 1, 2005, 8.6 million units of beneficial interest were outstanding.

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Annual Report on Form 10-K
For the fiscal year ended December 31, 2004

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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 under the Delaware Business Trust Act pursuant to a trust agreement (Trust Agreement) among Wilmington Trust Company, as trustee (Trustee), Torch Royalty Company (TRC), Velasco Gas Company Ltd. (Velasco) and Torch as grantor. TRC and Velasco created net profits interests (Net Profits Interests) which burden certain oil and gas properties (Underlying Properties) and conveyed such interests to Torch. 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. Pursuant to an administrative services agreement (Administrative Services Agreement), Torch provides accounting, bookkeeping, informational and other services related to the Net Profits Interest.

The Trust will terminate upon the first to occur of (i) an affirmative vote of the holders of not less than 66-2/3% of the outstanding Units to liquidate the Trust; (ii) such time as the ratio of the cash amounts received by the Trust from the Net Profits Interests to administrative costs of the Trust is less than 1.2 to 1.0 for three consecutive quarters; (iii) March 1 of any year if it is determined, based on a reserve report as of December 31 of the prior year, that the present value of estimated pre-tax future net cash flows, discounted at 10%, of proved reserves attributable to the Net Profits Interests is equal to or less than \$25.0 million; or (iv) December 31, 2012. The Trust has not terminated as none of the aforementioned events have occurred. (See Termination of Trust disclosure on page 8 for additional information.) Upon termination of the Trust, the remaining assets of the Trust will be sold and the proceeds therefrom (after expenses) will be distributed to the unitholders (Unitholders). The sole purpose of the Trust is to hold the Net Profits Interests, to receive payments from TRC and Velasco, and to make payments to Unitholders. The Trust does not conduct any business activity and has no employees.

TRC and Velasco contracted to sell the oil and gas production from the Underlying Properties to Torch Energy Marketing Inc. (TEMI), a subsidiary of Torch, under a purchase contract (Purchase Contract). TRC and Velasco receive payments reflecting the proceeds of oil and gas sold and aggregate these payments, deduct applicable costs and make payments to the Trustee each quarter for the amounts due to the Trust. Unitholders receive quarterly cash distributions relating to oil and gas produced and sold from the Underlying Properties. 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.

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Torch Energy Royalty Trust

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.

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 TRC and Velasco plus interest thereon. The complete definitions of Net Proceeds are set forth in the Conveyances.

Marketing Arrangements

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

The Purchase Contract also provides that TEMI pay a minimum price (Minimum Price) for gas production. The Minimum Price is adjusted annually for inflation and was \$1.73, \$1.71 and \$1.71 per MMBtu for 2004, 2003 and 2002, respectively. When TEMI pays a purchase price based on the Minimum Price it receives price credits (Price Credits), equal to the difference between the Index Price and the Minimum Price, that it is entitled to deduct in determining the purchase price when the Index Price for gas exceeds the Minimum Price. In addition, if the Index Price for gas exceeds the sharing price, which is adjusted annually for inflation (Sharing Price), TEMI is entitled to deduct 50% of such excess (Price Differential) in determining the purchase price. The Sharing Price was \$2.13, \$2.12 and \$2.12 per MMBtu in 2004, 2003 and 2002, respectively. TEMI has an annual option to discontinue the Minimum Price commitment. However, if TEMI discontinues the Minimum Price commitment, it will no longer be entitled to deduct the Price Differential in calculating the purchase price and will forfeit all accrued Price Credits. TEMI has not exercised its option 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 gas processing or treating facilities.

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Gathering, Treating and Transportation Arrangements

The Purchase Contract entitles TEMI to deduct certain gas gathering, treating and transportation fees in calculating the purchase price for gas in the Robinson s Bend, Austin Chalk and Cotton Valley Fields. The amounts that may be deducted in calculating the purchase price for such gas are set forth in the Purchase Contract and are not affected by the actual costs incurred by TEMI to gather, treat and transport gas. For the Robinson s Bend Field, TEMI is entitled to deduct a gathering, treating and transportation fee of \$0.260 per MMBtu adjusted for inflation (\$0.292, \$0.289 and \$0.289 per MMBtu for 2004, 2003, and 2002, respectively), plus fuel usage equal to 5% of revenues, payable to Bahia Gas Gathering, Ltd. (Bahia), an affiliate of Torch, pursuant to a gas gathering agreement. Additionally, a fee of \$.05 per MMBtu, representing a gathering fee payable to a non-affiliate of Torch, is deducted in calculating the purchase price for production from 68 of the 394 wells in the Robinson s Bend Field. TEMI deducts \$0.38 per MMBtu plus 17% of revenues in calculating the purchase price for production from the Austin Chalk Fields as a fee to gather, treat and transport gas production. TEMI deducts from the purchase price for gas for production attributable to certain wells in the Cotton Valley Fields a transportation fee of \$0.045 per MMBtu. During the years ended December 31, 2004, 2003 and 2002, gathering, treating and transportation fees deducted from the Net Proceeds calculations pertaining to production during the twelve months ended September 30, 2004, 2003 and 2002 in the Robinson s Bend, Austin Chalk and Cotton Valley Fields, totaled \$1.4 million, \$1.3 million and \$1.0 million for 2004, 2003 and 2002, respectively. 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 gas produced and sold from wells (other than infill wells) on the Underlying Properties. 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 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, 2004, 2003 and 2002 and is not expected to do so in the future.

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 well 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 Website address is www.torchroyalty.com. The Trust provides access through this website to its annual report on Form 10-K, quarterly reports on Form 10-Q and any current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after these reports are filed or furnished electronically with the Securities and Exchange Commission.

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RISK FACTORS

Volatility of Oil and Gas Prices

The Trust's cash distributions, operating results and the value of the Net Profits Interest are substantially dependent on prices of gas and, to a lesser extent, oil. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of Torch. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the risk of war and terrorist actions, the foreign supply of oil and gas, the price of foreign imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Trust's revenues, cash distributions and value of the Net Profits Interests.

Uncertainty of Estimates of Reserves and Future Net Cash Flows

Estimates of economically recoverable oil and gas 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. 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. 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. No impairment loss was recognized during the years ended December 31, 2004, 2003 and 2002.

Operating Risks

Cash payments to the Trust are derived from the production and sale of oil and gas, which operations are subject to risk inherent in such activities, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution and other environmental risks. These risks could result in substantial losses which are deducted in calculating the Net Proceeds paid to the Trust due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations.

Competition and Markets

The Trust's distributions are dependent on gas production and prices and, to a lesser extent, oil production and prices from the Underlying Properties. The gas industry is highly competitive in all of its phases. In marketing production from the Underlying Properties, TEMI encounters competition from major gas companies, independent gas concerns, and individual producers and operators. Many of these competitors have greater financial and other resources than TEMI. Competition may also be presented by alternative fuel sources, including heating oil and other fossil fuels.

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Market prices are typically volatile as a result of uncertainties caused by world events. Demand for natural gas production has historically been seasonal in nature, and prices for gas fluctuate accordingly. Such price fluctuations will directly impact Trust distributions, estimated reserves attributable to the Trust and estimated future net revenues from Trust reserves.

Regulation of Natural Gas

The production, transportation and sale of natural gas from the Underlying Properties are subject to Federal and state governmental regulation, including regulation of tariffs charged by pipelines, taxes, the prevention of waste, the conservation of gas, pollution controls and various other matters. The United States has governmental power to impose pollution control measures.

Federal Regulation

The Underlying Properties will be subject to the jurisdiction of FERC with respect to various aspects of gas operations including the marketing and production of gas. The Natural Gas Act and the Natural Gas Policy Act (collectively, the Acts) mandate Federal regulation of interstate transportation of gas. The Natural Gas Wellhead Decontrol Act of 1989 terminated wellhead price controls on all domestic 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 thereunder. 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 gas under new and existing contracts. Accordingly, Torch is unable to predict the impact of any such government regulation.

In the past, Congress has been very active in the area of gas regulation. Recently enacted legislation repeals incremental pricing requirements and 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.

State Regulation

Many state jurisdictions have at times imposed limitations on the production of gas by restricting the rate of flow for 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 gas, including requirements for obtaining drilling permits, the method of developing new fields, provisions for the unitization or pooling of gas properties, the spacing, operation, plugging and abandonment of wells and the prevention of waste of gas resources. The rate of production may be regulated and the maximum daily production allowable from gas wells may be established on a market demand or conservation basis or both.

Environmental Regulation

Activities on the Underlying Properties are subject to existing Federal, state and local laws, rules and regulations relating to the protection of public health and welfare, safety and the environment, including, without limitation, laws regulating the release of materials into the environment and laws protecting areas of particular environmental concern. It is anticipated that, absent the occurrence of an unanticipated event, compliance with these laws will not have a material adverse effect upon the Trust or Unitholders. Torch has informed the Trust that it cannot predict what effect future regulation or legislation,

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enforcement policies thereunder, and claims for damages to property, employees, other persons and the environment resulting from operations on the Underlying Properties could have on the Trust or Unitholders. However, pursuant to the terms of the Conveyances, any costs or expenses incurred by TRC or Velasco in connection with environmental liabilities, to the extent arising out of or relating to activities occurring on, or in connection with, or conditions existing on or under, the Underlying Properties before October 1, 1993, will be borne by TRC or Velasco and not the Trust and will not be deducted in calculating Net Proceeds and will, therefore, not reduce amounts payable to the Trust.

Net Proceeds Attributable to the Robinson s Bend Field Have Declined Significantly.

Prior to December 31, 2002, lease operating expenses were not deducted in calculating the Net Proceeds payable to the Trust from the Robinson s Bend Field. In accordance with the provisions of the net profits interest conveyance covering the Robinson s Bend Field, commencing with the second quarter 2003 distribution (pertaining to the quarter ended March 31, 2003 production) lease operating expenses and capital expenditures have been deducted in calculating Net Proceeds. Commencing July 1, 2003, the Trust ceased receiving payments with respect to the Robinson s Bend Field. Since July 1, 2003, Robinson s Bend Field costs and expenses (including interest) exceeded net revenues by approximately \$446,000. The Trust will receive no payments with respect to the Robinson s Bend Field until future proceeds exceed the sum of costs and expenses and the cumulative Robinson s Bend Field costs and expenses including interest. Torch does not anticipate that the Net Proceeds attributable to the Robinson s Bend Field, if any, will be significant in the future.

Termination of the Trust

The Trust will terminate on March 1 of any year if it is determined that the pre-tax future net cash flows, discounted at 10%, attributable to the estimated net proved reserves of the Net Profits Interests on the preceding December 31 are less than \$25.0 million. The pre-tax future net cash flows, discounted at 10%, attributable to estimated net proved reserves of the Net Profits Interests as of December 31, 2004 was approximately \$39.0 million. Such reserve report was prepared pursuant to Securities and Exchange Commission guidelines and utilized an unescalated Purchase Contract price (after gathering, treating and transportation fees) of \$4.18 per Mcf. The computation of the \$4.18 per Mcf Purchase Contract price was based on an unescalated Henry Hub spot price for natural gas on December 31, 2004 of \$6.18 per MMBtu. The December 31, 2004 reserve value was greater than \$25.0 million. Therefore, the Trust did not terminate on March 1, 2005. Based on oil and gas reserve estimates at December 31, 2004 prepared by independent reserve engineers, Torch projects that unless the Henry Hub spot price for natural gas on December 31, 2005 exceeds approximately \$4.50 per MMBtu, the Trust will terminate on March 1, 2006. Upon termination of the Trust, the Trustee is required to sell the Net Profits Interests. No assurances can be given that the Trustee will be able to sell the Net Profits Interests, or the amounts that will be distributed to Unitholders following such a sale. Such distributions could be below the market price of the Units.

Financial Condition of Torch and its Subsidiaries

Torch is the administrative service provider to the Trust and a party to that certain Administrative Services Agreement whereby Torch provides certain administrative and related services to the Trust. See Item 13 Administrative Services Agreement. TEMI, a subsidiary of Torch, is a party to the Purchase Contract. Torch was the maker of a Senior Subordinated Note payable-affiliate of \$23.1 million which was due on September 30, 2004. The note was not repaid at maturity, and effective January 1, 2005, the Senior Subordinated Note payable was restructured into a \$23.0 million promissory note due May 1, 2008. Accordingly, Torch classified \$21.3 million of the note payable to long-term at December 31, 2004.

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Torch Energy Royalty Trust

Management of Torch believes that Torch has adequate financial resources to fund Torch's cash requirements through December 31, 2005. The Consolidated Financial Statements of Torch are provided as an exhibit to the Annual Report on Form 10-K of the Trust while the Minimum Price commitment (which relates to the Purchase Contract between the Trust and Torch) is in full force and effect. The Audit Report containing the Consolidated Financial Statements has not been completed due to delay in completion of the annual audit of P2 Energy Solutions, Inc. (a joint venture and a significant equity investee of Torch accounted for under the equity method of accounting). This Annual Report on Form 10-K for the Trust will be amended to include Torch's financial statements when the underlying annual report from P2ES becomes available. The ability of Torch or TEMI to meet its obligations and to continue to be a going concern is a significant factor to the Trust.

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 four unitized wells producing from the Miogyp B reservoir. The wells produce from a depth in excess of 14,000 feet. A subsidiary of ExxonMobil Corporation operates the unitized wells.

Robinson's Bend Field. The Underlying Properties include an average 42.7% working interest (30.2% net revenue interest) in 394 wells in the Robinson's Bend Field in the Black Warrior Basin of Alabama. All of the wells in the Robinson's Bend Field are operated by Everlast Energy LLC.

Cotton Valley Fields. The Underlying Properties include an average 31.5% working interest (24.5% net revenue interest) in 60 wells in four fields that produce from the Upper and Lower Cotton Valley formations in Texas. All of the wells in the Cotton Valley Fields are operated by a subsidiary of Torch.

Austin Chalk Fields. The Underlying Properties include an average of 16.8% working interest (13.3% net revenue interest) in 79 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 three wells in the Austin Chalk Fields. The remaining wells in the Austin Chalk Fields are operated by third parties.

Oil and Gas Reserves

The pre-tax future net cash flows, discounted at 10%, attributable to the net proved reserves of the Net Profits Interests attributable to the Chalkley Field, Cotton Valley Fields and Austin Chalk Fields was approximately \$39.0 million as of December 31, 2004. Future cash flows attributable to the Robinson's Bend Field's Net Profits Interest were estimated to have no value to the Trust as of December 31, 2004. See Note 6 of the audited financial statements for additional information concerning the net proved reserves of the Net Profits Interests.

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The following table shows, as of December 31, 2004, the gross and net interest in oil and gas wells for the Underlying Properties:

	Gas Wells		Oil Wells	
	Gross	Net	Gross	Net
Chalkley Field	4	.6		
Robinson s Bend Field	394	168.3		
Cotton Valley Fields	60	22.6		
Austin Chalk Fields	34	6.0	45	7.7
Total	492	197.50	45	7.7

The following table shows the gross and net acreage for the Underlying Properties as of December 31, 2004. A gross acre in the following table refers to the number of acres in which a working interest is owned directly by the Trust. The number of net acres is the sum of the fractional ownership of working interests owned directly by the Trust 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	33,404	14,288
Cotton Valley Fields	4,411	2,608
Austin Chalk Fields	29,343	5,263
Total	69,310	22,507

Drilling Activity

The following table sets forth the results of drilling activity for the Underlying Properties during the three years ended December 31, 2004. 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. Such wells are operated by Samson Lone Star Limited Partnership (Samson). The Net Profits Interest 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					
	Productive	Gross Dry Holes	Total	Productive	Net Dry Holes	Total
2004	0	0	0	0	0	0
2003	1	0	1	.2	0	.2
2002	5	0	5	.8	0	.8

There was no other drilling activity on the Underlying Properties during the three years ended December 31, 2004.

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The following table sets forth, for the Underlying Properties, the net production volumes of gas and oil, the weighted average lifting cost and taxes per Mcfe deducted in calculating Net Proceeds and the weighted average sales price per Mcf of gas and Bbl of oil for production attributable to cash distributions received by Unitholders during years ended December 31, 2004, 2003 and 2002 (derived from production during the twelve months ended September 30, 2004, 2003 and 2002, respectively).

	Chalkley, Cotton Valley And Austin Chalk Fields		
	2004	2003	2002
Production:			
Gas (MMcf)	2,496	2,835	3,121
Oil (Mbbbl)	25	24	26
Weighted average lifting cost per Mcfe	\$.77	\$.53	\$.45
Weighted average taxes on production per Mcfe	\$.30	\$.24	\$.20
Weighted average sales price (b)			
Gas (\$/Mcf)	\$ 3.72	\$ 3.64	\$ 2.41
Oil (\$/Bbl)	\$ 30.58	\$ 24.00	\$ 18.56
	Robinson s Bend Field		
	2004	2003	2002
Production:			
Gas (MMcf)	1,927	2,014	2,105
Oil (Mbbbl)			
Weighted average lifting cost per Mcfe	\$ 3.04(a)	\$ 2.75(a)	\$ 2.69(a)
Weighted average taxes on production per Mcfe	\$.27	\$.25	\$.10
Weighted average sales price (b)			
Gas (\$/Mcf)	\$ 3.25	\$ 3.12	\$ 1.99
Oil (\$/Bbl)	\$	\$	\$

- (a) Prior to December 31, 2002, lease operating expenses were not deducted in calculating the Net Proceeds payable to the Trust from the Robinson s Bend Field. Commencing with the second quarter of 2003 distribution (pertaining to the quarter ended March 31, 2003 production) lease operating expenses and capital expenditures were deducted in calculating Net Proceeds in the Robinson s Bend Field.
- (b) Average sales prices are reflective of purchase prices paid by TEMI, pursuant to the Purchase Contract, less certain gathering, treating and transportation charges.

Item 3. Legal Proceedings

There are no pending legal proceedings, as of the date of this filing, to which the Trust is a party.

Item 4. Submission of Matters to a Vote of Unitholders

During the year ended December 31, 2004, no matter was submitted to the Unitholders for a vote.

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The Units are listed and traded on the New York Stock Exchange under the symbol TRU. At March 1, 2005, there were 8,600,000 Units outstanding and approximately 427 Unitholders of record. The following table sets forth, for the periods indicated, the high and low sales prices per Unit on the New York Stock Exchange (NYSE) and the amount of quarterly cash distributions per Unit made by the Trust:

	High	Low	Cash Distributions
Quarter ended March 31, 2003	\$ 5.59	\$ 3.89	\$.31
Quarter ended June 30, 2003	\$ 7.40	\$ 4.64	\$.28
Quarter ended September 30, 2003	\$ 9.29	\$ 7.00	\$.20
Quarter ended December 31, 2003	\$ 8.03	\$ 5.62	\$.14
Quarter ended March 31, 2004	\$ 7.10	\$ 5.68	\$.15
Quarter ended June 30, 2004	\$ 7.58	\$ 5.16	\$.17
Quarter ended September 30, 2004	\$ 6.70	\$ 5.70	\$.19
Quarter ended December 31, 2004	\$ 7.75	\$ 6.23	\$.16

On March 1, 2005, the high and low sales price per unit on the NYSE was \$7.48 and \$7.28, respectively.

Item 6. Selected Financial Data (In thousands, except per Unit amounts)

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Net profits income	\$ 6,161	\$ 8,969	\$ 9,357	\$ 16,843	\$ 13,243
Distributable income	\$ 5,657	\$ 8,036	\$ 8,616	\$ 16,181	\$ 12,674
Distributions declared	\$ 5,728	\$ 7,989	\$ 8,652	\$ 16,211	\$ 12,668
Distributable income per Unit	\$ 0.66	\$ 0.93	\$ 1.00	\$ 1.88	\$ 1.47
Distributions per Unit	\$ 0.67	\$ 0.93	\$ 1.01	\$ 1.89	\$ 1.47
Total assets (at end of period)	\$ 23,801	\$ 26,458	\$ 31,265	\$ 36,696	\$ 44,941

Distributable income of the Trust consists of the excess of net profits income plus interest income less general and administrative expenses of the Trust. The Trust recognizes net profits income during the period in which amounts are received by the Trust.

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

Discussion of Years Ended December 31, 2004, 2003, and 2002

Because a modified cash basis of accounting is utilized by the Trust, Net Proceeds attributable to the Underlying Properties for the years ended December 31, 2004, 2003 and 2002 are derived from actual oil and gas production from October 1, 2003 through September 30, 2004, October 1, 2002 through September 30, 2003 and October 1, 2001 through September 30, 2002, respectively. The following tables

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set forth oil and gas sales attributable to the Underlying Properties during the three years ended December 31, 2004.

	Bbls of Oil		
	2004	2003	2002
Chalkley Field	6,756	7,887	9,494
Robinson s Bend Field			
Cotton Valley Fields	2,077	3,532	3,413
Austin Chalk Fields	16,574	12,683	12,737
Total	25,407	24,102	25,644

	Mcf of Gas		
	2004	2003	2002
Chalkley Field	1,514,308	1,750,133	2,045,016
Robinson s Bend Field	1,926,899	2,013,653	2,104,869
Cotton Valley Fields	836,987	1,004,949	1,045,196
Austin Chalk Fields	144,270	79,514	30,745
Total	4,422,464	4,848,249	5,225,826

For the year ended December 31, 2004, net profits income was \$6.2 million, as compared to \$9.0 million and \$9.4 million for the same periods in 2003 and 2002, respectively. The decrease in net profits income during 2004 as compared to 2003 is primarily due to the Trust receiving no payments with respect to the Robinson s Bend Field during 2004 in addition to increased lease operating expenses and capital expenditures in 2004 as compared to 2003. The decrease in net profits income during 2003 as compared to 2002 is due to the Trust receiving no payments with respect to the Robinson s Bend Field during the six months ended December 31, 2003, which was partially offset by higher average oil and gas prices paid to the Trust in 2003.

Commencing with the second quarter of 2003 distribution (pertaining to the quarter ended March 31, 2003 production) lease operating expenses and capital expenditures have been deducted in calculating Robinson s Bend Net Proceeds. The Trust received approximately \$1.3 million and \$3.8 million in 2003 and 2002, respectively, for payments for distributions to Unitholders with respect to the Robinson s Bend Field. The Trust received no payments for distributions to Unitholders with respect to the Robinson s Bend Field during the six months ended December 31, 2003 and during the year ended December 31, 2004. The Trust will receive no payments for distributions to Unitholders with respect to the Robinson s Bend Field until future proceeds exceed the sum of future costs and expenses and the cumulative excess of such costs and expenses including interest (Robinson s Bend Field Cumulative Deficit). As of December 31, 2004, the Robinson s Bend Field Cumulative Deficit was approximately \$446,000. The Trust and Torch do not anticipate that there will be any Net Proceeds attributable to the Robinson s Bend Field in the future.

Gas production attributable to the Underlying Properties in the Chalkley, Cotton Valley and Austin Chalk Fields was 2,495,565 Mcf, 2,834,596 Mcf and 3,120,957 Mcf in 2004, 2003 and 2002, respectively. Gas production attributable

to the Underlying Properties in the Robinson s Bend Field was 1,926,899 Mcf, 2,013,653 Mcf and 2,104,869 Mcf in 2004, 2003 and 2002, respectively. Gas production decreased during each of the years ended December 31, 2004 as a result of normal production declines. Oil production attributable to the Underlying Properties for the year ended December 31, 2004 was 25,407 Bbls as compared to 24,102 Bbls and 25,644 Bbls for the same periods in 2003 and 2002, respectively.

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The average price used to calculate Net Proceeds for gas, before gathering, treating and transportation deductions, during the year ended December 31, 2004 was \$3.68 per MMBtu as compared to \$3.56 and \$2.37 per MMBtu for the years ended December 31, 2003 and 2002, respectively. The average price used to calculate Net Proceeds for oil during the years ended December 31, 2004, 2003 and 2002 was \$30.58, \$24.00 and \$18.56 per Bbl, respectively. When TEMI pays a purchase price for gas based on the Minimum Price, TEMI receives Price Credits which it is entitled to deduct in determining the purchase price when the Index Price for gas exceeds the Minimum Price. As of December 31, 2004, TEMI had no outstanding Price Credits. No Price Credits were deducted in calculating the purchase price related to distributions during the three years ended December 31, 2004.

Additionally, if the Index Price for gas exceeds \$2.10 per MMBtu, adjusted annually for inflation (\$2.13 per MMBtu for 2004 and \$2.12 per MMBtu for 2003 and 2002), TEMI is entitled to deduct 50% of such excess in calculating the purchase price. Such price sharing arrangement reduced Net Proceeds during the years ended December 31, 2004, 2003, and 2002 by \$6.8 million, \$6.9 million and \$1.6 million, respectively.

During the year ended December 31, 2004, the Trust was distributed approximately \$443,000 of Infill Well Net Proceeds pertaining to sales during the six months ended June 30, 2004. Such Infill Wells are located in the Cotton Valley Fields and are operated by Samson. The Trust did not receive any proceeds pertaining to such wells during the years ended December 31, 2003 and December 31, 2002 as the Infill Wells' costs and expenses exceeded gross revenues prior to January 1, 2004.

Lease operating expenses and capital expenditures attributable to the Underlying Properties in the Chalkley, Cotton Valley and Austin Chalk Fields deducted in calculating distributions during the years ended December 31, 2004, 2003 and 2002 totaled \$2.8 million, \$2.1 million and \$1.5 million, respectively. The increase in costs and expenses during 2004 of \$2.8 million as compared to costs and expenses of \$2.1 million for 2003 is mainly due to workovers performed in 2004 on certain wells in the Austin Chalk Fields. Higher insurance expense and increased lease operating expenses in the Chalkley Field during 2004 also contributed to the increase in costs and expenses in 2004. The increase in costs and expenses for 2003 of \$2.1 million as compared to costs and expenses of \$1.5 million for 2002 is mainly due to capital expenditures incurred in 2003 in connection with the re-drill of a well in the Austin Chalk Field.

With respect to the Robinsons Bend Field, lease operating expenses and capital expenditures were not deducted in calculating the Net Proceeds payable to the Trust from the Robinsons Bend Field prior to January 1, 2003. Lease operating expenses and capital expenditures of \$6.0 million and \$4.6 million were deducted in calculating Net Proceeds for the year ended December 31, 2004 and December 31, 2003, respectively. No lease operating expenses and capital expenditures were deducted in calculating Net Proceeds payable to the Trust from the Robinsons Bend Field in 2002.

General and administrative expenses during the years ended December 31, 2004, 2003 and 2002 amounted to \$0.9 million, \$0.9 million and \$0.7 million, respectively. These expenses primarily relate to administrative services provided by Torch and the Trustee, and legal fees.

For the year ended December 31, 2004, distributable income was \$5.7 million, or \$0.66 per Unit, as compared to \$8.0 million, or \$0.93 per Unit, and \$8.6 million, or \$1.00 per Unit, for the same periods in 2003 and 2002, respectively. Total cash distributions of \$5.7 million, or \$0.67 per Unit, were made during the year ended December 31, 2004 as compared to \$8.0 million, or \$0.93 per Unit, and \$8.7 million, or \$1.01 per Unit, for the same periods in 2003 and 2002, respectively.

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Net profits received by the Trust during the years ended December 31, 2004, 2003 and 2002, derived from production sold during the twelve months ended September 30, 2004, 2003 and 2002, respectively, was computed as shown in the following table (in thousands):

	Year Ended December 31,								
	2004			2003			2002		
	Chalkley, Cotton ' Valley and Austin Chalk Fields	Robinson s Bend Field	Total	Chalkley, Cotton Valley and Austin Chalk Fields	Robinson s Bend Field	Total	Chalkley, Cotton Valley and Austin Chalk Fields	Robinson s Bend Field	Total
Oil and gas revenues	\$ 10,053	\$ 6,268		\$ 10,892	\$ 6,283		\$ 7,989	\$ 4,182	
Direct operating expenses:									
Lease operating expenses (including property tax)	2,035	5,852(a)		1,571	4,181(a)		1,464	(a)	
Severance tax	782	517		717	504		640	215	