PERMIAN BASIN ROYALTY TRUST
Form 10-Q
November 02, 2009

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

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period ended September 30, 2009

o **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 1-8033
PERMIAN BASIN ROYALTY TRUST
(Exact Name of Registrant as Specified in the Permian Basin Royalty Trust Indenture)

Texas	75-6280532
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

U.S. Trust, Bank of America
Private Wealth Management
Trust Department
901 Main Street
Dallas, Texas 75202
(Address of Principal Executive Offices; Zip Code)
(214) 209-2400
(Registrant s Telephone Number, Including Area Code)

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

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 o No o

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

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

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

Number of Units of beneficial interest of the Trust outstanding at November 2, 2009: 46,608,796.

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PERMIAN BASIN ROYALTY TRUST

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The condensed financial statements included herein have been prepared by Bank of America, N.A. as Trustee for the Permian Basin Royalty Trust, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to such rules and regulations, although the Trustee believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements and notes thereto be read in conjunction with the financial statements and the notes thereto included in the Trust s latest annual report on Form 10-K. In the opinion of the Trustee, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the assets, liabilities and trust corpus of the Permian Basin Royalty Trust at September 30, 2009, the distributable income for the three-month and nine-month periods ended September 30, 2009 and 2008 and the changes in trust corpus for the nine-month periods ended September 30, 2009 and 2008 have been included. The distributable income for such interim periods is not necessarily indicative of the distributable income for the full year.

Deloitte & Touche LLP, an independent registered public accounting firm, has made a limited review of the condensed financial statements as of September 30, 2009 and for the three-month and nine-month periods ended September 30, 2009 and 2008 as stated in their report included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Unit Holders of Permian Basin Royalty Trust and
Bank of America, N.A., Trustee
Dallas, Texas

We have reviewed the accompanying condensed statement of assets, liabilities and trust corpus of Permian Basin Royalty Trust as of September 30, 2009, the related condensed statements of distributable income for the three-month and nine-month periods ended September 30, 2009 and 2008 and changes in trust corpus for the nine-month periods ended September 30, 2009 and 2008. These condensed financial statements are the responsibility of the Trustee.

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

As described in Note 1 to the condensed financial statements, these condensed financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets, liabilities and trust corpus of Permian Basin Royalty Trust as of December 31, 2008, and the related statements of distributable income and changes in trust corpus for the year then ended (not presented herein); and in our report dated March 2, 2009, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed statement of assets, liabilities and trust corpus as of December 31, 2008, is fairly stated, in all material respects, in relation to the statement of assets, liabilities and trust corpus from which it has been derived.

/s/ Deloitte & Touche LLP
Dallas, Texas
November 2, 2009

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PERMIAN BASIN ROYALTY TRUST
CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and short-term investments	$ 3,158,404	$ 5,147,216
Net overriding royalty interests in producing oil and gas properties (net of accumulated amortization of $9,868,273 and $9,804,423 at September 30, 2009 and December 31, 2008, respectively)	1,106,943	$ 1,170,793
TOTAL ASSETS	$ 4,265,347	$ 6,318,009
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit holders	$ 3,158,404	$ 5,147,216
Commitments and contingencies		
Trust corpus 46,608,796 Units of beneficial interest authorized and outstanding	1,106,943	1,170,793
TOTAL LIABILITIES AND TRUST CORPUS	$ 4,265,347	$ 6,318,009

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

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PERMIAN BASIN ROYALTY TRUST
CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	THREE MONTHS ENDED September 30		NINE MONTHS ENDED September 30	
	2009	2008	2009	2008
Royalty income	$ 10,469,008	$ 35,552,084	$ 24,907,635	$ 89,237,008
Interest income	335	20,118	3,017	75,332
	10,469,343	35,572,202	24,910,652	89,312,340
General and administrative expenditures	(135,642)	(134,748)	(1,065,614)	(848,993)
Distributable income	$ 10,333,701	$ 35,437,454	$ 23,845,038	$ 88,463,347
Distributable income per Unit (46,608,796 Units)	$ .221711	$ .760317	$ .511600	$ 1.897997

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

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PERMIAN BASIN ROYALTY TRUST
CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

	NINE MONTHS ENDED September 30	
	2009	2008
Trust corpus, beginning of period	$ 1,170,793	$ 1,293,935
Amortization of net overriding royalty interests	(63,850)	(95,734)
Distributable income	23,845,038	88,463,347
Distributions declared	(23,845,038)	(88,463,347)
Total trust corpus, end of period	$ 1,106,943	$ 1,198201
Distributions per Unit	$ .511600	$ 1.897997

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

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PERMIAN BASIN ROYALTY TRUST
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
1. BASIS OF ACCOUNTING

The Permian Basin Royalty Trust (Trust) was established as of November 1, 1980. The net overriding royalties conveyed to the Trust include: (1) a 75% net overriding royalty carved out of Southland Royalty Company s fee mineral interests in the Waddell Ranch in Crane County, Texas (the Waddell Ranch properties); and (2) a 95% net overriding royalty carved out of Southland Royalty Company s major producing royalty interests in Texas (the Texas Royalty properties). The net overriding royalty for the Texas Royalty properties is subject to the provisions of the lease agreements under which such royalties were created. The financial statements of the Trust are prepared on the following basis:

Royalty income recorded for a month is the amount computed and paid to Bank of America, N.A. (Trustee) as Trustee for the Trust by the interest owners: Burlington Resources Oil & Gas Company LP (BROG), a subsidiary of ConocoPhillips for the Waddell Ranch properties and Riverhill Energy Corporation (Riverhill Energy), formerly a wholly owned subsidiary of Riverhill Capital Corporation (Riverhill Capital) and formerly an affiliate of Coastal Management Corporation (CMC), for the Texas Royalty properties. Schlumberger Technology Corporation (STC) currently conducts all field, technical and accounting operations on behalf of BROG with regard to the Waddell Ranch properties. Riverhill Energy currently conducts the accounting operations for the Texas Royalty properties. Royalty income consists of the amounts received by the owners of the interest burdened by the net overriding royalty interests (Royalties) from the sale of production less accrued production costs, development and drilling costs, applicable taxes, operating charges, and other costs and deductions multiplied by 75% in the case of the Waddell Ranch properties and 95% in the case of the Texas Royalty properties.

As was previously reported, in February 1997, BROG sold its interest in the Texas Royalty properties to Riverhill Energy.

The Trustee has been advised that in the first quarter of 1998, STC acquired all of the shares of stock of Riverhill Capital. Prior to such acquisition by STC, CMC and Riverhill Energy were wholly owned subsidiaries of Riverhill Capital. The Trustee has further been advised that in connection with STC s acquisition of Riverhill Capital, the shareholders of Riverhill Capital acquired ownership of all of the shares of stock of Riverhill Energy. Thus, the ownership in the Texas Royalty properties referenced above remained in Riverhill Energy, the stock ownership of which was acquired by the former shareholders of Riverhill Capital.

In 2007 the Bank of America private wealth management group officially became known as U.S. Trust, Bank of America Private Wealth Management. The legal entity that serves as Trustee of the Trust did not change, and references in this

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Form 10-Q to U.S. Trust, Bank of America Private Wealth Management shall describe the legal entity Bank of America, N.A.

Trust expenses recorded are based on liabilities paid and cash reserves established out of cash received or borrowed funds for liabilities and contingencies.

Distributions to Unit holders are recorded when declared by the Trustee.

Royalty income is computed separately for each of the conveyances under which the Royalties were conveyed to the Trust. If monthly costs exceed revenues for any conveyance (excess costs), such excess costs cannot reduce royalty income from other conveyances, but is carried forward with accrued interest to be recovered from future net proceeds of that conveyance.

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) because revenues are not accrued in the month of production and certain cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP. Amortization of the Royalties calculated on a unit-of-production basis is charged directly to trust corpus. This comprehensive basis of accounting other than GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting period. Actual results may differ from such estimates.

New Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance which establishes accounting and reporting standards for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued and requires the disclosure of the date through which a company has evaluated subsequent events. This guidance was effective for the Trust for the period ended June 30, 2009 and the adoption did not have an impact on the Trust s financial statements. Refer to footnote 4 for required disclosures.

In June 2009, the FASB issued guidance which changes the way entities account for securitizations. The new standard is effective for the Trust on January 1, 2010 and the adoption is not expected to have a significant impact on the Trust s financial statements.

In June 2009, the FASB issued guidance which changes the way entities account for special-purpose entities. The new standard is effective for the Trust on January 1, 2010 and the adoption is not expected to have a significant impact on the Trust s financial statements.

In June 2009, the FASB issued guidance effective July 1, 2009 that requires all then-existing non-SEC accounting and reporting standards to be superseded by the *FASB Accounting Standards Codification* (the Codification), the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Previous references to then-existing non-SEC accounting and reporting standards were removed and are reflected in the Trust s footnotes herein.

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Pending Securities and Exchange Commission Rule

In December 2008, the Securities and Exchange Commission (the SEC) released Final Rule, *Modernization of Oil and Gas Reporting*. The new disclosure requirements include provisions that permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserves volumes. The new requirements also will allow companies to disclose their probable and possible reserves to investors. In addition, the new disclosure requirements require companies to: (a) report the independence and qualifications of its reserves preparer or auditor; (b) file reports when a third party is relied upon to prepare reserves estimates or conducts a reserves audit; and (c) report oil and gas reserves using an average price based upon the prior 12-month period rather than year-end prices. The new disclosure requirements are effective for financial statements for fiscal years ending on or after December 31, 2009. The effect of adopting the SEC rules has not been determined, but it is not expected to have a significant effect on our reported financial position or distributable income.

2. FEDERAL INCOME TAXES

For Federal income tax purposes, the Trust constitutes a fixed investment trust which is taxed as a grantor trust. A grantor trust is not subject to tax at the trust level. The Unit holders are considered to own the Trust s income and principal as though no trust were in existence. The income of the Trust is deemed to have been received or accrued by each Unit holder at the time such income is received or accrued by the Trust and not when distributed by the Trust. The Royalties constitute economic interests in oil and gas properties for Federal income tax purposes. Unit holders must report their share of the revenues from the Royalties as ordinary income from oil and gas royalties and are entitled to claim depletion with respect to such income.

The Trust has on file technical advice memoranda confirming the tax treatment described above.

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The classification of the Trust s income for purposes of the passive loss rules may be important to a Unit holder. Royalty income generally is treated as portfolio income and does not offset passive losses.

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 widely held fixed investment trust (WHFIT) for U.S. federal income tax purposes. U.S. Trust, Bank of America Private Wealth Management, 901 Main Street, 17th Floor, Dallas, Texas 75202, telephone number (214) 209-2400, is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the Trustee at www.pbt-permianbasintrust.com. Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of Unit holders, 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, including the issuance of IRS Forms 1099 and certain written tax statements. Unit holders 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.

Unit holders should consult their tax advisors regarding Trust tax compliance matters.

3. STATE TAX CONSIDERATIONS

All revenues from the Trust are from sources within Texas, which has no individual income tax. However, Texas imposes a margin tax on generally all entity types providing limited liability protection at a rate of 1% on gross revenues less certain deductions as specifically set forth in the Texas margin tax statute. Entities subject to tax generally include trusts unless otherwise exempt. Trusts that receive at least 90% of their Federal gross income from designated passive sources, including royalties from mineral properties and other non-operated mineral interest income, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas margin tax as passive entities. The Trust should be exempt from Texas margin tax as a passive entity. Since the Trust should be exempt from Texas margin tax at the Trust level as a passive entity, each Unit holder that is considered a taxable entity under the Texas margin tax will generally be required to include its portion of Trust revenues in its own Texas margin tax computation. This revenue is sourced to Texas under provisions of the Texas Administrative Code that provide such income is sourced according to the principal place of business of the Trust, which is Texas.

Each Unit holder is urged to consult his own tax advisor regarding the requirements for filing state tax returns.

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4. SUBSEQUENT EVENTS

Subsequent to September 30, 2009, the Trust declared a distribution on October 20, 2009 of $.096663 per Unit payable on November 16, 2009, to Unit holders of record on October 30, 2009. Subsequent events have been evaluated through November 2, 2009, the date of issuance of these condensed financial statements.

5. CONTINGENCIES

Contingencies related to the Underlying Properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders. The Trustee is aware of no such items as of September 30, 2009.

Item 2. Trustee s Discussion and Analysis

Forward Looking Information

Certain information included in this report contains, and other materials filed or to be filed by the Trust with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Trust) may contain or include, forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such forward looking statements may be or may concern, among other things, capital expenditures, drilling activity, development activities, production efforts and volumes, hydrocarbon prices and the results thereof, and regulatory matters. Although the Trustee believes that the expectations reflected in such forward-looking statements are reasonable, such expectations are subject to numerous risks and uncertainties and the Trustee can give no assurance that they will prove correct. There are many factors, none of which are within the Trustee s control, that may cause such expectations not to be realized, including, among other things, factors such as actual oil and gas prices and the recoverability of reserves, capital expenditures, general economic conditions, actions and policies of petroleum-producing nations and other changes in the domestic and international energy markets. Such forward looking statements generally are accompanied by words such as estimate, expect, predict, anticipate, goal, shou assume, believe, or other words that convey the uncertainty of future events or outcomes.

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

For the quarter ended September 30, 2009, royalty income received by the Trust amounted to $10,469,008 compared to royalty income of $35,552,084 during the third quarter of 2008. The decrease in royalty income is primarily attributable to significant decreases in both oil and gas prices and related production.

Interest income for the quarter ended September 30, 2009, was $335 compared to $20,118 during the third quarter of 2008. The decrease in interest income is primarily attributable to less funds available for investment and significantly lowered interest rates. General and administrative expenses during the third quarter of 2009 amounted to $135,642 compared to $134,748 during the third quarter of 2008. The increase in general and administrative expenses can be primarily attributed to professional expenses.

These transactions resulted in distributable income for the quarter ended September 30, 2009 of $10,333,701 or $.221711 per Unit of beneficial interest. Distributions of $.074511, $.079435 and $.067764 per Unit were made to Unit holders of record as of July 31, 2009, August 31, 2009 and September 30, 2009, respectively. For the third quarter of 2008, distributable income was $35,437,454, or $.760317 per Unit of beneficial interest.

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Royalty income for the Trust for the third quarter of the calendar year is associated with actual oil and gas production for the period of May, June and July 2009 from the properties from which the Trust s net overriding royalty interests (Royalties) were carved. Oil and gas sales attributable to the Royalties and the properties from which the Royalties were carved are as follows:

	Third Quarter	
	2009	**2008**
Royalties:		
Oil sales (Bbls)	138,420	189,184
Gas sales (Mcf)	588,825	955,832
Product Sales From Which The Royalties Were Carved:		
Oil:		
Total oil sales (Bbls)	266,797	265,967
Average per day (Bbls)	2,900	2,891
Average price per Bbl	$ 59.65	$ 104.07
Gas:		
Total gas sales (Mcf)	1,474,200	1,475,516
Average per day (Mcf)	16,024	16,038
Average price per Mcf	$ 4.48	$ 11.06

The average received price of oil decreased to an average price per barrel of $59.65 per Bbl in the third quarter of 2009, compared to $104.07 per Bbl in the third quarter of 2008 due to worldwide market variables. The Trustee has been advised by ConocoPhillips that for the period of August 1, 1993, through September 30, 2009, the oil from the Waddell Ranch properties was being sold under a competitive bid to a third party. The average price of gas decreased from $11.06 per Mcf in the third quarter of 2008 to $4.48 per Mcf in the third quarter of 2009 due to change in overall market variables.

Since the oil and gas sales attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), the production amounts in the Royalties section of the above table do not provide a meaningful comparison. Oil sales volumes increased and gas sales volumes decreased from the Underlying Properties (as defined in the Trust s Annual Report on Form 10-K for the year ended December 31, 2008) for the applicable period in 2009 compared to 2008.

Capital expenditures for drilling, remedial and maintenance activities on the Waddell Ranch properties during the third quarter of 2009 totaled $3,881,031 as compared to $2,643,259 to the Trust for the third quarter of 2008. ConocoPhillips has informed the Trustee that the 2009 capital expenditures budget has been revised to $27.1 million (gross) for the Waddell Ranch properties. The total amount of capital expenditures for 2008 was $24.1 million. Through the third quarter of 2009, capital expenditures of $20.2 million (gross) have been expended.

The Trustee has been advised that there were 3 wells completed and 2 drill wells in progress, and 12 workover wells completed and 1 workover well in progress, during the three months ended

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September 30, 2009 as compared to no wells completed, 4 drill wells in progress, and 21 workover wells completed and 14 workover wells in progress for the three months ended September 30, 2008 on the Waddell Ranch properties. There were 33 facility projects completed and 24 projects in progress for the third quarter of 2009.

Lease operating expenses and property taxes totaled $4.7 million for the third quarter of 2009, compared to $4.2 million in the third quarter of 2008 on the Waddell Ranch properties. This increase is primarily attributable to increased ad valorem taxes and an increase in the project management fee.

Nine Months Ended September 30, 2009 and 2008

For the nine months ended September 30, 2009, royalty income received by the Trust amounted to $24,907,635 compared to royalty income of $89,237,008 for the nine months ended September 30, 2008. The decrease in royalty income is primarily due to a substantial decrease in oil and gas prices in the first nine months of 2009 compared to the first nine months in 2008. Interest income for the nine months ended September 30, 2009 was $3,017 compared to $75,332 for the nine months ended September 30, 2008. The decrease in interest income is attributable primarily to lower interest rates. General and administrative expenses for the nine months ended September 30, 2009 were $1,065,614. During the nine months ended September 30, 2008, general and administrative expenses were $848,993. The increase in general and administrative expenses is primarily due to enhanced Unit holder reporting and other professional expenses.

These transactions resulted in distributable income for the nine months ended September 30, 2009 of $23,845,038, or $.511600 per Unit. For the nine months ended September 30, 2008, distributable income was $88,463,347, or $1.897997 per Unit.

Royalty income for the Trust for the nine months ended September 30, 2009 is associated with actual oil and gas production for the period November 2008 through July 2009 from the properties from which the Royalties were carved. Oil and gas production attributable to the Royalties and the properties from which the Royalties were carved are as follows:

	Nine Months Ended	
	2009	**2008**
Royalties:		
Oil sales (Bbls)	390,775	588,229
Gas sales (Mcf)	1,579,848	2,921,475
Properties From Which The Royalties Were Carved:		
Oil:		
Total oil sales (Bbls)	813,511	823,874
Average per day (Bbls)	2,980	3,007
Average price per Bbl	$ 46.66	$ 104.07
Gas:		
Total gas sales (Mcf)	4,300,963	4,488,904
Average per day (Mcf)	15,754	16,383
Average price per Mcf	$ 4.44	$ 11.06

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The average received price of oil decreased during the nine months ended September 30, 2009 to $46.66 per barrel compared to $104.07 per barrel for the same period in 2008. The decrease in the average price of oil is primarily due to decreased worldwide market demand in 2009. The decrease in the average price of gas from $11.06 per Mcf for the nine months ended September 30, 2008 to $4.44 per Mcf for the nine months ended September 30, 2009 is primarily the result of a decrease in the spot prices of natural gas.

Since the oil and gas sales volumes attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), the production amounts in the Royalties section of the above table do not provide a meaningful comparison. The oil and gas sales volumes from the properties from which the Royalties are carved have declined for the applicable period of 2009 compared to 2008.

Capital expenditures for the Waddell Ranch properties for the nine months ended September 30, 2009 totaled $9.3 million compared to $4.3 million for the same period in 2008. ConocoPhillips has previously advised the Trust that the remaining 2009 capital expenditures budget for the Waddell Ranch properties is $6.9 million.

The Trustee has been advised that 9 wells were drilled and completed and 2 wells to be completed on the Waddell Ranch properties during the nine months ended September 30, 2009, as compared to no wells drilled and completed and 4 wells to be completed on the Waddell Ranch Properties during the nine months ended September 30, 2008. Approximately 25 workover wells were completed and approximately 1 workover well was in progress as of September 30, 2009. Approximately 36 facilities projects were completed and 24 facilities projects were in progress.

Lease operating expense and property taxes totaled $11.4 million for the nine months ended September 30, 2009 compared to $12.2 million for the same period in 2008. The decrease in lease operating expense is primarily attributable to a reduction in vendor pricing.

Calculation of Royalty Income

The Trust s royalty income is computed as a percentage of the net profit from the operation of the properties in which the Trust owns net overriding royalty interests. These percentages of net profits are 75% and 95% in the case of the Waddell Ranch properties and the Texas Royalty properties, respectively. Royalty income received by the Trust for the three months ended September 30, 2009 and 2008, respectively, were computed as shown in the table below:

	THREE MONTHS ENDED SEPTEMBER 30,			
	2009		2008	
	WADDELL RANCH PROPERTIES	TEXAS ROYALTY PROPERTIES	WADDELL RANCH PROPERTIES	TEXAS ROYALTY PROPERTIES
Gross proceeds of sales from the Underlying Properties				
Oil proceeds	$ 11,136,482	$ 4,778,476	$ 23,642,563	$ 10,349,023
Gas proceeds	5,836,377	775,040	17,463,110	2,570,597
Total	16,972,859	5,553,516	41,105,673	12,919,620

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	THREE MONTHS ENDED SEPTEMBER 30,			
	2009		2008	
	WADDELL RANCH PROPERTIES	TEXAS ROYALTY PROPERTIES	WADDELL RANCH PROPERTIES	TEXAS ROYALTY PROPERTIES
Less:				
Severance tax:				
Oil	434,136	173,939	1,006,313	386,307
Gas	330,079	45,387	1,061,080	162,598
Lease operating expense and property tax:				
Oil and gas	4,669,575	360,000	4,243,815	330,000
Capital expenditures	3,881,031		2,643,259	
Total	9,314,821	579,327	8,954,467	878,905
Net profits	7,658,038	4,974,189	32,151,206	12,040,715
Net overriding royalty interests	75%	95%	75%	95%
Royalty income	$ 5,743,529	$ 4,725,480	$ 24,113,405	$ 11,438,679

Critical Accounting Policies and Estimates

The Trust s financial statements reflect the selection and application of accounting policies that require the Trust to make significant estimates and assumptions. The following are some of the more critical judgment areas in the application of accounting policies that currently affect the Trust s financial condition and results of operations.

Basis of Accounting

The financial statements of the Trust are prepared on a modified cash basis and are not intended to present financial positions and results of operations in conformity with accounting principles generally accepted in the United States of America (GAAP). Preparation of the Trust s financial statements on such basis includes the following:

Royalty income and interest income are recorded in the period in which amounts are received by the Trust rather than in the period of production and accrual, respectively.

General and administrative expenses recorded are based on liabilities paid and cash reserves established out of cash received.

Amortization of the royalty interests is calculated on a unit-of-production basis and charged directly to trust corpus when revenues are received.

Distributions to Unit holders are recorded when declared by the Trustee (see Note 1 to the Financial Statements).

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America because royalty

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income is not accrued in the period of production, general and administrative expenses recorded are based on liabilities paid and cash reserves established rather than on accrual basis, and amortization of the royalty interests is not charged against operating results. This comprehensive basis of accounting other than GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*.

New Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance which establishes accounting and reporting standards for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued and requires the disclosure of the date through which a company has evaluated subsequent events. This guidance was effective for the Trust for the period ended June 30, 2009 and the adoption did not have an impact on the Trust s financial statements. Refer to footnote 4 for required disclosures.

In June 2009, the FASB issued guidance which changes the way entities account for securitizations. The new standard is effective for the Trust on January 1, 2010 and the adoption is not expected to have a significant impact on the Trust s financial statements.

In June 2009, the FASB issued guidance which changes the way entities account for special-purpose entities. The new standard is effective for the Trust on January 1, 2010 and the adoption is not expected to have a significant impact on the Trust s financial statements.

In June 2009, the FASB issued guidance effective July 1, 2009 that requires all then-existing non-SEC accounting and reporting standards to be superseded by the *FASB Accounting Standards Codification* (the Codification), the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Previous references to then-existing non-SEC accounting and reporting standards were removed and are reflected in the Trust s footnotes herein.

Revenue Recognition

Revenues from the royalty interests are recognized in the period in which amounts are received by the Trust. Royalty income received by the Trust in a given calendar year will generally

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reflect the proceeds, on an entitlement basis, from natural gas produced and sold for the twelve-month period ended October 31st in that calendar year. Royalty income received by the Trust in the third quarter of 2009 generally reflects the proceeds associated with actual oil and gas production for the period of May, June and July 2009.

Reserve Disclosure

As of January 1, 2009, independent petroleum engineers estimated the net proved reserves attributable to the royalty interests. Estimates of future net revenues from proved reserves have been prepared using year-end contractual gas prices and related costs. Numerous uncertainties are inherent in estimating volumes and the value of proved reserves and in projecting future production rates and the timing of development of non-producing reserves. Such reserve estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production may be substantially different from the reserves estimates.

Contingencies

Contingencies related to the Underlying Properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders. The Trustee is aware of no such items as of September 30, 2009.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting period. Actual results may differ from such estimates.

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Pending Securities and Exchange Commission Rule

In December 2008, the Securities and Exchange Commission (the SEC) released Final Rule, *Modernization of Oil and Gas Reporting*. The new disclosure requirements include provisions that permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserves volumes. The new requirements also will allow companies to disclose their probable and possible reserves to investors. In addition, the new disclosure requirements require companies to: (a) report the independence and qualifications of its reserves preparer or auditor; (b) file reports when a third party is relied upon to prepare reserves estimates or conducts a reserves audit; and (c) report oil and gas reserves using an average price based upon the prior 12-month period rather than year-end prices. The new disclosure requirements are effective for financial statements for fiscal years ending on or after December 31, 2009. The effect of adopting the SEC rules has not been determined, but it is not expected to have a significant effect on our reported financial position or distributable income.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

There have been no material changes in the Trust s market risk, as disclosed in the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Trustee carried out an evaluation of the effectiveness of the design and operation of the Trust s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Trustee concluded that the Trust s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934 and are effective in ensuring that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Trustee to allow timely decisions regarding required disclosure. In its evaluation of disclosure controls and procedures, the Trustee has relied, to the extent considered reasonable, on information provided by Burlington Resources Oil & Gas Company LP, the owner of the Waddell Ranch properties, and Riverhill Energy Corporation, the owner of the Texas Royalty properties. There has not been any change in the Trust s internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Trust s internal control over financial reporting.

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PART II OTHER INFORMATION

Items 1 through 5.

Not applicable.

Item 6. Exhibits

4.1 Permian Basin Royalty Trust Indenture dated November 3, 1980, between Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) and The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, heretofore filed as Exhibit (4)(a) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980 is incorporated herein by reference.

4.2 Net Overriding Royalty Conveyance (Permian Basin Royalty Trust) from Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) to The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit (4)(b) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980 is incorporated herein by reference.

4.3 Net Overriding Royalty Conveyance (Permian Basin Royalty Trust - Waddell Ranch) from Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) to The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit (4)(c) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980 is incorporated herein by reference.

10.1 Registration Rights Agreement dated as of July 21, 2004 by and between Burlington Resources, Inc. and Bank of America, N.A., as trustee of Permian Basin Royalty Trust, heretofore filed as Exhibit 10.1 to the Trust s Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarterly period ended June 30, 2004 is incorporated herein by reference.

10.2 Underwriting Agreement dated December 15, 2005 among the Permian Basin Royalty Trust, Burlington Resources, Inc., Burlington Resources Oil & Gas L.P. and Lehman Brothers Inc. and Wachovia Capital Markets, LLC as representatives of the several underwriters, heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on December 19, 2005, is incorporated herein by reference.

10.3 Underwriting Agreement dated August 2, 2005 among the Permian Basin Royalty Trust, Burlington Resources, Inc., Burlington Resources Oil & Gas L.P. and Goldman Sachs & Co. and Lehman Brothers Inc. as representatives of the several underwriters, heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on August 8, 2005, is incorporated herein by reference.

10.4 Underwriting Agreement dated August 17, 2006, among Permian Basin Royalty Trust, ConocoPhillips, Burlington Resources Oil & Gas Company LP and Lehman Brothers Inc. and Wachovia Capital Markets, LLC as representatives of the several underwriters heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on August 22, 2006, is incorporated herein by reference.

31.1 Certification by Ron E. Hooper, Senior Vice President and Trust Administrator of Bank of America, Trustee of Permian Basin Royalty Trust, dated November 2, 2009 and submitted pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate by Bank of America, Trustee of Permian Basin Royalty Trust, dated November 2, 2009 and submitted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

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SIGNATURES

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

BANK OF AMERICA, N.A.,
TRUSTEE FOR THE PERMIAN BASIN
ROYALTY TRUST

By: /s/ RON E. HOOPER
Ron E. Hooper,
Senior Vice President and Trust
Administrator
Bank of America, N.A.

Date: November 2, 2009

(The Trust has no directors or executive officers.)

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INDEX TO EXHIBITS

Exhibit Number	Exhibit
4.1	Permian Basin Royalty Trust Indenture dated November 3, 1980, between Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) and The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, heretofore filed as Exhibit (4)(a) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980 is incorporated herein by reference.*
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4.3	Net Overriding Royalty Conveyance (Permian Basin Royalty Trust Waddell Ranch) from Southland Royalty Company (now Burlington Resources Oil & Gas Company LP) to The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit (4)(c) to the Trust s Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980 is incorporated herein by reference.*
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	incorporated herein by reference.*
10.2	Underwriting Agreement dated December 15, 2005 among the Permian Basin Royalty Trust, Burlington Resources, Inc., Burlington Resources Oil & Gas L.P. and Lehman Brothers Inc. and Wachovia Capital Markets, LLC as representatives of the several underwriters, heretofore filed as Exhibit 10.1 to the Trust s current report on Form 8-K to the Securities and Exchange Commission filed on December 19, 2005, is incorporated herein by reference.*
10.3	Underwriting Agreement dated August 2, 2005 among the Permian Basin Royalty Trust, Burlington Resources, Inc., Burlington Resources Oil & Gas L.P. and Goldman SOP" HEIGHT=14>

value based method for all awards, net of related tax effects	333	297	834	686
Pro forma net income (loss)	$ 5,436	$ (9,401)	$ 15,953	$ (12,615)
Earnings per share:				
Basic-as reported	$ 0.22	$ (0.35)	$ 0.64	$ (0.46)
Basic-pro forma	$ 0.21	$ (0.36)	$ 0.61	$ (0.48)
Diluted-as reported	$ 0.22	$ (0.35)	$ 0.64	$ (0.46)
Diluted-pro forma	$ 0.21	$ (0.36)	$ 0.61	$ (0.48)

Note 2 - Inventories

(in thousands)	October 1, 2004	December 31, 2003
Finished goods	$ 7,311	$ 8,087
Work in process	8,900	8,849
Materials and parts	4,517	5,096
	$ 20,728	$ 22,032

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Cost includes material, labor and applicable manufacturing and engineering overhead costs. The Company regularly reviews inventory quantities on hand and records a provision to write down excess and obsolete inventory to its estimated net realizable value, if it is less than cost. This estimate is based upon management's assumptions of future material usage and obsolescence, which are a result of future demand and market conditions.

Note 3 - Accrued Restructuring Costs

In the fourth quarter of 2002, the Company initiated a worldwide cost-reduction program in response to the continued duration and severity of the slowdown in the semiconductor capital equipment industry at the time. The cost-reduction program included severance and fringe benefits to terminate approximately 130 employees and included closure or consolidation of selected facilities worldwide. We recorded a $5,851,000 charge for these restructuring activities in the fourth quarter of 2002. The majority of the cash outlays were paid during 2003, with the remaining cash outlays related to the facility closures occurring during 2004.

Note 3 - Accrued Restructuring Costs (continued)

The following table summarizes the cash payments and the remaining accrual as of October 1, 2004:

(in thousands)		Facility Closures
Balance at December 31, 2003	$	689
Cash payments in the first nine months of 2004		(504)
Balance at October 1, 2004	$	185

Note 4 - Income Taxes

For the third quarter ended October 1, 2004, the Company earned income before taxes of $5.6 million and recorded a tax benefit of $129,000, an effective tax rate of -2.3%. For the nine months ended October 1, 2004, the Company earned income before taxes of $19.1 million and recorded a tax provision of $2.3 million, an effective tax rate of 12.0%. The change in the effective tax rate during the year reflects the impact of a reduction in the Company's projected 2004 annual income before tax combined with the utilization of prior year net operating losses and tax credits. The 2004 tax rate differs from the U.S. statutory rate primarily due to the release of the valuation allowance associated with the utilization of prior year net operating losses and tax credits.

In the third quarter of 2003, the Company recorded a provision to establish a valuation allowance against the deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes." If the Company generates future taxable income domestically against which these tax attributes may be applied, some portion or all of the valuation allowance previously established will be reversed and result in an income tax benefit in the current period. The prior year quarter tax rate differs from the U.S. statutory rate primarily due to the establishment of the valuation allowance against our deferred tax assets and to tax credits and undistributed nontaxable equity income from our joint venture.

The Company has been subject to an IRS audit related to certain tax positions taken on prior year returns. The audit is expected to be resolved in the latter part of the 2004 fourth quarter or early 2005. It is probable that the resolution of the audit may result in a one-time favorable tax benefit related to the settlement of this audit. This benefit will be recorded in the quarter the audit is settled.

Note 5 - Employee Benefit Plans

The Company's net pension cost included the following components:

	Three Months Ended		Nine Months Ended	
(in thousands)	October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003
Service cost	$ 450	$ 409	$ 1,351	$ 1,225
Interest cost	272	288	844	865
Expected return on assets	(135)	(166)	(469)	(499)
Net amortization of:				
Prior service cost	4	4	11	12
Net actuarial gain	8	--	36	--
Transition obligation	--	(7)	--	(21)
Net periodic pension cost	$ 599	$ 528	$ 1,773	$ 1,582

Note 5 - Employee Benefit Plans (continued)

The Company previously disclosed that it expected to contribute the minimum contribution of $1,758,000 to its pension plan in 2004. In the interest of improving the funded status of the plan, it has contributed $3,116,000 during the first nine months of 2004 and may make additional payments before year end.

Note 6 - Commitments and Contingencies

The Company may be involved in various legal proceedings in the normal course of business. The Company is not a party to any proceedings that involve amounts that would have a material effect on our financial position or results of operations if such proceedings were resolved unfavorably. The Company accrues loss contingencies when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. FIN No. 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee and requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The adoption of FIN No. 45 did not have a material effect on the Company's financial position or results of operations. The following is a summary of the Company's agreements that it has determined are within the scope of FIN No. 45.

The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally its business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to its current products, as well as claims relating to property damage or personal injury resulting from the performance of services by the Company or its subcontractors. The maximum potential amount of future payments it could be required to make under these indemnification agreements is unlimited. Historically, its costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and the Company accordingly believes the estimated fair value of these agreements is immaterial.

The Company's products and services are generally sold with warranty coverage for periods ranging from 12 to 18 months after shipment. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product family.

Changes in the warranty reserves during the first nine months of 2004 were as follows:

(in thousands)	2004	2003
Balance at beginning of period	$ 471	$ 293
Provisions for warranty	438	999
Consumption of reserves	(409)	(844)
Balance at end of period	$ 500	$ 448

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 7 - Other Comprehensive Income (Loss)

(in thousands)	Three Months Ended October 1, 2004	Three Months Ended September 26, 2003	Nine Months Ended October 1, 2004	Nine Months Ended September 26, 2003
Net income (loss)	$ 5,769	$ (9,104)	$ 16,787	$ (11,929)

Other comprehensive gain (loss) before tax:				
Foreign currency translation adjustment	(949)	176	574	1,082
Unrealized gain (loss) on available-for-sale investments	5	(141)	(21)	46
Other comprehensive gain (loss) before tax	(944)	35	553	1,128
Income tax related to items of other comprehensive gain (loss)	346	(70)	(7)	(152)
Other comprehensive gain (loss), net of tax	(598)	(35)	546	976
Other comprehensive income (loss)	$ 5,171	$ (9,139)	$ 17,333	$ (10,953)

Note 8 - Net Income (Loss) Per Share

Basic net income (loss) per common share is based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share reflects the potential dilution that could occur if outstanding stock options were exercised and converted into common stock at the beginning of the period.

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	Three Months Ended		Nine Months Ended	
(in thousands except per share data)	October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003
Net income (loss)	$ 5,769	$ (9,104)	$ 16,787	$ (11,929)
Basic shares	26,112	26,099	26,109	26,099
Add: Common equivalent shares (1)	53	--	85	--
Diluted shares	26,165	26,099	26,194	26,099
Basic net income (loss) per share	$ 0.22	$ (0.35)	$ 0.64	$ (0.46)
Diluted net income (loss) per share	$ 0.22	$ (0.35)	$ 0.64	$ (0.46)

(1) Common equivalent shares represent shares issuable upon exercise of stock options (using the treasury stock method). For the three- and nine-months ended October 1, 2004, the Company had 614,500 and 445,500 options, respectively, outstanding and not included in the computation of diluted shares, because the option price was greater than the average market price of the common shares and inclusion of such shares would be anti-dilutive. The Company had 762,875 options outstanding and not included in the computation of diluted shares for the three- and nine-months ended September 26, 2003, because the Company was in a net loss position, and the inclusion of such shares would be anti-dilutive.

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 9 - Segment Information

Line of Business and Foreign Operations

The Company operates in one reportable segment: the development, manufacture, sale and support of cryogenic and vacuum equipment. The Company's management currently uses consolidated financial information in determining how to allocate resources and assess performance.

The consolidated financial statements include the accounts of wholly owned international subsidiaries that operate customer support facilities to sell and service products manufactured in the United States. A summary of net sales and long-lived assets by geographical operation follows:

(in thousands)	United States	International	Consolidated
Net sales for the three months ended:			
October 1, 2004	$ 29,937	$ 10,416	$ 40,353
September 26, 2003	$ 17,693	$ 8,280	$ 25,973
Net sales for the nine months ended:			
October 1, 2004	$ 93,486	$ 31,267	$ 124,753
September 26, 2003	$ 52,564	$ 21,587	$ 74,151
Long-lived assets as of:			
October 1, 2004	$ 30,367	$ 2,410	$ 32,777
December 31, 2003	$ 30,811	$ 2,793	$ 33,604

Note 10 - Recent Accounting Pronouncements

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that improves financial statement disclosures for defined benefit plans. The change replaces existing SFAS 132 disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS 87, "Employers' Accounting for Pensions," or SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Revised SFAS 132 retains the disclosure requirements contained in the original SFAS 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Revised SFAS 132 is effective for annual and interim periods with fiscal years ending after December 15, 2003. The Company has adopted the revised disclosure provisions.

In December 2003, the FASB issued FASB Interpretation No. 46-R (FIN 46-R) a revised interpretation of FASB Interpretation No. 46 (FIN 46). FIN 46-R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46-R are effective for all arrangements entered into after January 31, 2003. The Company does not have any equity interests that would change its current reporting or require additional disclosures outlined in FIN 46-R.

HELIX TECHNOLOGY CORPORATION

PART I

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

You should read the following discussion and analysis together with our financial statements, related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to competitive factors and other factors discussed under "Important Factors That May Affect Future Results" below.

Overview

We design, develop and manufacture innovative vacuum technology solutions for the semiconductor, data storage, and flat panel display markets. Our vacuum systems provide enabling technology for several key steps within the semiconductor manufacturing process, including ion implantation, physical vapor deposition, chemical vapor deposition, and etching. Semiconductor manufacturers use our systems to create and maintain a vacuum environment, which is critical to their manufacturing processes. Our products are also used in a broad range of industrial manufacturing applications and advanced research and development laboratories.

We also provide an extensive range of global support and vacuum system monitoring services that lower our end-users' total costs of ownership. We increase our customers' system uptime through rapid response to potential operating problems. We also develop and deliver enhancements to our customers' installed base of production tools. Our service offerings include our TrueBlue ℠ Service Agreements, our GUTS ® (Guaranteed Up Time Support) customer response system and our innovative GOLDLink ® (Global On-Line Diagnostics) support system, which provides a remote e-diagnostics solution that allows us to monitor, in real time, the vacuum system performance of our customers' production tools. Our GOLDLink capability has made us a leading total solution provider in the emerging market for Internet-based, proactive e-diagnostics for the semiconductor and semiconductor capital equipment industries.

The principal market we serve is the global semiconductor capital equipment industry, a highly cyclical business. As a result, we have experienced significant variations in net sales, expenses, and results of operations in the periods presented and such variations are likely to continue.

Critical Accounting Policies

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of reserves, valuation of investments and income taxes. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. We believe that the following significant accounting policies and assumptions may involve a higher degree of judgment and complexity than others.

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

(continued)

Revenue Recognition and Accounts Receivable. We recognize net sales from product sales upon shipment provided title and risk of loss have been transferred to the customer, there is persuasive evidence of an arrangement, fees are fixed or determinable, and collection is reasonably assured. Net sales from global support services is recognized as performed or ratably over the period of the related agreements. We recognize net sales from upgrade sales upon customer acceptance provided installation has been completed. Revenues from contracts with multiple-element arrangements, such as those including products and services, are recognized as each element is earned based on the relative fair value of each element. Amounts billed to customers that relate to shipping costs are included in net sales and in cost of sales. As part of a sale, we offer customers a warranty on defects in materials and workmanship.

We continuously monitor and track the related product returns and record a provision for the estimated amount of such future returns, based on historical experience and any notification we receive of pending returns. While such returns have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same return rates that we have in the past. Any significant increase in material and workmanship defect rates and the resulting credit returns could have a material adverse impact on our operating results for the period or periods in which such returns materialize. We also maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory and Reserves for Excess and Obsolescence. We value inventory at the lower of cost (first-in, first-out method) or market. We regularly review inventory quantities on hand and record a provision to write down inventory to its estimated net realizable value, if less than cost. This estimate is based upon management's assumptions of future material usage and obsolescence, which are a result of future demand and market conditions. If actual market conditions become less favorable than those projected by management, additional inventory provisions may be required. If inventory is written down to its net realizable value and subsequently there is an increased demand for the inventory at a higher value, the increased value of the inventory is not realized until the inventory is sold, which will result in improved margins in the period in which the product is sold.

Tax Contingencies. Tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by taxing authorities. These potential exposures result from the varying application of statutes, rules, regulations and interpretations. Our estimate of the value of our tax contingencies contains assumptions based on past experiences and judgments about potential actions by taxing jurisdictions.

Deferred Income Taxes. Each reporting period we estimate our ability to realize our net deferred tax assets. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from tax loss and tax credit carryforwards. We reassessed our need for a valuation allowance and determined under applicable accounting criteria that a full valuation allowance was required in the third quarter of 2003. Until an appropriate level of profitability is reached, this allowance will continue to be required.

Restructuring Charges. During 2002, we recorded charges in connection with our restructuring program. The related reserves reflect estimates, including those pertaining to severance costs and settlements of contractual obligations. We reassess the reserve requirements to complete each individual plan under our restructuring program at the end of each reporting period. Actual experience may be different from these estimates.

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HELIX TECHNOLOGY CORPORATION

PART I

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

(continued)

Retirement Obligations. We have retirement obligations that are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, rates of compensation increases, and expected long-term rates of return on plan assets, which are usually updated on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in the related retirement benefit costs may occur due to changes in assumptions.

Investments. We own 50% of a joint venture, ULVAC Cryogenics, Inc., or UCI, which manufactures and sells cryogenic vacuum pumps in Japan, principally to ULVAC Corporation. We account for the joint venture using the equity method of accounting, and we also receive royalties from the joint venture under the terms of a license and technology agreement. The royalties we receive from UCI, as well as our equity in the income and losses of UCI, are both included in our financial statements under joint venture income.

Results of Operations

Net sales for the third quarter ended October 1, 2004, (the "2004 Quarter") were $40.4 million compared with net sales for the third quarter ended September 26, 2003, (the "2003 Quarter") of $26.0 million. Net sales for the nine months ended October 1, 2004, (the "2004 Period") were $124.8 million compared with net sales for the nine months ended September 26, 2003, (the "2003 Period") of $74.2 million. Sales increased 55.4% over the same quarter in the prior year, as the semiconductor industry began a period of expansion at the end of 2003. This expansion, however, demonstrated signs of softening during the current quarter, and as a result, sales decreased by 8.3% sequentially compared to the prior quarter.

Cost of sales for the 2004 Quarter was $24.1 million compared with $17.1 million for the 2003 Quarter, an increase of 40.8%. The gross margin for the 2004 Quarter was 40.2% compared with 34.0% for the 2003 Quarter. Gross margin for the 2004 Period improved to 40.1% from 32.6% for the 2003 Period. The increase in gross margin for the 2004 Period was primarily attributable to the higher manufacturing volume to support the increase in sales.

Research and development expenses were $2.7 million and $7.8 million for the 2004 Quarter and 2004 Period, respectively, compared to $2.3 million and $7.6 million for the 2003 Quarter and 2003 Period, respectively. The increase in research and development expenses is due to increased spending as we continue to enhance and expand our product offerings.

Total selling, general and administrative expenses were $8.9 million and $26.1 million in the 2004 Quarter and 2004 Period, respectively, compared with $7.6 million and $22.9 million in the 2003 Quarter and 2003 Period, respectively. The increase in selling, general and administrative expenses is primarily due to higher selling expenses as a result of higher commissionable sales, increased costs of regulatory compliance and higher variable compensation expenses as a result of higher operating profits.

Royalty and equity income from our joint venture in Japan increased by $0.6 million or 381% in the 2004 Quarter compared to the 2003 Quarter and increased $1.5 million or 193% in the 2004 Period compared to the 2003 Period, due to the growth in the flat panel display portion of the electronics capital equipment market.

Interest and other income for the 2004 Quarter and 2004 Period were consistent with the prior year, due mainly to higher average cash balances partially offset by lower interest rates.

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

(continued)

For the 2004 Quarter and 2004 Period, we had pretax income of $5.6 million and $19.1 million, respectively, resulting in a tax benefit of $0.1 million in the 2004 Quarter and a tax provision of $2.3 million in the 2004 Period, compared to a pretax loss of $0.7 million and $4.9 million and a tax provision of $8.4 million and $7.1 million for the 2003 Quarter and 2003 Period, respectively. Our 2004 Quarter effective tax rate differs from our expected annual rate because of a decrease in projected 2004 annual income before tax combined with an increase in the utilization of our net operating loss carryforwards. The effective tax rate for the 2004 Period was 12.0%.

In the third quarter of 2003, we recorded a provision to establish a valuation allowance against our deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes." As we generate future taxable income domestically against which these tax attributes may be applied, some portion or all of the valuation allowance previously established will be reversed and result in an income tax benefit in the current period. The current tax rate differs from the U.S. statutory rate primarily due to the release of the valuation allowance associated with the utilization of prior year federal net operating loss and tax credits, current year tax credits and undistributed nontaxable equity income from our joint venture. The prior year tax rate differs from the U.S. statutory rate primarily due to the establishment of the valuation allowance and to tax credits and undistributed nontaxable equity income from our joint venture.

We have been subject to an IRS audit related to certain tax positions taken on prior year returns. The audit is expected to be resolved in the latter part of the 2004 fourth quarter or early 2005. It is probable that the resolution of the audit may result in a one-time favorable tax benefit related to the settlement of this audit. This benefit will be recorded in the quarter the audit is settled.

Liquidity and Capital Resources

Cash, cash equivalents and investments of $76.5 million increased by $9.1 million in the 2004 Period as we continued to generate strong cash from operations offset by investments in infrastructure, elective pension contributions and our quarterly dividend payments.

Cash provided by operating activities was $15.2 million for the 2004 Period compared to $8.2 million in the 2003 Period. The cash provided by operating activities for the 2004 Period was primarily due to net operating income offset by changes in working capital, primarily receivables. Receivables at October 1, 2004, were $24.8 million, an increase of $3.8 million from December 31, 2003. This increase was entirely due to higher sales volumes, as our days sales outstanding improved to 55 days as of October 1, 2004. The cash provided by operating activities for the 2003 Period was primarily due to our receipt of $12.0 million in tax refunds, which resulted from the carryback of net operating losses, and by $3.1 million of severance and facility closure payments related to the 2002 restructuring.

In both the 2004 Period and 2003 Period, we spent $2.1 million to support existing infrastructure. We expect full year spending for 2004 to be approximately $3.0 million to $3.5 million. We continue to closely manage our capital expenditures.

In the 2004 Period and 2003 Period, cash dividends paid to stockholders totaled $4.2 million and $3.1 million, respectively. We paid a dividend of $0.04 per share in the first and second quarters of 2004. After considering the significant improvement in our financial performance and the strength of our balance sheet and cash position, our Board of Directors increased the dividend to $0.08 per share in the third quarter of 2004. We paid a quarterly dividend of $0.04 per share during the 2003 Period.

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

(continued)

We manage our foreign exchange rate risk arising from intercompany foreign currency denominated transactions through the use of foreign currency forward contracts. The gains and losses on these transactions are not material.

We believe that our existing funds and anticipated cash flow from operations will satisfy our working capital and capital expenditure requirements for at least the next 12 months.

Recent Accounting Pronouncements

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that improves financial statement disclosures for defined benefit plans. The change replaces existing SFAS 132 disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement of recognition of those plans required by SFAS 87, "Employers' Accounting for Pensions," or SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Revised SFAS 132 retains the disclosure requirements contained in the original SFAS 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Revised SFAS 132 is effective for annual and interim periods with fiscal years ending after December 15, 2003. We have adopted the revised disclosure provisions.

In December 2003, the FASB issued FASB Interpretation No. 46-R (FIN 46-R) a revised interpretation of FASB Interpretation No. 46 (FIN 46). FIN 46-R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46-R are effective for all arrangements entered into after January 31, 2003. We do not have any equity interests that would change our current reporting or require additional disclosures outlined in FIN 46-R.

HELIX TECHNOLOGY CORPORATION

PART I

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

(continued)

Important Factors That May Affect Future Results

This quarterly report on Form 10-Q contains forward-looking statements. These forward-looking statements appear principally in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements may appear in other sections of this report as well. Generally, the forward-looking statements in this report include such words as "expect," "anticipate," "plan," "intend," "believe," "seek," "estimate," and similar expressions.

The forward-looking statements include, but are not limited to, statements regarding:

- Our strategic plans;
- The outlook for our business and industry;

- Anticipated sources of future revenues;
- Anticipated expenses and spending;
- Anticipated levels of capital expenditures;
- Anticipated tax benefits; and
- The sufficiency of capital to meet working capital and capital expenditure requirements.

Forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions. Important factors that could cause our future results to differ materially from those expressed in any forward-looking statements made by us or on our behalf include, but are not limited to, market acceptance of and demand for our products, the success of our strategic initiatives, including our global support operations and new product introductions, the health of the global semiconductor capital equipment market and the timing and scope of any change in the current industry conditions, our success in sustaining order bookings, and the other risk factors contained in Exhibit 99.1 to our Annual Report on Form 10-K filed for the year ended December 31, 2003. As a result of the foregoing, we may experience material fluctuations in our operating results on a quarterly basis, which could materially affect our business, financial position, results of operations and stock price. We undertake no obligation to update the information contained in this report to reflect subsequently occurring events or circumstances.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

A portion of our business is conducted outside the United States through our foreign subsidiaries. Our foreign subsidiaries maintain their accounting records in their local currencies. Consequently, fluctuations in exchange rates affect the period-to-period comparability of results. To reduce the risks associated with foreign currency rate fluctuations, we have entered into forward exchange contracts on a continuing basis to offset the currency exposures. The gains and losses on these transactions partially offset the unrealized and realized foreign exchange gains and losses of the underlying exposures. The net gains and losses were immaterial for the periods presented and were included in cost of sales. We plan to continue to use forward exchange contracts to mitigate the impact of exchange rate fluctuations. The notional amount of our outstanding foreign currency contracts at October 1, 2004, was $7.8 million. The potential fair value loss for a hypothetical 10% adverse change in forward currency exchange rates at October 1, 2004, would be $0.8 million, which would be essentially offset by corresponding gains related to underlying assets. The potential loss was estimated calculating the fair value of the forward exchange contracts at October 1, 2004, and comparing that with the value calculated using the hypothetical forward currency exchange rates.

Credit Risk

We are exposed to concentration of credit risk in cash and cash equivalents, investments, trade receivables, and short-term foreign exchange forward contracts. We place our cash and cash equivalents with our primary bank, a major financial institution with a high-quality credit rating. Our investments consist of money market funds, municipal and other tax-free bonds, or investment-grade securities. We enter into short-term foreign currency exchange contracts with our primary bank.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

While our disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well designed and administered.

Changes in Internal Controls

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) identified in connection with the evaluation of our internal control performed during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may be involved in the normal course in ordinary routine litigation incidental to the business. We are not a party to any proceedings that involve amounts that would have a material effect on our financial position or results of operations if such proceedings were resolved unfavorably.

Item 6. Exhibits

a. Exhibits:

The Exhibits filed as part of this report are listed on the Exhibit Index immediately preceding the exhibits, which Exhibit Index is incorporated herein by reference.

HELIX TECHNOLOGY CORPORATION

SIGNATURES

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

HELIX TECHNOLOGY CORPORATION
(Registrant)

Date: October 22, 2004

By: /s/Robert J. Lepofsky
Robert J. Lepofsky
President and Chief Executive Officer

Date: October 22, 2004

By: /s/Jay Zager
Jay Zager
Senior Vice President and
Chief Financial Officer

HELIX TECHNOLOGY CORPORATION

Exhibit Index

Exhibit Number	Description of Exhibits
10.1	Form of Helix's Non-Statutory Stock Option Certificate under Helix's 1996 Equity Incentive Plan for all its employees, including executive officers. Filed herewith.
10.2	Form of Helix's Non-Statutory Stock Option Certificate under Helix's 1996 Equity Incentive Plan for its directors. Filed herewith.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.

31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	Certification of the Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.2	Certification of the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.