DORCHESTER MINERALS, L.P.
Form 10-Q
May 05, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2016**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number **000-50175**

DORCHESTER MINERALS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**81-0551518**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

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

None

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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. (Check one):

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

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

As of May 5, 2016, 30,675,431 common units representing limited partnership interests were outstanding.

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DORCHESTER MINERALS, L.P.

(A Delaware Limited Partnership)

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

See attached financial statements on the following pages.

DORCHESTER MINERALS, L.P.

(A Delaware Limited Partnership)

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$5,267	$7,136
Trade and other receivables	2,417	2,639
Net profits interests receivable - related party	2,519	3,005
Total current assets	10,203	12,780
Other non-current assets	49	19
Property and leasehold improvements - at cost:		
Oil and natural gas properties (full cost method)	340,563	340,563
Accumulated full cost depletion	(281,932)	(279,710)
Total	58,631	60,853
Leasehold improvements	625	625
Accumulated amortization	(562)	(548)
Total	63	77
Total assets	$68,946	$73,729
LIABILITIES AND PARTNERSHIP CAPITAL		
Current liabilities:		
Accounts payable and other current liabilities	$553	$481
Current portion of deferred rent incentive	54	54
Total current liabilities	607	535
Deferred rent incentive less current portion	9	23
Total liabilities	616	558

Commitments and contingencies (Note 2)

Partnership capital:		
General partner	1,824	1,996
Unitholders	66,506	71,175
Total partnership capital	68,330	73,171
Total liabilities and partnership capital	$68,946	$73,729

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

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DORCHESTER MINERALS, L.P.

(A Delaware Limited Partnership)

CONDENSED CONSOLIDATED INCOME STATEMENTS

(In Thousands except Income per Unit)

(Unaudited)

	Three Months Ended March 31, 2016	**2015**
Operating revenues:		
Royalties	$5,784	$8,281
Net profits interests	23	448
Lease bonus	189	47
Other	130	29
Total operating revenues	6,126	8,805
Costs and expenses:		
Operating, including production taxes	507	

credit risks,

the Company s, or its operating segments , material reliance on individual customers or small numbers of customers,

the Company s material reliance on certain trademarks and patents, and its ability to protect this and other intellectual property both domestically and internationally,

the Company s material concentration of licensing agreements with a limited number of licensors, and the continuing long-term financial capability of those licensors to perform under the terms of such agreements, the impact of tax legislation, regulations, or treaties, including proposed legislation in the United States that would affect companies or subsidiaries of companies that have headquarters outside the United States and file U.S. income tax returns,

the impact of other current and future laws and regulations

the results of continuing disagreements with the Hong Kong Inland Revenue Department concerning the portion of our profits that are subject to Hong Kong income tax,

any disagreements with the United States Internal Revenue Service or other taxing authority regarding our assessment of the effects or interpretation of existing tax laws, regulations, or treaties,

risks associated with inventory, including potential obsolescence and our ability to accurately forecast our customer demand,

risks associated with new products and new product lines,

risks associated with the Company s material reliance on certain manufacturers for a significant portion of its production needs,

risks associated with increases in cost and changes in the availability of raw materials and components, which could have a material adverse effect on our financial condition and results of operations,

risks associated with operating in foreign jurisdictions,

interest rate risk, particularly those associated with debt instruments issued in connection with our acquisition of certain assets and liabilities of OXO,

foreign currency exchange losses,

general worldwide and domestic economic conditions,

uninsured losses,

changes in business, political and economic conditions due to the threat of future terrorist activity in the United States and other parts of the world, and related U.S. military action overseas,

reliance on computer systems (see additional comments below),

management s reliance on the representations of third parties,

competitive and other risks associated with our ability to continue to retain executives and key managers in critical positions, and to maintain sufficient back-up management depth, in the event of the departure of any one of these managers,

risks associated with new business ventures and acquisitions, including our ability to manage the transition and integration, and our ability to obtain the anticipated results and synergies from our acquisition of certain assets and liabilities of OXO International,

risks associated with any current or future investments in equity securities,

the risks associated with our ability to timely comply with the internal control over financial reporting requirements imposed by Section 404 of the Sarbanes-Oxley Act, and the impact, if any, on investor confidence in the event that our ongoing internal review process uncovers any reportable internal control issues,

the risks described from time to time in the Company s reports to the Securities and Exchange Commission, including this report,

the risks associated with the impact that any future changes in generally accepted accounting principles may have on the reported results of operations, including the risks of proposed accounting standards requiring the expensing of stock options, and

the risks associated with our ability to avoid classification of our parent company as a Controlled Foreign Corporation. In order for us to preserve our current tax treatment of our non-U.S. earnings, it is critical we avoid Controlled Foreign Corporations status. A Controlled Foreign Corporation is a non-U.S. corporation whose largest U.S. shareholders (i.e., those owning 10 percent or more of its stock) together own more than 50 percent of the stock in such corporation. If a change of ownership of the Company were to occur such that the parent company became a Controlled Foreign Corporation, such a change could have a material negative effect on the largest U.S. shareholders and, in turn, on the Company s business.

Deployment of a New Global Enterprise Resource Planning System

On September 7, 2004, we implemented our new Global Enterprise Resource Planning System, along with other new technologies. With the implementation of this new system, most of our businesses with the significant exception of the newly acquired housewares segment run under one integrated information system. We are currently in the process of closely monitoring the new system and making normal and expected adjustments to improve its effectiveness. We expect this process to continue over the remainder of the third fiscal quarter. Complications resulting from the project could potentially cause considerable disruptions to our business. Since September 7, 2004, we have experienced some backlog in the processing of customer shipments while our sales operations and distribution groups have been learning and adapting to the new system. We currently expect this backlog to be eliminated shortly as we attain our normal operational pace. The change from the old system to the new system will continue to involve risk. Application program bugs, system conflict crashes, user error, data integrity issues, customer data conflicts and integration issues with certain remaining legacy systems all pose potential risks. Implementing new data standards and converting existing data to accommodate the new system s requirements has required a significant effort across our entire organization. During the third fiscal quarter, we currently expect to begin the implementation and transition of our housewares segment to the new system. We also are investigating several significant functionality enhancements planned for implementation under Phase 2 of our IT enhancement program. These additional implementations will continue to strain our internal resources, could impact our ability to do business, and may result in higher implementation costs and concurrent reallocation of human resources.

To support these new technologies, we are building and supporting a much larger and more complex information technology infrastructure. Increased computing capacity, power requirements, back-up capacities, broadband network infrastructure and increased security needs are all potential areas for failure and risk. We have relied substantially on outside vendors to assist us with the conversion and will continue to rely on certain vendors to assist us in maintaining some of our new infrastructure. Should they fail to perform due to events outside our control, it could affect our service levels and threaten our ability to conduct business. Natural disasters may disrupt our infrastructure and our disaster recovery process may not be sufficient to protect against loss.

Additionally, our business operations are dependent on our logistical systems, which include our order management system and our computerized warehouse network. These logistical systems depend on our new Global Enterprise Resource Planning System. Any interruption in our logistical systems would impact our ability to procure our products from our factories and suppliers, transport them to our distribution facilities, store them and deliver them to our customers on time and in the correct amounts.

Incurrence of New Debt to Fund Acquisitions

During the second quarter of fiscal 2005, we incurred substantial debt as more fully described in Note 8 to the consolidated condensed financial statements and under the Financing Activities section of our Management s Discussion and Analysis of Financial Condition and Results of Operations. We are now operating under substantially more leverage and have begun to incur higher interest costs. This substantial increase in debt has added new constraints on our ability to operate our business, including but not limited to:

our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes,

an increased portion of our cash flow from operations will be required to pay interest on our debt, which will reduce the funds available to us for our operations,

the new debt has been issued at variable rates of interest, which may result in higher interest expense in the event of increases in market interest rates risks,

our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions,

our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and conditions in the industries in which we operate,

the new debt agreements contain financial and restrictive covenants, and our failure to comply with them could result in an event of default which, if not cured or waived, could have a material adverse effect on us. Significant restrictive covenants include limitations on among other things, our ability under certain circumstances to:

incur additional debt, including guarantees;

incur certain types of liens;

sell or otherwise dispose of assets;

engage in mergers or consolidations;

enter into substantial new lines of business;

enter into certain types of transactions with our affiliates.

Acquisition of OXO International

As previously mentioned, we acquired certain assets and liabilities of OXO International on June 1, 2004. To the extent that the OXO acquisition is not favorably received by shareholders, analysts, and others in the investment community, the price of our common stock could be adversely affected. In addition, acquisitions involve numerous risks, including:

difficulties in the assimilation of the operations, technologies, products and personnel of the acquired company,

the diversion of management s attention from other business concerns,

risks of entering markets in which we have no or limited prior experience, and

the potential loss of key employees of the acquired company.

If we are unable to successfully integrate the operations, technologies, products or personnel that we have acquired, our business, results of operations, and financial condition could be materially adversely affected.

NEW ACCOUNTING GUIDANCE

In May 2003, the FASB issued FASB Statement No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that issuers classify as liabilities a financial instrument that is within its scope as a liability because that financial instrument embodies an obligation of the issuer. This statement does not affect the timing of recognition of financial instruments as contingent consideration nor does it apply to obligations under stock-based compensation arrangements if those obligations are accounted for under APB Opinion No. 25. Application of this statement is effective for applicable financial instruments entered into or modified after August 31, 2003, and otherwise is effective at the beginning of the first interim fiscal period beginning after June 15, 2003. We currently do not have any financial instruments that are covered under this statement.

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed statement, Share-Based Payment, that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of the company or liabilities that are based on the fair value of the company s equity securities. This proposal, if finalized as proposed, would eliminate use of APB Opinion No. 25, Accounting for Stock Issued to Employees, and generally would require such transactions be accounted for using a fair-value-based method and recording compensation expense rather than optional pro forma disclosure of what expense amounts might be. The proposal, if approved, would substantially amend FASB Statement No. 123, Accounting for Stock-Based Compensation. The comment period for the exposure draft ended on June 30, 2004 and final rules are expected to be issued late in 2004. Because of the timing of the proposal and the uncertainty of whether it will be adopted substantially as proposed, management will evaluate the impact of such a change in the accounting standards on the Company s financial position and results of operations when final rules are issued.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2.1 Amendment to the Acquisition Agreement, dated June 1, 2004, by and among World Kitchen (GHC), LLC, WKI Holding Company, Inc., World Kitchen, Inc., Helen of Troy Limited (Barbados), and Helen of Troy Limited (Bermuda) (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.1 Credit Agreement, dated as of June 1, 2004, among Helen of Troy L.P., Helen of Troy Limited, Bank of America, N.A. and the other lenders party thereto (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.2 Term Loan Credit Agreement, dated as of June 1, 2004, among Helen of Troy L.P., Helen of Troy Limited, Banc of America Mezzanine Capital, LLC and the other lenders party thereto (incorporated by reference from Exhibit 10.2 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.3 Guaranty, dated as of June 1, 2004, made by Helen of Troy Limited (Bermuda), Helen of Troy Limited (Barbados), Hot Nevada, Inc., Helen of Troy Nevada Corporation, Helen of Troy Texas Corporation, Idelle Labs Ltd. and OXO International Ltd., in favor of Bank of America, N.A. and other lenders, pursuant to the Credit Agreement, dated June 1, 2004 (incorporated by reference from Exhibit 10.3 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.4 Guaranty, dated as of June 1, 2004, made by Helen of Troy Limited (Bermuda), Helen of Troy Limited (Barbados), Hot Nevada, Inc., Helen of Troy Nevada Corporation, Helen of Troy Texas Corporation, Idelle Labs Ltd. and OXO International Ltd., in favor of Banc of America Mezzanine Capital, LLC and other lenders, pursuant to the Term Loan Credit Agreement, dated June 1, 2004 (incorporated by reference from Exhibit 10.4 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.5 Note Purchase Agreement, dated June 29, 2004, by and among Helen of Troy Limited (Bermuda), Helen of Troy L.P., Helen of Troy Limited (Barbados) and the purchasers listed in Schedule A thereto (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, filed July 2, 2004).

31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On June 3, 2004, we furnished a report on Form 8-K under Item 2. Acquisition or Disposition of Assets announcing that on June 1, 2004, indirectly through a subsidiary Helen of Troy Limited (Barbados), we had completed our acquisition of certain assets and liabilities of OXO International from World Kitchen (GHC), LLC, WKI Holding Company, Inc. and World Kitchen, Inc. for approximately $273.2 million plus the assumption of certain liabilities.

On July 2, 2004, we furnished a report on Form 8-K under Item 5. Other Events announcing that we had entered into a Note Purchase Agreement, dated as of June 29, 2004 (the Note Purchase Agreement), with Helen of Troy L.P., Helen of Troy Limited (Barbados) and the purchasers listed in Schedule A to the Note Purchase Agreement providing for the issuance of $100,000,000 of Helen of Troy L.P. s Floating Rate Series A Senior Notes due June 29, 2009, $50,000,000 of Helen of Troy L.P. s Floating Rate Series B Senior Notes due June 29, 2011 and $75,000,000 of Helen of Troy L.P. s Floating Rate Series C Senior Notes due June 29, 2014.

On July 14, 2004, we furnished a report on Form 8-K under Item 12. Results of Operations and Financial Condition relating to financial information for Helen of Troy Limited for the quarter ended May 31, 2004, as presented in our July 12, 2004 press release and associated conference call. *

On July 29, 2004, we furnished a report on Form 8-K/A amending our June 3, 2004 Form 8-K. This Amendment on Form 8-K/A was filed to revise Item 7 in our original Form 8-K to include the historical and pro forma financial information required by paragraphs (a) and (b) of Item 7 which were omitted from the report as initially filed in accordance with paragraph (a) (4) of Item 7 in the general instructions to Form 8-K. Because OXO International was not a separate legal entity when acquired, nor was it operated as a separate business of WKI, the information provided in Item 7(a) of Form 8-K/A was a presentation of audited statements of net assets acquired and of revenues and direct expenses, instead of full financial statements as required by Rule 3-05 of Regulation S-X. We had previously requested that the Securities and Exchange Commission confirm the proposed information and presentation would satisfy the requirements of Item 7(a) of Form 8-K. The Securities and Exchange Commission stated that they would not object to such presentation.

* This furnished Form 8-K is not to be deemed filed or incorporated by reference into any filing.

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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.

	HELEN OF TROY LIMITED
	(Registrant)
Date: October 28, 2004	/s/ Gerald J. Rubin
	Gerald J. Rubin Chairman of the Board, Chief Executive Officer, President, Director and Principal Executive Officer
Date: October 28, 2004	/s/ Thomas J. Benson
	Thomas J. Benson Senior Vice-President and Chief Financial Officer
Date: October 28, 2004	/s/ Richard J. Oppenheim
	Richard J. Oppenheim Financial Controller and Principal Accounting Officer

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Index to Exhibits

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