

SAN JUAN BASIN ROYALTY TRUST

Form 10-Q

August 10, 2009

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

Form 10-Q

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

For the Quarterly Period Ended June 30, 2009

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 No. 1-8032

San Juan Basin Royalty Trust

(Exact name of registrant as specified in the Amended and Restated San Juan Basin Royalty Trust Indenture)

Texas

(State or other jurisdiction of incorporation or organization)

75-6279898

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

Compass Bank

2525 Ridgmar Boulevard, Suite 100

Fort Worth, Texas 76116

(Address of principal executive offices)

(Zip Code)

(866) 809-4553

(Registrant's telephone number, including area code)

N/A

(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 during

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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 Smaller reporting company
(Do not check if a 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

Number of Units of beneficial interest outstanding at August 10, 2009: 46,608,796

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SAN JUAN BASIN ROYALTY TRUST

PART I

FINANCIAL INFORMATION

Item 1. *Financial Statements.*

The condensed financial statements included herein have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 47, released September 16, 1982, the financial statements of the San Juan Basin Royalty Trust (the Trust) continue to be prepared in a manner that differs from generally accepted accounting principles in the United States of America (GAAP); this form of presentation is customary to other royalty trusts. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to Rule 10-01 of Regulation S-X promulgated under the Securities Exchange Act of 1934. Nonetheless, Compass Bank, the Trustee of the Trust, believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Trust s Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of the Trustee, all adjustments, consisting only of normal recurring adjustments, have been included that are necessary to fairly present the assets, liabilities and trust corpus of the Trust at June 30, 2009 and the distributable income and changes in trust corpus for the three-month periods and six-month periods ended June 30, 2009 and 2008. The distributable income for such interim periods is not necessarily indicative of the distributable income for the full year.

Table of Contents**SAN JUAN BASIN ROYALTY TRUST****CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS**

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and short-term investments	\$ 433,162	\$ 7,449,767
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$115,703,394 and \$115,348,030 at June 30, 2009 and December 31, 2008, respectively)	17,572,134	17,927,498
	\$ 18,005,296	\$ 25,377,265
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit Holders	\$ 277,373	\$ 7,293,978
Cash reserves	155,789	155,789
Trust corpus 46,608,796 Units of beneficial interest authorized and outstanding	17,572,134	17,927,498
	\$ 18,005,296	\$ 25,377,265

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

Table of Contents**SAN JUAN BASIN ROYALTY TRUST****CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Royalty income	\$ 2,474,109	\$ 35,612,146	\$ 12,024,685	\$ 61,188,564
Interest income	806	19,733	3,411	184,112
Total Revenue	2,474,915	35,631,879	12,028,096	61,372,676
General and administrative expenditures	686,688	592,778	1,270,433	1,202,852
Distributable income	\$ 1,788,227	\$ 35,039,101	\$ 10,757,663	\$ 60,169,824
Distributable income per Unit (46,608,796 Units)	\$ 0.038367	\$ 0.751770	\$ 0.230807	\$ 1.290954

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

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Trust corpus, beginning of period	\$ 17,680,989	\$ 19,438,062	\$ 17,927,498	\$ 19,880,888
Amortization of net overriding royalty interest	(108,855)	(462,141)	(355,364)	(904,967)
Distributable income	1,788,227	35,039,101	10,757,663	60,169,824
Distributions declared	(1,788,227)	(35,039,101)	(10,757,663)	(60,169,824)
Trust corpus, end of period	\$ 17,572,134	\$ 18,975,921	\$ 17,572,134	\$ 18,975,921

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

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SAN JUAN BASIN ROYALTY TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF ACCOUNTING

The San Juan Basin Royalty Trust (the Trust) was established as of November 1, 1980. The financial statements of the Trust are prepared on the following basis:

Royalty income recorded for a month is the amount computed and paid with respect to the Trust's 75% net overriding royalty interest (the Royalty) in certain oil and gas leasehold and royalty interests (the Underlying Properties) by Burlington Resources Oil & Gas Company LP (BROG), the present owner of the Underlying Properties, to the Trustee for the Trust. Royalty income consists of the proceeds received by BROG from the sale of production from the Underlying Properties less accrued production costs, development and drilling costs, applicable taxes, operating charges, and other costs and deductions, multiplied by 75%. The calculation of net proceeds by BROG for any month includes adjustments to proceeds and costs for prior months and impacts the Royalty income paid to the Trust and the distribution to Unit Holders for that month.

Trust expenses recorded are based on liabilities paid and cash reserves established from Royalty income for liabilities and contingencies.

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

The conveyance which transferred the Royalty to the Trust provides that any excess of development and production costs applicable to the Underlying Properties over gross proceeds from such properties must be recovered from future net proceeds before Royalty income is again paid to the Trust.

The financial statements of the Trust differ from financial statements prepared in accordance with GAAP because revenues are not accrued in the month of production; certain cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP; expenses are recorded when paid instead of when incurred; and amortization of the Royalty calculated on a unit-of-production basis is charged directly to the Trust corpus instead of as an expense. The basis of accounting used by the Trust is widely used by royalty trusts for financial reporting purposes.

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 rather than when distributed by the Trust.

Additionally, the Trust is a widely held fixed investment trust (WHFIT) classified as a non-mortgage widely held fixed investment trust (NMWHFIT) for federal income tax purposes. The Trustee is the representative of the Trust that will provide tax information in accordance with the applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT and a NMWHFIT.

The Royalty constitutes an economic interest in oil and gas properties for federal income tax purposes. Unit Holders must report their share of the production revenues of the Trust as ordinary income from oil and gas royalties and are entitled to claim depletion with respect to such income. The Royalty is treated as a single property for depletion purposes. The Trust has on file technical advice memoranda confirming such tax treatment.

Sales of gas production from certain coal seam wells drilled prior to January 1, 1993, qualified for federal income tax credits under Section 29 (now Section 45K) of the Internal Revenue Code of 1986, as amended (the Code), through 2002 but not thereafter. Accordingly, under present law, the Trust's production and sale of gas from coal seam wells does not qualify for tax credit under Section 45K of the Code (the Section 45 Tax Credit). Congress has at various times since 2002 considered energy legislation, including provisions to reinstate

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

the Section 45 Tax Credit in various ways and to various extents, but no legislation that would qualify the Trust's current production for such credit has been enacted. For example, in February 2009, new energy tax legislation was enacted which, among other things, modified the Section 45 Tax Credit in several respects, but did not extend the credit for production from coal seam wells. No prediction can be made as to what future tax legislation affecting Section 45K of the Code may be proposed or enacted or, if enacted, its impact, if any, on the Trust and the Unit Holders.

The classification of the Trust's income for purposes of the passive loss rules may be important to a Unit Holder. As a result of the Tax Reform Act of 1986, royalty income such as that derived through the Trust will generally be treated as portfolio income that may not be offset or reduced by passive losses.

3. CONTINGENCIES

See Part II, Item 1 – Legal Proceedings, concerning the status of litigation matters.

4. SETTLEMENTS AND LITIGATION

On March 14, 2008, BROG notified the Trust that the distribution for March would be reduced by \$4,921,578. BROG described this amount as the Trust's portion of what BROG had paid to settle claims for the underpayment of royalties in the case styled United States of America ex rel. Harold E. (Gene) Wright v. AGIP Petroleum Co. et al., Civil Action No. 5:03CV264 (formerly 9:98-CV-30) (E.D. Tex.). The Trust's consultants continue to analyze this settlement as it may apply to the Trust.

On April 28, 2008, the Trust filed a suit against BROG relating to the Arbitration Award in its favor issued in November 2005, in the amount of \$7,683,699. The litigation is styled San Juan Basin Royalty Trust vs. Burlington Resources Oil & Gas Company, L.P., No. D1329-CV-08-751, in the District Court of Sandoval County, New Mexico, 13th Judicial District. The Trust alleges breach of contract and breach of the covenant of good faith and fair dealing and seeks a judgment for damages in the amount of \$5,025,000, plus interest and punitive damages. The purpose of the arbitration was to resolve certain compliance audit issues. The arbitrator ruled in favor of the Trust on all five of the issues submitted to arbitration. BROG filed suit in Harris County, Texas alleging that the award should be modified or vacated, and seeking to recover its attorneys' fees. The trial court denied BROG's motion to vacate, granted the Trust's application to confirm and rendered a final judgment in favor of the Trust. BROG paid the award as it related to four of the five issues and appealed the award as to the fifth. In August 2007, the appellate court reversed the judgment of the trial court and vacated the award as it related to the unpaid balance.

With respect to that fifth issue which was the subject of the appeal, the Trust had asked for damages based on either of two alternative claims. The appellate court ruled that the alternative claim selected by the arbitrator in awarding the Trust approximately \$5,000,000 was not technically included within the scope of what the parties intended to submit to arbitration. The appellate court did not rule on whether or not the arbitrator properly decided the fifth issue in favor of the Trust. The litigation filed in New Mexico seeks recovery on the claim which had been resolved in favor of the Trust by the arbitrator.

The appellate court also remanded the case to the District Court, where BROG pursued its claim for attorneys' fees and costs in the amount of approximately \$200,000. Following a trial on the merits of BROG's claims conducted on

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June 3, 2009, the District Court ruled in favor of the Trust and ordered that BROG should take nothing in its claims against the Trust. BROG has requested that the trial court make findings of fact and conclusions of law in support of its ruling in favor of the Trust, and it is possible that BROG will appeal that ruling.

In that New Mexico litigation, certain motions for summary judgment filed by BROG were to be heard on June 15, 2009. However, at that hearing, the District Judge determined that he had a potential conflict of interest. As a result, this case has been transferred to another district judge sitting in Sandoval County, New Mexico. The trial on the merits was originally set for April 2010 but will be rescheduled.

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

Forward-Looking Information

Certain information included in this Quarterly Report on Form 10-Q 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 and Section 27A of the Securities Act of 1933. Such forward-looking statements may be or may concern, among other things, capital expenditures, drilling activity, development activities, production efforts and volumes, hydrocarbon prices, estimated future net revenues, estimates of reserves, the results of the Trust's activities, and regulatory matters. Such forward-looking statements generally are accompanied by words such as may, will, estimate, expect, predict, project, anticipate, goal, should, plan, intend, or other words that convey the uncertainty of future events or outcomes. Such statements reflect the current view of Burlington Resources Oil & Gas Company LP (BROG), the working interest owner, with respect to future events; are based on an assessment of, and are subject to, a variety of factors deemed relevant by the Trustee and BROG; and involve risks and uncertainties. These risks and uncertainties include volatility of oil and gas prices, product supply and demand, competition, regulation or government action, litigation and uncertainties about estimates of reserves. Should one or more of these risks or uncertainties occur, actual results may vary materially and adversely from those anticipated.

Business Overview

The Trust is an express trust created under the laws of the state of Texas by the San Juan Basin Royalty Trust Indenture (the Original Indenture) entered into on November 3, 1980 between Southland Royalty Company (Southland Royalty) and The Fort Worth National Bank. Effective as of September 30, 2002, the Original Indenture was amended and restated (the Original Indenture, as amended and restated, the First Restated Indenture) and, effective as of December 12, 2007 the First Restated Indenture was amended and restated (the First Restated Indenture, as amended and restated, the Indenture). The Trustee of the Trust is Compass Bank (as a result of the merger discussed below).

On October 23, 1980, the stockholders of Southland Royalty approved and authorized that company's conveyance of a 75% net overriding royalty interest (equivalent to a net profits interest) to the Trust for the benefit of the stockholders of Southland Royalty of record at the close of business on the date of the conveyance (the Royalty) carved out of that company's oil and gas leasehold and royalty interests (the Underlying Properties) in properties located in the San Juan Basin of northwestern New Mexico. Pursuant to the Net Overriding Royalty Conveyance (the Conveyance) the Royalty was transferred to the Trust on November 3, 1980 effective as to production from and after November 1, 1980 at 7:00 a.m.

As a result of a merger on March 24, 2006, Compass Bank succeeded TexasBank as Trustee of the Trust. On September 7, 2007, Compass Bank's parent company, Compass Bancshares, Inc., was acquired by and is now a wholly-owned subsidiary of Banco Bilbao Vizcaya Argentaria, S.A.

The Royalty constitutes the principal asset of the Trust. The beneficial interests in the Royalty are divided into that number of Units of Beneficial Interest (the Units) of the Trust equal to the number of shares of the common stock of Southland Royalty outstanding as of the close of business on November 3, 1980. Each stockholder of Southland Royalty of record at the close of business on November 3, 1980 received one freely tradable Unit for each share of the common stock of Southland Royalty then held. Holders of Units are referred to herein as Unit Holders. Subsequent to the Conveyance of the Royalty, through a series of assignments and mergers, Southland Royalty's successor became

BROG. On March 31, 2006, a subsidiary of ConocoPhillips completed its acquisition of Burlington Resources, Inc., BROG's parent. As a result, ConocoPhillips became the parent of Burlington Resources, Inc., which in turn, is the parent of BROG.

The function of the Trustee is to collect the net proceeds attributable to the Royalty (Royalty Income), to pay all expenses and charges of the Trust and distribute the remaining available income to the Unit Holders. The Trust does not operate the Underlying Properties and, in fact, is not empowered to carry on any business activity. The Trust has no employees, officers or directors. All administrative functions of the Trust are performed by the Trustee.

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BROG is the principal operator of the Underlying Properties. A very high percentage of the Royalty Income is attributable to the production and sale by BROG of natural gas from the Underlying Properties. Accordingly, the market price for natural gas produced and sold from the San Juan Basin heavily influences the amount of Royalty Income distributed by the Trust and, by extension, the price of the Units.

Three Months Ended June 30, 2009 and 2008

The Trust received Royalty income of \$2,474,109 and interest income of \$806 during the second quarter of 2009. There was no change in cash reserves. After deducting administrative expenses of \$686,688, distributable income for the quarter was \$1,788,227 (\$0.038367 per Unit). In the second quarter of 2008, Royalty income was \$35,612,146, interest income was \$19,733, there was no change in cash reserves, administrative expenses were \$592,778 and distributable income was \$35,039,101 (\$0.751770 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the second quarter of 2009 were as follows:

April	\$.006145
May	.026271
June	.005951
Quarter Total	\$.038367

The Royalty income distributed in the second quarter of 2009 was lower than that distributed in the second quarter of 2008, primarily due to a decrease in the average gas price from \$8.51 per Mcf for the second quarter of 2008 to \$2.82 per Mcf for the second quarter of 2009. Gas volumes, however, increased in the quarter ended June 30, 2009 as compared to the quarter ended June 30, 2008. Interest income was lower for the quarter ended June 30, 2009 as compared to the quarter ended June 30, 2008, primarily due to a decrease in funds available for investment and to lower interest rates. Administrative expenses were higher in 2009 primarily as a result of differences in timing in the receipt and payment of these expenses and also to increased costs associated with the litigation described below.

The capital costs attributable to the Underlying Properties for the second quarter of 2009 and deducted by BROG in calculating Royalty income were approximately \$11 million. BROG has informed the Trust that the 2009 budget for capital expenditures for the Underlying Properties is \$25.2 million. In addition, BROG estimates that during 2009 it will incur capital expenses in the amount of approximately \$12.1 million attributable to the capital budgets for 2008 and prior years. Approximately 12% of the planned expenditures attributable to the 2009 budget will be on Fruitland Coal formation projects with the remainder to be spent on conventional projects. BROG reports that based on its actual capital requirements, the pace of regulatory approvals, the mix of projects and swings in the price of natural gas, the actual capital expenditures for 2009 could range from \$10 million to \$45 million.

BROG anticipates 431 projects in 2009 at an estimated cost of \$25.2 million. Approximately \$6 million of that budget is allocable to 49 new wells, including 39 wells scheduled to be dually completed in the Mesaverde and Dakota formations and four wells projected to be drilled to formations producing coal seam gas. Approximately \$7.1 million will be spent on workovers and facilities projects. Of the \$12.1 million attributable to the budgets for prior years, approximately \$6.9 million is allocable to new wells, and the \$5.2 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. BROG also anticipates that the possible implementation of new rules minimizing surface disturbances, requiring the implementation of closed-loop systems for the disposal of drilling fluids and cuttings, and restricting the use of open reserve pits could reduce the number of projects due to increased compliance costs.

BROG has informed the Trust that lease operating expenses and property taxes were \$7,813,298 and \$213,289, respectively, for the second quarter of 2009, as compared to \$7,736,102 and \$276,732, respectively, for the second quarter of 2008. BROG reports that lease operating expenses were higher in the second quarter of 2009 compared to the second quarter of 2008 primarily because demand-related increases in the cost of contract services and materials have not yet been mitigated by the decline in natural gas sales prices. New drilling results in increases in salt water disposal as well as compression and other operating costs. In addition, many joint operating agreements call for the increase or decrease in rates charged for the drilling and operation of wells based upon an overhead adjustment factor published annually by the Council for Petroleum Accountants Societies. That factor was set at +7.5% effective as of April 1, 2009.

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BROG has reported to the Trustee that during the second quarter of 2009, eight gross (5.71 net) coal seam wells and 19 gross (4.93 net) conventional wells were completed on the Underlying Properties. Eight gross (4.03 net) coal seam wells and 20 gross (4.83 net) conventional wells were in progress at June 30, 2009.

There were, based on recently revised information from BROG, 15 gross (6.84 net) coal seam wells and 25 gross (1.88 net) conventional wells completed on the Underlying Properties as of June 30, 2008. As revised by BROG, one gross (0.84 net) coal seam well and 11 gross (0.96 net) conventional wells were in progress as of June 30, 2008.

There were 3,903 gross (1,137 net) producing wells being operated subject to the Royalty as of December 31, 2008, calculated on a well bore basis and not including multiple completions as separate wells.

Gross acres or wells, for purposes of this discussion, means the entire ownership interest of all parties in such properties, and BROG's interest therein is referred to as the net acres or wells. A payadd is the completion of an additional productive interval in an existing completed zone in a well.

Royalty income for the quarter ended June 30, 2009 is associated with actual gas and oil production during February 2009 through April 2009 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,	
	2009	2008
Gas:		
Total sales (Mcf)	8,511,072	7,837,532
Mcf per day	95,630	87,084
Average price (per Mcf)	\$ 2.82	\$ 8.51
Oil:		
Total sales (Bbls)	15,293	10,677
Bbls per day	172	119
Average price (per Bbl)	\$ 36.58	\$ 94.81

Gas and oil sales attributable to the Royalty for the quarters ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,	
	2009	2008
Gas sales (Mcf)	949,249	4,529,496
Oil sales (Bbls)	1,514	6,141

Sales volumes attributable to the Royalty are determined by dividing the net profits received by the Trust and attributable to oil and gas, respectively, by the prices received for sales volumes from the Underlying Properties, taking into consideration production taxes attributable to the Underlying Properties. Since the oil and gas sales attributable to the Royalty are based on an allocation formula that is dependent on such factors as price and cost, including capital expenditures, the aggregate production volumes from the Underlying Properties may not provide a meaningful comparison to volumes attributable to the Royalty.

During the second quarter of 2009, average gas prices were \$5.69 per Mcf lower than the average prices reported during the second quarter of 2008 due in part to the global economic contraction which has depressed energy demand and contributed to lower natural gas wellhead prices, including the posted index prices applicable to gas sold from the San Juan Basin. The average price per barrel of oil during the second quarter of 2009 was \$58.23 per barrel lower than that received for the second quarter of 2008.

BROG previously entered into three contracts for the sale of all volumes of gas produced from the Underlying Properties to ChevronTexaco Natural Gas, a division of Chevron U.S.A. Inc. (ChevronTexaco), Coral Energy Resources, L.P. (Coral), and PNM Gas Services (PNM), respectively. In March 2008, both ChevronTexaco and Coral notified BROG of their election to terminate their respective contracts effective March 31, 2009. Requests for

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proposal were circulated to potential purchasers of the packages of gas covered by the expiring contracts. Neither BROG nor PNM gave notice of termination with respect to the PNM contract and, by agreement of the parties, the term of that contract has been extended through at least March 31, 2011. On December 11, 2008, the New Mexico Public Regulatory Commission approved the sale of the gas utility assets of PNM to New Mexico Gas Company, Inc. (NMGC) and, effective as of January 30, 2009, the PNM contract was assigned to and assumed by NMGC.

BROG has now entered into four new contracts effective April 1, 2009, for the sale of all gas produced from the Underlying Properties other than the gas covered by the NMGC contract. The new purchasers are Chevron Natural Gas, a division of Chevron USA, Inc., Pacific Gas and Electric Company, BP Energy Company and Macquarie Cook Energy LLC. All four of the new contracts and the pre-existing NMGC contract provide for (i) the delivery of such gas at various delivery points through March 31, 2011 and from year-to-year thereafter, until terminated by either party on 12 months notice; and (ii) the sale of such gas at prices which fluctuate in accordance with the published indices for gas sold in the San Juan Basin of northwestern New Mexico. Although the primary term of the Chevron contract continues until March 31, 2011, a portion of that contract will be remarketed for sale after March 2010.

Confidentiality agreements with purchasers of gas produced from the Underlying Properties prohibit public disclosure of certain terms and conditions of gas sales contracts with those entities, including specific pricing terms and gas receipt points. Such disclosure could compromise the ability to compete effectively in the marketplace for the sale of gas produced from the Underlying Properties.

Six Months Ended June 30, 2009 and 2008

For the six months ended June 30, 2009, the Trust received Royalty income of \$12,024,685 and interest income of \$3,411. There was no change in cash reserves. After deducting administrative expenses of \$1,270,433, distributable income was \$10,757,663 (\$0.230807 per Unit) for the six months ended June 30, 2009. For the six months ended June 30, 2008, the Trust received Royalty income of \$61,188,564 and interest income of \$184,112. There was no change in cash reserves. After deducting administrative expenses of \$1,202,852, distributable income was \$60,169,824 (\$1.290954 per Unit) for the six months ended June 30, 2008.

The decrease in distributable income from 2008 to 2009 resulted primarily from lower gas prices during the first half of 2009. Gas volumes, however, increased in the six months ended June 30, 2009. Interest earnings were lower for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, primarily due to a decrease in funds available for investment and lower interest rates. General and administrative expenses were higher for the six months ended June 30, 2009, as compared to the same period in 2008, primarily as a result of differences in timing in the receipt and payment of the expenses and also to increased costs associated with the litigation described below.

During the first six months of 2009, \$241,000 was included in calculating net proceeds paid to the Trust as a result of the ongoing compliance audit process. All of this amount was paid during the first quarter of 2009. During the first six months of 2008, as part of the negotiations between the Trust and BROG concerning a number of revenue and expense items, a net of \$128,827 was paid to the Trust by BROG as interest on the late payment of gross proceeds. All of this amount was paid during the first quarter of 2008.

Capital expenditures incurred by BROG, attributable to the Underlying Properties, for the first six months of 2009 amounted to approximately \$20.9 million. Capital expenditures were approximately \$12.3 million for the first six months of 2008. For the first six months of 2009, lease operating expenses and property taxes totaled \$16,806,125 and \$490,021, respectively, as compared to \$15,820,090 and \$522,028, respectively, for the first six months of 2008.

BROG has reported to the Trustee that during the six months ended June 30, 2009, 20 gross (11.32 net) coal seam wells and 46 gross (8.70 net) conventional wells were completed on the Underlying Properties. There were 18 gross

(7.66 net) coal seam wells and 48 gross (2.29 net) conventional wells completed on the Underlying Properties in the six months ending June 30, 2008.

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Royalty income for the six months ended June 30, 2009 is associated with actual gas and oil production during November 2008 through April 2009 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the six months ended June 30, 2009 and 2008 were as follows:

	Six Months Ended June 30,	
	2009	2008
Gas:		
Total sales (Mcf)	17,069,622	16,396,649
Mcf per day	94,307	90,091
Average price (per Mcf)	\$ 3.43	\$ 7.71
Oil:		
Total Sales (Bbls)	26,275	23,375
Bbls per day	145	128
Average price (per Bbl)	\$ 38.22	\$ 91.43

Gas and oil sales attributable to the Royalty for the six months ended June 30, 2009 and 2008 were as follows:

	Six Months Ended June 30,	
	2009	2008
Gas sales (Mcf)	3,471,332	9,253,319
Oil sales (Bbls)	4,816	13,063

During the first six months of 2009 gas and oil prices were lower than during the first six months of 2008. Since the oil and gas sales attributable to the Royalty are based on an allocation formula that is dependant on such factors as price and cost, including capital expenditures, the aggregate sales amounts from the Underlying Properties may not provide a meaningful comparison to sales attributable to the Royalty.

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Royalty income received by the Trust for the three months and six months ended June 30, 2009 and 2008, respectively, was computed as shown in the following table:

CALCULATION OF ROYALTY INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>Gross proceeds of sales from the Underlying Properties:</i>				
Gas proceeds	\$ 24,014,580	\$ 66,685,312	\$ 58,609,441	\$ 119,793,526(1)
Oil proceeds	559,382	1,012,317	1,004,117	2,137,110
Total	24,573,962	67,697,629	59,613,558	121,930,636
<i>Less production costs:</i>				
Severance tax gas	2,178,181	6,028,156	5,304,435	11,464,632
Severance tax oil	56,179	99,567	98,975	217,479
Other	1,020		1,020	
Lease operating expense and property tax	8,026,587	8,012,834	17,296,146	16,342,118
Capital expenditures	11,013,183	6,074,210	20,880,069	12,321,655
Total	21,275,150	20,214,767	43,580,645	40,345,884
Net profits	3,298,812	47,482,862	16,032,913	81,584,752
Net overriding royalty interest	75%	75%	75%	75%
Royalty income	\$ 2,474,109	\$ 35,612,146	\$ 12,024,685	\$ 61,188,564

(1) In March 2008, gas proceeds were reduced by \$6,562,104 as the amount BROG determined to be the Trust's portion of BROG's settlement of a legal matter with the Minerals Management Service and the Bureau of Indian Affairs.

Contractual Obligations

Under the Indenture governing the Trust, the Trustee is entitled to an administrative fee for its administrative services and the preparation of quarterly and annual statements of: (i) 1/20 of 1% of the first \$100 million of the annual gross revenue of the Trust, and 1/30 of 1% of the annual gross revenue of the Trust in excess of \$100 million and (ii) the Trustee's standard hourly rates for time in excess of 300 hours annually, provided that the administrative fee due under items (i) and (ii) above will not be less than \$36,000 per year (as adjusted annually to reflect the increase (if any) in the Producers Price Index as published by the U.S. Department of Labor, Bureau of Labor Statistics, since December 31, 2003).

Effects of Securities Regulation

As a publicly-traded trust listed on the New York Stock Exchange (the NYSE), the Trust is and will continue to be subject to extensive regulation under, among others, the Securities Act of 1933, the Securities Exchange Act of 1934 (which contains many of the provisions of the Sarbanes-Oxley Act of 2002), and the rules and regulations of the NYSE. Issuers failing to comply with such authorities risk serious consequences, including criminal as well as civil and administrative penalties. In most instances, these laws, rules, and regulations do not specifically address their applicability to publicly-traded trusts, such as the Trust. In particular, the Sarbanes-Oxley Act of 2002 provides for the adoption by the Securities and Exchange Commission (the Commission) and NYSE of certain rules and regulations that may be impossible for the Trust to literally satisfy because of its nature as a pass-through trust. It is

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the Trustee's intention to follow the Commission's and NYSE's rulemaking closely, attempt to comply with such rules and regulations and, where appropriate, request relief from these rules and regulations. However, if the Trust is unable to comply with such rules and regulations or to obtain appropriate relief, the Trust may be required to expend presently unknown but potentially material costs to amend the Indenture that governs the Trust to allow for compliance with such rules and regulations. To date, the rules implementing the Sarbanes-Oxley Act of 2002 have generally made appropriate accommodation for passive entities such as the Trust.

Critical Accounting Policies

In accordance with the Commission's staff accounting bulletins and consistent with other royalty trusts, the financial statements of the Trust are prepared on the following basis:

Royalty income recorded for a month is the amount computed and paid pursuant to the Conveyance by BROG to the Trustee for the Trust. Royalty income consists of the proceeds received by BROG from the sale of production from the Underlying Properties less accrued production costs, development and drilling costs, applicable taxes, operating charges, and other costs and deductions, multiplied by 75%. The calculation of net proceeds by BROG for any month includes adjustments to proceeds and costs for prior months and impacts the Royalty income paid to the Trust and the distribution to Unit Holders for that month.

Trust expenses recorded are based on liabilities paid and cash reserves established from Royalty income for liabilities and contingencies.

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

The Conveyance which transferred the Royalty to the Trust provides that any excess of development and production costs applicable to the Underlying Properties over gross proceeds from such properties must be recovered from future net proceeds before Royalty income is again paid to the Trust.

The financial statements of the Trust differ from financial statements prepared in accordance with GAAP because revenues are not accrued in the month of production; certain cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP; expenses are recorded when paid instead of when incurred; and amortization of the Royalty calculated on a unit-of-production basis is charged directly to the Trust corpus instead of an expense.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk.*

The Trust invests in no derivative financial instruments, and has no foreign operations or long-term debt instruments. The Trust is a passive entity and is prohibited from engaging in a trade or business, including borrowing transactions, other than as periodically necessary to pay expenses, liabilities and obligations of the Trust that cannot be paid out of cash held by the Trust. The amount of any such borrowings is unlikely to be material to the Trust. The Trust is also permitted to hold short-term investments acquired with funds held by the Trust pending distribution to Unit Holders and funds held in reserve for the payment of Trust expenses and liabilities. Because of the short-term nature of these borrowings and investments and certain limitations upon the types of such investments which may be held by the Trust, the Trustee believes that the Trust is not subject to any material interest rate risk. The Trust is not permitted to engage in transactions in foreign currencies which could expose the Trust or Unit Holders to any foreign currency related market risk. The Trust is not permitted to market the gas, oil or natural gas liquids from the Underlying Properties; BROG is responsible for such marketing.

Item 4. *Controls and Procedures.*

The Trust maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in the Trust's filings under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms. Due to the pass-through nature of the Trust, BROG provides much of the information disclosed in this Form 10-Q and the other periodic reports filed by the Trust with the Commission. Consequently, the Trust's ability to timely disclose relevant information in its periodic reports is dependent upon BROG's delivery of such information. Accordingly, the Trust maintains disclosure controls and procedures designed to ensure that BROG accurately and timely accumulates and

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delivers such relevant information to the Trustee and those who participate in the preparation of the Trust's periodic reports to allow for the preparation of such periodic reports and any decisions regarding disclosure.

The Indenture does not require BROG to update or provide information to the Trust. However, the Conveyance transferring the Royalty to the Trust obligates BROG to provide the Trust with certain information, including information concerning calculations of net proceeds owed to the Trust. Pursuant to the settlement of litigation in 1996 between the Trust and BROG, BROG agreed to newer, more formal financial reporting and audit procedures as compared to those provided in the Conveyance.

In order to help ensure the accuracy and completeness of the information required to be disclosed in the Trust's periodic reports, the Trust employs independent public accountants, joint interest auditors, marketing consultants, attorneys and petroleum engineers. These outside professionals advise the Trustee in its review and compilation of this information for inclusion in this Form 10-Q and the other periodic reports provided by the Trust to the Commission.

The Trustee has evaluated the Trust's disclosure controls and procedures as of June 30, 2009 and has concluded that such disclosure controls and procedures are effective, at the reasonable assurance level, to ensure that material information related to the Trust is gathered on a timely basis to be included in the Trust's periodic reports. In reaching its conclusion, the Trustee has considered the Trust's dependence on BROG to deliver timely and accurate information to the Trust. Additionally, during the quarter ended June 30, 2009 there were no changes in the Trust's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting. The Trustee has reviewed neither the Trust's disclosure controls and procedures nor the Trust's internal control over financial reporting in concert with management, a board of directors or an independent audit committee. The Trust does not have, nor does the Indenture provide for, officers, a board of directors or an independent audit committee.

PART II

OTHER INFORMATION

Item 1. *Legal Proceedings.*

As discussed above under Part I, Item 4 – Controls and Procedures, due to the pass-through nature of the Trust, BROG provides much of the information disclosed in this Form 10-Q and the other periodic reports filed by the Trust with the Commission. Although the Trustee receives periodic updates from BROG regarding activities which may relate to the Trust, the Trust's ability to timely report certain information required to be disclosed in the Trust's periodic reports is dependent on BROG's timely delivery of the information to the Trust.

On March 14, 2008, BROG notified the Trust that the distribution for March would be reduced by \$4,921,578. BROG described this amount as the Trust's portion of what BROG had paid to settle claims for the underpayment of royalties in the case styled United States of America ex rel. Harrold E. (Gene) Wright v. AGIP Petroleum Co. et al., Civil Action No. 5:03CV264 (formerly 9:98-CV-30) (E.D. Tex.). The Trust's consultants continue to analyze this settlement as it may apply to the Trust.

On April 28, 2008, the Trust filed a suit against BROG relating to the Arbitration Award in its favor issued in November 2005, in the amount of \$7,683,699. The litigation is styled San Juan Basin Royalty Trust vs. Burlington Resources Oil & Gas Company, L.P., No. D1329-CV-08-751, in the District Court of Sandoval County, New Mexico, 13th Judicial District. The Trust alleges breach of contract and breach of the covenant of good faith and fair dealing and seeks a judgment for damages in the amount of \$5,025,000, plus interest and punitive damages. The purpose of the arbitration was to resolve certain compliance audit issues. The arbitrator ruled in favor of the Trust on all five of

the issues submitted to arbitration. BROG filed suit in Harris County, Texas alleging that the award should be modified or vacated, and seeking to recover its attorneys' fees. The trial court denied BROG's motion to vacate, granted the Trust's application to confirm and rendered a final judgment in favor of the Trust. BROG paid the award as it related to four of the five issues and appealed the award as to the fifth. In August 2007, the appellate court reversed the judgment of the trial court and vacated the award as it related to the unpaid balance.

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With respect to that fifth issue which was the subject of the appeal, the Trust had asked for damages based on either of two alternative claims. The appellate court ruled that the alternative claim selected by the arbitrator in awarding the Trust approximately \$5,000,000 was not technically included within the scope of what the parties intended to submit to arbitration. The appellate court did not rule on whether or not the arbitrator properly decided the fifth issue in favor of the Trust. The litigation filed in New Mexico seeks recovery on the claim which had been resolved in favor of the Trust by the arbitrator.

The appellate court also remanded the case to the District Court, where BROG pursued its claim for attorneys' fees and costs in the amount of approximately \$200,000. Following a trial on the merits of BROG's claims conducted on June 3, 2009, the District Court ruled in favor of the Trust and ordered that BROG should take nothing in its claims against the Trust. BROG has requested that the trial court make findings of fact and conclusions of law in support of its ruling in favor of the Trust, and it is possible that BROG will appeal that ruling.

In that New Mexico litigation, certain motions for summary judgment filed by BROG were to be heard on June 15, 2009. However, at that hearing, the District Judge determined that he had a potential conflict of interest. As a result, this case has been transferred to another district judge sitting in Sandoval County, New Mexico. The trial on the merits was originally set for April 2010 but will be rescheduled.

In addition to the litigation described above, BROG is involved in various legal proceedings, the outcome of which may impact the Trust. Should certain legal proceedings to which BROG is a party be decided in a manner adverse to BROG, the amount of Royalty income received by the Trust could materially decrease. The Trust has not received from BROG any estimate of the amount of any potential loss in such proceedings, or the portion of any such potential loss that might be allocated to the Royalty.

Item 6. Exhibits.

- (4)(a) Amended and Restated Royalty Trust Indenture, dated September 30, 2002 (the original Royalty Trust Indenture, dated November 1, 1980, having been entered into between Southland Royalty Company and The Fort Worth National Bank, as Trustee), heretofore filed as Exhibit 99.2 to the Trust's Current Report on Form 8-K filed with the Commission on October 1, 2002, is incorporated herein by reference.*
- (4)(b) Net Overriding Royalty Conveyance from Southland Royalty Company to the Fort Worth National Bank, as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit 4(b) to the Trust's Annual Report on Form 10-K filed with the Commission for the fiscal year ended December 31, 2007, is incorporated herein by reference.*
- (4)(c) Assignment of Net Overriding Interest (San Juan Basin Royalty Trust), dated September 30, 2002, between Bank One, N.A. and TexasBank, heretofore filed as Exhibit 4(c) to the Trust's Quarterly Report on Form 10-Q filed with the Commission for the quarter ended September 30, 2002, is incorporated herein by reference.*
- 31 Certification required by Rule 13a-14(a), dated August 10, 2009, by Lee Ann Anderson, Vice President and Senior Trust Officer of Compass Bank, the Trustee of the Trust.**
- 32 Certification required by Rule 13a-14(b), dated August 10, 2009, by Lee Ann Anderson, Vice President and Senior Trust Officer of Compass Bank, on behalf of Compass Bank, the Trustee of the Trust.***

* A copy of this exhibit is available to any Unit Holder (free of charge) upon written request to the Trustee, Compass Bank, 2525 Ridgmar Boulevard, Suite 100, Fort Worth, Texas 76116.

** Filed herewith.

*** Furnished herewith.

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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.

COMPASS BANK, AS TRUSTEE OF THE
SAN JUAN BASIN ROYALTY TRUST

By: /s/ Lee Ann Anderson

Lee Ann Anderson
Vice President and Senior Trust Officer

Date: August 10, 2009

(The Trust has no directors or executive officers.)

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INDEX TO EXHIBITS

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