

SAN JUAN BASIN ROYALTY TRUST

Form 10-Q

November 05, 2010

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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 September 30, 2010**

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 the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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 November 5, 2010: 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. 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 the rules and regulations of the Securities and Exchange Commission. Nonetheless, Compass Bank, the trustee of the Trust (the Trustee), 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, 2009. 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 September 30, 2010 and the distributable income and changes in trust corpus for the three-month periods and nine-month periods ended September 30, 2010 and 2009. 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**

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and short-term investments	\$ 7,880,992	\$ 5,341,482
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$118,014,152 and \$116,431,797 at September 30, 2010 and December 31, 2009, respectively)	15,261,376	16,843,731
	\$ 23,142,368	\$ 22,185,213
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit Holders	\$ 7,725,203	\$ 5,185,693
Cash reserves	155,789	155,789
Trust corpus 46,608,796 Units of beneficial interest authorized and outstanding	15,261,376	16,843,731
	\$ 23,142,368	\$ 22,185,213

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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Royalty income	\$ 19,033,188	\$ 7,232,890	\$ 63,485,843	\$ 19,257,575
Interest income	3,646	194,481	216,735	197,892
Total revenue	19,036,834	7,427,371	63,702,578	19,455,467
General and administrative expenditures	198,836	435,690	1,654,681	1,706,123
Distributable income	\$ 18,837,998	\$ 6,991,681	\$ 62,047,897	\$ 17,749,344
Distributable income per Unit (46,608,796 Units)	\$ 0.404173	\$ 0.150007	\$ 1.331249	\$ 0.380814

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 CHANGES IN TRUST CORPUS (UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Trust corpus, beginning of period	\$ 15,801,981	\$ 17,572,134	\$ 16,843,731	\$ 17,927,498
Amortization of net overriding royalty interest	(540,605)	(293,925)	(1,582,355)	(649,289)
Distributable income	18,837,998	6,991,681	62,047,897	17,749,344
Distributions declared	(18,837,998)	(6,991,681)	(62,047,897)	(17,749,344)
Trust corpus, end of period	\$ 15,261,376	\$ 17,278,209	\$ 15,261,376	\$ 17,278,209

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

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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 the

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SAN JUAN BASIN ROYALTY TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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. Each Unit Holder should consult his or her own tax advisor regarding tax compliance matters related to such Unit Holder's interest in the Trust.

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.

Following mediation conducted on April 8 and 23, 2010, BROG and the Trust entered into a settlement of previously reported litigation 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 dispute subject to the mediation arose out of an arbitrator's award in 2005 in favor of the Trust. That award effectively resolved five compliance audit issues, but BROG argued in subsequent litigation that one of those issues was beyond the scope of the matters agreed to be submitted to arbitration. Pursuant to the settlement, the litigation was dismissed, BROG paid \$2,600,000 to the Trust in May 2010, and released its claims for attorneys' fees.

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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. 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.

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.

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.

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.

Table of Contents**Three Months Ended September 30, 2010 and 2009**

The Trust received Royalty income of \$19,033,188 and interest income of \$3,646 during the third quarter of 2010. There was no change in cash reserves. After deducting administrative expenses of \$198,836, distributable income for the quarter was \$18,837,998 (\$0.404173 per Unit). In the third quarter of 2009, Royalty income was \$7,232,890, interest income was \$194,481, administrative expenses were \$435,690 and distributable income was \$6,991,681 (\$0.150007 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2010 were as follows:

July	\$.137865
August	.100562
September	.165746
Quarter Total	\$.404173

The Royalty income distributed in the third quarter of 2010 was higher than that distributed in the third quarter of 2009, primarily due to an increase in the average gas price from \$2.98 per Mcf for the third quarter of 2009 to \$4.72 per Mcf for the third quarter of 2010, but also as a result of material reductions in capital expenditures. Interest income was lower for the quarter ended September 30, 2010 as compared to the quarter ended September 30, 2009, primarily due to additional interest from granted audit exceptions received in August 2009. Administrative expenses were lower in 2010 primarily as a result of decreased costs associated with the settlement of litigation described in Part II, Item 1, below.

The capital costs attributable to the Underlying Properties for the third quarter of 2010 and deducted by BROG in calculating Royalty income were approximately \$3.1 million as compared to approximately \$7.4 million of capital costs in the third quarter of 2009. BROG has informed the Trust that its budget for capital expenditures for the Underlying Properties in 2010 is estimated at \$17.9 million. In addition, BROG estimates that during 2010 it will incur capital expenses in the amount of approximately \$6.8 million attributable to the capital budgets for 2009 and prior years. 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 2010 could range from \$10 million to \$45 million.

BROG anticipates 305 projects in 2010. Approximately \$7.2 million of the \$17.9 million budget is allocable to 43 new wells, including 41 wells scheduled to be dually completed in the Mesaverde and Dakota formations. BROG indicates that two of the new wells are projected to be drilled to Fruitland Coal or Pictured Cliffs formations. Approximately \$3.8 million will be spent on workovers and facilities projects. Of the \$6.8 million attributable to the budgets for prior years, approximately \$4.4 million is allocable to new wells and the \$2.4 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. BROG informed the Trustee that the possible implementation of new air quality rules and rules requiring the minimization of surface disturbances, implementation of closed-loop systems for the disposal of drilling fluids and cuttings, and the restricted 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 \$8,126,778 and \$270,213, respectively, for the third quarter of 2010, as compared to \$7,756,942 and \$213,289, respectively, for the third quarter of 2009. 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 +1.9% effective as of April 1, 2010.

BROG has reported to the Trustee that during the third quarter of 2010, 11 gross (0.83 net) conventional wells were completed on the Underlying Properties. Eight gross (0.27 net) conventional wells and one gross (0.88 net) coal seam well were in progress at September, 30, 2010.

There were 22 gross (4.58 net) conventional wells, two gross (0.84 net) recompletions, one gross (0.85 net) coal seam recompletion, and 16 gross (8.23 net) coal seam wells completed on the Underlying Properties as of September 30, 2009. Seven gross (2.20 net) conventional wells were in progress at September 30, 2009.

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There were 3,967 gross (1,163 net) producing wells being operated subject to the Royalty as of December 31, 2009, 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 September 30, 2010 is associated with actual gas and oil production during May 2010 through July 2010 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,	
	2010	2009
Gas:		
Total sales (Mcf)	8,357,488	8,916,522
Mcf per day	90,842	96,919
Average price (per Mcf)	\$ 4.72	\$ 2.98
Oil:		
Total sales (Bbls)	17,524	17,414
Bbls per day	190	189
Average price (per Bbl)	\$ 63.48	\$ 56.08

During the third quarter of 2010, average gas prices were \$1.74 per Mcf higher than the average prices reported during the third quarter of 2009. The average price per barrel of oil during the third quarter of 2010 was \$7.40 per barrel higher than that received for the third quarter of 2009.

BROG entered into four contracts effective April 1, 2009, for the sale of all gas produced from the Underlying Properties other than the gas covered by a pre-existing contract with New Mexico Gas Company, Inc. (NMGC). The current purchasers are Chevron Natural Gas, a division of Chevron USA, Inc. (Chevron), Pacific Gas and Electric Company (PG&E), BP Energy Company, Macquarie Cook Energy LLC, and NMGC. All five of such contracts 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.

In March 2010, notice of termination of each of the Chevron, BP Energy Company and Macquarie Cook Energy LLC contracts was given such that they will terminate effective March 31, 2011. Requests for proposal will be circulated to potential purchasers of those packages of gas covered by the expiring contracts with a view toward obtaining new contracts to be effective April 1, 2011. Neither BROG, PG&E, nor NMGC gave notice of termination of their contracts such that the terms of those two contracts have been automatically extended through at least March 31, 2012.

BROG contracts with Williams Four Corners, LLC (WFC) and Enterprise Field Services, LLC (EFS) for the gathering and processing of virtually all of the gas produced from the Underlying Properties. Four new contracts have been entered into with WFC to be effective for terms of 15 years commencing April 1, 2010. The new contracts will consolidate and replace 18 prior contracts with WFC. BROG indicates that the new contracts are anticipated to provide some modest reductions in fees and also improved services, including more rigorous line pressure controls and the right to install compression facilities as needed.

However, BROG reports that it has been unable to reach agreement with EFS on gathering and processing contracts, and it has joined a group of 51 others in an administrative proceeding before the New Mexico Public Utility Commission, complaining, *inter alia*, that EFS is insisting upon above-market rates and refusing to agree to essential pressure control services. Gas is currently being gathered and processed by EFS on a month-to-month basis, but EFS has delivered notice to BROG terminating those contracts effective December 1, 2010. BROG indicates it has received alternative offers from EFS for the gathering and processing of the subject gas after that date, and that while BROG does not anticipate any major interruption in flow, it considers such alternative offers to be commercially and operationally inferior to the terminated agreements. BROG is presently evaluating its options, and the Trustee will continue to monitor this matter as it may relate to the Trust.

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Confidentiality agreements with gatherers and 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.

Nine Months Ended September 30, 2010 and 2009

For the nine months ended September 30, 2010, the Trust received Royalty income of \$63,485,843 and interest income of \$216,735. After deducting administrative expenses of \$1,654,681, distributable income was \$62,047,897 (\$1.331249 per Unit) for the nine months ended September 30, 2010. For the nine months ended September 30, 2009, the Trust received Royalty income of \$19,257,575 and interest income of \$197,892. There was no change in cash reserves. After deducting administrative expenses of \$1,706,123, distributable income was \$17,749,344 (\$0.380814 per Unit) for the nine months ended September 30, 2009.

The increase in distributable income from 2009 to 2010 resulted primarily from higher gas prices during the first nine months of 2010. Interest earnings were higher for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, primarily due to an increase in funds available for investment. General and administrative expenses were lower for the nine months ended September 30, 2010, as compared to the same period in 2009, primarily as a result of decreased costs associated with the litigation between BROG and the Trust described in Part II, Item 1, below.

Capital expenditures incurred by BROG, attributable to the Underlying Properties, for the first nine months of 2010 amounted to approximately \$8.7 million. Capital expenditures were approximately \$28.3 million for the first nine months of 2009. Lease operating expenses and property taxes first nine months of 2010 totaled \$23,769,224 and \$753,714, respectively, as compared to \$24,563,067 and 703,310, respectively, for 2009.

BROG has reported to the Trustee that during the nine months ended September 30, 2010, 35 gross (6.26 net) conventional wells were completed on the Underlying Properties. There were 68 gross (13.28 net) conventional wells, two gross (0.84 net) recompletions, 36 gross (19.55 net) coal seam wells and one gross (0.85 net) coal seam recompletion completed on the Underlying Properties during the nine months ended September 30, 2009.

Royalty income for the nine months ended September 30, 2010 is associated with actual gas and oil production during November 2009 through July 2010 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the nine months ended September 30, 2010 and 2009 were as follows:

	Nine Months Ended September 30,	
	2010	2009
Gas:		
Total sales (Mcf)	24,597,234	25,986,144
Mcf per day	90,100	95,187
Average price (per Mcf)	\$ 5.00	\$ 3.28
Oil:		
Total Sales (Bbls)	45,385	43,689
Bbls per day	166	160
Average price (per Bbl)	\$ 67.31	\$ 45.34

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Royalty Income received by the Trust for the three and nine months ended September 30, 2010 and 2009, respectively, was computed as shown in the following table:

CALCULATION OF ROYALTY INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gross proceeds of sales from the Underlying Properties:				
Gas proceeds	\$ 39,469,691	\$ 26,539,822(1)	\$ 126,416,015(2)	\$ 85,149,264
Oil proceeds	1,112,462	976,542	3,054,682	1,980,659
Total	40,582,153	27,516,364	129,470,697	87,129,923
Less production costs:				
Severance tax gas	3,634,900	2,381,417	11,285,302	7,685,851
Severance tax oil	111,545	94,969	291,433	193,945
Other				1,020(3)
Lease operating expense and property tax	8,396,991	7,970,231	24,522,938	25,266,377
Capital expenditures	3,061,133	7,425,894	8,723,233	28,305,963
Total	15,204,569	17,872,511	44,822,906	61,453,156
Net profits	25,377,584	9,643,853	84,647,791	25,676,767
Net overriding royalty interest	75%	75%	75%	75%
Royalty Income	\$ 19,033,188	\$ 7,232,890	\$ 63,485,843	\$ 19,257,575

(1) In August 2009, gas proceeds included \$540,069 resulting from granted audit exceptions.

(2) In May 2010, gas proceeds included \$2,600,000 received in settlement of litigation described in Part II, Item 1.

(3) Reflects the fee for BROG volume exchanges during the production month of April 2009.

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 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

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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 rules and regulations 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 as 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 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.

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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, compliance 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 September 30, 2010 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 and recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. 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 September 30, 2010 there were no changes in the Trust's internal control over financial reporting 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.

Following mediation conducted on April 8 and 23, 2010, BROG and the Trust entered into a settlement of previously reported litigation 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 dispute subject to the mediation arose out of an arbitrator's award in 2005 in favor of the Trust. That award effectively resolved five compliance audit issues, but BROG argued in subsequent litigation that one of those issues was beyond the scope of the matters agreed to be submitted to arbitration. Pursuant to the settlement, the litigation was dismissed, BROG paid \$2,600,000 to the Trust in May 2010, and released its claims for attorneys' fees.

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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 November 5, 2010, 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 November 5, 2010, 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: November 5, 2010

(The Trust has no directors or executive officers.)

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INDEX TO EXHIBITS

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