

PERMIAN BASIN ROYALTY TRUST  
Form 10-K  
March 02, 2012  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2011**

**OR**

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

**Commission file number 1-8033**

**Permian Basin Royalty Trust**

*(Exact Name of Registrant as Specified in the Permian Basin Royalty Trust Indenture)*

**Texas**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**75-6280532**  
*(I.R.S. Employer Identification No.)*

**U.S. Trust, Bank of America**

**Private Wealth Management**

**Trust Department**

**P.O. Box 830650**

**Dallas, Texas 75202**

*(Address of Principal Executive Offices; Zip Code)*

**(Registrant's Telephone Number, Including Area Code)**

**(214) 209-2400**

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**Securities Registered pursuant to section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Units of Beneficial Interest	New York Stock Exchange

**Securities Registered pursuant to section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$1,008,614,345.44.

At March 2, 2012, there were 46,608,796 Units of Beneficial Interest of the Trust outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

**Table of Contents**

**FORWARD LOOKING INFORMATION**

Certain information included in this report contains, and other materials filed or to be filed by the Trust with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Trust) may contain or include, forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such forward looking statements may be or may concern, among other things, capital expenditures, drilling activity, development activities, production efforts and volumes, hydrocarbon prices and the results thereof, and regulatory matters. Although the Trustee believes that the expectations reflected in such forward looking statements are reasonable, such expectations are subject to numerous risks and uncertainties and the Trustee can give no assurance that they will prove correct. There are many factors, none of which is within the Trustee's control, that may cause such expectations not to be realized, including, among other things, factors such as actual oil and gas prices and the recoverability of reserves, capital expenditures, general economic conditions, actions and policies of petroleum-producing nations and other changes in the domestic and international energy markets and the factors identified under Item 1A, Risk Factors. Such forward looking statements generally are accompanied by words such as estimate, expect, anticipate, goal, should, assume, believe, or other words that indicate the uncertainty of future events or outcomes.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I**

Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	3
Item 1B.	<u>Unresolved Staff Comments</u>	7
Item 2.	<u>Properties</u>	7
Item 3.	<u>Legal Proceedings</u>	17
Item 4.	<u>Mine Safety Disclosures</u>	18

**PART II**

Item 5.	<u>Market for Units of the Trust, Related Security Holder Matters and Trust Purchases of Units</u>	19
Item 6.	<u>Selected Financial Data</u>	19
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	21
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
Item 8.	<u>Financial Statements and Supplementary Data</u>	26
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	36
Item 9A.	<u>Controls and Procedures</u>	36
Item 9B.	<u>Other Information</u>	38

**PART III**

Item 10.	<u>Directors, Executive Officers and Corporate Governance of the Registrant</u>	38
Item 11.	<u>Executive Compensation</u>	38
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management</u>	39
Item 13.	<u>Certain Relationships and Related Transactions</u>	39
Item 14.	<u>Principal Accounting Fees and Services</u>	39

**PART IV**

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	40
	<u>SIGNATURE</u>	42
	<u>INDEX TO EXHIBITS</u>	43
	<u>Consent of Cawley, Gillespie &amp; Associates, Inc.</u>	
	<u>Certification Required by Rule 13a-14(a)/15d-14(a)</u>	
	<u>Certification Required by Rule 13a-14(b)/15d-14(b) and Section 906</u>	
	<u>Report of Cawley, Gillespie &amp; Associates, Inc.</u>	

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**Table of Contents**

**PART I**

**Item 1. Business**

The Permian Basin Royalty Trust (the Trust) is an express trust created under the laws of the state of Texas by the Permian Basin Royalty Trust Indenture (the Trust Indenture) entered into on November 3, 1980, between Southland Royalty Company (Southland Royalty) and The First National Bank of Fort Worth, as Trustee. Bank of America Private Wealth Management, a banking association organized under the laws of the United States, as the successor of The First National Bank of Fort Worth, is now the Trustee of the Trust. In 2007, the Bank of America private wealth management group officially became known as U.S. Trust, Bank of America Private Wealth Management. The legal entity that serves as Trustee of the Trust did not change, and references in this Form 10-K to U.S. Trust, Bank of America Private Wealth Management shall describe the legal entity Bank of America, N.A. The principal office of the Trust (sometimes referred to herein as the Registrant) is located at 901 Main Street, Dallas, Texas (telephone number (214) 209-2400).

On October 23, 1980, the stockholders of Southland Royalty approved and authorized that company's conveyance of net overriding royalty interests (equivalent to net profits interests) 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 consisting of a 75% net overriding royalty interest carved out of that company's fee mineral interests in the Waddell Ranch properties in Crane County, Texas and a 95% net overriding royalty interest carved out of that company's major producing royalty properties in Texas. The conveyance of these interests (the Royalties) was made on November 3, 1980, effective as to production from and after November 1, 1980 at 7:00 a.m. The properties and interests from which the Royalties were carved and which the Royalties now burden are collectively referred to herein as the Underlying Properties. The Underlying Properties are more particularly described under Item 2. Properties herein.

The function of the Trustee is to collect the income attributable to the Royalties, to pay all expenses and charges of the Trust, and then to distribute the remaining available income to the Unit holders. The Trust is not empowered to carry on any business activity and has no employees, all administrative functions being performed by the Trustee.

The Royalties constitute the principal asset of the Trust and the beneficial interests in the Royalties 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 Unit for each share of the common stock of Southland Royalty then held.

In 1985, Southland Royalty became a wholly-owned subsidiary of Burlington Northern Inc. (BNI). In 1988, BNI transferred its natural resource operations to Burlington Resources Inc. (BRI) as a result of which Southland Royalty became a wholly-owned indirect subsidiary of BRI. As a result of this transfer, Meridian Oil Inc., a Delaware corporation (MOI), which was the parent company of Southland Royalty, became a wholly owned direct subsidiary of BRI. Effective January 1, 1996, Southland Royalty was merged with and into MOI. As a result of this merger, the separate corporate existence of Southland Royalty ceased and MOI survived and succeeded to the ownership of all of the assets of Southland Royalty and assumed all of its rights, powers, privileges, liabilities and obligations. Effective July 11, 1996, MOI changed its name to Burlington Resources Oil & Gas Company, now Burlington Oil & Gas Company LP (BROG). Any reference to BROG hereafter for periods prior to the occurrence of the aforementioned name change or merger should, as applicable, be construed to be a reference to MOI or Southland Royalty. Further, BROG notified the Trust that, on February 14, 1997, the Texas Royalty properties (as defined herein on page 8) that are subject to the Net Overriding Royalty Conveyance dated November 1, 1980 (the Texas Royalty Conveyance), were sold to Riverhill Energy Corporation (Riverhill Energy) of Midland, Texas. Effective March 31, 2006, ConocoPhillips acquired BRI pursuant to a merger between BRI and a wholly-owned subsidiary of ConocoPhillips. As a result of this acquisition, BRI and BROG are both wholly-owned subsidiaries of ConocoPhillips.

The term net proceeds is used in the above described conveyance and means the excess of gross proceeds received by BROG during a particular period over production costs for such period. Gross proceeds means the amount received by BROG (or any subsequent owner of the Underlying Properties) from the sale of the production attributable to the Underlying Properties, subject to certain adjustments. Production costs means, generally, costs incurred on an accrual basis in operating the Underlying Properties, including both capital and non-capital costs; for example, development drilling, production and processing

## **Table of Contents**

costs, applicable taxes, and operating charges. If production costs exceed gross proceeds in any month, the excess is recovered out of future gross proceeds prior to the making of further payment to the Trust, but the Trust is not liable for any production costs or liabilities attributable to these properties and interests or the minerals produced therefrom. If at any time the Trust receives more than the amount due from the Royalties, it shall not be obligated to return such overpayment, but the amounts payable to it for any subsequent period shall be reduced by such overpaid amount, plus interest, at a rate specified in the conveyance.

To the extent it has the legal right to do so, BROG is responsible for marketing the production from such properties and interests, either under existing sales contracts or under future arrangements at the best prices and on the best terms it shall deem reasonably obtainable in the circumstances. BROG also has the obligation to maintain books and records sufficient to determine the amounts payable to the Trustee. BROG, however, can sell its interests in the Underlying Properties.

Proceeds from production in the first month are generally received by BROG in the second month, the net proceeds attributable to the Royalties are paid by BROG to the Trustee in the third month and distribution by the Trustee to the Unit holders is made in the fourth month. The identity of Unit holders entitled to a distribution will generally be determined as of the last business day of each calendar month (the monthly record date). The amount of each monthly distribution will generally be determined and announced ten days before the monthly record date. Unit holders of record as of the monthly record date will be entitled to receive the calculated monthly distribution amount for each month on or before ten business days after the monthly record date. The aggregate monthly distribution amount is the excess of (i) net revenues from the Trust properties, plus any decrease in cash reserves previously established for contingent liabilities and any other cash receipts of the Trust over (ii) the expenses and payments of liabilities of the Trust plus any net increase in cash reserves for contingent liabilities.

Cash held by the Trustee as a reserve for liabilities or contingencies (which reserves may be established by the Trustee in its discretion) or pending distribution is placed, at the Trustee's discretion, in obligations issued by (or unconditionally guaranteed by) the United States or any agency thereof, repurchase agreements secured by obligations issued by the United States or any agency thereof, or certificates of deposit of banks having a capital surplus and undivided profits in excess of \$50,000,000, subject, in each case, to certain other qualifying conditions.

The income to the Trust attributable to the Royalties is not subject in material respects to seasonal factors nor in any manner related to or dependent upon patents, licenses, franchises or concessions. The Trust conducts no research activities. The Trust has no employees since all administrative functions are performed by the Trustee.

BROG has advised the Trustee that it believes that comparable revenues could be obtained in the event of a change in purchasers of production.

## **Website/SEC Filings**

Our Internet address is <http://www.pbt-permianbasintrust.com>. You can review, free of charge, the filings the Trust has made with respect to its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. We shall post these reports to our Internet address as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC.

## **Widely Held Fixed Investment Trust Reporting Information**

Some Trust Units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a customer in street name, collectively referred to herein as middlemen). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust (WHFIT) for U.S. federal income tax purposes. U.S. Trust, Bank of America Private Wealth Management, EIN: 56-0906609, 901 Main Street, 17th Floor, Dallas, Texas 75202, telephone number (214) 209-2400, is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the Trustee at [www.pbt-permianbasintrust.com](http://www.pbt-permianbasintrust.com). Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of Unit holders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such Trust Units,

**Table of Contents**

including the issuance of IRS Forms 1099 and certain written tax statements. Unit holders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.

**Item 1A. Risk Factors**

**Crude oil and natural gas prices are volatile and fluctuate in response to a number of factors; Lower prices could reduce the net proceeds payable to the Trust and Trust distributions.**

The Trust's monthly distributions are highly dependent upon the prices realized from the sale of crude oil and natural gas and a material decrease in such prices could reduce the amount of cash distributions paid to Unit holders. Crude oil and natural gas prices can fluctuate widely on a month-to-month basis in response to a variety of factors that are beyond the control of the Trust. Factors that contribute to price fluctuation include, among others:

political conditions in major oil producing regions, especially in the Middle East;

worldwide economic conditions;

weather conditions;

the supply and price of domestic and foreign crude oil or natural gas;

the ability of members of the Organization of Petroleum Exporting Countries to agree upon and maintain oil prices and production levels;

the level of consumer demand;

the price and availability of alternative fuels;

the proximity to, and capacity of, transportation facilities;

the effect of worldwide energy conservation measures; and

the nature and extent of governmental regulation and taxation.

When crude oil and natural gas prices decline, the Trust is affected in two ways. First, net income from the Royalties is reduced. Second, exploration and development activity on the Underlying Properties may decline as some projects may become uneconomic and are either delayed or eliminated. It is impossible to predict future crude oil and natural gas price movements, and this reduces the predictability of future cash distributions to Unit holders.

**Increased production and development costs attributable to the Royalties will result in decreased Trust distributions unless revenues also increase.**

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Production and development costs attributable to the Royalties are deducted in the calculation of the Trust's share of net proceeds. Accordingly, higher or lower production and development costs will directly decrease or increase the amount received by the Trust from the Royalties. Production and development costs are impacted by increases in commodity prices, both directly, through commodity price dependent costs, such as electricity, and indirectly, as a result of demand driven increases in costs of oilfield goods and services. For example, the costs of electricity that will be included in production and development costs deducted in calculating the Trust's share of 2012 net proceeds could increase compared to the electrical costs incurred during 2011 if higher fuel surcharges are charged by the third party electricity provider in response to any increased costs of natural gas consumed to generate the electricity. These increased costs could reduce the Trust's share of 2012 net proceeds below the level that would exist if such costs remained at the level experienced in 2011. If production and development costs attributable to the Royalties exceed the gross proceeds related to production from the Underlying Properties, the Trust will not receive net proceeds until future proceeds from production exceed the total of the excess costs plus accrued interest during the deficit period. Development activities may not generate sufficient additional proceeds to repay the costs.



## **Table of Contents**

**Trust reserve estimates depend on many assumptions that may prove to be inaccurate, which could cause both estimated reserves and estimated future net revenues to be too high, leading to write-downs of estimated reserves.**

The value of the Units will depend upon, among other things, the reserves attributable to the Royalties from the Underlying Properties. The calculations of proved reserves and estimating reserves is inherently uncertain. In addition, the estimates of future net revenues are based upon various assumptions regarding future production levels, prices and costs that may prove to be incorrect over time.

The accuracy of any reserve estimate is a function of the quality of available data, engineering interpretation and judgment and the assumptions used regarding the quantities of recoverable crude oil and natural gas and the future prices of crude oil and natural gas. Petroleum engineers consider many factors and make many assumptions in estimating reserves. Those factors and assumptions include:

historical production from the area compared with production rates from similar producing areas;

the effects of governmental regulation;

assumptions about future commodity prices, production and development costs, taxes, and capital expenditures;

the availability of enhanced recovery techniques; and

relationships with landowners, working interest partners, pipeline companies and others.

Changes in any of these factors and assumptions can materially change reserve and future net revenue estimates. The Trust's estimate of reserves and future net revenues is further complicated because the Trust holds an interest in net overriding royalties and does not own a specific percentage of the crude oil or natural gas reserves. Ultimately, actual production, revenues and expenditures for the Underlying Properties, and therefore actual net proceeds payable to the Trust, will vary from estimates and those variations could be material. Results of drilling, testing and production after the date of those estimates may require substantial downward revisions or write-downs of reserves.

**The assets of the Trust are depleting assets and, if BROG and the other operators developing the Underlying Properties do not perform additional development projects, the assets may deplete faster than expected. Eventually, the assets of the Trust will cease to produce in commercial quantities and the Trust will cease to receive proceeds from such assets. In addition, a reduction in depletion tax benefits may reduce the market value of the Units.**

The net proceeds payable to the Trust are derived from the sale of depleting assets. The reduction in proved reserve quantities is a common measure of depletion. Future maintenance and development projects on the Underlying Properties will affect the quantity of proved reserves and can offset the reduction in proved reserves. The timing and size of these projects will depend on the market prices of crude oil and natural gas. If the operators developing the Underlying Properties, including BROG, do not implement additional maintenance and development projects, the future rate of production decline of proved reserves may be higher than the rate currently expected by the Trust.

Because the net proceeds payable to the Trust are derived from the sale of depleting assets, the portion of distributions to Unit holders attributable to depletion may be considered a return of capital as opposed to a return on investment. Distributions that are a return of capital will ultimately diminish the depletion tax benefits available to the Unit holders, which could reduce the market value of the Units over time. Eventually, the Royalties will cease to produce in commercial quantities and the Trust will, therefore, cease to receive any distributions of net proceeds therefrom.

**Future royalty income may be subject to risks relating to the creditworthiness of third parties.**

The Trust does not lend money and has limited ability to borrow money, which the Trustee believes limits the Trust's risk from the current tightening of credit markets. The Trust's future royalty income, however, may be subject to risks relating to the creditworthiness of the operators of the Underlying Properties and other purchasers of the crude oil and natural gas produced from the Underlying Properties, as well as risks

associated with fluctuations in the price of crude oil and natural gas.

## **Table of Contents**

### **The market price for the Units may not reflect the value of the royalty interests held by the Trust.**

The public trading price for the Units tends to be tied to the recent and expected levels of cash distribution on the Units. The amounts available for distribution by the Trust vary in response to numerous factors outside the control of the Trust, including prevailing prices for crude oil and natural gas produced from the Royalties. The market price is not necessarily indicative of the value that the Trust would realize if it sold those Royalties to a third party buyer. In addition, such market price is not necessarily reflective of the fact that since the assets of the Trust are depleting assets, a portion of each cash distribution paid on the Units should be considered by investors as a return of capital, with the remainder being considered as a return on investment. There is no guarantee that distributions made to a Unit holder over the life of these depleting assets will equal or exceed the purchase price paid by the Unit holder.

### **Operational risks and hazards associated with the development of the Underlying Properties may decrease Trust distributions.**

There are operational risks and hazards associated with the production and transportation of crude oil and natural gas, including without limitation natural disasters, blowouts, explosions, fires, leakage of crude oil or natural gas, releases of other hazardous materials, mechanical failures, cratering, and pollution. Any of these or similar occurrences could result in the interruption or cessation of operations, personal injury or loss of life, property damage, damage to productive formations or equipment, or damage to the environment or natural resources, or cleanup obligations. The operation of oil and gas properties is also subject to various laws and regulations. Non-compliance with such laws and regulations could subject the operator to additional costs, sanctions or liabilities. The uninsured costs resulting from any of these or similar occurrences could be deducted as a cost of production in calculating the net proceeds payable to the Trust and would therefore reduce Trust distributions by the amount of such uninsured costs.

As oil and gas production from the Waddell Ranch properties is processed through a single facility, future distributions from those properties may be particularly susceptible to such risks. A partial or complete shut down of operations at that facility could disrupt the flow of royalty payments to the Trust and, accordingly, the Trust's distributions to its Unit holders. In addition, although BROG is the operator of record of the properties burdened by the Waddell Ranch overriding royalty interests, none of the Trustee, the Unit holders or BROG has an operating interest in the properties burdened by the Texas Royalty properties (as defined herein on page 8) overriding royalty interests. As a result, these parties are not in a position to eliminate or mitigate the above or similar occurrences with respect to such properties and may not become aware of such occurrences prior to any reduction in Trust distributions which may result therefrom.

### **Terrorism and continued hostilities in the Middle East could decrease Trust distributions or the market price of the Units.**

Terrorist attacks and the threat of terrorist attacks, whether domestic or foreign, as well as the military or other actions taken in response, cause instability in the global financial and energy markets. Terrorism and sustained military campaigns could adversely affect Trust distributions or the market price of the Units in unpredictable ways, including through the disruption of fuel supplies and markets, increased volatility in crude oil and natural gas prices, or the possibility that the infrastructure on which the operators developing the Underlying Properties rely could be a direct target or an indirect casualty of an act of terror.

### **Unit holders and the Trustee have no influence over the operations on, or future development of, the Underlying Properties.**

Neither the Trustee nor the Unit holders can influence or control the operations on, or future development of, the Underlying Properties. The failure of an operator to conduct its operations, discharge its obligations, deal with regulatory agencies or comply with laws, rules and regulations, including environmental laws and regulations, in a proper manner could have an adverse effect on the net proceeds payable to the Trust. The current operators developing the Underlying Properties are under no obligation to continue operations on the Underlying Properties. Neither the Trustee nor the Unit holders have the right to replace an operator.

## **Table of Contents**

### **The operators developing the Texas Royalty properties have no duty to protect the interests of the Unit holders and do not have sole discretion regarding development activities on the Underlying Properties.**

Under the terms of a typical operating agreement relating to oil and gas properties, the operator owes a duty to working interest owners to conduct its operations on the properties in a good and workmanlike manner and in accordance with its best judgment of what a prudent operator would do under the same or similar circumstances. BROG is the operator of record of the Waddell Ranch overriding royalty interests and in such capacity owes the Trust a contractual duty under the conveyance agreement for that overriding royalty interest to operate the Waddell Ranch properties in good faith and in accordance with a prudent operator standard. The operators of the properties burdened by the Texas Royalty properties overriding royalty interests, however, have no contractual or fiduciary duty to protect the interests of the Trust or the Unit holders other than indirectly through its duty of prudent operations to the unaffiliated owners of the working interests in those properties.

In addition, even if an operator, including BROG in the case of the Waddell Ranch properties (as defined herein on page 8), concludes that a particular development operation is prudent on a property, it may be unable to undertake such activity unless it is approved by the requisite approval of the working interest owners of such properties (typically the owners of at least a majority of the working interests). Even if the Trust concludes that such activities in respect of any of its overriding royalty interests would be in its best interests, it has no right to cause those activities to be undertaken.

### **The operator developing any Underlying Property may transfer its interest in the property without the consent of the Trust or the Unit holders.**

Any operator developing any of the Underlying Properties may at any time transfer all or part of its interest in the Underlying Properties to another party. Neither the Trust nor the Unit holders are entitled to vote on any transfer of the properties underlying the Royalties, and the Trust will not receive any proceeds of any such transfer. Following any transfer, the transferred property will continue to be subject to the Royalties, but the net proceeds from the transferred property will be calculated separately and paid by the transferee. The transferee will be responsible for all of the transferor's obligations relating to calculating, reporting and paying to the Trust the Royalties from the transferred property, and the transferor will have no continuing obligation to the Trust for that property.

### **The operator developing any Underlying Property may abandon the property, thereby terminating the Royalties payable to the Trust.**

The operators developing the Underlying Properties, or any transferee thereof, may abandon any well or property without the consent of the Trust or the Unit holders if they reasonably believe that the well or property can no longer produce in commercially economic quantities. This could result in the termination of the Royalties relating to the abandoned well or property.

### **The Royalties can be sold and the Trust would be terminated.**

The Trustee must sell the Royalties if the holders of 75% or more of the Units approve the sale or vote to terminate the Trust. The Trustee must also sell the Royalties if they fail to generate net revenue for the Trust of at least \$1,000,000 per year over any consecutive two-year period. Sale of all of the Royalties will terminate the Trust. The net proceeds of any sale will be distributed to the Unit holders. The sale of the remaining Royalties and the termination of the Trust will be taxable events to the Unit holders. Generally, a Unit holder will realize gain or loss equal to the difference between the amount realized on the sale and termination of the Trust and his adjusted basis in such Units. Gain or loss realized by a Unit holder who is not a dealer with respect to such Units and who has a holding period for the Units of more than one year will be treated as long-term capital gain or loss except to the extent of any depletion recapture amount, which must be treated as ordinary income. Other federal and state tax issues concerning the Trust are discussed under Note 5 and Note 9 to the Trust's financial statements, which are included herein. Each Unit holder should consult his own tax advisor regarding Trust tax compliance matters, including federal and state tax implications concerning the sale of the Royalties and the termination of the Trust.

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## **Table of Contents**

### **Unit holders have limited voting rights and have limited ability to enforce the Trust's rights against the current or future operators developing the Underlying Properties.**

The voting rights of a Unit holder are more limited than those of stockholders of most public corporations. For example, there is no requirement for annual meetings of Unit holders or for an annual or other periodic re-election of the Trustee.

The Trust indenture and related trust law permit the Trustee and the Trust to sue BROG, Riverhill Energy Corporation or any other future operators developing the Underlying Properties to compel them to fulfill the terms of the conveyance of the Royalties. If the Trustee does not take appropriate action to enforce provisions of the conveyance, the recourse of the Unit holders would likely be limited to bringing a lawsuit against the Trustee to compel the Trustee to take specified actions. Unit holders probably would not be able to sue BROG, Riverhill Energy Corporation or any other future operators developing the Underlying Properties.

### **Financial information of the Trust is not prepared in accordance with GAAP.**

The financial statements of the Trust are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, or GAAP. Although this basis of accounting is permitted for royalty trusts by the U.S. Securities and Exchange Commission, the financial statements of the Trust differ from GAAP financial statements because revenues are not accrued in the month of production and cash reserves may be established for specified contingencies and deducted which could not be accrued in GAAP financial statements.

### **The limited liability of the Unit holders is uncertain.**

The Unit holders are not protected from the liabilities of the Trust to the same extent that a shareholder would be protected from a corporation's liabilities. The structure of the Trust does not include the interposition of a limited liability entity such as a corporation or limited partnership which would provide further limited liability protection to Unit holders. While the Trustee is liable for any excess liabilities incurred if the Trustee fails to insure that such liabilities are to be satisfied only out of Trust assets, under the laws of Texas, which are unsettled on this point, a holder of Units may be jointly and severally liable for any liability of the Trust if the satisfaction of such liability was not contractually limited to the assets of the Trust and the assets of the Trust and the Trustee are not adequate to satisfy such liability. As a result, Unit holders may be exposed to personal liability.

### **Item 1B. *Unresolved Staff Comments***

The Trust has not received any written comments from the Securities and Exchange Commission staff regarding its periodic or current reports under the Act not less than 180 days before December 31, 2011, which comments remain unresolved.

### **Item 2. *Properties***

The net overriding royalties conveyed to the Trust (the "Royalties") include: (1) a 75% net overriding royalty carved out of Southland Royalty's fee mineral interests in the Waddell Ranch in Crane County, Texas (the "Waddell Ranch properties"); and (2) a 95% net overriding royalty carved out of Southland Royalty's major producing royalty interests in Texas (the "Texas Royalty properties"). The interests out of which the Trust's net overriding royalty interests were carved were in all cases less than 100%. The Trust's net overriding royalty interests represent burdens against the properties in favor of the Trust without regard to ownership of the properties from which the overriding royalty interests were carved. The net overriding royalty for the Texas Royalty properties is subject to the provisions of the lease agreements under which such royalties were created. References below to net wells and acres are to the interests of BROG (from which the Royalties were carved) in the gross wells and acres.

A production index for oil and gas properties is the number of years derived by dividing remaining reserves by current production. The production index for the Trust properties based on the reserve report prepared by independent petroleum engineers as of December 31, 2011, is approximately 9.8 years.

The following information under this Item 2 is based upon data and information, including audited computation statements, furnished to the Trustee by BROG and Riverhill Energy.



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**Table of Contents**

**PRODUCING ACREAGE, WELLS AND DRILLING**

*Waddell Ranch Properties.* The net profits/overriding royalty interest in the Waddell Ranch properties is the largest asset of the Trust. The mineral interests in the Waddell Ranch, from which such net royalty interests are carved, vary from 37.5% (Trust net interest) to 50% (Trust net interest) in 78,715 gross (34,205 net) producing acres. A majority of the proved reserves are attributable to six fields: Dune, Sand Hills (Judkins), Sand Hills (McKnight), Sand Hills (Tubb), University-Waddell (Devonian) and Waddell. At December 31, 2011, the Waddell Ranch properties contained 755 gross (340 net) productive oil wells, 188 gross (88 net) productive gas wells and 254 gross (109 net) injection wells.

BROG is operator of record of the Waddell Ranch properties. All field, technical and accounting operations have been contracted by agreements between the working interest owners and Schlumberger Integrated Project Management (IPM) and Riverhill Capital Corporation ( Riverhill Capital ), but remain under the direction of BROG.

Six major fields on the Waddell Ranch properties account for more than 80% of the total production. In the six fields, there are 12 producing zones ranging in depth from 2,800 to 10,600 feet.

Most prolific of these zones are the Grayburg and San Andres, which produce from depths between 2,800 and 3,400 feet. Also productive from the San Andres are the Sand Hills (Judkins) gas field and the Sand Hills (McKnight) oil field, the Dune (Grayburg/San Andres) oil field, and the Waddell (Grayburg/San Andres) oil field.

The Dune and Waddell oil fields are productive from both the Grayburg and San Andres formations. The Sand Hills (Tubb) oil fields produce from the Tubb formation at depths averaging 4,300 feet, and the University Waddell (Devonian) oil field is productive from the Devonian formation between 8,400 and 9,200 feet.

The Waddell Ranch properties are mature producing properties, and all of the major oil fields are currently being waterflooded for the purpose of facilitating enhanced recovery. Proved reserves and estimated future net revenues attributable to the properties are included in the reserve reports summarized below. BROG does not own the full working interest in any of the tracts constituting the Waddell Ranch properties and, therefore, implementation of any development programs will require approvals of other working interest holders as well as BROG. In addition, implementation of any development programs will be dependent upon oil and gas prices currently being received and anticipated to be received in the future. There were 4 gross (2 net) 2010 drill wells completed on the Waddell Ranch properties during 2011. At December 31, 2011, there were no drill wells and 13 workovers in progress on the Waddell Ranch properties. There was 1 gross (0.5 net) well drilled and completed on the Waddell Ranch properties during 2010. At December 31, 2010 there were 4 drill wells and 5 workovers in progress on the Waddell Ranch properties. There were 11 gross (5 net) wells drilled and completed on the Waddell Ranch properties during 2009. At December 31, 2009 there were no drill wells and 2 workovers in progress on the Waddell Ranch properties.

In 2011, there were no net productive and no dry exploratory wells drilled, and 2 net productive and no dry development wells drilled on the Waddell Ranch properties, compared to no net productive and no dry exploratory wells and 0.5 net productive and no dry development wells drilled in 2010. In 2009, there were no net productive and no dry exploratory wells drilled, and 5 net productive and no dry development wells drilled on the Waddell Ranch Properties.

BROG has advised the Trustee that the total amount of capital expenditures for 2011 with regard to the Waddell Ranch properties totaled \$26.1 million. Capital expenditures include the cost of remedial and maintenance activities. This amount spent is approximately \$3.1 million more than the budgeted amount projected by BROG for 2011. BROG has advised the Trustee that the capital expenditures budget for 2012 totals approximately \$75.40 million, of which approximately \$22.74 million (gross) is attributable to the 2012 drilling program, and \$43.25 million (gross) to workovers and recompletions. The remaining \$9.41 million is attributable to facilities. Accordingly, there is a 189% increase in capital expenditures for 2012 as compared with the 2011 capital expenditures. The major reason for the variance is the increase in the number of planned capital recompletions, addition of a drilling program, addition of waterflood expansion and an increased level of facility work. There will be 9 (7 producers, 2 injectors) new drill wells in 2012 as compared to no new drill wells in 2011.

*Texas Royalty Properties.* The Texas Royalty properties consist of royalty interests in mature producing oil fields, such as Yates, Wasson, Sand Hills, East Texas, Kelly-Snyder, Panhandle Regular, N. Cowden, Todd, Keystone, Kermit, McElroy,

**Table of Contents**

Howard-Glasscock, Seminole and others located in 33 counties across Texas. The Texas Royalty properties consist of approximately 125 separate royalty interests containing approximately 303,000 gross (approximately 51,000 net) producing acres. Approximately 41% of the future net revenues discounted at 10% attributable to Texas Royalty properties are located in the Wasson and Yates fields. Detailed information concerning the number of wells on royalty properties is not generally available to the owners of royalty interests. Consequently, an accurate count of the number of wells located on the Texas Royalty properties cannot readily be obtained.

In February 1997, BROG sold its interests in the Texas Royalty properties that are subject to the Net Overriding Royalty Conveyance to the Trust dated effective November 1, 1980 ( Texas Royalty Conveyance ) to Riverhill Energy Corporation ( Riverhill Energy ), which was then a wholly-owned subsidiary of Riverhill Capital and an affiliate of Coastal Management Corporation ( CMC ). At the time of such sale, Riverhill Capital was a privately owned Texas corporation with offices in Bryan and Midland, Texas. The Trustee was informed by BROG that, as required by the Texas Royalty Conveyance, Riverhill Energy succeeded to all of the requirements upon, and the responsibilities of BROG under, the Texas Royalty Conveyance with regard to the Texas Royalty properties. BROG and Riverhill Energy further advised the Trustee that all accounting operations pertaining to the Texas Royalty properties were being performed by Riverhill Energy.

The Trustee has been advised that, effective April 1, 1998, Schlumberger Technology Corporation ( STC ) acquired all of the shares of stock of Riverhill Capital. Prior to the acquisition by STC, CMC and Riverhill Energy were wholly-owned subsidiaries of Riverhill Capital. The Trustee has further been advised, in accordance with the STC acquisition of Riverhill Capital, the shareholders of Riverhill Capital acquired ownership of all shares of stock of Riverhill Energy. Effective January 1, 2001 CMC merged into STC. Thus, the ownership in the Texas Royalty properties remained in Riverhill Energy.

The Trustee has been advised that as of May 1, 2000, the accounting operations pertaining to the Texas Royalty properties were transferred from STC to Riverhill Energy. As of January 1, 2012, ConocoPhillips assumed all field, technical and accounting operations, on behalf of BROG, with regard to the Waddell Ranch properties. ConocoPhillips currently provides summary reporting of monthly results for the Waddell Ranch properties.

*Well Count and Acreage Summary.* The following table shows as of December 31, 2011, the gross and net producing wells and acres for the BROG interests. The net wells and acres are determined by multiplying the gross wells or acres by the BROG interests owner's working interest in the wells or acres. Similar information is not available for the Riverhill Energy interests. There is no undeveloped acreage on the Waddell Ranch properties.

	Number of Wells		Acres	
	Gross	Net	Gross	Net
BROG Interests	1,276	577	76,922	33,246



**Table of Contents****OIL AND GAS PRODUCTION**

The Trust recognizes production during the month in which the related distribution is received. Production of oil and gas attributable to the Royalties and the Underlying Properties, the related average sales prices and the average production cost per unit of production attributable to the Underlying Properties for the three years ended December 31, 2011, excluding portions attributable to the adjustments discussed below, were as follows:

	Waddell Ranch Properties			Texas Royalty Properties			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
<b>Royalties:</b>									
Production									
Oil (barrels)	293,983	369,392	272,734	277,315	280,410	277,189	571,298	649,802	549,923
Gas (Mcf)	1,762,003	2,456,261	1,809,253	410,151	458,162	460,647	2,172,154	2,914,423	2,269,900
<b>Underlying Properties:</b>									
Production									
Oil (barrels)	639,963	705,266	753,419	311,698	314,118	325,507	951,661	1,019,384	1,078,926
Gas (Mcf)	3,830,913	4,715,917	5,113,378	462,179	513,901	541,511	4,293,092	5,229,918	5,654,889
Average Sales Price									
Oil/barrel	\$ 88.41	\$ 73.30	\$ 54.62	\$ 89.11	\$ 74.02	\$ 51.76	\$ 88.75	\$ 73.61	\$ 53.18
Gas/Mcf	7.43	6.63	4.56	10.38	8.87	6.38	7.98	6.98	4.93
Average Production Cost									
Oil/barrel	\$ 24.22	\$ 20.09	\$ 12.70	\$ 8.59	\$ 6.49	N/A	\$ 19.10	\$ 15.88	N/A
Gas/Mcf	2.08	1.89	1.14	1.18	.98	N/A	1.98	1.80	N/A

Since the oil and gas sales attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), production amounts do not necessarily provide a meaningful comparison.

Waddell Ranch properties lease operating expense for 2011 was \$45.7 million (gross) and \$19.3 million (net). The lease operating expense increased 18.6% from 2010 to 2011 primarily because of increased prices, unusually high amount of road repairs and transition costs. Waddell Ranch lifting cost on a barrel of oil equivalent (BOE) basis was \$13.85/bbl as compared to \$11.56 in 2010 and \$11.04 in 2009.

**PRICING INFORMATION**

Reference is made to the caption entitled "Regulation" for information as to federal regulation of prices of natural gas. The following paragraphs provide information regarding sales of oil and gas from the Waddell Ranch properties. As a royalty owner, Riverhill Energy is not furnished detailed information regarding sales of oil and gas from the Texas Royalty properties.

*Oil.* The Trustee has been advised by BROG that since June 2006, the oil from the Waddell Ranch has been marketed by ConocoPhillips by soliciting bids from third parties on an outright sale basis of production listed in bid packages.

*Gas.* The gas produced from the Waddell Ranch properties is processed through a natural gas processing plant and sold at the tailgate of the plant. Plant products are marketed by Burlington Resources Trading Inc., an indirect subsidiary of BRI. The processor of the gas (Warren Petroleum Company, L.P.) receives 15% of the liquids and residue gas as a fee for gathering, compression, treating and processing the gas.

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**Table of Contents**

**OIL AND GAS RESERVES**

The following are definitions adopted by the Securities and Exchange Commission ( SEC ) and the Financial Accounting Standards Board which are applicable to terms used within this Item:

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and

(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves are reserves of any category that can be expected to be recovered (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Estimated future net revenues are computed by applying average prices during the 12-month period prior to fiscal year-end determined as an unweighted arithmetic average of the first-day-of-the-month benchmark price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet presented, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves, and assuming continuation of existing economic conditions. Estimated future net revenues are sometimes referred to herein as estimated future net cash flows.



## **Table of Contents**

Present value of estimated future net revenues is computed using the estimated future net revenues and a discount factor of 10%.

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in 17 CFR 210.4-10(a)(2), or by other evidence using reliable technology establishing reasonable certainty.

The process of estimating oil and gas reserves is complex and requires significant judgment. As a result, the Trustee has developed internal policies and controls for estimating reserves. As described above, the Trust does not have information that would be available to a company with oil and gas operations because detailed information is not generally available to owners of royalty interests. The Trustee gathers production information (which information is net to the Trust's interests in the Underlying Properties) and provides such information to Cawley, Gillespie & Associates, Inc., who extrapolates from such information estimates of the reserves attributable to the Underlying Properties based on its expertise in the oil and gas fields where the Underlying Properties are situated, as well as publicly available information. The Trust's policies regarding reserve estimates require proved reserves to be in compliance with the SEC definitions and guidance.

The independent petroleum engineers' reports as to the proved oil and gas reserves attributable to the Royalties conveyed to the Trust were obtained from Cawley, Gillespie & Associates, Inc. Cawley, Gillespie & Associates, Inc. has been in business since 1973 when the petroleum consulting firm Keller & Augustson merged with the petroleum consulting firm Cawley, Harrington & Gillespie. The primary business of Cawley, Gillespie & Associates, Inc. is the estimation and evaluation of petroleum reserves. Kenneth J. Mueller, has been employed by Cawley, Gillespie & Associates, Inc. since 1996. Mr. Mueller attended Texas A&M University from 1975 to 1979, graduating with a Bachelor of Science degree, Summa Cum Laude, in Petroleum Engineering in 1979, and has in excess of fifteen years experience in oil and gas reserves studies and evaluations. Mr. Mueller is a licensed professional engineer with the Texas Board of Professional Engineers and a member of the Texas Society of Professional Engineers.

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**Table of Contents**

Cawley, Gillespie & Associates, Inc.'s reports are attached as exhibits to this Form 10-K. The following table presents a reconciliation of proved reserve quantities from January 1, 2009 through December 31, 2011 (in thousands):

	Waddell Ranch Properties		Texas Royalty Properties		Total	
	Oil (Bbls)	Gas (Mcf)	Oil (Bbls)	Gas (Mcf)	Oil (Bbls)	Gas (Mcf)
January 1, 2009	2,350	14,355	3,510	6,309	5,860	20,664
Extensions, discoveries, and other additions	95	249			95	249
Revisions of previous estimates	177	370	(85)	(615)	92	(245)
Production	(273)	(1,809)	(279)	(457)	(552)	(2,266)
December 31, 2009	2,349	13,165	3,146	5,237	5,495	18,402
Extensions, discoveries, and other additions	121	236			121	236
Revisions of previous estimates	876	5,947	335	789	1,211	6,736
Production	(369)	(2,456)	(280)	(458)	(649)	(2,914)
December 31, 2010	2,977	16,892	3,201	5,568	6,178	22,460
Extensions, discoveries, and other additions	213	1,956			213	1,956
Revisions of previous estimates	237	(415)	175	(431)	412	(846)
Production	(324)	(1,942)	(277)	(410)	(601)	(2,352)
December 31, 2011	3,103	16,491	3,099	4,727	6,202	21,218

Estimated quantities of proved reserves and net cash flow as of December 31, 2011 are as follows:

	Waddell Ranch Properties		Net Cash Flow, M\$	10% Disc. Cash Flow, M\$
	Oil (Mstb)	Gas (Mcf)		
Proved Developed Producing	2,651	13,366	\$ 326,363	\$ 199,788
Proved Developed Non-Producing	400	3,111	\$ 57,012	\$ 25,535
<b>Proved Developed</b>	<b>3,051</b>	<b>16,477</b>	<b>\$ 383,375</b>	<b>\$ 225,323</b>
Proved Undeveloped	52	14	\$ 4,650	\$ 1,417
<b>Total Proved</b>	<b>3,103</b>	<b>16,491</b>	<b>\$ 388,025</b>	<b>\$ 226,740</b>

	Texas Royalty Properties		Net Cash Flow, M\$	10% Disc. Cash Flow, M\$
	Oil (Mstb)	Gas (Mcf)		
Proved Developed Producing	3,099	4,727	\$ 318,140	\$ 153,621
<b>Proved Developed</b>	<b>3,099</b>	<b>4,727</b>	<b>\$ 318,140</b>	<b>\$ 153,621</b>
<b>Total Proved</b>	<b>3,099</b>	<b>4,727</b>	<b>\$ 318,140</b>	<b>\$ 153,621</b>

	<b>Total Waddell Ranch Plus Texas Royalty Properties</b>			
	<b>Oil (Mstb)</b>	<b>Gas (Mcf)</b>	<b>Net Cash Flow, M\$</b>	<b>10% Disc. Cash Flow, M\$</b>
Proved Developed Producing	5,750	18,093	\$ 644,503	\$ 353,409
Proved Developed Non-Producing	400	3,111	\$ 57,012	\$ 25,535
<b>Proved Developed</b>	<b>6,150</b>	<b>21,204</b>	<b>\$ 701,515</b>	<b>\$ 378,944</b>
Proved Undeveloped	52	14	\$ 4,650	\$ 1,417
<b>Total Proved</b>	<b>6,202</b>	<b>21,218</b>	<b>\$ 706,165</b>	<b>\$ 380,361</b>

**Table of Contents**

Estimated quantities of proved developed reserves of oil and gas as of the dates indicated were as follows (in thousands):

	Oil (Barrels)	Gas (Mcf)
<b>Proved Developed Reserves:</b>		
January 1, 2009	5,662	20,664
December 31, 2009	5,429	18,220
December 31, 2010	6,160	22,422
December 31, 2011	6,150	21,204

The Financial Accounting Standards Board requires supplemental disclosures for oil and gas producers based on a standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities. Under this disclosure, future cash inflows are computed by applying the average prices during the 12-month period prior to fiscal year-end, determined as an unweighted arithmetic average of the first-day-of-the-month benchmark price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Future price changes are only considered to the extent provided by contractual arrangements in existence at year end. The standardized measure of discounted future net cash flows is achieved by using a discount rate of 10% a year to reflect the timing of future cash flows relating to proved oil and gas reserves.

Estimates of proved oil and gas reserves are by their very nature imprecise. Estimates of future net revenue attributable to proved reserves are sensitive to the unpredictable prices of oil and gas and other variables.

The 2011, 2010 and 2009 change in the standardized measure of discounted future net cash revenues related to future royalty income from proved reserves attributable to the Royalties discounted at 10% is as follows (in thousands):

	Waddell Ranch Properties			Texas Royalty Properties			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
January 1	\$ 192,014	\$ 116,258	\$ 96,962	\$ 132,312	\$ 94,949	\$ 81,765	\$ 324,326	\$ 211,207	\$ 178,727
Extensions, discoveries, and other additions	16,878	5,230	3,371	0	0	0	16,878	5,230	3,371
Accretion of discount	19,201	11,626	9,696	13,231	9,495	8,176	32,432	21,121	17,872
Revisions of previous estimates and other	35,508	100,396	28,395	35,799	51,637	21,800	71,307	152,033	50,195
Royalty income	(36,861)	(41,496)	(22,166)	(27,721)	(23,769)	(16,792)	(64,582)	(65,265)	(38,958)
December 31	\$ 226,740	\$ 192,014	\$ 116,258	\$ 153,621	\$ 132,312	\$ 94,949	\$ 380,361	\$ 324,326	\$ 211,207

Average oil and gas prices of \$96.19 per barrel and \$4.11 per Mcf were used to determine the estimated future net revenues from both the Waddell Ranch properties and the Texas Royalty properties, respectively, at December 31, 2011. The upward revisions of both reserves and discounted future net cash flows for the Waddell Ranch properties and the Texas Royalty properties are primarily due to stronger pricing for oil.

Average oil and gas prices of \$79.43 per barrel and \$4.37 per Mcf were used to determine the estimated future net revenues from the Waddell Ranch properties and the Texas Royalty properties, respectively, at December 31, 2010. The upward revisions of both reserves and discounted future net cash flows for the Waddell Ranch properties and the Texas Royalty properties were primarily due to stronger pricing for oil and gas.

Average oil and gas prices of \$55.87 and \$55.38 per barrel and \$4.49 and \$6.27 per Mcf, respectively, were used to determine the estimated future net revenues from the Waddell Ranch properties and the Texas Royalty properties, respectively, at December 31, 2009. The upward revisions of both reserves and discounted future net cash flows for the Waddell Ranch properties and the Texas Royalty properties were primarily due to an increase in oil and gas prices from 2008 to 2009.

**Table of Contents**

The following presents estimated future net revenue and the present value of estimated future net revenue attributable to the Royalties, for each of the years ended December 31, 2011, 2010 and 2009 (in thousands):

	2011		2010		2009	
	Estimated Future Net Revenue	Present Value at 10%	Estimated Future Net Revenue	Present Value at 10%	Estimated Future Net Revenue	Present Value at 10%
Total Proved						
Waddell Ranch properties	\$ 388,025	\$ 226,740	\$ 319,363	\$ 192,014	\$ 181,075	\$ 116,258
Texas Royalty properties	318,140	153,621	278,510	132,312	197,736	94,949
Total	\$ 706,165	\$ 380,361	\$ 597,873	\$ 324,326	\$ 378,811	\$ 211,207

Reserve quantities and revenues shown in the preceding tables for the Royalties were estimated from projections of reserves and revenue attributable to the combined BROG, River Hill Energy and Trust interests in the Waddell Ranch properties and Texas Royalty properties. Reserve quantities attributable to the Royalties were estimated by allocating to the Royalties a portion of the total estimated net reserve quantities of the interests, based upon gross revenue less production taxes. Because the reserve quantities attributable to the Royalties are estimated using an allocation of the reserves, any changes in prices or costs will result in changes in the estimated reserve quantities allocated to the Royalties. Therefore, the reserve quantities estimated will vary if different future price and cost assumptions occur.

Proved reserve quantities are estimates based on information available at the time of preparation and such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of those reserves may be substantially different from the original estimate. Moreover, the present values shown above should not be considered as the market values of such oil and gas reserves or the costs that would be incurred to acquire equivalent reserves. A market value determination would include many additional factors.

Detailed information concerning the number of wells on royalty properties is not generally available to the owner of royalty interests. Consequently, the Registrant does not have information that would be disclosed by a company with oil and gas operations, such as an accurate account of the number of wells located on the above royalty properties, the number of exploratory or development wells drilled on the above royalty properties during the periods presented by this report, or the number of wells in process or other present activities on the above royalty properties, and the Registrant cannot readily obtain such information.

**REGULATION**

Many aspects of the production, pricing, transportation and marketing of crude oil and natural gas are regulated by federal and state agencies. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden on affected members of the industry.

Exploration and production operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells, and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled and the plugging and abandonment of wells. Natural gas and oil operations are also subject to various conservation laws and regulations that regulate the size of drilling and spacing units or proration units and the density of wells which may be drilled and unitization or pooling of oil and gas properties. In addition, state conservation laws establish maximum allowable production from natural gas and oil wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations is to limit the amounts of natural gas and oil that can be produced, potentially to raise prices, and to limit the number of wells or the locations which can be drilled.

**Federal Natural Gas Regulation**

The Federal Energy Regulatory Commission (the FERC) is primarily responsible for federal regulation of natural gas. The interstate transportation and sale for resale of natural gas is subject to federal governmental regulation, including regulation of transportation and storage tariffs and various other matters, by the FERC. On August 8, 2005, Congress enacted the Energy Policy





## **Table of Contents**

Act of 2005. The Energy Policy Act, among other things, amended the Natural Gas Act to prohibit market manipulation by any entity, to direct the FERC to facilitate market transparency in the market for sale or transportation of physical natural gas in interstate commerce, and to significantly increase the penalties for violations of the Natural Gas Act, the Natural Gas Policy Act of 1978, or the FERC rules, regulations or orders thereunder. Wellhead sales of domestic natural gas are not subject to regulation. Consequently, sales of natural gas may be made at market prices, subject to applicable contract provisions.

Sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms for access to pipeline transportation remain subject to extensive federal and state regulation. Several major regulatory changes have been implemented by Congress and the FERC from 1985 to the present that affect the economics of natural gas production, transportation, and sales. In addition, the FERC continues to promulgate revisions to various aspects of the rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies, that remain subject to the FERC's jurisdiction. These initiatives may also affect the intrastate transportation of gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry and these initiatives generally reflect more light-handed regulation of the natural gas industry. The ultimate impact of the rules and regulations issued by the FERC since 1985 cannot be predicted. In addition, many aspects of these regulatory developments have not become final but are still pending judicial decisions and final decisions by the FERC.

New proposals and proceedings that might affect the natural gas industry are considered from time to time by Congress, the FERC, state regulatory bodies and the courts. The Trust cannot predict when or if any such proposals might become effective, or their effect, if any, on the Trust. The natural gas industry historically has been very heavily regulated; therefore, there is no assurance that the less stringent regulatory approach recently pursued by the FERC and Congress will continue.

Sales of crude oil, condensate and natural gas liquids are not currently regulated and are made at market prices. Crude oil prices are affected by a variety of factors. Since domestic crude price controls were lifted in 1981, the principal factors influencing the prices received by producers of domestic crude oil have been the pricing and production of the members of the Organization of Petroleum Export Countries (OPEC).

On December 19, 2007, President Bush signed into law the Energy Independence & Security Act of 2007 (PL 110 140). The EISA, among other things, prohibits market manipulation by any person in connection with the purchase or sale of crude oil, gasoline or petroleum distillates at wholesale in contravention of such rules and regulations that the Federal Trade Commission may prescribe, directs the Federal Trade Commission to enforce the regulations, and establishes penalties for violations thereunder.

## **State Regulation**

The various states regulate the production and sale of oil and natural gas, including imposing requirements for obtaining drilling permits, the method of developing new fields, the spacing and operation of wells and the prevention of waste of oil and gas resources. The rates of production may be regulated and the maximum daily production allowables from both oil and gas wells may be established on a market demand or conservation basis, or both.

## **Environmental Regulation**

Companies in the oil and gas industry are subject to stringent and complex federal, state and local laws and regulations governing the health and safety aspects of oil and gas operations, the management and discharge of materials into the environment, or otherwise relating to environmental protection. Those laws and regulations may impose numerous obligations that are applicable to the operations of the Underlying Properties, including the acquisition of a permit before conducting drilling or underground injection activities; the restriction of the types, quantities and concentrations of materials that can be released into the environment; the limitation or prohibition of drilling activities on certain lands lying within wilderness, wetlands and other protected areas; the application of specific health and safety criteria addressing worker protection; and the imposition of substantial liabilities for pollution resulting from operations including waste generation, air emissions, water discharges and current and historical waste disposal practices. Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties; the imposition of investigatory or remedial obligations; and the issuance of

## **Table of Contents**

injunctions limiting or preventing some or all of the operations. Under certain environmental laws and regulations, the operators of the Underlying Properties could also be subject to joint and several, strict liability for the removal or remediation of previously released materials or property contamination, in either case, whether at a drill site or a waste disposal facility, regardless of whether the operators were responsible for the release or contamination or if the operations were in compliance with all applicable laws at the time those actions were taken.

In addition, climate change has become the subject of an important public policy debate and the basis for new legislation proposed by the United States Congress and certain states. Some states have adopted climate change statutes and regulations. The United States Environmental Protection Agency (the EPA) has issued greenhouse gas monitoring and reporting regulations that went into effect January 1, 2010, and required reporting by regulated facilities by September 30, 2011 and annually thereafter. On November 30, 2010, the EPA published a final rule that sets forth reporting requirements for the petroleum and natural gas industry and requires persons that hold state drilling permits that emit 25,000 metric tons or more of carbon dioxide equivalent per year to report annually carbon dioxide, methane and nitrous oxide emissions from certain sources beginning on March 31, 2012. But on August 4, 2011, the EPA published a proposed rule containing technical amendments to certain greenhouse gas reporting requirements that included a six-month extension for reporting greenhouse gas emissions from petroleum and natural gas industry sources. Beyond measuring and reporting, the EPA issued an Endangerment Finding under Section 202(a) of the Clean Air Act, concluding greenhouse gas pollution threatens the public health and welfare of future generations. The EPA indicated that it will use data collected through the reporting rules to decide whether to promulgate future greenhouse gas emission limits. On July 28, 2011, the EPA proposed four new regulations that, if finalized, would establish new source performance standards for volatile organic compounds (VOCs) and sulfur dioxide and establish an air toxic standard for oil and natural gas production, transmission, and storage. Limiting emissions of VOCs will have the co-benefit of also limiting methane, a greenhouse gas. The proposed regulations would apply to wells that are hydraulically fractured, or refractured, and to storage tanks and other equipment, and limit methane emissions from those sources. The EPA is expected to take final action on the proposed regulations by April 2012.

Congress and various states, including Texas, have proposed or adopted legislation regulating or requiring disclosure of the chemicals in the hydraulic fracturing fluid that is used in the drilling operation. Hydraulic fracturing has historically been regulated by state oil and natural gas commissions. Recently, however, the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel under the Safe Drinking Water Act (the SDWA). The EPA has begun the process of drafting guidance documents related to this newly asserted regulatory authority, which could include a broad definition of diesel that would cover a variety of oils that are not diesel but that have similar carbon-chain molecules. The EPA also plans to investigate the treatment of wastewater from hydraulic fracturing for the purpose of setting new standards for discharges from natural gas drilling to publicly owned treatment works. In addition, certain other governmental reviews are either underway or being proposed that focus on environmental aspects of hydraulic fracturing practices, including a four-year study by the EPA expected to be completed in 2014. These on-going or proposed reviews, depending on their scope and results, could spur initiatives to further regulate hydraulic fracturing under the SDWA or other regulatory programs.

The Trustee is unable to predict the total impact of the current and potential regulations upon the operators of the Underlying Properties, but it is possible that the operators of the Underlying Properties could face operational delays, increases in the operating costs to comply with climate change or any other environmental legislation or regulation, or decreases in the completion of new oil and natural gas wells, each of which could reduce net proceeds payable to the Trust and Trust distributions.

### **Other Regulation**

The petroleum industry is also subject to compliance with various other federal, state and local regulations and laws, including, but not limited to, occupational safety, resource conservation and equal employment opportunity. The Trustee does not believe that compliance with these laws by the operating parties will have any material adverse effect on Unit holders.

### **Item 3. Legal Proceedings**

There are no material pending legal proceedings to which the Trust is a party or of which any of its property is the subject.

**Table of Contents**

**Item 4. *Mine Safety Disclosures***

This Item is not applicable to the Trust.

**Table of Contents****PART II****Item 5. Market for Units of the Trust, Related Security Holder Matters and Trust Purchases of Units of Beneficial Interest**

Units of Beneficial Interest ( Units ) of the Trust are traded on the New York Stock Exchange with the symbol PBT. Quarterly high and low sales prices and the aggregate amount of monthly distributions paid each quarter during the Trust's two most recent years were as follows:

2011	Sales Price		Distributions
	High	Low	Paid
First Quarter	\$ 23.09	\$ 19.40	\$ .353128
Second Quarter	22.65	19.50	.383959
Third Quarter	23.40	19.41	.316031
Fourth Quarter	20.90	18.01	.307330
Total for 2011			\$ 1.360448

2010	Sales Price		Distributions
	High	Low	Paid
First Quarter	\$ 17.99	\$ 14.00	\$ .345536
Second Quarter	19.99	14.36	.385869
Third Quarter	19.80	17.00	.340977
Fourth Quarter	23.74	19.57	.303247
Total for 2010			\$ 1.375629

Approximately 1,284 Unit holders of record held the 46,608,796 Units of the Trust at February 29, 2012.

The Trust has no equity compensation plans and has not repurchased any Units during the period covered by this report.

**Item 6. Selected Financial Data**

	For the Year Ended December 31,				
	2011	2010	2009	2008	2007
Royalty income	\$ 64,582,861	\$ 65,265,303	\$ 38,958,112	\$ 112,341,696	\$ 68,382,820
Distributable income	\$ 63,409,123	\$ 64,116,670	\$ 37,695,948	\$ 111,458,507	\$ 67,619,230
Distributable income per Unit	\$ 1.36	\$ 1.38	\$ .81	\$ 2.39	\$ 1.45
Distributions per Unit	\$ 1.36	\$ 1.38	\$ .81	\$ 2.39	\$ 1.45
Total assets, December 31	\$ 5,619,522	\$ 5,552,130	\$ 6,563,134	\$ 6,318,009	\$ 9,467,142

**Computation of Royalty Income Received by the Trust**

The Trust's royalty income is computed as a percentage of the net profit from the operation of the properties in which the Trust owns net overriding royalty interests. The percentages of net profits are 75% and 95% in the cases of the Waddell Ranch properties and the Texas Royalty properties, respectively. Royalty income received by the Trust for the five years ended December 31, 2011, was computed as shown in the table on the next page.



**Table of Contents**

	2011		2010		Year Ended December 31, 2009		2008		2007
	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties
Sales From the Underlying	\$ 56,244,466	\$ 27,614,845	\$ 51,665,865	\$ 22,993,347	\$ 39,049,617	\$ 16,859,369	\$ 78,716,086	\$ 34,112,890	\$ 51,897,859
	27,911,119	4,789,824	31,178,053	4,556,493	22,960,089	3,438,799	54,694,736	7,831,734	41,997,463
	84,155,585	32,404,669	82,843,918	27,549,840	62,009,706	20,298,168	133,410,822	41,944,624	93,895,322
	2,302,526	1,018,930	2,006,922	687,170	1,414,303	603,461	3,365,962	1,301,428	2,241,791
	1,474,315	257,307	1,557,553	241,242	1,255,967	201,144	3,172,496	511,315	2,474,922
	205,476	0	243,369	0	167,488	0	290,737	0	169,151
Expense and Property Tax Oil	19,542,466	1,948,037	19,497,914	1,600,936	18,110,701	1,817,998	16,766,553	1,352,645	15,854,987
es	11,482,154		4,210,379		11,506,147		9,146,511		11,198,975
	35,006,937	3,224,274	27,516,137	2,529,348	32,454,606	2,622,603	32,742,259	3,165,388	31,939,826
	\$ 49,148,648	\$ 29,180,395	\$ 55,327,781	\$ 25,020,492	\$ 29,555,100	\$ 17,675,565	\$ 100,668,563	\$ 38,779,236	\$ 61,955,496
Royalty Interest	75%	95%	75%	95%	75%	95%	75%	95%	75%
Income for Distribution	\$ 36,861,486	\$ 27,721,375	\$ 41,495,836	\$ 23,769,467	\$ 22,166,325	\$ 16,791,787	\$ 75,501,422	\$ 36,840,274	\$ 46,466,622

**Table of Contents****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation**  
**Trustee's Discussion and Analysis for the Three-Year Period Ended December 31, 2011*****Liquidity and Capital Resources***

As stipulated in the Trust Agreement, the Trust is intended to be passive in nature and the Trustee does not have any control over or any responsibility relating to the operation of the Underlying Properties. The Trustee has powers to collect and distribute proceeds received by the Trust and pay Trust liabilities and expenses and its actions have been limited to those activities. The Trust is a passive entity and other than the Trust's ability to periodically borrow money as necessary to pay expenses, liabilities and obligations of the Trust that cannot be paid out of cash held by the Trust, the Trust is prohibited from engaging in borrowing transactions. As a result, other than such borrowings, if any, the Trust has no source of liquidity or capital resources other than the Royalties.

***Results of Operations***

Royalty income received by the Trust for the three-year period ended December 31, 2011, is reported in the following table:

Royalties	Year Ended December 31,		
	2011	2010	2009
Total Revenue	\$ 64,582,861	\$ 65,265,303	\$ 38,958,112
	100%	100%	100%
Oil Revenue			