

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, 2011

OR

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

Commission File Number: 1-10476

Hugoton Royalty Trust

(Exact name of registrant as specified in its charter)

Texas 58-6379215
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

U.S. Trust, Bank of America
Private Wealth Management
P.O. Box 830650, Dallas, Texas 75283-0650
(Address of principal executive offices) (Zip Code)

(877) 228-5083
(Registrant's telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if change since last report)

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

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

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

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

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

Indicate the number of units of beneficial interest outstanding, as of the latest practicable date:

Outstanding as of October 1, 2011
40,000,000

HUGOTON ROYALTY TRUST

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Glossary of Terms	3
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements.....	4
Condensed Statements of Assets, Liabilities and Trust Corpus at September 30, 2011 and December 31, 2010.....	5
Condensed Statements of Distributable Income for the Three and Nine Months Ended September 30, 2011 and 2010.....	6
Condensed Statements of Changes in Trust Corpus for the Three and Nine Months Ended September 30, 2011 and 2010.....	7
Notes to Condensed Financial Statements.....	8
Item 2. Trustee’s Discussion and Analysis	12
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	17
Item 4. Controls and Procedures.....	17
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	18
Item 1A. Risk Factors.....	18
Item 6. Exhibits	18
Signatures.....	19

HUGOTON ROYALTY TRUST

GLOSSARY OF TERMS

The following are definitions of significant terms used in this Form 10-Q:

<i>Bbl</i>	Barrel (of oil)
<i>Mcf</i>	Thousand cubic feet (of natural gas)
<i>MMBtu</i>	One million British Thermal Units, a common energy measurement
<i>net proceeds</i>	Gross proceeds received by XTO Energy from sale of production from the underlying properties, less applicable costs, as defined in the net profits interest conveyances
<i>net profits income</i>	Net proceeds multiplied by the net profits percentage of 80%, which is paid to the trust by XTO Energy. “Net profits income” is referred to as “royalty income” for tax reporting purposes.
<i>net profits interest</i>	<p>An interest in an oil and gas property measured by net profits from the sale of production, rather than a specific portion of production. The following defined net profits interests were conveyed to the trust from the underlying properties:</p> <p><i>80% net profits interests</i> - interests that entitle the trust to receive 80% of the net proceeds from the underlying properties.</p>
<i>underlying properties</i>	XTO Energy’s interest in certain oil and gas properties from which the net profits interests were conveyed. The underlying properties include working interests in predominantly gas-producing properties located in Kansas, Oklahoma and Wyoming.
<i>working interest</i>	An operating interest in an oil and gas property that provides the owner a specified share of production that is subject to all production expense and development costs

HUGOTON ROYALTY TRUST

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The condensed financial statements included herein are presented, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to such rules and regulations, although the trustee believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the trust's latest Annual Report on Form 10-K. In the opinion of the trustee, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the assets, liabilities and trust corpus of the Hugoton Royalty Trust at September 30, 2011 and the distributable income and changes in trust corpus for the three- and nine-month periods ended September 30, 2011 and 2010 have been included. Distributable income for such interim periods is not necessarily indicative of the distributable income for the full year.

HUGOTON ROYALTY TRUST

Condensed Statements of Assets, Liabilities and Trust Corpus

	September 30, 2011	December 31, 2010
	<u>(Unaudited)</u>	<u></u>
ASSETS		
Cash and short-term investments.....	\$ 5,336,520	\$ 4,229,120
Net profits interests in oil and gas properties - net (Note 1).....	<u>117,672,381</u>	<u>124,993,766</u>
	<u>\$ 123,008,901</u>	<u>\$ 129,222,886</u>
LIABILITIES AND TRUST CORPUS		
Distribution payable to unitholders	\$ 5,336,520	\$ 4,229,120
Trust corpus (40,000,000 units of beneficial interest authorized and outstanding).....	<u>117,672,381</u>	<u>124,993,766</u>
	<u>\$ 123,008,901</u>	<u>\$ 129,222,886</u>

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

HUGOTON ROYALTY TRUST

Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Net profits income.....	\$ 15,477,314	\$ 14,695,353	\$ 43,359,342	\$ 50,568,707
Interest income	<u>355</u>	<u>206</u>	<u>811</u>	<u>740</u>
Total income	15,477,669	14,695,559	43,360,153	50,569,447
Administration expense.....	<u>144,309</u>	<u>168,199</u>	<u>684,033</u>	<u>744,047</u>
Distributable income	<u>\$ 15,333,360</u>	<u>\$ 14,527,360</u>	<u>\$ 42,676,120</u>	<u>\$ 49,825,400</u>
Distributable income per unit (40,000,000 units).....	<u>\$ 0.383334</u>	<u>\$ 0.363184</u>	<u>\$ 1.066903</u>	<u>\$ 1.245635</u>

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

HUGOTON ROYALTY TRUST

Condensed Statements of Changes in Trust Corpus (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Trust corpus, beginning of period	\$ 120,236,128	\$ 131,934,491	\$ 124,993,766	\$ 139,877,580
Amortization of net profits interests	(2,563,747)	(3,699,342)	(7,321,385)	(11,642,431)
Distributable income	15,333,360	14,527,360	42,676,120	49,825,400
Distributions declared	<u>(15,333,360)</u>	<u>(14,527,360)</u>	<u>(42,676,120)</u>	<u>(49,825,400)</u>
Trust corpus, end of period	<u>\$ 117,672,381</u>	<u>\$ 128,235,149</u>	<u>\$ 117,672,381</u>	<u>\$ 128,235,149</u>

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

HUGOTON ROYALTY TRUST

Notes to Condensed Financial Statements (Unaudited)

1. Basis of Accounting

The financial statements of Hugoton Royalty Trust are prepared on the following basis and are not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles (“GAAP”):

- Net profits income recorded for a month is the amount computed and paid by XTO Energy Inc., the owner of the underlying properties, to Bank of America, N.A., as trustee for the trust. XTO Energy is a wholly owned subsidiary of Exxon Mobil Corporation. Net profits income consists of net proceeds received by XTO Energy from the underlying properties in the prior month, multiplied by a net profits percentage of 80%.

Costs deducted in the calculation of net proceeds for the 80% net profits interests generally include applicable taxes, transportation, marketing and legal costs, production expense, development costs, operating charges and other costs.

- Net profits income is computed separately for each of the three conveyances under which the net profits interests were conveyed to the trust. If monthly costs exceed revenues for any conveyance, such excess costs must be recovered, with accrued interest, from future net proceeds of that conveyance and cannot reduce net proceeds from the other conveyances.
- Trust expenses are recorded based on liabilities paid and cash reserves established by the trustee for liabilities and contingencies.
- Distributions to unitholders are recorded when declared by the trustee.

The trust’s financial statements differ from those prepared in conformity with U.S. GAAP because revenues are recognized when received rather than accrued in the month of production, expenses are recognized when paid rather than when incurred and certain cash reserves may be established by the trustee for contingencies which would not be recorded under U.S. GAAP. This comprehensive basis of accounting other than U.S. GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission, as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with U.S. GAAP, directing such entities to accrue or defer revenues and expenses in a period other than when such revenues were received or expenses were paid. Because the trust’s financial statements are prepared on the modified cash basis, as described above, most accounting pronouncements are not applicable to the trust’s financial statements.

The initial carrying value of the net profits interests of \$247,066,951 represents XTO Energy’s historical net book value for the interests on December 1, 1998, the date of the transfer to the trust. Amortization of the net profits interests is calculated on a unit-of-production basis and charged directly to trust corpus.

Accumulated amortization was \$129,394,570 as of September 30, 2011 and \$122,073,185 as of December 31, 2010.

2. Development Costs

The following summarizes actual development costs, budgeted development costs deducted in the calculation of net profits income, and the cumulative actual costs compared to the amount deducted:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
Cumulative actual costs under (over) the amount deducted - beginning of period.....	\$ 1,500,347	\$ 343,534	\$ (809,696)	\$ 909,477
Actual costs	(1,287,129)	(2,911,951)	(4,077,086)	(6,477,894)
Budgeted costs deducted.....	<u>2,200,000</u>	<u>1,700,000</u>	<u>7,300,000</u>	<u>4,700,000</u>
Cumulative actual costs under (over) the amount deducted - end of period.....	<u>\$ 2,413,218</u>	<u>\$ (868,417)</u>	<u>\$ 2,413,218</u>	<u>\$ (868,417)</u>

The monthly development cost deduction was \$500,000 from the January 2010 distribution through the July 2010 distribution. As a result of increased development activity, the development cost deduction was increased to \$600,000 beginning with the August 2010 distribution and to \$850,000 beginning with the October 2010 distribution and was maintained at that level through the August 2011 distribution. Due to lower than anticipated actual costs as a result of the timing of expenditures, the development cost deduction was decreased to \$500,000 beginning with the September 2011 distribution and is expected to be maintained at that level for the remainder of 2011. XTO Energy has advised the trustee that revised 2011 budgeted development costs for the underlying properties are between \$8 million and \$10 million. The monthly deduction is based on the current level of development expenditures, budgeted future development costs and the cumulative actual costs under (over) previous deductions. XTO Energy has advised the trustee that this monthly deduction will continue to be evaluated and revised as necessary.

3. 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 unitholders 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 unitholder at the time such income is received or accrued by the trust and not when distributed by the trust.

The net profits interests constitute "economic interests" in oil and gas properties for federal income tax purposes. Unitholders must report their share of the net profits income as ordinary income from oil and gas properties and are entitled to claim depletion with respect to such income. The classification of the trust's income for purposes of the passive loss rules may be important to a unitholder. Net profits income generally is treated as portfolio income and does not offset passive losses.

Some trust units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a 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, Post Office Box 830650, Dallas,

Texas. 75283-0650, telephone number 1-877-228-5083, email address trustee@hugotontrust.com, 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.hugotontrust.com. Notwithstanding the foregoing, the middlemen holding trust units on behalf of unitholders, and not the trustee of the trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such trust units, including the issuance of IRS Forms 1099 and certain written tax statements. Unitholders 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.

Unitholders should consult their tax advisors regarding trust tax compliance matters.

4. State Income Taxes

All revenues from the trust are from sources within either Kansas, Oklahoma or Wyoming. Oklahoma and Kansas tax the income of nonresidents from real property located within those states, and the trust has been advised by counsel that those states will each tax nonresidents on income from the net profits interests located in those states. Wyoming does not have a state income tax. Kansas and Oklahoma also impose a corporate income tax which may apply to unitholders organized as corporations.

Each unitholder should consult his or her own tax advisor regarding state income tax requirements, if any, applicable to such person's ownership of trust units.

5. Contingencies

An amended petition for a class action lawsuit, *Beer, et al. v. XTO Energy Inc.*, was filed in January 2006 in the District Court of Texas County, Oklahoma by certain royalty owners of natural gas wells in Oklahoma and Kansas. The plaintiffs allege that XTO Energy has not properly accounted to the plaintiffs for the royalties to which they are entitled and seek an accounting regarding the natural gas and other products produced from their wells and the prices paid for the natural gas and other products produced, and for payment of the monies allegedly owed since June 2002, with a certain limited number of plaintiffs claiming monies owed for additional time. XTO Energy removed the case to federal district court in Oklahoma City. In April 2010, new counsel and representative parties, Fankhouser and Goddard, filed a motion to intervene and prosecute the *Beer* class, now styled *Fankhouser v. XTO Energy Inc.* This motion was granted on July 13, 2010. The new plaintiffs and counsel filed an amended complaint asserting new causes of action for breach of fiduciary duties and unjust enrichment. On December 16, 2010, the court certified the class. XTO Energy has informed the trustee that it believes that it has strong defenses to this lawsuit and intends to vigorously defend its position.

In September 2008, a class action lawsuit was filed against XTO Energy styled *Wallace B. Roderick Revocable Living Trust, et al. v. XTO Energy Inc.* in the District Court of Kearny County, Kansas. XTO Energy removed the case to federal court in Wichita, Kansas. The plaintiffs allege that XTO Energy has improperly taken post-production costs from royalties paid to the plaintiffs from wells located in Kansas, Oklahoma and Colorado. The plaintiffs have filed a motion to certify the class, including only Kansas and Oklahoma wells not part of the *Fankhouser* matter. After filing the motion to certify, but prior to the class certification hearing, plaintiff filed a motion to sever the Oklahoma portion of the case so it could be transferred and consolidated with a newly filed class action in Oklahoma styled *Chieftain v. XTO Energy Inc.* This motion was granted. The *Roderick* case now comprises only Kansas wells not previously included in the *Fankhouser* matter. XTO Energy has informed the trustee that it believes that XTO Energy

has strong defenses to this lawsuit and intends to vigorously defend its position.

In December 2010, a class action lawsuit was filed against XTO Energy styled *Chieftain Royalty Company vs. XTO Energy Inc.* in Coal County District Court, Oklahoma. XTO Energy removed the case to federal court in the Eastern District of Oklahoma. The plaintiffs allege that XTO Energy wrongfully deducted fees from royalty payments on Oklahoma wells, failed to make diligent efforts to secure the best terms available for the sale of gas and its constituents, and demand an accounting to determine whether they have been fully and fairly paid gas royalty interests. The case expressly excludes those claims and wells being prosecuted in the *Fankhouser* case. The severed *Roderick* case claims related to the Oklahoma portion of the case were consolidated into *Chieftain*. XTO Energy has informed the trustee that it believes that XTO Energy has strong defenses to this lawsuit and intends to vigorously defend its position.

If XTO Energy ultimately makes any settlement payments or receives a judgment against it in any of the cases named above, the trust will bear its 80% share of such settlement or judgment related to production from the underlying properties. Additionally, if the judgment or settlement increases the amount of future payments to royalty owners, the trust would bear its proportionate share of the increased payments through reduced net proceeds. XTO Energy has informed the trustee that, although the amount of any reduction in net proceeds is not presently determinable, in its management's opinion, the amount is not currently expected to be material to the trust's financial position or liquidity though it could be material to the trust's annual distributable income. Additionally, it could result in costs exceeding revenues on the properties underlying the Oklahoma and Kansas net profit interests for one or more monthly distributions, depending on the size of the judgment or settlement, if any, and the net proceeds being paid at that time.

Certain of the underlying properties are involved in various other lawsuits and certain governmental proceedings arising in the ordinary course of business. XTO Energy has advised the trustee that it does not believe that the ultimate resolution of these claims will have a material effect on trust annual distributable income, financial position or liquidity.

Other

Several states have enacted legislation requiring state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its tax counsel, the trustee believes that it is not required to withhold on payments made to the unitholders. However, regulations are subject to change by the various states, which could change this conclusion. Should amounts be withheld on payments made to the trust or the unitholders, distributions to the unitholders would be reduced by the required amount, subject to the filing of a claim for refund by the trust or unitholders for such amount.

6. Excess Costs

Costs exceeded revenues by \$513,475 (\$410,780 net to the trust) on properties underlying the Kansas net profits interests in October and November 2009. Lower gas prices caused costs to exceed revenues on properties underlying the Kansas net profits interests. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO Energy advised the trustee that increased gas prices led to the partial recovery of excess costs of \$410,957 (\$328,766 net to the trust), plus accrued interest of \$1,958 (\$1,566 net to the trust) in December 2009 and the full recovery of excess costs of \$102,518 (\$82,014 net to the trust), plus accrued interest of \$282 (\$226 net to the trust) in January 2010. There were no excess costs as of September 30, 2011.

Item 2. Trustee's Discussion and Analysis.

The following discussion should be read in conjunction with the trustee's discussion and analysis contained in the trust's 2010 Annual Report on Form 10-K, as well as the condensed financial statements and notes thereto included in this Quarterly Report on Form 10-Q. The trust's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available on the trust's web site at www.hugotontrust.com.

Distributable Income

Quarter

For the quarter ended September 30, 2011, net profits income was \$15,477,314, as compared to \$14,695,353 for third quarter 2010. This 5% increase in net profits income is primarily the result of higher oil and gas prices (\$4.0 million), partially offset by decreased oil and gas sales volumes (\$3.0 million) and increased development costs (\$0.4 million). See "Net Profits Income" on following page.

After adding interest income of \$355 and deducting administration expense of \$144,309, distributable income for the quarter ended September 30, 2011 was \$15,333,360, or \$0.383334 per unit of beneficial interest. Administration expense for the quarter decreased \$23,890 from the prior year quarter. For third quarter 2010, distributable income was \$14,527,360, or \$0.363184 per unit. Distributions to unitholders for the quarter ended September 30, 2011 were:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Unit</u>
July 29, 2011	August 12, 2011	\$ 0.128296
August 31, 2011	September 15, 2011	0.121625
September 30, 2011	October 17, 2011	0.133413
		<u>\$ 0.383334</u>

Nine Months

For the nine months ended September 30, 2011, net profits income was \$43,359,342 compared with \$50,568,707 for the same 2010 period. This 14% decrease in net profits income is primarily the result of decreased oil and gas sales volumes (\$7.2 million), lower gas prices (\$2.3 million) and higher development costs (\$2.1 million), partially offset by higher oil prices (\$3.0 million) and lower taxes, transportation and other costs (\$1.3 million). See "Net Profits Income" on following page.

After adding interest income of \$811 and deducting administration expense of \$684,033, distributable income for the nine months ended September 30, 2011 was \$42,676,120, or \$1.066903 per unit of beneficial interest. Administration expense for the nine months ended September 30, 2011 decreased \$60,014 as compared with the same 2010 period. For the nine months ended September 30, 2010, distributable income was \$49,825,400, or \$1.245635 per unit.

Net Profits Income

Net profits income is recorded when received by the trust, which is the month following receipt by XTO Energy, and generally two months after oil and gas production. Net profits income is generally affected by three major factors:

- oil and gas sales volumes,
- oil and gas sales prices, and
- costs deducted in the calculation of net profits income.

The following is a summary of the calculation of net profits income received by the trust:

	Three Months		Increase (Decrease)	Nine Months		Increase (Decrease)
	Ended September 30 (a)			Ended September 30 (a)		
	2011	2010		2011	2010	
Sales Volumes						
Gas (Mcf) (b)						
Underlying properties	5,516,991	6,071,750	(9%)	16,452,271	18,116,260	(9%)
Average per day	59,967	65,997	(9%)	60,265	66,360	(9%)
Net profits interests	2,839,604	3,095,732	(8%)	8,108,961	9,742,792	(17%)
Oil (Bbls) (b)						
Underlying properties	58,527	68,634	(15%)	190,712	202,963	(6%)
Average per day	636	746	(15%)	699	743	(6%)
Net profits interests	31,574	34,948	(10%)	99,334	110,595	(10%)
Average Sales Prices						
Gas (per Mcf)	\$ 4.96	\$ 4.40	13%	\$ 4.74	\$ 4.90	(3%)
Oil (per Bbl)	\$ 95.00	\$ 71.43	33%	\$ 92.19	\$ 73.55	25%
Revenues						
Gas sales	\$ 27,374,742	\$ 26,688,301	3%	\$ 77,966,678	\$ 88,693,222	(12%)
Oil sales	5,559,851	4,902,714	13%	17,581,921	14,928,270	18%
Total Revenues	32,934,593	31,591,015	4%	95,548,599	103,621,492	(8%)
Costs						
Taxes, transportation and other	3,514,793	3,380,475	4%	10,279,464	11,890,791	(14%)
Production expense	5,173,918	5,374,188	(4%)	15,656,008	15,506,223	1%
Development costs (c)	2,200,000	1,700,000	29%	7,300,000	4,700,000	55%
Overhead	2,699,240	2,767,160	(2%)	8,113,950	8,210,794	(1%)
Excess costs (d)	-	-	-	-	102,800	-
Total Costs	13,587,951	13,221,823	3%	41,349,422	40,410,608	2%
Net Proceeds	19,346,642	18,369,192	5%	54,199,177	63,210,884	(14%)
Net Profits Percentage	80%	80%		80%	80%	
Net Profits Income	\$ 15,477,314	\$ 14,695,353	5%	\$ 43,359,342	\$ 50,568,707	(14%)

(a) Because of the two-month interval between time of production and receipt of net profits income by the trust, (1) oil and gas sales for the quarter ended September 30 generally represent production for the period May through July and (2) oil and gas sales for the nine months ended September 30 generally represent production for the period November through July.

(b) Oil and gas sales volumes are allocated to the net profits interests based upon a formula that considers oil and gas prices and the total amount of production expense and development costs. As product prices change, the trust's share of the production volumes is impacted as the quantity of production to cover expenses in reaching the net profits break-even level changes inversely with price. As such, the underlying property production volume changes may not correlate with the trust's net profit share of those volumes in any given period. Therefore, comparative discussion of oil and gas sales volumes is based on the underlying properties.

(c) See Note 2 to Condensed Financial Statements.

(d) See Note 6 to Condensed Financial Statements.

The following are explanations of significant variances on the underlying properties from third quarter 2010 to third quarter 2011 and from the first nine months of 2010 to the comparable period in 2011:

Sales Volumes

Gas

Gas sales volumes decreased 9% for third quarter 2011 and for the first nine months of 2011 as compared with the same 2010 periods primarily because of natural production decline.

Oil

Oil sales volumes decreased 15% for third quarter 2011 and 6% for the first nine months of 2011 as compared with the same 2010 periods primarily because of natural production decline and the timing of cash receipts.

The rate of natural production decline on the underlying oil and gas properties is approximately 6% to 8% a year.

Sales Prices

Gas

The third quarter 2011 average gas price was \$4.96 per Mcf, a 13% increase from the third quarter 2010 average gas price of \$4.40 per Mcf. For the nine-month period, the average gas price decreased 3% to \$4.74 per Mcf in 2011 from \$4.90 per Mcf in 2010. Natural gas prices are affected by the level of North American production, weather, crude oil and natural gas liquids prices, the U.S. economy, storage levels and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The third quarter 2011 gas price is primarily related to production from May through July 2011, when the average NYMEX price was \$4.35 per MMBtu. The average NYMEX price for August and September 2011 was \$4.11 per MMBtu. At October 13, 2011, the average NYMEX futures price for the following twelve months was \$3.98 per MMBtu.

Oil

The third quarter 2011 average oil price was \$95.00 per Bbl, a 33% increase from the third quarter 2010 average oil price of \$71.43 per Bbl. The year-to-date average oil price increased 25% to \$92.19 per Bbl in 2011 from \$73.55 per Bbl in 2010. Oil prices are expected to remain volatile. The third quarter 2011 oil price is primarily related to production from May through July 2011, when the average NYMEX price was \$98.15 per Bbl. The average NYMEX price for August and September 2011 was \$85.78 per Bbl. At October 13, 2011, the average NYMEX futures price for the following twelve months was \$85.59 per Bbl.

Costs

Taxes, Transportation and Other

Taxes, transportation and other increased 4% for the quarter primarily due to increased production taxes related to higher oil and gas revenues. Taxes, transportation and other decreased 14% for the nine-month period primarily because of decreased property taxes related to the timing of expenditures and decreased gas production taxes related to lower gas revenues, partially offset by increased oil production taxes related to higher oil revenues.

Production Expense

Production expense decreased 4% for the quarter primarily because of marketing and economic rebates included in 2011, decreased insurance, labor and location costs, partially offset by increased power and fuel, field and compressor rental costs.

Development

Development costs deducted in the calculation of net profits income are based on the development budget. These development costs increased 29% for the third quarter and 55% for the nine-month period primarily because of the timing of expenditures.

As of December 31, 2010, cumulative actual costs exceeded cumulative budgeted costs by approximately \$0.8 million. In calculating net profits income for the quarter ended September 30, 2011, XTO Energy deducted budgeted development costs of \$2.2 million for the quarter and \$7.3 million for the nine-month period. After considering actual development costs of \$1.3 million for the quarter and \$4.1 million for the nine-month period, budgeted costs deducted exceeded cumulative actual costs by approximately \$2.4 million at September 30, 2011.

XTO Energy has advised the trustee that revised 2011 budgeted development costs for the underlying properties are between \$8 million and \$10 million. The 2011 budget year generally coincides with the trust distribution months from April 2011 through March 2012. The monthly development cost deduction will be reevaluated by XTO Energy and revised as necessary, based on the 2011 budget and the timing and amount of actual expenditures. See Note 2 to Condensed Financial Statements.

Excess Costs

Costs exceeded revenues by \$513,475 (\$410,780 net to the trust) on properties underlying the Kansas net profits interests in October and November 2009. Lower gas prices caused costs to exceed revenues on properties underlying the Kansas net profits interests. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO Energy advised the trustee that increased gas prices led to the partial recovery of excess costs of \$410,957 (\$328,766 net to the trust), plus accrued interest of \$1,958 (\$1,566 net to the trust) in December 2009 and the full recovery of excess costs of \$102,518 (\$82,014 net to the trust), plus accrued interest of \$282 (\$226 net to the trust) in January 2010. There were no excess costs as of September 30, 2011.

Contingencies

Several states have enacted legislation requiring state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its tax counsel, the trustee believes that it is not required to withhold on payments made to the unitholders. However, regulations are subject to change by the various states, which could change this conclusion. Should amounts be withheld on payments made to the trust or the unitholders, distributions to the unitholders would be reduced by the required amount, subject to the filing of a claim for refund by the trust or unitholders for such amount.

Forward-Looking Statements

Statements in this report relating to future plans, predictions, events or conditions are forward-looking statements. All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements regarding the net profits interests, underlying properties, development activities, annual and monthly development, production and other costs and expenses, monthly development cost deductions, oil and gas prices and differentials to NYMEX prices, supply levels, future drilling, workover and restimulation plans, distributions to unitholders and industry and market conditions, are forward-looking statements that are subject to risks and uncertainties which are detailed in Part I, Item 1A of the trust's Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by this reference as though fully set forth herein. XTO Energy, ExxonMobil and the trustee assume no duty to update these statements as of any future date.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in the trust's market risks from the information disclosed in Part II, Item 7A of the trust's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, the trustee carried out an evaluation of the effectiveness of the trust's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the trustee concluded that the trust's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the trust in the reports that it files or submits under the Securities Exchange Act of 1934 and are effective in ensuring that information required to be disclosed by the trust in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the trustee to allow timely decisions regarding required disclosure. In its evaluation of disclosure controls and procedures, the trustee has relied, to the extent considered reasonable, on information provided by XTO Energy. There has not been any change in the trust's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the trust's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Refer to Note 5 of this Quarterly Report on Form 10-Q for information on legal proceedings.

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Part I, Item 1A of the trust's Annual Report on Form 10-K for the year ended December 31, 2010.

Items 2 through 5.

Not applicable.

Item 6. Exhibits.

(a) Exhibits.

Exhibit Number and Description

- (31) Rule 13a-14(a)/15d-14(a) Certification
- (32) Section 1350 Certification
- (99) Items 1A, 7 and 7A to the Annual Report on Form 10-K for Hugoton Royalty Trust filed with the Securities and Exchange Commission on February 24, 2011 (incorporated herein by reference)

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.

HUGOTON ROYALTY TRUST
By BANK OF AMERICA, N.A., TRUSTEE

By /S/ NANCY G. WILLIS
Nancy G. Willis
Vice President

EXXON MOBIL CORPORATION

Date: October 27, 2011

By /S/ PATRICK T. MULVA
Patrick T. Mulva
Vice President and Controller

CERTIFICATIONS

I, Nancy G. Willis, certify that:

1. I have reviewed this report on Form 10-Q of Hugoton Royalty Trust, for which Bank of America, N.A. acts as Trustee;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, distributable income and changes in trust corpus of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), or for causing such controls and procedures to be established and maintained, for the registrant and I have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

In giving the certifications in paragraphs 4 and 5 above, I have relied to the extent I consider reasonable on information provided to me by XTO Energy Inc.

Date: October 27, 2011

By /s/ NANCY G. WILLIS
Nancy G. Willis
Vice President
Bank of America, N.A.

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

In connection with the Quarterly Report of Hugoton Royalty Trust (the "Trust") on Form 10-Q for the quarterly period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, not in its individual capacity but solely as the trustee of the Trust, certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to its knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust.

Bank of America, N.A.,
Trustee for Hugoton Royalty Trust

October 27, 2011

By _____ /S/ NANCY G. WILLIS
Nancy G. Willis
Vice President