

Hugoton Royalty Trust Declares September Cash Distribution

Written by Australian Business

DALLAS, Sept. 20, 2013 /PRNewswire/ -- U.S. Trust, Bank of America Private Wealth Management, as Trustee of the Hugoton Royalty Trust (NYSE – HGT), today declared a cash distribution to the holders of its units of beneficial interest of \$0.065608 per unit, payable on October 15, 2013, to unitholders of record on September 30, 2013

. The following table shows underlying gas sales and average prices attributable to the net overriding royalty payments made by XTO Energy Inc. (XTO Energy) to the Trust for both the current month and prior month distributions. Underlying gas sales volumes attributable to the current month distribution were primarily produced in July.

Underlying Gas Sales

Volumes (Mcf) (a)

Average Gas

Total

Daily

Price per Mcf

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Current Month Distribution

1,594,000

51,000

\$4.06

Prior Month Distribution

1,572,000

52,000

\$4.42

(a)

Sales volumes are recorded in the month the trust receives the related net profits income. Because of the

XTO Energy has advised the trustee that it has deducted budgeted development costs of \$600,000, production expense of

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\$1,832,000
and overhead of
\$1,012,000
in determining the royalty payment to the Trust for the current month.

Arbitration Proceedings – XTO Energy Regarding the \$37 million settlement reached by XTO Energy on the *Fankhouser v. XTO Energy, Inc.*

litigation, XTO Energy notified the trustee with the September 2012

distribution that it charged the trust

\$28.5 million

of the settlement, of which

\$23.4 million

affected the net proceeds from

Oklahoma

and

\$5.1 million

affected the net proceeds from

Kansas

. Based on recent revenue and expense levels, XTO Energy has advised the trustee that it expects the settlement deductions, if deemed allowed by the arbitrators, to cause costs to exceed revenues for approximately 12 months on properties underlying the Oklahoma

net profits interests and approximately 7 years on properties underlying the Kansas

net profits interests; however, changes in oil or natural gas prices or expenses could cause the time period to increase or decrease, correspondingly. As mentioned in the second quarter Form 10-Q filed on

August 6, 2013

, the trustee disagrees with XTO Energy that all or any portion of the settlement should be deducted from Trust revenues, and the dispute is being arbitrated. The three member panel of arbitrators (the "Tribunal") has been named and pleadings have been filed by both parties. The arbitration hearing is tentatively scheduled to begin

November 12, 2013

in

Fort Worth, Texas

if not sooner disposed of by the parties by agreement or by the Tribunal on motion. The trustee requested that the Tribunal enjoin XTO Energy from continuing to deduct the Fankhouser settlement amount while the arbitration is pending. A hearing on the injunction was held on October 27, 2012

. The Tribunal ordered that pending the issuance of a final award or further order of the Tribunal, XTO Energy should not treat any costs or expenses associated with the Fankhouser settlement as chargeable against the trust's net profit interest under the conveyances. The

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Tribunal denied the trust's request for an interim order directing XTO Energy to pay the trust the amounts offset against the trust's September and October 2012 distributions on the basis of the Fankhouser litigation. Based on this decision, deductions associated with the Fankhouser settlement were suspended starting in November 2012

Arbitration Proceedings - Goebel On August 12, 2013, a demand for arbitration styled *Sandra G. Goebel vs. XTO Energy, Inc., Timberland Gathering & Processing Company, Inc. and Bank of America, N.A.*

was filed with the American Arbitration Association. The claimant, Sandra Goebel

, is a unitholder in the trust and alleges that XTO Energy breached the conveyances by misappropriating funds from the trust by failing to modify its existing sales contracts with its affiliate Timberland Gathering & Processing Company, Inc. ("Timberland"). Goebel alleges that these contracts do not currently reflect 'market rate' terms, and that XTO had a duty to renegotiate the contracts to obtain more favorable terms. The claimant further alleges that Bank of America breached its fiduciary duty by acquiescing and facilitating XTO Energy's alleged self-dealing and concealing information from unitholders that would have revealed XTO Energy's breaches. The claim also alleges aiding and abetting breach of fiduciary duty by XTO Energy, and disgorgement and unjust enrichment by Timberland. The claimant seeks from the respondents damages of an estimated

\$59.6 million

for alleged royalty underpayments, exemplary damages, an accounting by XTO Energy, a declaration, costs, reasonable attorneys' fees, and prejudgment and postjudgment interest. The trustee intends to file a response to the arbitration demand within the required timeframe. The terms of the Trust indenture provide that Bank of America shall be indemnified by the trust and shall have no liability, other than for fraud, gross negligence or acts or omissions in bad faith as adjudicated by final nonappealable judgment of a court of competent jurisdiction.

As previously disclosed, the trustee reserved a total of \$900,000 from trust distributions to help fund potential legal and other expenses relating to the

XTO Energy

arbitration. As of September 2013

, the reserve had been fully depleted in connection with such expenses. Any additional expenses relating to this arbitration will be deducted as administrative expense when incurred, however a future reserve may be established to accommodate payment of these expenses as needed. Additionally, the trustee anticipates that the trust will incur additional legal and other expenses in connection with the

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Goebel

arbitration. As a result, the trustee intends to reserve an additional

\$1.6 million

from trust distributions, which it currently anticipates taking over a period of four months. The current month's distribution reflects a deduction of

\$400,000

in connection with such reserve.

For more information on the Trust, please visit our web site at www.hugotontrust.com .

Statements made in this press release regarding future events or conditions are forward looking statements. Actual future results, including development costs, the outcome of litigation, and future net profits, could differ materially due to changes in natural gas prices and other economic conditions affecting the gas industry and other factors described in Part I, Item 1A of the trust's Annual Report on Form 10-K for the year ended December 31, 2012.

SOURCE U.S. Trust

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