



## To Unitholders:

For the quarter ended September 30, 2009, royalty income received by the Trust amounted to \$77,767 as compared to \$3,629,317 received for the same quarter in 2008. The decrease in royalty income is primarily due to lower production and significantly lower natural gas prices, impacting the net profits interest due to the Trust. Production volumes are affected by changes in sales prices for natural gas produced and costs that are deducted in calculating the NPI Net Proceeds. Production related to the royalty income received by the Trust in the third quarter of 2009 was 153,226 MMBtu as compared to 911,187 MMBtu for the same quarter in 2008.

Royalty income for the nine months ended September 30, 2009 was \$2,403,029 as compared to \$7,775,852 for the same period in 2008. Royalty income for the nine-month period ended September 30, 2009 would have been \$1,637,213 if the Trust had not received an overpayment from WPC of \$765,816. Williams has informed the Trust that it waives any right to seek repayment of such amount. Production related to the royalty income received by the Trust for the nine months ended September 30, 2009 was 1,282,103 MMBtu as compared to 2,444,287 MMBtu for the nine months ended September 30, 2008. The decrease in royalty income is attributed to lower prices compared to the previous year.

Interest income for the three-month period ended September 30, 2009 was lower due to lower interest rates and less funds available for investment compared to the same period in 2008. Interest income for the nine-month period was lower than the same period for 2008 due to lower interest rates and less funds available for investment. General and administrative expenses for the three-month period ended September 30, 2009 increased by \$26,228 compared to the same period in 2008 due to increased professional fees. General and administrative expenses for the nine-month period ended September 30, 2009 increased by \$116,209 compared to the same period in 2008 due to increased professional fees.

Expenses in excess of distributable income for the quarter ended September 30, 2009 were \$104,196 or \$(0.01) per Unit compared to distributable income of \$3,479,598 or \$3.36 per Unit for the same quarter in 2008. This decrease in income was the result of lower royalty income as previously described. No distribution was made in the third quarter of 2009 because Trust expenses exceeded royalty income for the period. Distributable income for the nine months ended September 30, 2009 was \$1,582,984 or \$0.16 per Unit as compared to \$7,085,127 or \$0.73 per Unit for the same period in 2008. This decrease was the result of lower production volumes and lower prices and, as described above, the 2009 distributions were benefited by the overpayment amount from WPC. If natural gas prices remain at current levels or decrease, royalty income may not exceed Trust expenses in future quarters (as was the case in the prior quarter), in which case no distributions will be made.

Because the Trust incurs administrative expenses throughout a quarter but receives its royalty income only once in a quarter,

the Trustee established in the first quarter of 1993 a cash reserve for the payment of expenses and liabilities of the Trust. The Trustee thereafter has adjusted the amount of such reserve in certain quarters as required for the payment of the Trust's expenses and liabilities, in accordance with the provisions of the Trust Agreement. The Trustee has maintained a cash reserve that will be reduced by Trust expenses in excess of royalty income.

Royalty income to the Trust is attributable to the sale of depleting assets. All of the Underlying Properties burdened by the Royalty Interests consist of producing properties. Accordingly, the proved reserves attributable to WPC's interest in the Underlying Properties are expected to decline substantially during the term of the Trust and a portion of each cash distribution made by the Trust will, therefore, be analogous to a return of capital. Accordingly, cash yields attributable to the Units are expected to decline over the term of the Trust. Cash yields will cease when Trust expenses exceed royalty income, as was the case in the third quarter of 2009. If natural gas prices remain at current levels or decrease, cash yields may cease for the foreseeable future, including, potentially, through termination of the Trust.

Royalty income received by the Trust in a given calendar quarter will generally reflect the sum of (i) net proceeds from the sale of gas produced from the WI Properties during the preceding calendar quarter, plus (ii) cash received by WPC with respect to the Farmout Properties either (a) during the preceding calendar quarter or (b) if received in sufficient time to be paid to the Trust, in the month immediately following such calendar quarter. Accordingly, the royalty income for the quarter ended September 30, 2009, was based on production volumes and natural gas prices for the period April 2009 through June 2009, as shown in the table below. Due to delays associated with the receipt of income related to the Farmout Properties, the Trust's royalty income for the third quarter of 2009 reflects estimated production volumes from the Farmout Properties for the months of March 2009 through May 2009, as shown in the table below. The net production volumes included in the table below are for production attributable to net profits of the Underlying Properties, and not for production attributable to the Trust's Royalty Interests. Prices since June 30, 2009 have remained at relatively low levels and will reduce or eliminate the future distributions of the Trust. In turn, lower prices will affect the future reserve quantities of the Trust and will impact the value determined in the annual termination calculation and the fair value of the interests upon subsequent sale, if applicable.

	Three Months Ended June 30,	
	2009	2008
Production (MMBtu) <sup>(1)</sup>		
WI Properties .....	13,813 <sup>(2)</sup>	1,248,685 <sup>(3)</sup>
Farmout Properties .....	238,672	269,960
Infill Properties <sup>(5)(6)</sup> .....	8,676 <sup>(5)</sup>	-0 <sup>(6)</sup>
Blanco Hub		
Spot Price (\$/MMBtu) <sup>(4)</sup> .....	\$ 2.59	\$ 9.19
Net Wellhead Price		
WI Properties (\$/MMBtu) <sup>(4)</sup> .....	\$ .76	\$ 4.08

# To Unitholders – continued

- (1) Million British Thermal Units.
- (2) The WI Properties realized a net deficit from the Net Profits Interest for the three-month period ended September 30, 2009; therefore, no production quantities related to that period are presented. The production quantity above is comprised entirely of favorable retroactive adjustments of 13,813 MMBtu.
- (3) Includes unfavorable retroactive adjustments of 48,788 MMBtu.
- (4) Simple average of estimates for the months included in the period presented.
- (5) There was no distribution from the Infill Properties for the three-month period ended September 30, 2009 as described in Note 1 to the financial statements of the Trust. The production quantity above reflects favorable retroactive adjustments of 8,676 MMBtu.
- (6) No distribution was made for Infill Properties.

Production from the WI Properties is generally sold by WPC to WPX Gas Resources pursuant to the Gas Purchase Contract that provides certain protections for WPC and Unitholders by providing that WPX Gas Resources will purchase gas from WPC at a minimum purchase price of \$1.70 even when the applicable index price (which is equal to 97% of the Blanco Hub Spot Price) falls below \$1.70 per MMBtu, provided that WPX Gas Resources is entitled to accrue price credits in the amount of any excess of the minimum price so paid over the applicable index price. When the applicable index price exceeds \$1.70 per MMBtu, WPX Gas Resources is entitled to recoup any price credits previously accrued. When the applicable index price is greater than \$1.94 per MMBtu, the Gas Purchase Contract protects and benefits WPX Gas Resources by allowing it to purchase gas from WPC at a contract price equal to \$1.94 per MMBtu plus only 50 percent of the difference between the applicable index price and \$1.94 per MMBtu. The Gas Purchase Contract also provides that the price paid for gas by WPX Gas Resources is reduced by the amount of gathering, processing and certain other costs paid by WPX Gas Resources. See “Item 2 Properties – The Royalty Interests – Gas Purchase Contract” in the 2008 Annual Report for detailed information about the Gas Purchase Contract and its impact on Trust income.

The initial five-year term of the pricing provision (“Primary Term”) of the Gas Purchase Contract expired on December 31, 1997. Following the expiration of the Primary Term, the pricing provision will continue in effect for one or more consecutive additional one-year terms (each such term a “Contract Year”) unless and until WPX Gas Resources exercises its annual option, exercisable 15 days prior to the end of each Contract Year, to discontinue purchasing gas from WPC under the pricing provision of the Gas Purchase Contract and instead purchase gas at a monthly price equal to the index price of 97% of the Blanco Hub Spot Price. WPX has not yet exercised this option and the pricing mechanism of the Primary Term therefore has been and will continue to remain in effect through at least December 31, 2009.

For the nine months ended September 30, 2009, which is based on production volumes and natural gas prices for the nine months ended June 30, 2009, the Blanco Hub Spot Price was above \$2.00 per MMBtu, and therefore the applicable index price under the Gas Purchase Contract, which is equal to 97% of the Blanco Hub Spot Price, was above \$1.94 per

MMBtu through such period. In general, under the Gas Purchase Contract, the Trust only receives the benefit of 50 percent of any amount by which the applicable index price exceeds \$1.94 per MMBtu. Consequently, pursuant to the terms of the Gas Purchase Contract, WPX Gas Resources paid WPC an amount for gas purchased equal to \$1.94 per MMBtu, less the costs paid by WPX Gas Resources to gather and process such gas and deliver it to specified delivery points plus 50 percent of the excess of the applicable index price over \$1.94 per MMBtu. The Blanco Hub Spot Price remained above \$2.00 per MMBtu in October 2009.

## Termination and Liquidation of the Trust

With respect to the Trust termination provisions as outlined in the Trust Agreement, the net present value of the estimated future net revenues computed in accordance with the Trust Agreement, using an average 2008 index price of \$7.21, by the independent petroleum engineers as of December 31, 2008 was approximately \$65 million. While the results of this computation did not trigger an early termination of the Trust as of December 31, 2008, future computations are subject to the numerous uncertainties in estimating the future net revenues. As indicated in Note 2 to the financial statements in Item 1, commodity prices realized in 2009 are significantly lower than the prices realized during 2008, resulting in uncertainty regarding the Trust's ability to avoid a termination triggering event in accordance with the provisions of the Trust Agreement when the test is next performed as of December 31, 2009. The simple average monthly Blanco Hub Spot Price for the first nine months of 2009 was \$3.00 compared to the average price of \$7.21 that was used by the independent petroleum engineers as of December 31, 2008 who calculated the net present value of the estimated future net revenues as of such date to be approximately \$65 million. Additionally, the computed value could be negatively impacted by future revisions to the underlying reserve estimates. As a result, there is substantial doubt regarding the Trust's ability to continue as a going concern. Should the Trust's computed net present value fall below the \$30 million stipulated threshold as of December 31, 2009, the Trust will terminate effective March 1, 2010. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty, including the ultimate liquidation of the Trust and its assets.

### Williams Coal Seam Gas Royalty Trust



**By: Ron E. Hooper**  
**Senior Vice President**  
**U.S. Trust, Bank of America**  
**Private Wealth Management, Trustee**

November 20, 2009

## Condensed Statements of Assets, Liabilities and Trust Corpus (Unaudited)

	September 30, 2009	December 31, 2008
<b>Assets</b>		
Current Assets--		
Cash and cash equivalents .....	\$ 52,542	\$ 45,419
Royalty interests in oil and gas properties (less accumulated amortization of \$133,725,319 at September 30, 2009 and \$132,988,670 at December 31, 2008)	<b>4,841,345</b>	5,577,944
TOTAL ASSETS .....	<b><u>\$ 4,893,887</u></b>	<u>\$ 5,623,413</u>
<b>Liabilities and Trust Corpus</b>		
Current Liabilities--		
Trust expenses payable .....	\$ 191,436	\$ 31,193
Trust corpus--9,700,000 units of beneficial interest authorized and outstanding .....	<b>4,702,451</b>	5,592,220
TOTAL LIABILITIES AND TRUST CORPUS .....	<b><u>\$ 4,893,887</u></b>	<u>\$ 5,623,413</u>

## Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2009	2008	2009	2008
Royalty income.....	\$ 77,767	\$ 3,629,317	\$ 2,403,029	\$ 7,775,852
Interest Income.....	42	6,058	841	13,592
	<b>77,809</b>	3,635,375	<b>2,403,870</b>	7,789,804
General and administrative expenses .....	<b>(182,005)</b>	(155,777)	<b>(820,886)</b>	(704,677)
Distributable income .....	<b>\$ (104,196)</b>	\$ 3,479,598	<b>\$ 1,582,984</b>	\$ 7,085,127
Distributable income per unit (9,700,000 units).	<b><u>\$.01</u></b>	<u>\$.36</u>	<b><u>\$.16</u></b>	<u>\$.73</u>

## Condensed Statements of Changes in Trust Corpus (Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Trust corpus, beginning of period.....	\$ 5,592,220	\$ 6,877,977
Amortization of royalty interests.....	<b>(736,649)</b>	(868,661)
Distributable income .....	<b>1,582,984</b>	7,085,127
Distributions to unitholders .....	<b>(1,736,104)</b>	(6,951,298)
Trust corpus, end of period .....	<b><u>\$ 4,702,451</u></b>	<u>\$ 6,143,145</u>
Distributions per unit (9,700,000 units).....	<b><u>\$.18</u></b>	<u>\$.72</u>