

MARINE PETROLEUM TRUST

Form 10-Q

November 15, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended September 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission file number 000-08565**

**Marine Petroleum Trust**

(Exact name of registrant as specified in its charter)

**Texas**

(State or other jurisdiction  
of incorporation or organization)

**75-6008017**

(I.R.S. Employer  
Identification No.)

**c/o The Corporate Trustee:**

**U.S. Trust, Bank of America Private Wealth  
Management**

**P. O. Box 830650, Dallas, Texas**

(Address of principal executive offices)

**75283-0650**

(Zip Code)

Registrant's telephone number, including area code **(800) 985-0794**

None

(Former name, former address and former fiscal year if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

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

As of November 12, 2010, Marine Petroleum Trust had 2,000,000 units of beneficial interest outstanding.

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**MARINE PETROLEUM TRUST AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS**  
**As of September 30, 2010 and June 30, 2010**

	<b>September 30, 2010 (Unaudited)</b>	<b>June 30, 2010 (Audited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,160,418	\$ 1,143,454
Federal income taxes refundable	14,425	14,425
Producing oil and gas properties	7	7
Total assets	\$ 1,174,850	\$ 1,157,886
<b>LIABILITIES AND TRUST CORPUS</b>		
Current liabilities:		
Federal income taxes payable	\$	\$
Total current liabilities	\$	\$
Trust corpus authorized 2,000,000 units of beneficial interest, issued 2,000,000 units at nominal value	\$ 1,174,850	\$ 1,157,886
	\$ 1,174,850	\$ 1,157,886

See accompanying notes to condensed consolidated financial statements.

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**MARINE PETROLEUM TRUST AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF DISTRIBUTABLE INCOME**  
**For the Three Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Income:		
Oil and gas royalties	\$ 613,466	\$ 448,556
Oil and gas royalties from affiliate	199,229	248,858
Interest income		11
 Total income	 \$ 812,695	 \$ 697,425
Expenses:		
General and administrative	\$ 46,111	\$ 68,241
 Distributable income before Federal income taxes	 766,584	 629,184
Federal income taxes of subsidiary		
 Distributable income	 \$ 766,584	 \$ 629,184
 Distributable income per unit	 \$ 0.38	 \$ 0.31
 Distributions per unit	 \$ 0.37	 \$ 0.25
 Units outstanding	 2,000,000	 2,000,000

See accompanying notes to condensed consolidated financial statements.

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**MARINE PETROLEUM TRUST AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN TRUST CORPUS  
For the Three Months Ended September 30, 2010 and 2009  
(Unaudited)**

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Trust corpus, beginning of period	\$ 1,157,886	\$ 1,053,282
Distributable income	766,584	629,184
Distributions to unitholders	749,620	492,005
Trust corpus, end of period	\$ 1,174,850	\$ 1,190,461

See accompanying notes to condensed consolidated financial statements.

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**MARINE PETROLEUM TRUST AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**  
**(Unaudited)**

**Note 1. Accounting Policies**

The financial statements include the financial statements of Marine Petroleum Trust (the Trust) and its wholly-owned subsidiary, Marine Petroleum Corporation (MPC), and collectively with the Trust, Marine. The financial statements are condensed and consolidated and should be read in conjunction with Marine's Annual Report on Form 10-K for the fiscal year ended June 30, 2010. The financial statements included herein are unaudited, but in the opinion of the trustee of the Trust, they include all adjustments necessary for a fair presentation of the results of operations for the periods indicated. Operating results for the interim periods reported herein are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011.

**Note 2. Basis of Accounting**

The financial statements of Marine are prepared on the modified cash basis method and are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America (GAAP). Under the modified cash basis method:

Royalty income is recognized in the month when received by Marine.

Marine's expenses (which include accounting, legal, and other professional fees, trustees' fees and out-of-pocket expenses) are recorded on an accrual basis. Reserves for liabilities that are contingent or uncertain in amount may also be established if considered necessary.

Distributions to unitholders are recognized when declared by the trustee of the Trust.

The financial statements of Marine differ from financial statements prepared in conformity with GAAP because of the following:

Royalty income is recognized in the month received rather than in the month of production.

Reserves may be established for contingencies that would not be recorded under GAAP.

This comprehensive basis of accounting corresponds to the accounting principles permitted for royalty trusts by the U.S. Securities and Exchange Commission (the SEC), as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*.

**Note 3. Distributable Income**

The Trust's Indenture (the Indenture) provides that the trustee is to distribute all cash in the Trust, less an amount reserved for the payment of accrued liabilities and estimated future expenses, to unitholders on the 28<sup>th</sup> day of March, June, September and December of each year. If the 28<sup>th</sup> day falls on a Saturday, Sunday or legal holiday, the distribution is payable on the immediately succeeding business day.

As stated under Accounting Policies above, the financial statements in this Quarterly Report on Form 10-Q are the condensed and consolidated account balances of the Trust and MPC. However, distributable income is paid from the account balances of the Trust. Distributable income is comprised of (i) royalties from offshore Texas leases owned directly by the Trust, (ii) 98% of the royalties received from offshore Louisiana leases owned by MPC, which are retained by and delivered to the Trust on a quarterly basis, (iii) cash distributions from the Trust's interest in Tidelands Royalty Trust B (Tidelands), a separate publicly traded royalty trust, (iv) dividends paid by MPC, less (v) administrative expenses incurred by the Trust. Distributions fluctuate from quarter to quarter primarily due to changes in oil and natural gas prices and production quantities.



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Subsequent events have been evaluated through the date of the Quarterly Report on Form 10-Q in which these financial statements are included.

**Note 5. Investment in Affiliate Tidelands Royalty Trust B**

At September 30, 2010 and 2009, the Trust owned 32.6% of the outstanding units of beneficial interest in Tidelands.

The following summary financial statements have been derived from the unaudited consolidated financial statements of Tidelands:

**TIDELANDS CONSOLIDATED STATEMENTS OF DISTRIBUTABLE INCOME**

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Income	\$ 413,669	\$ 793,305
Expenses	65,017	66,819
Distributable income before Federal income taxes	348,652	726,486
Federal income taxes of Tidelands subsidiary		3,800
Distributable income	\$ 345,652	\$ 722,686

Tidelands is a reporting company under the Securities Exchange Act of 1934, as amended, and has filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Consolidated statements of distributable income data concerning Tidelands has been presented through September 30, 2010, the latest period for which such information is publicly available in Tidelands Quarterly Report on Form 10-Q for the period ended September 30, 2010. Reference should be made to Tidelands public filings for current information concerning Tidelands and its financial position and results of operations.

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**Item 2. Trustee's Discussion and Analysis of Financial Condition and Results of Operations**

**Organization**

The Trust is a royalty trust that was created in 1956 under the laws of the State of Texas. U.S. Trust, Bank of America Private Wealth Management serves as corporate trustee (the Trustee). The Indenture provides that the term of Trust will expire on June 1, 2021, unless extended by the vote of the holders of a majority of the outstanding units of beneficial interest. The Trust is not permitted to engage in any business activity because it was organized for the sole purpose of providing an efficient, orderly, and practical means for the administration and liquidation of rights to payments from certain oil and natural gas leases in the Gulf of Mexico, pursuant to license agreements and amendments between the Trust's predecessors and Gulf Oil Corporation (Gulf). As a result of various transactions that have occurred since 1956, the Gulf interests now are held by Chevron Corporation (Chevron) and its assignees. The Trust holds title to interests in properties that are situated offshore of Texas.

The Trust's wholly-owned subsidiary, MPC, holds title to interests in properties that are situated offshore of Louisiana because at the time the Trust was created, trusts could not hold these interests under Louisiana law. MPC is prohibited from engaging in a trade or business and does only those things necessary for the administration and liquidation of its properties.

Marine's rights are generally referred to as overriding royalty interests in the oil and natural gas industry. An overriding royalty interest is created by an assignment by the owner of a working interest in an oil or gas lease. The royalty rights associated with an overriding royalty interest terminate when the underlying lease terminates. All production and marketing functions are conducted by the working interest owners of the leases. Income from overriding royalties is paid to Marine either (i) on the basis of the selling price of oil, natural gas and other minerals produced, saved and sold, or (ii) at the value at the wellhead as determined by industry standards, when the selling price does not reflect the value at the wellhead.

The Trustee assumes that some units of beneficial interest 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). Therefore, the Trustee considers the Trust to be a widely held fixed investment trust (WHFIT) for U.S. Federal income tax purposes. Accordingly, the Trust will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. The representative of the Trust that will provide the required information is U.S. Trust, Bank of America Private Wealth Management and the contact information for the representative is as follows:

U.S. Trust, Bank of America Private Wealth Management

P.O. Box 830650

Dallas, Texas 75283-0650

Telephone number: (800) 985-0794

Each unitholder should consult his or her own tax advisor for compliance matters.

**Liquidity and Capital Resources**

Due to the limited purpose of the Trust as stated in the Trust's Indenture, there is no requirement for capital. The Trust's only obligation is to distribute to unitholders the distributable income actually collected. As an administrator of oil and natural gas royalty properties, the Trust collects royalties monthly, pays administration expenses and disburses all net royalties collected to its unitholders each quarter.

The Trust's Indenture (and MPC's charter and by-laws) expressly prohibits the operation of any kind of trade or business. The Trust's oil and natural gas properties are depleting assets and are not being replaced due to the prohibition against these investments. These restrictions, along with other factors, allow the Trust to be treated as a grantor trust. As a grantor trust, all income and deductions for state and U.S. Federal tax purposes generally flow through to each individual unitholder. In May 2006, the State of Texas passed legislation to implement a franchise or margin tax. The Trust does not believe that it is subject to the franchise tax because at least 90% of its income is from passive sources. Please see Marine's Annual Report on Form 10-K for the fiscal year ended June

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30, 2010 for further information. MPC is a taxable entity and pays state and U.S. Federal taxes on its income. However, MPC's income specifically excludes 98% of oil and natural gas royalties collected by MPC, which are retained by and delivered to the Trust in respect of the Trust's net profits interest.

### **The Leases**

Marine relies on public records for information regarding drilling operations. The public records available up to the date of this report indicate that there were six new well completions made during the three months ended September 30, 2010 on leases in which Marine has an interest. Public records also indicate that there were five wells in the process of being drilled and that operators have designated four additional locations for work, which may include drilling, permits to work over or recomplete a well or other types of operations. There is no assurance that wells will be drilled, and if they are drilled, that they will be successful.

Marine holds an overriding royalty interest that is equal to three-fourths of 1% of the working interest and is calculated on the value at the well of any oil, natural gas, or other minerals produced and sold from 57 leases covering 203,616 gross acres located in the Gulf of Mexico. Marine's overriding royalty interest applies only to existing leases and does not apply to any new leases that Chevron may acquire. The Trust also owns a 32.6% interest in Tidelands. Tidelands has an overriding royalty interest in five leases covering 22,948 gross acres located in the Gulf of Mexico. As a result of this ownership, the Trust receives periodic distributions from Tidelands.

On April 20, 2010, a deepwater drilling rig exploded and sank in the Gulf of Mexico, which resulted in loss of life and a substantial oil spill. Marine did not receive royalties from the well, and Marine's wells are located in shallow water. To date, Marine has not been directly impacted by the loss of the well or its aftermath. However, how Marine may be affected by this incident in the future, including any new or additional regulations that may be adopted in response to the incident that affects wells from which Marine receives royalties, are unknown at this time. Any new restrictions for drilling permits in the Gulf of Mexico can both positively or negatively affect the future of drilling on Marine's leases.

### **Critical Accounting Policies and Estimates**

In accordance with U.S. Securities and Exchange Commission (the "SEC") Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*, Marine uses the modified cash basis method of accounting. Under this accounting method, royalty income is recorded when received, and distributions to unitholders are recorded when declared by the Trustee of the Trust. Expenses of Marine (which include accounting, legal, and other professional fees, trustees' fees and out-of-pocket expenses) are recorded on an accrual basis. Marine also reports distributable income instead of net income under the modified cash basis method of accounting. Cash reserves are permitted to be established by the Trustee for certain contingencies that would not be recorded under accounting principles generally accepted in the United States of America ("GAAP").

Marine did not have any changes in critical accounting policies or in significant accounting estimates during the three months ended September 30, 2010. Please see Marine's Annual Report on Form 10-K for the fiscal year ended June 30, 2010 for a detailed discussion of critical accounting policies.

### **General**

Marine's royalty income is derived from the oil and natural gas production activities of unrelated parties. Marine's royalty income fluctuates from period to period based upon factors beyond Marine's control, including, without limitation, the number of productive wells drilled and maintained on leases subject to Marine's interest, the level of production over time from such wells and the prices at which the oil and natural gas from such wells are sold.

Important aspects of Marine's operations are conducted by third parties. Marine's royalty income is dependent on the operations of the working interest owners of the leases on which Marine has an overriding royalty interest. The oil and natural gas companies that lease tracts subject to Marine's interests are responsible for the production and sale of oil and natural gas and the calculation of royalty payments to Marine. The only obligation of the working interest owners to Marine is to make monthly overriding royalty payments of Marine's interest in the oil

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and natural gas sold. Marine's distributions are processed and paid by American Stock Transfer & Trust Company, LLC as the agent for Marine.

The volume of oil and natural gas produced and its selling price are primary factors in the calculation of overriding royalty payments. Production is affected by the declining capability of the producing wells, the number of new wells drilled and the number of existing wells re-worked and placed back in production. Production from existing wells is anticipated to decrease in the future due to normal well depletion. Marine has no input with the operators regarding future drilling or re-working operations which could impact the oil and natural gas production on the leases on which Marine has an overriding royalty interest.

**Summary of Operating Results**

During the three months ended September 30, 2010, Marine realized 72% of its royalty income from the sale of oil and 28% from the sale of natural gas, excluding its interest in Tidelands. Royalty income consists of oil and natural gas royalties received from producers. During the three months ended September 30, 2010, Marine's interest in Tidelands accounted for 25% of its total income.

Distributable income per unit for the three months ended September 30, 2010 increased to \$0.38 as compared to \$0.31 for the comparable period in 2009. Distributions to unitholders amounted to \$0.37 per unit for the three months ended September 30, 2010, an increase from \$0.25 per unit from the distributions for the comparable period in 2009. During the three months ended September 30, 2010, the difference between distributable income per unit and distributions per unit resulted from timing differences between the closing of the financial statements and the determination date of the distribution amount to unitholders.

For the three months ended September 30, 2010, excluding the Trust's interest in Tidelands, oil production increased by 597 barrels and natural gas production decreased by 1,538 thousand cubic feet (mcf) from the levels realized in the comparable period in 2009. For the three months ended September 30, 2010, excluding the Trust's interest in Tidelands, the average price realized for a barrel of oil increased \$19.62 from the price realized in the comparable period in 2009 and the average price realized for an mcf of natural gas increased \$0.76 from the price realized in the comparable period in 2009.

The following table presents the net production quantities of oil and natural gas and distributable income and distributions per unit for the last six quarters.

Quarter Ended	Net Production Quantities <sup>(1)</sup>			Distribution	
	Oil (bbls)	Natural Gas (mcf)	Distributable Income Per Unit	Per Unit	
March 31, 2009	2,130	28,473	\$ 0.30	\$ 0.30	
June 30, 2009	4,210	16,794	\$ 0.29	\$ 0.26	
September 30, 2009	4,995	36,074	\$ 0.31	\$ 0.25	
December 31, 2009	5,352	30,833	\$ 0.29	\$ 0.32	
March 31, 2010	5,790	32,085	\$ 0.37	\$ 0.32	
September 30, 2010	5,592	34,536	\$ 0.38	\$ 0.37	

(1) Excludes the Trust's interest in Tidelands.

**Results of Operations Three Months Ended September 30, 2010 and 2009**

Income from oil and natural gas royalties increased \$164,910 to \$613,466 during the three months ended September 30, 2010 from \$448,556 realized in the comparable three months in 2009.

Distributable income increased to \$766,584 for the three months ended September 30, 2010 from \$629,184 realized for the comparable three months in 2009.

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Income from oil royalties, excluding the Trust's interest in Tidelands, for the three months ended September 30, 2010 increased to \$443,252 from \$297,967 realized for the comparable three months in 2009.

Income from natural gas royalties, excluding the Trust's interest in Tidelands, for the three months ended September 30, 2010 increased to \$170,214 from \$150,589 for the comparable three months in 2009.

Income from the Trust's interest in Tidelands decreased 19.9% for the three months ended September 30, 2010 as compared to the comparable three months of 2009.

The following table presents the quantities of oil and natural gas sold and the average price realized from current operations for the three months ended September 30, 2010, and those realized in the comparable three months in 2009, excluding the Trust's interest in Tidelands.

	<b>Three Months Ended September 30,</b>		<b>% Change</b>
	<b>2010 (Unaudited)</b>	<b>2009 (Unaudited)</b>	
<b>Oil</b>			
Barrels sold	5,592	4,995	12.0%
Average price	\$ 79.27	\$ 59.65	32.9%
<b>Natural gas</b>			
Mcf sold	34,536	36,074	(4.3)%
Average price	\$ 4.93	\$ 4.17	18.2%

General and administrative expenses decreased to \$46,111 in the three months ended September 30, 2010 from \$68,241 in the prior year period, primarily due to decreased professional fees and expenses.

**Forward-Looking Statements**

The statements discussed in this Quarterly Report on Form 10-Q regarding Marine's future financial performance and results, and other statements that are not historical facts, are forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended. This report uses the words may, expect, anticipate, estimate, believe, continue, intend, plan, budget, or other similar words to identify forward-looking statements. You should read statements that contain these words carefully because they discuss future expectations, contain projections of Marine's financial condition, and/or state other forward-looking information. Actual results may differ from expected results because of: reductions in price or demand for oil and natural gas, which might then lead to decreased production; reductions in production due to the depletion of existing wells or disruptions in service, which may be caused by storm damage to production facilities, blowouts or other production accidents, or geological changes such as cratering of productive formations; changes in regulations; and the expiration or release of leases subject to Marine's interests. Additional risks are set forth in Marine's Annual Report on Form 10-K for the fiscal year ended June 30, 2010. Events may occur in the future that Marine is unable to accurately predict or over which it has no control. If one or more of these uncertainties materialize, or if underlying assumptions prove incorrect, actual outcomes may vary materially from those forward-looking statements included in this Quarterly Report on Form 10-Q.

**Website**

Marine has an Internet website and has made available its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, at [www.marps-marinepetroleumtrust.com](http://www.marps-marinepetroleumtrust.com). Each of these reports will be posted on this website as soon as reasonably practicable after such report is electronically filed with or furnished to the SEC.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Marine did not experience any material changes in market risk during the period covered by this Quarterly Report on Form 10-Q. Marine's market risk is described in more detail in Item 7A: Quantitative and Qualitative Disclosures About Market Risk in its Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

**Item 4. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

U.S. Trust, Bank of America Private Wealth Management, as Trustee of the Trust, is responsible for establishing and maintaining Marine's disclosure controls and procedures. These controls and procedures are designed to ensure that material information relating to Marine is communicated to the Trustee. As of the end of the period covered by this Quarterly Report on Form 10-Q, the Trustee carried out an evaluation of the effectiveness of the design and operation of Marine's disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Trustee concluded that Marine's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

**Changes in Internal Control Over Financial Reporting**

There has not been any change in Marine's internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, Marine's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in the Risk Factors in Marine's Annual Report filed on Form 10-K for the fiscal year ended June 30, 2010.

**Item 6. Exhibits**

The following exhibits are included herein:

31.1 Certification of the Corporate Trustee pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Corporate Trustee pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MARINE PETROLEUM TRUST**  
U.S. Trust, Bank of America Private Wealth  
Management, *Trustee*

November 15, 2010

By: /s/ Ron E. Hooper  
Ron E. Hooper  
*Senior Vice President*

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