

MARINE PETROLEUM TRUST
Form 10-Q
May 10, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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)

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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 75283-0650

(Address of principal executive offices)

(Zip Code)

(800) 985-0794

(Registrant's telephone number, including area code)

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 (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 Rule 12b-2 of the Exchange Act). Yes No

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

As of May 8, 2013, Marine Petroleum Trust had 2,000,000 units of beneficial interest outstanding.

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As of March 31, 2013 and June 30, 2012

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,156,440	\$ 1,184,244
Federal income tax refundable	2,800	2,800
Producing oil and natural gas properties	7	7
Total assets	\$ 1,159,247	\$ 1,187,051
LIABILITIES AND TRUST CORPUS		
Current liabilities:		
Federal income tax payable	\$	\$
Total current liabilities	\$	\$
Trust corpus 2,000,000 units of beneficial interest authorized, 2,000,000 units issued at nominal value	\$ 1,159,247	\$ 1,187,051
	\$ 1,159,247	\$ 1,187,051

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 and Nine Months Ended March 31, 2013 and 2012

(Unaudited)

	Three Months Ended		Nine Months Ended	
	2013	March 31, 2012	2013	March 31, 2012
Income:				
Oil and natural gas royalties	\$ 754,599	\$ 968,000	\$ 2,013,137	\$ 2,973,633
Oil and natural gas royalties from affiliate	57,127	91,551	202,471	304,657
Interest income	16	13	49	13
Total income	811,742	1,059,564	2,215,657	3,278,303
Expenses:				
General and administrative	78,735	86,359	219,011	232,228
Distributable income before federal income taxes	733,007	973,205	1,996,646	3,046,075
Federal income taxes of subsidiary				2,800
Distributable income	\$ 733,007	\$ 973,205	\$ 1,996,646	\$ 3,043,275
Distributable income per unit	\$ 0.37	\$ 0.49	\$ 1.00	\$ 1.52
Distributions per unit	\$ 0.33	\$ 0.50	\$ 1.01	\$ 1.56
Units outstanding	2,000,000	2,000,000	2,000,000	2,000,000

See accompanying notes to condensed consolidated financial statements.

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MARINE PETROLEUM TRUST AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TRUST CORPUS

For the Nine Months Ended March 31, 2013 and 2012

(Unaudited)

	Nine Months Ended March 31,	
	2013	2012
Trust corpus, beginning of period	\$ 1,187,051	\$ 1,360,392
Distributable income	1,996,646	3,043,275
Distributions to unitholders	(2,024,450)	(3,127,950)
Trust corpus, end of period	\$ 1,159,247	\$ 1,275,717

See accompanying notes to condensed consolidated financial statements.

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MARINE PETROLEUM TRUST AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

Note 1. Accounting Policies

The financial statements herein 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, 2012. 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, 2013.

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 generally accepted accounting principles 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 (including accounting, legal, other professional fees, trustees' fees and out-of-pocket expenses) are recorded on an actual paid 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.

Expenses are recorded in the month paid rather than in the month incurred.

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

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 28th day of March, June, September and December of each year. If the 28th day falls on a Saturday, Sunday or legal holiday, the distribution is payable on the immediately succeeding business day.

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As stated under Note 1. Accounting Policies above, the financial statements in this Quarterly Report on Form 10-Q are the condensed and consolidated financial statements 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

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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.

Note 4. Investment in Affiliate Tidelands Royalty Trust B

At March 31, 2013 and 2012, 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 condensed consolidated financial statements of Tidelands:

TIDELANDS CONDENSED CONSOLIDATED STATEMENTS OF DISTRIBUTABLE INCOME

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Income	\$ 677,737	\$ 845,743
Expenses	106,132	124,026
Distributable income before Federal income taxes	571,605	721,717
Federal income taxes of Tidelands subsidiary		
Distributable income	\$ 571,605	\$ 721,717

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, 2012. Please see Tidelands' public filings for current information concerning Tidelands and its financial condition and results of operations.

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

Organization

Marine Petroleum Trust (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 Trust's Indenture (the "Indenture") provides that the term of the 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, these 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 only takes those actions that are 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 natural 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 or 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 Trustee will provide the required information and the contact information for the Trustee:

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 its own tax advisor for compliance with U.S. federal income tax laws and regulations.

Liquidity and Capital Resources

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

The 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 that are not being replaced due to the prohibition against 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 income taxes generally flow through to each individual unitholder. The State of Texas has a franchise or "margin" tax, but the Trust does not

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believe that it is subject to the franchise tax because at least 90% of its income comes from passive sources. Please see Marine's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 for further information. MPC is a taxable entity that pays state and U.S. federal income taxes and state franchise taxes. However, MPC's income specifically excludes 98% of the oil and natural gas royalties collected by MPC, which are retained by and delivered to the Trust because of the Trust's net profits interest.

The Leases

Marine relies on public records for information regarding drilling and workover operations. The public records available up to the date of this report indicate that there were seven new well completions made during the nine months ended March 31, 2013 on leases in which Marine has an interest. As of May 6, 2013, public records also indicated that there were eight wells in the process of being drilled or recompleted on other leases in which Marine has an interest and that operators have designated activity on two additional locations which may include drilling, permits to workover or recomplete a well or other types of operations. There is no assurance that such wells will be drilled or recompleted, and if they are drilled or recompleted, that they will be successful.

Marine holds an overriding royalty interest that is equal to three-fourths of one percent 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 55 leases covering 199,868 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 four oil and natural gas leases covering 17,188 gross acres in the Gulf of Mexico. As a result of this ownership, the Trust receives periodic distributions from Tidelands.

Critical Accounting Policies and Estimates

In accordance with SAB 12:E, 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 (including accounting, legal, other professional fees, trustees' fees and out-of-pocket expenses) are recorded on an actual paid 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 GAAP.

Marine did not have any changes in its critical accounting policies and estimates during the nine months ended March 31, 2013. Please see Marine's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 for a detailed discussion of its critical accounting policies.

New Accounting Pronouncements

There are no new pronouncements that are expected to have a significant impact on Marine's financial statements.

General

Marine's royalty income is derived from the oil and natural gas production activities of third 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 that are 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 that reflect Marine's interest in the oil and natural gas sold. Marine's distributions are processed and paid by its transfer agent, American Stock Transfer & Trust Company, LLC.

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The volume of oil and natural gas produced and the selling prices of such oil and natural gas are the primary factors in calculating overriding royalty payments. Production is affected by the natural production decline of the producing wells, the number of new wells drilled and the number of existing wells that are re-worked and placed back in production on the leases. 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 that could impact the oil and natural gas production from the leases in which Marine has an overriding royalty interest.

Summary of Operating Results

During the nine months ended March 31, 2013, royalty income from the sale of oil represented 85% of Marine's total royalty income and royalty income from the sale of natural gas represented 15% of Marine's total royalty income, excluding its interest in Tidelands. During the nine months ended March 31, 2012, royalty income from the sale of oil represented 82% of Marine's total royalty income and royalty income from the sale of natural gas represented 18% of Marine's total royalty income, excluding its interest in Tidelands. Royalty income includes oil and natural gas royalties that Marine receives from producers. During the nine months ended March 31, 2013, distributions received from Tidelands accounted for 9% of Marine's total income. During the nine months ended March 31, 2012, distributions received from Tidelands accounted for 9% of Marine's total income.

Distributable income per unit for the nine months ended March 31, 2013 decreased to \$1.00 as compared to \$1.52 for the comparable period in 2012. Distributions per unit amounted to \$1.01 per unit for the nine months ended March 31, 2013, a decrease from distributions of \$1.56 per unit for the comparable period in 2012. During the nine months ended March 31, 2013, 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 nine months ended March 31, 2013, excluding the Trust's interest in Tidelands, oil production decreased by 5,542 barrels (bbls) and natural gas production decreased by 30,937 thousand cubic feet (mcf) from the levels realized for the comparable period in 2012. For the nine months ended March 31, 2013, excluding the Trust's interest in Tidelands, the average price realized for oil decreased \$5.35 per bbl to \$108.45 per bbl from the average price realized for the comparable period in 2012 and the average price realized for natural gas decreased \$1.16 per mcf to \$3.79 per mcf from the average price realized for the comparable period in 2012.

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 ⁽¹⁾		Distributable	
	Oil (bbls)	Natural Gas (mcf)	Income Per Unit	Distributions Per Unit
December 31, 2011	6,920	38,698	\$ 0.49	\$ 0.52
March 31, 2012	7,126	28,676	\$ 0.49	\$ 0.50
June 30, 2012	5,562	29,072	\$ 0.39	\$ 0.43
September 30, 2012	4,878	26,091	\$ 0.33	\$ 0.38
December 31, 2012	4,998	23,924	\$ 0.30	\$ 0.30
March 31, 2013	5,916	29,304	\$ 0.37	\$ 0.33

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

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Income from oil and natural gas royalties decreased \$213,401 to \$754,599 during the three months ended March 31, 2013 from \$968,000 realized for the comparable period in 2012. Marine believes that royalties decreased for the three months ended March 31, 2013 primarily due to a 17% decrease in the production of oil, a 3% decrease in the average realized price for oil, a 24% decrease in the production of natural gas and a 12% decrease in the average realized price for natural gas as compared to the comparable period in 2012.

Distributable income decreased to \$733,007 for the three months ended March 31, 2013 from \$973,205 realized for the comparable period in 2012.

Income from oil royalties, excluding the Trust's interest in Tidelands, for the three months ended March 31, 2013 decreased to \$642,336 from \$798,948 realized for the comparable period in 2012. The volume of oil sold in the three months ended March 31, 2013 decreased by 1,210 bbls, and the average price realized for oil decreased \$3.54 per bbl to \$108.58 per bbl for the three months ended March 31, 2013 from \$112.12 per bbl realized for the comparable period in 2012.

Income from natural gas royalties, excluding the Trust's interest in Tidelands, for the three months ended March 31, 2013 decreased to \$112,263 from \$169,052 for the comparable period in 2012. The volume of natural gas sold in the three months ended March 31, 2013 decreased by 9,372 mcf, and the average price realized for natural gas decreased \$0.54 per mcf to \$3.83 per mcf for the three months ended March 31, 2013 from \$4.37 per mcf realized for the comparable period in 2012.

Income from distributions received from Tidelands for the three months ended March 31, 2013 decreased to \$57,127 from \$91,551 for the comparable period in 2012.

The following table presents the quantities of oil and natural gas sold and the average price realized for the three months ended March 31, 2013, and those realized for the comparable period in 2012, excluding the Trust's interest in Tidelands.

	Three Months Ended March 31,		
	2013	2012	% Change
	(unaudited)		
Oil			
Bbls sold	5,916	7,126	(17)%
Average price	\$ 108.58	\$ 112.12	(3)%
Natural gas			
Mcf sold	29,304	38,676	(24)%