

EASTERN AMERICAN NATURAL GAS TRUST  
Form 10-Q  
November 05, 2010

[QuickLinks](#) -- Click here to rapidly navigate through this document

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER 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 1-11748**

**EASTERN AMERICAN NATURAL GAS TRUST**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-7034603**  
(I.R.S. Employer  
Identification No.)

**The Bank of New York Mellon Trust Company, N.A, Trustee  
Global Corporate Trust  
919 Congress Avenue Suite 500  
Austin, Texas**

(Address of principal executive offices)

**78701**  
(Zip Code)

**(800) 852-1422**  
(Registrant's telephone number, including area code)

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

## Edgar Filing: EASTERN AMERICAN NATURAL GAS TRUST - Form 10-Q

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a  
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

As of November 2, 2010, 5,900,000 Units of Beneficial Interest in Eastern American Natural Gas Trust were issued, outstanding and held by non-affiliates of the registrant (the "Outstanding Units"). Of the Outstanding Units, 1,329,850 Units of Beneficial Interest (the "Withdrawn Units") have been withdrawn from trading by voluntary action of Holders and may not be traded unless such Holders comply with certain requirements provided in the related Trust Agreement.

---

## PART I FINANCIAL INFORMATION

## ITEM 1. Financial Statements

**EASTERN AMERICAN NATURAL GAS TRUST**  
**CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME**

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Royalty Income	\$ 6,280,721	\$ 6,761,212	\$ 2,060,682	\$ 2,040,357
Operating Expenses				
Taxes on Production and Property	480,320	516,063	158,320	158,245
Operating Cost Charges	493,953	512,957	164,651	162,112
Total Operating Expenses	974,273	1,029,020	322,971	320,357
Net Proceeds to the Trust	5,306,448	5,732,192	1,737,711	1,720,000
General and Administrative Expenses	920,345	732,076	189,167	157,703
Interest Income	29		4	
Distributable Income	4,386,132	5,000,116	1,548,548	1,562,297
Distribution Amount	\$ 4,386,132	\$ 5,000,116	\$ 1,548,548	\$ 1,562,297
Distributable Income Per Unit (5,900,000 units authorized and outstanding)	\$ 0.7434	\$ 0.8475	\$ 0.2625	\$ 0.2648
Distribution Amount Per Unit (5,900,000 units authorized and outstanding)	\$ 0.7434	\$ 0.8475	\$ 0.2625	\$ 0.2648

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

## EASTERN AMERICAN NATURAL GAS TRUST

## CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

(Unaudited)

	September 30, 2010	December 31, 2009
<b>Assets:</b>		
Cash	\$ 147,771	\$ 140,972
Prepaid Expenses		25,000
Net Proceeds Receivable	1,737,711	1,774,283
Net Profits Interests in Gas Properties	93,162,180	93,162,180
Accumulated Amortization	(78,254,025)	(76,467,421)
	14,908,155	16,694,759
Total Assets	\$ 16,793,637	\$ 18,635,014
<b>Liabilities and Trust Corpus:</b>		
Trust General and Administrative Expenses Payable	\$ 136,934	\$ 213,774
Distributions Payable	1,548,548	1,526,481
Trust Corpus (5,900,000 Trust Units authorized and outstanding)	15,108,155	16,894,759
Total Liabilities and Trust Corpus	\$ 16,793,637	\$ 18,635,014

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

**EASTERN AMERICAN NATURAL GAS TRUST**  
**CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS**

(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Trust Corpus, Beginning of Period	\$ 16,894,759	\$ 19,264,876
Distributable Income	4,386,132	5,000,116
Distributions Payable to Unitholders	(4,386,132)	(5,000,116)
Amortization of Net Profits Interests in Gas Properties	(1,786,604)	(1,778,206)
Trust Corpus, End of Period	\$ 15,108,155	\$ 17,486,670

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

**EASTERN AMERICAN NATURAL GAS TRUST**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1. Organization of the Trust**

The Eastern American Natural Gas Trust (the "Trust") was formed under the Delaware Business Trust Act pursuant to a Trust Agreement (the "Trust Agreement") among Eastern American Energy Corporation ("Eastern American"), as grantor; Bank of Montreal Trust Company, as Trustee; and Wilmington Trust Company, as Delaware Trustee (the "Delaware Trustee"). Until January 1, 2010, Eastern American Energy Corporation was a wholly-owned subsidiary of Energy Corporation of America. Effective January 1, 2010, Eastern American Energy Corporation was merged into Energy Corporation of America, with Energy Corporation of America being the surviving corporation. Except as otherwise required by the context, references herein to "ECA" mean Eastern American Energy Corporation at all times prior to January 1, 2010, and mean Energy Corporation of America at all times on and after January 1, 2010. The merger of Eastern American Energy Corporation into its parent Energy Corporation of America did not have any significant effect on the Trust.

Effective May 8, 2000, The Bank of New York acquired the corporate trust business of the Bank of Montreal Trust Company / Harris Trust, and consequently, The Bank of New York served as trustee of the Trust. On November 20, 2004, the holders of a majority of the Trust Units voting at a special meeting approved the resignation of The Bank of New York as trustee and depository of the Trust and the appointment of JPMorgan Chase Bank, N.A. as successor trustee of the Trust, effective as of January 1, 2005. Effective October 2, 2006, The Bank of New York Trust Company, N. A. replaced JPMorgan Chase Bank, N.A. as trustee in connection with the sale by JPMorgan Chase Bank of substantially all of its corporate trust business to The Bank of New York. Consequently, references herein to the "Trustee" mean Bank of Montreal Trust Company until May 8, 2000; The Bank of New York as successor Trustee from May 8, 2000 through December 31, 2004; JPMorgan Chase Bank, N.A. as successor Trustee from January 1, 2005 through October 2, 2006; and The Bank of New York Trust Company, N.A. (now known as The Bank of New York Mellon Trust Company, N.A.) as successor Trustee, effective as of October 2, 2006. The transfer agent for the Trust is Bondholder Communications, an affiliate of The Bank of New York Mellon Trust Company, N.A.

The Trust was formed to acquire and hold net profits interests (the "Net Profits Interests") created from the working interests owned by ECA in 650 producing gas wells and 65 proved development well locations (the "Development Wells") in West Virginia and Pennsylvania (the "Underlying Properties").

On March 15, 1993, 5,900,000 Depositary Units were issued in a public offering at an initial public offering price of \$20.50 per Depositary Unit. Each Depositary Unit consists of beneficial ownership of one unit of beneficial interest ("Trust Unit") in the Trust and a \$20 face amount beneficial ownership interest in a \$1,000 face amount zero coupon United States Treasury Obligation ("Treasury Obligation") maturing on May 15, 2013. The financial statements of the Trust to which these notes relate do not include information concerning the Treasury Obligations, the beneficial interest in which is held for the Unitholders by the Depository.

The Net Profits Interests are passive in nature, and neither the Trustee nor the Delaware Trustee has management control or authority over, nor any responsibility relating to, the operation of the properties subject to the Net Profits Interests. The Trust Agreement provides, among other things, that the Trust shall not engage in any business or commercial activity or acquire any asset other than the Net Profits Interests initially conveyed to the Trust; the Trustee may establish a reserve for payment of any liability that is contingent, uncertain in amount or is not currently due and payable; the Trustee is authorized to borrow funds required to pay liabilities of the Trust, provided that such borrowings are

**EASTERN AMERICAN NATURAL GAS TRUST**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)**

**NOTE 1. Organization of the Trust (Continued)**

repaid in full prior to further distributions to Unitholders; and the Trustee will make quarterly cash distributions to Unitholders from funds of the Trust.

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining six Development Wells were not drilled. Clear title to two of the Development Wells could not be established, and they were excluded from the Trust in accordance with the conveyance transferring them to the Trust. ECA asserted that the remaining four undrilled Development Wells, if drilled, would be too close to then existing wells on adjoining property, and thereafter settled its dispute with the Trust about drilling those four Development Wells by agreeing instead to pay the Trust on an annual basis, commencing on April 1, 1997 and over the remaining life of the Trust for the annual volume of gas projected to be produced from those Development Wells as if they had been drilled.

The Net Profits Interests initially consisted of a royalty interest ("Royalty NPI") in 322 wells and a term interest ("Term NPI") in the remaining wells and locations. As of September 30, 2010, the Trust held Net Profits Interests in 668 wells, consisting of Royalty NPI in 315 wells and Term NPI in the remaining wells. The Term NPI expire by their terms on May 15, 2013, or such earlier time as 41,683 MMcf of gas has been produced that is attributable to ECA's net revenue interest in the properties burdened by the Term NPI. As of December 31, 2009, based on the Independent Petroleum Engineer's Report, 25,697 MMcf of the maximum 41,683 MMcf had been produced.

Between May 15, 2012 and May 15, 2013 (the "Liquidation Date"), the Trustee is required to sell all the Royalty NPI and liquidate the Trust. Under the Trust Agreement, ECA has the right of first refusal to purchase any of the Royalty NPI the Trustee is required to sell after the Liquidation Date. If it exercises this right, ECA must pay the appraised Fair Value (as defined in the Trust Agreement) of the Royalty NPI, or the relevant third party offer price if a third party has offered to purchase the Royalty NPI. Unitholders of record on the relevant record dates will receive the net proceeds from selling the Royalty NPI in accordance with the Trust Agreement, and also will receive their respective share of the matured face amount of the Treasury Obligations held by the Depository.

**NOTE 2. Basis of Presentation**

The preparation of financial statements requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Without limiting the foregoing statement, the information furnished is based upon certain estimates of the revenues attributable to the Trust from natural gas production for the three and nine month period ended September 30, 2010 and is therefore subject to adjustment in future periods to reflect actual production for the periods presented.

The information furnished reflects all adjustments which are, in the opinion of the Trustee, necessary for a fair presentation of the results for the interim periods presented. The accompanying unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2009. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

EASTERN AMERICAN NATURAL GAS TRUST

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 3. Recently Adopted Accounting Standards**

In December 2009, the FASB issued Accounting Standards Update 2009-16 Transfers and Servicing: Accounting for Transfers of Financial Assets. ASU 2009-16 requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. This update is effective for financial statements issued for fiscal years beginning after November 15, 2009. The issuance of this statement did not have an effect on the Trust's financial statements.

**NOTE 4. Significant Accounting Policies**

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America due to the following: (i) certain cash reserves may be established for contingencies which were not accrued in the financial statements; (ii) amortization of the Net Profits Interests in Gas Properties is charged directly to Trust Corpus; and (iii) the sale of the Net Profits Interests, if any, is reflected in the Statements of Distributable Income as Cash Proceeds on Sale of Net Profit Interests to the Trust.

Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Because the Trust's financial statements are prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described above, most accounting pronouncements are not applicable to the Trust's financial statements.

*Revenue and Expenses:*

The Trust serves as a pass-through entity, with items of depletion, interest income and expense, and income tax attributes being based upon the status and election of the Unitholders. Thus, the Statements of Distributable Income show Distributable Income, defined as Trust income available for distribution to Unitholders before application of depletion, interest income and expense, and income taxes.

The Trust uses the accrual basis to recognize revenue, with Royalty Income recorded as reserves are extracted from the Underlying Properties and sold. Expenses are also recognized on an accrual basis. Operating expenses, which include Taxes on Production and Property and Operating Cost Charges, are recognized as incurred pursuant to the conveyances (the "Conveyances") on a per well production basis. The payment provisions of the Gas Purchase Contract between the Trust and Eastern Marketing Corporation ("Eastern Marketing"), a wholly owned subsidiary of ECA, require payment with respect to gas production for a calendar quarter to be made to the Trust on or before the tenth day of the third month following such quarter.

*Net Profits Interests in Gas Properties:*

The Net Profits Interests in gas properties are assessed to determine whether their net capitalized cost is impaired, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, pursuant to FASB Accounting Standards Codification 360, Property, Plant and Equipment ("ASC 360"). The Trust will determine if a writedown is necessary to its investment in the Net Profits Interests in gas properties to the extent that total capitalized costs, less accumulated

**EASTERN AMERICAN NATURAL GAS TRUST**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)**

**NOTE 4. Significant Accounting Policies (Continued)**

amortization, exceed undiscounted future net revenues attributable to proved gas reserves of the Underlying Properties. The Trust will then provide a writedown to the extent that the net capitalized costs exceed the fair value of the investment in net profits interests attributable to proved gas reserves of the Underlying Properties. Any such writedown would not reduce Distributable Income, although it would reduce Trust Corpus. No impairment in the Underlying Properties was recognized during the three or nine month period ended September 30, 2010.

Significant dispositions or abandonment of the Underlying Properties are charged to Net Profits Interests and the Trust Corpus.

Amortization of the Net Profits Interests in gas properties is calculated on a units-of-production basis, whereby the Trust's cost basis in the properties is divided by total Trust proved reserves to derive an amortization rate per reserve unit. Such amortization does not reduce Distributable Income, rather it is charged directly to Trust Corpus. Revisions to estimated future units-of-production are treated on a prospective basis beginning on the date significant revisions are known.

The conveyance of the Royalty and Term Interests to the Trust was accounted for as a purchase transaction. The \$93,162,180 reflected in the Statements of Assets, Liabilities and Trust Corpus as Net Profits Interests in Gas Properties represents 5,900,000 Trust Units valued at \$20.50 per depository unit less the \$27,787,820 paid for Treasury obligations. The carrying value of the Trust's investment in the Royalty Interests is not necessarily indicative of the fair value of such Royalty Interests.

**NOTE 5. Income Taxes**

The Trust is a grantor trust and is not required to pay federal or state income taxes. Accordingly, no provision for federal or state income taxes has been made. All income is taxed to the Unitholders of the Trust.

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Cautionary Statement**

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Form 10-Q, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. Although ECA has advised the Trustee that it believes that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from expectations ("Cautionary Statements") are disclosed in this Form 10-Q and in the Trust's Annual Report on Form 10-K for the year ended December 31, 2009 and include the fact that the Trust, the Trustee or ECA is not able to predict future changes in gas prices, gas production levels, economic activity, legislation or regulation, or certain changes in expenses of the Trust. All subsequent written and oral forward-looking statements attributable to the Trust or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Trust, the Trustee and ECA disclaim any obligation to update any forward-looking statements.

**General**

The Trust does not conduct any operations or activities. The Trust's purpose is, in general, to hold the Net Profits Interests, to distribute the cash proceeds to Unitholders which the Trust receives in respect of the Net Profits Interests (net of Trust expenses), and to perform certain administrative functions in respect of the Net Profits Interests and the Depository Units. Accordingly, the Trust derives substantially all of its income and cash flows from the Net Profits Interests. The Trust has no source of liquidity or capital resources other than the cash flows from the Net Profits Interests.

The Net Profits Interests were created pursuant to Conveyances from ECA to the Trust. In connection therewith, ECA assigned its rights under a gas purchase contract (the "Gas Purchase Contract"), which obligates Eastern Marketing Corporation, a subsidiary of ECA, to purchase all of the natural gas produced from the Underlying Properties that is attributable to the Net Profits Interests.

The Conveyances and the Gas Purchase Contract entitle the Trust to receive an amount of cash for each calendar quarter equal to the Net Proceeds for such quarter. "Net Proceeds" for any calendar quarter generally means an amount of cash equal to (a) 90% of a volume of gas equal to (i) the volume of gas produced during such quarter attributable to the Underlying Properties less (ii) a volume of gas equal to "Chargeable Costs" for such quarter, multiplied by (b) the applicable price for such quarter under the Gas Purchase Contract. "Chargeable Costs" is that volume of gas which equates in value, determined by reference to the relevant sales price under the Gas Purchase Contract or the Conveyances, as applicable, to the sum of the "Operating Cost Charge", "Capital Costs" and "Taxes".

The "Operating Cost Charge" for 2010 is based on an annual rate of \$658,604, and for 2009 was based on an annual rate of \$648,448. As provided in the Conveyances, the Operating Cost Charge will fluctuate based on the lesser of (A) five percent (5%) or (B) a percentage, not less than zero percent (0%), equal to the percentage increase, if any, in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year, as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers, as published by the United States Department of Labor, Bureau of Labor Statistics, based on a December-to-December comparison.

During 2003, the United States Department of Labor, Bureau of Labor Statistics converted all of its industry-based statistics to a different reporting system that was developed in cooperation with the United States' North American Free Trade Agreement Partners, Canada and Mexico, in an effort to

standardize and modernize reporting codes. As a result of this conversion, the Crude Petroleum and Gas Production Workers index is no longer available for use in the annual calculation of overhead adjustment called for in the various Council of Petroleum Accountants Societies, or COPAS, model forms after March 2003.

Research by COPAS covering a ten year period indicated that by blending the Oil and Gas Extraction Index with the Professional and Technical Services Index, the results approximate the data from the old Crude Petroleum and Natural Gas Workers Index. Accordingly, COPAS has calculated the percentage change in the simple average of the Oil and Extraction Index and the Professional and Technical Services Index, commencing in April 2004. This "Overhead Adjustment Index" has been provided as a guidance to the industry as a replacement index for use in calculating the overhead adjustment. The adjustment for the effective time period is 1.9%. Since the Conveyance Documents do not specifically provide for a replacement index if the Crude Petroleum and Gas Production Workers Index was no longer published, ECA believes, and advised the Trustee, that the "Overhead Adjustment Index" as calculated by COPAS is a reasonable index to utilize since the industry is generally adopting the same as a replacement. ECA, with the concurrence of the Trustee, will utilize this "Overhead Adjustment Index" to adjust the "Operating Cost Charge" so long as such index is published by COPAS.

The Operating Cost Charge will be reduced for each well that is sold (free of the Net Profits Interests) or plugged and abandoned. Capital Costs are defined as ECA's working interest share of capital costs for operations on the Underlying Properties having a useful life of at least three years, and excluding any capital costs incurred in drilling the Development Wells. Taxes refer to ad valorem taxes, production and severance taxes, and other taxes imposed on ECA's or the Trust's interests in the Underlying Properties, or production therefrom.

Pursuant to the Gas Purchase Contract, Eastern Marketing is obligated to purchase such gas production at a purchase price per Mcf equal to the Index Price. The Index Price for any quarter is determined solely by reference to the Variable Price component. The Variable Price for any quarter is equal to the Henry Hub Average Spot Price (as defined) per MMBtu plus \$0.30 per MMBtu, multiplied by 110% to effect a fixed adjustment for Btu content. The Henry Hub Average Spot Price is defined as the price per MMBtu determined for any calendar quarter equal to the price obtained with respect to each of the three months in such quarter, in the manner specified below, and then taking the average of the prices determined for each of such three months. The price determined for any month of such quarter is equal to the average of (i) the final settlement price per MMBtu for Henry Hub Gas Futures Contracts (as defined), as reported in *The Wall Street Journal*, for such contracts which expired in each of the five months prior to such month; (ii) the final settlement price per MMBtu for Henry Hub Gas Futures Contracts, as reported in *The Wall Street Journal*, for such contracts which expire during such month; and (iii) the closing settlement price per MMBtu of Henry Hub Gas Futures Contracts determined as of the contract settlement date for such month, as reported in *The Wall Street Journal*, for such contracts which expire in each of the six months following such month. A Henry Hub Gas Futures Contract is defined as a gas futures contract for gas to be delivered to the Henry Hub that is traded on the New York Mercantile Exchange.

Accordingly, the Index Price payable to the Trust for production may be higher or lower based on the fluctuations in natural gas futures prices during the relevant calculation period. The price payable to the Trust will have a direct impact, positively or negatively, on the quarterly Distributions Payable by the Trust to its Unitholders.

ECA had a disagreement with the Trust over ECA's obligation to drill certain Development Wells that were closely offset by third parties. The Trust agreed that in lieu of drilling these closely offset Development Wells, ECA could provide the Trust, on an annual basis commencing on April 1, 1997, and over the remaining life of the Trust, a volume of gas which is equal to the projected volumes of the

wells as if they had been drilled. These volumes have been estimated by Ryder Scott Company, independent petroleum engineers. During the quarter ended September 30, 2010, payment for an additional volume of 2,792 Mcf was delivered to the Trust, as compared to a payment for 3,018 Mcf for the quarter ended September 30, 2009. These additional payments fulfill ECA's agreement to provide payment for volumes for Development Wells that had been closely offset by third parties.

ECA has fulfilled its obligation with respect to the drilling of the Development Wells. Since the inception of the Trust, Eastern has drilled a total of 59 Development Wells, which are online and producing. (See the Trust's Annual Report on Form 10-K for the year ended December 31, 2009, for a more complete description of the Development Wells.)

Over the remaining life of the Trust, wells may be disposed of from time to time in accordance with the documents governing the Trust.

The administrative costs the Trust incurs in the future will fluctuate depending primarily on the expenses the Trust incurs for professional services, particularly legal, accounting and engineering services.

### **Critical Accounting Policies**

The following is a summary of the critical accounting policies followed by the Trust.

#### *Basis of Accounting:*

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America due to the following: (i) certain cash reserves may be established for contingencies which were not accrued in the financial statements; (ii) amortization of the Net Profits Interests in Gas Properties is charged directly to Trust Corpus; and (iii) the sale of the Net Profits Interests is reflected in the Statements of Distributable Income as cash proceeds to the Trust.

Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Because the Trust's financial statements are prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described above, most accounting pronouncements are not applicable to the Trust's financial statements.

#### *Net Profits Interests in Gas Properties:*

The Net Profits Interests in gas properties are assessed to determine whether their net capitalized cost is impaired, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, pursuant to ASC 360. The Trust will determine if a writedown is necessary to its investment in the Net Profits Interests in gas properties to the extent that total capitalized costs, less accumulated amortization, exceed undiscounted future net revenues attributable to proved gas reserves of the Underlying Properties. The Trust will then provide a writedown to the extent that the net capitalized costs exceed the fair value of the investment in net profits interests attributable to proved gas reserves of the Underlying Properties. Any such writedown would not reduce Distributable Income, although it would reduce Trust Corpus.

Significant dispositions or abandonment of the Underlying Properties are charged to Net Profits Interests and the Trust Corpus.

Amortization of the Net Profits Interests in gas properties is calculated on a units-of-production basis, whereby the Trust's cost basis in the properties is divided by total Trust proved reserves to derive an amortization rate per reserve unit. Such amortization does not reduce Distributable Income, rather

it is charged directly to Trust Corpus. Revisions to estimated future units-of-production are treated on a prospective basis beginning on the date significant revisions are known.

The Net Profits Interest impairment test and the determination of amortization rates are dependent on estimates of proved gas reserves attributable to the Trust. Numerous uncertainties are inherent in estimating reserve volumes and values, including economic and operating conditions, and such estimates are subject to change as additional information becomes available.

#### **Recent Accounting Pronouncements**

In December 2009, the FASB issued Accounting Standards Update 2009-16 Transfers and Servicing: Accounting for Transfers of Financial Assets. ASU 2009-16 requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. This update is effective for financial statements issued for fiscal years beginning after November 15, 2009. The issuance of this statement did not have an effect on the Trust's financial statements.

#### **Liquidity and Capital Resources**

The Trust has no source of liquidity or capital resources other than the distributions received from the Net Profits Interests.

In accordance with the provisions of the Conveyances, generally all revenues received by the Trust, net of Trust administrative and operating expenses and the amount of established reserves, are distributed currently to the Unitholders.

The Trust did not have any contractual obligations as of September 30, 2010. At September 30, 2010, the Trust had Trust General and Administrative Expenses Payable of \$136,934 and Distributions Payable of \$1,548,548.

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

The Trust's Distributable Income was \$1,548,548 for the three months ended September 30, 2010 as compared to \$1,562,297 for the three months ended September 30, 2009. This decrease was due to a \$31,464 increase in General and Administrative Expenses for the three months ended September 30, 2010 (\$189,167 as compared to the three months ended September 30, 2009 of \$157,703). The increase in General and Administrative Expenses was due primarily to an increase in professional fees. The decrease in Distributable Income was also partially due to a decrease in production of gas attributable to the Net Profits Interests for the three months ended September 30, 2010 (383 MMcf) as compared to the three months ended September 30, 2009 of (411 MMcf). The effect of the decrease in gas volumes was offset by an increase in the price payable to the Trust under the Gas Purchase Contract as discussed below (\$5.374 per Mcf for the three months ended September 30, 2010 as compared to \$4.967 per Mcf for the three months ended September 30, 2009), resulting in an increase in Royalty Income for the three months ended September 30, 2010 to \$2,060,682 as compared to the three months ended September 30, 2009 of \$2,040,357. Taxes on Production and Property were \$158,320 for the three months ended September 30, 2010 as compared to \$158,245 for the three months ended September 30, 2009.

The price payable to the Trust for gas production attributable to the Net Profits Interests was \$5.374 per Mcf for the three months ended September 30, 2010 and \$4.967 per Mcf for the three months ended September 30, 2009. The price per Mcf was higher for the three months ended

## Edgar Filing: EASTERN AMERICAN NATURAL GAS TRUST - Form 10-Q

September 30, 2010 than for the corresponding three month period ended September 30, 2009 due to an increase in the average spot market price for gas delivered at the Henry Hub near Henry, Louisiana (\$4.585 per Dth for the three months ended September 30, 2010 as compared to \$4.215 per Dth for the three months ended September 30, 2009).

Financial results depend on many factors, particularly the price of natural gas. During the third quarter of 2010, the Trust experienced an increase in natural gas prices from the prior year. Price variations may have a material impact on the financial statements.

### *Comparison of Results of Operations for Nine Months Ended September 30, 2010 and Nine Months Ended September 30, 2009*

The Trust's Distributable Income was \$4,386,132 for the nine months ended September 30, 2010 as compared to \$5,000,116 for the nine months ended September 30, 2009. This decrease was due to a decrease in Royalty Income for the nine months ended September 30, 2010 to \$6,280,721 as compared to the nine months ended September 30, 2009 of \$6,761,212. The decrease in Royalty Income was partially due to a decrease in the price payable to the Trust under the Gas Purchase Contract as discussed below (\$5.488 per Mcf for the nine months ended September 30, 2010 as compared to \$5.631 per Mcf for the nine months ended September 30, 2009). This decrease was also partially due to a decrease in production of gas attributable to the Net Profits Interests for the nine months ended September 30, 2010 (1,145 MMcf) as compared to the nine months ended September 30, 2009 (1,204 MMcf). The decline in production is primarily attributable to natural production declines. Taxes on Production and Property were \$480,320 for the nine months ended September 30, 2010 as compared to \$516,063 for the nine months ended September 30, 2009. The decrease in taxes is due directly to the decrease in Royalty Income as discussed above. General and Administrative Expenses were \$920,345 for the nine months ended September 30, 2010 as compared to \$732,076 for the nine months ended September 30, 2009. The increase in General and Administrative Expenses was due primarily to an increase in professional fees. Operating expenses for the nine months ended September 30, 2009 include expenses of \$26,620 for a recompleat on one of the existing wells, due to a casing leak. During the nine months ended September 30, 2010, no such recompletions occurred.

The price payable to the Trust for gas production attributable to the Net Profits Interests was \$5.488 per Mcf for the nine months ended September 30, 2010 and \$5.631 per Mcf for the nine months ended September 30, 2009. The price per Mcf was lower for the nine months ended September 30, 2010 than for the corresponding nine month period ended September 30, 2009 due to a decrease in the average spot market price for gas delivered at the Henry Hub near Henry, Louisiana (\$4.689 per Dth for the nine months ended September 30, 2010 as compared to \$4.819 per Dth for the nine months ended September 30, 2009).

Financial results depend on many factors, particularly the price of natural gas. During the nine months ended September 30, 2010, the Trust experienced a continuation of the decline in natural gas prices, from the prior year. Price variations may have a material impact on the financial statements.

### **Off-Balance Sheet Arrangements**

The Trust does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Trust's financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

### **Other Information**

For the calendar quarter ended September 30, 2010, the high and low closing prices of the Treasury Obligations (which have \$1,000 face principal amount), as quoted in the over-the-counter

market for United States Treasury obligations were \$984.20 and \$971.30, respectively. On September 30, 2010, the closing price of the Treasury Obligations, as quoted on such market, was \$984.20.

The Trust provides Unitholders with the option to separate the related Treasury Obligation from the Trust Units. Upon exercising this option, the Trustee transfers such Trust Units from the name of the Depository to the name of the withdrawing Unitholder. As of September 30, 2010, this option was exercised on 1,329,850 Trust Units. (See the Trust's Form 10-K for the year ended December 31, 2009 for a more complete description of the Withdrawal of Trust Units and Restriction on Transfer.)

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

The Trust does not engage in any operations, and does not utilize market risk sensitive instruments, either for trading purposes or for other than trading purposes. As described elsewhere herein, the Depository Units consist of beneficial ownership of one unit of beneficial interest in the Trust and a \$20 face amount beneficial ownership interest in a \$1,000 face amount zero coupon Treasury Obligation maturing on May 15, 2013. High and low price information for the Treasury Obligations is included under Item 2. As described elsewhere herein, gas production attributable to the Net Profits Interests is sold to a wholly owned subsidiary of ECA pursuant to the Gas Purchase Contract described herein, and the Trust's quarterly distributions are highly dependent on the price payable to the Trust for gas production attributable to the Net Profits Interests. Natural gas prices can fluctuate widely in response to many factors, all of which are out of the control of the Trust, the Trustee and ECA.

### **ITEM 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* The Trustee maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Trust is accumulated and communicated by several parties, including without limitation, the working interest owner, ECA, and the independent reserve engineer to The Bank of New York Mellon Trust Company, N.A., as Trustee of the Trust, and its employees who participate in the preparation of the Trust's periodic reports as appropriate to allow timely decisions regarding required disclosure. In addition, the Trustee is required by the Trust Agreement to engage and has engaged an independent registered public accounting firm to review the quarterly financial statements of the Trust and audit the annual financial statements of the Trust, which includes financial data provided by ECA.

As of September 30, 2010, the Trustee carried out an evaluation of the Trustee's disclosure controls and procedures. Mike Ulrich, as Trust Officer of the Trustee, has concluded that the disclosure controls and procedures are effective at a reasonable assurance level.

Due to (i) the contractual arrangements of the Trust Agreement and (ii) the rights of the Trustee under the Conveyances regarding information furnished by ECA, there are certain potential weaknesses that may limit the effectiveness of disclosure controls and procedures established by the Trustee or its employees and their ability to verify the accuracy of certain financial information. The contractual limitations creating potential weaknesses in disclosure controls and procedures may be deemed to include the following:

ECA and its consolidated subsidiaries manage information relating to the Trust, including (i) historical operating data, including production volumes, marketing of products, operating and capital expenditures, environmental and other liabilities, the effects of regulatory changes and

## Edgar Filing: EASTERN AMERICAN NATURAL GAS TRUST - Form 10-Q

the number of producing wells and acreage, (ii) plans for future operating and capital expenditures and (iii) geological data relating to reserves; and

The Trustee necessarily relies upon the independent reserve engineer as an expert with respect to the annual reserve report, which includes projected production, operating expenses and capital expenses.

Other than reviewing the financial and other information provided to the Trust by ECA and the independent reserve engineer, the Trustee made no independent or direct verification of this financial or other information.

The Trustee does not intend to expand its responsibilities beyond those permitted or required by the Trust Agreement and those required under applicable law.

The Trustee does not expect that the Trustee's disclosure controls and procedures or the Trustee's internal control over financial reporting will prevent all errors or all fraud. Further, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

### **Changes in Internal Control Over Financial Reporting**

In connection with the evaluation by the Trustee of changes in internal control over financial reporting of the Trust that occurred during the Trust's last fiscal quarter, no change in the Trust's internal control over financial reporting was identified 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.**

None.

**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, 2009.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**ITEM 3. Defaults Upon Senior Securities.**

None.

**ITEM 4. [Reserved].**

None.

**ITEM 5. Other Information.**

None.

**ITEM 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
31.	Rule 13a-14(a)/15d-14(a) Certification
32.	Section 1350 Certification

**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.

EASTERN AMERICAN NATURAL GAS TRUST

By: The Bank of New York Mellon Trust Company, N.A.,  
Trustee  
/s/ MIKE ULRICH

---

Name: Mike Ulrich  
Title: *Vice President*  
The Bank of New York Mellon Trust Company,  
N.A.

Date: November 5, 2010

The Registrant, Eastern American Natural Gas Trust, has no principal executive officer, principal financial officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available and none have been provided.

QuickLinks

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

EASTERN AMERICAN NATURAL GAS TRUST CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (Unaudited)

EASTERN AMERICAN NATURAL GAS TRUST CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS (Unaudited)

EASTERN AMERICAN NATURAL GAS TRUST CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (Unaudited)

EASTERN AMERICAN NATURAL GAS TRUST NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

ITEM 4. Controls and Procedures

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

ITEM 1A. Risk Factors.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

ITEM 3. Defaults Upon Senior Securities.

ITEM 4. [Reserved].

ITEM 5. Other Information.

ITEM 6. Exhibits.

SIGNATURES