

MARINE PETROLEUM TRUST

Form 10-Q

November 10, 2011

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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 September 30, 2011

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 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 ☐

Non-accelerated filer ☐

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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 ☒

Indicate number of units of beneficial interest outstanding as of the latest practicable date: As of November 9, 2011, Marine Petroleum Trust had 2,000,000 units of beneficial interest outstanding.

**MARINE PETROLEUM TRUST
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	September 30, 2011 (Unaudited)	June 30, 2011 (Audited)
Current assets:		
Cash and cash equivalents	\$ 1,362,778	\$ 1,345,960
Federal income taxes refundable	14,425	14,425
Producing oil and gas properties	7	7
Total assets	\$ 1,377,210	\$ 1,360,392

LIABILITIES AND TRUST CORPUS

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	\$ 1,377,210	\$ 1,360,392
	\$ 1,377,210	\$ 1,360,392

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, 2011 and 2010
(Unaudited)

	Three Months Ended September 30,	
	2011	2010
Income:		
Oil and gas royalties	\$ 1,043,177	\$ 613,466
Oil and gas royalties from affiliate	90,384	199,229
Interest income		
Total income	\$ 1,133,561	\$ 812,695
Expenses:		
General and administrative	\$ 36,657	\$ 46,111
Distributable income before Federal income taxes	1,096,904	766,584
Federal income taxes of subsidiary		
Distributable income	\$ 1,096,904	\$ 766,584
Distributable income per unit	\$ 0.55	\$ 0.38
Distributions per unit	\$ 0.54	\$ 0.37
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
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TRUST CORPUS
For the Three Months Ended September 30, 2011 and 2010
(Unaudited)

	Three Months Ended September 30,	
	2011	2010
Trust corpus, beginning of period	\$ 1,360,392	\$ 1,157,886
Distributable income	1,096,904	766,584
Distributions to unitholders	(1,080,086)	(749,620)
Trust corpus, end of period	\$ 1,377,210	\$ 1,174,850

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, 2011
(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, 2011. 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, 2012.

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 (including 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 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.

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.

Table of Contents**Note 4. Investment in Affiliate Tidelands Royalty Trust B**

At September 30, 2011 and 2010, 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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Income	\$ 360,559	\$ 413,669
Expenses	37,275	65,017
Distributable income before Federal income taxes	323,284	348,652
Federal income taxes of Tidelands subsidiary		
Distributable income	\$ 323,284	\$ 348,652

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, 2010. Consolidated statements of distributable income data concerning Tidelands has been presented through September 30, 2011, the latest period for which such information is publicly available in Tidelands Quarterly Report on Form 10-Q for the period ended September 30, 2011. 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 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, 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 that is 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 that are 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 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 30, 2011

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for further information. MPC is a taxable entity and pays state and U.S. Federal taxes on its income if such taxes are owed. 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 and work over 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, 2011 on leases in which Marine has an interest. Public records also indicate that there were six wells in the process of being drilled or recompleted in a different zone and that operators have designated two 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 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 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.

Critical Accounting Policies and Estimates

In accordance with the 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 (including 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, 2011. Please see Marine's Annual Report on Form 10-K for the fiscal year ended June 30, 2011 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 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 of Marine's interest in the oil 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

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operators regarding future drilling or re-working operations that 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, 2011, Marine realized 83% of its royalty income from the sale of oil and 17% from the sale of natural gas, excluding its interest in Tidelands. 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, 2011, Marine's interest in Tidelands accounted for 8% of its total income. 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, 2011 increased to \$0.55 as compared to \$0.38 for the comparable period in 2010. Distributions to unitholders amounted to \$0.54 per unit for the three months ended September 30, 2011, an increase from distributions of \$0.37 per unit for the comparable period in 2010. During the three months ended September 30, 2011, 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, 2011, excluding the Trust's interest in Tidelands, oil production increased by 1,696 barrels (bbls) and natural gas production decreased by 1,654 thousand cubic feet (mcf) from the levels realized in the comparable period in 2010. For the three months ended September 30, 2011, excluding the Trust's interest in Tidelands, the average price realized per barrel of oil increased \$39.74 from the price realized in the comparable period in 2010 and the average price realized per mcf of natural gas increased \$0.42 from the price realized in the comparable period in 2010.

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 Income Per Unit	Distributions Per Unit
	Oil (bbls)	Natural Gas (mcf)		
June 30, 2010	5,031	30,357	\$ 0.35	\$ 0.38
September 30, 2010	5,592	34,536	\$ 0.38	\$ 0.37
December 31, 2010	5,783	35,475	\$ 0.35	\$ 0.34
March 31, 2011	6,300	38,404	\$ 0.40	\$ 0.36
June 30, 2011	6,532	37,304	\$ 0.35	\$ 0.41
September 30, 2011	7,288	32,882	\$ 0.55	\$ 0.54

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

Results of Operations Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Income from oil and natural gas royalties increased \$429,711 to \$1,043,177 during the three months ended September 30, 2011 from \$613,466 realized in the comparable three months in 2010.

Distributable income increased to \$1,096,904 for the three months ended September 30, 2011 from \$766,584 realized for the comparable three months in 2010. Marine believes that the primary reason royalties increased for the three months ended September 30, 2011 was the 50% increase in the average price of oil received, and the 9% increase in the average price of natural gas received. In addition, for the three months ended September 30, 2011, oil production increased 30%, which was partially offset by a 5% decrease in natural gas production.

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Income from oil royalties, excluding the Trust's interest in Tidelands, for the three months ended September 30, 2011 increased to \$867,352 from \$443,252 realized for the comparable three months in 2010.

Income from natural gas royalties, excluding the Trust's interest in Tidelands, for the three months ended September 30, 2011 increased to \$175,825 from \$170,214 for the comparable three months in 2010.

Income from the Trust's interest in Tidelands decreased approximately 55% for the three months ended September 30, 2011 as compared to the comparable three months of 2010.

The following table presents the quantities of oil and natural gas sold and the average price realized for the three months ended September 30, 2011, and those realized in the comparable three months in 2010, excluding the Trust's interest in Tidelands.

	Three Months Ended September 30,		% Change
	2011	2010	
	(Unaudited)	(Unaudited)	
Oil			
Bbls sold	7,288	5,592	30%
Average price	\$ 119.01	\$ 79.27	50%
Natural gas			
Mcf sold	32,882	34,536	(5%)
Average price	\$ 5.35	\$ 4.93	9%

General and administrative expenses decreased to \$36,657 in the three months ended September 30, 2011 from \$46,111 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 anticipate, believe, budget, continue, estimate, expect, intend, may, plan, 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, 2011. 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 (the Exchange Act), at 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, 2011.

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. Marine's disclosure controls and procedures include controls and other procedures that are designed to ensure that information required to be disclosed by Marine in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Marine in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Trustee as appropriate to allow timely decisions regarding required disclosure.

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 Exchange Act. 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

There have been no material changes from the risk factors previously disclosed under the heading Item 1A. Risk Factors in Marine's Annual Report filed on Form 10-K for the fiscal year ended June 30, 2011.

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 10, 2011

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