

EASTERN AMERICAN NATURAL GAS TRUST

Form 10-Q

November 08, 2006

## **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, 2006

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 Trust Company, N.A., Trustee**

**Global Corporate Trust**

**221 West Sixth Street**

**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

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, or a non-accelerated filer. (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 3, 2006, 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 Of the Outstanding Units, 19,900 Units of Beneficial Interest (the Withdrawn Units ) have been withdrawn from trading by voluntary action of Holders and may not be traded unless such Holders comply with certain requirements provided in the related Trust Agreement.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	
	2006	2005	2006	2005
Royalty Income	\$ 14,258,025	\$ 12,221,141	\$ 4,299,589	\$ 4,659,185
Operating Expenses				
Taxes on production and property	1,045,984	839,691	315,894	320,484
Operating cost charges	420,801	400,761	140,267	133,587
Total Operating Expenses	1,466,785	1,240,452	456,161	454,071
Net Proceeds to the Trust	12,791,240	10,980,689	3,843,428	4,205,114
General and Administrative Expenses	(1,313,457 )	(1,017,252 )	(530,147 )	(405,340 )
Interest Income		500		
Distributable Income	11,477,783	9,963,937	3,313,281	3,799,774
Cash Reserve Refunded (Withheld)	500,000	(185,000 )	500,000	
Distribution Amount	\$ 11,977,783	\$ 9,778,937	\$ 3,813,281	\$ 3,799,774
Distributable Income Per Unit (5,900,000 units authorized and outstanding)	\$ 1.9454	\$ 1.6888	\$ 0.5616	\$ 0.6440
Distribution Amount Per Unit (5,900,000 units authorized and outstanding)	\$ 2.0301	\$ 1.6574	\$ 0.6463	\$ 0.6440

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

## EASTERN AMERICAN NATURAL GAS TRUST

## CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	September 30, 2006 (Unaudited)	December 31, 2005
<b>Assets:</b>		
Cash	\$ 820,055	\$ 43,478
Net Proceeds Receivable	3,843,428	5,408,091
Net Profits Interests in Gas Properties	93,162,180	93,162,180
Accumulated Amortization	(67,929,640	) (65,658,915 )
<b>Total Assets</b>	<b>\$ 29,896,023</b>	<b>\$ 32,954,834</b>
<b>Liabilities and Trust Corpus:</b>		
Trust General and Administrative Expenses Payable	\$ 150,202	\$ 318,120
Distributions Payable	3,813,281	3,933,449
Trust Corpus (5,900,000 Trust Units authorized and outstanding)	25,932,540	28,703,265
<b>Total Liabilities and Trust Corpus</b>	<b>\$ 29,896,023</b>	<b>\$ 32,954,834</b>

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



**EASTERN AMERICAN NATURAL GAS TRUST**

**CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS**

*(Unaudited)*

	<b>Nine Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2005</b>
Trust Corpus, Beginning of Period	\$ 28,703,265	\$ 31,139,508
Distributable Income	11,477,783	9,963,937
Distributions Payable to Unitholders	(11,977,783 )	(9,778,937 )
Amortization of Net Profits Interests in Gas Properties	(2,270,725 )	(2,524,092 )
Trust Corpus, End of Period	\$ 25,932,540	\$ 28,800,416

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

5

---

**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 ). Effective May 8, 2000, The Bank of New York acquired the corporate trust business of the then current Trustee and served as Trustee through December 31, 2004. 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. See Note 5 for information regarding the current trustee, The Bank of New York Trust Company, N.A. (the Trustee ). Effective January 1, 2005, the transfer agent for the Trust became Bondholder Communications.

The Trust was formed to acquire and hold net profits interests (the Net Profits Interests ) created from the working interests owned by Eastern American 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 Depositary.

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 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. Eastern American asserted the remaining four undrilled Development Wells, if drilled, would be too close to then existing wells on the property or an adjoining property, and thereafter settled its dispute with the Trust about drilling those four Development Wells by agreeing instead to pay the Trust annually for the annual volume of gas projected to be produced from those Development Wells as if they had been drilled.

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. Eastern American asserted the remaining four undrilled Development Wells, if drilled, would be too close to then existing wells on the property or an adjoining property, and thereafter settled its dispute with the Trust about drilling those four Development Wells by agreeing instead to pay the Trust annually for the annual volume of gas projected to be produced from those Development Wells as if they had been drilled.

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

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, 2006, the Trust held Net Profits Interests in 671 wells, consisting of Royalty NPI in 317 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 Eastern American s net revenue interest in the properties burdened by the Term NPI. As of December 31, 2005, based on the Independent Petroleum Engineer s Report, 21,814 MMcf of the maximum 41,683 MMcf has 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, Eastern American 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, Eastern American 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 estimates and assumptions that affect 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 production for the periods presented 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 financial statements are unaudited interim

financial statements, and 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, 2005, as amended. 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 for complete financial statements.

NOTE 3. Trust Accounting Policies

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 elections of Unitholders. Thus, the Statements of Distributable Income show Distributable Income, defined as Trust income available for distribution to Unitholders subject to Trustees Cash Reserves described in Part I, Item 2 before application of those Unitholders' additional expenses, if any, for depletion, interest expense, and income taxes. The Trust uses the accrual basis to recognize revenue, with Royalty Income recognized as gas reserves are extracted from properties and sold. Expenses are also presented on an accrual basis. Actual cash receipts will vary from the accrual of revenues due to, among other reasons, the payment provisions of the gas purchase contract between the Trust and Eastern Marketing Corporation (a subsidiary of Eastern American), which requires 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.

The Net Profits Interests are assessed annually to determine whether their net capitalized cost is impaired. 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 discounted future net revenues attributable to proved gas reserves of the Underlying Properties. Any such writedown would not reduce distributable income, although it would reduce 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.

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.

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

NOTE 4. 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.

NOTE 5. Subsequent Event

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining six~~4~~Develop

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

Effective October 2, 2006, The Bank of New York Trust Company, N. A. acquired the corporate trust business of JPMorgan Chase Bank, N.A. Consequently, The Bank of New York Trust Company, N.A., currently serves as Trustee of the Trust.

9

---

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining six Develop

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 Eastern American 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, 2005, as amended, and include the fact that none of the Trust, the Trustee or Eastern American is 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 Eastern American 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 Depositary 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 (the Conveyances ) from Eastern American to the Trust. In connection therewith, Eastern American assigned its rights under a gas purchase contract (the Gas Purchase Contract ), which obligates Eastern Marketing Corporation, a subsidiary of Eastern American, 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 2006 is based on an annual rate of \$561,068, and for 2005 was an annual rate of \$534,348. 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 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 5.0%. 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, Eastern American 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. Eastern American, 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 Eastern American'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 Eastern American'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 unit holders.

Eastern American had a disagreement with the Trust over Eastern American'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, Eastern American 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, 2006, an additional volume of 3,813 Mcf was delivered to the Trust, as compared to 4,123 Mcf for the quarter ended September 30, 2005. These additional volumes fulfill Eastern American's obligation to provide volumes for Development Wells that had been closely offset by third parties.

Eastern American 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 fiscal year ended December 31, 2005, as amended, for a more complete description of the Development Wells.)

Also, during 2004, a landowner contacted Eastern American to inquire about the sale of certain wells located on the landowner's property, including the Wurst #2 well, which is a well in which the Trust owns a Net Profits Interest. Eastern certified to the Trust that: (i) the Assignee of the Wurst #2 was not an Affiliate of Eastern and; (ii) the aggregate sale proceeds to be received from all other sales of wells in which the Trust owns a Net Profits Interest and previously released by the Trust during the preceeding twelve (12) calendar months did not exceed \$500,000. The Wurst #2 well was found to be uneconomic to operate and was subject to plugging and abandonment by Eastern American if not assigned to the landowner. Eastern American advised the landowner that it could

assign this well. The Worst #2 well had no value and no cash distribution was made to the Trust.

Over the remaining life of the Trust, additional wells may be disposed of for similar or other reasons.

As previously publicly announced, Ensource Energy Income Fund LP, a recently formed Delaware limited partnership not affiliated with the Trust ( Ensource ), has terminated its revised unsolicited offer to acquire control of the Trust. The Trust incurred approximately \$361,808 of expenses relating to the Ensource offer in the three month period ended September 30, 2006.

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**

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining six Development

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

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.

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

The Net Profits Interests in gas properties are periodically assessed to determine whether their net capitalized cost is impaired. 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 discounted future net revenues attributable to proved gas reserves of the Underlying Properties. Any such writedown would not reduce distributable income, although it would reduce 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.

**Liquidity and Capital Resources**

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining s21Develop

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

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, 2006. At September 30, 2006, the Trust had general and administrative expenses payable of \$150,202 and distributions payable of \$3,813,281.

### Comparison of Results of Operations for Three Months Ended September 30, 2006 and Three Months Ended September 30, 2005

The Trust's distributable income was \$3,313,281 for the three months ended September 30, 2006 as compared to \$3,799,774 for the three months ended September 30, 2005. This decrease was due to a decrease in Royalty Income for the three months ended September 30, 2006 to \$4,299,589 as compared to the three months ended September 30, 2005 to \$4,659,185. The decrease in Royalty Income was due to a decrease in the price payable to the Trust under the Gas Purchase Contract as discussed below (\$9.024 per Mcf for the three months ended September 30, 2006 as compared to \$9.268 per Mcf for the three months ended September 30, 2005). This decrease was also due to a decrease in production of gas attributable to the Net Profits Interests for the three months ended September 30, 2006 (476 Mmcf) as compared to the three months ended September 30, 2005 (504 Mmcf). The decline in production is primarily attributable to natural production declines. Taxes on production and property were \$315,894 for the three months ended September 30, 2006 as compared to \$320,484 for the three months ended September 30, 2005. The decrease in taxes is due directly to the decrease in Royalty Income as discussed above. Trust general and administrative expenses were \$530,147 for the three months ended September 30, 2006 as compared to \$405,340 for the three months ended September 30, 2005. This increase in general and administrative expense was primarily related to professional service fees of \$124,807, which were incurred mostly as a direct result of the Ensource offer. During the three months ended September 30, 2006, the Trustee released \$500,000 from the cash reserve as compared to no activity during the three months ended September 30, 2005. The Trustee established this reserve amount to facilitate the payment of vendor invoices on a timely basis. This release of the reserve is due to the expiration of the Ensource offer.

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

Amortization of Net Profits Interests in Gas Properties was \$758,699 for the three months ended September 30, 2006 as compared to \$854,760 for the three months ended September 30, 2005. This decrease was due to the decrease in the amortization rate and production volumes.

The price payable to the Trust for gas production attributable to the Net Profits Interests was \$9.024 per Mcf for the three months ended September 30, 2006 and \$9.268 per Mcf for the three months ended September 30, 2005. The price per Mcf was lower for the three months ended September 30, 2006 than for the corresponding three month period ended September 30, 2005 due to a decrease in the average spot market price for gas delivered at the Henry Hub near Henry, Louisiana (\$7.904 per Dth for the three months ended September 30, 2006 as compared to \$8.125 per Dth for the three months ended September 30, 2005).

### Comparison of Results of Operations for Nine Months Ended September 30, 2006 and Nine Months Ended September 30, 2005

The Trust's distributable income was \$11,477,783 for the nine months ended September 30, 2006 as compared to \$9,963,937 for the nine months ended September 30, 2005. This increase was due to an increase in Royalty Income for the nine months ended September 30, 2006 to \$14,258,025 as compared to \$12,221,141 for the nine months ended September 30, 2005. The increase in Royalty Income was due to an increase in the average price payable to the Trust under the Gas Purchase Contract as discussed below (\$10.019 per Mcf for the nine months ended September 30, 2006; \$8.221 per Mcf for the nine months ended September 30, 2005). This increase was offset by a decrease in production of gas attributable to the Net Profits Interests for the nine months ended September 30, 2006 (1,425 Mmcf) as compared to the nine months ended September 30, 2005 (1,487 Mmcf). The decline in production is primarily attributable to natural production declines. Taxes on production and property were \$1,045,984 for the nine months ended September 30, 2006 as compared to \$839,691 for the nine months ended September 30, 2005. The increase in taxes is due directly to the increase in Royalty Income as discussed above. Trust general and administrative expenses were \$1,313,457 for the nine months ended September 30, 2006 as compared to \$1,017,252 for the nine months ended September 30, 2005. This increase in general and administrative expense of \$296,205 was primarily related to professional service fees, which were incurred mostly as a direct result of the Ensource offer. During the nine months ended September 30, 2006, the Trustee released \$500,000 from the cash reserve as compared to \$185,000 added during the nine months ended September 30, 2005. The Trustee established this reserve amount to facilitate the payment of vendor invoices on a timely basis. This release of the reserve is due to the expiration of the Ensource offer. Amortization of Net Profits Interests in Gas Properties was \$2,270,725 for the nine months ended September 30, 2006 as compared to \$2,524,092 for the nine months ended September 30, 2005. This decrease was due to the decrease in the amortization rate and production volumes.

The average price payable to the Trust for gas production attributable to the Net Profits Interests was \$10.019 per Mcf for the nine months ended September 30, 2006 and \$8.221 per Mcf for the nine months ended September 30, 2005. The price per Mcf was higher for the nine months ended September 30, 2006 than for the corresponding nine month period ended September 30, 2005 due to

an increase in the average spot market price for gas delivered at the Henry Hub near Henry, Louisiana (\$8.808 per Dth for the nine months ended September 30, 2006; \$7.173 per Dth for the nine months ended September 30, 2005).

**Off-Balance Sheet Arrangements**

After the Trust was formed, 59 of the 65 Development Wells were drilled and completed. The remaining 6 Development Wells are currently in the development stage. 24



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

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 is material to investors.

### Other Information

For the calendar quarter ended September 30, 2006, 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 \$744.01 and \$703.32, respectively. On September 30, 2006, the closing price of the Treasury Obligations, as quoted on such market, was \$740.53.

**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, 2006, this option was exercised on 19,900 Trust Units. (See the Trust's 10-K, as amended, for the year ended December 31, 2005 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 Part II Item 5. As described elsewhere herein, gas production attributable to the Net Profits Interest is sold to a wholly owned subsidiary of Eastern American 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 Interest. 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 Eastern American.

### 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 SEC'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, Eastern American Energy Corporation (Eastern American), and the independent reserve engineer to the Trustee 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 Eastern American.

As of September 30, 2006, 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.

Due to the contractual arrangements of (i) the Trust Agreement and (ii) the rights of the Trustee under the Conveyances regarding information furnished by Eastern American, 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 limitations creating potential weaknesses in disclosure controls and procedures may be deemed to include the following:

- Eastern American 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 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 Eastern American 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**

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

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, as amended, for the year ended December 31, 2005.

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

None.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits.

18

---



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

---

**SIGNATURES**

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

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 Trust Company, N.A.,  
Trustee

/s/ Mike Ulrich

Name: Mike Ulrich

Title: Vice President  
The Bank of New York Trust Company,  
N.A. Trustee

Date: November 8, 2006

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.

20

---