

Edgar Filing: BP PRUDHOE BAY ROYALTY TRUST - Form 10-Q/A

BP PRUDHOE BAY ROYALTY TRUST  
Form 10-Q/A  
June 16, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
-----

FORM 10-Q/A

AMENDMENT NO. 1 TO QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

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 1-10243

BP PRUDHOE BAY ROYALTY TRUST  
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(Exact Name of Registrant as Specified in Its Charter)

Delaware  
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13-6943724  
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(State or Other Jurisdiction of Incorporation  
or Organization)

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

The Bank of New York, 101 Barclay Street, New York, NY  
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10286  
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(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 815-6908

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

As of April 3, 2003, 21,400,000 Units of Beneficial Interest were outstanding.

This Amendment is being filed to correct information in the 'Results of Operations' portion of Item 2 (Trustee's Discussion and Analysis of Financial Condition and Results of Operations) of the original filing. The Company currently projects that average daily production from the Prudhoe Bay Unit will exceed 90,000 barrels until the year 2016.

BP PRUDHOE BAY ROYALTY TRUST

Statement of Assets, Liabilities and Trust Corpus  
(Prepared on a Modified Basis of Cash Receipts and Disbursements)  
(in thousands)

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	March 31, 2003 (Unaudited) -----	December 31, 2002 -----
ASSETS		
Royalty Interest, net (notes 1, 2 and 3)	\$ 15,566	\$ 16,068
Cash and equivalents (note 2)	686 -----	1,025 -----
Total assets	\$ 16,252 =====	\$ 17,093 =====
LIABILITIES AND TRUST CORPUS		
Accrued expenses	\$ 344	\$ 595
Trust Corpus (40,000,000 units of beneficial interest authorized, 21,400,000 units issued and outstanding)	15,908 -----	16,498 -----
Total liabilities and Trust Corpus	\$ 16,252 =====	\$ 17,093 =====

See accompanying notes to financial statements.

BP PRUDHOE BAY ROYALTY TRUST

Statements of Cash Earnings and Distribution  
(Prepared on a Modified Basis of Cash Receipts and Disbursements)

(In thousands, except unit data)

(Unaudited)

	Three Months Ended March 31, -----	
	2003 -----	2002 -----
Royalty revenues	\$ 12,538	\$ 4,841
Interest income	4	7

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Less: Trust administrative expense	(469)	(216)
	-----	-----
Cash earnings	\$ 12,073	\$ 4,632
	=====	=====
Cash distributions	\$ 12,412	\$ 4,621
	=====	=====
Cash distributions per unit	\$ 0.5800	\$ 0.2159
	=====	=====
Units outstanding	21,400,000	21,400,000
	=====	=====

See accompanying notes to financial statements.

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BP PRUDHOE BAY ROYALTY TRUST

Statements of Changes in Trust Corpus  
(Prepared on a Modified Basis of Cash Receipts and Disbursements)

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2003	2002
	----	----
Trust Corpus at beginning of period	\$ 16,498	\$ 18,564
Cash earnings	12,073	4,632
Decrease (increase) in accrued expenses	251	(82)
Cash distributions	(12,412)	(4,621)
Amortization of Royalty Interest	(502)	(502)
	-----	-----
Trust Corpus at end of period	\$ 15,908	\$ 17,991
	=====	=====

See accompanying notes to financial statements.

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## BP PRUDHOE BAY ROYALTY TRUST

### Notes to Financial Statements

(Prepared on a Modified Basis of Cash Receipts and Disbursements)  
March 31, 2003 (Unaudited) and December 31, 2002

#### 1. FORMATION OF THE TRUST AND ORGANIZATION

BP Prudhoe Bay Royalty Trust (the "Trust"), a grantor trust, was created as a Delaware business trust pursuant to a Trust Agreement dated February 28, 1989 among the Standard Oil Company ("Standard Oil"), BP Exploration (Alaska) Inc. (the "Company"), The Bank of New York (The "Trustee") and The Bank of New York (Delaware), as co-trustee. Standard Oil and the Company are indirect wholly-owned subsidiaries of BP p.l.c. ("BP").

Effective January 1, 2000, the Company and all other Prudhoe Bay working interest owners cross-assigned interests in the Prudhoe Bay Field pursuant to the Prudhoe Bay Unit Alignment Agreement. The Company retained all rights, obligations, and liabilities associated with the Trust. This transaction is not expected to have a material effect on the Trust's operation.

On February 28, 1989, Standard Oil conveyed an overriding royalty interest (the "Royalty Interest") to the Trust. The Trust was formed for the sole purpose of owning and administering the Royalty Interest. The Royalty Interest represents the right to receive, effective February 28, 1989, a per barrel royalty (the "Per Barrel Royalty") of 16.4246% on the lesser of (a) the first 90,000 barrels of the average actual daily net production of oil and condensate per quarter or (b) the average actual daily net production of oil and condensate per quarter from the Company's working interest in the Prudhoe Bay Field (the "Field") as of February 28, 1989, located on the North Slope of Alaska. Trust Unit holders will remain subject at all times to the risk that production will be interrupted or discontinued or fall, on average, below 90,000 barrels per day in any quarter. BP has guaranteed the performance of the Company of its payment obligations with respect to the Royalty Interest.

The trustees of the Trust are The Bank of New York, a New York banking corporation, and The Bank of New York (Delaware), a Delaware banking corporation. The Bank of New York (Delaware) serves as co-trustee in order to satisfy certain requirements of the Delaware Trust Act. The Bank of New York alone is able to exercise the rights and powers granted to the Trustee in the Trust Agreement.

The Per Barrel Royalty in effect for any day is equal to the price of West Texas Intermediate crude oil (the "WTI Price") for that day less scheduled Chargeable Costs (adjusted for inflation) and Production Taxes (based on statutory rates then in existence). For years subsequent to 2006, Chargeable Costs will be reduced up to a maximum amount of \$1.20 per barrel in each year if additions to the Field's proved reserves do not meet certain specific levels.

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## BP PRUDHOE BAY ROYALTY TRUST

### Notes to Financial Statements

(Prepared on a Modified Basis of Cash Receipts and Disbursements)  
March 31, 2003 (Unaudited) and December 31, 2002

#### 1. FORMATION OF THE TRUST AND ORGANIZATION (CONT'D)

The Trust is passive, with the Trustee having only such powers as are necessary

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for the collection and distribution of revenues, the payment of Trust liabilities, and the protection of the Royalty Interest. The Trustee, subject to certain conditions, is obligated to establish cash reserves and borrow funds to pay liabilities of the Trust when they become due. The Trustee may sell Trust properties only (a) as authorized by a vote of the Trust Unit Holders, (b) when necessary to provide for the payment of specific liabilities of the Trust then due (subject to certain conditions) or (c) upon termination of the Trust. Each Trust Unit issued and outstanding represents an equal undivided share of beneficial interest in the Trust. Royalty payments are received by the Trust and distributed to Trust Unit holders, net of Trust expenses, in the month succeeding the end of each calendar quarter. The Trust will terminate upon the first to occur of the following events:

- a. On or prior to December 31, 2010: upon a vote of Trust Unit holders of not less than 70% of the outstanding Trust Units.
- b. After December 31, 2010: (i) upon a vote of Trust Unit holders of not less than 60% of the outstanding Trust Units, or (ii) at such time the net revenues from the Royalty Interest for two successive years commencing after 2010 are less than \$1,000,000 per year (unless the net revenues during such period are materially and adversely affected by certain events).

In order to ensure the Trust has the ability to pay future expenses, the Trust established a cash reserve account which the Trustee believes is sufficient to pay approximately one year's current and expected liabilities and expenses of the Trust.

### 2. BASIS OF ACCOUNTING

The financial statements of the Trust are prepared on a modified cash basis and reflect the Trust's assets, liabilities, Corpus, earnings, and distributions, as follows:

- a. Revenues are recorded when received (generally within 15 days of the end of the preceding quarter) and distributions to Trust Unit holders are recorded when paid.
- b. Trust expenses (which include accounting, engineering, legal, and other professional fees, trustees' fees, and out-of-pocket expenses) are recorded on an accrual basis.
- c. Amortization of the Royalty Interest is calculated using the units of production method. Such amortization is charged directly to the Trust Corpus, and does not affect cash earnings. The daily rate for amortization per net equivalent barrel of oil for the three months ended, March 31, 2003 and 2002 was \$.37. The Trust evaluates impairment of the Royalty Interest by comparing the undiscounted cash flows expected to be realized from the Royalty Interest to the carrying value, pursuant to Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). If the expected future undiscounted cash flows are less than the carrying value, the Trust recognizes an impairment loss for the difference between the carrying value and the estimated fair value of the Royalty Interest.

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(Prepared on a Modified Basis of Cash Receipts and Disbursements)  
March 31, 2003 (Unaudited) and December 31, 2002

### 2. BASIS OF ACCOUNTING (CONT'D)

While these statements differ from financial statements prepared in accordance with generally accepted accounting principles, the cash basis of reporting revenues and distributions is considered to be the most meaningful because quarterly distributions to the Unit holders are based on net cash receipts. The accompanying modified cash basis financial statements contain all adjustments necessary to present fairly the assets, liabilities and Trust corpus of the Trust as of March 31, 2003 and December 31, 2002, and the modified cash earnings and distributions and changes in Trust corpus for the three month periods ended, March 31, 2003 and 2002. The adjustments are of a normal recurring nature and are, in the opinion of management, necessary to fairly present the results of operations.

As of March 31, 2003 and December 31, 2002, cash equivalents which represent the cash reserve consist of US treasury bills with an initial term of less than three months.

Estimates and assumptions are required to be made regarding assets, liabilities and changes in Trust Corpus resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

The financial statements should be read in conjunction with the financial statements and related notes in the Trust's 2002 Annual Report on Form 10-K. The cash earnings and distributions for the interim period presented are not necessarily indicative of the results to be expected for the full year.

### 3. ROYALTY INTEREST

The Royalty Interest is comprised of the following at March 31, 2003 and December 31, 2002 (in thousands):

	March 31, 2003 ----	December 31, 2002 ----
Royalty Interest	\$ 535,000	\$ 535,000
Less: Accumulated amortization	(345,916)	(345,414)
Impairment write-down	(173,518)	(173,518)
	-----	-----
	\$ 15,566	\$ 16,068
	=====	=====

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Notes to Financial Statements  
(Prepared on a Modified Basis of Cash Receipts and Disbursements)  
March 31, 2003 (Unaudited) and December 31, 2002

## 4. INCOME TAXES

The Trust files its federal tax return as a grantor trust subject to the provisions of subpart E of Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, rather than as an association taxable as a corporation. The Unit holders are treated as the owners of Trust income and Corpus, and the entire taxable income of the Trust is reportable by the Unit holders on their respective tax returns.

If the Trust were determined to be an association taxable as a corporation, it would be treated as an entity taxable as a corporation on the taxable income from the Royalty Interest, the Trust Unit holders would be treated as shareholders, and distributions to Trust Unit holders would not be deductible in computing the Trust's tax liability as an association.

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## ITEM 2. TRUSTEE'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Cautionary Statement

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The Trustee, its officers or its agents on behalf of the Trustee may, from time to time, make forward-looking statements (other than statements of historical fact). When used herein, the words "anticipates," "expects," "believes," "intends" or "projects" and similar expressions are intended to identify forward-looking statements. To the extent that any forward-looking statements are made, the Trustee is unable to predict future changes in oil prices, oil production levels, economic activity, legislation and regulation, and certain changes in expenses of the Trust. In addition, the Trust's future results of operations and other forward looking statements contained in this item and elsewhere in this report involve a number of risks and uncertainties. As a result of variations in such factors, actual results may differ materially from any forward looking statements. Some of these factors are described below. The Trustee disclaims any obligation to update forward looking statements and all such forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph.

### Liquidity and Capital Resources

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The Trust is a passive entity, and the Trustee's activities are limited to collecting and distributing the revenues from the Royalty Interest and paying liabilities and expenses of the Trust. Generally, the Trust has no source of liquidity and no capital resources other than the revenue attributable to the Royalty Interest that it receives from time to time. See the discussion under "THE ROYALTY INTEREST" for a description of the calculation of the Per Barrel Royalty, and the discussion under "THE PRUDHOE BAY UNIT - Reserve Estimates" and "INDEPENDENT OIL AND GAS CONSULTANTS' REPORT" in Part I, Item 1 of the Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (the "Annual Report") for information concerning the estimated future net revenues of the Trust. However, the Trustee does have a limited power to borrow, establish a

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cash reserve, or dispose of all or part of the Trust Estate, under limited circumstances pursuant to the terms of the Trust Agreement. See the discussion under "THE TRUST" in Part I, Item 1 of the Annual Report.

The Trustee initially established a cash reserve of \$1,000,000 to provide liquidity to the Trust during any future periods in which the Trust does not receive a distribution. This amount is equal to approximately one year's expected liabilities and expenses of the Trust. Amounts set aside for the cash reserve are invested in U.S. government or agency securities secured by the full faith and credit of the United States. The Trustee will draw funds from the cash reserve account during any quarter in which the quarterly distribution received by the Trust does not exceed the liabilities and expenses of the Trust, and will replenish the reserve from future quarterly distributions, if any. The Trustee anticipates that it will keep the cash reserve in place until termination of the Trust.

The amount of the cash reserve as of March 31, 2003 was \$686,000, due to the reimbursement to the Company by the Trust of amounts paid by the Company on behalf of the Trust in connection with the New York Stock Exchange listing expenses over a period of several years. The cash reserve will be replenished from royalty amounts until it is once again 1,000,000,000. \$100,000 was replenished to the cash reserve from royalty amounts.

As discussed under CERTAIN TAX CONSIDERATIONS in the Annual Report, amounts received by the Trust as quarterly distributions are income to the holders of the Units, (as will be any earning on investment of the cash reserve) and must be reported by the holders of the Units, even if such amounts are used to repay borrowings or establish a cash reserve and are not received by the holders of the Units.

Results of Operations  
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Royalty revenues are generally received on fifteenth day of the month) following the end of the calendar quarter in which the related Royalty Production occurred (the "Quarterly Record Date"). The Trustee, to the extent possible, pays all expenses of the Trust for each quarter on the Quarterly Record Date on which the revenues for the quarter are received. For the statement of cash earnings and distributions, revenues and Trust expenses are recorded on a cash basis and, as a result, royalties paid to the Trust and distributions to Unit holders in the

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quarters ended March 31, 2003 and 2002 are attributable to the Company's operations during the quarters ended December 31, 2002 and 2001, respectively.

The following table shows the factors for the quarters ended December 31, 2002 and 2001 which were employed to compute the Per Barrel Royalty received by the Trust during the quarters ended March 31, 2003 and 2002 (see Note 1 of Notes to Financial Statements in Part I, Item 1). The information in the table has been furnished by the Company.

	Quarter ended December 31,	
	2002	2001
	-----	-----
Average WTI Price	\$ 28.25	



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Chargeable Costs	\$ 11.25	\$ 10.75
Cost Adjustment Factor	1.3960	1.3660
Adjusted Chargeable Costs	\$ 15.71	\$ 14.68
Production Taxes	\$ 3.33	\$ 2.17
	-----	
		\$ 19.04
		-----
Per Barrel Royalty		\$ 9.21
		=====

As long as the Company's average daily net production from the Prudhoe Bay Unit exceeds 90,000 barrels, which the Company currently projects will continue until the year 2016, the only factors affecting the Trust's revenues and distributions to Unit holders are changes in WTI Prices, scheduled annual increases in Chargeable Costs, changes in the Consumer Price Index, changes in Production Taxes and changes in the expenses of the Trust.

Quarter Ended March 31, 2003 Compared to  
 Quarter Ended March 31, 2002  
 -----

The Trust received royalty revenues of \$12,538,000 in the quarter ended March 31, 2003, compared to \$4,841,000 received in the quarter ended March 31, 2002, due to a 38.4% increase in the Average WTI Price from \$20.41 in the quarter ended December 31, 2001 to \$28.25 in the quarter ended December 31, 2002. Total deductions from the Average WTI Price increased \$2.19 (approximately 13%) in the same period, due to increases of \$1.03 in the Adjusted Chargeable Costs, and increases of \$1.16 cents in Production Taxes. See the discussion under "THE ROYALTY INTEREST" for a description of the calculation of the Per Barrel Royalty in the Annual Report.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See discussion above under Item 2. Trustee's Discussion and Analysis of Financial Condition and Results of Operations.

### ITEM 4. CONTROLS AND PROCEDURES.

Within 90 days prior to the date of this report (the "Evaluation Date") the officer of the Trustee signing this report carried out an evaluation of the effectiveness of the design and operation of the Trustee's disclosure controls and procedures for the Trust pursuant to Exchange Act Rule 13a-14. Based on the foregoing that officer concluded that the disclosure controls and procedures for the Trust are effective in timely alerting the responsible officers of the Trustee to material information relating to the Trust required to be included in the Trust's Exchange Act reports. There have been no significant changes in the Trustee's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Trustee carried out its evaluation.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

None.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

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None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

On April 18, 2003 the Trust received a cash distribution of \$17,721,892 from the Company with respect to the quarter ended March 31, 2003 and, after deducting expenses of \$332,863, and replenishing the cash reserve in the amount of \$100,000, on April 18, 2003 distributed \$17,291,321 or approximately \$0.8080 per Unit, to Unit holders of record.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

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- 4.1 BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee.
- 4.2 Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company.
- 4.3 Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust.
- 4.4 Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The Standard Oil Company and BP Prudhoe Bay Royalty Trust.

(b) Reports on Form 8-K

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No reports on Form 8-K were filed during the quarter ended March 31, 2003.

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SIGNATURE

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.

BP PRUDHOE BAY ROYALTY TRUST

By: THE BANK OF NEW YORK,  
as Trustee

By: /s/ Marie E. Trimboli

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Marie E. Trimboli

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Assistant Vice President

Date: June 12, 2003

The registrant is a trust and has no officers or persons performing similar functions. No additional signatures are available and none have been provided.

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## CERTIFICATIONS

I, Marie E. Trimboli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BP Prudhoe Bay Royalty Trust, for which The Bank of New York acts as Trustee;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, cash earnings and distributions and changes in trust corpus of the registrant as of and for the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14), or for causing such procedures to be established and maintained, for the registrant and I have:
  - a) designed such disclosure controls and procedures, or caused such controls and procedures to be designed, to ensure that material information relating to the registrant is made known to me by others, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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- b) any fraud, whether or not material, that involves persons who have a significant role in the registrant's internal controls; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

In giving the certifications in paragraphs 4, 5 and 6 above, I have relied to the extent I consider reasonable on information provided to me by BP Exploration (Alaska) Inc.

Date: June 12, 2003

/s/ Marie E. Trimboli

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Marie E. Trimboli  
Assistant Vice President  
The Bank of New York

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INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
*4.1	BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee.
*4.2	Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company.
*4.3	Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust.
*4.4	Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The standard Oil Company and BP Prudhoe Bay Royalty Trust.

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\* Incorporated by reference to the correspondingly numbered exhibit to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (Commission File No. 1-10243).

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