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Blueknight Energy Partners, L.P.
Form 10-Q
August 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number 001-33503

BLUEKNIGHT ENERGY PARTNERS, L.P.
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or
organization)

20-8536826
(IRS Employer
Identification No.)

201 NW 10th, Suite 200
Oklahoma City, Oklahoma 73103
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (405) 278-6400

(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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 2, 2013, there were 30,159,958 Series A Preferred Units and 22,682,702 common units outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

BLUEKNIGHT ENERGY PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per unit data)

	As of December 31, 2012 (unaudited)	As of June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,177	\$4,848
Accounts receivable, net of allowance for doubtful accounts of \$469 and \$72 at December 31, 2012 and June 30, 2013, respectively	9,948	13,514
Receivables from related parties, net of allowance for doubtful accounts of \$0 for both dates	3,522	2,716
Prepaid insurance	1,237	3,482
Assets held for sale	281	—
Other current assets	1,822	1,821
Total current assets	19,987	26,381
Property, plant and equipment, net of accumulated depreciation of \$153,216 and \$164,094 at December 31, 2012 and June 30, 2013, respectively	267,741	290,124
Investment in unconsolidated affiliate	—	16,827
Goodwill	7,216	7,216
Debt issuance costs, net	3,225	3,882
Intangibles and other assets, net	1,656	1,474
Total assets	\$299,825	\$345,904
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	\$10,052	\$10,918
Accrued interest payable	164	66
Accrued interest payable to related parties	304	—
Accrued property taxes payable	1,938	2,016
Unearned revenue	4,068	4,584
Unearned revenue with related parties	316	261
Accrued payroll	6,409	5,067
Other current liabilities	4,032	5,036
Current portion of long-term payable to related parties	1,881	—
Total current liabilities	29,164	27,948
Long-term payable to related parties	800	—
Other long-term liabilities	206	128
Long-term debt (including \$15.0 million with related parties at December 31, 2012)	211,000	262,411
Commitments and contingencies (Note 13)		
Partners' capital:		
Series A Preferred Units (30,159,958 units issued and outstanding for both dates)	204,599	204,599

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Common unitholders (22,675,135 and 22,682,702 units issued and outstanding at December 31, 2012 and June 30, 2013, respectively)	464,433		461,191	
General partner interest (2.1% with 1,127,755 general partner units outstanding for both dates)	(610,377)	(610,373)
Total Partners' capital	58,655		55,417	
Total liabilities and Partners' capital	\$299,825		\$345,904	

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

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BLUEKNIGHT ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit data)

	Three Months ended June 30,		Six Months ended June 30,	
	2012	2013	2012	2013
	(unaudited)			
Service revenue:				
Third party revenue	\$32,912	\$34,794	\$66,046	\$67,899
Related party revenue	10,846	11,504	22,288	23,983
Total revenue	43,758	46,298	88,334	91,882
Expenses:				
Operating	30,518	32,093	59,806	63,905
General and administrative	4,386	4,490	9,489	9,157
Total expenses	34,904	36,583	69,295	73,062
Gain on sale of assets	263	1,220	5,219	998
Operating income	9,117	10,935	24,258	19,818
Other income (expense):				
Equity earnings (loss) in unconsolidated affiliate	—	—(118)	—	(173)
Interest expense (net of capitalized interest of \$35, \$456, \$63 and \$698, respectively)	(2,897)	(4,559)	(5,968)	(7,291)
Income before income taxes	6,220	6,258	18,290	12,354
Provision for income taxes	73	93	149	166
Net income	\$6,147	\$6,165	\$18,141	\$12,188
Allocation of net income for calculation of earnings per unit:				
General partner interest in net income	\$186	\$129	\$493	\$316
Preferred interest in net income	\$5,391	\$5,391	\$10,782	\$10,782
Beneficial conversion feature attributable to Preferred Units	\$—	\$—	\$1,853	\$—
Income available to limited partners	\$570	\$645	\$5,013	\$1,090
Basic and diluted net income per common unit	\$0.02	\$0.03	\$0.22	\$0.05
Weighted average common units outstanding - basic and diluted	22,670	22,681	22,665	22,678

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

BLUEKNIGHT ENERGY PARTNERS, L.P.
 CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL
 (in thousands)

	Common Unitholders (unaudited)	Series A Preferred Unitholders	General Partner Interest	Total Partners' Capital
Balance, December 31, 2012	\$464,433	\$204,599	\$(610,377)	\$58,655
Net income	1,151	10,782	255	12,188
Equity-based incentive compensation	997	—	21	1,018
Profits interest contribution	—	—	74	74
Distributions	(5,390)	(10,782)	(346)	(16,518)
Balance, June 30, 2013	\$461,191	\$204,599	\$(610,373)	\$55,417

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

BLUEKNIGHT ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months ended June 30,	
	2012	2013
	(unaudited)	
Cash flows from operating activities:		
Net income	\$18,141	\$12,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for uncollectible receivables from third parties	—	(397)
Depreciation and amortization	11,382	11,734
Amortization and write-off of debt issuance costs	888	2,932
Asset impairment charge	1,073	—
Gain on sale of assets	(5,219)	(998)
Equity-based incentive compensation	667	1,018
Equity (earnings) loss in unconsolidated affiliate	—	173
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	2,555	(2,962)
Decrease in receivables from related parties	1,892	806
Decrease in prepaid insurance	309	500
Increase in other current assets	(1,312)	1)
Decrease (increase) in other assets	(1)	30)
Decrease in accounts payable	(2,718)	(1,388)
Decrease in accrued interest payable	(18)	(98)
Decrease in accrued interest payable to related parties	(183)	(304)
Increase in accrued property taxes	182	78
Increase in unearned revenue	2,962	516
Increase (decrease) in unearned revenue from related parties	491	(55)
Decrease in accrued payroll	(1,196)	(1,342)
Decrease in other accrued liabilities	(1,188)	(683)
Net cash provided by operating activities	28,707	21,749
Cash flows from investing activities:		
Capital expenditures	(13,179)	(31,952)
Proceeds from sale of assets	7,291	1,178
Investment in unconsolidated affiliate	—	(17,000)
Net cash used in investing activities	(5,888)	(47,774)
Cash flows from financing activities:		
Payment on insurance premium financing agreement	(534)	(1,001)
Debt issuance costs	—	(3,589)
Payments on long-term payable to related party	(790)	(2,681)
Borrowings under credit facility	24,000	314,411
Payments under credit facility	(27,000)	(263,000)
Capital contribution related to profits interest	—	74
Distributions	(15,903)	(16,518)
Net cash provided by (used in) financing activities	(20,227)	27,696
Net increase in cash and cash equivalents	2,592	1,671
Cash and cash equivalents at beginning of period	1,239	3,177
Cash and cash equivalents at end of period	\$3,831	\$4,848

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Supplemental disclosure of cash flow information:

Increase (decrease) in accounts payable related to purchase of property, plant and equipment	\$(2,898)	\$2,254
Increase in accounts receivable due to accrued proceeds on sale of assets	\$—		\$(207)
Increase in accrued liabilities related to insurance premium financing agreement	\$1,580		\$2,610

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

BLUEKNIGHT ENERGY PARTNERS, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS

Blueknight Energy Partners, L.P. and subsidiaries (collectively, the “Partnership”) is a publicly traded master limited partnership with operations in twenty-three states. The Partnership provides integrated terminalling, storage, processing, gathering and transportation services for companies engaged in the production, distribution and marketing of crude oil and asphalt products. The Partnership manages its operations through four operating segments: (i) crude oil terminalling and storage services, (ii) crude oil pipeline services, (iii) crude oil trucking and producer field services and (iv) asphalt services. The Par