

BLUE DOLPHIN ENERGY CO
Form 10-Q
May 15, 2014

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: March 31, 2014

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: 0-15905

BLUE DOLPHIN ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

73-1268729
(I.R.S. Employer
Identification No.)

801 Travis Street, Suite 2100, Houston, Texas 77002
(Address of principal executive offices)

(713) 568-4725
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) 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.

Large accelerated filer

Accelerated filer

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

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

Number of shares of common stock, par value \$0.01 per share outstanding as of May 15, 2014: 10,446,218

BLUE DOLPHIN ENERGY COMPANY & SUBSIDIARIES
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Blue Dolphin Energy Company & Subsidiaries

Consolidated Balance Sheets (Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$295,877	\$434,717
Restricted cash	1,003,124	327,388
Accounts receivable	9,749,014	13,487,106
Prepaid expenses and other current assets	263,028	333,683
Deposits	819,213	1,219,660
Inventory	4,396,893	4,686,399
Total current assets	16,527,149	20,488,953
Total property and equipment, net	36,358,219	36,388,666
Surety bonds	850,000	-
Debt issue costs, net	490,086	498,536
Trade name	303,346	303,346
TOTAL ASSETS	\$54,528,800	\$57,679,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$15,863,920	\$20,783,541
Accounts payable, related party	3,620,647	3,659,340
Notes payable	-	11,884
Asset retirement obligations, current portion	108,272	107,388
Accrued expenses and other current liabilities	1,968,318	1,600,444
Interest payable, current portion	41,205	40,272
Long-term debt, current portion	1,000,922	2,215,918
Total current liabilities	22,603,284	28,418,787
Long-term liabilities:		
Asset retirement obligations, net of current portion	1,841,044	1,490,273
Deferred revenues and expenses	821,187	-
Long-term debt, net of current portion	9,837,229	13,889,349
Long-term interest payable, net of current portion	1,118,072	1,767,381
Total long-term liabilities	13,617,532	17,147,003
TOTAL LIABILITIES	36,220,816	45,565,790

STOCKHOLDERS' EQUITY

Common stock (\$0.01 par value, 20,000,000 shares authorized, 10,580,973 shares issued at March 31, 2014 and December 31, 2013)	105,810	105,810
Additional paid-in capital	36,623,965	36,623,965
Accumulated deficit	(17,621,791)	(23,816,064)
Treasury stock, 150,000 shares and 0 shares, respectively, at cost	(800,000)	(800,000)
Total stockholders' equity	18,307,984	12,113,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$54,528,800	\$57,679,501

See accompanying notes to consolidated financial statements.

Blue Dolphin Energy Company & Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2014	2013
REVENUE FROM OPERATIONS		
Refined product sales	\$ 120,376,151	\$ 109,171,507
Pipeline operations	54,031	73,148
Total revenue from operations	120,430,182	109,244,655
COST OF OPERATIONS		
Cost of refined products sold	110,415,607	106,322,661
Refinery operating expenses	2,955,019	2,745,209
Pipeline operating expenses	27,729	45,371
Lease operating expenses	7,176	26,901
General and administrative expenses	369,484	484,564
Depletion, depreciation and amortization	390,605	328,788
Abandonment expense	-	27,451
Accretion expense	50,802	25,163
Total cost of operations	114,216,422	110,006,108
Income (loss) from operations	6,213,760	(761,453)
OTHER INCOME (EXPENSE)		
Net tank rental and easement revenue	407,516	278,350
Interest and other income	29,220	835
Interest expense	(253,800)	(281,063)
Total other income (expense)	182,936	(1,878)
Income (loss) before income taxes	6,396,696	(763,331)
Income tax expense, current	(202,423)	-
Net income (loss)	\$6,194,273	\$(763,331)
Income (loss) per common share		
Basic	\$0.59	\$(0.07)
Diluted	\$0.59	\$(0.07)
Weighted average number of common shares outstanding:		
Basic	10,430,973	10,510,334
Diluted	10,430,973	10,510,334

See accompanying notes to consolidated financial statements.

Blue Dolphin Energy Company & Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income (loss)	\$6,194,273	\$(763,331)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	390,605	328,788
Unrealized loss on derivatives	127,100	52,050
Amortization of debt issue costs	8,450	8,450
Amortization of intangible assets	-	9,463
Accretion expense	50,802	25,163
Abandonment costs incurred	-	27,451
Common stock issued for services	-	50,000
Changes in operating assets and liabilities		
Restricted cash	(675,736)	62,245
Accounts receivable	3,738,092	4,087,965
Prepaid expenses and other current assets	70,655	19,355
Deposits and other assets	(449,553)	(9,463)
Inventory	289,506	(1,489,100)
Accounts payable, accrued expenses and other liabilities	(4,506,163)	(2,739,371)
Accounts payable, related party	(38,693)	584,040
Net cash provided by operating activities	5,199,338	253,705
INVESTING ACTIVITIES		
Capital expenditures	(59,178)	(530,226)
Net cash used in investing activities	(59,178)	(530,226)
FINANCING ACTIVITIES		
Payments on long-term debt	(5,267,116)	(60,876)
Proceeds from notes payable	-	15,032
Payments on notes payable	(11,884)	(10,472)
Net cash used in financing activities	(5,279,000)	(56,316)
Net decrease in cash and cash equivalents	(138,840)	(332,837)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	434,717	420,896
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$295,877	\$88,059
Supplemental Information:		
Non-cash operating activities		
Reduction in accounts receivable in exchange for treasury stock received	\$-	\$800,000
Surety bond funded by seller of pipeline interest holder	\$850,000	\$-
Non-cash investing and financing activities:		
New asset retirement obligations	\$300,980	\$-
Accrued services payable converted to common stock	\$-	\$50,000

Interest paid	\$902,176	\$232,577
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See accompanying notes to consolidated financial statements.

Blue Dolphin Energy Company & Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

(1) Organization

Nature of Operations

Blue Dolphin Energy Company (referred to herein, with its predecessors and subsidiaries, as “Blue Dolphin,” “we,” “us” and “our”) is a Delaware corporation that was formed in 1986 as a holding company. We are primarily an independent refiner and marketer of petroleum products. Our primary operating asset is a 56-acre crude oil and condensate processing facility, which is located in Nixon, Wilson County, Texas (the “Nixon Facility”). Operations at the Nixon Facility also involve the storage and terminaling of petroleum under third-party lease agreements. We also own and operate pipeline assets and have leasehold interests in oil and gas properties, which are considered non-core to our business. See “Note (4) Business Segment Information” of this report for further discussion of our business segments.

We conduct substantially all of our operations through our wholly-owned subsidiaries. Our operating subsidiaries include:

Lazarus Energy, LLC, a Delaware limited liability company (petroleum processing assets) (“LE”);
Lazarus Refining & Marketing, LLC, a Delaware limited liability company (petroleum storage and terminaling) (“LRM”);

Blue Dolphin Pipe Line Company, a Delaware corporation (pipeline operations) (“BDPL”);

Blue Dolphin Petroleum Company, a Delaware corporation (exploration and production activities);

Blue Dolphin Services Co., a Texas corporation (administrative services);

Blue Dolphin Exploration Company, a Delaware corporation (exploration and production investments) (“BDEX”);
and

Petroport, Inc., a Delaware corporation (inactive).

Operating Risks

We had cash and ca