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Blueknight Energy Partners, L.P.
Form 10-Q
November 01, 2018

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 September 30, 2018

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 25, 2018, there were 35,125,202 Series A Preferred Units and 40,393,743 common units outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

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

	As of December 31, 2017 (unaudited)	As of September 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,469	\$ 1,926
Accounts receivable, net of allowance for doubtful accounts of \$28 at both dates	7,589	46,917
Receivables from related parties, net of allowance for doubtful accounts of \$0 at both dates	3,070	1,647
Prepaid insurance	2,009	2,146
Other current assets	8,438	9,834
Total current assets	23,575	62,470
Property, plant and equipment, net of accumulated depreciation of \$316,591 and \$276,290 at December 31, 2017, and September 30, 2018, respectively	296,069	295,272
Goodwill	3,870	6,728
Debt issuance costs, net	4,442	3,600
Intangibles and other assets, net	12,913	18,169
Total assets	\$340,869	\$ 386,239
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	\$4,439	\$ 4,311
Accounts payable to related parties	2,268	3,093
Accrued crude oil purchases	1,115	15,142
Accrued crude oil purchases to related parties	—	16,681
Accrued interest payable	694	462
Accrued property taxes payable	2,432	3,776
Unearned revenue	2,393	3,207
Unearned revenue with related parties	551	2,809
Accrued payroll	6,119	3,838
Other current liabilities	3,632	3,820
Total current liabilities	23,643	57,139
Long-term unearned revenue with related parties	1,052	745
Other long-term liabilities	3,673	3,726
Long-term interest rate swap liabilities	225	—
Long-term debt	307,592	271,592
Commitments and contingencies (Note 15)		
Partners' capital:		
Common unitholders (40,158,342 and 40,387,006 units issued and outstanding at December 31, 2017, and September 30, 2018, respectively)	454,358	429,959
Preferred Units (35,125,202 units issued and outstanding at both dates)	253,923	253,923
General partner interest (1.6% interest with 1,225,409 general partner units outstanding at both dates)	(703,597)	(630,845)

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Total partners' capital	4,684	53,037
Total liabilities and partners' capital	\$340,869	\$ 386,239

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

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2017	2018	2017	2018
	(unaudited)			
Service revenue:				
Third-party revenue	\$30,635	\$12,743	\$87,443	\$44,164
Related-party revenue	14,464	5,396	41,611	17,780
Lease revenue:				
Third-party revenue	—	11,368	—	31,409
Related-party revenue	—	5,406	—	20,584
Product sales revenue:				
Third-party revenue	2,375	97,763	8,637	146,892
Related-party revenue	—	482	—	482
Total revenue	47,474	133,158	137,691	261,311
Costs and expenses:				
Operating expense	29,380	27,174	91,896	87,297
Cost of product sales	1,675	50,815	6,483	73,493
Cost of product sales from related party	—	44,106	—	67,853
General and administrative expense	4,093	4,322	13,000	13,029
Asset impairment expense	—	15	45	631
Total costs and expenses	35,148	126,432	111,424	242,303
Gain (loss) on sale of assets	(107)	(63)	(986)	300
Operating income	12,219	6,663	25,281	19,308
Other income (expenses):				
Equity earnings in unconsolidated affiliate	—	—	61	—
Gain on sale of unconsolidated affiliate	1,112	—	5,284	2,225
Interest expense	(3,500)	(4,090)	(10,795)	(12,683)
Income before income taxes	9,831	2,573	19,831	8,850
Provision for income taxes	60	165	147	215
Net income	\$9,771	\$2,408	\$19,684	\$8,635
Allocation of net income for calculation of earnings per unit:				
General partner interest in net income	\$312	\$39	\$777	\$298
Preferred interest in net income	\$6,279	\$6,279	\$18,837	\$18,836
Net income (loss) available to limited partners	\$3,180	\$(3,910)	\$70	\$(10,499)
Basic and diluted net income (loss) per common unit	\$0.08	\$(0.09)	\$—	\$(0.25)
Weighted average common units outstanding - basic and diluted	38,189	40,380	38,164	40,331

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

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

	Common Unitholders	Series A Preferred Unitholders	General Partner Interest	Total Partners' Capital (Deficit)
	(unaudited)			
Balance, December 31, 2017	\$454,358	\$ 253,923	\$(703,597)	\$4,684
Net income (loss)	(10,655)	18,836	454	8,635
Equity-based incentive compensation	1,325	—	27	1,352
Distributions	(15,277)	(18,836)	(879)	(34,992)
Capital contributions	—	—	183	183
Capital contributions related to sale of terminal assets to Ergon	—	—	72,967	72,967
Proceeds from sale of 61,327 common units pursuant to the Employee Unit Purchase Plan	208	—	—	208
Balance, September 30, 2018	\$429,959	\$ 253,923	\$(630,845)	\$53,037

The accompanying notes are an integral part of this unaudited condensed consolidated financial statement.

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

	Nine Months ended September 30, 2017 2018 (unaudited)	
Cash flows from operating activities:		
Net income	\$19,684	\$8,635
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for uncollectible receivables from third parties	(19)	—
Depreciation and amortization	23,586	21,945
Amortization and write-off of debt issuance costs	1,560	1,200
Unrealized gain related to interest rate swaps	(1,253)	(277)
Intangible asset impairment charge	—	189
Fixed asset impairment charge	45	442
Loss (gain) on sale of assets	986	(300)
Gain on sale of unconsolidated affiliate	(5,284)	(2,225)
Equity-based incentive compensation	913	1,352
Equity earnings in unconsolidated affiliate	(61)	—
Changes in assets and liabilities:		
Increase in accounts receivable	(352)	(39,328)
Decrease (increase) in receivables from related parties	(110)	1,423
Decrease in prepaid insurance	1,964	1,817
Decrease (increase) in other current assets	53	(949)
Decrease in other non-current assets	56	424
Decrease in accounts payable	(142)	(435)
Increase in payables to related parties	159	1,068
Increase in accrued crude oil purchases	785	15,142
Increase in accrued crude oil purchases to related parties	—	16,681
Increase (decrease) in accrued interest payable	338	(232)
Increase in accrued property taxes	1,187	1,718
Increase in unearned revenue	775	