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Blueknight Energy Partners, L.P.  
Form 10-Q  
August 07, 2012

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, 2012

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

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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):

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 3, 2012, there were 30,159,958 Series A Preferred Units and 22,670,137 common units outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	As of December 31, 2011 (unaudited)	As of June 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,239	\$3,831
Accounts receivable, net of allowance for doubtful accounts of \$476 for both dates	14,191	11,636
Receivables from related parties, net of allowance for doubtful accounts of \$0 for both dates	4,397	2,505
Prepaid insurance	1,725	3,223
Assets held for sale	603	1,434
Other current assets	1,838	3,151
Total current assets	23,993	25,780
Property, plant and equipment, net of accumulated depreciation of \$135,302 and \$144,086 at December 31, 2011 and June 30, 2012, respectively	266,355	261,320
Goodwill	7,216	7,216
Debt issuance costs, net	5,000	4,112
Intangibles and other assets, net	2,191	1,922
Total assets	\$304,755	\$300,350
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
Current liabilities:		
Accounts payable	\$ 10,138	\$4,522
Accrued loss contingency	1,090	—
Accrued interest payable	231	213
Accrued interest payable to related parties	362	179
Accrued property taxes payable	1,813	1,995
Unearned revenue	790	3,752
Unearned revenue with related parties	1,149	1,640
Accrued payroll	5,226	4,030
Other accrued liabilities	3,740	4,602
Current portion of long-term payable to related parties	1,636	1,754
Total current liabilities	26,175	22,687
Long-term payable to related parties	2,681	1,773
Other long-term liabilities	100	186
Long-term debt (including \$15.0 million with related parties for both dates)	218,000	215,000
Commitments and contingencies (Notes 5 and 13)		
Partners' capital:		
Series A Preferred Units (30,159,958 units issued and outstanding for both dates)	202,746	204,599
	465,483	466,474

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Common unitholders (22,657,638 and 22,670,137 units issued and outstanding at December 31, 2011 and June 30, 2012, respectively)

General partner interest (2.1% with 1,127,755 general partner units outstanding for both dates)	(610,430	) (610,369	)
Total Partners' capital	57,799	60,704	
Total liabilities and Partners' capital	\$304,755	\$300,350	

See accompanying notes to unaudited consolidated 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,	
	2011	2012	2011	2012
	(unaudited)			
Service revenue:				
Third party revenue	\$32,670	\$32,912	\$64,624	\$66,046
Related party revenue	10,421	10,846	19,990	22,288
Total revenue	43,091	43,758	84,614	88,334
Expenses:				
Operating	30,182	30,518	58,819	59,806
General and administrative	4,777	4,386	9,386	9,489
Total expenses	34,959	34,904	68,205	69,295
Gain on sale of assets	687	263	710	5,219
Operating income	8,819	9,117	17,119	24,258
Other (income) expenses:				
Interest expense	9,112	2,897	18,164	5,968
Change in fair value of embedded derivative within convertible debt	3,431	—	(4,866)	—
Change in fair value of rights offering liability	1,544	—	6,386	—
Income (loss) before income taxes	(5,268)	6,220	(2,565)	18,290
Provision for income taxes	77	73	147	149
Net income (loss)	\$(5,345)	\$6,147	\$(2,712)	\$18,141
Allocation of net income (loss) for calculation of earnings per unit:				
General partner interest in net income (loss)	\$(46)	\$186	\$111	\$493
Preferred interest in net income	\$2,975	\$5,391	\$8,149	\$10,782
Beneficial conversion feature attributable to preferred units	\$11,021	\$—	\$21,920	\$1,853
Income (loss) available to limited partners	\$(19,295)	\$570	\$(32,892)	\$5,013
Basic and diluted net income (loss) per common unit	\$(0.55)	\$0.02	\$(0.94)	\$0.22
Basic and diluted net income (loss) per subordinated unit	\$(0.55)	\$—	\$(0.94)	\$—
Weighted average common units outstanding - basic and diluted	21,890	22,670	21,890	22,665
Weighted average subordinated units outstanding - basic and diluted	12,571	—	12,571	—
See accompanying notes to unaudited consolidated financial statements.				

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

	Common Unitholders	Series A Preferred Unitholders	General Partner Interest	Total Partners' Capital
	(unaudited)			
Balance, December 31, 2011	\$465,483	\$202,746	\$(610,430 )	\$57,799
Net income	7,300	10,462	379	18,141
Equity-based incentive compensation	653	—	14	667
Amortization of beneficial conversion feature of Preferred units	(1,853 )	) 1,853	—	—
Distributions	(5,109 )	) (10,462 )	(332 )	(15,903 )
Balance, June 30, 2012	\$466,474	\$204,599	\$(610,369 )	\$60,704

See accompanying notes to unaudited consolidated financial statements.

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

	Six months ended June 30,	
	2011	2012
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$(2,712 )	\$18,141
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,415	11,382
Amortization and write-off of debt issuance costs	966	888
Amortization of subordinated debenture discount	8,756	—
Change in fair value of embedded derivative within convertible debt	(4,866 )	—
Change in fair value of rights offering liability	6,386	—
Asset impairment charge	—	1,073
Gain on sale of assets	(710 )	(5,219 )
Equity-based incentive compensation	209	667
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(4,133 )	2,555
Decrease (increase) in receivables from related parties	(222 )	1,892
Decrease (increase) in prepaid insurance	(139 )	309
Increase in other current assets	(249 )	(1,312 )
Decrease (increase) in other assets	1,037	(1 )
Decrease in accounts payable	(1,210 )	(2,718 )
Decrease in accrued interest payable	(78 )	(18 )
Increase (decrease) in accrued interest payable to related parties	2,686	(183 )
Increase (decrease) in accrued property taxes	(126 )	182
Increase in unearned revenue	385	2,962
Increase (decrease) in unearned revenue from related parties	(2,105 )	491
Increase (decrease) in accrued payroll	609	(1,196 )
Decrease in other accrued liabilities	(145 )	(1,188 )
Net cash provided by operating activities	15,754	28,707
Cash flows from investing activities:		
Acquisitions	(133 )	—
Capital expenditures	(9,298 )	(13,179 )
Proceeds from sale of assets	752	7,291
Net cash used in investing activities	(8,679 )	(5,888 )
Cash flows from financing activities:		
Payment on insurance premium financing agreement	(342 )	(534 )
Debt issuance costs	(280 )	—
Payments on long-term payable to related party	(447 )	(790 )
Borrowings under credit facility	6,000	24,000
Payments under credit facility	(5,862 )	(27,000 )
Distributions	(5,278 )	(15,903 )
Net cash used in financing activities	(6,209 )	(20,227 )
Net increase in cash and cash equivalents	866	2,592
Cash and cash equivalents at beginning of period	4,840	1,239
Cash and cash equivalents at end of period	\$5,706	\$3,831



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Supplemental disclosure of cash flow information:

Increase (decrease) in accounts payable related to purchase of property, plant and equipment	\$472	\$(2,898 )
Increase in accrued liabilities related to insurance premium financing agreement	\$1,278	\$1,580

See accompanying notes to unaudited consolidated financial statements.

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

1. ORGANIZATION AND NATURE OF BUSINESS