

Cypress Energy Partners, L.P.
Form 10-Q
August 14, 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 June 30, 2014
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 001-36260

CYPRESS ENERGY PARTNERS, L.P.
(Exact name of Registrant as specified in its charter)

Delaware 61-1721523
(State of or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5727 South Lewis Avenue, Suite 500 74105
Tulsa, Oklahoma
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (918) 748-3900

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 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 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

The registrant's common units began trading on the New York Stock Exchange on January 15, 2014.

As of August 12, 2014, the registrant had 5,913,000 common units and 5,913,000 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

CYPRESS ENERGY PARTNERS, L.P.

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NAMES OF ENTITIES

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to “Cypress Energy Partners, L.P.,” “our partnership,” “we,” “our,” “us,” or like terms, refer to Cypress Energy Partners, L.P. and its subsidiaries.

References to:

· “General Partner” refers to Cypress Energy Partners GP, LLC, a subsidiary of Holdings II;

· “Holdings” refers to Cypress Energy Holdings, LLC, the owner of Holdings II;

· “Holdings II” refers to Cypress Energy Holdings II, LLC, the owner of 671,250 common units representing 11.4% of our outstanding common units and 4,939,299 subordinated units representing 83.5% of our subordinated units;

· “CEM LLC” refers to Cypress Energy Management, LLC, a wholly owned subsidiary of Holdings II;

· “CEP LLC” refers to Cypress Energy Partners, LLC, which became our wholly owned subsidiary at the closing of our initial public offering (“IPO”);

· “CEP-TIR” refers to Cypress Energy Partners – TIR, LLC, an indirect subsidiary of Holdings, and an owner of 673,400 common units representing 11.4% of our outstanding common units, 673,400 subordinated units representing 11.4% of our subordinated units and an owner of a 36.2% interest in the TIR Entities;

· “CES LLC” refers to Cypress Energy Services, LLC, our 51.0% indirectly owned subsidiary that performs management services for 11 salt water disposal (“SWD”) facilities in North Dakota – seven of which are owned by CEP LLC. SBG Energy Services, LLC (“SBG Energy”) owns the remaining interests and CES LLC has the right to acquire such interests;

· “Partnership” refers to the registrant, Cypress Energy Partners, L.P.;

· “Predecessor” refers to CEP LLC, the predecessor for accounting purposes of the Partnership;

· “TIR LLC” refers to Tulsa Inspection Resources, LLC;

· “TIR-Canada” refers to Tulsa Inspection Resources – Canada ULC, a Canadian subsidiary of TIR Holdings;

· “TIR Entities” refer collectively to TIR LLC and its subsidiary, TIR Holdings and its subsidiaries and TIR-NDE, all of which are 50.1% owned by CEP LLC, 36.2% owned by CEP-TIR, 10.6% owned by Charles C. Stephenson, Jr. and 3.1% owned by Cynthia Field;

· “TIR-Foley” refers to Foley Inspection Services ULC, a Canadian subsidiary of TIR Holdings;

· “TIR Holdings” refers to Tulsa Inspection Resources Holdings, LLC;

· “TIR-NDE” refers to Tulsa Inspection Resources – Nondestructive Examination, LLC; and

· “TIR-PUC” refers to Tulsa Inspection Resources – PUC, LLC, a corporate subsidiary of TIR LLC.

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CAUTIONARY REMARKS REGARDING FORWARD LOOKING STATEMENTS

The information discussed in this Quarterly Report on Form 10-Q includes “forward-looking statements.” These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achievable,” “anticipate,” “continue,” “potential,” “should,” “could,” and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties and we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under “Item 1A – Risk Factors” and “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2013, and in this report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Quarterly Report on Form 10-Q and speak only as of the date of this Quarterly Report on Form 10-Q. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

CYPRESS ENERGY PARTNERS, L.P.
 Condensed Consolidated Balance Sheets
 As of June 30, 2014 and December 31, 2013
 (in thousands, except unit data)
 (unaudited)

	June 30, 2014	December 31, 2013 (Recast – Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	\$28,935	\$26,690
Trade accounts receivable, net	50,561	60,730
Deferred tax assets	162	134
Deferred offering costs	-	2,539
Prepaid expenses and other	1,343	1,458
Total current assets	81,001	91,551
Property and equipment:		
Property and equipment, at cost	42,629	42,529
Less: Accumulated depreciation	5,748	3,711
Total property and equipment, net	36,881	38,818
Intangible assets, net	31,353	32,551
Goodwill	75,460	75,466
Debt issuance costs, net	2,065	2,149
Other assets	69	55
Total assets	\$226,829	\$240,590
LIABILITIES, PARENT NET INVESTMENT AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,401	\$2,673
Accrued payroll and other	16,891	10,662
Income taxes payable	75	16,158
Total current liabilities	19,367	29,493
Long-term debt	70,000	75,000
Deferred tax liabilities	478	541
Asset retirement obligations	9	9
Total liabilities	89,854	105,043
Commitments and contingencies – Note 10		
Parent net investment attributable to controlling interests	-	130,012
Parent net investment attributable to non-controlling interests	-	719
Owners' equity:		

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Partners' capital:

Common units (5,913,000 units outstanding at June 30, 2014)	23,792	-
Subordinated units (5,913,000 units outstanding at June 30, 2014)	83,805	-
General partner	1,999	4,816
Accumulated other comprehensive loss	(78)	-
Total partners' capital	109,518	4,816
Non-controlling interests	27,457	-
Total parent net investment and owners' equity	136,975	135,547
Total liabilities, parent net investment and owners' equity	\$226,829	\$240,590

See accompanying notes.

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CYPRESS ENERGY PARTNERS, L.P.

Condensed Consolidated Statements of Income

For the Three and Six Months Ended June 30, 2014 and June 30, 2013

(in thousands, except unit and per unit data)

(unaudited)

Three	Six
Months	Months
Ended	Ended
June 30,	June 30,