GENESIS ENERGY LP
Form 10-Q
November 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-12295

GENESIS ENERGY, L.P.
(Exact name of registrant as specified in its charter)

Delaware	76-0513049
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
919 Milam, Suite 2100, Houston, TX	77002
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (713) 860-2500

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 ý 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 such shorter period that the registrant was required to submit and post such files). Yes ý 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 x Accelerated filer ¨ Non-accelerated filer ¨ 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 ý
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. There were 117,939,221 Class A Common Units and 39,997 Class B Common Units outstanding as of November 3, 2016.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GENESIS ENERGY, L.P.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except units)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,447	$ 10,895
Accounts receivable - trade, net	210,808	219,532
Inventories	70,199	43,775
Other	27,322	32,114
Total current assets	311,776	306,316
FIXED ASSETS, at cost	4,707,685	4,310,226
Less: Accumulated depreciation	(509,419)	(378,247)
Net fixed assets	4,198,266	3,931,979
NET INVESTMENT IN DIRECT FINANCING LEASES, net of unearned income	134,640	139,728
EQUITY INVESTEES	417,214	474,392
INTANGIBLE ASSETS, net of amortization	210,713	223,446
GOODWILL	325,046	325,046
OTHER ASSETS, net of amortization	57,829	58,692
TOTAL ASSETS	$ 5,655,484	$ 5,459,599
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 128,189	$ 140,726
Accrued liabilities	114,030	161,410
Total current liabilities	242,219	302,136
SENIOR SECURED CREDIT FACILITY	1,167,000	1,115,000
SENIOR UNSECURED NOTES	1,811,633	1,807,054
DEFERRED TAX LIABILITIES	24,644	22,586
OTHER LONG-TERM LIABILITIES	227,879	192,072
COMMITMENTS AND CONTINGENCIES (Note 15)		
PARTNERS' CAPITAL:		
Common unitholders, 117,979,218 and 109,979,218 units issued and outstanding at September 30, 2016 and December 31, 2015, respectively	2,190,829	2,029,101
Noncontrolling interests	(8,720)	(8,350)
Total partners' capital	2,182,109	2,020,751
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 5,655,484	$ 5,459,599

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GENESIS ENERGY, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES:				
Offshore pipeline transportation services	89,717	61,388	244,837	63,436
Onshore pipeline transportation services	13,999	19,909	48,400	57,910
Refinery services	45,725	43,332	129,585	135,780
Marine transportation	55,285	60,536	159,930	180,501
Supply and logistics	255,324	387,169	701,688	1,317,891
Total revenues	460,050	572,334	1,284,440	1,755,518
COSTS AND EXPENSES:				
Offshore pipeline transportation operating costs	23,122	17,698	63,732	18,341
Onshore pipeline transportation operating costs	5,003	6,721	17,499	19,874
Refinery services operating costs	25,077	22,363	67,641	75,225
Marine transportation operating costs	38,490	33,869	105,942	100,749
Supply and logistics product costs	230,229	354,331	620,620	1,217,374
Supply and logistics operating costs	17,473	24,585	54,475	73,606
General and administrative	11,212	26,799	34,716	54,852
Depreciation and amortization	54,265	41,170	156,800	96,500
Total costs and expenses	404,871	527,536	1,121,425	1,656,521
OPERATING INCOME	55,179	44,798	163,015	98,997
Equity in earnings of equity investees	12,488	14,260	35,362	48,440
Interest expense	(34,735)	(29,617)	(104,657)	(66,737)
Gain on basis step up on historical interest	—	335,260	—	335,260
Other income/(expense), net	—	—	—	(17,529)
Income before income taxes	32,932	364,701	93,720	398,431
Income tax expense	(949)	(1,292)	(2,959)	(3,142)
NET INCOME	31,983	363,409	90,761	395,289
Net loss (gain) attributable to noncontrolling interests	118	(195)	370	(195)
NET INCOME ATTRIBUTABLE TO GENESIS ENERGY, L.P.	$32,101	$363,214	$91,131	$395,094
NET INCOME PER COMMON UNIT:				
Basic and Diluted	$0.28	$3.38	$0.81	$3.93
WEIGHTED AVERAGE OUTSTANDING COMMON UNITS:				
Basic and Diluted	115,718	107,617	111,906	100,653

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GENESIS ENERGY, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(In thousands)

	Number of Common Units	Partners' Capital	Noncontrolling Interest	Total
Partners' capital, January 1, 2016	109,979	$2,029,101	$ (8,350)	$2,020,751
Net income (loss)	—	91,131	(370)	90,761
Cash distributions to partners	—	(227,454)	—	(227,454)
Issuance of common units for cash, net	8,000	298,051	—	298,051
Partners' capital, September 30, 2016	117,979	$2,190,829	$ (8,720)	$2,182,109

	Number of Common Units	Partners' Capital	Noncontrolling Interest	Total
Partners' capital, January 1, 2015	95,029	$1,229,203	$ —	$1,229,203
Net income	—	395,094	195	395,289
Noncontrolling interest from acquisition	—	—	(6,471)	(6,471)
Cash distributions to partners	—	(186,026)	—	(186,026)
Cash distributions to noncontrolling interests	—	—	(560)	(560)
Issuance of common units for cash, net	14,950	633,759	—	633,759
Partners' capital, September 30, 2015	109,979	$2,072,030	$ (6,836)	$2,065,194

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GENESIS ENERGY, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$90,761	$395,289
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	156,800	96,500
Gain on basis step up on historical interest	—	(335,260)
Amortization of debt issuance costs and discount or premium	7,563	8,467
Amortization of unearned income and initial direct costs on direct financing leases	(10,856)	(11,286)
Payments received under direct financing leases	15,501	15,501
Equity in earnings of investments in equity investees	(35,362)	(48,440)
Cash distributions of earnings of equity investees	49,528	54,463
Non-cash effect of equity-based compensation plans	6,102	6,387
Deferred and other tax liabilities	2,058	2,242
Unrealized loss on derivative transactions	742	68
Other, net	8,967	816
Net changes in components of operating assets and liabilities (Note 12)	(63,407)	7,381
Net cash provided by operating activities	228,397	192,128
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments to acquire fixed and intangible assets	(363,218)	(359,504)
Cash distributions received from equity investees - return of investment	16,652	19,360
Investments in equity investees	—	(2,900)
Acquisitions	(25,394)	(1,517,428)
Contributions in aid of construction costs	12,208	—
Proceeds from asset sales	3,303	2,571
Other, net	185	(2,137)
Net cash used in investing activities	(356,264)	(1,860,038)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on senior secured credit facility	883,600	1,168,850
Repayments on senior secured credit facility	(831,600)	(705,150)
Proceeds from issuance of senior unsecured notes	—	1,139,718
Repayment of senior unsecured notes	—	(350,000)
Debt issuance costs	(1,578)	(28,361)
Issuance of common units for cash, net	298,051	633,759
Distributions to noncontrolling interests	—	(560)
Distributions to common unitholders	(227,454)	(186,026)
Other, net	(600)	1,786
Net cash provided by financing activities	120,419	1,674,016
Net increase (decrease) in cash and cash equivalents	(7,448)	6,106
Cash and cash equivalents at beginning of period	10,895	9,462
Cash and cash equivalents at end of period	$3,447	$15,568

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation and Consolidation
Organization
We are a growth-oriented master limited partnership formed in Delaware in 1996 and focused on the midstream segment of the crude oil and natural gas industry in the Gulf Coast region of the United States, primarily Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida, and in Wyoming and the Gulf of Mexico. We have a diverse portfolio of assets, including pipelines, offshore hub and junction platforms, refinery-related plants, storage tanks and terminals, railcars, rail loading and unloading facilities, barges and other vessels, and trucks. We are owned 100% by our limited partners. Genesis Energy, LLC, our general partner, is a wholly-owned subsidiary. Our general partner has sole responsibility for conducting our business and managing our operations. We conduct our operations and own our operating assets through our subsidiaries and joint ventures. We manage our businesses through the following five divisions that constitute our reportable segments:

- Offshore pipeline transportation and processing of crude oil and natural gas in the Gulf of Mexico;
- Onshore pipeline transportation of crude oil and, to a lesser extent, carbon dioxide (or "CO_2");
- Refinery services involving processing of high sulfur (or “sour”) gas streams for refineries to remove the sulfur, and selling the related by-product, sodium hydrosulfide (or “NaHS”, commonly pronounced "nash");
- Marine transportation to provide waterborne transportation of petroleum products and crude oil throughout North America; and
- Supply and logistics services, which include terminaling, blending, storing, marketing and transporting crude oil and petroleum products and, on a smaller scale, CO_2.

On July 24, 2015, we acquired the offshore pipeline and services business of Enterprise Products Partners, L.P. and its affiliates for approximately $1.5 billion, subject to certain adjustments. That business includes interests in offshore crude oil and natural gas pipelines and six offshore hub platforms that serve some of the most active drilling and development regions in the United States, including deepwater production fields in the Gulf of Mexico offshore Texas, Louisiana, Mississippi and Alabama. That acquisition complements and substantially expands our existing offshore pipelines segment.
Basis of Presentation and Consolidation
The accompanying Unaudited Condensed Consolidated Financial Statements include Genesis Energy, L.P. and its subsidiaries, including our general partner, Genesis Energy, LLC.
Our results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. The Condensed Consolidated Financial Statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they reflect all adjustments (which consist solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial results for interim periods. Certain information and notes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the information contained in the periodic reports we file with the SEC pursuant to the Securities Exchange Act of 1934, including the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.
Except per unit amounts, or as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.
2. Recent Accounting Developments
Recently Issued
In May 2014, the FASB issued revised guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is

that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard provides a five-step analysis for transactions to determine when and how revenue is recognized. The guidance permits the use of either a full retrospective or a modified retrospective approach. In July 2015, the FASB approved a one year deferral of the effective date of this standard to December 15, 2017 for annual reporting periods beginning after that date. The FASB also approved

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early adoption of the standard, but not before the original effective date of December 15, 2016. We are evaluating the transition methods and the impact of the amended guidance on our financial position, results of operations and related disclosures.

In July 2015, the FASB issued guidance modifying the accounting for inventory. Under this guidance, the measurement principle for inventory will change from lower of cost or market value to lower of cost or net realizable value. The guidance defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for reporting periods after December 15, 2016, with early adoption permitted. We do not expect adoption to have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16 in response to stakeholder feedback that restating prior periods to reflect adjustments made to provisional amounts recognized in a business combination adds cost and complexity to financial reporting, but does not significantly improve the usefulness of information provided to users. Under the new ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires that the acquirer present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for reporting periods after December 15, 2015, with early adoption permitted. We have adopted this guidance and it has not had a material impact on our consolidated financial statements.

In February 2016, the FASB issued guidance to improve the transparency and comparability among companies by requiring lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. The guidance also requires additional disclosure about leasing arrangements. The guidance is effective for interim and annual periods beginning after December 15, 2018 and requires a modified retrospective approach to adoption. Early adoption is permitted. We are currently evaluating this guidance.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash flow, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

3. Acquisition and Divestiture

Acquisition

Enterprise Offshore

On July 24, 2015, we acquired the offshore pipeline and services business of Enterprise Products Partners, L.P. and its affiliates for approximately $1.5 billion, subject to certain adjustments. That business includes interests in offshore crude oil and natural gas pipelines and six offshore hub platforms, including a 36% interest in the Poseidon Oil Pipeline System, a 50% interest in the Southeast Keathley Canyon Oil Pipeline System, and a 50% interest in the Cameron Highway Oil Pipeline System. To finance that transaction, in July, we issued 10,350,000 common units in a public offering that generated proceeds of $437.2 million net of underwriter discounts and $750.0 million aggregate principal amount of 6.75% senior unsecured notes due 2022 that generated net proceeds of $728.6 million net of issuance discount and underwriting fees. The remainder of that transaction was financed with borrowings under our senior secured credit facility.

We have reflected the financial results of the acquired business in our Offshore Pipeline Transportation Segment from the date of acquisition. The purchase price has been allocated to the assets acquired and liabilities assumed based on estimated fair values. Those fair values were developed by management with the assistance of a third-party valuation firm. As of the third quarter of 2016, the purchase price allocation for this transaction has been finalized. Our finalized purchase price allocation remains unchanged from what was disclosed in the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Our Consolidated Financial Statements include the results of our acquired offshore pipeline transportation business since July 24, 2015, the closing date of the acquisition. The following table presents selected financial information included in our Consolidated Financial Statements for the periods presented:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Revenues	$ 66,845	181,227
Net income	$ 39,412	103,249

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The table below presents selected unaudited pro forma financial information incorporating the historical results of our newly acquired offshore pipeline transportation assets. The pro forma financial information below has been prepared as if the acquisition had been completed on January 1, 2014 and is based upon assumptions deemed appropriate by us and may not be indicative of actual results. This pro forma information was prepared using historical financial data of the Enterprise offshore pipelines and services businesses and reflects certain estimates and assumptions made by our management. Our unaudited pro forma financial information is not necessarily indicative of what our consolidated financial results would have been had the Enterprise acquisition been completed on January 1, 2014.

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Pro forma consolidated financial operating results:		
Revenues	$ 590,994	$ 1,930,978
Net Income Attributable to Genesis Energy L.P.	372,828	395,529
Basic and diluted earnings per unit:		
As reported net income per unit	$ 3.38	$ 3.93
Pro forma net income per unit	$ 3.39	$ 3.65

4. Inventories

The major components of inventories were as follows:

	September 30, 2016	December 31, 2015
Petroleum products	$ 2,061	$ 14,235
Crude oil	57,035	22,815
Caustic soda	2,867	3,964
NaHS	8,231	2,755
Other	5	6
Total	$ 70,199	$ 43,775

Inventories are valued at the lower of cost or market. The market value of inventories were not below recorded cost as of September 30, 2016 and were below recorded costs by approximately $0.9 million as of December 31, 2015; therefore we reduced the value of inventory in our Condensed Consolidated Financial Statements for this difference in 2015.

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Fixed Assets

Fixed Assets

Fixed assets consisted of the following:

	September 30, 2016	December 31, 2015
Crude oil pipelines and natural gas pipelines and related assets	$ 2,667,221	$ 2,501,821
Machinery and equipment	419,355	414,100
Transportation equipment	18,639	19,025
Marine vessels	842,700	794,508
Land, buildings and improvements	49,465	41,202
Office equipment, furniture and fixtures	9,441	7,540
Construction in progress	653,949	485,575
Other	46,915	46,455
Fixed assets, at cost	4,707,685	4,310,226
Less: Accumulated depreciation	(509,419)	(378,247)
Net fixed assets	$ 4,198,266	$ 3,931,979

Our depreciation expense for the periods presented was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Depreciation expense	$46,909	$33,716	$135,428	$78,265

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Asset Retirement Obligations
We record AROs in connection with legal requirements to perform specified retirement activities under contractual arrangements and/or governmental regulations. As a result of the Enterprise acquisition of the offshore pipeline and services business of Enterprise Products Partners, L.P. on July 24, 2015, we recorded AROs based on the fair value measurement assigned during the preliminary purchase price allocation.
The following table presents information regarding our AROs since December 31, 2015:

ARO liability balance, December 31, 2015	$188,662
AROs arising from the purchase of the remaining interest in Deepwater Gateway	10,470
AROs from the consolidation of historical interest in Deepwater Gateway	10,470
Accretion expense	7,918
Change in estimate	5,609
Settlements	(3,216)
ARO liability balance, September 30, 2016	$219,913

Of the ARO balances disclosed above, $5.2 million and $9.8 million is included as current in "Accrued liabilities" on our Unaudited Condensed Consolidated Balance Sheet as of September 30, 2016 and December 31, 2015, respectively. The remainder of the ARO liability as of September 30, 2016 and December 31, 2015 is included in "Other long-term liabilities" on our Unaudited Condensed Consolidated Balance Sheet.
With respect to our AROs, the following table presents our forecast of accretion expense for the periods indicated:

Remainder of	2016	$2,710
	2017	$9,807
	2018	$8,144
	2019	$8,735
	2020	$9,298

Certain of our unconsolidated affiliates have AROs recorded at September 30, 2016 relating to contractual agreements and regulatory requirements. These amounts are immaterial to our Consolidated Financial Statements.
6. Equity Investees
We account for our ownership in our joint ventures under the equity method of accounting. The price we pay to acquire an ownership interest in a company may exceed or be less than the underlying book value of the capital accounts we acquire. Such excess cost amounts are included within the carrying values of our equity investees. At September 30, 2016 and December 31, 2015, the unamortized excess cost amounts totaled $402.1 million and $414.0 million, respectively. We amortize the excess cost as a reduction in equity earnings in a manner similar to depreciation.
As part of our Enterprise acquisition, we increased our ownership interest in each of Cameron Highway Oil Pipeline Company ("CHOPS") and Southeast Keathley Canyon Pipeline Company, LLC ("SEKCO") from 50% to 100%. Consequently, these entities were reflected as equity investees until July 24, 2015, at which point they became fully consolidated wholly owned subsidiaries.
Also, as part of our Enterprise acquisition, our ownership interest in Poseidon Oil Pipeline Company, LLC ("Poseidon") increased from 28% to 64%. We also acquired a 50% ownership interest in Deepwater Gateway, LLC and a 25.7% interest in Neptune Pipeline Company, LLC. These additional interests are accounted for as equity investments from the acquisition date of July 24, 2015.
In the first quarter of 2016, we purchased the remaining 50% interest in Deepwater Gateway, LLC for approximately $26.0 million (including adjustments for working capital), so we now own 100% of that entity. Consequently, we now consolidate Deepwater Gateway, LLC instead of accounting for our interest under the equity method.

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GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information included in our Unaudited Condensed Consolidated Financial Statements related to our equity investees.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Genesis' share of operating earnings	$ 16,444			