

BLUE DOLPHIN ENERGY CO

Form 10-Q

May 15, 2017

BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 3/31/17

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, 2017

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 No. 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) (Zip Code)

(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 website, 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, a 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.

Large accelerated filer Accelerated filer

Edgar Filing: BLUE DOLPHIN ENERGY CO - Form 10-Q

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

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

Number of shares of common stock, par value \$0.01 per share outstanding as of May 15, 2017: 10,474,714

TABLE OF CONTENTS

GLOSSARY OF SELECTED OIL AND GAS TERMS	3
PART I. FINANCIAL INFORMATION	4
ITEM 1. FINANCIAL STATEMENTS	4
Consolidated Balance Sheets (Unaudited)	4
Consolidated Statements of Operations (Unaudited)	5
Consolidated Statements of Cash Flows (Unaudited)	6
Notes to Consolidated Financial Statements	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	48
ITEM 4. CONTROLS AND PROCEDURES	48
PART II OTHER INFORMATION	49
ITEM 1. LEGAL PROCEEDINGS	49
ITEM 1A. RISK FACTORS	49
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	50
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	50
ITEM 4. MINE SAFETY DISCLOSURES	50
ITEM 5. OTHER INFORMATION	50
ITEM 6. EXHIBITS	52
SIGNATURES	53

GLOSSARY OF SELECTED OIL AND GAS TERMS

The following are abbreviations and definitions of certain commonly used oil and gas industry terms that are used in this Form 10-Q for the quarterly period ended March 31, 2017 (this “Quarterly Report”):

Atmospheric gas oil (“AGO”). The heaviest product boiled by a crude distillation unit operating at atmospheric pressure. This fraction ordinarily sells as distillate fuel oil, either in pure form or blended with cracked stocks. Blended AGO usually serves as the premium quality component used to lift lesser streams to the standards of saleable furnace oil or diesel engine fuel. Certain ethylene plants, called heavy oil crackers, can take AGO as feedstock.

Barrel (“bbl”). One stock tank bbl, or 42 U.S. gallons of liquid volume, used about oil or other liquid hydrocarbons.

Blending. The physical mixture of several different liquid hydrocarbons to produce a finished product with certain desired characteristics. Products can be blended in-line through a manifold system, or batch blended in tanks and vessels. In-line blending of gasoline, distillates, jet fuel and kerosene is accomplished by injecting proportionate amounts of each component into the main stream where turbulence promotes thorough mixing. Additives, including octane enhancers, metal deactivators, anti-oxidants, anti-knock agents, gum and rust inhibitors, and detergents, are added during and/or after blending to result in specifically desired properties not inherent in hydrocarbons.

Barrels per Day (“bpd”). A measure of the bbls of daily output produced in a refinery or transported through a pipeline.

Complexity. A numerical score that denotes, for a given refinery, the extent, capability, and capital intensity of the refining processes downstream of the crude oil distillation unit. The higher a refinery’s complexity, the greater the refinery’s capital investment and number of operating units used to separate feedstock into fractions, improve their quality, and increase the production of higher-valued products. Refinery complexities range from the relatively simple crude oil distillation unit (“topping unit”), which has a complexity of 1.0, to the more complex deep conversion (“coking”) refineries, which have a complexity of 12.0.

Condensate. Liquid hydrocarbons that are produced in conjunction with natural gas. Condensate is chemically more complex than LPG. Although condensate is sometimes like crude oil, it is usually lighter.

Crack Spread. The differential between the price of crude oil and the price of the petroleum products extracted from it.

Crude oil. A mixture of thousands of chemicals and compounds, primarily hydrocarbons. Crude oil quality is measured in terms of density (light to heavy) and sulfur content (sweet to sour). Crude oil must be broken down into its various components by distillation before these chemicals and compounds can be used as fuels or converted to more valuable products.

Depropanizer unit. A distillation column that is used to isolate propane from a mixture containing butane and other heavy components.

Distillates. The result of crude distillation and therefore any refined oil product. Distillate is more commonly used as an abbreviated form of middle distillate. There are mainly four (4) types of distillates: (i) very light oils or light distillates (such as our LPG mix and naphtha), (ii) light oils or middle distillates (such as our jet fuel), (iii) medium oils, and (iv) heavy oils (such as our low-sulfur diesel and heavy oil-based mud blendstock (“HOBM”), reduced crude, and AGO).

Distillation. The first step in the refining process whereby crude oil and condensate is heated at atmospheric pressure in the base of a distillation tower. As the temperature increases, the various compounds vaporize in succession at their various boiling points and then rise to prescribed levels within the tower per their densities, from lightest to heaviest. They then condense in distillation trays and are drawn off individually for further refining. Distillation is also used at other points in the refining process to remove impurities. Lighter products produced in this process can be further refined in a catalytic cracking unit or reforming unit. Heavier products, which cannot be vaporized and separated in this process, can be further distilled in a vacuum distillation unit or coker.

Distillation tower. A tall column-like vessel in which crude oil and condensate is heated and its vaporized components distilled by means of distillation trays.

Feedstocks. Crude oil and other hydrocarbons, such as condensate and/or intermediate products, that are used as basic input materials in a refining process. Feedstocks are transformed into one or more finished products.

Finished petroleum products. Materials or products which have received the final increments of value through processing operations, and which are being held in inventory for delivery, sale, or use.

Intermediate petroleum products. A petroleum product that might require further processing before it is saleable to the ultimate consumer. This further processing might be done by the producer or by another processor. Thus, an intermediate petroleum product might be a final product for one company and an input for another company that will process it further.

Jet fuel. A high-quality kerosene product primarily used in aviation. Kerosene-type jet fuel (including Jet A and Jet A-1) has a carbon number distribution between about 8 and 16 carbon atoms per molecule; wide-cut or naphtha-type jet fuel (including Jet B) has between about 5 and 15 carbon atoms per molecule.

Kerosene. A middle distillate fraction of crude oil that is produced at higher temperatures than naphtha and lower temperatures than gas oil. It is usually used as jet turbine fuel and sometimes for domestic cooking, heating, and lighting.

Leasehold interest. The interest of a lessee under an oil and gas lease.

Light crude. A liquid petroleum that has a low density and flows freely at room temperature. It has a low viscosity, low specific gravity, and a high American Petroleum Institute gravity due to the presence of a high proportion of light hydrocarbon fractions.

Liquefied petroleum gas (“LPG”). Manufactured during the refining of crude oil and condensate; burns relatively cleanly with no soot and very few sulfur emissions.

MMcf. One million cubic feet; a measurement of gas volume only.

Naphtha. A refined or partly refined light distillate fraction of crude oil. Blended further or mixed with other materials it can make high-grade motor gasoline or jet fuel. It is also a generic term applied to the lightest and most volatile petroleum fractions.

Petroleum. A naturally occurring flammable liquid consisting of a complex mixture of hydrocarbons of various molecular weights and other liquid organic compounds. The name petroleum covers both the naturally occurring unprocessed crude oils and petroleum products that are made up of refined crude oil.

Product Slate. Represents the type and quality of products produced.

Propane. A by-product of natural gas processing and petroleum refining. Propane is one of a group of LPGs. The others include butane, propylene, butadiene, butylene, isobutylene and mixtures thereof. (See also definition of LPG.)

Refined petroleum products. Refined petroleum products are derived from crude oil and condensate that have been processed through various refining methods. The resulting products include gasoline, home heating oil, jet fuel, diesel, lubricants and the raw materials for fertilizer, chemicals, and pharmaceuticals.

Refinery. Within the oil and gas industry, a refinery is an industrial processing plant where crude oil and condensate is separated and transformed into petroleum products.

Sour crude. Crude oil containing sulfur content of more than 0.5%.

Stabilizer unit. A distillation column intended to remove the lighter boiling compounds, such as butane or propane, from a product.

Sweet crude. Crude oil containing sulfur content of less than 0.5%.

Sulfur. Present at various levels of concentration in many hydrocarbon deposits, such as petroleum, coal, or natural gas. Also, produced as a by-product of removing sulfur-containing contaminants from natural gas and petroleum. Some of the most commonly used hydrocarbon deposits are categorized per their sulfur content, with lower sulfur fuels usually selling at a higher, premium price and higher sulfur fuels selling at a lower, or discounted, price.

Topping unit. A type of petroleum refinery that engages in only the first step of the refining process -- crude distillation. A topping unit uses atmospheric distillation to separate crude oil and condensate into constituent petroleum products. A topping unit has a refinery complexity range of 1.0 to 2.0.

Throughput. The volume processed through a unit or a refinery or transported through a pipeline.

Turnaround. Scheduled large-scale maintenance activity wherein an entire process unit is taken offline for a week or more for comprehensive revamp and renewal.

Yield. The percentage of refined petroleum products that is produced from crude oil and other feedstocks.

BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 3/31/17

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets (Unaudited)

	March 31,	December 31,
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$-	\$1,152,628
Restricted cash	2,756,713	3,347,835
Accounts receivable, net	206,235	2,022,166
Accounts receivable, related party	-	1,161,589
Prepaid expenses and other current assets	1,600,432	1,046,191
Deposits	138,957	138,957
Inventory	4,409,954	2,075,538
Total current assets	9,112,291	10,944,904
Total property and equipment, net	63,904,532	62,324,463
Restricted cash, noncurrent	765,092	1,582,305
Surety bonds	230,000	205,000
Trade name	303,346	303,346
Total long-term assets	65,202,970	64,415,114
TOTAL ASSETS	\$74,315,261	\$75,360,018
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$13,231,591	14,552,383
Accounts payable, related party	520,800	369,600

Edgar Filing: BLUE DOLPHIN ENERGY CO - Form 10-Q

Notes payable	89,660	-
Asset retirement obligations, current portion	17,510	17,510
Accrued expenses and other current liabilities	2,243,753	1,281,582
Interest payable, current portion	2,220,840	323,756
Long-term debt less unamortized debt issue costs, current portion	32,570,879	31,712,336
Long-term debt, related party, current portion	500,000	500,000
Total current liabilities	51,395,033	48,757,167
Long-term liabilities:		
Asset retirement obligations, net of current portion	2,081,973	2,010,129
Deferred revenues and expenses	72,966	83,390
Long-term debt less unamortized debt issue costs, net of current portion	-	1,300,000
Long-term debt, related party, net of current portion	5,911,980	4,814,690
Long-term interest payable, net of current portion	-	1,691,383
Total long-term liabilities	8,066,919	9,899,592
TOTAL LIABILITIES	59,461,952	58,656,759
Commitments and contingencies (Note 19)		
STOCKHOLDERS' EQUITY		
Common stock (\$0.01 par value, 20,000,000 shares authorized; 10,624,714 shares issued at March 31, 2017 and December 31, 2016, respectively)	106,248	106,248
Additional paid-in capital	36,818,528	36,818,528
Accumulated deficit	(21,271,467)	(19,421,517)
Treasury stock, 150,000 shares at cost	(800,000)	(800,000)
Total stockholders' equity	14,853,309	16,703,259
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$74,315,261	\$75,360,018

See accompanying notes to consolidated financial statements.

BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 3/31/17

Consolidated Statements of Operations (Unaudited)

	2017	2016
REVENUE FROM OPERATIONS		
Refined petroleum product sales	\$51,902,038	\$31,193,137
Tank rental revenue	703,711	291,487
Other operations	-	27,652
Total revenue from operations	52,605,749	31,512,276
COST OF OPERATIONS		
Cost of refined products sold	51,774,502	30,993,477
Refinery operating expenses	2,813,103	3,437,015
Joint Marketing Agreement profit share	-	(671,092)
Other operating expenses	60,844	93,942
General and administrative expenses	906,090	357,004
Depletion, depreciation and amortization	451,025	440,453
Bad debt recovery	-	(139,868)
Accretion expense	71,844	28,186
Total cost of operations	56,077,408	34,539,117
Loss from operations	(3,471,659)	(3,026,841)
OTHER INCOME (EXPENSE)		
Easement, interest and other income	381,993	131,763
Interest and other expense	(594,784)	(419,907)
Gain on disposal of property	1,834,500	-
Total other expense	1,621,709	(288,144)
Loss before income taxes	(1,849,950)	(3,314,985)
Income tax benefit	-	1,165,901
Net loss	\$(1,849,950)	\$(2,149,084)
Loss per common share:		
Basic	\$(0.18)	\$(0.21)
Diluted	\$(0.18)	\$(0.21)

Weighted average number of common shares outstanding:

Edgar Filing: BLUE DOLPHIN ENERGY CO - Form 10-Q

Basic	10,474,714	10,457,794
Diluted	10,474,714	10,457,794

See accompanying notes to consolidated financial statements.

BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 3/31/17

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March
31,

2017 2016

OPERATING ACTIVITIES

Net loss	\$(1,849,950)	\$(2,149,084)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depletion, depreciation and amortization	451,025	440,453
Unrealized gain on derivatives	-	(1,374,040)
Deferred tax benefit	-	(1,165,901)
Amortization of debt issue costs	32,121	32,122
Accretion of asset retirement obligations	71,844	28,186
Common stock issued for services	-	20,000
Recovery of bad debt		