

AZURE MIDSTREAM PARTNERS, LP
Form 10-Q
November 02, 2016

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, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Azure Midstream Partners, LP

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

001-36018
Commission file number

46-2627595
(I.R.S. Employer
Identification
Number)

12377 Merit Drive
Suite 300
Dallas, Texas
(Address of principal executive offices)

75251
(Zip Code)

(972) 674-5200
(Registrant's telephone number, including area code)

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

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

Accelerated filer

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

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had the following number of units outstanding as of November 2, 2016:

Class	Units Outstanding
Common Units	11,284,341

AZURE MIDSTREAM PARTNERS, LP

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GLOSSARY OF TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q (“Quarterly Report”):

Bbls: One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bbls/d: Stock tank barrel per day.

Bbls/hr: Stock tank barrel per hour.

Condensate: A natural gas liquid with a low vapor pressure, mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

Crude oil: A mixture of hydrocarbons that exists in liquid phase in underground reservoirs.

Dry gas: A natural gas primarily composed of methane and ethane where heavy hydrocarbons and water either do not exist or have been removed through processing.

End-user markets: The ultimate users and consumers of transported energy products.

EUR: Estimated ultimate recovery.

GPM: Gallons per Mcf.

Mcf: One thousand cubic feet.

MMBtu: One million British Thermal Units.

MMcf: One million cubic feet.

MMcf/d: One million cubic feet per day.

Natural gas liquids, or NGLs: The combination of ethane, propane, normal butane, isobutane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

Residue gas: The dry gas remaining after being processed or treated.

Tailgate: Refers to the point at which processed natural gas and natural gas liquids leave a processing facility for end-user markets.

Throughput: The volume of natural gas transported or passing through a pipeline, plant, terminal or other facility during a particular period.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made in this Quarterly Report and may from time to time otherwise make in other public filings, press releases and discussions by management, forward-looking statements concerning our operations, economic performance and financial condition. These statements can be identified by the use of forward-looking terminology including “may,” “will,” “believe,” “expect,” “anticipate,” “estimate,” “continue,” or other similar words. These statements discuss future expectations, contain projections of results of operations or financial condition or include other “forward-looking” information. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will be realized. These forward-looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following risks and uncertainties:

- the volatility of natural gas, crude oil and NGL prices and the price and demand for products derived from these commodities, particularly in the current depressed energy price environment, which has the potential for further deterioration and has resulted in a material reduction in oil and gas exploration, development and production;
- the volume of natural gas we gather and process and the volume of NGLs we transport;
- the volume of crude oil that we transload;
- the level of production of crude oil and natural gas and the resultant market prices of crude oil, natural gas and NGLs;
- the level of competition from other midstream natural gas companies and crude oil logistics companies in our geographic markets and industry;
- the level of our operating expenses;
- regulatory action affecting the supply of, or demand for, crude oil and natural gas, the transportation rates we can charge on our pipelines, how we contract for services, our existing contracts, our operating costs and our operating flexibility;
- the effects of existing and future laws and governmental regulations;
- the effects of future litigation;
- capacity charges and volumetric fees that we pay for NGL fractionation services;

- realized pricing impacts on our revenues and expenses that are directly subject to commodity price exposure;
- the creditworthiness and performance of our customers, suppliers and contract counterparties, and any material nonpayment or non-performance by one or more of these parties;
- damage to pipelines, facilities, plants, related equipment and surrounding properties, including damage to third-party pipelines or facilities upon which we rely for transportation services, caused by hurricanes, earthquakes, floods, fires, severe weather, casualty losses, explosions and other natural disasters and acts of terrorism;
- outages at the processing or fractionation facilities owned by us or third parties caused by mechanical failure and maintenance, construction and other similar activities;
- actions taken by third-party operators, processors and transporters;

- leaks or accidental releases of products or other materials into the environment, whether as a result of human error or otherwise;
- the level and timing of our expansion capital expenditures and our maintenance capital expenditures;
- the cost of acquisitions, if any;
- the level of our general and administrative expenses, including reimbursements to our General Partner and its affiliates for services provided to us;
- our level of indebtedness, debt service requirements, liquidity, compliance with our debt covenants and our ability to continue as a going concern;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions contained in our debt agreements;
- the amount of cash reserves established by our General Partner; and
- other business risks affecting our cash levels.

The risk factors and other factors noted throughout or incorporated by reference in this report could cause our actual results to differ materially from those contained in any forward-looking statement. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

AZURE MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except number of units)

	(unaudited)	
	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,154	\$ 7,511
Accounts receivable, net	5,093	5,887
Accounts receivable—affiliates	522	5,148
Other current assets	247	339
Total current assets	17,016	18,885
Property, plant, and equipment, net	358,233	485,155
Intangible assets, net	—	59,583
Other assets	282	341
TOTAL ASSETS	\$ 375,531	\$ 563,964
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,492	\$ 6,218
Accounts payable—affiliates	—	96
Current portion of long-term debt, net of deferred borrowing costs	171,943	—
Total current liabilities	178,435	6,314
Long-term liabilities:		
Long-term debt, net of deferred borrowing costs	—	228,474
Deferred income taxes	946	1,104
Other long-term liabilities	—	11,625
Total liabilities	179,381	247,517
Commitments and contingencies (Note 10)		
Partners' capital:		
Common units (13,223,606 issued and 11,284,341 outstanding as of September 30, 2016 and 13,044,654 issued and outstanding as of December 31, 2015)	67,321	127,292
Subordinated units (8,724,545 issued and 0 outstanding as of September 30, 2016 and 8,724,545 issued and outstanding as of December 31, 2015)	70,203	114,807
Treasury units (1,939,265 common units, 8,724,545 subordinated units and 10 IDR Units as of September 30, 2016)	(13,745)	—

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General partner interest	3,160	5,137
Incentive distribution rights (100 issued and 90 outstanding as of September 30, 2016 and 100 issued and outstanding as of December 31, 2015)	69,211	69,211
Total partners' capital	196,150	316,447
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$ 375,531	\$ 563,964

See the accompanying notes to the condensed consolidated financial statements.

AZURE MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except unit and per unit data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues:				
Natural gas, NGLs and condensate revenue	\$ 4,752	\$ 5,677	\$ 12,587	\$ 16,998
Natural gas, NGLs and condensate revenue—affiliates	673	(50)	1,971	655
Gathering, processing, transloading and other fee revenue	23,772	7,076	37,486	23,340
Gathering, processing, transloading and other fee revenue—affiliates	306	8,495	978	20,257
Total operating revenues				