

Cypress Energy Partners, L.P.  
Form 10-Q  
August 14, 2018

**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, 2018**

**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**

(State of or other jurisdiction of  
incorporation or organization)

**61-1721523**

(I.R.S. Employer  
Identification No.)

**5727 South Lewis Avenue, Suite 300**

**Tulsa, Oklahoma**

(Address of principal executive offices)

**74105**

(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, 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. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
			(Do not check if a smaller reporting 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

As of August 7, 2018, the registrant had 11,933,522 common units outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:** None.

**CYPRESS ENERGY PARTNERS, L.P.**

**Table of Contents**

	Page
 <b><u>PART I – FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1. Condensed Consolidated Financial Statements</u></b>	5
<u>Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u>	5
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2018 and 2017</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2018 and 2017</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u>	8
<u>Condensed Consolidated Statement of Owners' Equity for the Six Months Ended June 30, 2018</u>	9
<u>Notes to the Condensed Consolidated Financial Statements</u>	10
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	25
<b><u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>	48
<b><u>ITEM 4. Controls and Procedures</u></b>	49
 <b><u>PART II – OTHER INFORMATION</u></b>	
<b><u>ITEM 1. Legal Proceedings</u></b>	49
<b><u>ITEM 1A. Risk Factors</u></b>	50
<b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	50
<b><u>ITEM 3. Defaults upon Senior Securities</u></b>	50
<b><u>ITEM 4. Mine Safety Disclosures</u></b>	50

<u>ITEM 5. Other Information</u>	50
<u>ITEM 6. Exhibits</u>	51
<b><u>SIGNATURES</u></b>	52

## 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:

“*Brown*” refers to Brown Integrity, LLC, a 51% owned subsidiary of CEP LLC;

“*CEP LLC*” refers to Cypress Energy Partners, LLC, a wholly-owned subsidiary of the Partnership;

“*CF Inspection*” refers to CF Inspection Management, LLC, owned 49% by TIR-PUC and consolidated under generally accepted accounting principles by TIR-PUC. CF Inspection is 51% owned, managed and controlled by Cynthia A. Field, an affiliate of Holdings;

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

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

“*Holdings II*” refers to Cypress Energy Holdings II, LLC, the owner of 5,610,549 common units, representing 47.0% of our outstanding common units;

“*Integrity Services*” refers to our Integrity Services business segment;

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

“*Pipeline Inspection*” refers to our Pipeline Inspection business segment;

“*TIR Entities*” refer collectively to TIR LLC, TIR-Canada, TIR-NDE, TIR-PUC and CF Inspection;

“*TIR LLC*” refers to Tulsa Inspection Resources, LLC, a wholly-owned subsidiary of CEP LLC;

“*TIR-Canada*” refers to Tulsa Inspection Resources – Canada ULC, a wholly-owned subsidiary of CEP LLC;

“*TIR-NDE*” refers to Tulsa Inspection Resources – Nondestructive Examination, LLC, a wholly-owned subsidiary of CEP LLC;

“*TIR-PUC*” refers to Tulsa Inspection Resources – PUC, LLC, a subsidiary of TIR LLC that has elected to be treated as a corporation for federal income tax purposes; and

“*Water Services*” refers to our Water and Environmental Services business segment.

## 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, 2017 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.



**PART I. FINANCIAL INFORMATION****ITEM 1. Unaudited Condensed Consolidated Financial Statements****CYPRESS ENERGY PARTNERS, L.P.****Unaudited Condensed Consolidated Balance Sheets****As of June 30, 2018 and December 31, 2017***(in thousands, except unit data)*

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,499	\$ 24,508
Trade accounts receivable, net	47,692	41,693
Prepaid expenses and other	1,040	2,294
Assets held for sale	—	2,172
Total current assets	59,231	70,667
Property and equipment:		
Property and equipment, at cost	23,057	22,700
Less: Accumulated depreciation	9,991	9,312
Total property and equipment, net	13,066	13,388
Intangible assets, net	24,114	25,477
Goodwill	50,344	53,435
Debt issuance costs, net	1,498	—
Other assets	266	236
Total assets	\$ 148,519	\$ 163,203
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,404	\$ 3,757
Accounts payable - affiliates	3,966	3,173
Accrued payroll and other	11,163	9,109
Liabilities held for sale	—	97
Income taxes payable	346	646
Current portion of long-term debt	—	136,293
Total current liabilities	18,879	153,075
Long-term debt	76,129	—

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Asset retirement obligations	142	143
Total liabilities	95,150	153,218
Commitments and contingencies - Note 8		
Owners' equity:		
Partners' capital:		
Common units (11,933,522 and 11,889,958 units outstanding at June 30, 2018 and December 31, 2017, respectively)	33,852	34,614
Preferred units (5,769,231 units outstanding at June 30, 2018)	43,636	—
General partner	(25,876 )	(25,876 )
Accumulated other comprehensive loss	(2,545 )	(2,677 )
Total partners' capital	49,067	6,061
Noncontrolling interests	4,302	3,924
Total owners' equity	53,369	9,985
Total liabilities and owners' equity	\$ 148,519	\$ 163,203

*See accompanying notes.*

## CYPRESS ENERGY PARTNERS, L.P.

## Unaudited Condensed Consolidated Statements of Operations

For the Three and Six Months Ended June 30, 2018 and 2017

(in thousands, except unit and per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	\$76,468	\$74,567	\$141,294	\$139,289
Costs of services	65,525	65,958	122,222	124,351
Gross margin	10,943	8,609	19,072	14,938
Operating costs and expense:				
General and administrative	5,822	5,329	11,277	10,439
Depreciation, amortization and accretion	1,110	1,206	2,244	2,377
Impairments	—	—	—	3,598
Gain on asset disposals, net	(1,606 )	(113 )	(3,315 )	(113 )
Operating income (loss)	5,617	2,187	8,866	(1,363 )
Other (expense) income:				
Interest expense, net	(1,668 )	(1,795 )	(3,624 )	(3,504 )
Debt issuance cost write-off	(114 )	—	(114 )	—
Foreign currency gains (losses)	(117 )	267	(451 )	267
Other, net	125	60	207	105
Net income (loss) before income tax expense	3,843	719	4,884	(4,495 )
Income tax expense (benefit)	287	222	368	(71 )
Net income (loss)	3,556	497	4,516	(4,424 )
Net income (loss) attributable to noncontrolling interests	149	(133 )	384	(1,298 )
Net income (loss) attributable to partners / controlling interests	3,407	630	4,132	(3,126 )
Net loss attributable to general partner	—	(829 )	—	(1,750 )
Net income (loss) attributable to limited partners	3,407	1,459	4,132	(1,376 )
Net income attributable to preferred unitholder	367	—	367	—
Net income (loss) attributable to common unitholders	\$3,040	\$1,459	\$3,765	\$(1,376 )
Net income (loss) per common limited partner unit:				
Basic	\$0.25	\$0.12	\$0.32	\$(0.13 )
Diluted	\$0.24	\$0.12	\$0.31	\$(0.13 )

Weighted average common units outstanding: