

PLAINS ALL AMERICAN PIPELINE LP
Form 10-Q
August 04, 2006

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 June 30, 2006

OR

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

Commission file number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0582150
(I.R.S. Employer
Identification No.)

333 Clay Street, Suite 1600, Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

(713) 646-4100

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Edgar Filing: PLAINS ALL AMERICAN PIPELINE LP - Form 10-Q

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

At August 2, 2006, there were outstanding 80,994,178 Common Units.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>		3
<u>Item 1.</u>	<u>UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS:</u>	3
	<u>Consolidated Balance Sheets: June 30, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statements of Operations: For the three months and six months ended June 30, 2006 and 2005</u>	4
	<u>Consolidated Statements of Cash Flows: For the six months ended June 30, 2006 and 2005</u>	5
	<u>Consolidated Statement of Partners' Capital: For the six months ended June 30, 2006</u>	6
	<u>Consolidated Statements of Comprehensive Income: For the three months and six months ended June 30, 2006 and 2005</u>	7
	<u>Consolidated Statement of Changes in Accumulated Other Comprehensive Income: For the six months ended June 30, 2006</u>	7
	<u>Notes to the Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
<u>Item 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	36
<u>Item 4.</u>	<u>CONTROLS AND PROCEDURES</u>	36
<u>PART II. OTHER INFORMATION</u>		38
<u>Item 1.</u>	<u>LEGAL PROCEEDINGS</u>	38
<u>Item 1A.</u>	<u>RISK FACTORS</u>	38
<u>Item 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	41
<u>Item 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	41
<u>Item 4.</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	41
<u>Item 5.</u>	<u>OTHER INFORMATION</u>	41
<u>Item 6.</u>	<u>EXHIBITS</u>	42
<u>SIGNATURES</u>		44

PART I. FINANCIAL INFORMATION**Item 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in millions, except units)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7.6	\$ 9.6
Trade accounts receivable and other receivables, net	1,917.2	781.0
Inventory	1,155.9	910.3
Other current assets	95.7	104.3
Total current assets	3,176.4	1,805.2
PROPERTY AND EQUIPMENT	2,450.9	2,116.1
Accumulated depreciation	(303.4)	(258.9)
	2,147.5	1,857.2
OTHER ASSETS		
Pipeline linefill in owned assets	200.4	180.2
Inventory in third party assets	80.4	71.5
Investment in PAA/Vulcan Gas Storage, LLC	124.4	113.5
Goodwill	179.6	47.4
Other, net	109.6	45.3
Total assets	\$ 6,018.3	\$ 4,120.3
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,850.8	\$ 1,293.6
Due to related parties	0.2	6.8
Short-term debt	1,188.5	378.4
Other current liabilities	139.9	114.5
Total current liabilities	3,179.4	1,793.3
LONG-TERM LIABILITIES		
Long-term debt under credit facilities and other	58.4	4.7
Senior notes, net of unamortized discount of \$3.3 and \$3.0, respectively	1,196.7	947.0
Other long-term liabilities and deferred credits	57.7	44.6
Total liabilities	4,492.2	2,789.6
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
PARTNERS CAPITAL		
Common unitholders (77,273,248 and 73,768,576 units outstanding at June 30, 2006 and December 31, 2005, respectively)	1,485.6	1,294.1
General partner	40.5	36.6
Total partners capital	1,526.1	1,330.7

\$	6,018.3	\$	4,120.3
----	---------	----	---------

The accompanying notes are an integral part of these consolidated financial statements.

3

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
REVENUES				
Crude oil and LPG sales (includes buy/sell transactions of \$3,706.1 million in the three months ended June 30, 2005 and \$4,717.7 million and \$7,125.2 million in the six months ended June 30, 2006 and 2005, respectively)	\$ 4,635.8	\$ 6,919.5	\$ 13,007.8	\$ 13,337.3
Other gathering, marketing, terminalling and storage revenues	19.2	11.3	35.7	19.5
Pipeline margin activities revenues (includes buy/sell transactions of \$40.0 million in the three months ended June 30, 2005 and \$45.3 million and \$73.6 million in the six months ended June 30, 2006 and 2005, respectively)	173.8	174.9	367.7	332.5
Pipeline tariff activities revenues	63.6	55.0	116.6	109.9
Total revenues	4,892.4	7,160.7	13,527.8	13,799.2
			236	--
Gain on sale of land	--	--	--	(172,352)
Total cost, expenses and (gains)	193,207	154,206	507,014	273,767
Income (loss) from operations	16,836	199,025	130,985	607,700
Other Income:				
Interest income	12,398	5,427	30,749	14,756
Net other income	12,398	5,427	30,749	14,756
Income (loss) before income taxes	29,234	204,452	161,734	622,456
Federal and State Income Taxes:				
Current	1,605	65,736	31,741	130,001
Deferred	6,258	--	6,258	68,341
Total income taxes	7,863	65,736	37,999	198,342
Net Income	\$ 21,371	\$ 138,716	\$ 123,735	\$ 424,114
Per Common Stock, basic and diluted				
Net Income	\$ 0.01	\$ 0.07	\$ 0.06	\$ 0.22
Dividends	\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.10
Weighted Average Common Shares Outstanding, basic and diluted	1,942,495	1,942,495	1,942,495	1,942,495

The accompanying notes are an integral part of these unaudited financial statements.

2

CKX Lands, Inc.**Statements of Changes in Stockholders' Equity****Nine Months Ended September 30, 2016 and 2015****(Unaudited)**

	Total	Retained Earnings	Capital Stock Issued	Treasury Stock
<u>Nine Months Ended September 30, 2016</u>				
December 31, 2015 Balance	\$ 13,809,767	\$ 13,750,432	\$ 59,335	\$--
Net income	123,735	123,735	--	--
Dividends reversion	6,507	6,507	--	--
September 30, 2016 Balance	\$ 13,940,009	\$ 13,880,674	\$ 59,335	\$--
<u>Nine Months Ended September 30, 2015</u>				
December 31, 2014 Balance	\$ 13,540,989	\$ 13,844,249	\$ 72,256	\$(375,516)
Net income	424,114	424,114	--	--
Dividends paid	(194,250)	(194,250)	--	--
September 30, 2015 Balance	\$ 13,770,853	\$ 14,074,113	\$ 72,256	\$(375,516)

The accompanying notes are an integral part of these unaudited financial statements.

CKX Lands, Inc.**Statements of Cash Flows****Nine Months Ended September 30, 2016 and 2015****(Unaudited)**

	2016	2015
Cash Flows from Operating Activities:		
Net Income	\$123,735	\$424,114
Less non-cash expenses included in net income:		
Depreciation, depletion and amortization	1,987	--
Deferred income tax expense	6,257	68,341
Gain on sale of land	--	(172,352)
Change in operating assets and liabilities:		
Increase in current assets	(33,898)	34,002
Increase in current liabilities	85,025	94,547
Net cash provided from operating activities	183,106	448,652
Cash Flows from Investing Activities:		
Certificates of deposit:		
Purchases	(1,690,000)	(2,124,000)
Maturity proceeds	1,920,000	1,920,000
Land, timber, equipment, and other assets:		
Purchases	(2,401,040)	(287,517)
Sales proceeds	--	185,623
Net cash provided from investing activities	(2,171,040)	(305,894)
Cash Flows from Financing Activities:		
Dividends reversion (paid)	6,507	(194,250)
Net cash from (used in) financing activities	6,507	(194,250)
Net increase in cash and cash equivalents	(1,981,427)	(51,492)
Cash and cash equivalents:		
Beginning	2,767,424	5,225,594
Ending	\$785,997	\$5,174,102

Supplemental disclosures of cash flow information:**Cash payments (refunds) for:**

Interest	\$--	\$--
Income taxes	\$35,571	\$33,576

The accompanying notes are an integral part of these unaudited financial statements.

CKX Lands, Inc.

Notes to Financial Statements

September 30, 2016

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited financial statements of CKX Lands, Inc. (“Company”) have been prepared in accordance with United States generally accepted accounting principles for interim financial information. They do not include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. Except as described herein, there has been no material change in the information disclosed in the notes to the financial statements included in our financial statements as of and for the year ended December 31, 2015. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements.

Interim results are not necessarily indicative of results for a full year. These financial statements and accompanying notes should be read in conjunction with the Company’s Form 10-K for the year ended December 31, 2015 and Form 10-Q for the quarter period ended September 30, 2015.

Note 2: Income Taxes

In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in federal and state income tax returns for the tax years that remain subject to examination, generally three years after filing. The Company believes that all filing positions are highly certain and that all income tax filing positions and deductions would be sustained upon a taxing jurisdiction’s audit. Therefore, no reserve for uncertain tax positions is required. No interest or penalties have been levied against the Company and none are anticipated.

Note 3. Company Operations

The Company’s operations are classified into three principal operating segments that are all located in the United States: oil and gas, timber and surface. The Company’s reportable business segments are strategic business units that offer income from different products all of which are derived from the Company lands. They are managed separately due to the unique aspects of each area.

Following is a summary of segmented operations information for the nine months ended September 30, 2016 and 2015, respectively:

	2016	2015
Revenues:		
Oil and Gas	\$ 359,951	\$ 672,986
Timber	125,860	19,447
Surface	152,188	189,034
Total	637,999	881,467
Cost and Expenses:		
Oil and Gas	36,059	58,570
Timber	10,978	670
Surface	2,459	4,266
Total	49,496	63,506
Income from Operations:		
Oil and Gas	323,892	614,416
Timber	114,882	18,777
Surface	149,729	184,768
Total	588,503	817,961
Other Expense before Income Taxes:	(426,769)	(195,505)
Income before Income Taxes	161,734	622,456

CKX Lands, Inc.**Notes to Financial Statements****September 30, 2016****(Unaudited)**

Note 3. Company Operations (continued)

Identifiable Assets, net of accumulated depreciation:

Oil and Gas	\$--	\$--
Timber	2,064,058	1,546,088
Surface	--	--
General Corporate Assets	12,314,402	12,610,848
Total	14,378,460	14,156,936

Capital Expenditures:

Oil and Gas	--	--
Timber	519,721	21,535
Surface	--	--
General Corporate Assets:	1,881,319	265,982
Total	2,401,040	287,517

Depreciation and Depletion:

Oil and Gas	--	--
Timber	1,751	--
Surface	236	--
General Corporate Assets	--	--
Total	\$ 1,987	\$--

There are no intersegment sales reported in the accompanying income statements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Form 10-K for the year ended December 31, 2015. The Company evaluates performance based on income or loss from operations before income taxes excluding any nonrecurring gains and losses on securities held available-for-sale. Income before income tax represents net revenues less costs and expenses less other income and expenses of a general corporate nature. Identifiable assets by segment are those assets used solely in the Company's operations within that segment.

Revenue from customers representing 5% or more of total revenue for the nine months ended September 30, 2016 and 2015, respectively are:

Count	2016	2015
1	\$112,835	\$137,065
2	97,135	96,728
3	63,449	93,755
4	52,063	73,616
5	51,020	63,890
6	47,666	63,826
7	--	56,487
8	--	45,195

6

CKX Lands, Inc.**Notes to Financial Statements****September 30, 2016****(Unaudited)**

Note 4: Land Purchases and Sales

Purchases

During the nine months ended September 30, 2016, the Company purchased the following 100% interest in approximate acres, land, timber and mineral rights:

Quarter	Acres	Louisiana Parish	Timber	Land	Mineral Rights %	
1 st	40	Beauregard	\$ 10,000	\$ 59,638	0.00	%
2 nd	129	Beauregard	\$ 34,200	\$ 198,874	50.00	%
3 rd	880	Calcasieu	\$ 408,000	\$ 1,519,021	50.00	%
3 rd	80	Calcasieu	\$ 58,000	\$ 74,895	100.00	%

During the nine months ended September 30, 2015, the Company purchased the following 100% interest in approximate acres, land, timber and mineral rights:

Quarter	Acres	Louisiana Parish	Timber	Land	Mineral Rights %	
3 rd	200	Natchitoches	\$ --	\$265,982	50.00	%

1031 exchange proceeds of \$187,500, discussed below, were applied to purchase of the 200 acres in Natchitoches parish, Louisiana.

Sales

During the second quarter of 2015, the Company sold its 1/6th interest in approximately 155 acres of land located in Jefferson Davis Parish for \$187,500 and reported a gain of \$170,853. This transaction was structured as a “deferred exchange using a qualified intermediary” pursuant to Paragraph 1031 of the Internal Revenue Code (1031 Exchange) for income tax purposes. Due to the 1031 exchange, the gain of \$170,853 is deferred for income tax purposes. At September 30, 2015, the 1031 exchange has been completed and \$187,500 in proceeds was used for the purchase of the 200 acres in Natchitoches Parish, Louisiana discussed above.

Note 5: Subsequent Event – Related Party Transaction

On October 16, 2016, the Company entered into a memorandum of understanding (“MOU”) with Stream Wetlands Services, LLC (“Stream”). Under the terms of the MOU, Stream paid the Company \$37,667 for a non-exclusive right to evaluate and market certain lands owned by the Company to their client for beneficial use purposes to compensate for wetlands impact. This non-exclusive right terminates in 6 months. If Stream is chosen to perform their client’s project, the Company has agreed to put forth its best efforts to negotiate and enter into a mutually acceptable lease form. Due to the uncertainty of the contract award and project scope, we are unable to estimate the potential financial benefit, if any, to the Company. William Gray Stream, Company Director, is the president of Stream Wetlands Services, LLC.

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS**

Results of Operations

Revenue

Comparison of Revenues for the nine months ended September 30, 2016 and 2015 follows:

	2016	2015	\$ Change	% Change
Oil and Gas	359,951	672,986	(313,035)	(46.51%)
Timber	125,860	19,447	106,413	547.19%
Surface	152,188	189,034	(36,846)	(19.49%)
Total	637,999	881,467	(243,468)	(27.62%)

Oil and Gas

CKX leases its property to oil and gas operators and collects income through its land ownership in the form of oil and gas royalties and lease rentals revenues. A breakdown of oil and gas revenues follows:

	2016	2015	\$ Change	% Change
Oil	265,950	505,614	(239,664)	(47.40%)
Gas	86,846	156,993	(70,147)	(44.68%)
Lease	7,155	10,379	(3,224)	(31.06%)
Total	359,951	672,986	(313,035)	(46.51%)

CKX received oil and/or gas revenues from 114 and 129 wells during the nine months ended September 30, 2016 and 2015, respectively.

Edgar Filing: PLAINS ALL AMERICAN PIPELINE LP - Form 10-Q

The following schedule summarizes barrels and MCF produced and average price per barrel and per MCF.

	2016	2015
Net oil produced (Bbl) ⁽²⁾	6,413	8,805
Average oil sales price (per Bbl) ^(1,2)	\$38.01	\$53.46
Net gas produced (MCF)	36,094	45,700
Average gas sales price (per MCF) ⁽¹⁾	\$2.33	\$3.44

Notes to above schedule:

(1) Before deduction of production and severance taxes.

(2) Excludes plant products.

Oil and Gas revenues declined by \$313,035 from 2015 revenues. As indicated in the schedule above the decline was due to a decrease in production and declines in the average sales prices for both oil and gas and lower lease and geophysical revenues. Oil and Gas revenues are dependent on oil and gas producers' activities, are not predictable and can vary significantly from year to year and quarter to quarter

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS (continued)**

Management believes oil and gas activity is driven by current and forecasted commodity prices, demand for oil and gas, and upstream and downstream industry activity. Based on available public information, management believes that oil and gas activity which includes oil and gas production as well as lease rentals will continue to be depressed when compared to 2015 reported amounts.

During 2016, the Company received timber revenues of \$112,835 from a stumpage agreement executed in 2014. The Company has entered into an additional stumpage agreement in 2016 with a 24-month term and received an advance payment of \$52,300 to be applied as the subject timber is harvested. We believe that due to heavy rains during the quarter, timber harvesting activities have not occurred.

Surface revenue decreased due to the timing of pipeline right of way agreements. As previously noted by management, pipeline, utility and other right of ways are not unusual to the Company; however, these types of revenue are not predictable and can vary significantly from year to year and quarter to quarter

Costs and Expenses

Oil and gas costs, primarily severance taxes, decreased by \$22,511 in 2016. With the reduction in oil and gas revenues, the decrease was expected.

General and administrative expenses increased by \$74,669 primarily due to increased officer salary, additional officer salary and property taxes related to successful land acquisitions in the quarter ended September 30, 2016, property managers' fees, and director fees which were offset by a decrease in professional fees.

Other costs and expenses incurred for the quarter and nine months ended September 30, 2016 were materially consistent with 2015 reported amounts.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Financial Condition

Current assets totaled \$4,743,473 and total liabilities equaled \$139,427 at September 30, 2016. Management believes available cash and certificates of deposit together with funds generated from operations should be sufficient to meet operating requirements and provide funds for strategic acquisitions. The Company has an available bank line of credit of \$3,000,000.

In determining whether a dividend will be declared, the Board of Directors will take into account the Company's prior fiscal year's cash flows from operations and current economic conditions among other information deemed relevant.

Pursuant to a dividend reversion clause in the Company's Articles of Incorporation, dividends not claimed within one year after a dividend becomes payable will expire and revert in full ownership to the Company and the Company's obligation to pay such dividend will cease. During 2016 the Company received \$6,507 in dividend reversions and none in 2015.

Issues and Uncertainties

This quarterly report contains forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of issues and uncertainties such as those discussed below, which, among others, should be considered in evaluating the Company's financial outlook.

Revenues from oil and gas provide a significant portion of the Company's net income and cash flows. These revenues come from wells operated by other companies which CKX Lands, Inc. owns a royalty interest. Consequently, these revenues fluctuate due to changes in oil and gas prices and changes in the operations of these other companies.

Item 3. Not applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the President, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control Over Financial Reporting

There were no significant changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter covered by this report.

Part II. Other Information

Item 1 – 5 Not Applicable

Item 6. EXHIBITS

3.1 Restated/Articles of Incorporation of the Registrant are incorporated by reference to Exhibit (3)-1 to Form 10 filed April 29, 1981.

3.2 Amendment to Articles of Incorporation of the Registrant is incorporated by reference to Exhibit (3.2) to Form 10-K for year ended December 31, 2003.

3.3 By-Laws of the Registrant are incorporated by reference to Exhibit (3.3) to Form 10-Q for the quarter ended March 31, 2013.

10 Contract to Purchase and Sell approximately 3,495 acres in Cameron Parish, Louisiana effective July 3, 2007 is incorporated by reference to Exhibit (10) to Form 10-QSB filed August 13, 2007.

10.1 Agreement to Purchase and Sell Real Estate of approximately 880 acres in Calcasieu Parish, Louisiana effective May 11, 2016 is incorporated by reference to Form 10-Q filed August 8, 2016.

31 Certification of Brian R. Jones, President and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32 Certification of President and Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

101.INS**XBRL Instance

101.SCH**XBRL Taxonomy Extension Schema

101.CAL**XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

**XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CKX Lands, Inc.

/s/ Brian R. Jones
Brian R. Jones
President and Treasurer

Date: November 4, 2016