BLUE DOLPHIN ENERGY CO
Form 10-Q
May 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2016

o 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: 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)

(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 x No o

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 x No o

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 o Accelerated filer o

Non-accelerated filer	o	Smaller reporting company	x
(Do not check if a 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 o No x

Number of shares of common stock, par value $0.01 per share outstanding as of May 16, 2016: 10,458,400

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GLOSSARY OF SELECTED OIL AND GAS TERMS

The following are abbreviations and definitions of certain terms used in our Quarterly Report for the quarterly period ended March 31, 2016 (the "Quarterly Report"), which are commonly used in the oil and gas industry:

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 in reference to oil or other liquid hydrocarbons.

Blending. The physical mixture of a number of 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 oil output representing the number of bbls of oil produced in a single operating day.

Capacity utilization rate. A percentage measure that indicates the amount of available capacity that is being used at a facility.

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

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 according to 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.

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 similar to crude oil, it is usually lighter.

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 diesel and our heavy oil-based mud blendstock ("HOBM"), reduced crude, and AGO).

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.

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 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 according to 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets (Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$560,273	$1,853,875
Restricted cash	3,013,035	3,175,299
Accounts receivable, net	3,326,561	5,457,245
Prepaid expenses and other current assets	1,357,672	939,690
Deposits	229,933	395,414
Inventory	14,850,967	7,808,318
Deferred tax assets, current portion, net	4,845,465	3,486,746
Total current assets	28,183,906	23,116,587
Total property and equipment, net	53,147,209	48,841,812
Restricted cash, noncurrent	12,551,748	15,616,478
Surety bonds	1,022,000	1,022,000
Trade name	303,346	303,346
Deferred tax assets, net	-	120,491
Total long-term assets	67,024,303	65,904,127
TOTAL ASSETS	$95,208,209	$89,020,714
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$24,696,745	$14,882,714
Accounts payable, related party	408,556	300,000
Asset retirement obligations, current portion	38,644	38,644
Accrued expenses and other current liabilities	1,719,195	2,990,891
Interest payable, current portion	87,558	81,467
Long-term debt less unamortized debt issue costs, current portion	32,942,090	1,934,932
Total current liabilities	59,892,788	20,228,648
Long-term liabilities:		
Asset retirement obligations, net of current portion	1,939,363	1,947,220
Deferred revenues and expenses	114,661	125,085
Long-term debt less unamortized debt issue costs, net of current portion	1,392,787	32,846,254

Long-term interest payable, net of current portion	1,534,661	1,482,801
Deferred tax liabilities, net	72,327	-
Total long-term liabilities	5,053,799	36,401,360
TOTAL LIABILITIES	64,946,587	56,630,008
Commitments and contingencies (Note 19)		
STOCKHOLDERS' EQUITY		
Common stock ($0.01 par value, 20,000,000 shares authorized; 10,608,400 and 10,603,802 shares issued at March 31, 2016 and December 31, 2015, respectively)	106,084	106,038
Additional paid-in capital	36,758,691	36,738,737
Accumulated deficit	(5,803,153)	(3,654,069)
Treasury stock, 150,000 shares at cost	(800,000)	(800,000)
Total stockholders' equity	30,261,622	32,390,706
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$95,208,209	$89,020,714

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations (Unaudited)

	Three Monthe Ended March 31, 2016	2015
REVENUE FROM OPERATIONS		
Refined petroleum product sales	$31,193,137	$61,067,062
Tank rental revenue	291,487	286,892
Pipeline operations	27,652	38,395
Total revenue from operations	31,512,276	61,392,349
COST OF OPERATIONS		
Cost of refined products sold	30,993,477	49,387,449
Refinery operating expenses	3,437,015	2,880,971
Joint Marketing Agreement profit share	(671,092)	2,438,637
Pipeline operating expenses	79,290	46,596
Lease operating expenses	14,652	7,316
General and administrative expenses	357,004	345,884
Depletion, depreciation and amortization	440,453	399,231
Recovery of bad debt	(139,868)	-
Accretion expense	28,186	53,215
Total cost of operations	34,539,117	55,559,299
Income (loss) from operations	(3,026,841)	5,833,050
OTHER INCOME (EXPENSE)		
Easement, interest and other income	131,763	66,007
Interest and other expense	(419,907)	(208,075)
Total other expense	(288,144)	(142,068)
Income (loss) before income taxes	(3,314,985)	5,690,982
Income tax benefit (expense)	1,165,901	(1,989,618)
Net income (loss)	$(2,149,084)	$3,701,364
Income (loss) per common share:		
Basic	$(0.21)	$0.35
Diluted	$(0.21)	$0.35
Weighted average number of common shares outstanding:		
Basic	10,457,794	10,449,444
Diluted	10,457,794	10,449,444

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
OPERATING ACTIVITIES		
Net income (loss)	$(2,149,084)	$3,701,364
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	440,453	399,231
Unrealized loss (gain) on derivatives	(1,374,040)	548,190
Deferred tax expense (benefit)	(1,165,901)	1,807,484
Amortization of debt issue costs	32,122	8,450
Accretion expense	28,186	53,215
Common stock issued for services	20,000	-
Recovery of bad debt	(139,868)	-
Changes in operating assets and liabilities		
Accounts receivable	2,270,552	(1,536,092)
Prepaid expenses and other current assets	772,658	650,694
Deposits and other assets	165,481	(80,513)
Inventory	(7,042,649)	129,941
Accounts payable, accrued expenses and other liabilities	7,631,014	(2,046,849)
Accounts payable, related party	108,556	(1,054,523)
Net cash provided by (used in) operating activities	(402,520)	2,580,592
INVESTING ACTIVITIES		
Capital expenditures	(3,639,645)	(1,291,915)
Change in restricted cash for investing activities	3,064,730	-
Net cash used in investing activities	(574,915)	(1,291,915)
FINANCING ACTIVITIES		
Payments on long-term debt	(478,431)	(300,106)
Change in restricted cash for financing activities	162,264	(2,598)
Net cash used in financing activities	(316,167)	(302,704)
Net increase (decrease) in cash and cash equivalents	(1,293,602)	985,973
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,853,875	1,293,233
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$560,273	$2,279,206
Supplemental Information:		
Non-cash investing and financing activities:		
Financing of capital expenditures via accounts payable	$1,106,205	$-
Interest paid	$668,343	$165,513
Income taxes paid	$-	$-

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

(1) Organization

Nature of Operations. We are primarily an independent refiner and marketer of petroleum products. Our primary asset is a 15,000 bpd crude oil and condensate processing facility that is located in Nixon, Texas (the "Nixon Facility"). As part of our refinery business segment, we conduct petroleum storage and terminaling operations under third-party lease agreements at the Nixon Facility. We also own and operate pipeline assets and have leasehold interests in oil and gas properties. See "Note (4) Business Segment Information" of this Quarterly Report for further discussion of our business segments.

Structure and Management. We were formed as a Delaware corporation in 1986. We are currently controlled by Lazarus Energy Holdings, LLC ("LEH"), which owns approximately 81% of our common stock, par value $0.01 per share (the "Common Stock). LEH manages and operates all of our properties pursuant to an Operating Agreement (the "Operating Agreement"). Jonathan Carroll is Chairman of the Board of Directors (the "Board"), Chief Executive Officer and President of Blue Dolphin, as well as a majority owner of LEH. See "Note (8) Accounts Payable, Related Party," "Note (9) Long-Term Debt, Net," and "Note (19) Commitments and Contingencies – Financing Agreements" of this Quarterly Report for additional disclosures related to the Operating Agreement, Jonathan Carroll, and LEH.

Our operations are conducted through the following operating subsidiaries:

- Lazarus Energy, LLC, a Delaware limited liability company ("LE");
- Lazarus Refining & Marketing, LLC, a Delaware limited liability company ("LRM");
- Blue Dolphin Pipe Line Company, a Delaware corporation;
- Blue Dolphin Petroleum Company, a Delaware corporation; and
- Blue Dolphin Services Co., a Texas corporation.

See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Owned and Leased Assets" in our Annual Report for the fiscal year ended December 31, 2015 (the "Annual Report") as filed with the Securities and Exchange Commission (the "SEC") for additional information regarding our operating subsidiaries.

Operating Risks. We had cash and cash equivalents of $560,273 and $1,853,875 at March 31, 2016 and December 31, 2015, respectively. We currently rely on our profit share under the Joint Marketing Agreement and LEH to fund our working capital requirements. During months in which we receive no profit share under the Joint Marketing Agreement, LEH may, but is not required to, fund our working capital requirements. There can be no assurances that LEH will continue to fund our working capital requirements.

As of March 31, 2016, we were in violation of certain financial covenants in loan agreements with Sovereign Bank, a Texas state bank ("Sovereign"). We are currently making our scheduled monthly payments in accordance with the terms and conditions of the loan agreements. See "Note (9) Long-Term Debt, Net" of this Quarterly Report for additional disclosures related to Sovereign, our long-term debt, and financial covenant violations.

In addition to the Joint Marketing Agreement, we are party to a variety of contracts and agreements with Genesis Energy, LLC "(Genesis") and its affiliates that enable the purchase of crude oil and condensate, transportation of crude oil and condensate, and other services. Certain of these agreements with Genesis and its affiliates have successive one-year renewals until August 2019 unless sooner terminated by Genesis or its affiliates with 180 days prior written notice. These agreements and understandings require us to have a close working relationship with Genesis in order for us to be successful in fully executing our business strategy. If we are unable to maintain these relationships or our relationships are not on good terms, it could have a material adverse effect on our operations, liquidity and financial condition. See "Note (19) Commitments and Contingencies – Genesis Agreements" of this Quarterly Report for further discussion related to Genesis, the Joint Marketing Agreement, and the Crude Supply Agreement.

We believe that our cash flows from operations, existing cash and cash equivalents, and proceeds from credit facilities will be sufficient to support our operations and capital expenditures for the next 12 to 18 months. However, our efforts depend on several factors, including our future performance, levels of accounts receivable, inventories, accounts payable, capital expenditures, adequate access to credit, and the financial flexibility to attract long-term capital on satisfactory terms. These factors may be impacted by general economic, political, financial, competitive and other factors that are beyond our control. There can be no assurance that our operational strategy will achieve the anticipated outcomes. In the event our operational strategy is not successful, or our working capital requirements are not funded by our profit share under the Joint Marketing Agreement or LEH, we may experience a significant and material adverse effect on our operations, liquidity, and financial condition.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements, which include Blue Dolphin and subsidiaries, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim consolidated financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in our audited financial statements have been condensed or omitted pursuant to the SEC's rules and regulations. Significant intercompany transactions have been eliminated in the consolidation. In management's opinion, all adjustments considered necessary for a fair presentation have been included, disclosures are adequate, and the presented information is not misleading.

The consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, or for any other period.

(3) Significant Accounting Policies

The summary of significant accounting policies of Blue Dolphin is presented to assist in understanding our consolidated financial statements. Our consolidated financial statements and accompanying notes are representations of management who is responsible for its integrity and objectivity. These accounting policies conform to GAAP and have been consistently applied in the preparation of our consolidated financial statements.

Use of Estimates. We have made a number of estimates and assumptions related to the reporting of our consolidated assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. While we believe our current estimates are reasonable and appropriate, actual results could differ from those estimated.

Cash and Cash Equivalents. Cash and cash equivalents represent liquid investments with an original maturity of three months or less. Cash balances are maintained in depository and overnight investment accounts with financial institutions that, at times, may exceed insured deposit limits. We monitor the financial condition of the financial institutions and have experienced no losses associated with these accounts. Cash and cash equivalents totaled $560,273 and $1,853,875 at March 31, 2016 and December 31, 2015, respectively.

Restricted Cash. Restricted cash, current totaled $3,013,035 and $3,175,299 at March 31, 2016 and December 31, 2015, respectively. Restricted cash, noncurrent totaled $12,551,748 and $15,616,478 at March 31, 2016 and December 31, 2015, respectively. Restricted cash, current primarily represents: (i) a construction contingency account under which Sovereign will fund contingencies and (ii) a payment reserve account held by Sovereign as security for payments under a loan agreement. Restricted cash, noncurrent represents a disbursement account under which Sovereign will make payments for construction related expenses to build new petroleum storage tanks. See "Note (9) Long-Term Debt, Net" of this Quarterly Report for additional disclosures related to loan agreements with Sovereign.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable are customer obligations due under normal trade terms. The allowance for doubtful accounts represents our estimate of the amount of probable credit losses existing in our accounts receivable. We have a limited number of customers with individually large amounts due on any given date. Any unanticipated change in any one of these customers' credit worthiness or other matters affecting the collectability of amounts due from such customers could have a material adverse effect on our results of operations in the period in which such changes or events occur. We regularly review all of our aged accounts receivable for collectability and establish an allowance for individual customer balances as necessary. Allowance for doubtful accounts totaled $0 and $139,868 at March 31, 2016 and December 31, 2015, respectively.

Inventory. The nature of our business requires us to maintain inventory, which primarily consists of refined petroleum products and chemicals. Inventory reflected for crude oil and condensate is nominal and represents line fill. Our overall inventory is valued at lower of cost or market with costs being determined by the average cost method. If the market value of our refined petroleum product inventories declines to an amount less than our average cost, we record a write-down of inventory and an associated adjustment to cost of refined products sold. See “Note (6) Inventory” of this Quarterly Report for additional disclosures related to our inventory.

Derivatives. We are exposed to commodity prices and other market risks including gains and losses on certain financial assets as a result of our inventory risk management policy. Under our inventory risk management policy, Genesis may, but is not required to, use commodity futures contracts to mitigate the change in value for certain of our refined petroleum product inventories subject to market price fluctuations. The physical inventory volumes are not exchanged and these contracts are net settled with cash.

Although these commodity futures contracts are not subject to hedge accounting treatment under Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") guidance, we record the fair value of these Genesis hedges in our consolidated balance sheet each financial reporting period because of contractual arrangements with Genesis under which we are effectively exposed to the potential gains or losses. We recognize all commodity hedge positions as either current assets or current liabilities in our consolidated balance sheets and those instruments are measured at fair value. Changes in the fair value from financial reporting period to financial reporting period are recognized in our consolidated statements of operations. Net gains or losses associated with these transactions are recognized within cost of refined products sold in our consolidated statements of operations using mark-to-market accounting.

See "Note (17) Fair Value Measurement" and "Note (18) Inventory Risk Management" of this Quarterly Report for additional disclosures related to derivatives.

Property and Equipment.

Refinery and Facilities. Additions to refinery and facilities assets are capitalized. Expenditures for repairs and maintenance are expensed as incurred and are included as operating expenses under the Operating Agreement. Management expects to continue making improvements to the Nixon Facility based on technological advances.

We record refinery and facilities at cost less any adjustments for depreciation or impairment. Adjustment of the asset and the related accumulated depreciation accounts are made for the refinery and facilities asset's retirement and disposal, with the resulting gain or loss included in the consolidated statements of operations. For financial reporting purposes, depreciation of refinery and facilities assets is computed using the straight-line method using an estimated useful life of 25 years beginning when the refinery and facilities assets are placed in service. We did not record any impairment of our refinery and facilities assets at March 31, 2016 or December 31, 2015.

Pipelines and Facilities. We record pipelines and facilities at cost less any adjustments for depreciation or impairment. Depreciation is computed using the straight-line method over estimated useful lives ranging from 10 to 22 years. In accordance with FASB ASC guidance on accounting for the impairment or disposal of long-lived assets, we periodically evaluate our long-lived assets for impairment. Additionally, we evaluate our long-lived assets when events or circumstances indicate that the carrying value of these assets may not be recoverable.

Oil and Gas Properties. We account for our oil and gas properties using the full-cost method of accounting, whereby all costs associated with acquisition, exploration and development of oil and gas properties, including directly related internal costs, are capitalized on a cost center basis. Amortization of such costs and estimated future development costs are determined using the unit-of-production method. Our oil and gas properties had no production during the three months ended March 31, 2016 and 2015. All leases associated with our oil and gas properties have expired, and our oil and gas properties were fully impaired at December 31, 2012.

Construction in Progress. Construction in progress expenditures, which relate to construction and refurbishment activities at the Nixon Facility, are capitalized as incurred. Depreciation begins once the asset is placed in service.

See "Note (7) Property, Plant and Equipment, Net" of this Quarterly Report for additional disclosures related to our refinery and facilities assets, oil and gas properties, pipelines and facilities assets, and construction in progress.

Intangibles – Other. We have an intangible asset consisting of the Blue Dolphin trade name in the amount of $303,346. We have determined our trade name to have an indefinite useful life. We account for other intangible assets under FASB ASC guidance related to intangibles, goodwill, and other. Under the guidance, we test intangible assets with indefinite lives annually for impairment. Management performed its regular annual impairment testing of trade name in the fourth quarter of 2015. Upon completion of that testing, we determined that no impairment was necessary as of December 31, 2015.

Revenue Recognition.

Refined Petroleum Products Revenue. We sell jet fuel in nearby markets, and our intermediate products, including LPG, naphtha, HOBM, and AGO, to wholesalers and nearby refineries for further blending and processing. Revenue from refined petroleum products sales is recognized when title passes. Title passage occurs when refined petroleum products are sold or delivered in accordance with the terms of the respective sales agreements. Revenue is recognized when sales prices are fixed or determinable and collectability is reasonably assured.

Customers assume the risk of loss when title is transferred. Transportation, shipping, and handling costs incurred are included in cost of refined products sold. Excise and other taxes that are collected from customers and remitted to governmental authorities are not included in revenue.

Tank Rental Revenue. Tank rental fees are invoiced monthly in accordance with the terms of the related lease agreement and recognized in revenue as earned.

Easement Revenue. Land easement revenue is recognized monthly as earned and is included in other income.

Pipeline Transportation Revenue. Revenue from our pipeline operations is derived from fee-based contracts and is typically based on transportation fees per unit of volume transported multiplied by the volume delivered. Revenue is recognized when volumes have been physically delivered for the customer through the pipeline.

Deferred Revenue. In 2014, we increased the ownership interest in our pipeline assets from approximately 83% to 100% pursuant to an Asset Sale Agreement (the "Purchase Agreement") with a former partner. Pursuant to the Purchase Agreement, the former partner paid us $100,000 in cash, and a surety company $850,000 in cash as collateral for supplemental pipeline bonds for our benefit in exchange for the payment and discharge of any and all payables, claims, and obligations related to the pipeline assets. We recorded the amount received for our benefit related to the supplemental pipeline bonds as deferred revenue. We recognized the deferred revenue on a straight-line basis through December 31, 2018, the expected retirement date of the associated assets. In 2015, a significant portion of the remaining deferred revenue was recognized as a result of retiring certain of the assets. See "Part I, Business -- Governmental Regulation -- Offshore Safety and Environmental Oversight – Decommissioning Requirements" of our Annual Report for a discussion related to supplemental pipeline bonds.

Income Taxes. We account for income taxes under FASB ASC guidance related to income taxes, which requires recognition of income taxes based on amounts payable with respect to the current period and the effects of deferred taxes for the expected future tax consequences of events that have been included in our financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities, as well as for operating losses and tax credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse.

As of each reporting date, management considers new evidence, both positive and negative, to determine the realizability of deferred tax assets. Management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized, which is dependent upon the generation of future taxable income prior to the expiration of any net operating loss ("NOL") carryforwards. When management determines that it is more likely than not that a tax benefit will not be realized, a valuation allowance is recorded to reduce deferred tax assets.

The guidance also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition.

See “Note (15) Income Taxes” of this Quarterly Report for further information related to income taxes.

Impairment or Disposal of Long-Lived Assets. In accordance with FASB ASC guidance on accounting for the impairment or disposal of long-lived assets, we periodically evaluate our long-lived assets for impairment. Additionally, we evaluate our long-lived assets when events or circumstances indicate that the carrying value of these assets may not be recoverable. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or group of assets. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset or group of assets is recognized. Significant management judgment is required in the forecasting of future operating results that are used in the preparation of projected cash flows and, should different conditions prevail or judgments be made, material impairment charges could be necessary.

Asset Retirement Obligations. FASB ASC guidance related to asset retirement obligations ("AROs") requires that a liability for the discounted fair value of an ARO be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted towards its future value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

Management has concluded that there is no legal or contractual obligation to dismantle or remove the refinery and facilities assets. Further, management believes that these assets have indeterminate lives under FASB ASC guidance for estimating AROs because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a legal or contractual obligation to dismantle or remove the refinery and facilities assets arises and a date or range of dates can reasonably be estimated for the retirement of these assets, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using present value techniques.

We recorded an ARO liability related to future asset retirement costs associated with dismantling, relocating, or disposing of our offshore platform, pipeline systems, and related onshore facilities, as well as for plugging and abandoning wells and restoring land and sea beds. We developed these cost estimates for each of our assets based upon regulatory requirements, structural makeup, water depth, reservoir characteristics, reservoir depth, equipment demand, current retirement procedures, and construction and engineering consultations. Because these costs typically extend many years into the future, estimating future costs are difficult and require management to make judgments that are subject to future revisions based upon numerous factors, including changing technology, political, and regulatory environments. We review our assumptions and estimates of future abandonment costs on an annual basis.

See "Note (11) Asset Retirement Obligations" of this Quarterly Report for additional information related to our AROs.

Computation of Earnings Per Share. We apply the provisions of FASB ASC guidance for computing earnings per share ("EPS"). The guidance requires the presentation of basic EPS, which excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The guidance requires dual presentation of basic EPS and diluted EPS on the face of our consolidated statements of operations and requires a reconciliation of the numerators and denominators of basic EPS and diluted EPS. Diluted EPS is computed by dividing net income available to common stockholders by the diluted weighted average number of common shares outstanding, which includes the potential dilution that could occur if securities or other contracts to issue shares of common stock were converted to common stock that then shared in the earnings of the entity.

The number of shares related to options, warrants, restricted stock, and similar instruments included in diluted EPS is based on the "Treasury Stock Method" prescribed in FASB ASC guidance for computation of EPS. This method assumes theoretical repurchase of shares using proceeds of the respective stock option or warrant exercised, and, for restricted stock, the amount of compensation cost attributed to future services that has not yet been recognized and the amount of any current and deferred tax benefit that would be credited to additional paid-in-capital upon the vesting of the restricted stock, at a price equal to the issuer's average stock price during the related earnings period. Accordingly, the number of shares includable in the calculation of EPS in respect of the stock options, warrants, restricted stock, and similar instruments is dependent on this average stock price and will increase as the average stock price increases. See "Note (16) Earnings Per Share" for additional information related to EPS.

Stock-Based Compensation. In accordance with FASB ASC guidance for stock-based compensation, share-based payments to personnel, including grants of restricted stock units, are measured at fair value as of the date of grant and are expensed in our consolidated statements of operations over the service period (generally the vesting period).

Treasury Stock. We account for treasury stock under the cost method. When treasury stock is re-issued, the net change in share price subsequent to acquisition of the treasury stock is recognized as a component of additional paid-in-capital in our consolidated balance sheets. See "Note (12) Treasury Stock" of this Quarterly Report for additional disclosures related to treasury stock.

New Accounting Pronouncement. In April 2015, FASB issued ASU 2015-03, Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs. This guidance requires debt issue costs to be presented as an offset to their related debt. Effective January 1, 2015, we adopted this accounting pronouncement. Accordingly, our consolidated balance sheets at March 31, 2016 and December 31, 2015 as reflected within this Quarterly Report have been changed to reclassify approximately $2.4 million previously reported as debt issue costs as a direct deduction of long-term debt. The adoption of ASU 2015-03 had no impact on our results of operations or cash flows.

New Pronouncements Issued But Not Yet Effective. FASB issues an Accounting Standards Update ("ASU") to communicate changes to the FASB ASC, including changes to non-authoritative SEC content. The following are recently issued, but not yet effective, accounting standards that may have an effect on our consolidated financial position, results of operations, or cash flows:

ASU 2016-02, Leases (Topic 842). In February 2016, FASB issued ASU 2016-02. This guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For a public business entity, the amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. We are evaluating the impact that adoption of this guidance will have on our consolidated balance sheets.

ASU 2015-17, Income Taxes (Topic 740). In November 2015, FASB issued ASU 2015-17, which simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent. Current GAAP requires deferred tax liabilities and assets to be separated into current and noncurrent. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We anticipate utilizing the majority of our current deferred tax assets prior to the effective date of ASU 2015-17. We do not anticipate adoption of this guidance to have a material effect on our consolidated balance sheets.

ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. In July 2015, FASB issued ASU 2015-11. Current guidance requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Under ASU 2015-11, an entity should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Amendments under ASU 2015-11 more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards. For public business entities, ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We do not anticipate adoption of this guidance to have a material effect on our consolidated financial statements.

ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40). In August 2014, FASB issued ASU 2014-15, which requires management to perform interim and annual assessments of an entity's ability to continue as a going concern for a one year period subsequent to the date of the financial statements. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for all entities for the first annual period ending after December 15, 2016 and interim periods thereafter, with early adoption permitted. We do not anticipate adoption of this guidance to have a material effect on our consolidated financial statements.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). In May 2014, FASB issued ASU 2014-09, which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for all entities by one year. The effective date for public business entities is annual reporting periods beginning after December 15, 2017. Public business entities would apply the new revenue standard to interim reporting periods after December 15, 2017. As such, for a public business entity with a calendar year-end, ASU 2014-09 would be effective on January 1, 2018, for both its interim and annual reporting periods. This represents a one-year deferral from the original effective date. The new effective date guidance allows early adoption for all entities as of the original effective date (December 15, 2016). In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), which clarifies the implementation guidance on principal versus agent considerations. When another party, along with the entity, is involved in providing a good or a service to a customer, the entity must determine whether the nature of its promise is to provide that good or service to the customer (e.g., entity as principal) or to arrange for the good or service to be provided to the customer by the other party (e.g., entity as agent). Such determination is based upon whether the entity controls the good or the service before it is transferred to the customer. We are evaluating the impact that adoption of ASU 2014-09, ASU 2015-14, and ASU 2016-08, all of which relate to Revenue from Contracts with Customers (Topic 606), will have on our consolidated financial statements.

Other new pronouncements issued but not effective until after March 31, 2016 are not expected to have a material impact on our financial position, results of operations or liquidity.

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(4) Business Segment Information

We have two reportable business segments: (i) Refinery Operations and (ii) Pipeline Transportation. Business activities related to our Refinery Operations business segment are conducted at the Nixon Facility. Business activities related to our Pipeline Transportation business segment are primarily conducted in the Gulf of Mexico through our Pipeline Assets and leasehold interests in oil and gas properties.

Business segment information for the three months ended March 31, 2016 and 2015 (and at March 31, 2016 and 2015), was as follows:

	Three Months Ended March 31, 2016 Segment				Three Months Ended March 31, 2015 Segment			
	Refinery Operations	Pipeline Transportation	Corporate & Other	Total	Refinery Operations	Pipeline Transportation	Corporate & Other	Total
Revenue from operations	$31,484,624	$27,652	$-	$31,512,276	$61,353,954	$38,395	$-	$61,392,3
Less: cost of operations(1)	(34,422,853)	(122,128)	(224,775)	(34,769,756)	(52,259,470)	(53,912)	(408,048)	(52,721,4
Other non-interest income(2)	-	130,665	-	130,665	-	62,500	-	62,500
Adjusted EBITDA	(2,938,229)	36,189	(224,775)	(3,126,815)	9,094,484	46,983	(408,048)	8,733,41
Less: JMA Profit Share(3)	671,092	-	-	671,092	(2,438,637)	-	-	(2,438,63
EBITDA	$(2,267,137)	$36,189	$(224,775)		$6,655,847	$46,983	$(408,048)	
Depletion, depreciation and amortization				(440,453)				(399,231
Interest expense, net				(418,809)				(204,569
Income (loss) before income taxes				(3,314,985)				5,690,98
Income tax benefit (expense)				1,165,901				(1,989,61
Net income (loss)				$(2,149,084)				$3,701,36
Capital expenditures	$3,639,645	$-	$-	$3,639,645	$1,291,915	$-	$-	$1,291,91

Identifiable assets	$87,970,266	$2,026,778	$5,211,165	$95,208,209	$53,361,470	$2,923,368	$4,355,252	$60,640,0

(1) Operation cost within the Refinery Operations and Pipeline Transportation segments includes related general, administrative, and accretion expenses. Operation cost within Corporate and Other includes general and administrative expenses associated with corporate maintenance costs, such as accounting fees, director fees, and legal expense.
(2) Other non-interest income reflects FLNG easement revenue. See "Note (19) Commitments and Contingencies – FLNG Master Easement Agreement" of this Quarterly Report for further discussion related to FLNG.
(3) The JMA Profit Share represents the GEL Profit Share plus the Performance Fee for the period pursuant to the Joint Marketing Agreement. See "Note (19) Commitments and Contingencies – Genesis Agreements" of this Quarterly Report for further discussion related to the Joint Marketing Agreement.

(5) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets for the periods indicated consisted of the following:

	March 31, 2016	December 31, 2015
Unrealized hedging gains	$1,190,640	$-
Prepaid insurance	155,782	315,120
Prepaid listing fees	11,250	-
Prepaid related party operating expenses	-	624,570
	$1,357,672	$939,690

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Notes to Consolidated Financial Statements (Continued)

(6) Inventory

Inventory for the periods indicated consisted of the following:

	March 31, 2016	December 31, 2015
HOBM	$8,327,943	$5,007,576
Jet fuel	5,547,597	2,045,784
Naphtha	427,496	309,850
AGO	408,152	278,278
Chemicals	101,063	122,777
Crude oil and condensate	19,041	19,041
Propane	11,212	17,860
LPG mix	8,463	7,152
	$14,850,967	$7,808,318

Product mix and inventory levels may fluctuate from one period to the next to capture market opportunities. At March 31, 2016, our diesel and jet fuel inventory increased intentionally compared to December 31, 2015 to fulfill anticipated orders from a large new customer, seasonal jet fuel demand, and in anticipation of the opening of the Mexican diesel market to private companies.

(7) Property, Plant and Equipment, Net

Property, plant and equipment, net, for the periods indicated consisted of the following:

	March 31, 2016	December 31, 2015
Refinery and facilities	$43,046,528	$40,195,928
Pipelines and facilities	2,127,207	2,127,207
Onshore separation and handling facilities	325,435	325,435
Land	602,938	602,938
Other property and equipment	652,795	