

PetroLogistics LP
Form 10-K
March 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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 1-35529

PetroLogistics LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-2532754

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

600 Travis Street, Suite 3250, Houston, Texas

(Address of principal executive offices)

77002

(Zip Code)

(713) 255-5990

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 Smaller reporting company
(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 Act). Yes No

The aggregate market value of the voting common units held by non-affiliates of the registrant as of June 29, 2012 on the last business day of the registrant's most recently completed second fiscal quarter, was \$376,600,000 (based on the closing price of the common units).

There were 139,857,777 common units outstanding as of March 1, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K for the year ended December 31, 2012 contains forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include the words will, believe, expect, anticipate, intend, estimate, or other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Our forward-looking statements include statements about our business strategy, our industry, our future profitability, our expected capital expenditures and the impact of such expenditures on our performance. These statements involve known and unknown risks, uncertainties and other factors, including the factors described under Item 1A under the caption Risk Factors, that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Such risks and uncertainties include, among other things:

- our ability to make cash distributions on the common units;

- the volatile nature of our business and the variable nature of our distributions;

- the ability of our General Partner to modify or revoke our distribution policy at any time;

- our ability to forecast our future financial condition or results;

- the cyclical nature of our business;

- competition from other propylene producers;

- our reliance on propane that we purchase from Enterprise;

- our reliance on other third-party suppliers;

- the supply and price levels of propane and propylene;

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- the risk of a material decline in production at our propane dehydrogenation facility;
- potential operating hazards from accidents, fire, severe weather, floods or other natural disasters;
- the risk associated with governmental policies affecting the petrochemical industry;
- capital expenditures and potential liabilities arising from environmental laws and regulations;
- our potential inability to obtain or renew permits;
- existing and proposed environmental laws and regulations, including those relating to climate change, alternative energy or fuel sources, and on the end-use and application of propylene;
- new regulations concerning the transportation of hazardous chemicals, risks of terrorism and the security of propane processing facilities;
- our lack of asset diversification;
- our dependence on a limited number of significant customers;
- our ability to comply with employee safety laws and regulations;
- potential disruptions in the global or U.S. capital and credit markets;
- our potential inability to successfully implement our business strategies, including the completion of our required turnarounds and other significant capital expenditure projects;

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- additional risks, compliance costs and liabilities from expansions or acquisitions;
- our reliance on certain members of our senior management team and other key personnel of our General Partner;
- the potential development of integrated propylene facilities by competitors or our current customers, displacing us as suppliers;
- the potential shortage of skilled labor or loss of key personnel;
- our ability to secure appropriate and adequate debt facilities at a reasonable cost of capital;
- restrictions in our debt agreements;
- the dependence on our subsidiary for cash to meet our debt obligations;
- our limited operating history;
- risks relating to our relationships with our sponsors; and
- changes in our treatment as a partnership for U.S. income or state tax purposes.

You should not place undue reliance on our forward-looking statements. Although forward-looking statements reflect our good faith beliefs, forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements made herein are made only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, unless required by law.

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PART I

Item 1. Business.

Unless the context otherwise requires, references in this report to the predecessor, we, our, us or like terms, when used for periods prior to the closing of our initial public offering (the IPO) on May 9, 2012, refer to PL Propylene LLC, our predecessor for accounting purposes. References in this report to PetroLogistics LP, the Partnership, we, our, us or like terms used for periods after the IPO, refer to PetroLogistics LP. References in this report to our sponsors refer to Lindsay Goldberg LLC (Lindsay Goldberg) and York Capital Management (York Capital), which collectively and indirectly own 84% of PetroLogistics GP (our General Partner) and directly and indirectly own 63% of our common units.

Our Business

We currently own and operate the only U.S. propane dehydrogenation (or PDH) facility (or the facility) producing propylene from propane. Propylene is one of the basic building blocks for petrochemicals and is utilized in the production of a variety of end uses including paints, coatings, building materials, clothing, automotive parts, packaging and a range of other consumer and industrial products. We are the only independent, dedicated on-purpose propylene producer in North America. We are strategically located in the vicinity of the Houston Ship Channel which is situated within the largest propylene consumption region in North America. We also have access to the leading global fractionation and storage hub for propane located at Mt. Belvieu, Texas. Our location provides us with excellent access and connectivity to both customers and feedstock suppliers. Our facility had an original nameplate capacity of 1.2 billion pounds of propylene annually. However, based on plant optimization and operating improvements our facility currently has an annual production capacity of approximately 1.4 billion pounds. In 2012 we produced 1.26 billion pounds of propylene. We commenced operations in October 2010 followed by an approximately year-long start-up and plant optimization phase.

We currently have multi-year contracts for the sale of our propylene with The Dow Chemical Company (or Dow), Total Petrochemicals USA, Inc. (or Total), BASF Corporation (or BASF) and INEOS Olefins and Polymers USA (or INEOS) that expire between 2013 and 2018 and a one-year contract with LyondellBasell Industries N.V. (or LyondellBasell) that ends in December 2013. We are currently in ongoing negotiations with both INEOS and BASF regarding extensions to each of their contracts beyond their current December 2013 termination dates. Our customer contracts provide for minimum and maximum offtake volumes, with the minimum customer-contracted volumes representing approximately 78% of our current facility capacity and the maximum reflecting approximately 100% of our current facility capacity. Each of our customer contracts contain pricing terms based upon market rates. In addition to our contracted sales, we have made and will continue to make additional propylene sales on a spot basis. We also opportunistically purchase propylene on a spot basis to enable us to maintain adequate inventory.

Propylene comprised 97% of our sales in 2012. In addition to propylene, we also produce commercial quantities of hydrogen and C4 mix/C5+ streams.

Our Products and Customers

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We derive our sales from three different sources: propylene, hydrogen, and C4 mix/C5+ streams. Sales of these products are not subject to significant seasonal fluctuations. In general, we deliver our propylene to our customers on a continuous basis and ratably throughout the month. We may elect to store product to ensure that a constant supply of propylene is available to our customers in the event of a temporary outage. For more information relating to the sales, assets, profits and losses of our business since inception, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations as well as Item 8. Financial Statements and Supplementary Data.

Contracted Propylene Sales

Since commencing operations, we have been party to long-term propylene sales contracts with Dow, Total and INEOS. Each contract details both minimum offtake volumes and maximum offtake volumes as well as pricing terms. As is customary in the propylene industry, our customer contracts are based on market prices. Consistent with industry practice for such contracts, our pricing terms with these customers reflect a specified discount to the monthly benchmark propylene price published by Chemical Market Associates, Inc. (or CMAI). For the year ended December 31, 2012, Dow, Total, INEOS, LyondellBasell and BASF accounted for 42%, 20%, 18%, 12% and 5% of our total sales, respectively.

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We deliver propylene to these customers through our integrated pipeline system, which directly connects our facility to the Dow and Total plants and through interconnected third-party pipelines, which connect our facility to INEOS, BASF, LyondellBasell and to other potential propylene customers.

The following table illustrates certain information regarding our propylene contracts with Dow, Total, INEOS, BASF and LyondellBasell (in millions of pounds):

Company	Connections	Max	Min	Contract Term Ends
Contracts:				
Dow	Direct	690	510	12/31/18
Total	Direct	300	222	12/31/14
INEOS	Shell	284	244	12/31/13
BASF	Shell	120	96	12/31/13
LyondellBasell	Direct	60	60	12/31/13
Total		1,454	1,132	
% of our capacity		100%	78%	

Spot-Market Propylene Sales

Through our integrated pipeline system, we are also able to access other consumers of propylene which we are able to supply on a spot basis with our excess production. We are connected to major propylene consumers with the necessary logistics already in place. We actively manage our contract and spot portfolio and have received a high degree of interest from other customers for both spot volumes, in the short term, and longer term contracts. In anticipation of our upcoming plant turnaround currently scheduled for the fourth quarter of 2013, we will limit our 2013 spot sales in order to build inventory.

Hydrogen Gas Sales

As part of the PDH process, we produce commercially saleable quantities of hydrogen. Hydrogen is primarily consumed in numerous refinery processes, including fuel desulphurization. We are party to a ten-year contract for the sale of our hydrogen production. The purchaser is committed to buying a minimum of 18.6 million standard cubic feet per day of hydrogen, measured quarterly. Any volumes we do not sell are consumed in our fuel system, reducing our requirement to purchase natural gas.

An additional benefit of our hydrogen production is that it provides a natural hedge against rising fuel costs due to the strong and positive correlation between natural gas prices and hydrogen prices. While an increase in natural gas prices would increase our operating costs (since we consume natural gas as a fuel), such increase would be partially offset by the higher prices we would earn through our hydrogen sales.

C4 Mix/C5+ Streams Sales

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We also produce commercial quantities of C4 mix/C5+ streams. We sell the C4 mix stream to specialty chemical consumers or refiners. These customers transport the purchased volumes from our facility by truck with title transferring at our facility. The C5+ stream, which is heavy in aromatics, is transported by our pipeline to a Kinder Morgan terminal, and then sold to a third party.

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Our Business Strategy

Our objective is to maximize our quarterly cash distributions to our unitholders by executing the following strategies:

- *Focus on Operational Excellence, Reliable Production, Safety, and Training.* Operational excellence, reliability and safety are our core values. One of the key factors driving our selection of the CATOFIN technology was its reliability See our PDH Technology below. We also assembled our key management team with an intentional focus on the complement of skills and experience necessary to deliver consistent and efficient operational results.
- *Continual Optimization of Our Facility.* Our management team and engineering staff are continually working to further optimize and improve the operating performance of our facility. One major focus is to identify cost-efficient methods to increase propylene output beyond current production levels. We also have initiatives underway to optimize propylene yield, energy efficiency and feedstock composition to enhance the value of the by-products produced by our facility.
- *Pursue Growth Opportunities.* We intend to opportunistically pursue expansion and other growth opportunities. In addition, we intend to evaluate and pursue acquisition and organic development opportunities complementary to our operating platform.
- *Actively Manage Customer Portfolio.* We believe that our current propylene customer portfolio represents an attractive composition of customers that serve diverse end-use markets and that are prominent industry members. We also have well-established relationships with other consumers of propylene developed through active cultivation and regular interaction. We plan to build on our existing relationships and continue to advance those relationships through spot sales, in the short term, and the addition of long-term contracts, as existing contracts roll off or if the facility's capacity is expanded.
- *Distribute All of the Available Cash We Generate Each Quarter.* The board of directors of our General Partner has adopted a policy under which we will distribute all of the available cash we generate each quarter, as described in Item 5 under the caption Our Cash Distribution Policy.

Our History

We are a Delaware limited partnership that was formed in June 2011.

Our predecessor purchased a former olefins manufacturing facility from ExxonMobil Corporation (or ExxonMobil) in March 2008, and that facility was used as the platform for the construction of a propane dehydrogenation propylene production facility. Initial production at our

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facility commenced in October 2010, and after an approximately year-long start-up and plant optimization phase, the facility achieved production rates at or near our current capacity (approximately 20% above our original nameplate capacity) beginning in December 2011.

On March 30, 2012, in contemplation of our IPO, Propylene Holdings LLC (or Propylene Holdings) contributed our predecessor to us. On May 4, 2012, our common units began trading on the NYSE under the symbol PDH. On May 9, 2012, we completed our IPO of 35,000,000 common units representing limited partner interests. Pursuant to a Registration Statement on Form S-1, as amended through the date of its effectiveness, we sold 1,500,000 common units, and Propylene Holdings sold 33,500,000 common units at a price to the public of \$17.00 per common unit (\$15.98 per common unit, net of underwriting discounts). Immediately prior to the IPO, the outstanding limited partner interests in the Partnership were recapitalized into 139,000,000 common units pursuant to an amended and restated limited partnership agreement. We received net proceeds of approximately \$24.0 million from our sale of the common units, after deducting underwriting discounts.

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Our Sponsors

Lindsay Goldberg is a private equity investment firm with approximately \$9 billion of capital under management that focuses on partnering with entrepreneurial management teams and closely held and family-owned businesses. The firm typically invests in companies in North America and Western Europe in the manufacturing, energy, financial and business services industries. Lindsay Goldberg has an investment structure that permits ownership for up to 20 years and has had a close relationship with our management since 2000.

York Capital is an event-driven global investment firm with approximately \$14.5 billion of capital under management. The firm focuses on a variety of strategies, including private equity investing. Established in 1991, York Capital has offices in New York, Washington DC, London and Hong Kong.

Lindsay Goldberg and York Capital have been instrumental in our management team's effort to implement the optimal operating and financial platform for the Partnership. Lindsay Goldberg and York Capital indirectly own 67% and 17% interests in our General Partner and 69,620,855 and 17,405,214 common units, respectively.

Our Facility

Our state-of-the-art facility is strategically located in the vicinity of the Houston Ship Channel on a site that was formerly the site of an ExxonMobil ethylene cracker. Our facility had an original nameplate capacity of 1.2 billion pounds of propylene annually. However, based on plant optimization and operating improvements our facility currently has an annual production capacity of approximately 1.4 billion pounds. In 2012, we produced 1.26 billion pounds of propylene. We believe the former ExxonMobil site was ideally suited for the development of our project based on its location, infrastructure, utilities, permits, logistics and certain operating units that we were able to utilize in the PDH process. As part of our purchase of the site, we acquired all major environmental and regulatory permits, and we were able to take advantage of these permits through amendments to reflect the specifications of the PDH process.

Our facility is situated within the largest propylene consumption region in North America. We also have access through third parties to the leading global fractionation and storage hub for propane, our feedstock, located at Mt. Belvieu, Texas, which is approximately 30 miles from our facility.

Our customer contracts provide for potential maximum offtake volumes of approximately 1.454 billion pounds of propylene, approximately 100% of our maximum annual production capacity. We believe that our facility has adequate capabilities to provide our customers with their contracted volumes of propylene. In the event that production at our facility is curtailed for any reason (including because of mechanical failure) and we elect not to declare force majeure, we believe that we will be able to satisfy our obligations under our customer contracts through our inventory and spot-market purchases of propylene.

The following is an illustration of the extensive pipeline system connected to our facility which makes our location well-suited to the business of propylene production, followed by a table indicating pipeline system ownership:

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Pipeline	Ownership
Propane	Enterprise
Propane (unutilized)	ETP Regency Midstream
PGP	PetroLogistics
CGP	PetroLogistics
C4 Mix Stream (inactive)	PetroLogistics
C5+ Stream	PetroLogistics
Coker Gas (unutilized)	LyondellBasell
FCC Gas (unutilized)	Valero
Hydrogen Delivery	Praxair
Nitrogen Delivery	Praxair
Natural Gas	Kinder Morgan

Our PDH Technology

Propane dehydrogenation is a straightforward chemical process that produces propylene by removing two atoms of hydrogen (H₂) from one molecule of propane (C₃H₈) to produce one molecule of propylene (C₃H₆). The technology that is used is the CATOFIN process, which is licensed by CB&I Lummus to us on a non-exclusive and perpetual basis. We selected this technology because of its straightforward design, its record of high reliability and expected low operating costs. Further,