Cypress Energy Partners, L.P.
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2016

or

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

FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission File Number 001-36260

CYPRESS ENERGY PARTNERS, L.P.

(Exact name of Registrant as specified in its charter)

Delaware	**61-1721523**
(State of or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5727 South Lewis Avenue, Suite 300
Tulsa, Oklahoma **74105**
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: **(918) 748-3900**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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 Exchange Act).
Yes No

The registrant's common units began trading on the New York Stock Exchange on January 15, 2014.

As of May 16, 2016, the registrant had 5,928,067 common units and 5,913,000 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Table of Contents

Table Of Contents

NAMES OF ENTITIES

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to “Cypress Energy Partners, L.P.,” “our partnership,” “we,” “our,” “us,” or like terms, refer to Cypress Energy Partners, L.P. and its subsidiaries.

References to:

“ *Brown* ” refers to Brown Integrity, LLC, a 51% owned subsidiary of CEP LLC acquired May 1, 2015;

“ *Brown-PUC* ” refers to Brown Integrity-PUC, LLC, a 100% owned subsidiary of Brown;

“ *CEM LLC* ” refers to Cypress Energy Management, LLC, a wholly owned subsidiary of the General Partner;

“ *CEM TIR* ” refers to Cypress Energy Management - TIR, LLC, a wholly owned subsidiary of CEM LLC;

“ *CEM-BO* ” refers to Cypress Energy Management – Bakken Operations, LLC, a wholly owned subsidiary of CEM LLC;

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

“ *CEP-TIR* ” refers to Cypress Energy Partners – TIR, LLC, an indirect subsidiary of Holdings, and an owner of 673,400 common units representing 11.4% of our outstanding common units, 673,400 subordinated units representing 11.4% of our subordinated units and an owner of a 36.2% interest in the TIR Entities prior to the sale of its interests to the Partnership effective February 1, 2015;

“ *CES LLC* ” refers to Cypress Energy Services, LLC, a wholly owned subsidiary as of June 1, 2015 that performs management services for our salt water disposal (“SWD”) facilities, as well as third party facilities. SBG Energy Services, LLC (“SBG Energy”) owned 49% of CES LLC prior to the Partnership’s June 1, 2015 acquisition of this ownership interest;

“ *CF Inspection* ” refers to CF Inspection Management, LLC, owned 49% by TIR-PUC and consolidated under generally accepted accounting principles by TIR-PUC. CF Inspection is 51% owned, managed and controlled by

Cynthia A. Field, an affiliate of Holdings;

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

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

“ *Holdings II* ” refers to Cypress Energy Holdings II, LLC, the owner of 671,250 common units representing 11.3% of our outstanding common units and 4,939,299 subordinated units representing 83.5% of our subordinated units;

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

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

“PIS” refers to our Pipeline Inspection Services business segment;

“ *TIR Entities* ” refer collectively to TIR LLC and its subsidiary, TIR Holdings and its subsidiaries and TIR-NDE, all of which were 50.1% owned by CEP LLC from our initial public offering (“IPO”) until February 1, 2015, at which time CEP LLC acquired the remaining interests from affiliates of Holdings and now owns 100%;

“ *TIR Holdings* ” refers to Tulsa Inspection Resources Holdings, LLC;

“ *TIR LLC* ” refers to Tulsa Inspection Resources, LLC;

“ *TIR-Canada* ” refers to Tulsa Inspection Resources – Canada ULC, a Canadian subsidiary of TIR Holdings;

“ *TIR-Foley* ” refers to Foley Inspection Services ULC, a former Canadian subsidiary of TIR Holdings that was amalgamated into TIR-Canada as of January 1, 2016;

“ *TIR-NDE* ” refers to Tulsa Inspection Resources – Nondestructive Examination, LLC;

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

“W&ES” refers to our Water and Environmental Services business segment.

3

Table Of Contents

CAUTIONARY REMARKS REGARDING FORWARD LOOKING STATEMENTS

The information discussed in this Quarterly Report on Form 10-Q includes “forward-looking statements.” These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achievable,” “anticipate,” “continue,” “potential,” “should,” “could,” and similar terms and phrase Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties and we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under “*Item 1A – Risk Factors*” and “*Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations*” in our Annual Report on Form 10-K for the year ended December 31, 2015 and in this report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Quarterly Report on Form 10-Q and speak only as of the date of this Quarterly Report on Form 10-Q. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

Table Of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Unaudited Condensed Consolidated Financial Statements

CYPRESS ENERGY PARTNERS, L.P.
Unaudited Condensed Consolidated Balance Sheets
As of March 31, 2016 and December 31, 2015
(in thousands, except unit data)

	March 31, 2016	December 31, 2015 *(as adjusted)*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,850	$ 24,150
Trade accounts receivable, net	40,704	48,265
Prepaid expenses and other	1,989	2,329
Total current assets	68,543	74,744
Property and equipment:		
Property and equipment, at cost	24,136	23,706
Less: Accumulated depreciation	6,039	5,369
Total property and equipment, net	18,097	18,337
Intangible assets, net	31,851	32,486
Goodwill	65,363	65,273
Other assets	-	42
Total assets	$ 183,854	$ 190,882
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,420	$ 2,205
Accounts payable - affiliates	517	913
Accrued payroll and other	8,572	7,095
Income taxes payable	529	350
Total current liabilities	12,038	10,563
Long-term debt	135,269	139,129
Deferred tax liabilities	393	371
Asset retirement obligations	117	117
Total liabilities	147,817	150,180

Commitments and contingencies - Note 9

Owners' equity:		
Partners' capital:		
Common units (5,928,067 and 5,920,467 units outstanding at March 31, 2016 and December 31, 2015, respectively)	(1,890)	253
Subordinated units (5,913,000 units outstanding at March 31, 2016 and December 31, 2015)	56,767	59,143
General partner	(25,876)	(25,876)
Accumulated other comprehensive loss	(2,203)	(2,791)
Total partners' capital	26,798	30,729
Non-controlling interests	9,239	9,973
Total owners' equity	36,037	40,702
Total liabilities and owners' equity	$ 183,854	$ 190,882

See accompanying notes.

5

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.
Unaudited Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2016 and 2015
(in thousands, except unit and per unit data)

	Three Months Ended March 31, 2016	2015
Revenues	$73,474	$94,066
Costs of services	65,714	83,517
Gross margin	7,760	10,549
Operating costs and expense:		
General and administrative	6,189	5,262
Depreciation, amortization and accretion	1,225	1,258
Operating income	346	4,029
Other (expense) income:		
Interest expense, net	(1,618)	(1,007)
Other, net	23	8
Net income (loss) before income tax expense	(1,249)	3,030
Income tax expense	112	204
Net income (loss)	(1,361)	2,826
Net income (loss) attributable to non-controlling interests	(367)	167
Net income (loss) attributable to partners / controlling interests	(994)	2,659
Net (loss) attributable to general partner	(968)	-
Net income (loss) attributable to limited partners	$(26)	$2,659
Net income (loss) attributable to limited partners allocated to:		
Common unitholders	$(13)	$1,330
Subordinated unitholders	(13)	1,329
	$(26)	$2,659
Net income (loss) per common limited partner unit - basic and diluted	$(0.00)	$0.22
Net income (loss) per subordinated limited partner unit - basic and diluted	$(0.00)	$0.22
Weighted average common units outstanding - basic and diluted	5,923,167	5,915,159
Weighted average subordinated units outstanding - basic and diluted	5,913,000	5,913,000

See accompanying notes.

6

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.
Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2016 and 2015
(in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	$(1,361)	$2,826
Other comprehensive income (loss) - foreign currency translation	588	(885)
Comprehensive income (loss)	$(773)	$1,941
Comprehensive (loss) attributable to non-controlling interests	(367)	(290)
Comprehensive (loss) attributable to general partner	(968)	-
Comprehensive income attributable to controlling interests	$562	$2,231

See accompanying notes.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.
Unaudited Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2016 and 2015
(in thousands)

	Three Months Ended March 31, 2016	2015
Operating activities:		
Net income (loss)	$(1,361)	$2,826
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,433	1,314
Loss on asset disposal	-	3
Interest expense from debt issuance cost amortization	140	134
Amortization of equity-based compensation	317	211
Equity earnings in investee company	(17)	(2)
Distributions from investee company	63	-
Deferred tax benefit, net	36	-
Non-cash allocated expenses	968	-
Changes in assets and liabilities:		
Trade accounts receivable	7,561	1,870
Prepaid expenses and other	334	383
Accounts payable and accrued payroll and other	1,329	6,739
Income taxes payable	179	67
Net cash provided by operating activities	10,982	13,545
Investing activities:		
Acquisition of 49.9% interest in the TIR Entities (Note 3)	-	(52,588)
Purchase of property and equipment	(496)	(930)
Net cash used in investing activities	(496)	(53,518)
Financing activities:		
Advances on long-term debt	-	52,600
Repayment of long-term debt	(4,000)	-
Distributions to limited partners	(4,810)	(4,806)
Distributions to non-controlling members	(367)	(1,421)
Net cash provided by (used in) financing activities	(9,177)	46,373
Effect of exchange rates on cash	391	(616)
Net increase in cash and cash equivalents	1,700	5,784
Cash and cash equivalents, beginning of period	24,150	20,757
Cash and cash equivalents, end of period	$25,850	$26,541
Non-cash items:		
Accounts payable excluded from capital expenditures	$67	$51

See accompanying notes.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.
Unaudited Condensed Consolidated Statement of Owners' Equity
For the Three Months Ended March 31, 2016
(in thousands)

	General Partner	Common Units	Subordinated Units	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Owners' Equity
Owners' equity at December 31, 2015	$(25,876)	$ 253	$ 59,143	$ (2,791)	$ 9,973	$ 40,702
Net income for the period January 1, 2016 through March 31, 2016	(968)	(13)	(13)	-	(367)	(1,361)
Foreign currency translation adjustment	-	-	-	588	-	588
Contribution from general partner	968	-	-	-	-	968
Distributions to partners	-	(2,407)	(2,403)	-	-	(4,810)
Distributions to non-controlling interests	-	-	-	-	(367)	(367)
Equity-based compensation	-	277	40	-	-	317
Owners' equity at March 31, 2016	$(25,876)	$ (1,890)	$ 56,767	$ (2,203)	$ 9,239	$ 36,037

See accompanying notes.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Organization and Operations

Cypress Energy Partners, L.P. (the “Partnership”) is a Delaware limited partnership formed in 2013 to provide independent pipeline inspection and integrity services to producers, public utility companies and pipeline companies and to provide salt water disposal (“SWD”) and other water and environmental services to U.S. onshore oil and natural gas producers and trucking companies. Trading of our common units began January 15, 2014 on the New York Stock Exchange under the symbol “CELP.” At our Initial Public Offering (“IPO”), 4,312,500 of our outstanding 5,928,067 common units were made available to the general public. The remaining common units and 100% of the subordinated units are constructively owned by affiliates, employees and directors of the Partnership.

Our business is organized into the Pipeline Inspection Services (“PIS”), Integrity Services (“IS”) and Water and Environmental Services (“W&ES”) reportable segments. In conjunction with our acquisition of a 51% interest in Brown Integrity, LLC (see Note 3), we changed our reportable segments during the second quarter of 2015 by adding the IS segment (see Note 10). In addition, the Pipeline Inspection and Integrity Services segment was renamed Pipeline Inspection Services. PIS provides pipeline inspection and other services to energy exploration and production (“E&P”) companies, public utility companies, and mid-stream companies and their vendors throughout the United States and Canada. The inspectors of PIS perform a variety of inspection services on midstream pipelines, gathering systems and distribution systems, including data gathering and supervision of third-party construction, inspection, and maintenance and repair projects.

IS provides independent integrity services to major natural gas and petroleum pipeline companies, as well as pipeline construction companies located throughout the United States. Field personnel in this segment primarily perform hydrostatic testing on newly constructed and existing natural gas and petroleum pipelines.

W&ES provides services to oil and natural gas producers and trucking companies through its ownership and operation of eight commercial SWD facilities in the Bakken Shale region of the Williston Basin in North Dakota and two in the Permian Basin in Texas. All of the facilities utilize specialized equipment and remote monitoring to minimize downtime and increase efficiency for peak utilization. These facilities also contain oil skimming processes that remove any remaining oil from water delivered to the sites. In addition to these SWD facilities, we provide management and staffing services for a third-party SWD facility pursuant to a management agreement (see Note 7). We also own a 25% member interest in the managed SWD facility.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The Unaudited Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2016 and 2015 include our accounts and those of our controlled subsidiaries. Investments where we do not have the ability to exercise control, but do have the ability to exercise significant influence, are accounted for using the equity method of accounting. All significant intercompany transactions and account balances have been eliminated in consolidation. The Unaudited Condensed Consolidated Balance Sheet at December 31, 2015 is derived from audited financial statements. We have made certain reclassifications to the prior period financial statements to conform with classification methods used in the current fiscal year. These reclassifications have had the effect of reducing previously reported total assets and total liabilities as the adoption of required accounting guidance from the Financial Accounting Standards Board ("FASB") necessitated the netting presentation of certain assets and liabilities.

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim consolidated financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. The Unaudited Condensed Consolidated Financial Statements include all adjustments considered necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. Accordingly, the Unaudited Condensed Consolidated Financial Statements do not include all the information and notes required by GAAP for complete consolidated financial statements. However, we believe that the disclosures made are adequate to make the information not misleading. These interim Unaudited Condensed Consolidated Financial Statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2015 included in our Form 10-K. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

Use of Estimates in the Preparation of Financial Statements

The preparation of the Unaudited Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Accounting Policies

Our significant accounting policies are consistent with those disclosed in Note 2 included in our audited financial statements as of and for the year ended December 31, 2015 included in our Form 10-K.

Income Taxes

A publicly-traded partnership is required to generate at least 90% of its gross income (as defined for federal income tax purposes) from certain qualifying sources. At least 90% of our gross income has been qualifying income since our IPO.

As a limited partnership, we generally are not subject to federal, state or local income taxes. The tax on the Partnership's net income (loss) is generally borne by the individual partners. Net income (loss) for financial statement purposes may differ significantly from taxable income of the partners as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under our partnership agreement. The aggregated difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined because information regarding each partners' tax attributes in us is not available to us. The Partnership's Canadian activity remains taxable in Canada, as well as the activities of a wholly owned subsidiary, Tulsa Inspection Resources – PUC, LLC ("TIR-PUC") and a 51% owned and controlled subsidiary, Brown Integrity – PUC, LLC ("Brown-PUC"), both of which have elected to be taxed as corporations for U.S. federal income tax purposes. Consequently, the Partnership records income tax expense for our Canadian operations, our U.S. corporate operations and any state income and franchise taxes specifically applicable to the Partnership.

Non-controlling Interest

We have certain consolidated subsidiaries in which outside parties own interests. The non-controlling interest shown in our Unaudited Condensed Consolidated Financial Statements represents the other owners' share of these entities.

Identifiable Intangible Assets

Our recorded identifiable intangible assets primarily include customer lists, trademarks and trade names. Identifiable intangible assets with finite lives are amortized over their estimated useful lives, which is the period over which the asset is expected to contribute directly or indirectly to our future cash flows. We have no indefinite-lived intangibles other than goodwill. The determination of the fair value of the intangible assets and the estimated useful lives are based on an analysis of all pertinent factors including (1) the use of widely-accepted valuation approaches, the income approach, or the cost approach, (2) our expected use of the asset, (3) the expected useful life of related assets, (4) any legal, regulatory, or contractual provisions, including renewal or extension periods that would cause substantial costs or modifications to existing agreements, and (5) the effects of demand, competition, and other economic factors. Should any of the underlying assumptions indicate that the value of the intangible assets might be impaired, we may be required to reduce the carrying value and subsequent useful life of the asset. If the underlying assumptions governing the amortization of an intangible asset were later determined to have significantly changed, we may be required to adjust the amortization period of such asset to reflect any new estimate of its useful life. Any write-down of the value or unfavorable change in the useful life of an intangible asset would increase expense at that time. There were no impairments of identifiable intangible assets during the three month periods ended March 31, 2016 and 2015.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

Goodwill

Goodwill is not amortized, but is subject to an annual review on November 1 (or at other dates if events or changes in circumstances indicate that the carrying value of goodwill may be impaired) for impairment at a reporting unit level. The reporting unit or units used to evaluate and measure goodwill for impairment are determined primarily from the manner in which the business is managed or operated. A reporting unit is an operating segment or a component that is one level below an operating segment. We have determined that PIS, IS and W&ES are the appropriate reporting units for testing goodwill impairment. The accounting estimate relative to assessing the impairment of goodwill is a critical accounting estimate for each of our reportable segments. If future results do not meet internal forecasts, it is possible that we could incur impairments in future periods. There were no impairments of goodwill during the three month periods ended March 31, 2016 and 2015.

Impairments of Long-Lived Assets

We assess property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Such indicators include, among others, the nature of the asset, the projected future economic benefit of the asset, changes in regulatory and political environments and historical and future cash flow and profitability measurements. If the carrying value of an asset exceeds the future undiscounted cash flows expected from the asset, we recognize an impairment charge for the excess of carrying value of the asset over its estimated fair value. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses and the outlook for national or regional market supply and demand for the services we provide. If future results do not meet internal forecasts, it is possible that we could incur impairments in future periods. There were no impairments of long-lived assets recorded for the three month periods ended March 31, 2016 and 2015.

New Accounting Standards

The FASB issued Accounting Standards Update (“ASU”) 2016-09 – *Compensation – Stock Compensation* in March 2016. The purpose of the guidance is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and all interim periods within that year. Although early adoption is permitted, the Partnership currently is not anticipating early adoption. We are currently in the process of determining the impact this guidance may have on the Unaudited Condensed Consolidated Financial Statements of the Partnership, but do not expect the adoption of this guidance to materially affect our financial position, results of operations or cash flows.

The FASB issued ASU 2016-02 – *Leases* in February 2016. This guidance was proposed in an attempt to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and this new guidance is the recognition on the balance sheets of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. We are currently examining the guidance provided in the ASU and determining the impact this guidance will have on our Unaudited Condensed Consolidated Financial Statements.

The FASB issued ASU 2015-17 – *Income Taxes* in November 2015. ASU 2015-17 was issued as a part of the FASB's initiative to reduce complexity in accounting standards. This ASU is effective for annual and interim periods beginning after December 15, 2016 with earlier application permitted as of the beginning of an annual reporting period. The Partnership has elected early application of this guidance beginning January 1, 2016. The guidance simplifies the presentation of deferred income taxes by requiring deferred tax liabilities and assets be classified as noncurrent in a classified consolidated balance sheet. Therefore, the Partnership's deferred tax assets and liabilities have been classified as noncurrent in the Unaudited Condensed Consolidated Balance Sheets for all periods presented.

Business Combinations – ASU 2015-16 was issued by the FASB in September 2015. Essentially, the amendments in the ASU require an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This will require the Partnership to disclose, by line item, current period earnings adjustments to amounts that otherwise would have been recorded in previous reporting periods as if the adjustment(s) had been recognized as of the acquisition date beginning with fiscal periods after December 15, 2015. Although the Partnership has adopted this accounting guidance as of January 1, 2016, its adoption has had no impact on our historical financial position, results of operations or cash flows.

The FASB issued ASU 2015-06 – *Earnings Per Share* in April 2015. The amendments in this update specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. The amendments should be applied retrospectively for all financial statements presented. The Partnership adopted this guidance beginning January 1, 2016. The adoption of this guidance did not materially impact our financial position, results of operations or cash flows.

The FASB issued ASU 2015-05 – *Intangibles – Goodwill and Other – Internal-Use Software* in April 2015 as part of its simplification initiative. The amendments in this ASU provide guidance to customers for license fees paid in a cloud computing arrangement. The effective date for adoption of this ASU for public companies is for annual periods beginning after December 15, 2015. As a result, the Partnership adopted this guidance as of January 1, 2016 and its adoption has not materially impacted our financial position, results of operations or cash flows.

The FASB issued ASU 2015-03 – *Interest – Imputation of Interest* in April 2015. This guidance requires debt issuance costs related to long-term debt be presented on the balance sheet as a reduction of the carrying amount of the long-term debt. The Partnership has adopted this guidance beginning January 1, 2016. As a result of the adoption of this ASU, we have been required to net the Partnership's debt issuance costs against *long-term debt* for all periods presented, moving the debt issuance costs from noncurrent assets to noncurrent liabilities on the Partnership's Unaudited Condensed Consolidated Balance Sheets.

The FASB issued ASU 2014-09 – *Revenue from Contracts with Customers* in May 2014. ASU 2014-09 is intended to clarify the principles for recognizing revenue and develop a common standard for recognizing revenue for GAAP and International Financial Reporting Standards that is applicable to all organizations. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers – Deferral of the Effective Date*, delaying the effective date to implement this guidance for the Partnership to 2018. We are currently evaluating the impact of this ASU on the Partnership, but do not anticipate that the adoption of this ASU will materially impact our financial position, results of operations or cash flows.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

3. Acquisitions

Brown Integrity, LLC

In May 2015, the Partnership acquired a 51% interest in Brown Integrity, LLC ("Brown"), a hydrostatic testing integrity services business for $10.4 million (net of cash acquired) financed through the Partnership's credit facilities. The Partnership has the right, but not the obligation, to acquire the remaining 49% of Brown in any combination of cash and/or units commencing May 1, 2017 pursuant to a formula prescribed in the purchase document. The operating results of Brown are included in our Integrity Services segment which was created during the second quarter of 2015 in conjunction with the Brown acquisition (see Note 10).

TIR Entities

Effective February 1, 2015, the Partnership acquired the remaining 49.9% interest in the TIR Entities previously held by affiliates of Cypress Energy Holdings, LLC ("Holdings") for $52.6 million. We financed this acquisition with borrowings under our acquisition revolving credit facility (see Note 4).

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

4. Credit Agreement

The Partnership is party to a credit agreement (as amended, the "Credit Agreement") that provides up to $200.0 million in borrowing capacity, subject to certain limitations. The Credit Agreement includes a working capital revolving credit facility ("WCRCF"), which provides up to $75.0 million in borrowing capacity to fund working capital needs and an acquisition revolving credit facility ("ARCF"), which provides up to $125.0 million in borrowing capacity to fund acquisitions and expansion projects. In addition, the Credit Agreement provides for an accordion feature that allows us to increase the availability under the facilities by an additional $125.0 million. The Credit Agreement matures December 24, 2018.

Outstanding borrowings at March 31, 2016 and December 31, 2015 under the Credit Agreement were as follows:

		March 31, 2016	**December 31, 2015**
		(in thousands)	
Working Capital Revolving Credit Facility	(WCRCF)	$48,000	$ 52,000
Acquisition Revolving Credit Facility	(ARCF)	88,900	88,900
Total borrowings		136,900	140,900
Debt issuance costs, net		1,631	1,771
Long-term debt		$ 135,269	$ 139,129

Borrowings under the WCRCF are limited by a monthly borrowing base calculation as defined in the Credit Agreement. If, at any time, outstanding borrowings under the WCRCF exceed the Partnership's calculated borrowing base, principal in the amount of the excess is due upon submission of the borrowing base calculation. Available borrowings under the ARCF may be limited by certain financial covenant ratios as defined in the Credit Agreement. The obligations under our Credit Agreement are secured by a first priority lien on substantially all assets of the Partnership.

All borrowings under the Credit Agreement bear interest, at our option, on a leveraged based grid pricing at (i) a base rate plus a margin of 1.25% to 2.75% per annum ("Base Rate Borrowing") or (ii) an adjusted LIBOR rate plus a margin of 2.25% to 3.75% per annum (“LIBOR Borrowings”). The applicable margin is determined based on the leverage ratio of the Partnership, as defined in the Credit Agreement. Generally, the interest rate on Credit Agreement borrowings ranged between 3.54% and 4.19% for the three months ended March 31, 2016 and 2.68% and 3.27% for the three months ended March 31, 2015. Interest on Base Rate Borrowings is payable monthly. Interest on LIBOR Borrowings is paid upon maturity of the underlying LIBOR contract, but no less often than quarterly. Commitment fees are charged at a rate of 0.50% on any unused credit and are payable quarterly. Interest paid during the three months ended March 31, 2016 and 2015 was $1.3 million and $0.8 million, respectively, including commitment fees.

Our Credit Agreement contains various customary affirmative and negative covenants and restrictive provisions. It also requires maintenance of certain financial covenants, including a combined total adjusted leverage ratio (as defined in our Credit Agreement) of not more than 4.0 to 1.0 and an interest coverage ratio (as defined in our Credit Agreement) of not less than 3.0 to 1.0. At March 31, 2016, our total adjusted leverage ratio was 3.44 to 1.0 and our interest coverage ratio was 3.92 to 1.0, pursuant to the Credit Agreement. Upon the occurrence and during the continuation of an event of default, subject to the terms and conditions of our Credit Agreement, the lenders may declare any outstanding principal of our Credit Agreement debt, together with accrued and unpaid interest, to be immediately due and payable and may exercise the other remedies set forth or referred to in our Credit Agreement. We expect to remain in compliance with all of our financial debt covenants throughout the next twelve months.

In addition, our Credit Agreement restricts our ability to make distributions on, or redeem or repurchase, our equity interests. However, we may make distributions of available cash so long as, both at the time of the distribution and after giving effect to the distribution, no default exists under our Credit Agreement, the borrowers and the guarantors are in compliance with the financial covenants, the borrowing base (which includes 100% of cash on hand) exceeds the amount of outstanding credit extensions under the WCRCF by at least $5.0 million and at least $5.0 million in lender commitments are available to be drawn under the WCRCF.

5. Income Taxes

Income tax expense reflected on the Unaudited Condensed Consolidated Statements of Operations for the three month periods ended March 31, 2016 and 2015 differs from an expected statutory rate of 35% primarily due to the non-taxable nature of partnership earnings for both U.S. federal and, in most cases, state income tax purposes, offset by the corporate income taxes of TIR-PUC and Brown-PUC, the income taxes related to our Canadian operations and any applicable state income taxes.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

6. Equity Compensation

Our General Partner has adopted a long-term incentive plan ("LTIP") that has authorized the issuance of up to 1,182,600 common units. Certain directors and employees of the Partnership have been awarded Phantom Restricted Units ("Units") under the terms of the LTIP. The fair value of the awards issued is determined based on the quoted market value of the publically traded common units at each grant date, adjusted for a forfeiture rate, and other discounts attributable to the awarded Units. This valuation is considered a Level 3 valuation under the fair value measurement hierarchy. Compensation expense is amortized over the vesting period of the grant. For the three months ended March 31, 2016 and 2015, compensation expense of $0.3 million and $0.2 million, respectively, was recorded under the LTIP. The following table sets forth the LTIP Unit activity for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
	Number of Units	Weighted Average Grant Date Fair Value / Unit	Number of Units	Weighted Average Grant Date Fair Value / Unit
Units at January 1	361,698	$ 14.30	158,353	$ 18.11
Units granted	331,098	6.33	168,070	13.42
Units vested and issued	(8,208)	(16.71)	(3,634)	(18.61)
Units forfeited	(14,165)	(14.74)	(4,372)	(18.10)
Units at March 31	670,423	10.33	318,417	15.63

Outstanding Units issued to directors vest ratably over a three year period from the date of grant. Units granted to employees vest over either five year, three year or eighteen month periods from the date of grant. For the five year awards, one third vests at the end of the third year, one third at the end of the fourth year and one third at the end of the fifth year. The eighteen month awards vest 100% at the end of the vesting period. Certain Units issued in the third quarter of 2015 and the first quarter of 2016 vest 100% at the end of three years if certain performance measures are met as outlined in the performance award grant. Some of the awards vest in full upon the occurrence of certain events as defined in the LTIP agreement.

Certain phantom profits interest units issued under a previous LTIP were exchanged for 44,250 Units under the Partnership's LTIP. Vesting under all of the exchanged awards was retroactive to the initial grant date. The awards are considered for all purposes to have been granted under the Partnership's LTIP. Certain profits interest units previously issued were converted into 44,451 subordinated units of the Partnership outside of the LTIP. Vesting for the subordinated units is retroactive to the initial grant date. Compensation expense associated with these subordinated units was less than $0.1 million for the three months ended March 31, 2016 and 2015.

7. Related-Party Transactions

Transactions with SBG Energy Services, LLC (SBG Energy) and Subsidiary

SBG Energy is a business partner in our SWD operations in which a former board member has an ownership and management interest. This former board member resigned effective March 31, 2016. Effective June 1, 2015, an affiliate of SBG Energy assigned and transferred its 49% membership interest in Cypress Energy Services, LLC ("CES LLC") to the Partnership for one dollar. As a result, the Partnership now owns 100% of CES LLC.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

Omnibus Agreement

We have entered into an omnibus agreement with Holdings and other related parties. The omnibus agreement, as amended in February 2015, governs the following matters, among other things:

- our payment of a quarterly administrative fee in the amount of $1.01 million to Holdings, for providing certain partnership overhead services, including certain executive management services by certain officers of our General Partner, and payroll services for substantially all employees required to manage and operate our businesses. This fee also includes the incremental general and administrative expenses we incur as a result of being a publicly traded partnership. For the quarter ended March 31, 2016, Holdings has provided sponsor support to the Partnership by waiving payment of the quarterly administrative fee. The waiving of the administrative fee will likely continue through the end of 2016 or such earlier time that our business results improve, as determined by Holdings;

- our right of first offer on Holdings' and its subsidiaries' assets used in, and entities primarily engaged in, providing SWD and other water and environmental services; and

- indemnification of us by Holdings for certain environmental and other liabilities, including events and conditions associated with the operation of assets that occurred prior to the closing of the IPO and our obligation to indemnify Holdings for events and conditions associated with the operation of our assets that occur after the closing of the IPO and for environmental liabilities related to our assets to the extent Holdings is not required to indemnify us.

So long as Holdings controls our General Partner, the omnibus agreement will remain in effect, unless we and Holdings agree to terminate it sooner. If Holdings ceases to control our General Partner, either party may terminate the omnibus agreement, provided that the indemnification obligations will remain in full force and effect in accordance with their terms. We and Holdings may agree to amend the omnibus agreement; however, amendments will also require the approval of the Conflicts Committee of our Board of Directors.

The amount charged by Holdings for the three months ended March 31, 2015 was $1.01 million. This amount is reflected in *general and administrative* in the Unaudited Condensed Consolidated Statements of Operations. Holdings incurred general and administrative expenses on our behalf totaling $1.0 million in the first quarter of 2016. As Holdings waived payment of these expenses for the first quarter of 2016, they are reflected as *general and administrative* in the Unaudited Condensed Consolidated Statement of Operations and as an equity contribution attributable to the General Partner in the Unaudited Condensed Consolidated Statement of Owner's Equity for the three months ended March 31, 2016.

Other Related Party Transactions

A former board member has an ownership interest in entities with which the Partnership transacts business – Creek Energy Services, LLC ("Creek," formerly Rud Transportation, LLC) and SBG Pipeline SW 3903, LLC ("3903"). Total revenue recognized by the Partnership from Creek was \$0.1 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively. Accounts receivable from Creek were \$0.1 million at March 31, 2016 and December 31, 2015 and are included in *trade accounts receivable, net* in the Unaudited Condensed Consolidated Balance Sheets. Total revenue recognized by the Partnership from 3903 was \$0.2 million for the three months ended March 31, 2015, prior to the sale of the ownership interest to an unrelated third party effective June 30, 2015. CES LLC outsources staffing and payroll services to an unconsolidated affiliated entity, Cypress Energy Management – Bakken Operations, LLC ("CEM-BO"). CEM-BO was owned 49% by SBG Energy. Effective June 1, 2015, Holdings acquired the 49% ownership interest of CEM-BO and now owns 100% of CEM-BO. Total employee related costs paid to CEM-BO was \$0.7 million for the three months ended March 31, 2015.

The Partnership provides management services to a 25% owned investee company, Alati Arnegard, LLC ("Arnegard"). Management fee revenue earned from Arnegard totaled \$0.2 million and \$0.1 million for the three months ended March 31, 2016 and 2015, respectively. Accounts receivable from Arnegard were \$0.1 million at March 31, 2016 and December 31, 2015, and are included in *trade accounts receivable, net* in the Unaudited Condensed Consolidated Balance Sheets.

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

8. Earnings per Unit and Cash Distributions

Net income (loss) per unit applicable to limited partners (including subordinated unitholders) is computed by dividing net income (loss) attributable to limited partners, after deducting the General Partner's incentive distributions, if any, by the weighted-average number of outstanding common and subordinated units. Diluted net income (loss) per common unit includes the dilutive impact of unvested Units granted under the LTIP. Our net income (loss) attributable to limited partners is allocated to the common and subordinated unitholders in accordance with their respective partnership percentages, after giving effect to priority income allocations for incentive distributions and other adjustments, if any, to our General Partner, pursuant to our partnership agreement. The excess or shortfall of earnings relative to distributions is allocated to the limited partners based on their respective ownership interests. Payments made to our unitholders are determined in relation to actual distributions declared and are not based on the net income (loss) allocations used in the calculation of net income (loss) per unit. For the three months ended March 31, 2016, the weighted-average number of units outstanding was 11,836,167, comprised of 5,923,167 common units and 5,913,000 subordinated units. For the three month period ended March 31, 2015, the weighted-average number of units outstanding was 11,828,159, comprised of 5,915,159 common units and 5,913,000 subordinated units.

In addition to the common and subordinated units, we have also identified incentive distribution rights as participating securities and use the two-class method when calculating the net income (loss) per unit applicable to limited partners, which is based on the weighted-average number of units outstanding during the period.

Our partnership agreement calls for minimum quarterly cash distributions. The following table summarizes the cash distributions declared and paid by the Partnership since our IPO. There were no cash distributions declared or paid prior to these distributions.

Payment Date	Per Unit Cash Distributions	Total Cash Distributions	Total Cash Distributions to Affiliates (a)
	(in thousands)		

May 15, 2014 (b)	$0.301389	$ 3,565	$ 2,264
August 14, 2014	0.396844	4,693	2,980
November 14, 2014	0.406413	4,806	3,052
Total 2014 Distributions	1.104646	13,064	8,296
February 14, 2015	0.406413	4,806	3,052
May 14, 2015	0.406413	4,808	3,053
August 14, 2015	0.406413	4,809	3,087
November 13, 2015	0.406413	4,809	3,092
Total 2015 Distributions	1.625652	19,232	12,284
February 12, 2016	0.406413	4,810	3,107
May 13, 2016 (c)	0.406413	4,812	3,099
Total Distributions (through May 13, 2016 since IPO)	$3.543124	$ 41,918	$ 26,786

(a) Approximately 64.4% of the Partnership's outstanding units at March 31, 2016 are held by affiliates.
(b) Distribution was pro-rated from the date of our IPO through March 31, 2014.
(c) First quarter 2016 distribution was declared and paid in the second quarter of 2016.

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

In the quarter ended March 31, 2016, Brown made cash distributions of $0.4 million to the non-controlling members of Brown. In addition, the TIR Entities made cash distributions of $1.4 million during the three month period ended March 31, 2015 to the non-controlling members of the TIR Entities prior to the Partnership's acquisition of the remaining 49.9% interest effective February 1, 2015.

9. Commitments and Contingencies

Letters of Credit

The Partnership has various performance obligations which are secured with short-term security deposits of $0.5 million at March 31, 2016 and December 31, 2015, included in *prepaid expenses and other* on the Unaudited Condensed Consolidated Balance Sheets.

Employment Contract Commitments

The Partnership has employment agreements with certain executives. The executive employment agreements are effective for a term of three-to-five years from the commencement date, after which time they will continue on an "at-will" basis. These agreements provide for minimum annual compensation, adjusted for annual increases as authorized by the Board of Directors. Certain agreements provide for severance payments in the event of specified termination of employment. At March 31, 2016 and December 31, 2015, the aggregate commitment for future compensation and severance was approximately $1.3 million and $1.4 million, respectively.

Compliance Audit Contingencies

Certain customer master service agreements ("MSA's") offer our customers the opportunity to perform periodic compliance audits, which include the examination of the accuracy of our invoices. Should our invoices be determined to be inconsistent with the MSA, or inaccurate, the MSA's may provide the customer the right to receive a credit or refund for any overcharges identified. At any given time, we may have multiple audits ongoing. Several multi-year audits concluded in 2015 without adjustment to the Partnership. At December 31, 2015, the Partnership had an estimated liability of $0.1 million recorded for a specific compliance audit that was settled in March 2016.

Management Service Contracts

The Partnership has historically provided management services for non-owned SWD facilities under contractual arrangements. Principals of two of these management services contract customers (under common control) approached the Partnership about selling their interest in the managed SWD facilities to the Partnership. Due to a number of factors, including the depressed energy economy and the proposed asking price for these facilities, the Partnership was unwilling to enter into a purchase agreement for the facilities. Subsequently, in May 2015, the Partnership was notified by these principals that they were terminating the management contracts related to these two facilities. While management of the Partnership believes that the parties do not have the right to terminate the agreements pursuant to the terms of the agreements, the termination of these agreements has resulted in a reduction of management fee revenue and corresponding labor costs associated with staffing the facilities. Management fee revenues related to these contracts totaled $0.3 million for the three month period ended March 31, 2015. The Partnership did not record any revenue related to these contracts during the three months ended March 31, 2016. The Partnership has commenced litigation and settlement discussions regarding the improper termination of the agreements. (See *Legal Proceedings*.)

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

Legal Proceedings

On July 3, 2014, a group of former minority shareholders of Tulsa Inspection Resources, Inc. ("TIR Inc.", the predecessor of the TIR Entities), formerly an Oklahoma corporation, filed a civil action in the United States District Court for the Northern District of Oklahoma against TIR LLC, members of TIR LLC, and certain affiliates of TIR LLC's members. TIR LLC is the successor in interest to TIR Inc., resulting from a merger between the entities that closed in December 2013 (the "TIR Merger"). The former shareholders of TIR Inc. claim that they did not receive sufficient value for their shares in the TIR Merger and are seeking rescission of the TIR Merger or, alternatively, compensatory and punitive damages. The Partnership is not named as a defendant in this civil action. TIR LLC and the other defendants have been advised by counsel that the action lacks merit. We believe that the possibility of the Partnership incurring material losses as a result of this action is remote. In addition, the Partnership anticipates no disruption in its business operations related to this action.

In September 2015, Flatland Resources I, LLC and Flatland Resources II, LLC, two of our management services customers (under common ownership) initiated a civil action in the District Court for the McKenzie County District of the State of North Dakota against CES LLC. The customers claim that CES LLC breached the management agreements and interfered with their business relationships, and seek to rescind the management agreements and recover any damages. The customers initiated this lawsuit upon dismissal from federal court due to lack of jurisdiction of CES LLC's lawsuit against the customers seeking to enforce the management agreements. CES LLC subsequently filed an answer and counterclaims, as well as a third party complaint against the principal of the customers seeking to enforce the management agreements and other injunctive relief, as well as monetary damages. The court subsequently granted CES's motion to transfer venue to the Grand Forks County District Court. We believe that the possibility of the Partnership incurring material losses as a result of this action is remote.

Internal Revenue Service Audits

In January 2016, the Partnership received notices from the Internal Revenue Service ("IRS") that conveyed its intent to audit the consolidated income tax return of TIR, Inc. for the 2012 tax year and audit payroll and payroll tax filings of TIR Inc. for the 2013 tax year. Currently, the IRS is analyzing provided information in order to complete their audit procedures. To date, the Partnership has not been informed of any potential adjustments related to these audits. Based on the terms of the Partnership's omnibus agreement with Holdings, Holdings would indemnify the Partnership for certain liabilities (including income tax liabilities) associated with the operation of assets that occurred prior to the closing of our IPO should any liabilities arise as a result of these audits. Because of this, the Partnership believes that the possibility of incurring material losses as a result of these IRS audits is remote.

10. Reportable Segments

The Partnership's operations consist of three reportable segments: (i) Pipeline Inspection Services ("PIS"), (ii) Integrity Services ("IS") and (iii) Water and Environmental Services ("W&ES"). In conjunction with the Brown acquisition (Note 3) in the second quarter of 2015, we created the IS segment. The economic characteristics of Brown were sufficiently dissimilar from our existing Pipeline Inspection and Integrity Services segment resulting in the creation of a new segment. As a result, the Pipeline Inspection and Integrity Services segment was renamed Pipeline Inspection Services.

PIS – This segment represents our pipeline inspection services operations. We aggregate these operating entities for reporting purposes as they have similar economic characteristics, including centralized management and processing. This segment provides independent inspection and integrity services to various energy, public utility and pipeline companies. The inspectors in this segment perform a variety of inspection services on midstream pipelines, gathering systems and distribution systems, including data gathering and supervision of third-party construction, inspection and maintenance and repair projects. Our results in this segment are driven primarily by the number and type of inspectors performing services for customers and the fees charged for those services, which depend on the nature and duration of the projects.

IS – This segment includes the acquired operations of Brown Integrity, LLC (Note 3). This segment provides independent hydro-testing integrity services to major natural gas and petroleum pipeline companies, as well as pipeline construction companies located throughout the United States. Field personnel in this segment primarily perform hydrostatic testing on newly constructed and existing natural gas and petroleum pipelines. Results in this segment are driven primarily by field personnel performing services for customers and the fees charged for those services, which depend on the nature, scope and duration of the projects.

W&ES – This segment includes the operations of ten SWD facilities, fees related to the management of third party SWD facilities, as well as an equity ownership in one managed facility. We aggregate these operating entities for reporting purposes as they have similar economic characteristics and have centralized management and processing. Segment results are driven primarily by the volumes of produced water and flowback water we inject into our SWD facilities and the fees we charge for our services. These fees are charged on a per barrel basis and vary based on the quantity and type of saltwater disposed, competitive dynamics and operating costs. In addition, for minimal marginal cost, we generate revenue by selling residual oil we recover from the disposed water.

Other – These amounts represent corporate and overhead items not specifically allocable to our reportable segments.

19

Table Of Contents

CYPRESS ENERGY PARTNERS, L.P.

Notes to the Unaudited Condensed Consolidated Financial Statements

The following tables show operating income (loss) by reportable segment and a reconciliation of segment operating income (loss) to net income (loss) before income tax expense.

	PIS	**IS**	**W&ES**	**Other**	**Total**
	(in thousands)				
Three months ended March 31, 2016					
Revenue	$66,709	$4,258	$2,507	$-	$73,474
Costs of services	60,844	3,732	1,138	-	65,714
Gross margin	5,865	526	1,369	-	7,760
General and administrative	3,440	991	556	1,202 (a)	6,189
Depreciation, amortization and accretion	617	159	449	-	1,225
Operating income (loss)	$1,808	$(624)	$364	$(1,202)	346
Interest expense, net					(1,618)
Other, net					23
Net loss before income tax expense					$(1,249)
Three months ended March 31, 2015					
Revenue	$89,814	$-	$4,252	$-	$94,066
Costs of services	81,816	-	1,701	-	83,517
Gross margin	7,998	-	2,551	-	10,549
General and administrative	4,286	-	872	104	5,262
Depreciation, amortization and accretion	626	-	632	-	1,258
Operating income (loss)	$3,086	$-	$1,047	$(104)	4,029
Interest expense, net					(1,007)
Other, net					8
Net income before income tax expense					$3,030

Total Assets