

Shell Midstream Partners, L.P.
Form 10-Q
May 13, 2015

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, 2015

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: 001-36710

Shell Midstream Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware 46-5223743
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)
One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

(713) 241-6161

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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.

Large accelerated filer Accelerated filer

Non-accelerated filer 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 had 67,475,068 common units and 67,475,068 subordinated units outstanding as of May 13, 2015.

SHELL MIDSTREAM PARTNERS, L.P.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SHELL MIDSTREAM PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
(in millions of dollars)		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 156.9	\$ 150.2
Accounts receivable - third parties, net	16.3	16.3
Accounts receivable - related parties	4.2	10.3
Allowance oil	3.1	3.4
Prepaid expenses	2.5	3.6
Total current assets	183.0	183.8
Equity method investments	157.5	160.7
Property, plant and equipment, net	273.6	275.0
Other assets	4.2	4.2
Total assets	\$ 618.3	\$ 623.7
LIABILITIES		
Current liabilities		
Accounts payable - third parties	\$ 0.1	\$ —
Accounts payable - related parties	4.3	10.6
Distribution payable to SPLC	—	11.9
Deferred revenue - third parties	17.6	15.3
Deferred revenue - related parties	9.3	4.7
Accrued liabilities - third parties	4.1	0.9
Accrued liabilities - related parties	2.1	1.4
Total current liabilities	37.5	44.8
Total liabilities	37.5	44.8
Commitments and Contingencies (Note 9)		
EQUITY		
Common unitholders - public (46,000,000 units issued and outstanding)	1,019.3	1,016.2
Common unitholder - SPLC (21,475,068 units issued and outstanding)	(138.8)	(140.3)
Subordinated unitholder - SPLC (67,475,068 units issued and outstanding)	(436.5)	(440.9)
General Partner - SPLC (2,754,084 units issued and outstanding)	(17.8)	(18.0)
Total partners' capital	426.2	417.0
Noncontrolling interest	154.6	161.9
Total equity	580.8	578.9
Total liabilities and equity	\$ 618.3	\$ 623.7

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

SHELL MIDSTREAM PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31, 2015 2014 (in millions of dollars, except per unit data)		Predecessor	
Revenue				
Third parties	\$41.3	\$ 26.4		
Related parties	10.4	9.7		
Total revenue	51.7	36.1		
Costs and expenses				
Operations and maintenance - third parties	6.9	8.6		
Operations and maintenance - related parties	3.9	3.6		
General and administrative - third parties	1.6	0.4		
General and administrative - related parties	5.0	2.4		
Depreciation	3.4	2.8		
Property and other taxes	3.2	3.3		
Total costs and expenses	24.0	21.1		
Operating income	27.7	15.0		
Income from equity investments	12.5	—		
Dividend income from investment	1.6	—		
Income from other investments	14.1	—		
Interest expense, net	0.2	—		
Income before income taxes	41.6	15.0		
Income tax expense	0.2	—		
Net income	41.4	\$ 15.0		
Less: Net income attributable to noncontrolling interests	17.8			
Net income attributable to the Partnership	23.6			
Less: General Partner's interest in net income attributable to the Partnership	0.5			
Limited Partners' interest in net income attributable to the Partnership	\$23.1			
			\$ 100,000	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (238)	\$ (909)	\$ (3,333)
Per Share Amounts				
NAV per Share Held by Stockholder A		\$ 9.98	\$ 9.91	\$ 9.67
Investment per Share Held by Stockholder A (Assumed to be \$10.00 per Share on Shares Held Prior to Sale)	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.02)	\$ (0.09)	\$ (0.33)
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)		(0.24)%	(0.91)%	(3.33)%
<i>Impact on Existing Stockholders who Participate in the Offering</i>				

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An existing stockholder of the Company who participates in an offering by the Company below NAV per share or who buys additional shares of the Company in the secondary market at the same or lower price as obtain by the Company in the offering (after expenses and any underwriting discounts and commissions) will experience

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the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in the Company's common stock immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares of the Company's common stock that such stockholder purchases increases. Existing stockholders of the Company who buy more than such percentage will experience NAV dilution, but will, in contrast to existing stockholders of the Company who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in the Company's earnings and assets and their voting power than the Company's increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of the Company's common stock that such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that the Company may make additional discounted offerings in which such stockholder does not participate, in which case such stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of a Company's offering and level of discount to NAV increases.

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current NAV and NAV per share are thus \$10,000,000 and \$10.00, respectively. The table below illustrates the dilutive and accretive effect in the hypothetical 20% discount offering from the prior chart for stockholder A that acquires shares equal to (1) 50% of their proportionate share of the offering (i.e., 1,000 shares, which is 0.50% of the offering of 200,000 shares rather than their 1.00% proportionate share) and (2) 150% of their proportionate share of the offering (i.e., 3,000 shares, which is 1.50% of the offering of 200,000 shares rather than their 1.00% proportionate share). A Company's prospectus supplement pursuant to which any discounted offering by such Company is made will include a chart for its example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
Offering Price					
Price per share to public		\$ 8.47		\$ 8.47	
Net proceeds per share to issuer		\$ 8.00		\$ 8.00	
Increases in Shares and Decrease to NAV					
Total shares outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per share	\$ 10.00	\$ 9.67	(3.30)%	\$ 9.67	(3.30)%
(Dilution)/Accretion to Participating Stockholder A					
Shares held by stockholder A	10,000	11,000	10.00%	13,000	30.00%
Percentage held by stockholder A	1.00%	0.92%	(8.00)%	1.08%	8.00%
Total Asset Values					
Total NAV held by stockholder A	\$ 100,000	\$ 106,370	6.37%	\$ 125,710	25.71%
Total investment by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 100,000	\$ 108,470	8.47%	\$ 125,410	25.41%
Total (dilution)/accretion to stockholder A (total NAV less total investment)		(2,100)		\$ 300	
Per Share Amounts					
NAV per share held by stockholder A		\$ 9.67		\$ 9.67	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 9.86	(1.40)%	\$ 9.65	(3.50)%
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)		\$ (0.19)		\$ 0.02	
Percentage (dilution)/accretion to stockholder A (dilution/accretion per share divided by investment per share)			(1.93)%		0.21%
Impact on New Investors					

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder in the Company in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

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Investors who are not currently stockholders of the Company, but who participate in an offering by the Company below NAV and whose investment per share is greater than the resulting NAV per share due to expenses and any underwriting discounts and commissions paid by the Company will experience an immediate decrease, albeit small, in the NAV of their shares of the Company's common stock and their NAV per share compared to the

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price they pay for their shares. Investors who are not currently stockholders of the Company and who participate in an offering by the Company below NAV per share and whose investment per share is also less than the resulting NAV per share due to expenses and any underwriting discounts and commissions paid by the Company being significantly less than the discount per share, will experience an immediate increase in the NAV of their shares of the Company's common stock and their NAV per share compared to the price they pay for their shares. All these investors will experience a disproportionately greater participation in the Company's earnings and assets and their voting power than the Company's increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that the Company may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings by the Company. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. The decrease could be more pronounced as the size of the offering and level of discounts increases.

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder who purchases the same percentage (1.00%) of the shares in the three different hypothetical offerings of common stock of different sizes and levels of discount from NAV per share. The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current NAV and NAV per share are thus \$10,000,000 and \$10.00, respectively. The table below illustrates the dilutive and accretive effects on stockholder A at (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after offering expenses and any underwriting discounts and commissions (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after offering expenses and any underwriting discounts and commissions (a 10% discount from NAV); and (3) an offering of 200,000 shares (20% of the outstanding shares) at \$8.00 per share after offering expenses and any underwriting discounts and commissions (a 20% discount from NAV).

	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount		
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price							
Price per share to public		\$ 10.05		\$ 9.52		\$ 8.47	
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		\$ 8.00	
Decrease to NAV							
Total shares outstanding		1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per share		\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.67	(3.30)%
Dilution to Stockholder A							
Shares held by stockholder A		500		1,000		2,000	
Percentage held by stockholder A							
Total Asset Values							
Total NAV held by stockholder A		\$ 4,990		\$ 9,910		\$ 19,340	
Total investment by stockholder A		\$ 5,025		\$ 9,952		\$ 16,940	
Total dilution to stockholder A (total NAV less total investment)		\$ (35)		\$ 390		\$ 2,400	
Per Share Amounts							
NAV per share held by stockholder A		\$ 9.98		\$ 9.91		\$ 9.67	
Investment per share held by stockholder A		\$ 10.05		\$ 9.52		\$ 8.47	
Dilution per share held by stockholder A (NAV per share less investment per share)		\$ (0.07)		\$ 0.39		\$ 1.20	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.70)%		4.10%		14.17%
The discount to NAV is a result of market perception that moves the share price and thus NAV is only one determinant of market value.							

The Company expects the market price of shares of its common stock will incorporate a discount or premium factor based on the market assessment of future earnings and the likelihood of those earnings supporting growth in our dividend yield.

Notwithstanding the dilutive effect of any equity financing on the Company's NAV, the Board of Directors has considered the Company's need to obtain additional capital for investment and other factors discussed in this Proxy Statement. With more capital to invest, the Board of Directors believes that the Company would be able to make investments with more significant earnings and growth potential. The Board of Directors

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further believes that over time the value of the incremental assets available for investment, taken together with the other factors previously discussed, may be reflected positively in the market price of the Company's shares and that such

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increases may exceed the initial dilutive effects that the Company is likely to experience in its NAV due to offerings of shares of common stock in accordance with this Proposal No. 3. In our view, the secondary market price of our common stock is an important gauge of the true economic impact on stockholders of any equity offering.

Other Considerations

In reaching its recommendation to stockholders to approve this Proposal No. 3, the Board of Directors considered a possible source of conflict of interest due to the fact that, once invested, proceeds from the issuance of additional shares of a Company's common stock will increase the management fees that the Company pays to the Investment Advisor as such fees are partially based on the amount of the Company's gross assets, excluding cash. The Board of Directors, including the independent directors, concluded that the benefits to the Company's stockholders from increasing the Company's capital base outweighed any detriment from increased management fees, especially considering that the management fees would increase regardless of whether the Company offers shares of common stock below NAV or above NAV. The Board of Directors also considered the effect of the following factors:

the costs and benefits of a common stock offering below NAV compared to other possible means for raising capital or concluding not to raise capital;

the size of a common stock offering in relation to the number of shares outstanding;

the general conditions of the securities markets; and

any impact on operating expenses associated with an increase in capital.

Potential Investors

The Company has not solicited any potential buyers of the shares that it may elect to issue in any future offering to comply with the federal securities laws. No shares are earmarked for management or other affiliated persons of the Company. However, members of our management and other affiliated persons may participate in a common stock offering by the Company on the same terms as others.

Required Vote

Approval of this proposal requires the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting which are not held by affiliated persons of the Company.

For purposes of this proposal, the 1940 Act defines a majority of the outstanding shares as: (1) 67% or more of the voting securities present at the Annual Meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) 50% of the outstanding voting securities of such company, whichever is less. Abstentions and broker non-votes will have the effect of a vote against this proposal.

The Board of Directors recommends a vote FOR the proposal to authorize the Company, pursuant to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company's then-current net asset value per share, subject to certain conditions as set forth in this proxy statement.

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OTHER BUSINESS

The Board of Directors knows of no other business to be presented for action at the 2013 Annual Meeting of Stockholders. If any matters do come before the meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the meeting. The submission of a proposal does not guarantee its inclusion in our proxy statement or presentation at the meeting unless certain securities law requirements are met.

You are cordially invited to attend the 2013 Annual Meeting of Stockholders in person. Whether or not you plan to attend the meeting, you are requested to indicate your vote as to the matters to be acted on at the meeting by following the instructions provided in the enclosed proxy card or voting instruction form.

By Order of the Board of Directors

Aaron D. Peck
Chief Financial Officer, Chief Compliance Officer and
Corporate Secretary

Chicago, Illinois

May , 2013

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**ANNUAL MEETING OF STOCKHOLDERS OF
MONROE CAPITAL CORPORATION**

June 26, 2013

GO GREEN

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE ANNUAL STOCKHOLDER MEETING TO BE HELD ON JUNE 26, 2013:

The Notice of Annual Meeting, proxy statement, proxy card and annual report for the fiscal year ended December 31, 2012 are available at <http://www.monroebsd.com>

Please sign, date and mail
your vote authorization
form in the envelope
provided as soon as
possible.

Please detach along perforated line and mail in the envelope provided.

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE LISTED PROPOSALS.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

- | | | | | | |
|----|--|----|--|---------|---------|
| | | | FOR | AGAINST | ABSTAIN |
| 1. | The election of the nominees listed below to serve as a Class I Director until their respective successors have been duly elected and qualified. | | | | |
| | NOMINEES: | 2. | To ratify the selection of McGladrey LLP to serve as the Company's independent registered public accounting firm for the | .. | .. |

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j Thomas J. Allison

fiscal year ending December 31, 2013.

j Robert S. Rubin

.. **FOR ALL NOMINEES**

3. To approve a proposal to authorize the Company, subject to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company's then-current net asset value per share, subject to certain conditions as set forth in this proxy statement.

.. **WITHHOLD AUTHORITY**

FOR ALL NOMINEES

FOR ALL EXCEPT

..

(See instructions below)

4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof, including procedural matters and matters relating to the conduct of the meeting.

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here

THIS PROXY IS REVOCABLE AND WILL BE VOTED AS DIRECTED BY THE UNDERSIGNED BELOW; where no choice is specified, it will be voted FOR proposals 1, 2 and 3.

The undersigned acknowledges receipt from the Company before the execution of this proxy of the Notice of Annual Meeting of Stockholders, a Proxy Statement for the Annual Meeting of Stockholders and the 2012 Annual Report to Stockholders.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder

Date:

Signature of Stockholder

Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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MONROE CAPITAL CORPORATION

311 South Wacker Drive, Suite 6400

Chicago, Illinois 60606

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Theodore L. Koenig and Aaron D. Peck, or any of them, as proxies, and each with full power of substitution, to represent and vote as designated on the reverse side, all the shares of Common Stock of Monroe Capital Corporation held of record by the undersigned on May 7, 2013, at the Annual Meeting of Stockholders to be held at 3:00 p.m. Eastern time, at 311 South Wacker Drive, 10th Floor Conference Center, Chicago, Illinois 60606, on June 26, 2013, or any adjournment or postponement thereof.

THIS PROXY IS REVOCABLE AND WILL BE VOTED AS DIRECTED BY THE UNDERSIGNED BELOW; where no choice is specified, it will be voted FOR proposals 1, 2 and 3.

The proxies named above also will vote in their discretion upon such other business as may properly come before the meeting or any adjournment thereof, including procedural matters and matters relating to the conduct of the meeting.

You are encouraged to specify your choices by marking the appropriate boxes on the reverse side. The proxies cannot vote your shares unless you sign and return this card.

(Continued and to be signed on the reverse side.)

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