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CorEnergy Infrastructure Trust, Inc.
Form 10-Q
May 02, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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: 001-33292

COREENERGY INFRASTRUCTURE TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland 20-3431375
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)
1100 Walnut, Ste. 3350 64106
Kansas City, MO
(Address of Principal Executive Offices) (Zip Code)

(816) 875-3705
(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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 1, 2019, the registrant had 12,808,341 common shares outstanding.

CorEnergy Infrastructure Trust, Inc.
 FORM 10-Q
 FOR THE QUARTER ENDED MARCH 31, 2019
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This Report on Form 10-Q ("Report") should be read in its entirety. No one section of the Report deals with all aspects of the subject matter. It should be read in conjunction with the consolidated financial statements, related notes, and with the Management's Discussion & Analysis ("MD&A") included within, as well as provided in the Annual Report on Form 10-K, for the year ended December 31, 2018.

The consolidated unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q, and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019 or for any other interim or annual period. For further information, refer to the consolidated financial statements and footnotes thereto included in the CorEnergy Infrastructure Trust, Inc. Annual Report on Form 10-K, for the year ended December 31, 2018.

Table of Contents GLOSSARY OF DEFINED TERMS

Certain of the defined terms used in this Report are set forth below:

Accretion Expense: the expense recognized when adjusting the present value of the GIGS ARO for the passage of time.

Administrative Agreement: the Administrative Agreement dated December 1, 2011, as amended effective August 7, 2012, between the Company and Corridor.

Amended Pinedale Term Credit Facility: Pinedale LP's \$41.0 million Second Amended and Restated Term Credit Agreement and Note Purchase Agreement with Prudential as lender, effective December 29, 2017.

Arc Logistics: Arc Logistics Partners LP, a wholly-owned subsidiary of Zenith Energy U.S., LP.

ARO: the Asset Retirement Obligation liabilities assumed with the acquisition of GIGS.

ASC: FASB Accounting Standards Codification.

ASU: Accounting Standard Update.

Bbls: standard barrel containing 42 U.S. gallons.

Company or CorEnergy: CorEnergy Infrastructure Trust, Inc. (NYSE: CORR).

Compass SWD: Compass SWD, LLC.

Convertible Notes: the Company's 7.00% Convertible Senior Notes due 2020.

CorEnergy Credit Facility: the Company's upsized \$160.0 million CorEnergy Revolver and the \$1.0 million MoGas Revolver with Regions Bank.

CorEnergy Revolver: the Company's \$160.0 million secured revolving line of credit facility with Regions Bank.

Corridor: Corridor InfraTrust Management, LLC, the Company's external manager pursuant to the Management Agreement.

Corridor MoGas: Corridor MoGas, Inc., a wholly-owned taxable REIT subsidiary of CorEnergy and the holding company of MoGas, United Property Systems and CorEnergy Pipeline Company, LLC.

Corridor Private: Corridor Private Holdings, Inc., an indirect wholly-owned taxable REIT subsidiary of CorEnergy.

Cox Acquiring Entity: MLCJR LLC, an affiliate of Cox Oil, LLC.

Cox Oil: Cox Oil, LLC.

CPI: Consumer Price Index.

Exchange Act: the Securities Exchange Act of 1934, as amended.

EGC: Energy XXI Ltd, the parent company (and guarantor) of our tenant on the Grand Isle Gathering System lease, emerged from a reorganization under Chapter 11 of the US Bankruptcy Code on December 30, 2016, with the succeeding company named Energy XXI Gulf Coast, Inc. Effective October 18, 2018, EGC became an indirect wholly-owned subsidiary of MLCJR LLC ("Cox Acquiring Entity"), an affiliate of Cox Oil, LLC, as a result of a merger transaction. Throughout this document, references to EGC will refer to both the pre- and post-bankruptcy entities and, for dates on and after October 18, 2018, to EGC as an indirect wholly-owned subsidiary of the Cox Acquiring Entity.

EGC Tenant: Energy XXI GIGS Services, LLC, a wholly-owned operating subsidiary of Energy XXI Gulf Coast, Inc. that is the tenant under Grand Isle Corridor's triple-net lease of the Grand Isle Gathering System.

FASB: Financial Accounting Standards Board.

FERC: Federal Energy Regulatory Commission.

Four Wood Corridor: Four Wood Corridor, LLC, a wholly-owned subsidiary of CorEnergy.

Four Wood Notes: the financing notes between Four Wood Corridor and Corridor Private and SWD, which were satisfied upon sale of the assets securing the financing notes to Compass SWD, LLC for a new financing note from Compass SWD, LLC on December 12, 2018.

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GAAP: U.S. generally accepted accounting principles.

GIGS: the Grand Isle Gathering System, owned by Grand Isle Corridor, LP and triple-net leased to a wholly-owned subsidiary of Energy XXI Gulf Coast, Inc.

Grand Isle Corridor: Grand Isle Corridor, LP, an indirect wholly-owned subsidiary of the Company.

Grand Isle Gathering System: a subsea midstream pipeline gathering system located in the shallow Gulf of Mexico shelf and storage and onshore processing facilities.

Grand Isle Lease Agreement: the June 2015 agreement pursuant to which the Grand Isle Gathering System assets are triple-net leased to EGC Tenant.

Lightfoot: collectively, Lightfoot Capital Partners LP and Lightfoot Capital Partners GP LLC.

Management Agreement: the current management agreement between the Company and Corridor entered into May 8, 2015, effective as of May 1, 2015.

MoGas: MoGas Pipeline LLC, an indirect wholly-owned subsidiary of CorEnergy.

MoGas Pipeline System: an approximately 263-mile interstate natural gas pipeline system in and around St. Louis and extending into central Missouri, owned and operated by MoGas.

MoGas Revolver: a \$1.0 million secured revolving line of credit facility at the MoGas subsidiary level with Regions Bank.

Mowood: Mowood, LLC, an indirect wholly-owned subsidiary of CorEnergy and the holding company of Omega Pipeline Company, LLC.

Mowood/Omega Revolver: a \$1.5 million revolving line of credit facility at the Mowood subsidiary level with Regions Bank.

NAREIT: National Association of Real Estate Investment Trusts.

Omega: Omega Pipeline Company, LLC, a wholly-owned subsidiary of Mowood, LLC.

Omega Pipeline: Omega's natural gas distribution system in south central Missouri.

Pinedale LGS: the Pinedale Liquids Gathering System, a system consisting of approximately 150 miles of pipelines and four above-ground central gathering facilities located in the Pinedale Anticline in Wyoming, owned by Pinedale LP and triple-net leased to a wholly-owned subsidiary of Ultra Petroleum.

Pinedale Lease Agreement: the December 2012 agreement pursuant to which the Pinedale LGS assets are triple-net leased to a wholly owned subsidiary of Ultra Petroleum.

Pinedale LP: Pinedale Corridor, LP, an indirect wholly-owned subsidiary of CorEnergy.

Pinedale GP: the general partner of Pinedale LP and a wholly-owned subsidiary of CorEnergy.

Portland Lease Agreement: the January 2014 agreement pursuant to which the Portland Terminal Facility was triple-net leased to Zenith Terminals, which terminated on December 21, 2018 upon sale of the facility.

Portland Terminal Facility: a petroleum products terminal located in Portland, Oregon sold on December 21, 2018 to Zenith Terminals.

Prudential: the Prudential Insurance Company of America.

REIT: real estate investment trust.

SEC: Securities and Exchange Commission.

Series A Preferred Stock: the Company's 7.375% Series A Cumulative Redeemable Preferred Stock, par value \$0.001 per share, of which there currently are outstanding approximately 50,197 shares represented by 5,019,727 depository shares, each representing 1/100th of a whole share of Series A Preferred Stock.

SWD: SWD Enterprises, LLC, the previous debtor of the financing notes with Four Wood Corridor.

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TRS: taxable REIT subsidiary.

UPL: Ultra Petroleum Corp.

Ultra Wyoming: Ultra Wyoming LGS LLC, an indirect wholly-owned subsidiary of Ultra Petroleum.

United Property Systems: United Property Systems, LLC, an indirect wholly-owned subsidiary of CorEnergy, acquired with the MoGas transaction in November 2014.

VIE: variable interest entity.

Zenith: Zenith Energy U.S., LP.

Zenith Terminals: Zenith Energy Terminals Holdings, LLC (f/k/a Arc Terminal Holdings, LLC), a wholly-owned operating subsidiary of Arc Logistics LP (and, subsequent to December 21, 2017, an indirect wholly-owned subsidiary of Zenith).

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Quarterly Report on Form 10-Q ("Report") may be deemed "forward-looking statements" within the meaning of the federal securities laws. In many cases, these forward-looking statements may be identified by the use of words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "intends," "projects," "goals," "objectives," "targets," "predicts," "plans," "seeks," or similar expressions.

Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance or results and we can give no assurance that these expectations will be attained. Our actual results may differ materially from those indicated by these forward-looking statements due to a variety of known and unknown risks and uncertainties. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- the ability of our tenants and borrowers to make payments under their respective leases and mortgage loans, our reliance on certain major tenants under single tenant leases and our ability to re-lease properties;
- the ability and willingness of each of our tenants to satisfy their obligations under the respective lease agreements;
- changes in economic and business conditions in the energy infrastructure sector where our investments are concentrated, including the financial condition of our tenants or borrowers and general economic conditions in the particular sectors of the energy industry served by each of our infrastructure assets;
- the inherent risks associated with owning real estate, including real estate market conditions, governing laws and regulations, including potential liabilities related to environmental matters, and the relative illiquidity of real estate investments;
- risks associated with the bankruptcy or default of any of our tenants or borrowers, including the exercise of the rights and remedies of bankrupt entities;
- the impact of laws and governmental regulations applicable to certain of our infrastructure assets, including additional costs imposed on our business or other adverse impacts as a result of any unfavorable changes in such laws or regulations;
- the potential impact of greenhouse gas regulation and climate change on our or our tenants' business, financial condition and results of operations;
- the loss of any member of our management team;
- our continued ability to access the debt and equity markets, including our ability to continue using our SEC shelf registration statements;
- our ability to successfully implement our selective acquisition strategy;
- our ability to obtain suitable tenants for our properties;
- our ability to refinance amounts outstanding under our credit facilities and our convertible notes at maturity on terms favorable to us;
- changes in interest rates under our current credit facilities and under any additional variable rate debt arrangements that we may enter into in the future;
- our ability to comply with certain debt covenants;
- dependence by us and our tenants on key customers for significant revenues, and the risk of defaults by any such tenants or customers;
- our or our tenants' ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;
- the continued availability of third-party pipelines, railroads or other facilities interconnected with certain of our infrastructure assets;
- risks associated with owning, operating or financing properties for which the tenants', mortgagors' or our operations may be impacted by extreme weather patterns and other natural phenomena;
- our ability to sell properties at an attractive price;
- market conditions and related price volatility affecting our debt and equity securities;

•competitive and regulatory pressures on the revenues of our interstate natural gas transmission business;
•changes in federal or state tax rules or regulations that could have adverse tax consequences;
•our ability to maintain internal controls and processes to ensure all transactions are accounted for properly, all relevant
•disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or
embezzlement is thwarted or detected;

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changes in federal income tax regulations (and applicable interpretations thereof), or in the composition or performance of our assets, that could impact our ability to continue to qualify as a real estate investment trust for federal income tax purposes; and risks related to potential terrorist attacks, acts of cyber-terrorism, or similar disruptions that could disrupt access to our information technology systems or result in other significant damage to our business and properties, some of which may not be covered by insurance and all of which could adversely impact distributions to our stockholders. Forward-looking statements speak only as of the date on which they are made. While we may update these statements from time to time, we are not required to do so other than pursuant to applicable laws. For a further discussion of these and other factors that could impact our future results and performance, see Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019, and Part II, Item 1A, "Risk Factors", in this Report.

