

Buckeye GP Holdings L.P.  
Form 10-Q  
November 08, 2010

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**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 September 30, 2010**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-32963**

**Buckeye GP Holdings L.P.**

(Exact name of registrant as specified in its charter)

**Delaware**

**11-3776228**

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification number)

**One Greenway Plaza  
Suite 600  
Houston, TX**

**77046**

(Address of principal executive offices)

(Zip Code)

**Registrant's telephone number, including area code: (832) 615-8600**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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 Act). Yes  No   
As of November 5, 2010, there were 27,774,016 Common Units and 525,984 Management Units outstanding.



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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**BUCKEYE GP HOLDINGS L.P.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per unit amounts)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>				
Product sales	\$ 564,044	\$ 258,188	\$ 1,633,958	\$ 728,744
Transportation and other services	170,813	165,256	499,349	462,760
Total revenue	734,857	423,444	2,133,307	1,191,504
<b>Costs and expenses:</b>				
Cost of product sales and natural gas storage services	560,248	258,507	1,628,630	702,623
Operating expenses	68,685	66,100	204,037	208,842
Depreciation and amortization	15,062	13,138	44,259	40,061
Asset impairment expense				72,540
General and administrative	11,349	9,814	35,438	30,007
Reorganization expense		996		29,109
Total costs and expenses	655,344	348,555	1,912,364	1,083,182
Operating income	79,513	74,889	220,943	108,322
<b>Other income (expense):</b>				
Investment income	140	65	380	359
Interest and debt expense	(22,082)	(20,391)	(65,088)	(54,030)
Total other expense	(21,942)	(20,326)	(64,708)	(53,671)
Income before earnings from equity investments	57,571	54,563	156,235	54,651
Earnings from equity investments	3,391	3,807	8,807	9,031
Net income	60,962	58,370	165,042	63,682
Less: net income attributable to noncontrolling interests	(49,021)	(47,275)	(130,324)	(32,666)
<b>Net income attributable to Buckeye GP Holdings L.P.</b>	<b>\$ 11,941</b>	<b>\$ 11,095</b>	<b>\$ 34,718</b>	<b>\$ 31,016</b>

**Earnings per partnership unit:**

Basic	\$ 0.42	\$ 0.39	\$ 1.23	\$ 1.10
Diluted	\$ 0.42	\$ 0.39	\$ 1.23	\$ 1.10

**Weighted average number of common units  
outstanding:**

Basic	28,300	28,300	28,300	28,300
Diluted	28,300	28,300	28,300	28,300

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**BUCKEYE GP HOLDINGS L.P.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except unit amounts)  
(Unaudited)

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 15,922	\$ 37,574
Trade receivables, net	133,695	124,165
Construction and pipeline relocation receivables	8,844	14,095
Inventories	267,724	310,214
Derivative assets	2,600	4,959
Assets held for sale		22,000
Prepaid and other current assets	74,484	104,251
<b>Total current assets</b>	<b>503,269</b>	<b>617,258</b>
Property, plant and equipment, net	2,248,866	2,238,321
Equity investments	108,143	96,851
Goodwill	432,124	432,124
Intangible assets, net	41,817	45,157
Other non-current assets	37,732	56,860
<b>Total assets</b>	<b>\$ 3,371,951</b>	<b>\$ 3,486,571</b>
<b>Liabilities and partners capital:</b>		
Current liabilities:		
Line of credit	\$ 211,800	\$ 239,800
Current portion of long-term debt	3,059	6,178
Accounts payable	56,346	56,723
Derivative liabilities	10,978	14,665
Accrued and other current liabilities	115,489	113,474
<b>Total current liabilities</b>	<b>397,672</b>	<b>430,840</b>
Long-term debt	1,441,287	1,500,495
Long-term derivative liabilities	40,910	
Other non-current liabilities	109,521	102,942
<b>Total liabilities</b>	<b>1,989,390</b>	<b>2,034,277</b>

Commitments and contingent liabilities

**Partners capital:**



**Buckeye GP Holdings L.P. capital:**

General Partner (2,830 common units outstanding as of September 30, 2010 and December 31, 2009)	7	7
Limited Partners (27,771,186 common units outstanding as of September 30, 2010 and December 31, 2009)	232,985	236,545
Management (525,984 units outstanding as of September 30, 2010 and December 31, 2009)	3,157	3,225
Equity gains on issuance of Buckeye Partners, L.P. limited partner units	2,557	2,557
Total Buckeye GP Holdings L.P. capital	238,706	242,334
Noncontrolling interests	1,143,855	1,209,960
Total partners' capital	1,382,561	1,452,294
Total liabilities and partners' capital	\$ 3,371,951	\$ 3,486,571

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**BUCKEYE GP HOLDINGS L.P.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 165,042	\$ 63,682
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Value of ESOP shares released	3,480	768
Depreciation and amortization	44,259	40,061
Asset impairment expense		72,540
Net changes in fair value of derivatives	(16,152)	(5,632)
Non-cash deferred lease expense	3,176	3,375
Earnings from equity investments of Buckeye Partners, L.P.	(8,807)	(9,031)
Distributions from equity investments of Buckeye Partners, L.P.	11,027	4,281
Amortization of other non-cash items	7,552	4,765
<b>Change in assets and liabilities:</b>		
Trade receivables	(9,530)	(8,428)
Construction and pipeline relocation receivables	5,251	9,394
Inventories	56,657	(90,579)
Prepaid and other current assets	31,289	(19,804)
Accounts payable	(377)	(2,308)
Accrued and other current liabilities	(2,367)	8,196
Other non-current assets	3,059	(21,069)
Other non-current liabilities	2,548	14,469
Total adjustments from operating activities	131,065	998
Net cash provided by operating activities	296,107	64,680
<b>Cash flows from investing activities:</b>		
Capital expenditures	(49,275)	(58,803)
Acquisition of additional interest in equity investment	(13,512)	
Contributions to equity investments		(3,870)
Acquisitions	(1,269)	(10)
Net proceeds from disposal of property, plant and equipment	22,448	1,248
Net cash used in investing activities	(41,608)	(61,435)
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of Buckeye Partners, L.P. limited partner units		104,633
Proceeds from exercise of Buckeye Partners, L.P. unit options	4,275	1,901
Issuance of long-term debt		273,210

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Repayment of long-term debt	(4,644)	(4,730)
Borrowings under credit facility	175,900	160,720
Repayments under credit facility	(233,900)	(458,987)
Net (repayments) borrowings under BES credit agreement	(28,000)	53,600
Debt issuance costs	(3,245)	(2,138)
Costs associated with agreement and plan of merger	(4,514)	
Distributions paid to noncontrolling partners of Buckeye Partners, L.P.	(145,516)	(133,104)
Distributions paid to partners	(36,507)	(29,716)
Net cash used in financing activities	(276,151)	(34,611)
Net decrease in cash and cash equivalents	(21,652)	(31,366)
Cash and cash equivalents Beginning of period	37,574	61,281
Cash and cash equivalents End of period	\$ 15,922	\$ 29,915

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**BUCKEYE GP HOLDINGS L.P.**  
**CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL**  
(In thousands)  
(Unaudited)

		<b>Buckeye GP Holdings L.P. Unitholders</b>					
		<b>General</b>	<b>Limited</b>		<b>Equity</b>		
		<b>Partner</b>	<b>Partner</b>		<b>Gains</b>		
		<b>Common</b>	<b>Common</b>	<b>Management</b>	<b>on</b>	<b>Noncontrolling</b>	
		<b>Units</b>	<b>Units</b>	<b>Units</b>	<b>Issuance</b>	<b>Interests</b>	<b>Total</b>
					<b>of</b>		
					<b>Buckeye's</b>		
					<b>Limited</b>		
					<b>Partner</b>		
					<b>Units</b>		
<b>Balance January 1, 2009</b>		\$ 7	\$ 226,565	\$ 3,037	\$ 2,451	\$ 1,166,774	\$ 1,398,834
Net income*			30,434	582		32,666	63,682
Distributions paid to partners			(29,159)	(557)			(29,716)
Recognition of unit-based compensation charges			972	18			990
Equity gains on issuance of Buckeye's limited partner units					106	(106)	
Net proceeds from issuance of 3.0 million of Buckeye's limited partner units						104,633	104,633
Amortization of Buckeye's unit-based compensation awards						1,210	1,210
Exercise of limited partner unit options						1,901	1,901
Services Company's non-cash ESOP distributions						(4,740)	(4,740)
Distributions paid to noncontrolling interests						(133,104)	(133,104)
Adjustment to funded status of benefit plans						6,400	6,400
Other						3,261	3,261
<b>Balance September 30, 2009</b>		\$ 7	\$ 228,812	\$ 3,080	\$ 2,557	\$ 1,178,895	\$ 1,413,351
		\$ 7	\$ 236,545	\$ 3,225	\$ 2,557	\$ 1,209,960	\$ 1,452,294

<b>Balance January 1, 2010</b>							
Net income*	34,068	650		130,324		165,042	
Costs associated with agreement and plan of merger	(2,746)	(52)		(4,129)		(6,927)	
Distributions paid to partners	(35,823)	(684)				(36,507)	
Recognition of unit-based compensation charges	941	18				959	
Amortization of Buckeye's unit-based compensation awards				5,159		5,159	
Exercise of limited partner unit options				4,275		4,275	
Services Company's non-cash ESOP distributions				(2,639)		(2,639)	
Distributions paid to noncontrolling interests				(145,516)		(145,516)	
Change in value of derivatives				(58,772)		(58,772)	
Investment in Buckeye's limited partner units				4,503		4,503	
Other				690		690	
<b>Balance September 30, 2010</b>	\$ 7	\$ 232,985	\$ 3,157	\$ 2,557	\$ 1,143,855	\$ 1,382,561	

\* Comprehensive income equals net income.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Buckeye GP Holdings L.P. is a publicly traded Delaware master limited partnership ( MLP ), the common units ( Common Units ) of which are listed on the New York Stock Exchange ( NYSE ) under the ticker symbol BGH. We were organized on June 15, 2006 and own 100% of Buckeye GP LLC ( Buckeye GP ), which is the general partner of Buckeye Partners, L.P. ( Buckeye ). Buckeye is also a publicly traded Delaware MLP which was organized in 1986, and its limited partner units ( LP Units ) are separately traded on the NYSE under the ticker symbol BPL. Approximately 62% of our outstanding equity, which includes Common Units and management units ( Management Units ), are owned by BGH GP Holdings, LLC ( BGH GP ) and approximately 38% by the public. BGH GP is owned by affiliates of ArcLight Capital Partners, LLC ( ArcLight ), Kelso & Company ( Kelso ), and certain investment funds along with certain members of senior management of Buckeye GP. MainLine Management LLC, a Delaware limited liability company ( MainLine Management ), is our general partner and is wholly owned by BGH GP. As used in these Notes to Unaudited Condensed Consolidated Financial Statements, unless the context requires otherwise, references to *we*, *us*, *our* or "*BGH*" are intended to mean the business and operations of Buckeye GP Holdings L.P. on a consolidated basis, including those of Buckeye. References to *Buckeye* mean Buckeye Partners, L.P. and its consolidated subsidiaries.

Our only business is the ownership of Buckeye GP. Buckeye GP's only business is the management of Buckeye and its subsidiaries. At September 30, 2010, Buckeye GP owned an approximate 0.5% general partner interest in Buckeye.

Buckeye was formed in 1986 and owns and operates one of the largest independent refined petroleum products pipeline systems in the United States in terms of volumes delivered with approximately 5,400 miles of pipeline and 68 active products terminals that provide aggregate storage capacity of approximately 27.3 million barrels. In addition, Buckeye operates and maintains approximately 2,400 miles of other pipelines under agreements with major oil and gas, petrochemical and chemical companies, and performs certain engineering and construction management services for third parties. Buckeye also owns and operates a major natural gas storage facility in northern California, and is a wholesale distributor of refined petroleum products in the United States in areas also served by its pipelines and terminals. We, through Buckeye, operate and report in five business segments: Pipeline Operations; Terminalling & Storage; Natural Gas Storage; Energy Services; and Development & Logistics.

Buckeye Pipe Line Services Company ( Services Company ) was formed in 1996 in connection with the establishment of the Buckeye Pipe Line Services Company Employee Stock Ownership Plan (the ESOP ). At September 30, 2010, Services Company owned approximately 2.9% of Buckeye's LP Units. Services Company employees provide services to Buckeye's operating subsidiaries. Pursuant to a services agreement entered into in December 2004 (the Services Agreement ), Buckeye's operating subsidiaries reimburse Services Company for the costs of the services provided by Services Company.

*Agreement and Plan of Merger*

On August 18, 2010, we and our general partner entered into a First Amended and Restated Agreement and Plan of Merger (the Merger Agreement ) with Buckeye, its general partner and Grand Ohio, LLC ( Merger Sub ), Buckeye's subsidiary. Pursuant to the Merger Agreement, Merger Sub will be merged into BGH, with BGH as the surviving entity (the Merger ). In the transaction, the incentive compensation agreement (also referred to as the incentive distribution rights) held by Buckeye's general partner will be cancelled, the general partner units held by Buckeye's general partner (representing an approximate 0.5% general partner interest in Buckeye) will be converted to a non-economic general partner interest, all of the economic interest in us will be acquired by BPL and our unitholders will receive aggregate consideration of approximately 20 million of Buckeye's LP Units.

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**BUCKEYE GP HOLDINGS L.P.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Merger Agreement is subject to, among other things, approval by the affirmative vote of the holders of a majority of Buckeye's LP Units outstanding and entitled to vote at a meeting of the holders of Buckeye's LP Units, approval by the (a) affirmative vote of holders of a majority of our Common Units and (b) affirmative vote of holders of a majority of our Common Units and management units, voting together as a single class.

The Merger will be accounted for as an equity transaction. Therefore, changes in our ownership interest as a result of the Merger will not result in gain or loss recognition. We will be considered the surviving consolidated entity for accounting purposes, while Buckeye will be the surviving consolidated entity for legal and reporting purposes.

We incurred a total of \$2.8 million of costs associated with the Merger during the nine months ended September 30, 2010, of which \$1.3 million has been paid. Together with Buckeye, the aggregate cos