

Buckeye GP Holdings L.P.
Form 10-Q
November 03, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

- x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2009 or

- o 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 001-32963

BUCKEYE GP HOLDINGS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

One Greenway Plaza
Suite 600

11-3776228
IRS Employer
Identification No.)

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Houston, TX
(Address of principal executive offices)

77046
(Zip Code)

(832) 615-8600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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
(Do not check if a smaller reporting company)

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

As of October 30, 2009, there were 27,769,647 Common Units and 530,353 Management Units outstanding.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

INDEX

	Page
<u>PART I- FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008</u> 3
	<u>Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u> 4
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u> 5
	<u>Condensed Consolidated Statement of Changes in Partners' Capital for the Nine Months Ended September 30, 2009 and 2008</u> 6
	<u>Notes to Condensed Consolidated Financial Statements</u> 7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 32
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 50
<u>Item 4.</u>	<u>Controls and Procedures</u> 51
<u>PART II- OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 52
<u>Item 1A.</u>	<u>Risk Factors</u> 52
<u>Item 6</u>	<u>Exhibits</u> 52

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

BUCKEYE GP HOLDINGS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
Product sales	\$ 258,188	\$ 345,729	\$ 728,744	\$ 933,211
Transportation and other services	165,256	150,441	462,760	435,783
Total revenue	423,444	496,170	1,191,504	1,368,994
Costs and expenses:				
Cost of product sales and natural gas storage services	258,507	334,959	702,623	913,163
Operating expenses	66,100	73,203	208,842	209,484
Depreciation and amortization	13,138	14,342	40,061	38,067
Asset impairment expense			72,540	
General and administrative	9,814	10,415	30,007	31,949
Reorganization expense	996		29,109	
Total costs and expenses	348,555	432,919	1,083,182	1,192,663
Operating income	74,889	63,251	108,322	176,331
Other income (expense):				
Investment income	65	293	359	1,144
Interest and debt expense	(20,391)	(19,243)	(54,030)	(55,691)
Total other expense	(20,326)	(18,950)	(53,671)	(54,547)
Income before equity income	54,563	44,301	54,651	121,784
Equity income	3,807	2,404	9,031	5,803
Net income	58,370	46,705	63,682	127,587
Less: net income attributable to noncontrolling interest	(47,275)	(39,471)	(32,666)	(109,187)
Net income attributable to Buckeye GP Holdings L.P.	\$ 11,095	\$ 7,234	\$ 31,016	\$ 18,400

Net income per partnership unit:

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Basic	\$	0.39	\$	0.26	\$	1.10	\$	0.65
Diluted	\$	0.39	\$	0.26	\$	1.10	\$	0.65

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 accompanying notes to condensed consolidated financial statements.

Table of Contents**BUCKEYE GP HOLDINGS L.P.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	September 30, 2009	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 29,915	\$ 61,281
Trade receivables, net	88,397	79,969
Construction and pipeline relocation receivables	12,107	21,501
Inventories	227,414	84,229
Derivative assets	17,402	97,375
Prepaid and other current assets	99,423	75,406
Total current assets	474,658	419,761
Property, plant and equipment, net	2,179,971	2,241,612
Equity investments	98,729	90,110
Goodwill	432,170	433,892
Intangible assets, net	41,461	44,114
Other non-current assets	43,446	33,608
Total assets	\$ 3,270,435	\$ 3,263,097
Liabilities and partners' capital:		
Current liabilities:		
Line of credit	\$ 149,600	\$ 96,000
Current portion of long-term debt	6,208	6,294
Accounts payable	36,528	42,098
Derivative liabilities	12,173	48,623
Accrued and other current liabilities	123,426	116,464
Total current liabilities	327,935	309,479
Long-term debt	1,423,923	1,453,425
Other non-current liabilities	105,226	101,359
Total liabilities	1,857,084	1,864,263
Commitments and contingent liabilities		
Buckeye GP Holdings L.P. capital:		
General Partner (2,830 common units outstanding as of September 30, 2009 and December 31, 2008)	7	7
Limited Partners (27,766,817 common units outstanding as of September 30, 2009 and December 31, 2008)	228,812	226,565
Management Units (530,353 units outstanding as of September 30, 2009 and December 31, 2008)	3,080	3,037
Equity gains on issuance of Buckeye Partners, L.P. limited partner units	2,557	2,451
Total Buckeye GP Holdings L.P. capital	234,456	232,060
Noncontrolling interest	1,178,895	1,166,774
Total partners' capital	1,413,351	1,398,834

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Total liabilities and partners' capital	\$	3,270,435	\$	3,263,097
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See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 63,682	\$ 127,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Value of ESOP shares released	768	2,119
Depreciation and amortization	40,061	38,067
Asset impairment expense	72,540	
Net changes in fair value of derivatives	(5,632)	
Non-cash deferred lease expense	3,375	3,065
Earnings from equity investments of Buckeye Partners, L.P.	(9,031)	(5,802)
Distributions from equity investments of Buckeye Partners, L.P.	4,281	4,120
Amortization of other non-cash items	4,765	4,130
Change in assets and liabilities, net of amounts related to acquisitions:		
Trade receivables	(8,428)	5,556
Construction and pipeline relocation receivables	9,394	(4,537)
Inventories	(90,579)	(8,288)
Prepaid and other current assets	(19,804)	(37,104)
Accounts payable	(2,308)	(1,356)
Accrued and other current liabilities	8,196	52,506
Other non-current assets	(21,069)	1,380
Other non-current liabilities	14,469	(2,895)
Total adjustments from operating activities	998	50,961
Net cash provided by operating activities	64,680	178,548
Cash flows from investing activities:		
Capital expenditures	(58,803)	(67,890)
Acquisitions and equity investments, net of cash acquired	(3,880)	(660,252)
Net proceeds (expenditures) for disposal of property, plant and equipment	1,248	(513)
Proceeds from sale of discontinued operations		52,584
Net cash used in investing activities	(61,435)	(676,071)
Cash flows from financing activities:		
Net proceeds from issuance of Buckeye Partners, L.P. limited partner units	104,633	113,111
Proceeds from exercise of Buckeye Partners, L.P. units options	1,901	316
Proceeds from issuance of long-term debt	273,210	298,050
Borrowings under credit facilities	348,320	502,000
Repayments under credit facilities, net	(597,717)	(253,699)
Debt issuance costs	(2,138)	(1,886)
Distributions to noncontrolling partners of Buckeye Partners, L.P.	(133,104)	(118,093)
Settlement payment of interest rate swaps		(9,638)
Distributions to limited partners	(29,716)	(25,327)
Net cash provided by (used in) financing activities	(34,611)	504,834
Net increase (decrease) in cash and cash equivalents	(31,366)	7,311

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Cash and cash equivalents	Beginning of year		61,281		94,486
Cash and cash equivalents	End of period	\$	29,915	\$	101,797

See accompanying notes to condensed consolidated financial statements.

Table of Contents**BUCKEYE GP HOLDINGS L.P.****CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL****(In thousands)****(Unaudited)**

	Buckeye GP Holdings L.P. unitholders						Total
	General Partner Common Units	Limited Partners Common Units	Management Units	Equity Gains on Issuance of Buckeye's Limited Partner Units	Noncontrolling Interest		
Partners' capital - January 1, 2008	\$ 7	\$ 232,928	\$ 3,156	\$ 2,239	\$ 1,066,143	\$ 1,304,473	
Net income*		18,056	344		109,187	127,587	
Distributions to Limited Partner - Common Units		(24,853)	(474)			(25,327)	
Recognition of unit-based compensation charges		1,026	20			1,046	
Equity gains on issuance of Buckeye's limited partner units				212	(212)		
Net proceeds from issuance of 2.6 million of Buckeye's limited partner units					113,111	113,111	
Amortization of Buckeye's limited partner unit options					380	380	
Exercise of limited partner unit options					316	316	
Services Company's non-cash ESOP distributions					(4,199)	(4,199)	
Acquired noncontrolling interest not previously owned					(1,539)	(1,539)	
Distributions to noncontrolling interest					(118,093)	(118,093)	
Other					3,923	3,923	
Partners' capital - September 30, 2008	\$ 7	\$ 227,157	\$ 3,046	\$ 2,451	\$ 1,169,017	\$ 1,401,678	
Partners' capital - January 1, 2009	\$ 7	\$ 226,565	\$ 3,037	\$ 2,451	\$ 1,166,774	\$ 1,398,834	
Net income*		30,434	582		32,666	63,682	
Distributions to Limited Partner - Common Units		(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	
					1,210	1,210	

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Amortization of Buckeye's limited partner unit options												
Exercise of limited partner unit options						1,901			1,901			
Services Company's non-cash ESOP distributions						(4,740)			(4,740)			
Distributions to noncontrolling interest						(133,104)			(133,104)			
Benefit plans settlement/curtailment charge						6,400			6,400			
Other						3,261			3,261			
Partners' capital - September 30, 2009	\$	7	\$	228,812	\$	3,080	\$	2,557	\$	1,178,895	\$	1,413,351

* Comprehensive income equals net income.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

Buckeye GP Holdings L.P. (BGH) is a publicly traded (NYSE: BGH) master limited partnership organized on June 15, 2006 under the laws of the state of Delaware. BGH owns 100% of Buckeye GP LLC (Buckeye GP), which is the general partner of Buckeye Partners, L.P. (Buckeye). Buckeye is also a publicly traded (NYSE: BPL) master limited partnership that was organized in 1986 under the laws of the state of Delaware. Approximately 62% of BGH 's limited partner 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 the general partner of BGH, and is wholly owned by BGH GP. BGH 's only business is the ownership of Buckeye GP. Buckeye GP 's only business is the management of Buckeye and its subsidiaries. At September 30, 2009, Buckeye GP owned an approximately 0.5% general partner interest in Buckeye. Buckeye operates and reports in five business segments: Pipeline Operations; Terminalling and Storage; Natural Gas Storage; Energy Services; and Other Operations. See Note 19 for a more detailed discussion of Buckeye 's business segments.

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, 2009, Services Company owned approximately 3.5% of the publicly traded limited partner units of Buckeye (the LP Units). Services Company employees provide services to the operating subsidiaries through which Buckeye conducts its operations. Pursuant to a services agreement entered into in December 2004 (the Services Agreement), the operating subsidiaries reimburse Services Company for the costs of the services it provides. Pursuant to the Services Agreement and an executive employment agreement, through December 31, 2008, executive compensation costs and related benefits paid to Buckeye GP 's four highest salaried officers were not reimbursed by Buckeye or its operating subsidiaries but were reimbursed to Services Company by BGH. Effective January 1, 2009, Buckeye and its operating subsidiaries agreed to pay for all executive compensation and benefits earned by Buckeye GP 's four highest salaried officers in return for an annual fixed payment from BGH to Buckeye of \$3.6 million.

BGH has determined that Services Company is a variable interest entity, and Buckeye GP is the primary beneficiary of Services Company, although 100% of the equity interest of Services Company is owned by the ESOP. Accordingly, Services Company has been consolidated in the financial statements of BGH.

BGH 's condensed consolidated balance sheet includes a noncontrolling capital account that reflects the portion of Buckeye owned by its partners other than BGH and Services Company. Similarly, BGH 's condensed consolidated statements of operations include income attributable to noncontrolling interest that reflects the portion of the earnings due to Buckeye 's partners other than BGH and Services Company. BGH has determined that consolidation of Buckeye into BGH 's financial statements is appropriate, as BGH indirectly controls Buckeye through its ownership of Buckeye GP.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, of a normal and recurring nature and necessary for a fair statement of its financial position as of September 30, 2009, and the results of its operations

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and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of results of BGH's operations for the 2009 fiscal year. BGH has evaluated subsequent events through November 3, 2009, the date the financial statements were issued. The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to those rules and regulations. These interim financial statements should be read in conjunction with BGH's consolidated financial statements and notes thereto presented in BGH's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC on March 16, 2009.

Certain prior year amounts have been reclassified in the statement of cash flows to conform to the current-year presentation.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recent Accounting Developments

On July 1, 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (ASC) that has been codified under FASB ASC Topic 105, Generally Accepted Accounting Principles, as the single source for authoritative nongovernmental GAAP. The ASC replaces other sources of authoritative GAAP with the exception of rules and interpretive releases of the SEC, which will continue to be authoritative. The issuance of this guidance is not intended to significantly change GAAP, but it requires ASC citations in place of references to previous authoritative accounting literature, except when such literature has not yet been incorporated into the ASC. Following the issuance of the ASC, the FASB announced that it will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it is FASB's intent to issue Accounting Standards Updates (ASU). The FASB does not consider ASUs as authoritative in their own rights. ASUs will serve only to update the ASC, provide background information about the guidance and provide the bases for conclusions on the change(s) in the ASC.

On January 1, 2009, BGH adopted the guidance that has been codified under FASB ASC Topic 810, Consolidations, which established accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. These accounting and reporting standards require for-profit entities that prepare consolidated financial statements to: (a) present noncontrolling interests as a component of equity, separate from the parent's equity; (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement; (c) consistently account for changes in a parent's ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions; (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated; and (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interests of noncontrolling owners. Accordingly, for periods presented in these condensed consolidated financial statements, BGH has reclassified its noncontrolling interest liability into partners' capital on the condensed consolidated balance sheets and has separately presented and allocated income attributable to noncontrolling interests on the condensed consolidated statements of operations and condensed consolidated statements of partners' capital.

On January 1, 2009, BGH adopted the guidance that has been codified under FASB ASC Topic 815, Derivatives and Hedging, and has included the required enhanced qualitative and quantitative disclosure requirements regarding derivative instruments in Note 11.

In April 2009, the FASB addressed the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and required that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. The guidance, codified under FASB ASC Topic 805, Business Combinations, also required that a systematic and rational basis for subsequently measuring and accounting for such assets or liabilities be developed depending on their nature. This guidance is effective for assets or liabilities arising from contingencies in business combinations for acquisitions that are consummated on or after January 1, 2009.

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In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No.166, Accounting for Transfers of Financial Assets an Amendment of FASB Statement No. 140 (SFAS 166) (not yet integrated into the ASC). The objective of SFAS 166 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS 166 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. BGH is currently evaluating the impact the adoption of SFAS 166 will have on its condensed consolidated financial statements.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167) yet integrated into the ASC). The objective of SFAS 167 is to improve financial reporting by companies involved with variable interest entities. SFAS 167 will require companies to perform an analysis to determine whether the companies' variable interest or interests give it a controlling financial interest in a variable interest entity. SFAS 167 is effective as of the beginning of each reporting company's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. BGH is currently evaluating the impact the adoption of SFAS 167 will have on its condensed consolidated financial statements.

On July 1, 2009, BGH adopted the guidance that has been codified under FASB ASC Topic 855, Subsequent Events, which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

In August 2009, the FASB issued new guidance in the form of an ASU that has been codified under FASB ASC 820, Fair Value Measurements and Disclosures, that applies to the measurement of liabilities at fair value. This new guidance provides clarification that in circumstances in which a quoted price in an active market for an identical liability is not available, companies are required to measure fair value of the liability using one or both of the following techniques: (i) a valuation technique that uses the quoted price of an identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets or (ii) a valuation technique consistent with the fair value measurements guidance, such as an income approach or a market approach. This new guidance also clarifies that when estimating the fair value of a liability, companies are not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. Additionally, this new guidance clarifies that both a quoted price in an active market for an identical liability at the measurement date and the quoted price for an identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This new guidance is effective for BGH for the quarter ending December 31, 2009. BGH is currently evaluating the impact this new guidance will have on its condensed consolidated financial statements and disclosures.

2. IMPAIRMENT OF LONG-LIVED ASSETS AND ASSETS HELD FOR SALE

Buckeye owns and operates an approximately 350-mile natural gas liquids pipeline (the Buckeye NGL Pipeline) that runs from Wattenberg, Colorado to Bushton, Kansas. During the second quarter of 2009, Buckeye received notification that several of its shippers, which were currently using the Buckeye NGL Pipeline, intended to migrate to a competing pipeline, which recently went into service. This notification was accompanied by a significant decline in shipment volumes as compared to historical averages. This loss in the customer base represented a triggering event, and an impairment evaluation resulted in a charge to earnings of \$72.5 million against the Pipeline Operations segment.

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In June 2009, Buckeye's board of directors authorized management to pursue the sale of the Buckeye NGL Pipeline. Accordingly, Buckeye ceased depreciation of the assets as of July 1, 2009 and has reclassified the net assets and liabilities of the Buckeye NGL Pipeline to Prepaid and other current assets on the September 30, 2009 condensed consolidated balance sheet, as shown in Note 4.

Table of Contents**BUCKEYE GP HOLDINGS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

The carrying amounts of the major classes of assets and liabilities held for sale by Buckeye NGL Pipe Lines LLC (Buckeye NGL) at September 30, 2009, were as follows (in thousands):

Assets:		
Inventories	\$	610
Prepaid and other current assets		1,581
Property, plant and equipment, net		8,639
Assets held for sale		10,830
Liabilities:		
Accounts payable		3,261
Accrued and other current liabilities		1,694
Liabilities held for sale		4,955
Net assets held for sale	\$	5,875

Revenues for Buckeye NGL for the three and nine months ended September 30, 2009, were \$1.7 million and \$8.2 million, respectively.

3. REORGANIZATION

On July 20, 2009, Buckeye announced the completion of a company-wide, "best practices" review. During the period ended June 30, 2009, Buckeye commenced a restructuring of its operations as a result of this review, including a reorganization of its field operations to combine five of its original pipeline and terminal districts into three districts, as well as a restructuring of certain corporate functions and related corporate support functions. These efforts redefined the roles and responsibilities of certain positions and called for the elimination of resources devoted to such activities. Approximately 260 positions are affected as a result of these restructuring activities.

As part of the restructuring efforts, Buckeye executed a reduction in force comprised of a Voluntary Early Retirement Plan (the "VERP") and an involuntary plan. The terms of the VERP were agreed to by approximately 80 employees during the period ended June 30, 2009. An additional group of approximately 180 employees are being impacted by the involuntary reduction in workforce under Buckeye's ongoing severance plan. Affected employees receive severance benefits, post-employment benefits including extended medical and dental coverage, and other services including retirement counseling and outplacement services. Most terminations were effective as of July 20, 2009.

For the nine months ended September 30, 2009, Buckeye recorded reorganization expense of \$29.1 million for post-employment costs related to these restructuring activities which include: (1) termination benefits pursuant to voluntary and involuntary severance plans of \$16.7 million;

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(2) post-retirement benefits (see Note 17) of \$6.4 million; and (3) other related costs of \$6.0 million.

The expense incurred by segment, including certain allocated amounts, for the three and nine months ended September 30, 2009 is as follows (in thousands):

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
Pipeline Operations	\$	518	\$	23,572
Terminalling and Storage		163		2,565
Natural Gas Storage		91		382
Energy Services		206		1,150
Other Operations		18		1,440
Total	\$	996	\$	29,109

Table of Contents**BUCKEYE GP HOLDINGS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

4. PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets consist of the following (in thousands):

	September 30, 2009		December 31, 2008
Prepaid insurance	\$ 1,864	\$	7,889
Insurance receivables	10,526		5,101
Ammonia receivable	11,242		12,058
Margin deposits	5,882		32,345
Prepaid services	35,411		
Unbilled revenue	8,871		1,074
Net assets held for sale	5,875		
Other	19,752		16,939
Total	\$ 99,423	\$	75,406

5. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2009		December 31, 2008
Refined petroleum products (1)	\$ 212,380	\$	69,568
Materials and supplies	15,034		14,661
Total	\$ 227,414	\$	84,229

(1) Ending inventory was 114.4 million and 47.7 million gallons of refined petroleum products at September 30, 2009 and December 31, 2008, respectively.

Buckeye generally maintains two types of inventory. Within the Energy Services segment, Buckeye principally maintains refined petroleum products inventory, which consists primarily of gasoline, heating oil and diesel fuel, which is valued at the lower of cost or market, unless such inventory is hedged. At September 30, 2009 and December 31, 2008, 86% and 78% of the inventory was hedged, respectively. Hedged

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inventory is valued at current market prices with the change in value of the inventory reflected in the condensed consolidated statements of operations. At September 30, 2009 and December 31, 2008, 11% and 17% of the inventory, respectively, was committed against fixed-priced sales contracts, and such inventory was valued at the lower of cost or market. The remaining inventory was considered unhedged and represented approximately one day of sales.

Buckeye also maintains, principally within its Pipeline Operations segment, an inventory of materials and supplies such as pipes, valves, pumps, electrical/electronic components, drag-reducing agent and other miscellaneous items that are valued at the lower of cost or market based on the first-in, first-out method.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

6. INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following (in thousands):