

NuStar Energy L.P.  
Form 10-Q  
August 05, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 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 1-16417

**NUSTAR ENERGY L.P.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of incorporation or organization)  
**2330 North Loop 1604 West**  
**San Antonio, Texas**  
(Address of principal executive offices)  
**78248**  
(Zip Code)  
**Registrant's telephone number, including area code (210) 918-2000**

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:

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 ☒

The number of common units outstanding as of July 31, 2010 was 64,610,549.

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**NUSTAR ENERGY L.P. AND SUBSIDIARIES**

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|  | <b>June 30,<br/>2010<br/>(Unaudited)</b> | <b>December 31,<br/>2009</b> |
|--|--|------------------------------|
| <b>Assets</b>  |  |                              |
| Current assets:  |  |                              |
| Cash and cash equivalents  | \$ 34,554                                | \$ 62,006                    |
| Accounts receivable, net of allowance for doubtful accounts of \$1,338 and \$1,351 as of June 30, 2010 and December 31, 2009, respectively | 283,969                                  | 211,797                      |
| Inventories  | 577,905                                  | 387,794                      |
| Other current assets   | 45,348                                   | 73,122                       |
| <b>Total current assets</b>  | <b>941,776</b>                           | <b>734,719</b>               |
| Property, plant and equipment, at cost   | 3,849,441                                | 3,721,904                    |
| Accumulated depreciation and amortization  | (760,298)                                | (693,708)                    |
| Property, plant and equipment, net   | 3,089,143                                | 3,028,196                    |
| Intangible assets, net   | 49,131                                   | 44,127                       |
| Goodwill   | 812,172                                  | 807,742                      |
| Investment in joint venture  | 68,795                                   | 68,728                       |
| Deferred income tax asset  | 8,626                                    | 13,893                       |
| Other long-term assets, net  | 81,023                                   | 77,268                       |
| <b>Total assets</b>  | <b>\$ 5,050,666</b>                      | <b>\$ 4,774,673</b>          |
| <b>Liabilities and Partners Equity</b>   |  |                              |
| Current liabilities:   |  |                              |
| Current portion of long-term debt  | \$ 770                                   | \$ 770                       |
| Accounts payable   | 294,194                                  | 205,605                      |
| Payable to related party   | 24,298                                   | 10,639                       |
| Notes payable  | 0  | 20,000                       |
| Accrued interest payable   | 21,551                                   | 21,529                       |
| Accrued liabilities  | 32,886                                   | 64,651                       |
| Taxes other than income tax  | 12,307                                   | 15,534                       |
| Income tax payable   | 1,887                                    | 26                           |
| <b>Total current liabilities</b>   | <b>387,893</b>                           | <b>338,754</b>               |
| Long-term debt, less current portion   | 1,845,506                                | 1,828,993                    |
| Long-term payable to related party   | 8,975                                    | 7,663                        |
| Deferred income tax liability  | 28,485                                   | 26,909                       |

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|   |              |              |
|---|--------------|--------------|
| Other long-term liabilities   | 84,899       | 87,386       |
| Commitments and contingencies (Note 5)  |              |              |
| Partners' equity:   |              |              |
| Limited partners (64,610,549 and 60,210,549 common units outstanding as of June 30, 2010 and December 31, 2009, respectively) | 2,636,632    | 2,423,689    |
| General partner   | 58,242       | 53,469       |
| Accumulated other comprehensive income  | 34           | 7,810        |
| Total partners' equity  | 2,694,908    | 2,484,968    |
| Total liabilities and partners' equity  | \$ 5,050,666 | \$ 4,774,673 |

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)**

|   | <b>Three Months Ended June 30,</b> |                  | <b>Six Months Ended June 30,</b> |                   |
|---|------------------------------------|------------------|----------------------------------|-------------------|
|   | <b>2010</b>                        | <b>2009</b>      | <b>2010</b>                      | <b>2009</b>       |
| <b>Revenues:</b>  |                                    |                  |                                  |                   |
| Service revenues  | \$ 195,087                         | \$ 176,042       | \$ 384,382                       | \$ 358,694        |
| Product sales   | 929,854                            | 811,800          | 1,686,088                        | 1,263,152         |
| <b>Total revenues</b>   | <b>1,124,941</b>                   | <b>987,842</b>   | <b>2,070,470</b>                 | <b>1,621,846</b>  |
| <b>Costs and expenses:</b>  |                                    |                  |                                  |                   |
| Cost of product sales   | 842,588                            | 731,861          | 1,561,809                        | 1,148,656         |
| Operating expenses:   |                                    |                  |                                  |                   |
| Third parties   | 85,868                             | 79,370           | 173,361                          | 151,932           |
| Related party   | 34,075                             | 31,135           | 67,919                           | 61,895            |
| Total operating expenses  | 119,943                            | 110,505          | 241,280                          | 213,827           |
| General and administrative expenses:                                |                                    |                  |                                  |                   |
| Third parties   | 8,875                              | 9,826            | 18,906                           | 17,422            |
| Related party   | 13,320                             | 16,026           | 30,558                           | 30,894            |
| Total general and administrative expenses                           | 22,195                             | 25,852           | 49,464                           | 48,316            |
| Depreciation and amortization expense                               | 38,185                             | 35,548           | 76,114                           | 71,537            |
| <b>Total costs and expenses</b>                                     | <b>1,022,911</b>                   | <b>903,766</b>   | <b>1,928,667</b>                 | <b>1,482,336</b>  |
| <b>Operating income</b>   | <b>102,030</b>                     | <b>84,076</b>    | <b>141,803</b>                   | <b>139,510</b>    |
| Equity in earnings of joint venture                                 | 2,102                              | 3,011            | 5,117                            | 5,324             |
| Interest expense, net   | (18,890)                           | (20,265)         | (37,476)                         | (40,735)          |
| Other income, net   | 14,816                             | 19,240           | 15,117                           | 27,844            |
| <b>Income before income tax expense</b>                             | <b>100,058</b>                     | <b>86,062</b>    | <b>124,561</b>                   | <b>131,943</b>    |
| Income tax expense  | 636                                | 2,327            | 5,436                            | 8,853             |
| <b>Net income</b>   | <b>\$ 99,422</b>                   | <b>\$ 83,735</b> | <b>\$ 119,125</b>                | <b>\$ 123,090</b> |
| <b>Net income per unit applicable to limited partners</b> (Note 11) | <b>\$ 1.43</b>                     | <b>\$ 1.38</b>   | <b>\$ 1.64</b>                   | <b>\$ 1.96</b>    |
| Weighted average limited partner units outstanding                  | 62,289,670                         | 54,460,549       | 61,255,853                       | 54,460,549        |

See Condensed Notes to Consolidated Financial Statements.

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**NUSTAR ENERGY L.P. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited, Thousands of Dollars)**

|   | Six Months Ended June 30,<br>2010 | 2009            |
|---|-----------------------------------|-----------------|
| <b>Cash Flows from Operating Activities:</b>                                      |                                   |                 |
| Net income  | \$ 119,125                        | \$ 123,090      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |                 |
| Depreciation and amortization expense   | 76,114                            | 71,537          |
| Amortization of debt related items  | (3,868)                           | (3,461)         |
| Loss (gain) on sale or disposition of assets                                      | 688                               | (21,050)        |
| Deferred income tax (benefit) expense   | (2,301)                           | 1,065           |
| Equity in earnings of joint venture   | (5,117)                           | (5,324)         |
| Distributions of equity in earnings of joint venture                              | 5,050                             | 4,000           |
| Changes in current assets and current liabilities (Note 12)                       | (175,515)                         | (239,137)       |
| Other, net  | (523)                             | 642             |
| <b>Net cash provided by (used in) operating activities</b>                        | <b>13,653</b>                     | <b>(68,638)</b> |
| <b>Cash Flows from Investing Activities:</b>                                      |                                   |                 |
| Reliability capital expenditures  | (21,262)                          | (16,491)        |
| Strategic capital expenditures  | (96,423)                          | (52,516)        |
| Acquisition   | (43,026)                          | 0               |
| Proceeds from sale or disposition of assets                                       | 157                               | 29,151          |
| Proceeds from insurance claims  | 13,500                            | 10,162          |
| Investment in other long-term assets  | (3,224)                           | 0               |
| <b>Net cash used in investing activities</b>                                      | <b>(150,278)</b>                  | <b>(29,694)</b> |
| <b>Cash Flows from Financing Activities:</b>                                      |                                   |                 |
| Proceeds from long-term debt borrowings   | 671,355                           | 588,189         |
| Proceeds from short-term debt borrowings  | 175,791                           | 189,600         |
| Long-term debt repayments   | (636,633)                         |                 |