BUCKEYE PARTNERS, L.P.
Form 10-Q
November 06, 2012
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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 September 30, 2012

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 1-9356

Buckeye Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**23-2432497**
(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 x 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 x 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 x	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 Act). Yes ¨ No x

Limited partner units and Class B units outstanding as of October 31, 2012: 90,331,395 and 7,777,811, respectively.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

BUCKEYE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit amounts)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenue:				
Product sales	$ 688,948	$ 884,436	$ 2,462,699	$ 2,775,698
Transportation and other services	277,022	232,475	745,350	670,841
Total revenue	965,970	1,116,911	3,208,049	3,446,539
Costs and expenses:				
Cost of product sales and natural gas storage services	698,019	881,596	2,476,659	2,773,899
Operating expenses	101,242	96,776	300,263	266,909
Depreciation and amortization	37,134	31,230	104,486	87,227
General and administrative	16,222	15,054	51,074	47,751
Goodwill impairment expense		169,560		169,560
Total costs and expenses	852,617	1,194,216	2,932,482	3,345,346
Operating income (loss)	113,353	(77,305)	275,567	101,193
Other income (expense):				
Earnings from equity investments	553	2,379	4,287	7,760
Gain on sale of equity investment				34,112
Interest and debt expense	(28,737)	(33,199)	(85,159)	(90,292)
Other income (expense)	90	(75)	57	432
Total other expense, net	(28,094)	(30,895)	(80,815)	(47,988)
Net income (loss)	85,259	(108,200)	194,752	53,205
Less: Net income attributable to noncontrolling interests	(143)	(1,500)	(3,298)	(4,391)
Net income (loss) attributable to Buckeye Partners, L.P.	$ 85,116	$ (109,700)	$ 191,454	$ 48,814
Earnings (loss) per unit:				
Basic	$ 0.87	$ (1.18)	$ 1.97	$ 0.55
Diluted	$ 0.87	$ (1.18)	$ 1.97	$ 0.54
Weighted average units outstanding:				
Basic	97,993	92,982	97,017	89,499

Diluted	98,342	92,982	97,340	89,831

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income (loss)	$ 85,259	$ (108,200)	$ 194,752	$ 53,205
Other comprehensive income (loss):				
Change in value of derivatives	(6,154)	(83,323)	(28,746)	(91,935)
Gain on settlement of treasury lock, net of amortization	(13)	(12)	(37)	464
Adjustment to funded status of benefit plans	(73)	(154)	(75)	(394)
Total other comprehensive loss	(6,240)	(83,489)	(28,858)	(91,865)
Comprehensive income (loss)	79,019	(191,689)	165,894	(38,660)
Less: Comprehensive income attributable to noncontrolling interests	(143)	(1,500)	(3,298)	(4,391)
Comprehensive income (loss) attributable to Buckeye Partners, L.P.	$ 78,876	$ (193,189)	$ 162,596	$ (43,051)

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE PARTNERS, L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except unit amounts)

(Unaudited)

	September 30, 2012	December 31, 2011
Assets:		
Current assets:		
Cash and cash equivalents	$ 2,951	$ 12,986
Trade receivables, net	238,591	206,601
Construction and pipeline relocation receivables	11,672	8,662
Inventories	197,030	298,304
Derivative assets	1,555	6,756
Prepaid and other current assets	89,461	92,727
Total current assets	541,260	626,036
Property, plant and equipment, net	4,150,488	3,847,573
Equity investments	66,974	65,882
Goodwill	838,345	753,100
Intangible assets, net	229,628	230,568
Other non-current assets	48,502	47,217
Total assets	$ 5,875,197	$ 5,570,376
Liabilities and partners capital:		
Current liabilities:		
Line of credit	$ 166,000	$ 251,200
Accounts payable	98,636	102,445
Derivative liabilities	86,846	1,859
Accrued and other current liabilities	159,019	199,475
Total current liabilities	510,501	554,979
Long-term debt	2,672,677	2,393,574
Long-term derivative liabilities	58,460	101,911
Other non-current liabilities	190,886	195,955
Total liabilities	3,432,524	3,246,419
Commitments and contingencies (Note 3)		
Partners capital:		
Buckeye Partners, L.P. capital:		
Limited Partners (90,331,395 and 85,968,423 units outstanding as of September 30, 2012 and December 31, 2011, respectively)	2,172,617	2,035,271
Class B Units (7,777,811 and 7,304,880 units outstanding as of September 30, 2012 and December 31, 2011, respectively)	410,453	395,639
Accumulated other comprehensive loss	(156,599)	(127,741)
Total Buckeye Partners, L.P. capital	2,426,471	2,303,169

Noncontrolling interests	16,202	20,788
Total partners capital	2,442,673	2,323,957
Total liabilities and partners capital	$ 5,875,197	$ 5,570,376

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net income	$ 194,752	$ 53,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of equity investment		(34,112)
Value of ESOP shares released		1,183
Depreciation and amortization	104,486	87,227
Goodwill impairment expense		169,560
Net changes in fair value of derivatives	17,055	(150,433)
Non-cash deferred lease expense	2,925	3,091
Amortization of unfavorable storage contracts	(8,245)	(4,813)
Earnings from equity investments	(4,287)	(7,760)
Distributions from equity investments	3,324	1,922
Amortization of other non-cash items	14,282	10,074
Change in assets and liabilities, net of amounts related to acquisitions:		
Trade receivables	(31,990)	922
Construction and pipeline relocation receivables	(3,010)	647
Inventories	101,274	(9,590)
Prepaid and other current assets	3,214	8,121
Accounts payable	970	(3,691)
Accrued and other current liabilities	(46,882)	(36,724)
Other non-current assets	985	11,669
Other non-current liabilities	(857)	81,564
Net cash provided by operating activities	347,996	182,062
Cash flows from investing activities:		
Capital expenditures	(233,005)	(191,368)
Acquisition of interest in equity investment		(5,723)
Contribution to equity investment	(350)	
Deposit in anticipation of acquisition		(500)
Acquisitions, net of cash acquired	(260,312)	(1,079,411)
Proceeds from sale of equity investment		85,000
Net proceeds from disposal of property, plant and equipment	52	573
Net cash used in investing activities	(493,615)	(1,191,429)
Cash flows from financing activities:		
Net proceeds from issuance of units	246,805	736,977
Proceeds from exercise of unit options	1,067	2,226
Payment of tax withholding on issuance of LTIP awards	(1,608)	
Issuance of long-term debt		647,530
Repayment of long term-debt		(1,525)
Borrowings under BPL Credit Facilities	856,000	1,100,232

Repayments under BPL Credit Facilities	(577,400)	(952,532)
Net borrowings (repayments) under BES Credit Facility	(85,200)	62,500
Debt issuance costs		(9,968)
Acquisition of additional interest in WesPac Memphis	(17,328)	
Repayment of debt assumed in BORCO acquisition		(318,167)
Credits (costs) associated with agreement and plan of merger	422	(1,415)
Distributions paid to noncontrolling interests	(8,900)	(4,260)
Proceeds from settlement of treasury lock		497
Distributions paid to unitholders	(278,274)	(250,158)
Net cash provided by financing activities	135,584	1,011,937
Net increase (decrease) in cash and cash equivalents	(10,035)	2,570
Cash and cash equivalents Beginning of period	12,986	13,626
Cash and cash equivalents End of period	$ 2,951	$ 16,196

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

(In thousands)

(Unaudited)

	Limited Partners	Class B Units	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Partners capital January 1, 2012	$ 2,035,271	$ 395,639	$ (127,741)	$ 20,788	$ 2,323,957
Net income	176,640	14,814		3,298	194,752
Acquisition of additional interest in WesPac Memphis	(14,536)			(2,792)	(17,328)
Credits associated with agreement and plan of merger	422				422
Distributions paid to unitholders	(282,111)			3,837	(278,274)
Net proceeds from issuance of units	246,805				246,805
Amortization of unit-based compensation awards	10,534				10,534
Proceeds from exercise of unit options	1,067				1,067
Payment of tax withholding on issuance of LTIP awards	(1,608)				(1,608)
Distributions paid to noncontrolling interests				(5,063)	(5,063)
Other comprehensive loss			(28,858)		(28,858)
Noncash accrual for distribution equivalent rights	(555)				(555)
Other	688			(3,866)	(3,178)
Partners capital September 30, 2012	$ 2,172,617	$ 410,453	$ (156,599)	$ 16,202	$ 2,442,673
Partners capital January 1, 2011	$ 1,413,664	$	$ (21,259)	$ 17,855	$ 1,410,260
Net income	45,311	3,503		4,391	53,205
Acquisition of 80% interest in BORCO				276,508	276,508
Acquisition of remaining interest in BORCO				(278,211)	(278,211)
Costs associated with agreement and plan of merger	(1,415)				(1,415)
Distributions paid to unitholders	(250,158)				(250,158)
Issuance of units to First Reserve for BORCO acquisition	152,772	254,619			407,391
Issuance of units to Vopak for BORCO acquisition	36,041	60,069			96,110
Net proceeds from issuance of units	663,930	73,047			736,977
Amortization of unit-based compensation awards	6,588				6,588
Proceeds from exercise of unit options	2,226				2,226
Services Company s non-cash ESOP distributions				(1,410)	(1,410)
Distributions paid to noncontrolling interests				(4,260)	(4,260)
Other comprehensive loss			(91,865)		(91,865)
Noncash accrual for distribution equivalent rights	(892)				(892)
Other	(460)			3,119	2,659
Partners capital September 30, 2011	$ 2,067,607	$ 391,238	$ (113,124)	$ 17,992	$ 2,363,713

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Buckeye Partners, L.P. is a publicly traded Delaware master limited partnership (MLP), and its limited partnership units representing limited partner interests (LP Units) are listed on the New York Stock Exchange (NYSE) under the ticker symbol BPL. Buckeye GP LLC (Buckeye GP is our general partner. As used in these Notes to Unaudited Condensed Consolidated Financial Statements, *we*, *us*, *our* and *Buckeye* mean Buckeye Partners, L.P. and, where the context requires, includes our subsidiaries.

We were formed in 1986 and own and operate one of the largest independent refined petroleum products pipeline systems in the United States in terms of volumes delivered with over 6,000 miles of pipeline and over 100 active products terminals that provide aggregate storage capacity of approximately 70 million barrels. In addition, we operate and/or maintain third-party pipelines under agreements with major oil and gas, petrochemical and chemical companies, and perform certain engineering and construction management services for third parties. We also own and operate a natural gas storage facility in Northern California, and are a wholesale distributor of refined petroleum products in the United States in areas also served by our pipelines and terminals. Our flagship marine terminal in The Bahamas, which is owned by our subsidiary, Bahamas Oil Refining Company International Limited (BORCO), is one of the largest marine crude oil and petroleum products storage facilities in the world, serving the international markets as a premier global logistics hub.

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements and the accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules of the U.S. Securities and Exchange Commission (SEC). Accordingly, our financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of our results of operations for the interim periods. The consolidated financial statements include the accounts of our subsidiaries controlled by us and variable interest entities of which we are the primary beneficiary. We have eliminated all intercompany transactions in consolidation.

We believe that the disclosures in these condensed consolidated financial statements are adequate to make the information presented not misleading. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

Recent Accounting Developments

Intangibles, Goodwill and Other. In September 2011, the Financial Accounting Standards Board (FASB) issued guidance that amended testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The amended guidance does not change how goodwill is calculated or assigned to reporting units nor revise the requirement to test goodwill for impairment annually or between annual tests if events or circumstances warrant. However, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We applied the amended guidance for our annual goodwill impairment test as of January 1, 2012 based on the facts and circumstances within each reporting unit. The adoption of this guidance did not have an impact on our condensed consolidated financial statements.

Presentation of Comprehensive Income. In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income. This guidance requires entities to present reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement in which the components of net income and components of other comprehensive income are presented. It also eliminates the current option

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

under U.S. GAAP to present components of other comprehensive income within the statement of changes in stockholders equity. The components of comprehensive income are required to be presented within either (i) a single continuous statement of comprehensive income or (ii) two separate but consecutive statements. This guidance is effective for interim and annual periods beginning after December 15, 2011. Since this issuance only impacts the presentation of such financial information, adoption of this guidance did not have an impact on our condensed consolidated financial statements. On December 23, 2011, the FASB issued guidance to defer the new requirement to present the effect of reclassification adjustments on net income and other comprehensive income in the statement in which components of net income and the components of other comprehensive income are presented. The FASB issued an exposure draft on August 16, 2012 proposing new disclosures for reclassifications. The FASB has not determined an effective date for the exposure draft. We are still evaluating the impacts of this exposure draft, however, since this exposure draft only impacts the presentation of such financial information, adoption of this guidance is not expected to have an impact on our condensed consolidated financial statements.

2. ACQUISITIONS

Business Combinations

The following acquisitions were accounted for as business combinations:

2012 Transaction

In July 2012, we acquired a marine terminal facility for liquid petroleum products in New York Harbor (the Perth Amboy Facility) from Chevron U.S.A Inc. (Chevron) for $260.3 million in cash. The facility, which sits on approximately 250 acres on the Arthur Kill tidal strait in Perth Amboy, New Jersey, has over 4.0 million barrels of tankage, four docks, and significant undeveloped land available for potential expansion. The Perth Amboy Facility has water, pipeline, rail, and truck access, and is located six miles from our Linden, New Jersey complex. The facility provides a link between our inland pipelines and terminals and our BORCO facility in The Bahamas and opportunities for improved service offerings to our customers. Concurrent with the acquisition, we entered into multi-year storage, blending, and throughput commitments with Chevron. The operations of the Perth Amboy Facility are reported in our Pipelines & Terminals segment. The acquisition cost has been allocated to assets acquired and liabilities assumed based on estimated fair values at the acquisition date, with amounts exceeding the fair value recorded as goodwill, which represents both expected synergies from combining the Perth Amboy Facility with our existing operations and the economic value attributable to future expansion projects resulting from this acquisition. Fair values have been developed using recognized business valuation techniques and are subject to change pending final valuation analysis. The purchase price has been allocated to tangible and intangible assets acquired and liabilities assumed, on a preliminary basis, as follows (in thousands):

Current assets	$ 547
Property, plant and equipment	169,537
Intangible assets	13,350
Goodwill	85,245
Environmental liabilities	(8,367)
Allocated purchase price	$ 260,312

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2011 Transaction

On June 1, 2011, we acquired 33 refined petroleum products terminals with total storage capacity of over 10 million barrels and approximately 650 miles of refined petroleum products pipelines from BP Products North America Inc. and its affiliates for $166.0 million. The purchase price has been allocated to tangible and intangible assets acquired and liabilities assumed as follows (in thousands):

Inventory	$ 1,161
Property, plant and equipment	175,577
Intangible assets	8,940
Environmental and other liabilities	(19,702)
Allocated purchase price	$ 165,976

Acquisition of Additional Interest in WesPac Pipelines Memphis LLC

In September 2012, our operating subsidiary, Buckeye Pipe Line Holdings, L.P. (BPH), purchased an additional 20% ownership interest in WesPac Pipelines Memphis LLC (WesPac Memphis) from Kealine LLC for $17.3 million and, as a result of the acquisition, our ownership interest in WesPac Memphis increased from 50% to 70%. Since BPH retains controlling interest in WesPac Memphis, this acquisition was accounted for as an equity transaction.

3. COMMITMENTS AND CONTINGENCIES

Claims and Legal Proceedings

In the ordinary course of business, we are involved in various claims and legal proceedings, some of which are covered by insurance. We are generally unable to predict the timing or outcome of these claims and proceedings. Based upon our evaluation of existing claims and proceedings and the probability of losses relating to such contingencies, we have accrued certain amounts relating to such claims and proceedings, none of which are considered material.

On May 25, 2012, a ship allided with a jetty at our BORCO facility while berthing, causing damage to portions of the jetty. The extent of the damage is being assessed and presently is estimated to range between $25.0 million and $50.0 million. We have insurance to cover this loss, subject to a $5.0 million deductible. On May 26, 2012, we commenced legal proceedings in the Bahamas against the vessel s owner and the vessel to obtain security for the cost of repairs and other losses incurred as a result of the incident. Full security for our claim has been provided by the vessel owner s insurers, reserving all of their defenses, but the vessel owner is claiming it is entitled to limit its liability to approximately $17.0 million. We also have notified the customer on whose behalf the vessel was at the BORCO facility that we intend to hold them responsible for all damages and losses resulting from the incident pursuant to the terms of an agreement between the parties. Any disputes between us and our customer on this matter are subject to arbitration in Houston, Texas. At this time, we have not experienced any material interruption of service at the BORCO facility as a result of the incident and have commenced the process of repairing the jetty. We recorded a $4.2 million loss on disposal due to the assets destroyed in the incident; however, since we believe the recovery of our losses is probable, we recorded a corresponding receivable for the loss on disposal. To the extent the proceeds from the recovery of our losses is in excess of the carrying value of the destroyed assets or other costs incurred, we will recognize a gain when such proceeds are received and are not refundable. As of September 30, 2012, no gain had been recognized.

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Federal Energy Regulatory Commission (FERC) Proceedings

FERC Docket No. IS12-185 Buckeye Pipe Line Show Cause Proceeding. On March 30, 2012, the FERC issued an order (the Order) regarding the market-based methodology used by Buckeye Pipe Line Company, L.P. (BPLC) to set tariff rates on its pipeline system (the Buckeye System). In 1991, BPLC sought and received FERC permission to determine rate changes on the Buckeye System using a unique methodology that constrains rates in markets not found to be competitive based on rate changes in markets that FERC found to be competitive, as well as certain other limits on rate increases. FERC ordered the continuation of this methodology for the Buckeye System in 1994, subject to FERC s authority to cause BPLC to terminate the program in the future. The Order, among other things, states that FERC will review the continued efficacy of BPLC s unique program and directs BPLC to show cause why it should not be required to discontinue the program on the Buckeye System and avail itself of the generic ratemaking methodologies used by other oil pipelines. The Order also disallowed proposed rate increases on the Buckeye System that would have become effective April 1, 2012. The Order does not impact any of the pipeline systems or terminals owned by Buckeye s other operating subsidiaries. On April 23, 2012, BPLC requested rehearing as to the disallowance of certain rates, and filed its response to FERC s show cause requirement, in which it defended the program, on May 15, 2012. Subsequently, parties interested in rates for transportation of jet fuel to the New York City airports filed pleadings seeking to change the program, three other shippers filed to intervene in the proceeding without taking a position on the program, and BPLC and the principal commenting party on jet fuel rates each filed replies to the other party s filings. On October 9, 2012, one of the three shippers that intervened in the proceeding without taking a position on the program withdrew its intervention. The timing or outcome of final resolution of this matter cannot reasonably be determined at this time.

FERC Docket No. OR12-28 Airlines Complaint against BPLC New York City Jet Fuel Rates. On September 20, 2012, a complaint was filed with FERC by Delta Air Lines, JetBlue Airways, United/Continental Air Lines, and US Airways challenging BPLC s rates for transportation of jet fuel from New Jersey to three New York City airports. The complaint was not directed at BPLC s rates for service to other destinations, and does not involve pipeline systems and terminals owned by Buckeye s other operating subsidiaries. The complaint challenges these jet fuel transportation rates as generating revenues in excess of costs and thus being unjust and unreasonable under the Interstate Commerce Act. On October 10, 2012, BPLC filed its answer to the complaint, contending that the airlines allegations are based on inappropriate adjustments to the pipeline s costs and revenues, and that, in any event, any revenue recovery by BPLC in excess of costs would be irrelevant because BPLC s rates are set under a FERC-approved program that ties rates to competitive levels. BPLC also sought dismissal of the complaint to the extent it seeks to challenge the portion of BPLC s rates that were deemed just and reasonable, or grandfathered, under Section 1803 of the Energy Policy Act of 1992. BPLC further contested the airlines ability to seek relief as to past charges where the rates are lawful under BPLC s FERC-approved rate program. On October 25, 2012, the complainants filed their answer to BPLC s motion to dismiss and answer. If FERC were to find these challenged rates to be in excess of costs and not otherwise protected by law, it could order BPLC to reduce these rates prospectively and could order repayment to the complaining airlines of any past charges found to be in excess of just and reasonable levels for up to two years prior to the filing date of the complaint. BPLC intends to vigorously defend its rates and its existing rate program. The timing or outcome of final resolution of this matter cannot reasonably be determined at this time.

FERC Docket No. OR13-3 Buckeye Pipe Line s Market-Based Rate Application. On October 15, 2012, BPLC filed an application with FERC seeking authority to charge market-based rates for deliveries of refined petroleum products to the New York City-area market (the Application). In the Application, BPLC seeks to charge market-based rates from its three origin points in northeastern New Jersey to its five destinations on its Long Island System, including deliveries of jet fuel to the Newark, LaGuardia, and JFK airports. The jet fuel rates were also the subject of the airlines OR12-28 complaint discussed above. Protests and comments on the Application are due by December 14, 2012, after which FERC will determine whether to approve the Application, deny it, or set it for further proceedings, including potentially an evidentiary hearing. If FERC were to approve the Application, BPLC would be permitted prospectively to set these rates in response to competitive forces, and the basis for the airlines claim for relief in their OR12-28 complaint as to BPLC s future rates would be irrelevant prospectively. The timing or outcome of FERC s review of this application cannot reasonably be determined at this time.

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Environmental Contingencies

We recorded operating expenses, net of recoveries, of $1.2 million and $3.1 million during the three months ended September 30, 2012 and 2011, respectively, related to environmental remediation expenditures unrelated to claims and legal proceedings. For the nine months ended September 30, 2012 and 2011, we recorded operating expenses, net of recoveries, of $3.9 million and $5.6 million, respectively, related to environmental remediation expenditures unrelated to claims and legal proceedings. As of September 30, 2012 and December 31, 2011, we recorded environmental liabilities of $61.5 million and $58.4 million, respectively. Costs incurred may be in excess of our estimate, which may have a material impact on our financial condition, results of operations or cash flows.

Ammonia Contract Contingencies

On November 30, 2005, Buckeye Development & Logistics I LLC (BDL) purchased an ammonia pipeline and other assets from El Paso Merchant Energy-Petroleum Company (EPME), a subsidiary of El Paso Corporation (El Paso). As part of the transaction, BDL assumed the obligations of EPME under several contracts involving monthly purchases and sales of ammonia. EPME and BDL agreed, however, that EPME would retain the economic risks and benefits associated with those contracts until their expiration at the end of 2012. To effectuate this agreement, BDL passes through to EPME both the cost of purchasing ammonia under a supply contract and the proceeds from selling ammonia under three sales contracts. For the vast majority of monthly periods since the closing of the pipeline acquisition, the pricing terms of the ammonia contracts have resulted in ammonia supply costs exceeding ammonia sales proceeds. The amount of the shortfall generally increases as the market price of ammonia increases.

EPME has informed BDL that, notwithstanding the parties agreement, it will not continue to pay BDL for shortfalls created by the pass-through of ammonia costs in excess of ammonia revenues. EPME encouraged BDL to seek payment by invoking a $40.0 million guaranty made by El Paso, which guaranteed EPME s obligations to BDL. If EPME fails to reimburse BDL for these shortfalls, then such unreimbursed shortfalls could exceed the $40.0 million cap on El Paso s guaranty. To the extent the unreimbursed shortfalls significantly exceed the $40.0 million cap, the resulting costs incurred by BDL could adversely affect our financial position, results of operations and cash flows. To date, BDL has continued to receive payment for ammonia costs under the contracts at issue. BDL has not called on El Paso s guaranty and believes only BDL may invoke the guaranty. EPME, however, contends that El Paso s guaranty is the source of payment for the shortfalls, but has not clarified the extent to which it believes the guaranty has been exhausted. We, in cooperation with EPME, have terminated one of the ammonia sales contracts. Given the uncertainty of future ammonia prices and EPME s future actions, we continue to believe we may have risk of loss in connection with the two remaining ammonia sales contracts and an ammonia supply contract and, at this time, are unable to estimate the amount of any such losses we might incur in the future. We are assessing our options in the event EPME ceases paying for ammonia costs under the contracts at issue, including commencing litigation or pursuing other recourse against EPME and El Paso, with respect to this matter.

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4. INVENTORIES

Our inventory amounts were as follows at the dates indicated (in thousands):

	September 30, 2012	December 31, 2011
Refined petroleum products (1)	$ 183,895	$ 285,509
Materials and supplies	13,135	12,795
Total inventories	$ 197,030	$ 298,304

(1) Ending inventory was 57.0 million and 99.6 million gallons of refined petroleum products at September 30, 2012 and December 31, 2011, respectively.

At September 30, 2012 and December 31, 2011, approximately 94% and 96% of our refined petroleum products inventory volumes were hedged, respectively. Because we generally designate inventory as a hedged item upon purchase, hedged inventory is valued at current market prices with the change in value of the inventory reflected in our condensed consolidated statements of operations. Inventory not accounted for as a fair value hedge is accounted for at the lower of cost or market using the weighted average cost method.

5. EQUITY INVESTMENTS

The following table presents earnings from equity investments for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Muskegon Pipeline LLC	$ 303	$ 454	$ 722	$ 552
Transport4, LLC	113	43	191	143
West Shore Pipe Line Company	(220)	1,638	2,884	4,524
West Texas LPG Pipeline Limited Partnership (1)				2,297
South Portland Terminal LLC (2)	357	244	490	244
Total earnings from equity investments	$ 553	$ 2,379	$ 4,287	$ 7,760

(1) In May 2011, we sold our 20% interest in West Texas LPG Pipeline Limited Partnership (WT LPG). Amounts for WT LPG are included through the date of the sale of our interest.

(2) In July 2011, we acquired a 50% interest.

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Summarized combined income statement data for our equity method investments are as follows for the periods indicated (amounts represent 100% of investee income statement data in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011 (1)	2012	2011 (1)
Revenue	$ 21,233	$ 19,485	$ 55,215	$ 80,989
Costs and expenses	(16,549)	(8,140)	(34,161)	(43,106)
Non-operating expense	(1,061)	(2,812)	(7,182)	(9,632)
Net income	$ 3,623	$ 8,533	$ 13,872	$ 28,251

(1) In May 2011, we sold our 20% interest in WT LPG. Amounts for WT LPG are included through the date of the sale of our interest.

6. LONG-TERM DEBT

Current Maturities Expected to be Refinanced

The $300.0 million of 4.625% Notes maturing on July 15, 2013 has been classified as long-term debt under the assumption that our Revolving Credit Facility dated September 26, 2011 (the Credit Facility) with SunTrust Bank could be used to refinance this debt, if required. At September 30, 2012, we had $481.4 million of availability under our Credit Facility but, except for borrowings that are used to refinance other debt, we are limited to $230.9 million of additional borrowings by the financial covenants under our Credit Facility. It is our intent to refinance the 4.625% Notes in 2013.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to certain risks, including changes in interest rates and commodity prices, in the course of our normal business operations. We use derivative instruments to manage risks associated with certain identifiable and forecasted transactions. Derivatives are financial and physical instruments whose fair value is determined by changes in a specified benchmark such as interest rates or commodity prices. Typical derivative instruments include futures, forward physical contracts, swaps and other instruments with similar characteristics. We do not engage in speculative trading activities.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategies for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument s effectiveness will be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives used in a transaction are highly effective in offsetting changes in cash flows or the fair value of hedged items. A discussion of our derivative activities by risk category follows.

Interest Rate Derivatives

We utilize forward-starting interest rate swaps to manage interest rate risk related to forecasted interest payments on anticipated debt issuances. This strategy is a component in controlling our cost of capital associated with such borrowings by mitigating the adverse effect of a change in the capital markets. When entering into interest rate swap transactions, we become exposed to both credit risk and market risk. We are subject to credit risk when the change in fair value of the swap instrument is positive and the counterparty may fail to perform under the terms of the contract. We are subject to market risk with respect to changes in the underlying benchmark interest rate that impacts the fair value of the swaps. We manage our credit risk by entering into swap transactions only with major financial institutions with investment-grade credit ratings. We manage our market risk by aligning the swap instrument with the existing underlying debt obligation or a specified expected debt issuance generally associated with the maturity of an existing debt obligation.

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Our practice with respect to derivative transactions related to interest rate risk has been to have each transaction in connection with non-routine borrowings authorized by the board of directors of Buckeye GP. In February 2009, Buckeye GP s board of directors adopted an interest rate hedging policy which permits us to enter into certain short-term interest rate swap agreements to manage our interest rate and cash flow risks associated with a credit facility. In addition, in July 2009 and May 2010, Buckeye GP s board of directors authorized us to enter into certain transactions, such as forward-starting interest rate swaps, to manage our interest rate and cash flow risks related to certain expected debt issuances associated with the maturity of existing debt obligations.

We expect to issue new fixed-rate debt (i) on or before July 15, 2013 to repay the $300.0 million of 4.625% Notes and (ii) on or before October 15, 2014 to repay the $275.0 million of 5.300% Notes, although no assurances can be given that the issuance of fixed-rate debt will be possible on acceptable terms. We have entered into six forward-starting interest rate swaps with a total aggregate notional amount of $300.0 million related to the anticipated issuance of debt on or before July 15, 2013 and six forward-starting interest rate swaps with a total aggregate notional amount of $275.0 million related to the anticipated issuance of debt on or before October 15, 2014. The purpose of these swaps is to hedge the variability of the forecasted interest payments on these expected debt issuances that may result from changes in the benchmark interest rate until the expected debt is issued. During the three months ended September 30, 2012 and 2011, unrealized losses of $6.4 million and $83.6 million, respectively, were recorded in accumulated other comprehensive loss to reflect the change in the fair values of the forward-starting interest rate swaps. During the nine months ended September 30, 2012 and 2011, unrealized losses of $29.5 million and $92.4 million, respectively, were recorded in accumulated other comprehensive loss. We designated the swap agreements as cash flow hedges at inception and expect the changes in value to be highly correlated with the changes in value of the underlying borrowings.

Over the next twelve months, we expect to reclassify $0.9 million of net losses from accumulated other comprehensive loss to interest and debt expense. The loss consists of the change in fair value on forward-starting interest rate swaps that were terminated in 2008 and served as a designated cash flow hedge of our 6.050% Notes, partially offset by a gain attributable to the settlement in January 2011 of the treasury lock agreement associated with the 4.875% Notes.

Commodity Derivatives

Our Energy Services segment primarily uses exchange-traded refined petroleum product futures contracts to manage the risk of market price volatility on its refined petroleum product inventories and its physical commodity forward fixed-price purchase and sales contracts. The derivative contracts used to hedge refined petroleum product inventories are designated as fair value hedges. Accordingly, our method of measuring ineffectiveness compares the change in the fair value of New York Mercantile Exchange (NYMEX) futures contracts to the change in fair value of our hedged fuel inventory. The time value component is excluded from our hedge assessment and reported directly in earnings. Hedge accounting is discontinued when the hedged fuel inventory is sold or when the related derivative contracts expire. In addition, we periodically enter into offsetting exchange-traded futures contracts to economically close-out an existing futures contract based on a near-term expectation to sell a portion of our fuel inventory. These offsetting derivative contracts are not designated as hedging instruments and any resulting gains or losses are recognized in earnings during the period. The fair values of futures contracts for inventory designated as hedging instruments in the following tables have been presented net of these offsetting futures contracts.

Our Energy Services segment has not used hedge accounting with respect to its fixed-price contracts. Therefore, our fixed-price contracts and the related futures contracts used to offset the changes in fair value of the fixed-price sales contracts are all marked-to-market on the condensed consolidated balance sheets with gains and losses being recognized in earnings during the period. In addition, futures contracts were executed to economically hedge a portion of the Energy Services segment s refined petroleum products held in inventory. The mark-to-market is recorded on the condensed consolidated balance sheets with gains and losses being recognized in earnings during the period.

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The following table summarizes our commodity derivative instruments outstanding at September 30, 2012 (amounts in thousands of gallons):

	Volume (1)		Accounting
Derivative Purpose	**Current**	**Long-Term**	**Treatment**
Derivatives NOT designated as hedging instruments:			
Physical fixed price derivative contracts for refined products	23,199	498	Mark-to-market
Physical index derivative contracts	183,229	1,054	Mark-to-market
Futures contracts for refined products	66,612	504	Mark-to-market
Derivatives designated as hedging instruments:			
Futures contracts for refined products	53,550		Fair Value Hedge

(1) Volume represents absolute value of net notional volume position.

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The following table sets forth the fair value of each classification of derivative instruments and the locations of the derivative instruments on our condensed consolidated balance sheets at the dates indicated (in thousands):

	September 30, 2012				
	Derivatives NOT Designated as Hedging Instruments	Derivatives Designated as Hedging Instruments	Derivative Carrying Value	Netting Balance Sheet Adjustment	Total
Physical fixed price derivative contracts	$ 1,206	$	$ 1,206	$ (280)	$ 926
Physical index derivative contracts	631		631	(2)	629
Futures contracts for refined products	30,701	304	31,005	(31,005)	
Total current derivative assets	32,538	304	32,842	(31,287)	1,555
Physical index derivative contracts	43		43		43
Futures contracts for refined products	169		169		169
Total non-current derivative assets	212		212		212
Physical fixed price derivative contracts	(5,669)		(5,669)	280	(5,389)
Physical index derivative contracts	(728)		(728)	2	(726)
Futures contracts for refined products	(33,027)	(5,661)	(38,688)	31,005	(7,683)
Interest rate derivatives		(73,048)	(73,048)		(73,048)
Total current derivative liabilities	(39,424)	(78,709)	(118,133)	31,287	(86,846)
Physical fixed price derivative contracts	(127)		(127)		(127)
Interest rate derivatives		(58,333)	(58,333)		(58,333)
Total non-current derivative liabilities	(127)	(58,333)	(58,460)		(58,460)
Net derivative assets (liabilities)	$ (6,801)	$ (136,738)	$ (143,539)	$	$ (143,539)

	December 31, 2011				
	Derivatives NOT Designated as Hedging Instruments	Derivatives Designated as Hedging Instruments	Derivative Carrying Value	Netting Balance Sheet Adjustment	Total
Physical fixed price derivative contracts	$ 5,351	$	$ 5,351	$ (59)	$ 5,292
Physical index derivative contracts	853		853	(19)	834
Futures contracts for refined products	3,594	2,664	6,258	(5,628)	630
Total current derivative assets	9,798	2,664	12,462	(5,706)	6,756

Physical fixed price derivative contracts	(1,304)		(1,304)	59	(1,245)
Physical index derivative contracts	(633)		(633)	19	(614)
Futures contracts for refined products	(3,154)	(2,474)	(5,628)	5,628	
Total current derivative liabilities	(5,091)	(2,474)	(7,565)	5,706	(1,859)
Interest rate derivatives		(101,911)	(101,911)		(101,911)
Total non-current derivative liabilities		(101,911)	(101,911)		(101,911)
Net derivative assets (liabilities)	$ 4,707	$ (101,721)	$ (97,014)	$	$ (97,014)

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Our hedged inventory portfolio extends to the third quarter of 2013. The majority of the unrealized loss of $5.4 million at September 30, 2012 for inventory hedges represented by futures contracts will be realized by the first quarter of 2013 as the inventory is sold. At September 30, 2012, open refined petroleum product derivative contracts (represented by the physical fixed-price contracts, physical index contracts, and futures contracts for fixed-price sales contracts noted above) varied in duration in the overall portfolio, but did not extend beyond December 2013. In addition, at September 30, 2012, we had refined petroleum product inventories that we intend to use to satisfy a portion of the physical derivative contracts.

The gains and losses on our derivative instruments recognized in income were as follows for the periods indicated (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2012	2011	2012	2011
Derivatives NOT designated as hedging instruments:					
Physical fixed price derivative contracts	Product sales	$ (9,153)	$ 7,507	$ (6,255)	$ 5,920
Physical index derivative contracts	Product sales	678		1,038	
Physical fixed price derivative contracts	Cost of product sales and natural gas storage services	813	4,277	210	6,044
Physical index derivative contracts	Cost of product sales and natural gas storage services	(1,014)		(1,053)	
Futures contracts for refined products	Cost of product sales and natural gas storage services	1,304	(1,016)	6,635	165
Derivatives designated as fair value hedging instruments:					
Futures contracts for refined products	Cost of product sales and natural gas storage services	(19,062)	30,240	(33,697)	(18,591)
Physical inventory hedge items	Cost of product sales and natural gas storage services	21,307	(27,768)	32,464	12,515
Ineffectiveness and the time value component on fair value hedging instruments:					
Fair value hedge ineffectiveness (excluding time value)	Cost of product sales and natural gas storage services	(249)	3,825	(809)	3,621
Time value excluded from hedge assessment	Cost of product sales and natural gas storage services	2,494	(1,353)	(423)	(9,697)
Net gain (loss) in income		$ 2,245	$ 2,472	$ (1,232)	$ (6,076)

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The gains and losses reclassified from accumulated other comprehensive income (AOCI) to income and the change in value recognized in other comprehensive income (OCI) on our derivatives were as follows for the periods indicated (in thousands):

		Loss Reclassified from AOCI to Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2012	2011	2012	2011
Derivatives designated as cash flow hedging instruments:					
Futures contracts for natural gas	Cost of product sales and natural gas storage services	$	$ (32)	$	$ (251)
Interest rate contracts	Interest and debt expense	(229)	(229)	(688)	(691)

	Change in Value Recognized in OCI on Derivatives			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Derivatives designated as cash flow hedging instruments:				
Futures contracts for natural gas	$	$	$	$ (46)
Interest rate contracts	(6,396)	(83,596)	(29,471)	(92,366)

8. FAIR VALUE MEASUREMENTS

We categorize our financial assets and liabilities using the three-tier hierarchy as follows.

Recurring

The following table sets forth financial assets and liabilities measured at fair value on a recurring basis as of the measurement dates, and the basis for that measurement by level within the fair value hierarchy as indicated below (in thousands):

	September 30, 2012		December 31, 2011	
	Level 1	Level 2	Level 1	Level 2
Financial assets:				
Physical fixed price derivative contracts	$	$ 926	$	$ 5,292
Physical index derivative contracts		672		834
Futures contracts for refined products	169		630	
Financial liabilities:				
Physical fixed price derivative contracts		(5,516)		(1,245)
Physical index derivative contracts		(726)		(614)
Futures contracts for refined products	(7,683)			
Interest rate derivatives		(131,381)		(101,911)
Fair value	$ (7,514)	$ (136,025)	$ 630	$ (97,644)

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The values of the Level 1 derivative assets and liabilities were based on quoted market prices obtained from the NYMEX.

The values of the Level 2 interest rate derivatives were determined using expected cash flow models, which incorporated market inputs including the implied forward London Interbank Offered Rate yield curve for the same period as the future interest swap settlements.

The values of the Level 2 physical derivative contracts assets and liabilities were calculated using market approaches based on observable market data inputs, including published commodity pricing data, which is verified against other available market data, and market interest rate and volatility data. Level 2 physical derivative contracts assets are net of credit value adjustments (CVAs) determined using an expected cash flow model, which incorporates assumptions about the credit risk of the physical derivative contracts based on the historical and expected payment history of each customer, the amount of product contracted for under the agreement and the customer s historical and expected purchase performance under each contract. The Energy Services segment determined CVAs are appropriate because few of the Energy Services segment s customers entering into these physical derivative contracts are large organizations with nationally-recognized credit ratings. The Level 2 physical derivative contracts assets of $1.6 million and $6.1 million as of September 30, 2012 and December 31, 2011, respectively, are net of CVAs of ($0.1) million for both periods, respectively. As of September 30, 2012, the Energy Services segment did not hold any net liability derivative position containing credit contingent features.

Cash and cash equivalents, prepaid and other current assets and accrued and other current liabilities are reported in the condensed consolidated balance sheets at amounts which approximate fair value due to the relatively short period to maturity of these financial instruments. The fair values of our fixed-rate debt were estimated by observing market trading prices and by comparing the historic market prices of our publicly-issued debt with the market prices of other MLPs publicly-issued debt with similar credit ratings and terms. The fair values of our variable-rate debt are their carrying amounts, as the carrying amount reasonably approximates fair value due to the variability of the interest rates. Using Level 2 input values, the fair values of our aggregate debt and credit facility were estimated to be $2,924.0 million and $2,811.7 million at September 30, 2012 and December 31, 2011, respectively.

Our policy is to recognize transfers between levels within the fair value hierarchy as of the beginning of the reporting period. We did not have any transfers between Level 1 and Level 2 during the nine months ended September 30, 2012 and 2011, respectively.

Non-Recurring

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of possible impairment. For the nine months ended September 30, 2012, there were not any fair value adjustments related to such assets or liabilities reflected in our condensed consolidated financial statements. During the nine months ended September 30, 2011, we recorded a non-cash goodwill impairment charge of $169.6 million based on Level 3 inputs. For a discussion of our valuation methodology relating to the goodwill impairment test, see Note 9 in our Annual Report on Form 10-K for the year ended December 31, 2011.

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9. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Buckeye Pipe Line Services Company (Services Company), which employs the majority of our workforce, sponsors a defined benefit plan, the Retirement Income Guarantee Plan (the RIGP), and an unfunded post-retirement benefit plan (the Retiree Medical Plan). The components of the net periodic benefit cost for the RIGP and Retiree Medical Plan were as follows for the three months ended September 30, 2012 and 2011 (in thousands):

	RIGP Three Months Ended September 30,		Retiree Medical Plan Three Months Ended September 30,	
	2012	2011	2012	2011
Service cost	$ 51	$ 86	$ 82	$ 66
Interest cost	206	199	415	508
Expected return on plan assets	(140)	(59)		
Amortization of prior service benefit			(623)	(740)
Amortization of unrecognized losses	231	260	319	327
Settlement charge	930	406		
Net periodic benefit costs	$ 1,278	$ 892	$ 193	$ 161

The components of the net periodic benefit cost for the RIGP and the Retiree Medical Plan were as follows for the nine months ended September 30, 2012 and 2011 (in thousands):

	RIGP Nine Months Ended September 30,		Retiree Medical Plan Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	$ 183	$ 222	$ 236	$ 227
Interest cost	620	598	1,345	1,446
Expected return on plan assets	(340)	(247)		
Amortization of prior service benefit			(2,047)	(2,222)
Amortization of unrecognized losses	1,028	896	945	933
Settlement charge	930	609		
Net periodic benefit costs	$ 2,421	$ 2,078	$ 479	$ 384

During the nine months ended September 30, 2012, we contributed $2.7 million to the RIGP.

10. UNIT-BASED COMPENSATION PLANS

We award unit-based compensation to employees and directors primarily under the Buckeye Partners, L.P. 2009 Long-Term Incentive Plan (the LTIP). We formerly awarded options to acquire LP Units to employees pursuant to the Buckeye Partners, L.P. Unit Option and Distribution Equivalent Plan (the Option Plan). We recognized compensation expense related to the LTIP and the Option Plan of $2.8 million and $1.7 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, we recognized compensation expense related to the LTIP and the Option Plan of $10.5 million and $6.6 million, respectively. These compensation plans are discussed below.

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LTIP

The LTIP provides for the issuance of up to 1,500,000 LP Units, subject to certain adjustments. After giving effect to the issuance or forfeiture of phantom unit and performance unit awards through September 30, 2012, awards representing a total of 552,332 additional LP Units could be issued under the LTIP.

Approximately $0.7 million of 2011 compensation awards were deferred at December 31, 2011, for which 23,426 phantom units (including matching units) were granted during the nine months ended September 30, 2012. These grants are included as granted in the LTIP activity table below.

Awards under the LTIP

During the nine months ended September 30, 2012, the Compensation Committee granted 228,230 phantom units to employees (including the 23,426 phantom units granted as discussed above), 14,000 phantom units to independent directors of Buckeye GP and 133,386 performance units to employees. The amount paid with respect to phantom unit distribution equivalents under the LTIP was $1.0 million and $0.8 million for the nine month periods ended September 30, 2012 and 2011, respectively.

The following table sets forth the LTIP activity for the periods indicated (in thousands, except per unit amounts):

	Number of LP Units	Weighted Average Grant Date Fair Value per LP Unit (1)
Unvested at January 1, 2012	585	$ 56.75
Granted	376	63.04
Vested	(105)	46.68
Forfeited	(50)	45.40
Unvested at September 30, 2012	806	$ 61.70

(1) Determined by dividing the aggregate grant date fair value of awards by the number of awards issued. The weighted average grant date fair value per LP Unit for forfeited and vested awards is determined before an allowance for forfeitures.

At September 30, 2012, approximately $23.8 million of compensation expense related to the LTIP is expected to be recognized over a weighted average period of approximately 1.9 years.

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Unit Option and Distribution Equivalent Plan

The following is a summary of the changes in the LP Unit options outstanding (all of which are vested) under the Option Plan for the periods indicated (in thousands, except per unit amounts):

	Number of LP Units	Weighted Average Strike Price per LP Unit	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2012	97	$ 46.81		
Exercised	(23)	45.62		
Outstanding at September 30, 2012	74	47.19	3.5	$ 58
Exercisable at September 30, 2012	74	$ 47.19	3.5	$ 58

(1) Aggregate intrinsic value reflects fully vested LP Unit options at the date indicated. Intrinsic value is determined by calculating the difference between our closing LP Unit price on the last trading day in September 2012 and the exercise price, multiplied by the number of exercisable, in-the-money options.

The total intrinsic value of options exercised was $0.3 million and $1.3 million during the nine months ended September 30, 2012 and 2011, respectively.

11. PARTNERS CAPITAL AND DISTRIBUTIONS

In February 2012, we issued 4,262,575 LP Units to institutional investors in a registered direct offering for aggregate consideration of approximately $250.0 million at a price of $58.65 per LP Unit, before deducting placement agents fees and estimated offering expenses. We have used the majority of the net proceeds from this offering to reduce the indebtedness outstanding under our Credit Facility and have also funded a portion of the Perth Amboy Facility acquisition as well as certain other growth capital expenditures.

Summary of Changes in Outstanding Units

The following is a summary of changes in units outstanding for the periods indicated (in thousands):

	Limited Partners	Class B Units	Total
Units outstanding at January 1, 2012	85,968	7,305	93,273
LP Units issued pursuant to the Option Plan (1)	23		23
LP Units issued pursuant to the LTIP (1)	77		77
Issuance of units to institutional investors	4,263		4,263
Issuance of Class B Units in lieu of quarterly cash distributions		473	473

Units outstanding at September 30, 2012	90,331	7,778	98,109

(1) The number of units issued represents issuance net of tax withholding.

Distributions

We generally make quarterly cash distributions to unitholders of substantially all of our available cash, generally defined in our partnership agreement as consolidated cash receipts less consolidated cash expenditures and such retentions for working capital, anticipated cash expenditures and contingencies as our general partner deems

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appropriate. Actual cash distributions on our LP Units totaled $282.1 million and $252.2 million during the nine months ended September 30, 2012 and 2011, respectively. We also paid distributions in-kind to our Class B unitholders by issuing 472,931 Class B Units during the nine months ended September 30, 2012.

On November 2, 2012, we announced a quarterly distribution of $1.0375 per LP Unit that will be paid on November 30, 2012, to LP unitholders of record on November 12, 2012. Based on the LP Units outstanding as of September 30, 2012, cash distributed to LP unitholders on November 30, 2012 will total approximately $94.1 million. Based on Class B Units outstanding as of September 30, 2012, we also expect to issue approximately 198,000 Class B Units in lieu of cash distributions on November 30, 2012, to Class B unitholders of record on November 12, 2012.

12. EARNINGS (LOSS) PER UNIT

The following table is a reconciliation of the weighted average units used in computing the basic and diluted earnings (loss) per unit for the periods indicated (in thousands, except per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income (loss) attributable to Buckeye Partners, L.P.	$ 85,116	$ (109,700)	$ 191,454	$ 48,814
Basic:				
Weighted average units outstanding	97,993	92,982	97,017	89,499
Earnings (loss) per unit basic	$ 0.87	$ (1.18)	$ 1.97	$ 0.55
Diluted:				
Units used for basic calculation	97,993	92,982	97,017	89,499
Dilutive effect of LP Unit options and LTIP awards granted	349		323	332
Units for diluted	98,342	92,982	97,340	89,831
Earnings (loss) per unit diluted	$ 0.87	$ (1.18)	$ 1.97	$ 0.54

13. BUSINESS SEGMENTS

We operate and report in five business segments: (i) Pipelines & Terminals; (ii) International Operations; (iii) Natural Gas Storage; (iv) Energy Services; and (v) Development & Logistics.

Pipelines & Terminals

The Pipelines & Terminals segment receives refined petroleum products from refineries, connecting pipelines, and bulk and marine terminals and transports those products to other locations for a fee and provides bulk storage and terminal throughput services in the continental United States. This segment owns and operates over 6,000 miles of pipeline systems in 17 states and also owns approximately 100 refined petroleum products terminals in 21 states, including five terminals owned by the Energy Services segment but operated by the Pipelines & Terminals segment. The segment has an aggregate storage capacity of over 40.0 million barrels, which includes our recent acquisition of the Perth Amboy Facility. See Note 2 for information regarding the Perth Amboy Facility acquisition.

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International Operations

The International Operations segment provides marine bulk storage and marine terminal throughput services. The segment has two liquid petroleum product terminals, one in Puerto Rico and one on Grand Bahama Island in The Bahamas. The segment has an aggregate storage capacity of approximately 28.0 million barrels, which includes 1.9 million barrels of storage capacity completed in the second half of 2012 in connection with BORCO s publicly announced expansion plans.

Natural Gas Storage

The Natural Gas Storage segment provides natural gas storage services at a natural gas storage facility in Northern California. The facility has approximately 30.0 Bcf of working natural gas storage capacity and is connected to Pacific Gas and Electric s intrastate natural gas pipelines that services natural gas demand in the San Francisco and Sacramento, California areas. The Natural Gas Storage segment does not trade or market natural gas.

Energy Services

The Energy Services segment is a wholesale distributor of refined petroleum products in the Northeastern and Midwestern United States. This segment recognizes revenue when products are delivered. The segment s products include gasoline, propane, ethanol, biodiesel and petroleum distillates such as heating oil, diesel fuel and kerosene. The segment owns five terminals with aggregate storage capacity of approximately 1.0 million barrels, which are operated by the Pipelines & Terminals segment. The segment s customers consist principally of product wholesalers as well as major commercial users of these refined petroleum products.

Development & Logistics

The Development & Logistics segment consists primarily of our contract operations of third-party pipelines, which are owned principally by major oil and gas, petrochemical and chemical companies and are located primarily in Texas and Louisiana. This segment also performs pipeline construction management services, typically for cost plus a fixed fee, for these same customers. The Development & Logistics segment also includes our ownership and operation of two underground propane storage caverns in Indiana and Illinois and an ammonia pipeline, as well as our majority ownership of the Sabina Pipeline, located in Texas.

Adjusted EBITDA

Adjusted EBITDA is the primary measure used by our senior management, including our Chief Executive Officer, to: (i) evaluate our consolidated operating performance and the operating performance of our business segments; (ii) allocate resources and capital to business segments; (iii) evaluate the viability of proposed projects; and (iv) determine overall rates of return on alternative investment opportunities. Adjusted EBITDA eliminates: (i) non-cash expenses, including but not limited to depreciation and amortization expense resulting from the significant capital investments we make in our businesses and from intangible assets recognized in business combinations; (ii) charges for obligations expected to be settled with the issuance of equity instruments; and (iii) items that are not indicative of our core operating performance results and business outlook.

We believe that investors benefit from having access to the same financial measures that we use and that these measures are useful to investors because they aid in comparing our operating performance with that of other companies with similar operations. The Adjusted EBITDA data presented by us may not be comparable to similarly titled measures at other companies because these items may be defined differently by other companies.

Each segment uses the same accounting policies as those used in the preparation of our condensed consolidated financial statements. All inter-segment revenue has been eliminated. All periods are presented on a consistent basis. All of our operations and assets are conducted and located in the continental United States, except for our terminals located in Puerto Rico and The Bahamas.

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The following table summarizes our revenue by each segment for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenue:				
Pipelines & Terminals	$ 194,609	$ 162,740	$ 527,849	$ 456,056
International Operations (1)	51,686	47,986	152,349	146,051
Natural Gas Storage	20,229	15,742	46,909	49,431
Energy Services	691,875	894,618	2,469,122	2,810,055
Development & Logistics	11,798	10,766	37,415	30,937
Intersegment	(4,227)	(14,941)	(25,595)	(45,991)
Total revenue	$ 965,970	$ 1,116,911	$ 3,208,049	$ 3,446,539

(1) The International Operations segment s revenue generated in The Bahamas was $48.2 million and $43.9 million for the three months ended September 30, 2012 and 2011, which represented 93.2% and 91.5%, respectively, of the International Operations segment s total revenue for the periods. For the nine months ended September 30, 2012 and 2011, the International Operations segment s revenue generated in The Bahamas was $141.4 million and $134.1 million, which represented 92.8% and 91.8%, respectively, of the International Operations segment s total revenue for the periods.

For the nine months ended September 30, 2012 and 2011, no customer contributed 10% or more of consolidated revenue.

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The following tables present Adjusted EBITDA by segment and on a consolidated basis and a reconciliation of net income (loss) to Adjusted EBITDA for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Adjusted EBITDA:				
Pipelines & Terminals	$ 112,879	$ 86,510	$ 290,709	$ 260,743
International Operations	33,548	30,095	95,805	86,248
Natural Gas Storage	1,357	426	(299)	266
Energy Services	1,619	6,978	(7,759)	13,578
Development & Logistics	3,168	2,519	9,034	5,563
Total Adjusted EBITDA	$ 152,571	$ 126,528	$ 387,490	$ 366,398
Reconciliation of Net Income (Loss) to Adjusted EBITDA:				
Net income (loss)	$ 85,259	$ (108,200)	$ 194,752	$ 53,205
Less: Net income attributable to noncontrolling interests	(143)	(1,500)	(3,298)	(4,391)
Net income (loss) attributable to Buckeye Partners, L.P.	85,116	(109,700)	191,454	48,814
Add: Interest and debt expense	28,737	33,199	85,159	90,292
Income tax expense (benefit)	511		1,177	(193)
Depreciation and amortization	37,134	31,230	104,486	87,227
Non-cash deferred lease expense	975	1,030	2,925	3,091
Non-cash unit-based compensation expense	2,846	1,694	10,534	