SemGroup Energy Partners, L.P.
Form 424B4
February 14, 2008

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P R O S P E C T U S

6,000,000 Common Units

Representing Limited Partner Interests

SemGroup Energy Partners, L.P.

$23.90 per Common Unit

SemGroup Energy Partners, L.P. is offering 6,000,000 common units representing limited partner interests. Our common units are traded on The NASDAQ Global Market under the symbol SGLP. On February 13, 2008, the last reported sale price of our common units on The NASDAQ Global Market was $23.90 per common unit.

Investing in our common units involves risks. Please see Risk Factors beginning on page 16.

These risks assume the completion of the acquisition of certain liquid asphalt cement terminalling and storage assets described herein and include the following:

- We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at our current distribution rate.

- We depend upon SemGroup, L.P. for substantially all of our revenues, and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

- We are exposed to the credit risk of SemGroup, L.P. and any material nonperformance by SemGroup, L.P. could reduce our ability to make distributions to our unitholders.

We will use the proceeds of this offering, together with borrowings under our amended credit facility, to purchase certain liquid asphalt cement terminalling and storage assets. If such assets do not perform as expected, our future financial performance may be negatively impacted.

Our debt levels may limit our ability to make distributions and our flexibility in obtaining additional financing and in pursuing other business opportunities.

SemGroup, L.P. controls our general partner, which has sole responsibility for conducting our business and managing our operations. SemGroup, L.P. has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

SemGroup, L.P. may compete with us, which could adversely affect our existing business and limit our ability to acquire additional assets or businesses.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Common Unit	Total
Public Offering Price	$ 23.9000	$ 143,400,000
Underwriting Discount	$ 0.9859	$ 5,915,400
Proceeds to SemGroup Energy Partners, L.P. (before expenses)	$ 22.9141	$ 137,484,600

We have granted the underwriters a 30-day option to purchase up to an additional 900,000 common units from us on the same terms and conditions as set forth above if the underwriters sell more than 6,000,000 common units in this offering.

The underwriters expect to deliver the common units through the facilities of The Depository Trust Company on or about February 20, 2008.

Citi **Lehman Brothers**

Goldman, Sachs & Co.

Merrill Lynch & Co.

UBS Investment Bank

Wachovia Securities

JPMorgan

Raymond James

RBC Capital Markets

Sanders Morris Harris

February 13, 2008

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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SUMMARY

This summary provides a brief overview of information contained elsewhere in this prospectus. Because it is abbreviated, this summary does not contain all of the information that you should consider before investing in our common units. You should read the entire prospectus carefully, including the historical financial statements and the notes to those financial statements. You should read Risk Factors beginning on page 16 for more information about important risks that you should consider carefully before buying our common units.

Unless indicated otherwise, the information presented in this prospectus assumes that the underwriters do not exercise their over-allotment option. As used in this prospectus, unless we indicate otherwise: (1) SemGroup Energy Partners, our, we, us and similar terms refer to SemGroup Energy Partners, L.P. together with our subsidiaries and (2) our Parent refers to SemGroup, L.P. and its subsidiaries and affiliates (other than us). We include a glossary of some of the terms used in this prospectus as Appendix A.

SemGroup Energy Partners, L.P.

Overview

We are a Delaware limited partnership formed in 2007 by our Parent, a provider of midstream energy services, to own, operate and develop a diversified portfolio of complementary midstream energy assets. We completed the initial public offering of our common units in July 2007. We currently provide crude oil gathering, transportation, terminalling and storage services primarily in our core operating areas in Oklahoma, Kansas and Texas. Pursuant to a crude oil gathering, transportation, terminalling and storage agreement with our Parent, which we refer to as the Throughput Agreement, our Parent pays us a fee based on the number of barrels of crude oil we gather, transport, terminal or store on behalf of our Parent and has committed to use our services at a level that provides us with minimum monthly fees totaling $76.1 million annually. We intend to acquire and construct a significant amount of additional midstream energy assets, including assets acquired from our Parent and jointly with our Parent.

Consistent with this strategy, we will acquire substantially all of our Parent s domestic owned liquid asphalt cement terminalling and storage assets for a purchase price of $378.8 million concurrently with the closing of this offering. We believe this acquisition will increase the scope and scale of our operations, provide geographic diversity to our business and position us to pursue future growth opportunities. At September 30, 2007, our Parent had total consolidated net book value of property, plant and equipment of $1.3 billion (including the assets of SemGroup Energy Partners, which represent $0.1 billion of this amount). The Acquired Assets (as defined below) that we will purchase concurrently with the closing of this offering represent approximately $130 million of this amount. In connection with our acquisition of the Acquired Assets, we will enter into a terminalling and storage agreement with our Parent, which we refer to as the Terminalling Agreement. Pursuant to the Terminalling Agreement, our Parent will pay us a fee based on the number of barrels of liquid asphalt cement we terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum monthly fees totaling $58.9 million annually. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent.

Current Operations

Our current network of crude oil assets provides our customers the flexibility to access multiple points for the receipt and delivery of crude oil. We do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal and store. As a result, our operations have minimal direct exposure to changes in crude oil prices, but the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. In our crude oil business, we generate revenues by charging a fee for services provided at each transportation stage as crude oil is shipped from its origin at the wellhead to destination points such as the Cushing Interchange, to refineries in Oklahoma, Kansas and Texas or to pipelines, as described below.

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Crude oil terminalling and storage assets and services. We provide crude oil terminalling and storage services at our terminalling and storage facilities located in Oklahoma, Kansas and Texas. We currently own and operate an aggregate of approximately 6.7 million barrels of storage capacity. Of this storage capacity, approximately 4.8 million barrels are located at our terminal in Cushing, Oklahoma. Our Cushing terminal is strategically located within the Cushing Interchange, one of the largest crude oil marketing hubs in the United States and the designated point of delivery specified in all New York Mercantile Exchange, or NYMEX, crude oil futures contracts. Our terminals have a combined capacity to receive or deliver approximately 10.0 million barrels of crude oil per month. We also own approximately 26 acres of additional land within the Cushing Interchange where we can develop additional storage capacity.

Crude oil gathering and transportation assets and services. We own and operate two pipeline systems, the Mid-Continent system and the Longview system, collectively consisting of approximately 1,150 miles of pipelines that gather crude oil for our Parent and other third-party customers and transport it to refiners, to common carrier pipelines for ultimate delivery to refiners or to terminalling and storage facilities owned by us and others. Our pipeline gathering and transportation system located in Oklahoma and the Texas Panhandle, which we refer to as the Mid-Continent system, has a combined length of approximately 820 miles. Our second pipeline gathering and transportation system located in East Texas, which we refer to as the Longview system, consists of approximately 330 miles of tariff-regulated crude oil gathering pipeline. In addition to our pipelines, we use our approximately 200 owned or leased tanker trucks to gather crude oil in Kansas, Oklahoma, Texas, New Mexico and Colorado for our Parent and other third-party customers at remote wellhead locations generally not connected to pipeline and gathering systems and transport the crude oil to aggregation points and storage facilities located along pipeline gathering and transportation systems. In connection with our gathering services, we also provide a number of producer field services, ranging from gathering condensates from natural gas producers to hauling production waste water to disposal wells.

We presently derive a substantial majority of our revenues from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. Our Parent is obligated to pay us minimum monthly fees totaling $76.1 million annually in respect of the minimum commitments under the Throughput Agreement, regardless of whether such services are actually utilized by our Parent. Our Parent s crude oil purchasing, marketing and distribution operations are substantially dependent on our services and assets.

Description of the Acquired Assets

On January 14, 2008, we entered into a purchase and sale agreement with our Parent pursuant to which we will acquire substantially all of our Parent s domestic owned liquid asphalt cement terminalling and storage assets from SemMaterials, L.P., a wholly owned subsidiary of our Parent, for a purchase price of $378.8 million. The closing of this offering is contingent upon and will occur concurrently with the closing of the acquisition. We expect the acquisition to be immediately accretive to cash flow per unit. The assets to be acquired, which we refer to as the Acquired Assets, include 46 terminals in 23 states with an aggregate shell capacity of approximately 6.6 million barrels. The Acquired Assets include land, receiving infrastructure, machinery, pumps and piping and large liquid asphalt cement storage tanks. We will acquire the terminalling and storage assets associated with the terminals, other than equipment used exclusively for processing and marketing operations, which our Parent will retain. Our Parent will also retain certain domestic leased terminals that are used for storage as well as processing and marketing of finished asphalt products, as well as its asphalt operations in Mexico. In addition, our Parent will retain access to facilities used for both terminalling and storage of liquid asphalt cement and processing of finished asphalt products pursuant to a terminal access and use agreement, which we refer to as the Access and Use Agreement.

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At the closing of our acquisition of the Acquired Assets, we will also enter into the Terminalling Agreement with our Parent. The Terminalling Agreement has an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon prior notice. Pursuant to the Terminalling Agreement, our Parent will pay us a fee based on the number of barrels of liquid asphalt cement we terminal or store on behalf of our Parent and will commit to utilize our terminalling and storage services at a level that will provide us with minimum monthly fees totaling $58.9 million annually. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent. Our Parent s finished asphalt product processing and marketing operations are, and will continue to be, substantially dependent on the Acquired Assets and the services we will provide under the Terminalling Agreement. We will not take title to, or marketing responsibility for, the liquid asphalt cement that we will terminal and store.

At the closing of this offering, the following transactions will occur:

- we will issue 6,000,000 common units to the public, representing a 17.8% limited partner interest in us;
- we will receive a $2.9 million capital contribution by our general partner to maintain its 2.0% general partner interest in us;
- we will borrow approximately $241.2 million under our credit facility, which will be amended at the closing of this offering to increase our total borrowing capacity to $600 million; and
- we will use the net proceeds from this offering, together with our general partner s capital contribution and borrowings under our amended credit facility, to pay expenses associated with this offering and the amendment of our credit facility and to pay consideration of approximately $378.8 million to our Parent to purchase the Acquired Assets.

The board of directors of SemGroup Energy Partners G.P., L.L.C., our general partner, approved the acquisition of the Acquired Assets as well as the terms of the related agreements based on a recommendation from its conflicts committee, which consists entirely of independent directors. The conflicts committee retained independent legal and financial advisors to assist it in evaluating the transaction and considered a number of factors in approving the acquisition, including an opinion from the committee s independent financial advisor that the consideration to be paid for the Acquired Assets is fair, from a financial point of view, to us.

Recent Developments

On January 24, 2008, the board of directors of our general partner declared a cash distribution of $0.3375 per unit for the fourth quarter of 2007, or $1.35 per unit on an annualized basis, to be paid on February 14, 2008 to unitholders of record as of February 1, 2008. This distribution represents an increase of 8% over the minimum quarterly distribution amount of $0.3125 per unit. Purchasers of common units in this offering will not be entitled to receive this distribution.

Competitive Strengths

We believe we are well positioned to successfully achieve our primary business objectives and execute our business strategies based on the following competitive strengths:

- following this offering, substantially all of our operations will generate fee-based revenues, including contracted minimum revenues under the Throughput Agreement and the Terminalling Agreement;
- our terminalling and storage facilities are strategically located. Our primary crude oil facility is located at the Cushing Interchange, one of the largest crude oil marketing hubs in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts;

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- our gathering and transportation systems give us the ability to transport crude oil to multiple end points, particularly the Cushing Interchange, which creates increased demand for our services by allowing our customers the flexibility to effectively manage their marketing of crude oil and increase their profitability;
- our relationship with our Parent enhances our ability to make strategic acquisitions and to access other business opportunities;
- our properties and facilities have been well maintained resulting in reliable and efficient operations;
- we will have the financial flexibility through the available capacity under our amended credit facility and our ability to access the capital markets to pursue expansion and acquisition opportunities. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow; and
- our Parent has a knowledgeable management team with significant experience in the energy industry and in executing acquisition and expansion strategies.

Business Strategies

Our primary business objectives are to maintain stable cash flows and to increase distributable cash flow per unit over time by becoming a leading provider of midstream services to the energy industry. We intend to accomplish these objectives by executing the following strategies:

- leveraging our relationship with our Parent to pursue acquisition and organic growth opportunities by:
  - jointly pursuing acquisition opportunities in a manner that minimizes our direct commodity price exposure; and
  - acquiring additional assets or businesses directly from our Parent;
- pursuing both strategic and accretive acquisitions within the midstream energy industry, by:
  - evaluating opportunities in our existing areas of operation as well as other midstream energy acquisition opportunities; and
  - seeking acquisitions that will enable us to grow our distributable cash flow per unit and enhance our service capabilities;
- pursuing organic expansion opportunities through:
  - constructing additional assets in strategic locations that will allow us to leverage our existing market position; and
  - expanding storage capacity;

increasing the profitability of our existing assets by:

improving our operating efficiency and by monitoring and controlling our cost structure; and

increasing the utilization of our existing asset infrastructure.

Our Relationship with our Parent

One of our principal strengths is our relationship with our Parent, a provider of midstream energy services. Our Parent provides gathering, transportation, terminalling, storage, distribution, marketing and other midstream services primarily to independent natural gas and crude oil producers, as well as refiners located along the North American energy corridor from the Gulf Coast to Central Canada and the West Coast of the United Kingdom.

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Our Parent has a significant asset base consisting primarily of pipelines, gathering systems, processing plants, storage facilities, terminals and other distribution facilities located between North American production and supply areas, including the Gulf Coast and Mid-Continent regions of the United States and the province of Alberta, Canada and high demand regions such as the Midwest. Upon completion of the acquisition of the Acquired Assets, substantially all of our revenues will be generated by providing services to our Parent s operations under the Throughput Agreement and the Terminalling Agreement.

Since our Parent s inception in April 2000 through September 30, 2007, our Parent has completed 58 acquisitions at an aggregate purchase price of approximately $1.0 billion, excluding amounts paid for working capital. Our Parent has indicated that it intends to use us as a growth vehicle to pursue the acquisition and expansion of midstream energy businesses and assets. Consistent with our acquisition of the Acquired Assets, we expect to have the opportunity to make additional acquisitions directly from our Parent in the future. We cannot say with any certainty which, if any, of these future acquisition opportunities may be made available to us or if we will choose to pursue any such opportunity. In addition, through our relationship with our Parent, we have access to a significant pool of management talent and strong commercial relationships throughout the energy industry. While our relationship with our Parent may benefit us, it is also a source of potential conflicts. For example, our Parent is not restricted from competing with us, except that upon our acquisition of the Acquired Assets, our Parent will be subject to certain limitations on the terminalling and storage of liquid asphalt cement within 50 miles of our liquid asphalt cement facilities. Our Parent owns substantial midstream assets and may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets, except that upon completion of the acquisition of the Acquired Assets, we will have a right of first refusal on certain of our Parent s finished asphalt product processing assets if our Parent proposes to transfer such assets to a third party. Please see Conflicts of Interest and Fiduciary Duties.

After the completion of this offering, our Parent will retain a significant indirect interest in our partnership through its ownership of a 37.4% limited partner interest represented by subordinated units, a 2.0% general partner interest and incentive distribution rights. In connection with our initial public offering, we entered into the Throughput Agreement and an omnibus agreement with our Parent, which we refer to as the Omnibus Agreement, both of which govern our relationship with our Parent. In connection with our acquisition of the Acquired Assets, we will enter into the Terminalling Agreement and will amend and restate the Omnibus Agreement, which we refer to as the Amended Omnibus Agreement. Please see Business Throughput Agreement , The Acquired Assets Terminalling Agreement and Certain Relationships and Related Party Transactions Amended Omnibus Agreement. Our Parent employed approximately 2,200 people as of September 30, 2007, approximately 600 of whom will be dedicated to supporting our operations following our acquisition of the Acquired Assets. We do not have any employees. Please see Business Employees.

Summary of Risk Factors

An investment in our common units involves risks associated with our business, regulatory and legal matters, our partnership structure and the tax characteristics of our common units. The following list of risk factors is presented as if we have completed the acquisition of the Acquired Assets and is not exhaustive. Please read carefully these and other risks described under the caption Risk Factors.

Risks Related to Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at our current distribution rate.

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We depend upon our Parent for substantially all of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

Our Parent s obligations under the Throughput Agreement and the Terminalling Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

We will use the proceeds of this offering, together with borrowings under our amended credit facility, to purchase the Acquired Assets. If such assets do not perform as expected, our future financial performance may be negatively impacted.

Our debt levels may limit our ability to make distributions and our flexibility in obtaining additional financing and in pursuing other business opportunities.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our Parent may compete with us, which could adversely affect our existing business and limit our ability to acquire additional assets or businesses.

Cost reimbursements due to our general partner and its affiliates for services provided, which are determined by our general partner in good faith (which means it must believe the determination is in the best interest of our partnership) in accordance with our partnership agreement and the Amended Omnibus Agreement, may be substantial and will reduce our cash available for distribution to you.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Removal of our general partner without its consent will dilute and adversely affect our common unitholders.

We may issue additional units without your approval, which would dilute your ownership interests.

Common units held by persons who are not Eligible Holders will be subject to the possibility of redemption.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal

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Revenue Service, or IRS, were to treat us as a corporation or if we were to become subject to a material amount of entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

If the IRS contests any of the federal income tax positions we take, the market for our common units may be adversely affected, and the costs of any contest will reduce our cash available for distribution to you.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

Tax gain or loss on disposition of our common units could be more or less than expected.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

We will treat each purchaser of units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

You likely will be subject to state and local taxes and return filing or withholding requirements in states where you do not live as a result of investing in our common units.

Partnership Structure and Management

Management of SemGroup Energy Partners, L.P.

SemGroup Energy Partners G.P., L.L.C., our general partner, manages our operations and activities, and its board of directors and officers make decisions on our behalf. All of the executive officers and some of the directors of our general partner also serve as executive officers or directors of our Parent. Our general partner does not receive any management fee or other compensation in connection with the management of our business, but it is entitled to reimbursement of all direct and indirect expenses incurred on our behalf. Pursuant to the Omnibus Agreement, we pay our general partner a fixed fee for specified general and administrative services it provides to us. Our general partner is also entitled to distributions on its general partner interest and, if specified requirements are met, on its incentive distribution rights. Our Parent indirectly holds all of the membership interests in our general partner and consequently is indirectly entitled to all of the distributions that we make to our general partner, subject to the terms of the limited liability company agreement of our general partner and relevant legal restrictions. Please see Cash Distribution Policy, Management Executive Compensation and Certain Relationships and Related Party Transactions.

Unlike shareholders in a publicly traded corporation, our unitholders are not entitled to elect our general partner or its directors. Our Parent appoints all of the members to the board of directors of our general partner. The board of directors of our general partner currently has two directors who are independent as defined under the independence standards established by The NASDAQ Global Market, and a third such independent director will be appointed prior to the one year anniversary of our initial public offering. For more information about these individuals, please see Management Directors and Executive Officers.

The diagram on the following page depicts our organization and ownership after giving effect to this offering.

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Simplified Organizational Structure and Ownership of SemGroup Energy Partners, L.P.

Common Units	60.6%
Subordinated Units	37.4%
General Partner Units	2.0%
Total	100.0%

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Summary of Conflicts of Interest and Fiduciary Duties

Our general partner has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. However, because our general partner is owned by our Parent, the officers and directors of our general partner also have fiduciary duties to manage our general partner in a manner beneficial to our Parent. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates on the other hand.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to holders of our common units and subordinated units. Our partnership agreement also restricts the remedies available to our unitholders for actions that might otherwise constitute a breach of our general partner s fiduciary duties owed to our unitholders. Our partnership agreement also provides that our Parent is not restricted from competing with us. By purchasing a common unit, the purchaser agrees to be bound by the terms of our partnership agreement and, pursuant to the terms of our partnership agreement, each holder of common units consents to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

For a more detailed description of the conflicts of interest and fiduciary duties of our general partner, please see Conflicts of Interest and Fiduciary Duties.

Principal Executive Offices and Internet Address

Our principal executive offices are located at Two Warren Place, 6120 South Yale Avenue, Suite 500, Tulsa, Oklahoma 74136 and our telephone number is (918) 524-5500. Our website is located at www.sglp.com. We make our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, or SEC, available, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

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The Offering

Common units offered to the public	6,000,000 common units.

6,900,000 common units if the underwriters exercise their over-allotment option in full.

Units outstanding after this offering	20,375,000 common units and 12,570,504 subordinated units, representing a 60.6% and 37.4% limited partner interest in us, respectively (21,275,000 common units and 12,570,504 subordinated units, representing a 61.6% and 36.4% limited partner interest in us, respectively, if the underwriters exercise their over-allotment option in full).
Use of proceeds	The net proceeds from this offering of common units will be approximately $137.5 million after deducting underwriting discounts but before estimated offering expenses. We will use the net proceeds of this offering, together with the $2.9 million capital contribution by our general partner we will receive to maintain its 2.0% general partner interest in us and borrowings of approximately $241.2 million under our amended credit facility to pay approximately:

- $378.8 million aggregate consideration to our Parent to acquire the Acquired Assets; and
- $2.8 million of estimated expenses associated with our acquisition of the Acquired Assets and the relating financing transactions, including this offering.

If the underwriters over-allotment option is exercised in full, we will receive net proceeds of approximately $158.1 million, after deducting underwriting discounts. We will use any net proceeds from the exercise of the underwriters over-allotment option to repay outstanding borrowings under our amended credit facility. Please read Use of Proceeds.

Cash distributions	We paid a prorated quarterly cash distribution of $0.24 per unit for the third quarter of 2007, or $1.25 per unit on an annualized basis, on November 14, 2007 to unitholders of record as of November 1, 2007. This distribution was for the period from July 23, 2007, the date of the closing of our initial public offering, through the end of the third quarter.

On January 24, 2008, the board of directors of our general partner declared a cash distribution of $0.3375 per unit for the fourth quarter of 2007, or $1.35 per unit on an annualized basis, to be paid on February 14, 2008 to unitholders of record as of February 1, 2008. The purchasers of common units in this offering will not be entitled to receive such distribution.

Within 45 days after the end of each quarter, we distribute our available cash to unitholders of record on the applicable record date.

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In general, we will pay cash distributions we make each quarter in the following manner:

first, 98% to the holders of common units and 2% to our general partner, until each common unit has received a minimum quarterly distribution of $0.3125 plus any arrearages from prior quarters;

second, 98% to the holders of subordinated units and 2% to our general partner, until each subordinated unit has received a minimum quarterly distribution of $0.3125;

third, 98% to all unitholders, pro rata, and 2% to our general partner, until each unit has received a distribution of $0.3594;

fourth, 85% to all unitholders, pro rata, and 15% to our general partner, until each unit has received a distribution of $0.3906;

fifth, 75% to all unitholders, pro rata, and 25% to our general partner, until each unit has received a distribution of $0.4688; and

thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

We refer to the distributions to our general partner in excess of 2% as incentive distributions. Please see Cash Distribution Policy.

Subordinated units	Our Parent owns all of our subordinated units. The principal difference between our common units and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are entitled to receive the minimum quarterly distribution of $0.3125 per unit only after the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.
End of subordination period and early conversion of subordinated units	The subordination period generally will end if we have earned and paid at least $1.25 on each outstanding unit and general partner unit for any three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2010, but may end on or after June 30, 2008 if we have earned and paid at least $1.88 (150% of the annualized minimum quarterly distribution) on each outstanding common unit, subordinated unit and general partner unit for any four-quarter period.

When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages. Please see Cash Distribution Policy Subordination Period.

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General partner s right to reset the target distribution levels	Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution amount as in our current target distribution levels.

In connection with resetting these target distribution levels, our general partner will be entitled to receive Class B units. The Class B units will be entitled to the same cash distributions per unit as our common units and will be convertible at any time into an equal number of common units. The number of Class B units to be issued will be equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. For a more detailed description of our general partner s right to reset the target distribution levels upon which the incentive distribution payments are based and the concurrent right of our general partner to receive Class B units in connection with this reset, please read Cash Distribution Policy General Partner s Right to Reset Incentive Distribution Levels.

Issuance of additional units	We can issue an unlimited number of units without the consent of our unitholders. Please see Units Eligible for Future Sale and The Partnership Agreement Issuance of Additional Securities.
Limited voting rights	Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66 $^{2}/3$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon consummation of this offering, our general partner and its affiliates, including executive officers and directors of our general partner, will own an aggregate of 40.8% of our common and subordinated units. Please see The Partnership Agreement Voting Rights.
Limited call right	If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the

	right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2010 you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 20% or less of the cash distributed to you with respect to that period. For example, if you receive an annual distribution of $1.35 per unit, we estimate that your average allocable federal taxable income per year will be no more than $0.27 per unit. Please see Material Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions.
Material tax consequences	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please see Material Tax Consequences.
Exchange listing	Our common units are traded on The NASDAQ Global Market under the symbol SGLP.

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Summary Historical Financial and Operating Data

The following table shows summary historical financial and operating data of SemGroup Energy Partners, L.P. Predecessor, our predecessor, and financial and operating data of SemGroup Energy Partners, L.P. for the periods and as of the dates presented. We refer to the crude oil gathering, transportation, terminalling and storage assets that were contributed to us by our Parent in connection with our initial public offering as the Crude Oil Business. The Crude Oil Business had historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. Accordingly, revenues reflected in our predecessor s historical financial statements represent services provided to third parties and do not include any revenues for services provided to our Parent. For this reason and due to the other factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Items Impacting the Comparability of Our Financial Results, our future results of operations will not be comparable to our predecessor s historical results. The summary historical financial data as of and for the years ended December 31, 2004, 2005 and 2006 are derived from the audited financial statements of our predecessor. The summary historical financial data for the nine months ended September 30, 2006 are derived from the unaudited financial statements of our predecessor. The summary historical financial data as of and for the nine months ended September 30, 2007 are derived from the unaudited financial statements of SemGroup Energy Partners, L.P., which includes the results of our predecessor for the period prior to the closing of our initial public offering.

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,			Nine Months Ended September 30,	
	2004	**2005**	**2006**	**2006**	**2007**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(dollars in thousands, except per unit data)				
Statement of Operations Data:					
Service revenues:					
Third-party revenue	$ 15,857	$ 20,361	$ 28,839	$ 19,861	$ 23,847
Related party revenue				570	20,531
Total revenue	15,857	20,361	28,839	20,431	44,378
Expenses:					
Operating	30,996	38,467	51,608	38,239	50,110
General and administrative	7,570	6,280	11,097	8,158	11,015
Total expenses	38,566	44,747	62,705	46,397	61,125
Operating income (loss)	(22,709)	(24,386)	(33,866)	(25,966)	(16,747)
Other (income) expenses:					
Interest expense(1)	1,973	2,597	1,989	1,581	3,369
Income before income taxes	(24,682)	(26,983)	(35,855)	(27,547)	(20,116)
Provision for income taxes					62
Net income (loss)	$ (24,682)	$ (26,983)	$ (35,855)	$ (27,547)	$ (20,178)
General partner interest in net income(2)					$ 119
Limited partner interest in net income(2)					$ 5,821
Basic and diluted net income per limited partner unit:(2)					
Common units					$ 0.24
Subordinated units					$ 0.19

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	Year Ended December 31,			Nine Months Ended September 30,	
	2004 (audited)	2005 (audited)	2006 (audited)	2006 (unaudited)	2007 (unaudited)
	(dollars in thousands, except per unit data)				
Operating Data:					
Cushing terminal:					
Average crude oil barrels stored per month	721,590	1,371,281	2,695,766	2,545,594	2,372,319
Average crude oil delivered (Bpd)	31,074	30,143	44,889	42,700	64,419
Total storage capacity (barrels at end of period)	793,200	3,493,200	4,370,000	3,493,200	4,765,000
Other:					
Total storage capacity (barrels at end of period)	2,329,490	2,048,890	1,952,150	1,952,150	1,952,150
Average throughput (Bpd):					
Mid-Continent system	20,228	22,255	28,762	28,160	31,874
Longview system	31,547	30,993	36,493	37,994	27,731
Balance Sheet Data (at period end):					
Property, plant and equipment, net	$ 49,601	$ 64,688	$ 92,245		$ 103,384
Total assets	57,739	72,912	104,847		117,316
Long-term debt and capital lease obligations	35,337	38,849	36,757		95,184
Total division equity/partners capital	20,198	28,799	62,146		16,005

(1) Interest expense before July 20, 2007 reflects interest on capitalized lease obligations and debt payable to our Parent. Interest expense after July 20, 2007 includes interest expense incurred under our credit facility.

(2) Net income and net income per unit is presented for the period from July 20, 2007 through September 30, 2007.

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.

If any of the following risks were actually to occur, our business, financial condition, or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and you could lose all or part of your investment.

The following risks are presented as if we have completed the acquisition of the Acquired Assets.

Risks Related to Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at our current distribution rate.

In order to make our cash distributions at our current distribution rate of $0.3375 per common unit and subordinated unit per complete quarter, or $1.35 per unit per year, we will require available cash of approximately $11.3 million per quarter, or $45.4 million per year, based on the common units and subordinated units outstanding immediately after completion of this offering ($11.7 million or $46.6 million, respectively, if the underwriters exercise their over-allotment option in full). We may not have sufficient available cash from operating surplus each quarter to enable us to make cash distributions at our current distribution rate. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things, the risks described in this section.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, including:

- the level of capital expenditures we make;
- the cost of acquisitions;
- our debt service requirements and other liabilities;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions contained in our credit facility or other debt agreements; and
- the amount of cash reserves established by our general partner.

For a description of additional restrictions and factors that may affect our ability to make cash distributions, please see Cash Distribution Policy.

We depend upon our Parent for substantially all of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

Because we utilize substantially all of the operating capacity of our crude oil and liquid asphalt cement assets to provide services to our Parent pursuant to the Throughput Agreement and the Terminalling Agreement,

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we do not expect to materially increase our revenues from third-party customers in the near term unless we undertake significant acquisition or construction projects. Therefore, we expect our dependence on our Parent for substantially all of our revenues to continue. If our Parent is unable to make to us the payments required by it under the Throughput Agreement or the Terminalling Agreement for any reason, our revenues would decline and our ability to make distributions to our unitholders would be reduced. Therefore, we are indirectly subject to the business risks of our Parent, many of which are similar to the business risks we face. In particular, these business risks include the following:

- the inability of our Parent to generate adequate gross margins from the purchase, transportation, storage and marketing of petroleum products;
- material reductions in the supply of crude oil, liquid asphalt cement and petroleum products;
- a material decrease in the demand for crude oil, finished asphalt and petroleum products in the markets served by our Parent;
- the inability of our Parent to manage its commodity price risk resulting from its ownership of crude oil, liquid asphalt cement and petroleum products;
- contract non-performance by our Parent s customers; and
- various operational risks to which our Parent s business is subject.

We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

We are party to the Terminalling Agreement with our Parent pursuant to which we provide certain liquid asphalt cement terminalling and storage services to our Parent. We are also party to the Throughput Agreement with our Parent pursuant to which we provide certain crude oil gathering, transportation, terminalling and storage services to our Parent. In addition, we have entered into the Amended Omnibus Agreement and other agreements with our Parent that addresses, among other things, the provision of general and administrative and operating services to us and indemnification matters. As of February 8, 2008, Moody s assigned our Parent a corporate family rating of Ba3 and Fitch Ratings assigned our Parent s senior unsecured indebtedness rating of B+, both of which are speculative ratings. These speculative ratings signify a higher risk that our Parent will default on its obligations, including its obligations to us, than does an investment grade credit rating. Any material nonperformance under the Amended Omnibus Agreement, the Throughput Agreement or the Terminalling Agreement by our Parent could materially and adversely impact our ability to operate and make distributions to our unitholders.

Though we will have no indebtedness rated by any credit rating agency at the closing of this offering, we may have rated debt in the future. Credit rating agencies such as Moody s and Fitch Ratings may consider our Parent s debt ratings when assigning ours, because of our Parent s ownership interest in and control of us, the strong operational links between our Parent and us, and our reliance on our Parent for substantially all of our revenues. If one or more credit rating agencies were to downgrade the outstanding indebtedness of our Parent, we could experience an increase in our borrowing costs or difficulty accessing capital markets. Such a development could adversely affect our ability to grow our business and to make distributions to unitholders.

Our Parent s obligations under the Throughput Agreement and the Terminalling Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

Some of the circumstances under which our Parent s obligations under the Throughput Agreement and the Terminalling Agreement may be permanently reduced are within the exclusive control of our Parent. Any such permanent reduction would reduce our ability to make distributions to our unitholders. For example, under the Throughput Agreement, if we and our Parent cannot agree on an upfront payment or ratable fee surcharge to cover substantial and unanticipated capital expenditures at any of our facilities in order to comply with new laws

or regulations, and if we are not able to direct the affected crude oil to mutually acceptable storage or gathering and transportation assets that we own, either party will have the right to remove the affected facility from the Throughput Agreement, and our Parent s minimum monthly payment obligation will be correspondingly reduced. Our Parent s minimum monthly payment obligation may also be temporarily suspended under the Throughput Agreement or the Terminalling Agreement to the extent that the occurrence of a force majeure event that is outside the control of the parties prevents us from making our services available to our Parent and the affected services under the Throughput Agreement or the Terminalling Agreement, as applicable, may be terminated if the force majeure event prevents performance for more than twelve months. Please see Business Throughput Agreement and The Acquired Assets Terminalling Agreement

The amount of cash we have available for distribution to holders of our common units and subordinated units depends primarily on our cash flow and not solely on earnings reflected in our financial statements. Consequently, even if we are profitable, we may not be able to make cash distributions to holders of our common units and subordinated units.

You should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow and not solely on earnings reflected in our financial statements, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses for financial accounting purposes and may not make cash distributions during periods when we record net earnings for financial accounting purposes.

A significant decrease in demand for crude oil and/or finished asphalt products in the areas served by our storage facilities and pipelines would reduce our ability to make distributions to our unitholders.

A sustained decrease in demand for crude oil and/or finished asphalt products in the areas served by our storage facilities and pipelines could significantly reduce our revenues and, therefore, reduce our ability to make or increase distributions to our unitholders. Factors that could lead to a decrease in market demand for crude oil and finished asphalt products include:

- lower demand by consumers for refined products, including finished asphalt products, as a result of recession or other adverse economic conditions or due to high prices caused by an increase in the market price of crude oil or higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasolines or other refined products;

- a shift by consumers to more fuel-efficient or alternative fuel vehicles or an increase in fuel economy of vehicles, whether as a result of technological advances by manufacturers, governmental or regulatory actions or otherwise; and

- fluctuations in demand for crude oil, such as those caused by refinery downtime or shutdowns, could also significantly reduce our revenues and, therefore, reduce our ability to make distributions to our unitholders.

Certain of our field and pipeline operating costs and expenses are fixed and do not vary with the volumes we gather and transport. These costs and expenses may not decrease ratably or at all should we experience a reduction in our volumes gathered or transmitted by our gathering and transportation operations. As a result, we may experience declines in our margin and profitability if our volumes decrease.

A material decrease in the production of crude oil from the oil fields served by our pipelines could materially reduce our ability to make distributions to our unitholders.

The throughput on our crude oil pipelines depends on the availability of attractively priced crude oil produced from the oil fields served by such pipelines, or through connections with pipelines owned by third parties. Crude oil production may decline for a number of reasons, including natural declines due to depleting wells, a material decrease in the price of crude oil, or the inability of producers to obtain necessary drilling or

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other permits from applicable governmental authorities. If we are unable to replace volumes lost due to a temporary or permanent material decrease in production from the oil fields served by our crude oil pipelines, our throughput could decline, reducing our revenue and cash flow and adversely affecting our ability to make distributions to our unitholders. In addition, it is difficult to attract producers to a new gathering system if the producer is already connected to an existing system. As a result, our Parent or third-party shippers on our pipeline systems may experience difficulty acquiring crude oil at the wellhead in areas where there are existing relationships between producers and other gatherers and purchasers of crude oil.

A material decrease in the production of liquid asphalt cement could materially reduce our ability to make distributions to our unitholders.

The throughput at our liquid asphalt cement terminalling and storage facilities depends on the availability of attractively priced liquid asphalt cement produced from the various liquid asphalt cement producing refineries. Liquid asphalt cement production may decline for a number of reasons, including refiners processing more light, sweet crude oil or refiners installing coker units that further refine heavy residual fuel oil bottoms such as liquid asphalt cement. If we are unable to replace volumes lost due to a temporary or permanent material decrease in production from the suppliers of liquid asphalt cement, our throughput could decline, reducing our revenue and cash flow and adversely affecting our ability to make distributions to our unitholders.

We face intense competition in our gathering, transportation, terminalling and storage activities. Competition from other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply our Parent and our other customers with those services at a lower price could reduce our ability to make distributions to our unitholders.

We are subject to competition from other crude oil gathering, transportation, terminalling and storage operations that may be able to supply our Parent and our other customers with the same or comparable services on a more competitive basis. We compete with national, regional and local gathering, storage, terminalling and pipeline companies, including the major integrated oil companies, of widely varying sizes, financial resources and experience. Some of these competitors are substantially larger than us, have greater financial resources, and control substantially greater storage capacity than we do. With respect to our gathering and transportation services, these competitors include TEPPCO Partners, L.P., Plains All American Pipeline, L.P., ConocoPhillips, Sunoco Logistics Partners L.P. and National Cooperative Refinery Association, among others. With respect to our storage and terminalling services, these competitors include BP plc, Enbridge Energy Partners, L.P. and Plains All American Pipeline, L.P. Some of these competitors have greater capital resources and control greater supplies of crude oil than our Parent. Several of our competitors conduct portions of their operations through publicly traded partnerships with structures similar to ours, including Plains All American Pipeline, L.P., TEPPCO Partners, L.P., Sunoco Logistics Partners L.P. and Enbridge Energy Partners, L.P.

Our ability to compete could be harmed by numerous factors, including:

- price competition;
- the perception that another company can provide better service; and
- the availability of alternative supply points, or supply points located closer to the operations of our Parent s customers.

In addition, our Parent will continue to own midstream assets upon completion of this offering and may engage in competition with us, subject to certain restrictions on our Parent s ability to acquire and construct liquid asphalt cement terminalling and storage assets. If we are unable to compete with services offered by other midstream enterprises, including our Parent, our ability to make distributions to our unitholders may be adversely affected.

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Some of our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets.

Some of our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets. Reduced throughput on these interconnecting pipelines as a result of testing, line repair, reduced operating pressures or other causes could result in reduced throughput on our pipeline systems that would adversely affect our revenue and cash flow and our ability to make distributions to our unitholders.

We will use the proceeds of this offering, together with borrowings under our amended credit facility, to purchase the Acquired Assets. If the Acquired Assets do not perform as expected, our future financial performance may be negatively impacted.

Our acquisition of the Acquired Assets will significantly increase the size of our company and diversify the geographic areas and lines of business in which we operate. We cannot assure you that we will achieve the desired profitability from the Acquired Assets. In addition, our failure to successfully integrate the Acquired Assets into our business could adversely affect our financial condition and results of operations.

We will face certain challenges as we work to integrate the Acquired Assets into our business. In particular, the acquisition of the Acquired Assets will, by adding 46 terminals in 23 states, expand our operations and the types of business in which we engage, significantly expanding our geographic scope and increasing the number of employees involved in our operations, thereby presenting us with significant challenges as we work to manage the increase in scale resulting from the acquisition. Delays in this process could have a material adverse effect on our revenues, expenses, operating results and financial condition. In addition, events outside of our control, including changes in state and federal regulation and laws as well as economic trends, also could adversely affect our ability to realize the anticipated benefits from the acquisition of the Acquired Assets.

Further, the liquid asphalt cement operations may not perform in accordance with our expectations, we may lose key employees and our expectations with regards to integration and synergies may not be fully realized. Our failure to successfully integrate and operate the Acquired Assets, and to realize the anticipated benefits of the acquisition could adversely affect our operating and financial results.

Our debt levels may limit our ability to make distributions and our flexibility in obtaining additional financing and in pursuing other business opportunities.

Upon completion of this offering, we expect to have approximately $329.7 million of debt outstanding under our amended credit facility. Our level of debt could have important consequences for us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

- our debt level will make us more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors. Our ability to service debt under our amended credit facility also will depend on market interest rates, since the interest rates applicable to our borrowings will fluctuate with the London Interbank Offered Rate, or LIBOR, or the prime rate. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms, or at all.

Restrictions in our amended credit facility may prevent us from engaging in some beneficial transactions or paying distributions to our unitholders.

Our amended credit facility contains covenants limiting our ability to make distributions to unitholders. In addition, our amended credit facility contains various covenants that limit, among other things, our ability to incur indebtedness, grant liens or enter into a merger, consolidation or sale of assets. Furthermore, our amended credit facility contains covenants requiring us to maintain certain financial ratios and tests. Any subsequent refinancing of our current debt may have similar or greater restrictions. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

If we borrow funds to make our quarterly distributions, our ability to pursue acquisitions and other business opportunities may be limited and our operations may be materially adversely effected.

Available cash for the purpose of making distributions to unitholders includes working capital borrowings. If we borrow funds to pay one or more quarterly distributions, such amounts will incur interest and must be repaid in accordance with the terms of our credit facility. In addition, any amounts borrowed for distributions to our unitholders will reduce the funds available to us for other purposes under our amended credit facility, including amounts available for use in connection with acquisitions and other business opportunities. If we are unable to pursue our growth strategy due to our limited ability to borrow funds, our operations may be materially adversely effected.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

A principal focus of our business strategy is to grow and expand our business through acquisitions. Our ability to grow depends, in part, on our ability to make acquisitions that result in an increase in the cash generated per unit from operations. If we are unable to make these accretive acquisitions, either because we are (1) unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them, (2) unable to obtain financing for these acquisitions on economically acceptable terms or (3) outbid by competitors, then our future growth and ability to increase distributions will be limited. Furthermore, even if we do make acquisitions that we believe will be accretive, these acquisitions may nevertheless result in a decrease in the cash generated from operations per unit.

Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about volumes, revenues and costs, including synergies;
- an inability to integrate successfully the businesses we acquire;
- an inability to hire, train or retain qualified personnel to manage and operate our business and assets;
- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;

the diversion of management s and employees attention from other business concerns;

unforeseen difficulties operating in new product areas or new geographic areas; and

customer or key employee losses at the acquired businesses.

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If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Our acquisition strategy is based, in part, on our expectation of ongoing divestitures of energy assets by industry participants. A material decrease in such divestitures would limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

Our growth strategy includes acquiring midstream entities or assets that are distinct and separate from our existing terminalling, storage, gathering and transportation operations, which could subject us to additional business and operating risks.

We may acquire midstream assets that have operations in new and distinct lines of business from our crude oil or our liquid asphalt cement operations. Integration of a new business is a complex, costly and time-consuming process. Failure to timely and successfully integrate acquired entities new lines of business with our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating a new business with our existing operations include, among other things:

- operating distinct businesses that require different operating strategies and different managerial expertise;
- the necessity of coordinating organizations, systems and facilities in different locations;
- integrating personnel with diverse business backgrounds and organizational cultures; and
- consolidating corporate and administrative functions.

In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of a new business, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial conditions and prospects. Furthermore, new lines of business will subject us to additional business and operating risks. For example, we may in the future determine to acquire businesses that are subject to significant risks due to fluctuations in commodity prices. These new business and operating risks could have a material adverse effect on our financial condition or results of operations.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

The construction of additions or modifications to our existing assets, and the construction of new assets, involves numerous regulatory, environmental, political, legal and operational uncertainties and requires the expenditure of significant amounts of capital. If we undertake these types of projects, they may not be completed on schedule or at all or at the budgeted cost. In addition, our revenues may not increase immediately upon the expenditure of funds on a particular project. Moreover, we may construct facilities to capture anticipated future growth in demand in a market in which such growth does not materialize.

We are exposed to the credit risks of our third-party customers in the ordinary course of our gathering activities. Any material nonpayment or nonperformance by our third-party customers could reduce our ability to make distributions to our unitholders.

In addition to our dependence on our Parent, we are subject to risks of loss resulting from nonpayment or nonperformance by our third-party customers. Some of our customers may be highly leveraged and subject to their own operating and regulatory risks. In addition, any material nonpayment or nonperformance by our customers could require us to pursue substitute customers for our affected assets or provide alternative services. Any such efforts may not be successful or may not provide similar fees. These events could reduce our ability to make distributions to our unitholders.

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Our revenues from third-party customers are generated under contracts that must be renegotiated periodically and that allow the customer to reduce or suspend performance in some circumstances, which could cause our revenues from those contracts to decline and reduce our ability to make distributions to our unitholders.

Some of our contract-based revenues from customers other than our Parent are generated under contracts with terms which allow the customer to reduce or suspend performance under the contract in specified circumstances, such as the occurrence of a catastrophic event to our or the customer s operations. The occurrence of an event which results in a material reduction or suspension of our customer s performance could reduce our ability to make distributions to our unitholders.

Many of our contracts with third-party customers for producer field services have terms of one year or less. As these contracts expire, they must be extended and renegotiated or replaced. We may not be able to extend, renegotiate or replace these contracts when they expire, and the terms of any renegotiated contracts may not be as favorable as the contracts they replace. In particular, our ability to extend or replace contracts could be harmed by numerous competitive factors, such as those described above under We face intense competition in our gathering, transportation, terminalling and storage activities. Competition from other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply our Parent and our other customers with those services at a lower price could reduce our ability to make distributions to our unitholders. Additionally, we may incur substantial costs if modifications to our terminals are required in order to attract substitute customers or provide alternative services. If we cannot successfully renew significant contracts or must renew them on less favorable terms, or if we incur substantial costs in modifying our terminals, our revenues from these arrangements could decline and our ability to make distributions to our unitholders could suffer.

We may incur significant costs and liabilities as a result of pipeline integrity management program testing and any necessary pipeline repair, or preventative or remedial measures, which could have a material adverse effect on our results of operations.

The United States Department of Transportation, or DOT, has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in high consequence areas , including high population areas, areas that are sources of drinking water, ecological resource areas that are unusually sensitive to environmental damage from a pipeline release and commercially navigable waterways, unless the operator effectively demonstrates by risk assessment that the pipeline could not affect the area. The regulations require operators of covered pipelines to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize threats to pipeline segments that could impact a high consequence area;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and
- implement preventive and mitigating actions.

In addition to these adopted regulations, in September 2006, the DOT proposed amendment of existing pipeline safety standards including its integrity management programs to broaden the scope of coverage to include certain rural onshore hazardous liquid and low-stress pipeline systems found near unusually sensitive areas, including non-populated areas requiring extra protection because of the presence of sole source drinking water resources, endangered species, or other ecological resources. Also, in December 2006, the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 was enacted. This act reauthorizes and amends the DOT s pipeline safety programs and includes a provision eliminating the regulatory exemption for hazardous liquid pipelines operated at low stress. Adoption of new or more stringent pipeline safety regulations affecting our gathering or low-stress pipelines could result in more rigorous and costly integrity management planning requirements being imposed on those lines, which could have a material adverse effect on our results of operations. Please read Business Regulation Pipeline Safety for more information.

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We do not have any officers or employees and rely solely on officers of our general partner and employees of our Parent. Failure of such officers and employees to devote sufficient attention to the management and operation of our business may adversely affect our financial results and our ability to make distributions to our unitholders.

The officers of our general partner are employees of our general partner and are also employed by our Parent. Pursuant to the Amended Omnibus Agreement with our Parent, our Parent operates our assets and performs other administrative services for us such as accounting, legal, regulatory, development, finance, land and engineering. Affiliates of our Parent conduct businesses and activities of their own in which we have no economic interest, including businesses and activities relating to our Parent. As a result, there is material competition for the time and effort of the officers and employees who provide services to our general partner and our Parent. If the officers of our general partner and the employees of our Parent do not devote sufficient attention to the management and operation of our business, our financial results may suffer and our ability to make distributions to our unitholders may be reduced.

Our operations are subject to environmental and worker safety laws and regulations that may expose us to significant costs and liabilities. Failure to comply with these laws and regulations could adversely affect our ability to make distributions to our unitholders.

Our midstream crude oil gathering, transportation, terminalling and storage operations, together with the liquid asphalt cement terminalling and storage assets we are acquiring from our Parent, are subject to stringent federal, state and local laws and regulations relating to the protection of the environment. Various governmental authorities, including the United States Environmental Protection Agency, have the power to enforce compliance with these laws and regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Joint and several strict liability may be incurred without regard to fault or the legality of the original conduct under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, the Resource Conservation and Recovery Act, as amended, and analogous state laws for the remediation of contaminated areas. Private parties, including the owners of properties located near our terminalling and storage facilities or through which our pipeline systems pass, also may have the right to pursue legal actions to enforce compliance, as well as seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. Moreover, new stricter laws, regulations or enforcement policies could be implemented that significantly increase our compliance costs and the cost of any remediation that may become necessary, some of which may be material.

In performing midstream operations and liquid asphalt cement terminalling services, we incur environmental costs and liabilities in connection with the handling of hydrocarbons and solid wastes. We currently own, operate or lease properties that for many years have been used for midstream activities, including properties in and around the Cushing Interchange, and with respect to the Acquired Assets, for liquid asphalt cement terminalling and storage activities. Activities by us or prior owners, lessees or users of these properties over whom we had no control may have resulted in the spill or release of hydrocarbons or solid wastes on or under them. Additionally, some sites we own or operate are located near current or former storage, terminal and pipeline operations, and there is a risk that contamination has migrated from those sites to ours. Increasingly strict environmental laws, regulations and enforcement policies as well as claims for damages and other similar developments could result in significant costs and liabilities, and our ability to make distributions to our unitholders could suffer as a result. Please see Business Regulation for more information.

In addition, the workplaces associated with the storage facilities and pipelines we operate are subject to the requirements of the federal Occupational Safety and Health Act, as amended, or OSHA, and comparable state statutes that regulate the protection of the health and safety of workers. The OSHA hazard communication standard requires that we maintain information about hazardous materials used or produced in our operations and that we provide this information to employees, state and local government authorities, and local residents. Failure to comply with OSHA requirements, including general industry standards, recordkeeping requirements and

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monitoring of occupational exposure to regulated substances, could subject us to fines or significant compliance costs and adversely affect our ability to make distributions to our unitholders.

Our business involves many hazards and operational risks, including adverse weather conditions, which could cause us to incur substantial liabilities.

Our operations are subject to the many hazards inherent in the transportation and storage of crude oil and the storage of liquid asphalt cement, including:

- explosions, fires, accidents, including road and highway accidents involving our tanker trucks;
- extreme weather conditions, such as hurricanes which are common in the Gulf Coast and tornadoes and flooding which are common in the Midwest;
- damage to our pipelines, storage tanks, terminals and related equipment;
- leaks or releases of crude oil into the environment; and
- acts of terrorism or vandalism.

If any of these events were to occur, we could suffer substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations. In addition, mechanical malfunctions, faulty measurement or other errors may result in significant costs or lost revenues.

We are not fully insured against all risks incident to our business, and could incur substantial liabilities as a result.

We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of changing market conditions, premiums and deductibles for certain of our insurance policies may increase substantially in the future. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position and ability to make distributions to unitholders.

We share some insurance policies, including our general liability policy, with our Parent. These policies contain caps on the insurer s maximum liability under the policy, and claims made by either our Parent or us are applied against the caps and deductibles. The possibility exists that, in an event in which we wish to make a claim under a shared insurance policy, our claim could be denied or only partially satisfied due to claims made by our Parent against the policy cap. Further, where events occur that would entitle both our Parent and us to benefits under these insurance policies, the full deductible may be borne by the first claimant under the policy. In addition, claims made by our Parent could affect our premiums and our ability to obtain insurance in the future.

We do not own all of the land on which our pipelines and facilities are located, which could disrupt our operations.

We do not own all of the land on which our pipelines and facilities have been constructed, and we are therefore subject to the possibility of more onerous terms and/or increased costs to retain necessary land use if we do not have valid rights-of-way or if such rights-of-way or any material real property leases lapse or terminate. We obtain the rights to construct and operate our pipelines and some of our terminals and storage facilities on land owned by third parties and governmental agencies for a specific period of time. Our loss of these rights, through our inability to renew leases, right-of-way contracts or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to you.

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If our general partner fails to develop or maintain an effective system of internal controls, then we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common units.

SemGroup Energy Partners G.P., L.L.C., our general partner, has sole responsibility for conducting our business and for managing our operations. Effective internal controls are necessary for our general partner, on our behalf, to provide reliable financial reports, prevent fraud and operate us successfully as a public company. If our general partner s efforts to develop and maintain its internal controls are not successful, it is unable to maintain adequate controls over our financial processes and reporting in the future or it is unable to assist us in complying with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002, our operating results could be harmed or we may fail to meet our reporting obligations. Ineffective internal controls also could cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common units.

Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to our business. Continued hostilities in the Middle East or other sustained military campaigns may adversely impact our results of operations.

The long-term impact of terrorist attacks, such as the attacks that occurred on September 11, 2001, and the threat of future terrorist attacks on our industry in general, and on us in particular, is not known at this time. Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs to our business. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect our operations in unpredictable ways, including disruptions of crude oil supplies and markets for our services, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Our Parent owns and controls our general partner. Some of our general partner s directors are directors of our Parent and all of our executive officers are officers of our Parent. Therefore, conflicts of interest may arise between our Parent and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving those conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. Although the conflicts committee of our general partner s board of directors may review such conflicts of interest, our general partner s board of directors is not required to submit such matters to the conflicts committee. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our Parent to pursue a business strategy that favors us. Our Parent s directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of our Parent, which may be contrary to our interests;

- our general partner is allowed to take into account the interests of parties other than us, such as our Parent and its affiliates, in resolving conflicts of interest;

- our Parent may compete with us, including with respect to future acquisition opportunities;

if we do not have sufficient available cash from operating surplus, our general partner could cause us to use cash from non-operating sources, such as asset sales, issuances of securities and borrowings, to pay distributions, which means that we could make distributions that deteriorate our capital base and that our general partner could receive distributions on its subordinated units and incentive distribution rights to which it would not otherwise be entitled if we did not have sufficient available cash from operating surplus to make such distributions;

all of the officers of our Parent who provide services to us also devote significant time to the business of our Parent, and are compensated by our Parent for the services rendered to it;

our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;

our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and reserves, each of which can affect the amount of cash that is distributed to unitholders;

pursuant to the terms of the limited liability company agreement of our Parent s general partner and the limited liability company agreement of our general partner, our general partner must receive the consent of our Parent in order to cause us to sell all or substantially all of our assets, merge or consolidate, dissolve or liquidate, make or consent to a general assignment for the benefit of creditors, file or consent to the filing of any bankruptcy, insolvency or reorganization petition for relief under the United States Bankruptcy Code or otherwise seek such relief from debtors or protection from creditors, or take various actions similar to the foregoing;

pursuant to the terms of the limited liability company agreement of our Parent s general partner, if our Parent is entitled to more than 50% of our distributions, our general partner must receive the consent of our Parent in order to cause us to dispose of assets, business, operations or securities having a value in excess of $100,000, incur indebtedness in excess of $10.0 million, acquire assets or equity interests of a third party with a fair market value generally in excess of $20.0 million or where certain financial thresholds are exceeded, modify our organizational documents or the organizational documents of any of our subsidiaries, or effect any transaction outside the ordinary course of business having a value in excess of $100,000;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units;

our general partner may make a determination to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights without the approval of the conflicts committee of our general partner or our unitholders; please see Cash Distribution Policy;

our general partner determines which costs incurred by it and its affiliates are reimbursable by us and our Parent determines the allocation of shared overhead expenses;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;

our general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;

our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and

our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

Please see Cash Distribution Policy Operating Surplus and Capital Surplus Characterization of Cash Distributions and Conflicts of Interest and Fiduciary Duties.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty laws. For example, our partnership agreement:

permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its right to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights, the exercise of its limited call right, the exercise of its rights to transfer or vote the units it owns, the exercise of its registration rights and its determination whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement;

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner acting in good faith and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith. In determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us;

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

provides that in resolving conflicts of interest, it will be presumed that in making its decision the general partner acted in good faith, and in any proceeding brought by or on behalf of any limited partner or us, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

By purchasing a common unit, a common unitholder will become bound by the provisions in the partnership agreement, including the provisions discussed above. Please see Conflicts of Interest and Fiduciary Duties Fiduciary Duties.

Our Parent may compete with us, which could adversely affect our existing business and limit our ability to acquire additional assets or businesses.

Other than our Parent s agreement not to engage in the business of terminalling and storing liquid asphalt cement within 50 miles of our liquid asphalt cement facilities, neither our partnership agreement nor the

Amended Omnibus Agreement prohibits our Parent from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, subject to the restrictions above, our Parent may acquire, construct or dispose of additional midstream or other assets in the future, without any obligation to offer us the opportunity to purchase or construct any of those assets. Our Parent is a large, established participant in the midstream energy business, and has significantly greater resources and experience than we have, which factors may make it more difficult for us to compete with these entities with respect to commercial activities as well as for acquisition candidates. As a result, competition from these entities could adversely impact our results of operations and cash available for distribution. As a result, competition from our Parent could adversely impact our results of operations and cash available for distribution. Please see Conflicts of Interest and Fiduciary Duties.

Our agreement not to compete with our Parent may limit our ability to grow.

Pursuant to the Amended Omnibus Agreement, we have agreed that for so long as the Terminalling Agreement is in effect, we will not engage in the business of processing, marketing and distributing finished asphalt products within 50 miles of our liquid asphalt cement facilities. This agreement not to compete with our Parent may limit our ability to grow if we decide to engage in the finished asphalt products business.

Cost reimbursements due to our general partner and its affiliates for services provided, which are determined by our general partner, may be substantial and will reduce our cash available for distribution to you.

Pursuant to our partnership agreement and the Amended Omnibus Agreement, our Parent receives reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit. Payments for these services may be substantial and reduce the amount of cash available for distribution to unitholders. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated under our partnership agreement to reimburse or indemnify our general partner. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments would reduce the amount of cash otherwise available for distribution to our unitholders. Please see Certain Relationships and Related Party Transactions Amended Omnibus Agreement and Conflicts of Interest and Fiduciary Duties.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders did not elect our general partner or our general partner s board of directors, and have no right to elect our general partner or our general partner s board of directors on an annual or other continuing basis. The board of directors of our general partner is chosen by SemGroup Holdings, L.P., a wholly owned subsidiary of our Parent. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Removal of our general partner without its consent will dilute and adversely affect our common unitholders.

If our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over our subordinated units, which would

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otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholders dissatisfaction with our general partner s performance in managing our partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

Control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of our Parent, the owner of our general partner, from transferring all or a portion of its ownership interest in our general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of our general partner with its own choices and thereby influence the decisions made by the board of directors and officers.

We may issue additional units without your approval, which would dilute your ownership interests.

Our partnership agreement does not limit the number of additional limited partner interests (including any securities of equal or senior rank to our common units, and options, rights, warrants and appreciation rights relating to any such securities) that we may issue at any time without the approval of our unitholders. In addition, because we are a limited partnership, we will not be subject to the shareholder approval requirements relating to the issuance of securities contained in Nasdaq Marketplace Rule 4350(i). The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

Our partnership agreement restricts the voting rights of unitholders, other than our general partner and its affiliates, including our Parent, owning 20% or more of our common units.

Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, including our Parent, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions.

Affiliates of our general partner may sell common units in the public markets, which sales could have an adverse impact on the trading price of the common units.

Executive officers and directors of our general partner beneficially own an aggregate of 868,050 common units and our Parent indirectly owns 12,570,504 subordinated units. All of the subordinated units will convert

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into common units at the end of the subordination period and may convert earlier. The sale of these units in the public markets could have an adverse impact on the price of the common units or on any trading market that may develop.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You also may incur a tax liability upon a sale of your units. At the end of the subordination period, assuming no additional issuances of common units other than this offering and no sales of subordinated units, our general partner and its affiliates will own 40.8% of the common units. For additional information about this call right, please see The Partnership Agreement Limited Call Right.

Common units held by persons who are not Eligible Holders will be subject to the possibility of redemption.

The Longview system is, and any additional interstate pipelines that we acquire or construct may be, subject to the rate regulation of the Federal Energy Regulatory Commission, or FERC. Our general partner has the right under our partnership agreement to institute procedures, by giving notice to each of our unitholders, that would require transferees of common units and, upon the request of our general partner, existing holders of our common units to certify that they are Eligible Holders. The purpose of these certification procedures would be to enable us to utilize a federal income tax expense as a component of the pipeline s cost of service upon which tariffs may be established under FERC rate-making policies applicable to entities that pass through their taxable income to their owners. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. Please read Description of the Common Units Transfer of Common Units. If these tax certification procedures are implemented, we will have the right to redeem the common units held by persons who are not Eligible Holders at the lesser of the holder s purchase price and the then-current market price of the units. The redemption price would be paid in cash or by delivery of a promissory note, as determined by our general partner.

Your liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. You could be liable for our obligations as if you were a general partner if:

- a court or government agency determined that we were conducting business in a state but had not complied with that particular state s partnership statute; or
- your right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

Please see The Partnership Agreement Limited Liability for a discussion of the implications of the limitations of liability on a unitholder.

Unitholders may have liability to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 and 17-804 of the Delaware Revised Uniform Limited Partnership Act, we may not

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make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interests and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, you should read Material Tax Consequences for a more complete discussion of the expected material federal income tax consequences of owning and disposing of our common units.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the IRS were to treat us as a corporation or if we were to become subject to a material amount of entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested a ruling from the IRS on this or any other tax matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change, so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, beginning in 2008 we will be required to pay annually a Texas franchise tax at a maximum effective rate of 0.7% of our gross income apportioned to Texas with respect to the prior year. We currently estimate that our tax liability related to our 2007 gross income apportioned to Texas will be approximately $150,000. Imposition of such a tax on us by Texas and, if applicable, by any other state will reduce the cash available for distribution to you. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress are considering substantive changes to the existing federal income tax laws that affect certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although the currently proposed legislation would not appear to affect our tax treatment as a partnership, we are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

If the IRS contests any of the federal income tax positions we take, the market for our common units may be adversely affected, and the costs of any contest will reduce our cash available for distribution to you.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel s conclusions or the positions we take. A court may not agree with some or all of our counsel s conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, the costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income, even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from your share of our taxable income.

Tax gain or loss on the disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions to you in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal income tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a foreign person, you should consult your tax advisor before investing in our common units.

We will treat each purchaser of units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and/or amortization positions that may not conform with all aspects of existing Treasury regulations and, as a result, our counsel, Baker Botts L.L.P., is unable to opine as to the validity of these positions. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please see Material Tax Consequences Tax Consequences of Unit Ownership Section 754 Election and Material Tax Consequences Uniformity of Units for a further discussion of the effect of the depreciation and amortization positions we will adopt.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated for federal income tax purposes if there are one or more transfers of interests in our partnership that together represent a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For these purposes, multiple transfers of the same interest within a twelve-month period will be counted only once. Our termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1) for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. Please read Material Tax Consequences Disposition of Common Units Constructive Termination for a discussion of the consequences of our termination for federal income tax purposes.

You likely will be subject to state and local taxes and return filing or withholding requirements as a result of investing in our common units.

In addition to federal income taxes, you will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You likely will be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We own property and conduct business in Texas, Oklahoma, Kansas, Colorado and New Mexico. Of those states, Texas does not currently impose a state income tax on individuals. After our acquisition of the Acquired Assets, we will also own property and conduct business in Arkansas, California, Georgia, Idaho, Illinois, Indiana, Missouri, Michigan, Montana, Nebraska, Nevada, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Utah, Virginia and Washington. We may own property or conduct business in other states or foreign countries in the future. It is your responsibility to file all federal, state and local tax returns. Under the tax laws of some states where we will conduct business, we may be required to withhold a percentage from amounts to be distributed to a unitholder who is not a resident of that state. For example, in the case of Oklahoma, we are required to either report detailed tax information about our non-Oklahoma resident unitholders with an income in Oklahoma in excess of $500 to the taxing authority, or withhold an amount equal to 5% of the portion of our distributions to unitholders which is deemed to be the Oklahoma share of our income. Similarly, we are required to withhold Kansas income tax at a rate of 6.45% on each non-Kansas resident unitholder s share of our taxable income that is attributable to Kansas (regardless of whether such income is distributed), unless the non-Kansas resident unitholder files a tax reporting affidavit with us which we, in turn, are required to file with the Kansas Department of Revenue. Our counsel has not rendered an opinion on the state and local tax consequences of an investment in our common units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations, and, accordingly, our counsel is unable to opine as to the validity of this method. If the IRS were to challenge this method or new Treasury regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Please read Material Tax Consequences Disposition of Common Units Allocations Between Transferors and Transferees.

A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

Because a unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of the loaned units, he may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Baker Botts L.L.P. has not rendered an opinion regarding the treatment of a unitholder where common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

We will adopt certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. Because the determination of value and the allocation of value are factual matters, rather than legal matters, our counsel, Baker Botts L.L.P., is unable to opine as to these matters. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders tax returns without the benefit of additional deductions.

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USE OF PROCEEDS

We will acquire the Acquired Assets concurrently with the completion of this offering of common units and in connection therewith our credit facility will be amended to increase total borrowing capacity to $600 million.

We will receive net proceeds from this offering of approximately $137.5 million after deducting underwriting discounts but before estimated offering expenses. We will also receive approximately $2.9 million from the related capital contribution by our general partner to maintain its 2.0% general partner interest in us. We will also borrow approximately $241.2 million under our amended credit facility.

We will use the net proceeds of this offering of common units, together with amounts contributed by our general partner to maintain its 2.0% general partner interest and borrowings under our amended credit facility:

- to pay the purchase price of $378.8 million to our Parent for the Acquired Assets; and

- to pay approximately $2.8 million of estimated expenses associated with our acquisition of the Acquired Assets and the related financing transactions, including this offering of common units.

We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our amended credit facility.

The amount outstanding under our credit facility, as of February 13, 2008, was $88.5 million. The outstanding borrowings under our credit facility were used to make a distribution to SemGroup Holdings, L.P. in connection with our initial public offering and for general partnership purposes. Interest on amounts drawn under our credit facility is payable at our option, at either (i) the administrative agent s prime rate or the federal funds rate plus 0.5%, plus an applicable margin that ranges from 0.25% to 1.25%, depending upon our total leverage ratio, or (ii) LIBOR plus an applicable margin that ranges from 1.25% to 2.25%, depending upon our total leverage ratio. As of February 13, 2008, the interest rate under our credit facility had a weighted average of 6.30%. Our credit facility matures in July 2012. Affiliates of certain of the underwriters participating in this offering are lenders under our revolving credit facility. Please see Underwriting.

Our Parent has informed us that it intends to use the proceeds received by it from the sale of the Acquired Assets to repay outstanding indebtedness of our Parent. Affiliates of certain of the underwriters participating in this offering are lenders under our Parent s credit facility. Please see Underwriting.

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CAPITALIZATION

The following table shows our capitalization as of September 30, 2007:

- on a historical basis; and

- as adjusted to reflect the sale of common units in this offering and our general partner s related capital contribution, borrowings under our amended credit facility and the application of the net proceeds therefrom as described under Use of Proceeds.

We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical financial statements and the accompanying notes included elsewhere in this prospectus. You should also read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of September 30, 2007	
	Historical	As Adjusted
	(in thousands)	
Debt:		
Credit facility	$ 92,500	$ 333,688
Capital lease obligations	2,684	2,684
Total debt	95,184	336,372
Partners capital		
Common units	316,420	452,805
Subordinated units	(287,824)	(287,824)
General partner interest	(12,591)	(260,164)
Total partners capital	16,005	(95,183)
Total capitalization	$ 111,189	$ 241,189

This table does not reflect the issuance of up to 900,000 common units that may be sold to the underwriters upon exercise of their over-allotment option.

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

Our common units are listed and traded on the NASDAQ Global Market under the symbol SGLP. Our common units began trading on July 18, 2007 at an initial public offering price of $22.00 per common unit. The following table shows the low and high sales prices per common unit, as reported by the NASDAQ Global Market, for the periods indicated. Distributions are shown in the quarter for which they were paid.

On January 24, 2008, the board of directors of our general partner declared a cash distribution of $0.3375 per unit for the fourth quarter of 2007, or $1.35 per unit on an annualized basis, to be paid on February 14, 2008 to unitholders of record as of February 1, 2008. The purchasers of common units in this offering will not be entitled to receive such distribution.

	Low	High	Cash Distribution per Unit
2007:			
Third quarter[1]	$ 24.16	$ 31.00	$ 0.24[2]
Fourth quarter	24.02	30.50	
2008:			
First quarter (through February 13, 2008)	$ 22.20	$ 29.09	

(1) For the period from July 18, 2007, the day our common units began trading on the NASDAQ Global Market, through September 30, 2007.

(2) Reflects the pro rata portion of the $0.3125 quarterly distribution per unit paid, representing the period from the July 23, 2007 closing of our initial public offering through September 30, 2007. An identical cash distribution was paid on all outstanding common and subordinated units.

The last reported sale price of our common units on the NASDAQ Global Market on February 13, 2008 was $23.90. As of February 11, 2008, there were approximately 5 holders of record of our common units.

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CASH DISTRIBUTION POLICY

Distributions of Available Cash

General. Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash to unitholders of record on the applicable record date.

Definition of Available Cash. Available cash, for any quarter, consists of all cash on hand at the end of that quarter:

- less the amount of cash reserves established by our general partner to:
  - provide for the proper conduct of our business;
  - comply with applicable law, any of our debt instruments or other agreements; or
  - provide funds for distributions to our unitholders for any one or more of the next four quarters;
- plus all additional cash and cash equivalents on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within 12 months.

Intent to Distribute the Minimum Quarterly Distribution. We will distribute to the holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of $0.3125 per unit, or $1.25 per year, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement. The board of directors of our general partner will have broad discretion to establish cash reserves for the proper conduct of our business and for future distributions to our unitholders, and the establishment of those reserves could result in a reduction in cash distributions to you from levels we currently anticipate pursuant to our stated distribution policy. In addition, our cash distribution policy is subject to restrictions on distributions under our amended credit facility. Specifically, the agreement related to our amended credit facility contains material financial tests and covenants that we must satisfy. These financial tests and covenants include a requirement that our ratio of consolidated funded indebtedness to consolidated adjusted EBITDA be not more than 5.00 to 1.00 and a requirement that our ratio of consolidated EBITDA to consolidated interest expense be not less than 2.75 to 1.00. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Our Liquidity and Capital Resources Description of Credit Facility for a discussion of the restrictions to be included in our credit agreement that may restrict our ability to make distributions.

General Partner Interest and Incentive Distribution Rights. Our general partner is currently entitled to 2% of all quarterly distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. Our general partner s initial 2% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute from operating surplus (as defined below) in excess of $0.3594 per unit per quarter. The maximum distribution of 50% includes distributions paid to our

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general partner in respect of its 2% general partner interest and assumes that our general partner maintains its general partner interest at 2%. The maximum distribution of 50% does not include any distributions that our general partner may receive on common or subordinated units that it owns. Please see General Partner Interest and Incentive Distribution Rights for additional information.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized as either operating surplus or capital surplus. Our partnership agreement requires that we distribute available cash from operating surplus differently than available cash from capital surplus.

Operating Surplus. We define operating surplus in the glossary, and for any period it generally means:

- an amount equal to two times the amount needed for any one quarter for us to pay a distribution on all of our units (including the general partner units) and the incentive distribution rights at the same per-unit amount as was distributed in the immediately preceding quarter; plus

- all of our cash receipts after the closing of this offering, excluding cash from (1) borrowings that are not working capital borrowings, (2) sales of equity and debt securities, (3) sales or other dispositions of assets outside the ordinary course of business, (4) capital contributions received or (5) corporate reorganizations or restructurings (provided that cash receipts from the termination of a commodity hedge or interest rate swap prior to its specified termination date shall be included in operating surplus in equal quarterly installments over the scheduled life of such commodity hedge or interest rate swap); plus

- working capital borrowings made after the end of a quarter but on or before the date of determination of operating surplus for the quarter; plus

- interest paid on debt incurred by us, and cash distributions paid on the equity securities issued by us, to finance all or any portion of the construction, expansion or improvement of our facilities during the period from such financing until the earlier to occur of the date the capital asset is put into service or the date that it is abandoned or disposed of; plus

- interest paid on debt incurred by us, and cash distributions paid on the equity securities issued by us, in each case, to pay the construction period interest on debt incurred, or to pay construction period distributions on equity issued, to finance the construction projects referred to above; less

- all of our operating expenditures (as defined below) after the closing of this offering; less

- the amount of cash reserves established by our general partner to provide funds for future operating expenditures; less

- all working capital borrowings not repaid within twelve months after having been incurred or repaid within such twelve-month period with the proceeds of additional working capital borrowings.

If a working capital borrowing, which increases operating surplus, is not repaid during the twelve-month period following the borrowing, it will be deemed repaid at the end of such period, thus decreasing operating surplus at such time. When such working capital is in fact repaid, it will not be treated as a reduction in operating surplus because operating surplus will have been previously reduced by the deemed repayment.

We define operating expenditures in the glossary, and it generally means all of our expenditures, including, but not limited to, taxes, reimbursements of expenses to our general partner, repayment of working capital borrowings, debt service payments and capital expenditures, provided that operating expenditures will not include:

payments (including prepayments) of principal of and premium on indebtedness, other than working capital borrowings;

capital improvement expenditures;

payment of transaction expenses relating to interim capital transactions; or

distributions to partners.

Where capital expenditures are made in part for acquisitions or for capital improvements and in part for other purposes, our general partner, with the concurrence of the conflicts committee, shall determine the allocation between the amounts paid for each.

Maintenance capital expenditures reduce operating surplus, from which we pay the minimum quarterly distribution, but expansion capital expenditures do not. Maintenance capital expenditures represent capital expenditures made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. Maintenance capital expenditures include expenditures required to maintain equipment reliability, storage and pipeline integrity and safety and to address environmental regulations. Expansion capital expenditures represent capital expenditures made to expand or to increase the efficiency of the existing operating capacity of our assets or to expand the operating capacity or revenues of existing or new assets, whether through construction or acquisition. Costs for repairs and minor renewals to maintain facilities in operating condition and that do not extend the useful life of existing assets will be treated as operational and maintenance expenses as we incur them. Our partnership agreement provides that our general partner determines how to allocate a capital expenditure for the acquisition or expansion of our assets between maintenance capital expenditures and expansion capital expenditures.

Capital Surplus. We also define capital surplus in the glossary, and it will typically be generated only by:

borrowings other than working capital borrowings;

sales of our equity and debt securities;

sales or other dispositions of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirement or replacement of assets;

capital contributions received; and

corporate reorganizations or restructurings.

Characterization of Cash Distributions. Our partnership agreement requires that we treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since the closing of our initial public offering equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As reflected above, operating surplus includes an amount equal to two times the amount needed for any one quarter for us to pay a distribution on all of our units (including the general partner units) and the incentive distribution rights at the same per-unit amount as was distributed in the immediately preceding quarter. After giving effect to this offering, the amount, which we refer to as the basket amount, will equal approximately $22.7 million (based upon our current quarterly distribution of $0.3375 per unit) and could increase substantially if we increase our quarterly distributions, issue additional units or use working capital borrowings to fund distributions. For example, if we were to increase our quarterly distribution on our common and subordinated units after this offering from our current quarterly distribution of $0.3375 to $0.4375 per unit, assuming no additional issuances of units, the basket amount would equal approximately $30.7 million. The basket amount does not reflect actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to this amount of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities, and borrowings, that would otherwise be distributed as capital surplus. If we were to increase our quarterly distribution amount during a period when our operating surplus actually generated from our operations had not increased by a corresponding

amount, or if we were to maintain our quarterly distribution amount when our operating surplus generated from our operations had declined, by using these provisions we could use cash from non-operating sources, such as asset sales, issuances of securities and borrowings, to make distributions substantially in excess of actual cash generated by our business. These types of distributions could deteriorate our capital base, which could have a material adverse effect on our ability to make future distributions to our unitholders. In addition, these provisions could enable our general partner, if it so chooses, to receive distributions on its subordinated units and incentive distribution rights that would normally be treated as distributions from capital surplus and to which our general partner would not otherwise be entitled if we did not have sufficient available cash from operating surplus to make such distributions. We do not anticipate that we will make any distributions from capital surplus.

Subordination Period

General. Our partnership agreement provides that, during the subordination period (which we define below and in Appendix A), the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.3125 per common unit per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. These units are deemed subordinated because for a period of time, referred to as the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on the subordinated units. The practical effect of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

Subordination Period. The subordination period will extend until the first day of any quarter beginning after June 30, 2010 that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units, subordinated units and general partner units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

- the adjusted operating surplus (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common and subordinated units and general partner units during those periods on a fully diluted basis; and

- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Expiration of the Subordination Period. When the subordination period expires, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of such removal:

- the subordination period will end and each subordinated unit will immediately convert into one common unit;

- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

- our general partner will have the right to convert its general partner units and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Early Conversion of Subordinated Units. The subordination period will automatically terminate and all of the subordinated units will convert into common units on a one-for-one basis if each of the following occurs:

distributions of available cash from operating surplus on each outstanding common unit and subordinated unit equaled or exceeded $1.88 (150% of the annualized minimum quarterly distribution) for any four-quarter period immediately preceding that date;

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- the adjusted operating surplus (as defined below) generated during any four-quarter period immediately preceding that date equaled or exceeded the sum of a distribution of $1.88 (150% of the annualized minimum quarterly distribution) on all of the outstanding common units and subordinated units and general partner units on a fully diluted basis; and

- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Adjusted Operating Surplus. Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods. Adjusted operating surplus consists of:

- operating surplus generated with respect to that period; less

- any net increase in working capital borrowings with respect to that period; less

- any net decrease in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

- any net decrease in working capital borrowings with respect to that period; plus

- any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Distributions of Available Cash from Operating Surplus during the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

- first, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

- second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;

- third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

- thereafter, in the manner described in General Partner Interest and Incentive Distribution Rights below.

The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

Distributions of Available Cash from Operating Surplus after the Subordination Period

Our partnership agreement requires that we make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

- first, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

- thereafter, in the manner described in General Partner Interest and Incentive Distribution Rights below.

The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

When the subordination period expires, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. At the end of the subordination period, assuming no additional issuances of common units and no sales of subordinated units and assuming our general partner maintains its 2% general partner interest, our general partner and its affiliates will receive approximately $4.1 million per quarter if the distribution on our outstanding units equals our initial distribution rate of $0.3125 per unit.

General Partner Interest and Incentive Distribution Rights

Our partnership agreement provides that our general partner initially will be entitled to 2% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2% general partner interest if we issue additional units. Our general partner s 2% interest, and the percentage of our cash distributions to which it is entitled, will be proportionately reduced if we issue additional units in the future (other than the issuance of common units upon exercise by the underwriters of their over-allotment option, the issuance of partnership securities issued in connection with a reset of the incentive distribution target levels relating to our general partner s incentive distribution rights or the issuance of partnership securities upon conversion of outstanding partnership securities) and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 2% general partner interest. Our general partner will be entitled to make a capital contribution in order to maintain its 2% general partner interest in the form of the contribution to us of common units based on the current market value of the contributed common units.

Incentive distribution rights represent the right to receive an increasing percentage (13%, 23% and 48%) of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

The following discussion assumes that our general partner maintains its 2% general partner s interest and continues to own the incentive distribution rights.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, our partnership agreement requires that we distribute any additional available cash from operating surplus for that quarter among the unitholders and our general partner in the following manner:

- first, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder receives a total of $0.3594 per unit for that quarter (the first target distribution);

- second, 85% to all unitholders, pro rata, and 15% to the general partner, until each unitholder receives a total of $0.3906 per unit for that quarter (the second target distribution);

- third, 75% to all unitholders, pro rata, and 25% to the general partner, until each unitholder receives a total of $0.4688 per unit for that quarter (the third target distribution); and

- thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

Percentage Allocations of Available Cash from Operating Surplus

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution Per Unit, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2% general partner interest and assume our general partner has contributed any additional capital to maintain its 2% general partner interest and has not transferred its incentive distribution rights.

	Total Quarterly Distribution Per Unit	Marginal Percentage Interest in Distributions	
	Target Amount	Unitholders	General Partner
Minimum Quarterly Distribution	$0.3125	98%	2%
First Target Distribution	above $ 0.3125 up to $0.3594	98%	2%
Second Target Distribution	above $ 0.3594 up to $0.3906	85%	15%
Third Target Distribution	above $ 0.3906 up to $0.4688	75%	25%
Thereafter	above $0.4688	50%	50%

General Partner s Right to Reset Incentive Distribution Levels

Our general partner, as the holder of our incentive distribution rights, has the right under our partnership agreement to elect to relinquish the right to receive incentive distribution payments based on the initial cash target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount and cash target distribution levels upon which the incentive distribution payments to our general partner would be set. Our general partner s right to reset the minimum quarterly distribution amount and the target distribution levels upon which the incentive distributions payable to our general partner are based may be exercised without approval of our unitholders or the conflicts committee of our general partner, at any time when there are no subordinated units outstanding and we have made cash distributions to the holders of the incentive distribution rights at the highest level of incentive distribution for each of the prior four consecutive fiscal quarters and the amount of each such distribution did not exceed adjusted operating surplus for such quarter. The reset minimum quarterly distribution amount and target distribution levels will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset such that our general partner will not receive any incentive distributions under the reset target distribution levels until cash distributions per unit following this event increase as described below. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distribution payments being made to our general partner.

In connection with the resetting of the minimum quarterly distribution amount and the target distribution levels and the corresponding relinquishment by our general partner of incentive distribution payments based on the target cash distributions prior to the reset, our general partner will be entitled to receive a number of newly issued Class B units based on a predetermined formula described below that takes into account the cash parity value of the average cash distributions related to the incentive distribution rights received by our general partner for the two quarters prior to the reset event as compared to the average cash distributions per common unit during this period.

The number of Class B units that our general partner would be entitled to receive from us in connection with a resetting of the minimum quarterly distribution amount and the target distribution levels then in effect would be equal to (x) the average amount of cash distributions received by our general partner in respect of its incentive distribution rights during the two consecutive fiscal quarters ended immediately prior to the date of such reset election divided by (y) the average of the amount of cash distributed per common unit during each of these two quarters. Each Class B unit will be convertible into one common unit at the election of the holder of the Class B

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unit at any time following the first anniversary of the issuance of these Class B units. We will also issue an additional amount of general partner units in order to maintain the general partner s ownership interest in us relative to the issuance of the Class B units.

Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to be correspondingly higher such that we would distribute all of our available cash from operating surplus for each quarter thereafter as follows:

first, 98% to all unitholders, pro rata, and 2% to our general partner, until each unitholder receives an amount equal to 115% of the reset minimum quarter distribution for that quarter;

second, 85% to all unitholders, pro rata, and 15% to our general partner, until each unitholder receives an amount per unit equal to 125% of the reset minimum quarterly distribution for that quarter;

third, 75% to all unitholders, pro rata, and 25% to our general partner, until each unitholder receives an amount per unit equal to 150% of the reset minimum quarterly distribution for that quarter; and

thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

Distributions from Capital Surplus

How Distributions from Capital Surplus Will Be Made. Our partnership agreement requires that we make distributions of available cash from capital surplus, if any, in the following manner:

first, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit that was issued in this offering, an amount of available cash from capital surplus equal to the initial public offering price;

second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for our general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels will be reduced to zero. Our partnership agreement specifies that we then make all future distributions from operating surplus, with 50% being paid to the holders of units and 50% to our general partner. The percentage interests shown for our general partner include its 2% general partner interest and assume our general partner has not transferred the incentive distribution rights. We do not anticipate that we will make any distributions from capital surplus.

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Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, our partnership agreement specifies that the following items will be proportionately adjusted:

- the minimum quarterly distribution;
- target distribution levels;
- the unrecovered initial unit price; and
- the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level and each subordinated unit would be convertible into two common units. Our partnership agreement provides that we not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted by a governmental taxing authority, so that we become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels for each quarter will be reduced by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter and the denominator of which is the sum of available cash for that quarter plus our general partner s estimate of our aggregate liability for the quarter for such income taxes payable by reason of such legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

Distributions of Cash Upon Liquidation

General. If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to our unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

Manner of Adjustments for Gain. The manner of the adjustment for gain is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

- first, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

second, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of: (1) the unrecovered initial unit price; (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; and (3) any unpaid arrearages in payment of the minimum quarterly distribution;

third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner until the capital account for each subordinated unit is equal to the sum of: (1) the unrecovered initial unit price; and (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

fourth, 98% to all unitholders, pro rata, and 2% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to the general partner, for each quarter of our existence;

fifth, 85% to all unitholders, pro rata, and 15% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence;

sixth, 75% to all unitholders, pro rata, and 25% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to the general partner for each quarter of our existence; and

thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

The percentage interests set forth above for our general partner include its 2% general partner interest and assume the general partner has not transferred the incentive distribution rights.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

Manner of Adjustments for Losses. If our liquidation occurs before the end of the subordination period, we will generally allocate any loss to our general partner and the unitholders in the following manner:

first, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the subordinated unitholders have been reduced to zero;

second, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the common unitholders have been reduced to zero; and

thereafter, 100% to the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

Adjustments to Capital Accounts. Our partnership agreement requires that we make adjustments to capital accounts upon the issuance of additional units. In this regard, our partnership agreement specifies that we allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, our partnership agreement requires that we allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in our general partners capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

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SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table shows selected historical financial and operating data of SemGroup Energy Partners, L.P. Predecessor, our predecessor, and historical financial and operating data of SemGroup Energy Partners, L.P. for the periods and as of the dates presented. In connection with the closing of our initial public offering, our Parent contributed its Crude Oil Business to us, which comprises substantially all of our Parent s crude oil gathering, transportation, terminalling and storage assets. The Crude Oil Business had historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. Accordingly, revenues reflected in the historical financial statements of our predecessor represent services provided to third parties and do not include any revenues for services provided to our Parent. For this reason and due to the other factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Items Impacting the Comparability of Our Financial Results, our results of operations are not comparable to our predecessor s historical results. The selected historical financial data as of and for the years ended December 31, 2004, 2005 and 2006 are derived from the audited financial statements of our predecessor included elsewhere in this prospectus. The selected historical financial data as of and for the years ended December 31, 2002 and 2003 are derived from the unaudited financial statements of our predecessor. The selected historical financial data for the nine months ended September 30, 2006 are derived from the unaudited financial statements of our predecessor included elsewhere in this prospectus. The selected historical financial data as of and for the nine months ended September 30, 2007 are derived from the unaudited financial statements of SemGroup Energy Partners, L.P. included elsewhere in this prospectus, which includes the results of our predecessor for the period prior to the closing of our initial public offering.

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,					Nine Months Ended September 30,	
	2002 (unaudited)	**2003** (unaudited)	**2004** (audited)	**2005** (audited)	**2006** (audited)	**2006** (unaudited)	**2007** (unaudited)
	(dollars in thousands, except per unit data)						
Statement of Operations Data:							
Service revenues:							
Third-party revenue	$ 13,499	$ 15,694	$ 15,857	$ 20,361	$ 28,839	$ 19,861	$ 23,847
Related party revenue						570	20,531
Total revenue	13,499	15,694	15,857	20,361	28,839	20,431	44,378
Expenses:							
Operating	25,314	31,307	30,996	38,467	51,608	38,239	50,110
General and administrative	5,199	7,748	7,570	6,280	11,097	8,158	11,015
Total expenses	30,513	39,055	38,566	44,747	62,705	46,397	61,125
Operating income (loss)	(17,014)	(23,361)	(22,709)	(24,386)	(33,866)	(25,966)	(16,747)
Other (income) expenses:							
Interest expense[1]	4,013	3,379	1,973	2,597	1,989	1,581	3,369
Income before income taxes	(21,027)	(26,740)	(24,682)	(26,983)	(35,855)	(27,457)	(20,116)
Provision for income taxes							62
Net income (loss)	$ (21,027)	$ (26,740)	$ (24,682)	$ (26,983)	$ (35,855)	$ (27,547)	$ (20,178)
General partner interest in net income[2]							$ 119
Limited partner interest in net income[2]							$ 5,821
Basic and diluted net income per limited partner unit:[2]							
Common units							$ 0.24
Subordinated units							$ 0.19

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	Year Ended December 31,					Nine Months Ended September 30,	
	2002 (unaudited)	2003 (unaudited)	2004 (audited)	2005 (audited)	2006 (audited)	2006 (unaudited)	2007 (unaudited)
	(dollars in thousands, except per unit data)						
Operating Data:							
Cushing terminal:							
Average crude oil barrels stored per month	405,287	284,389	721,590	1,371,281	2,695,766	2,545,594	2,372,319
Average crude oil delivered (Bpd)	28,165	26,258	31,074	30,143	44,889	42,700	64,419
Total storage capacity (barrels at end of period)	793,200	793,200	793,200	3,493,200	4,370,000	3,493,200	4,765,000
Other:							
Total storage capacity (barrels at end of period)	2,169,490	2,329,490	2,329,490	2,048,890	1,952,150	1,952,150	1,952,150
Average throughput (Bpd):							
Mid-Continent system	20,785	19,939	20,228	22,255	28,762	23,089	31,874
Longview system	35,590	32,992	31,547	30,993	36,493	37,994	27,731
Balance Sheet Data (at period end):							
Property, plant and equipment, net	$ 49,721	$ 45,295	$ 49,601	$ 64,688	$ 92,245		$ 103,384
Total assets	59,440	54,332	57,739	72,912	104,847		117,316
Long-term debt and capital lease obligations	34,317	34,415	35,337	38,849	36,757		95,184
Total division equity/partners capital	23,468	17,643	20,198	28,799	62,146		16,005

(1) Interest expense before July 20, 2007 reflects interest on capitalized lease obligations and debt payable to our Parent. Interest expense after July 20, 2007 includes interest expense incurred under our credit facility.

(2) Net income and net income per unit is presented for the period from July 20, 2007 through September 30, 2007.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On July 23, 2007, we completed our initial public offering of common units. In our initial public offering, an aggregate of 14,375,000 common units (including 1,875,000 common units sold pursuant to the full exercise by the underwriters of their over-allotment option) were sold to the public at a price of $22.00 per unit. Upon completion of our initial public offering, we had 14,375,000 common units, 12,570,504 subordinated units and 549,908 general partner units outstanding. The subordinated units and general partner units are indirectly owned by our Parent.

The historical financial statements for periods prior to the contribution of the assets, liabilities and operations to us by our Parent on July 20, 2007 reflect the assets, liabilities and operations of our predecessor. The following discussion analyzes the historical financial condition and results of operations of us and our predecessor and should be read in conjunction with ours and our predecessor s financial statements and notes thereto. In certain circumstances and for ease of reading we discuss the financial results of our predecessor as being our financial results during historical periods when this business was owned by our Parent.

Overview

We are a Delaware limited partnership formed in 2007 by our Parent to own, operate and develop a diversified portfolio of complementary midstream energy assets. We completed the initial public offering of our common units in July 2007. On July 20, 2007, our Parent contributed to us crude oil terminalling and storage facilities with an aggregate of approximately 6.7 million barrels of storage capacity primarily located in Oklahoma, approximately 1,150 miles of crude oil gathering and transportation pipelines located in Oklahoma and Texas and approximately 200 owned or leased crude oil tanker trucks, which we collectively refer to as the Crude Oil Business. In connection with our initial public offering, we entered into the Throughput Agreement with our Parent pursuant to which we provide crude oil gathering, transportation, terminalling and storage services to our Parent. In connection with the closing of this offering, we will enter into the Terminalling Agreement with our Parent pursuant to which we will provide liquid asphalt cement terminalling and storage services to our Parent. We will derive substantially all of our revenues from services provided to our Parent under the Throughput Agreement and the Terminalling Agreement.

Items Impacting the Comparability of Our Financial Results

Our future results of operations and cash flows may not be comparable to the historical results of operations for the periods presented below for our predecessor, for the reasons described below:

There are differences in the way our predecessor recorded revenues and the way we will record revenues.

Substantially all of our revenues are derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. Under the Throughput Agreement, our Parent pays us a fee for gathering, transportation, terminalling and storage services based on volume and throughput. In rendering these services, we do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal or store and, therefore, we have minimal direct exposure to changes in crude oil prices. Please see Throughput Agreement below.

The Crude Oil Business had historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. As such, the revenues we receive under the Throughput Agreement are not reflected in the historical financial statements of our predecessor.

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Our predecessor recognized revenues from third parties for (1) storage services, (2) transportation services and (3) producer field services. Although substantially all of our revenues are derived from services provided to our Parent, we also recognize revenue for gathering, transportation, terminalling and storage services provided to third parties.

There are differences in the way general and administrative expenses were allocated to our predecessor and the way we recognize general and administrative expenses.

General and administrative expenses include office personnel and benefit expenses, costs related to our administration facilities, and insurance, accounting and legal expenses, including costs allocated by our Parent for centralized general and administrative services performed by our Parent. Such costs were allocated to our predecessor based on the nature of the respective expenses and its proportionate share of our Parent s head count, compensation expense, net revenues or square footage as appropriate.

Pursuant to the Amended Omnibus Agreement, we will pay our general partner and our Parent a fixed administrative fee, in the amount of $7.0 million per year, for the provision by our general partner and our Parent of various general and administrative services to us for three years following this offering. For a more complete description of this agreement, see Certain Relationships and Related Party Transactions Amended Omnibus Agreement.

We incur incremental general and administrative expenses as a result of being a publicly traded limited partnership, including costs associated with annual and quarterly reports to unitholders, financial statement audit, tax return and Schedule K-1 preparation and distribution, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. These incremental general and administrative expenditures are not reflected in the historical financial statements of our predecessor.

With the exception of capital lease obligations, no working capital was contributed to us in connection with our initial public offering.

Our predecessor had $31.2 million in debt payable to our Parent which was not assumed by us in our initial public offering. We expect to have approximately $329.7 million outstanding under our amended credit facility at the close of this offering.

Throughput Agreement

In connection our initial public offering, we entered into the Throughput Agreement with our Parent. Substantially all of our revenues are derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to this agreement. None of these revenues are reflected in the historical financial statements of our predecessor. Under this agreement, we provide the following services to our Parent:

Gathering and Transportation Services. We gather crude oil for our Parent for delivery to refiners, to large common carrier pipelines for ultimate delivery to refiners, to our storage facilities (including our Cushing terminal) or to storage locations owned by others. Under the Throughput Agreement, we charge fees for the following types of pipeline gathering and transportation services:

Gathering services. Our Parent is obligated to pay us a fee per barrel gathered on our gathering systems.

Pipeline transportation services. Our Parent is obligated to pay us a fee per barrel transported on our Mid-Continent system.

Delivery services. Our Parent is obligated to pay us a fee per barrel for deliveries out of our Cushing terminal.

Trucking services. We gather crude oil for our Parent from operators at remote wellhead locations not served by pipeline gathering systems. Our trucking fleet delivers such crude oil to our gathering systems located in Oklahoma and Texas, common carrier pipelines or our Cushing terminal. Our Parent pays us a fee per barrel depending on the point of origin and destination for these trucking services.

The Throughput Agreement does not apply to any gathering or transportation services on our Longview system or to any producer field services.

Terminalling and Storage Services. We provide services relating to the receipt, storage, throughput and delivery of crude oil for our Parent into and out of the tanks located throughout our Mid-Continent system, including at our Cushing terminal, and our Longview system. Our storage services enable our Parent to purchase and store crude oil and sell it at later dates.

Minimum Throughput and Storage Requirements. Under the Throughput Agreement, the gathering services and pipeline transportation services we provide to our Parent (other than gathering and pipeline transportation services provided on the Longview system) are subject to minimum throughput requirements each month, regardless of the amount of such services actually used by our Parent in a given month. Our Parent has committed to utilize a minimum of 80% of our historical average volume of trucking services. In addition, our Parent has committed to use services constituting 80% of our total storage capacity. Our Parent is obligated, regardless of the amount of services actually used by our Parent in a given month, to pay us a fee per barrel for the first 80% of our storage capacity. If our Parent utilizes any of these services in excess of these minimum throughput, trucking or storage requirements, our Parent will pay us a fee for such services equal to at least 110% of the per barrel base charge for the applicable services. However, we are able to contract with other customers for services in excess of these minimum commitments and we are not obligated to provide any services in excess of the minimum requirements to our Parent.

Based on these minimum throughput, trucking and storage requirements, our Parent is obligated to pay us minimum monthly fees totaling $45.3 million and $30.8 million annually for our gathering and transportation services and our terminalling and storage services, respectively, but we expect to earn incremental revenues for providing these services. The pipeline trucking unloading services we provide to our Parent pursuant to the Throughput Agreement are not subject to any minimum usage requirements.

In rendering these services, we do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal or store and, therefore, we have minimal direct exposure to changes in crude oil prices. The Throughput Agreement contains a Consumer Price Index adjustment that may offset a portion of any increased costs that we incur. The Throughput Agreement has an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon one year s prior notice. Our Parent s obligations under the Throughput Agreement will not terminate if our Parent no longer owns our general partner. The Throughput Agreement may be assigned by our Parent only with our consent.

The Throughput Agreement does not apply to any services we provide to customers other than our Parent.

Factors That Will Significantly Affect Our Results

Commodity Prices. Although our current operations have minimal direct exposure to commodity prices, the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. Petroleum product prices may be contango (future prices higher than current prices) or backwardated (future prices lower than current prices) depending on market expectations for future supply and demand. Our terminalling and storage services benefit most from an increasing price environment, when a premium is placed on storage, and our gathering and transportation services benefit most from a declining price environment when a premium is placed on prompt delivery.

Volumes. Our results of operations are dependent upon the volumes of crude oil we gather, transport, terminal and store. Although our Parent has committed to use a minimum amount of our services pursuant to the Throughput Agreement, our results of operations are impacted by our ability to utilize our remaining pipeline and storage capacity to transport and store supplies of crude oil for third parties and for our Parent. An increase or decrease in the production of crude oil from the oil fields served by our pipelines or an increase or decrease in the demand for crude oil in the areas served by our pipelines and storage facilities will have a corresponding effect on the volumes we gather, transport, terminal and store. The production and demand for crude oil are driven by many factors, including the price for crude oil.

Acquisition Activities. We intend to pursue both strategic and accretive acquisitions within the midstream industry both independently and jointly with our Parent. These acquisition efforts may involve assets that, if acquired, would have a material effect on our financial condition and results of operations. We can give no assurance that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms considered favorable to us.

Organic Expansion Activities. We also will pursue opportunities to expand our existing asset base and will consider constructing additional assets in strategic locations. The construction of additions or modifications to our existing assets, and the construction of new assets, involve numerous regulatory, environmental, political, legal and operational uncertainties beyond our control and may require the expenditure of significant amounts of capital.

Operating Costs. The current high levels of crude oil exploration, development and production activities are increasing competition for personnel and equipment. This increased competition is placing upward pressure on the prices we pay for labor, supplies, property, plant and equipment. To the extent we are unable to procure necessary services or assets or offset higher costs, our operating results will be negatively impacted. Under the Throughput Agreement, a Consumer Price Index adjustment may offset a portion of any increased costs that we incur.

Borrowings. Prior to the closing of our initial public offering, we borrowed $137.5 million under our credit facility and recognized associated interest expense and amortization of debt issuance costs. On July 23, 2007, we repaid approximately $38.7 million under our credit facility with the proceeds we received in connection with the exercise of the underwriters over-allotment option in our initial public offering.

Distributions to our Unitholders. We intend to make cash distributions to our unitholders and our general partner at an initial distribution rate of $0.3125 per common unit per quarter ($1.25 per common unit on an annualized basis). Due to our cash distribution policy, we expect that we will distribute to our unitholders most of the cash generated by our operations. As a result, we expect that we will rely upon external financing sources, including commercial bank borrowings and other debt and equity issuances, to fund our acquisition and expansion capital expenditures, as well as our working capital needs.

The Acquired Assets

We will acquire the Acquired Assets from our Parent for a purchase price of $378.8 million concurrently with the closing of this offering. The Acquired Assets include 46 terminals in 23 states with an aggregate shell capacity of approximately 6.6 million barrels. The Acquired Assets include land, receiving infrastructure, machinery, pumps and piping and large liquid asphalt cement storage tanks. We will acquire the terminalling and storage assets associated with the terminals other than equipment used exclusively for processing operations, which our Parent will retain. Our Parent will also retain certain leased terminals that are used for storage as well as processing of liquid asphalt cement and finished asphalt products. We will grant our Parent access to facilities used for both terminalling and storage of liquid asphalt cement and processing of finished asphalt products pursuant to the Access and Use Agreement.

The closing of the acquisition of the Acquired Assets is subject to the satisfaction of a number of conditions, including our ability to obtain satisfactory financing. At the closing of this offering, the following transactions will occur:

- we will issue 6,000,000 common units to the public, representing a 17.8% limited partner interest in us;

- we will receive a $2.9 million capital contribution by our general partner to maintain its 2.0% general partner interest in us;

- we will borrow approximately $241.2 million under our amended credit facility; and

- we will use the net proceeds from this offering, together with our general partner s capital contribution and borrowings under our amended credit facility, to pay expenses associated with this offering and our amended credit facility and to pay consideration of approximately $378.8 million to our parent to purchase the Acquired Assets.

Our results of operations presented below do not include the results of operations related to the Acquired Assets.

The Acquired Assets have historically been a part of the integrated operations of our Parent and were not separately managed in the manner we will operate them. Previously, the Acquired Assets were managed as a part of our Parent s asphalt commodity marketing business and our Parent did not record revenues associated with terminalling and storage services provided on an intercompany basis. We will focus exclusively on using the Acquired Assets to provide asphalt terminalling and storage services to earn fee-based revenues.

For accounting purposes, the acquisition will be reflected as a purchase of assets, with the Acquired Assets recorded at the historical cost of our Parent, which as of September 30, 2007 was approximately $130 million.

Terminalling Agreement

In connection with the acquisition of the Acquired Assets, we will enter into the Terminalling Agreement with our Parent. A substantial portion of our revenues received pursuant to the Terminalling Agreement will be derived from services provided to the finished asphalt product processing and marketing operations of our Parent pursuant to this agreement. Under this agreement, we will provide the following services to our Parent:

- *Terminalling and Storage Services*. We will provide services relating to the receipt and storage of liquid asphalt cement for our Parent at the Acquired Assets. We will also provide services to deliver liquid asphalt cement into the processing and marketing assets owned by our Parent. Our storage services will enable our Parent to purchase and store liquid asphalt cement and sell it at later dates.

- *Minimum Throughput and Storage Requirements*. Under the Terminalling Agreement, the terminalling services will be subject to minimum throughput requirements each month, regardless of the amount of such services actually used by our Parent in a given month. If our Parent uses these services in excess of the minimum throughput requirements, our Parent will pay us a premium for such services. In addition, our Parent will commit to use 5 million barrels of our total liquid asphalt cement storage capacity. Our Parent will be obligated, regardless of the amount of storage services actually used by our Parent in a given month, to pay us a fee per barrel for the first 5 million barrels of our liquid asphalt cement storage capacity. If our Parent utilizes any of these storage services in excess of these minimum storage requirements, our Parent will pay us a fee for such services equal to at least 110% of the per barrel base charge for the applicable services. However, we will be permitted to contract with other customers for services in excess of these minimum commitments and we will not be obligated to provide any services in excess of the minimum requirements to our Parent.

Based on these minimum throughput and storage requirements, our Parent is obligated to pay us minimum monthly fees totaling $58.9 million annually for our liquid asphalt cement terminalling and storage services.

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We will not take title to, or marketing responsibility for, the liquid asphalt cement that we terminal and store. The Terminalling Agreement contains a Consumer Price Index adjustment that may offset a portion of any increased costs that we incur. If new laws or regulations that affect these services generally are enacted that require us to make substantial and unanticipated capital expenditures, we will have the right to negotiate an upfront payment or monthly surcharge to be paid by our Parent for the use of our services to cover our Parent s pro rata portion of the cost of complying with these laws or regulations, after we have made efforts to mitigate their effect. We and our Parent are obligated to negotiate in good faith to agree on the level of the monthly surcharge. The surcharge will not apply in respect of routine capital expenditures.

Our Parent s obligations may be temporarily suspended during the occurrence of a force majeure event that renders performance of services impossible with respect to an asset for at least 30 consecutive days. If a force majeure event results in a diminution in the services we are able to provide to our Parent pursuant to the Terminalling Agreement, our Parent s minimum service usage commitment would be reduced proportionately for the duration of the force majeure event. If such a force majeure event continues for twelve consecutive months or more, we and our Parent will each have the right to terminate our rights and obligations with respect to the affected services under the Terminalling Agreement.

The Terminalling Agreement has an initial term that expires on December 31, 2014, with additional automatic one-year renewals unless either party terminates the agreement upon one year s prior notice. The Terminalling Agreement may be assigned by our Parent only with our consent.

The Terminalling Agreement does not apply to any services we provide to customers other than our Parent.

Results of Operations

The following table and discussion is a summary of our results of operations for each of the years ended December 31, 2004, 2005 and 2006 and the nine months ended September 30, 2006 and 2007:

	Year Ended December 31,			Nine Months Ended September 30,	
	2004	**2005**	**2006**	**2006**	**2007**
	(dollars in thousands)				
Service revenues	$ 15,857	$ 20,361	$ 28,839	$ 20,431	$ 44,378
Operating expenses	30,996	38,467	51,608	38,239	50,110
General and administrative expenses	7,570	6,280	11,097	8,158	11,015
Operating loss	(22,709)	(24,386)	(33,866)	(25,966)	(16,747)
Interest expense	1,973	2,597	1,989	1,581	3,369
Income tax expense					62
Net loss	$ (24,682)	$ (26,983)	$ (35,855)	$ (27,547)	$ (20,178)

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Service revenues. Service revenues were $44.4 million for the nine months ended September 30, 2007 compared to $20.4 million for the nine months ended September 30, 2006, an increase of $24.0 million, or 117%. Terminalling and storage revenues increased by $9.3 million to $15.1 million for the nine months ended September 30, 2007 compared to $5.8 million for the nine months ended September 30, 2006, primarily due to revenues generated under the Throughput Agreement subsequent to the closing of our initial public offering. Our predecessor historically did not account for these services which were provided on an intercompany basis.

Our gathering and transportation services revenue increased by $14.6 million to $29.3 million for nine months ended September 30, 2007 compared to $14.7 million for the nine months ended September 30, 2006, primarily due to revenues generated under the Throughput Agreement subsequent to the closing of our initial public offering. Our predecessor historically did not account for these services which were provided on an intercompany basis.

Operating expenses. Operating expenses include salary and wage expenses and related taxes and depreciation and amortization expenses. Operating expenses increased by $11.9 million, or 31%, to $50.1 million for the nine months ended September 30, 2007 compared to $38.2 million for the nine months ended September 30, 2006. Approximately $4.5 million of this increase in operating expenses was due to our acquisition of Big Tex Crude Oil Company (Big Tex) on June 30, 2006. Included in operating expenses for the nine months ended September 30, 2007 is $1.6 million in costs associated with the clean up of a crude oil leak that occurred in the nine months ended September 30, 2007 in relation to a thirty-five mile pipeline located in Conroe, Texas. This gathering line was sold by our Parent on April 30, 2007, and our Parent has assumed any future obligations associated with the aforementioned leak. Excluding the impact of the acquisition of Big Tex, our repair and maintenance expenses increased by $1.7 million to $4.6 million for the nine months ended September 30, 2007 compared to $2.9 million for the nine months ended September 30, 2006. The increase in repair and maintenance expenses was due primarily to the timing of routine maintenance in our gathering and transportation segment.

In addition, excluding the impact of the acquisition of Big Tex, our fuel expenses increased by $1.6 million to $6.5 million for the nine months ended September 30, 2007 compared to $4.9 million for the nine months ended September 30, 2006. The increase in our fuel costs is attributable to the increase in number of transport trucks we operated for the respective periods, the rising price of diesel fuel during the comparative periods and a fire at a refinery located in western Texas that resulted in our transporting 0.7 million barrels of crude oil to alternative locations which were a greater distance from the barrels respective points of origination than the refinery that normally receives those barrels. The Throughput Agreement provides for a fuel surcharge, which offsets increases in fuel expenses related to rising diesel prices. Compensation expense increased by $2.4 million to $16.9 million for the nine months ended September 30, 2007 compared to $14.5 million for the nine months ended September 30, 2006 primarily as a result of growth in our gathering and transportation segment. Furthermore, as a result of the growth in our property and equipment during this period, including the acquisition of Big Tex, our insurance premiums increased by $0.8 million to $1.5 million for the nine months ended September 30, 2007 compared to $0.7 million for the nine months ended September 30, 2006.

General and administrative expenses. General and administrative expenses increased by $2.8 million, or 34%, to $11.0 million for the nine months ended September 30, 2007 compared to $8.2 million for the nine months ended September 30, 2006. The increase was primarily the result of growth in our business, and was comprised of a $1.1 million increase in compensation expenses (including $0.5 million recognized during the third quarter of 2007 under our long-term incentive plan, which did not exist in 2006), a $1.1 million increase in costs allocated to us from our Parent, and a $0.8 million increase in outside professional service costs.

Interest expense. Interest expense represents interest on capital lease obligations and long-term borrowings under our revolving credit facility. Interest expense increased by $1.8 million to $3.4 million for the nine months ended September 30, 2007 compared to $1.6 million for the nine months ended September 30, 2006. The increase was primarily due to an increase in the average long-term borrowings during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, which accounted for approximately $1.2 million of the total increase in interest expense, and is a reflection of borrowings under our new revolving credit facility. In addition, during the third quarter of 2007, we entered into two interest rate swap agreements, the fair value accounting for which resulted in $0.6 million in interest expense for the nine months ended September 30, 2007.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Service revenues. Service revenues were $28.8 million for the year ended December 31, 2006 compared to $20.4 million for the year ended December 31, 2005, an increase of $8.4 million, or 41%. Service revenues include revenues from terminalling and storage services and gathering and transportation services. Terminalling and storage revenues increased by $5.1 million to $9.1 million for the year ended December 31, 2006 compared to $4.0 million for the year ended December 31, 2005, primarily due to favorable market conditions whereby

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crude oil was in significant contango (current market prices are less than future prices) during 2006 thus increasing demand for storage services. This increase in terminalling and storage revenue was further impacted by a 0.9 million barrel increase in our crude oil storage capacity during the same period. In addition, the acquisition of Big Tex on June 30, 2006 resulted in an increase in gathering and transportation revenues of $2.0 million for the year ended December 31, 2006, which was partially offset by a decrease in other gathering and transportation revenues of $0.4 million. Our gathering and transportation services revenue also includes revenues from producer field services. Producer field service revenue increased by $1.3 million to $12.1 million for the year ended December 31, 2006 compared to $10.8 million for the year ended December 31, 2005.

Operating expenses. Operating expenses increased by $13.1 million, or 34%, to $51.6 million for the year ended December 31, 2006 compared to $38.5 million for the year ended December 31, 2005. Approximately $5.9 million of this increase in operating expenses was due to our acquisition of Big Tex on June 30, 2006 and rising fuel costs associated with our transportation operations. Additionally, exclusive of the impact of the Big Tex acquisition, compensation expense increased by $2.5 million during this period. Depreciation and amortization expense increased by $2.0 million to $8.6 million for the year ended December 31, 2006 compared to $6.6 million for the year ended December 31, 2005, primarily as a result of capital expenditures in our terminalling and storage segment and as a result of our acquisition of Big Tex. Furthermore, as a result of the growth in our property and equipment during this period, repair and maintenance expense increased by $0.9 million and insurance premiums increased by $0.9 million.

General and administrative expenses. General and administrative expenses increased by $4.8 million, or 76%, to $11.1 million for the year ended December 31, 2006 compared to $6.3 million for the year ended December 31, 2005. The increase was primarily the result of the growth in our business and was comprised of a $2.2 million increase in discretionary incentive compensation, a $1.3 million increase in costs allocated to us from our Parent, and a $1.2 million increase comprised of travel expense, legal expense, insurance premiums and rent expense for our facilities.

Interest expense. Interest expense represents interest on capital lease obligations and debt payable to our Parent. Interest expense was $2.0 million for the year ended December 31, 2006 compared to $2.6 million for the year ended December 31, 2005, a decrease of $0.6 million, or 23%. This decrease was the result of capitalized interest, which increased by $0.7 million to $1.1 million in 2006 as a result of an increase in the amount of assets under construction.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Service revenues. Service revenues were $20.4 million for the year ended December 31, 2005 compared to $15.9 million for the year ended December 31, 2004, an increase of $4.5 million, or 28%. Terminalling and storage revenues increased by $1.4 million to $4.0 million for 2005 compared to $2.6 million for 2004. This increase was primarily due to favorable market conditions whereby crude oil was in significant contango during 2005 thus increasing demand for storage services. This increase in terminalling and storage revenue was further impacted by a 2.7 million barrel increase in our crude oil storage capacity during the same period. Gathering and transportation revenues increased from $13.3 million in 2004 to $16.4 million in 2005 primarily as a result of an increase in the volumes of crude oil we were able to transport for our customers due to an increase in our trucking fleet. Included in gathering and transportation revenues are producer field service revenues, which increased to $9.2 million for 2005, a $2.0 million increase over 2004, primarily as a result of an increase in salt water disposal services we provided to our customers.

Operating expenses. Operating expenses increased by $7.5 million, or 24%, to $38.5 million for the year ended December 31, 2005 compared to $31.0 million for the year ended December 31, 2004. Included in the total increase in operating expenses during this period are increases in compensation expense of $3.0 million, repair and maintenance expense of $2.2 million, fuel expense of $1.6 million and property and other taxes of $0.4 million. These increases were primarily due to the increase in volumes of crude oil stored and transported for our customers as well as the expansion of our producer field services operations.

General and administrative expenses. General and administrative expenses decreased by $1.3 million, or 17%, to $6.3 million for the year ended December 31, 2005 compared to $7.6 million for the year ended December 31, 2004. The decrease was primarily due to acquisitions completed by our Parent in 2005 that were not part of our operations, which decreased the amount of indirect general and administrative expenses allocated to us for management, accounting and other services.

Interest expense. Interest expense was $2.6 million for the year ended December 31, 2005 compared to $2.0 million for the year ended December 31, 2004, an increase of $0.6 million, or 30%. This increase was the result of rising interest rates during the period, with $0.5 million of the total increase related to interest charges on the debt payable to our Parent.

Effects of Inflation

In recent years, inflation has been modest and has not had a material impact upon the results of our operations.

Liquidity and Capital Resources

Our Predecessor s Liquidity and Capital Resources

Cash generated from operations and borrowings under our credit facility are the primary sources of our liquidity. Historically, our predecessor s sources of liquidity included cash generated from operations and funding from our Parent. The following table summarizes our sources and uses of cash for the years ended December 31, 2004, 2005 and 2006 and for the nine months ended September 30, 2006 and 2007.

	Year Ended December 31,			Nine Months Ended September 30,	
	2004	2005	2006	2006	2007
	(dollars in millions)				
Net cash used in operating activities	$ (17.9)	$ (18.8)	$ (25.8)	$ (19.7)	$ (11.7)
Net cash used in investing activities	(8.1)	(14.9)	(41.3)	(36.1)	(18.6)
Net cash provided by financing activities	26.0	33.8	67.1	55.8	31.4

Operating Activities. Net cash used in operating activities decreased by $8.1 million, or 41%, for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 primarily due to a $7.4 million increase in our net loss for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. Net cash used in operating activities increased $7.0 million, or 37%, for the year ended December 31, 2006 as compared to the year ended December 31, 2005 primarily as a result of the $8.9 million increase in our net loss for the year ended December 31, 2006 compared to the year ended December 31, 2005. Net cash used in operating activities increased $0.9 million, or 5%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004 primarily due to a $2.3 million increase in our net loss for the year ended December 31, 2005 compared to the year ended December 31, 2004. The impact of the increase in our net loss for the year ended December 31, 2005 compared to the year ended December 31, 2004 on cash used in operating activities was partially offset by a $0.5 million increase in the change in assets and liabilities during these same periods. Our results of operations, including cash flow from operations, may not be comparable to the historical results of operations of our predecessor because the Crude Oil Business had historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenues associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis.

Investing Activities. Net cash used in investing activities was $18.6 million for the nine months ended September 30, 2007 compared to $36.1 million for the nine months ended September 30, 2006. This decrease was attributable to a reduction in capital expenditures primarily resulting from the timing of construction projects in our terminalling and storage segment. Net cash used in investing activities was $41.3 million for the year

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ended December 31, 2006 as compared to $14.9 million for the year ended December 31, 2005 and $8.1 million for the year ended December 31, 2004. Capital expenditures for the nine months ended September 30, 2007 and 2006 and for the years ended December 31, 2006, 2005 and 2004 were $19.0 million, $36.2 million, $41.5 million, $15.0 million and $8.4 million, respectively, consisting of both our acquisition of Big Tex on June 30, 2006 and expenditures for the construction of additional crude oil storage capacity during these periods. We added 0.4 million additional barrels of crude oil storage capacity in the nine months ended September 30, 2007, and 2.3 million and 1.2 million additional barrels of crude oil storage capacity in the years ended December 31, 2006 and 2005, respectively.

Financing Activities. Net cash provided by financing activities is primarily comprised of capital contributions of $39.8 million, $57.4 million, $69.2 million, $35.6 million and $27.4 million received by us from our Parent during the nine months ended September 30, 2007 and 2006 and the years ended December 31, 2006, 2005 and 2004, respectively. The capital contributions served to fund our working capital needs and both maintenance and expansion capital expenditure projects that are reflected in net cash used in investing activities. Other significant items included in cash provided by financing activities for the nine months ended September 30, 2007 are net borrowings under our credit facility of $92.5 million, Parent s forgiveness of our predecessor s $31.2 million note payable to our Parent and cash distributions of $136.5 million to SemGroup Holdings, L.P.

Our Liquidity and Capital Resources

Cash flow from operations and our credit facility are our primary sources of liquidity. At September 30, 2007, we had approximately $157.5 million of availability under our revolving credit facility. Our working capital increased approximately $1.7 million in the first nine months of 2007. We believe that cash generated from these sources will continue to be sufficient to meet our short-term working capital requirements, long-term capital expenditure requirements and quarterly cash distributions. Usage of our revolving credit facility is subject to ongoing compliance with covenants. We believe we are currently in compliance with all covenants.

Capital Requirements. Our Crude Oil Business is capital intensive, requiring significant investment to maintain and upgrade existing operations. Our capital requirements consist of the following:

sustaining capital expenditures, which are capital expenditures made to sustain the existing integrity and operating capacity of our assets and related cash flows further extending the useful lives of the assets; and