

NuStar Energy L.P.
Form 10-Q
May 07, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 1-16417

NUSTAR ENERGY L.P.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

74-2956831
(I.R.S. Employer

Identification No.)

2330 North Loop 1604 West

San Antonio, Texas

(Address of principal executive offices)

78248

(Zip Code)

Telephone number: (210) 918-2000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of common units outstanding as of May 1, 2009 was 54,460,549.

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	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,866	\$ 45,375
Accounts receivable, net of allowance for doubtful accounts of \$1,167 and \$1,174 as of March 31, 2009 and December 31, 2008, respectively	156,206	178,216
Inventories	338,294	220,574
Other current assets	51,884	42,321
Total current assets	559,250	486,486
Property, plant and equipment, at cost	3,521,295	3,507,573
Accumulated depreciation and amortization	(597,330)	(565,749)
Property, plant and equipment, net	2,923,965	2,941,824
Intangible assets, net	49,772	51,704
Goodwill	808,261	806,330
Investment in joint venture	69,626	68,813
Deferred income tax asset	9,668	12,427
Other long-term assets, net	84,586	92,013
Total assets	\$ 4,505,128	\$ 4,459,597
Liabilities and Partners Equity		
Current liabilities:		
Current portion of long-term debt	\$ 713	\$ 713
Accounts payable	202,016	145,963
Payable to related party	5,638	3,441
Notes payable	20,533	22,120
Accrued interest payable	22,074	22,496
Accrued liabilities	27,582	37,454
Taxes other than income taxes	16,046	15,333
Income taxes payable	2,836	4,504
Total current liabilities	297,438	252,024
Long-term debt, less current portion	1,902,964	1,872,015
Long-term payable to related party	6,629	6,645
Deferred income tax liability	26,811	27,370
Other long-term liabilities	96,772	94,546

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Commitments and contingencies (Note 5)

Partners' equity:		
Limited partners (54,460,549 common units outstanding as of March 31, 2009 and December 31, 2008)	2,147,648	2,173,462
General partner	47,132	47,801
Accumulated other comprehensive loss	(20,266)	(14,266)
Total partners' equity	2,174,514	2,206,997
Total liabilities and partners' equity	\$ 4,505,128	\$ 4,459,597

See Condensed Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2009	2008
Revenues:		
Service revenues	\$ 182,652	\$ 180,116
Product sales	451,352	412,658
Total revenues	634,004	592,774
Costs and expenses:		
Cost of product sales	416,795	393,009
Operating expenses:		
Third parties	72,562	64,129
Related party	30,760	24,321
Total operating expenses	103,322	88,450
General and administrative expenses:		
Third parties	7,596	6,261
Related party	14,868	9,822
Total general and administrative expenses	22,464	16,083
Depreciation and amortization expense	35,989	30,046
Total costs and expenses	578,570	527,588
Operating income	55,434	65,186
Equity earnings from joint ventures	2,313	2,201
Interest expense, net	(20,470)	(16,865)
Other income, net	8,604	9,909
Income before income tax expense	45,881	60,431
Income tax expense	6,526	4,562
Net income	\$ 39,355	\$ 55,869
Net income per unit applicable to limited partners (Note 10)	\$ 0.58	\$ 1.01
Weighted average limited partner units outstanding	54,460,549	49,409,749

See Condensed Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, Thousands of Dollars)

	Three Months Ended March 31,	
	2009	2008
Cash Flows from Operating Activities:		
Net income	\$ 39,355	\$ 55,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	35,989	30,046
Amortization of debt related items	(1,707)	(1,586)
Gain on sale or disposition of assets	(28)	(4,250)
Provision for deferred income taxes	2,967	585
Equity earnings from joint ventures	(2,313)	(2,201)
Distributions of equity earnings from joint ventures	1,500	500
Changes in current assets and current liabilities (Note 11)	(53,600)	(83,382)
Other, net	124	1,596
Net cash provided by (used in) operating activities	22,287	(2,823)
Cash Flows from Investing Activities:		
Reliability capital expenditures	(5,942)	(7,704)
Strategic and other capital expenditures	(22,364)	(32,782)
Acquisition of East Coast Asphalt Operations		(655,962)
Proceeds from sale or disposition of assets	114	4,360
Proceeds from insurance settlement	8,109	
Other, net		24
Net cash used in investing activities	(20,083)	(692,064)
Cash Flows from Financing Activities:		
Proceeds from long-term debt borrowings	158,778	1,207,849
Proceeds from short-term debt borrowings	42,200	218,000
Long-term debt repayments	(115,390)	(645,000)
Short-term debt repayments	(43,787)	(40,257)
Distributions to unitholders and general partner	(65,838)	(54,956)
Decrease in cash book overdrafts	(9,114)	(3,433)
Other, net		(50)
Net cash (used in) provided by financing activities	(33,151)	682,153
Effect of foreign exchange rate changes on cash	(1,562)	(1,886)
Net decrease in cash and cash equivalents	(32,509)	(14,620)
Cash and cash equivalents as of the beginning of the period	45,375	89,838
Cash and cash equivalents as of end of the period	\$ 12,866	\$ 75,218

See Condensed Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, OPERATIONS AND ACCOUNTING PRONOUNCEMENTS

Organization

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia and asphalt and fuels marketing. Unless otherwise indicated, the terms NuStar Energy, the Partnership, we, our and us are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) wholly owns our general partner, Riverwalk Logistics, L.P., and owns a 20.4% total interest in us.

These unaudited consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation. Investments in 50% or less owned entities are accounted for using the equity method of accounting.

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and all disclosures made are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three months ended March 31, 2009 and 2008 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements as of that date. You should read these consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Operations

We conduct our operations through our wholly owned subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP) We have three business segments: storage, transportation and asphalt and fuels marketing.

New Accounting Pronouncements

FASB Staff Position FAS 141R-1. In April 2009, the Financial Accounting Standards Board (FASB) issued Staff Position FAS 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141R-1). FSP FAS 141R-1 amends FASB Statement No. 141R, *Business Combinations*, and requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value on the acquisition date if fair value can be determined. If fair value cannot be determined, the acquired contingencies should be accounted for under FASB Statement No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*. FSP FAS 141R-1 also amends the accounting for contingent consideration arrangements and the disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141R-1 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted FSP FAS141R-1 effective January 1, 2009.

FASB Staff Position FAS 107-1 and APB 28-1. In April 2009, the FASB issued Staff Position FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1). FSP FAS 107-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* and APB Opinion No. 28, *Interim Financial Reporting* to require disclosures of the fair value of financial instruments in annual and interim financial statements. The fair value of all financial instruments, whether or not recognized at fair value in the balance sheet, should be disclosed, along with the related carrying value and methods and significant assumptions used to estimate the fair value. Retrospective application for comparative periods presented is not required. FSP FAS 107-1 is effective for interim periods ending after June 15, 2009. Accordingly, we will not adopt the provision of FSP FAS

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107-1 until the quarter ending June 30, 2009, and we do not expect FSP FAS 107-1 to have a material impact on our disclosures.

2. ACQUISITIONS***CITGO Asphalt Refining Company Asphalt Operations and Assets***

On March 20, 2008, we acquired CITGO Asphalt Refining Company's asphalt operations and assets (the East Coast Asphalt Operations) for approximately \$840.4 million.

The acquisition of the East Coast Asphalt Operations was accounted for using the purchase method. The purchase price has been allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition. The purchase price and final purchase price allocation were as follows (in thousands):

Cash paid for the East Coast Asphalt Operations	\$ 801,686
Transaction costs	1,498
Total cash paid	803,184
Fair value of liabilities assumed	37,238
Purchase price	\$ 840,422
Inventories	\$ 327,312
Other current assets	1,439
Property, plant and equipment	450,310
Goodwill	22,132
Intangible assets	11,510
Other long-term assets	27,719
Purchase price allocation	\$ 840,422

3. INVENTORIES

Inventories consisted of the following:

	March 31, 2009	December 31, 2008
	(Thousands of Dollars)	
Crude oil	\$ 74,801	\$ 14,912
Finished products	263,493	205,662
Total	\$ 338,294	\$ 220,574

4. LONG-TERM DEBT

Revolving Credit Agreement

During the three months ended March 31, 2009, we borrowed an aggregate \$155.6 million under our five-year revol