

NuStar Energy L.P.  
Form 10-Q  
November 07, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2011

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

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NUSTAR ENERGY L.P.

(Exact name of registrant as specified in its charter)

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Delaware

74-2956831

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2330 North Loop 1604 West

78248

San Antonio, Texas

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (210) 918-2000

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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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 October 31, 2011 was 64,718,578.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars, Except Unit Data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$59,214	\$181,121
Accounts receivable, net of allowance for doubtful accounts of \$1,742 and \$1,457 as of September 30, 2011 and December 31, 2010, respectively	467,912	302,053
Inventories	603,683	413,537
Other current assets	69,101	42,796
Total current assets	1,199,910	939,507
Property, plant and equipment, at cost	4,328,975	4,021,319
Accumulated depreciation and amortization	(943,539)	(833,862)
Property, plant and equipment, net	3,385,436	3,187,457
Intangible assets, net	42,499	43,033
Goodwill	846,526	813,270
Investment in joint venture	67,203	69,603
Deferred income tax asset	9,671	8,138
Other long-term assets, net	296,903	325,385
Total assets	\$5,848,148	\$5,386,393
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	\$355,645	\$832
Accounts payable	461,038	282,382
Payable to related party	12,369	10,345
Accrued interest payable	23,615	29,706
Accrued liabilities	110,934	57,953
Taxes other than income tax	16,499	10,718
Income tax payable	2,959	1,293
Total current liabilities	983,059	393,229
Long-term debt, less current portion	2,170,010	2,136,248
Long-term payable to related party	11,871	10,088
Deferred income tax liability	35,917	29,565
Other long-term liabilities	122,242	114,563
Commitments and contingencies (Note 5)		
Partners' equity:		
Limited partners (64,670,520 and 64,610,549 common units outstanding as of September 30, 2011 and December 31, 2010, respectively)	2,553,995	2,598,873
General partner	56,284	57,327
Accumulated other comprehensive (loss) income	(97,912)	46,500
Total NuStar Energy L.P. partners' equity	2,512,367	2,702,700

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Noncontrolling interest	12,682	—
Total partners' equity	2,525,049	2,702,700
Total liabilities and partners' equity	\$5,848,148	\$5,386,393

See Condensed Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

	Three Months Ended September		Nine Months Ended September	
	30,	2010	30,	2010
2011			2011	
Revenues:				
Service revenues:				
Third parties	\$210,395	\$201,390	\$607,866	\$585,772
Related party	286	—	823	—
Total service revenues	210,681	201,390	608,689	585,772
Product sales	1,613,669	936,989	4,039,461	2,623,077
Total revenues	1,824,350	1,138,379	4,648,150	3,208,849
Costs and expenses:				
Cost of product sales	1,535,609	860,942	3,797,424	2,422,751
Operating expenses:				
Third parties	98,464	86,104	281,419	259,465
Related party	37,151	35,644	109,061	103,563
Total operating expenses	135,615	121,748	390,480	363,028
General and administrative expenses:				
Third parties	8,746	9,727	27,865	28,633
Related party	8,985	17,133	41,968	47,691
Total general and administrative expenses	17,731	26,860	69,833	76,324
Depreciation and amortization expense	42,418	38,539	124,354	114,653
Total costs and expenses	1,731,373	1,048,089	4,382,091	2,976,756
Operating income	92,977	90,290	266,059	232,093
Equity in earnings of joint venture	2,599	2,454	6,997	7,571
Interest expense, net	(21,565)	(20,583)	(62,644)	(58,059)
Other income (expense), net	767	(235)	(5,699)	14,882
Income before income tax expense	74,778	71,926	204,713	196,487
Income tax expense	4,497	3,616	13,311	9,052
Net income	70,281	68,310	191,402	187,435
Less net income attributable to noncontrolling interest	123	—	143	—
Net income attributable to NuStar Energy L.P.	\$70,158	\$68,310	\$191,259	\$187,435
Net income per unit applicable to limited partners (Note 11)	\$0.92	\$0.90	\$2.49	\$2.55
Weighted-average limited partner units outstanding	64,612,423	64,610,549	64,611,181	62,386,373
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)

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 191,402	\$ 187,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	124,354	114,653
Amortization of debt related items	(8,328)	) (5,812)
Gain on sale or disposition of assets, including insurance recoveries	(117)	) (12,926)
Deferred income tax expense (benefit)	4,130	(1,932)
Equity in earnings of joint venture	(6,997)	) (7,571)
Distributions of equity in earnings of joint venture	9,397	7,500
Changes in current assets and current liabilities (Note 12)	(216,427)	) (99,815)
Other, net	4,457	(699)
Net cash provided by operating activities	101,871	180,833
Cash Flows from Investing Activities:		
Reliability capital expenditures	(32,808)	) (34,927)
Strategic capital expenditures	(211,150)	) (156,531)
Acquisitions	(100,693)	) (43,026)
Proceeds from insurance recoveries	—	13,500
Investment in other long-term assets	(8,449)	) (3,400)
Proceeds from sale or disposition of assets	445	1,992
Net cash used in investing activities	(352,655)	) (222,392)
Cash Flows from Financing Activities:		
Proceeds from long-term debt borrowings	707,102	775,434
Proceeds from short-term debt borrowings	31,600	177,041
Proceeds from senior note offering, net of issuance costs	—	445,574
Long-term debt repayments	(348,153)	) (1,146,183)
Short-term debt repayments	(31,600)	) (197,041)
Proceeds from issuance of common units, net of issuance costs	1,583	240,158
Contributions from general partner	70	5,078
Distributions to unitholders and general partner	(240,571)	) (225,538)
Proceeds from termination of interest rate swaps	12,632	—
Other, net	(785)	) (8,746)
Net cash provided by financing activities	131,878	65,777
Effect of foreign exchange rate changes on cash	(3,001)	) (358)
Net (decrease) increase in cash and cash equivalents	(121,907)	) 23,860
Cash and cash equivalents as of the beginning of the period	181,121	62,006
Cash and cash equivalents as of the end of the period	\$ 59,214	\$ 85,866
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 AND BASIS OF PRESENTATION

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 petroleum refining and 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) owns our general partner, Riverwalk Logistics, L.P., and owns a 17.6% total interest in us as of September 30, 2011.

We conduct our operations through our 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.

Basis of Presentation

These unaudited consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Noncontrolling interests are separately disclosed on the consolidated balance sheets and consolidated statements of income. Intercompany balances and transactions have been eliminated in consolidation. We account for investments in 50% or less-owned entities using the equity method.

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 the Quarterly Report on 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 are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and nine months ended September 30, 2011 and 2010 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Reclassifications

Certain previously reported amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

Acquisitions

On April 19, 2011, we purchased certain refining and storage assets, inventory and other working capital items from AGE Refining, Inc. for \$62.0 million, including the assumption of certain environmental liabilities. The assets consist of a 14,500 barrel per day refinery in San Antonio, Texas (the San Antonio Refinery) and 200,000 barrels of storage capacity in Elmhurst, Texas. The purchase price has been preliminarily allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition, pending completion of an independent appraisal and other evaluations. The consolidated statements of income include the results of operations for our acquisition of the San Antonio Refinery and related storage assets commencing on April 19, 2011.



On February 9, 2011, we acquired 75% of the outstanding capital of a Turkish company, which owns two terminals in Mersin, Turkey, with an aggregate 1.3 million barrels of storage capacity, for approximately \$57.3 million (the Turkey Acquisition). Both terminals are connected via pipelines to an offshore platform located approximately three miles off the Mediterranean Sea coast. The purchase price has been preliminarily allocated based on the estimated fair values of the individual assets acquired, liabilities assumed and noncontrolling interest at the date of acquisition. The purchase price allocation is pending completion of an independent appraisal and other evaluations. The consolidated statements of income include the results of operations for the Turkey Acquisition commencing on February 9, 2011, with 25% accounted for as a noncontrolling interest.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2. NEW ACCOUNTING PRONOUNCEMENTS

Goodwill Impairment

In September 2011, the Financial Accounting Standards Board (FASB) amended the goodwill impairment guidance to simplify testing goodwill for impairment. The amended guidance provides entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. We are evaluating whether to adopt the amended guidance for the 2011 goodwill impairment test performed in the fourth quarter, but we do not expect the amended guidance to have a material impact on our financial position or results of operations.

Other Comprehensive Income

In June 2011, the FASB amended the disclosure requirements for the presentation of comprehensive income. The amended requirements eliminate the option to present components of other comprehensive income (OCI) as part of the statement of changes in equity. Under the amended requirements, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. In addition, entities will be required to disclose reclassification adjustments between other comprehensive income and net income separately on the face of the financial statements. The changes are effective for fiscal years and interim periods beginning after December 15, 2011, and retrospective application is required. Accordingly, we will adopt these provisions January 1, 2012. These amendments only affect financial statement presentation and will not have an impact on our financial position or results of operations.

Fair Value Measurements

In May 2011, the FASB issued amended guidance and disclosure requirements for fair value measurements. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards. These changes are effective for interim and annual periods beginning on or after December 15, 2011, and early adoption is not permitted. Accordingly, we will adopt these provisions January 1, 2012, and we do not expect the amended guidance to have a material impact on our financial position, results of operations or disclosures.

3. INVENTORIES

Inventories consisted of the following:

September 30, 2011	December 31, 2010
(Thousands of Dollars)	