Buckeye GP Holdings L.P.
Form 10-Q
August 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

OR

o **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 1-32963
Buckeye GP Holdings L.P.
(Exact name of registrant as specified in its charter)

Delaware	**11-3776228**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification number)
One Greenway Plaza Suite 600 Houston, TX	**77046**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (832) 615-8600

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

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 o No o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 3, 2010, there were 27,774,016 Common Units and 525,984 Management Units outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

BUCKEYE GP HOLDINGS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per unit amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues:				
Product sales	$ 501,744	$ 201,777	$ 1,069,914	$ 470,556
Transportation and other services	165,532	149,443	328,536	297,504
Total revenue	667,276	351,220	1,398,450	768,060
Costs and expenses:				
Cost of product sales and natural gas storage services	498,645	193,440	1,068,382	444,116
Operating expenses	68,769	68,842	135,352	142,742
Depreciation and amortization	14,669	13,559	29,197	26,923
Asset impairment expense		72,540		72,540
General and administrative	13,254	10,158	24,089	20,193
Reorganization expense		28,113		28,113
Total costs and expenses	595,337	386,652	1,257,020	734,627
Operating income (loss)	71,939	(35,432)	141,430	33,433
Other income (expense):				
Investment income	85	142	240	294
Interest and debt expense	(21,350)	(16,236)	(43,006)	(33,639)
Total other expense	(21,265)	(16,094)	(42,766)	(33,345)
Income (loss) before earnings from equity investments	50,674	(51,526)	98,664	88
Earnings from equity investments	2,764	3,142	5,416	5,224
Net income (loss)	53,438	(48,384)	104,080	5,312
Less: net income (loss) attributable to noncontrolling interests	(41,931)	58,156	(81,303)	14,609
	$ 11,507	$ 9,772	$ 22,777	$ 19,921

Net income attributable to Buckeye GP Holdings L.P.								
Earnings per partnership unit:								
Basic	$	0.41	$	0.35	$	0.80	$	0.70
Diluted	$	0.41	$	0.35	$	0.80	$	0.70
Weighted average number of common units outstanding:								
Basic		28,300		28,300		28,300		28,300
Diluted		28,300		28,300		28,300		28,300

See Notes to Unaudited Condensed Consolidated Financial Statements.

BUCKEYE GP HOLDINGS L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except unit amounts)
(Unaudited)

	June 30, 2010	December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	$ 15,497	$ 37,574
Trade receivables, net	113,576	124,165
Construction and pipeline relocation receivables	11,626	14,095
Inventories	275,174	310,214
Derivative assets	10,093	4,959
Assets held for sale		22,000
Prepaid and other current assets	68,574	104,251
Total current assets	494,540	617,258
Property, plant and equipment, net	2,237,598	2,238,321
Equity investments	98,568	96,851
Goodwill	432,124	432,124
Intangible assets, net	42,931	45,157
Other non-current assets	38,118	56,860
Total assets	$ 3,343,879	$ 3,486,571
Liabilities and partners capital:		
Current liabilities:		
Line of credit	$ 194,179	$ 239,800
Current portion of long-term debt	4,599	6,178
Accounts payable	64,352	56,723
Derivative liabilities	367	14,665
Accrued and other current liabilities	127,091	113,474
Total current liabilities	390,588	430,840
Long-term debt	1,421,181	1,500,495
Other non-current liabilities	128,280	102,942
Total liabilities	1,940,049	2,034,277
Commitments and contingent liabilities		
Partners capital:		
Buckeye GP Holdings L.P. capital:		

General Partner (2,830 common units outstanding as of June 30, 2010 and December 31, 2009)	7	7
Limited Partners (27,771,186 common units outstanding as of June 30, 2010 and December 31, 2009)	234,257	236,545
Management (525,984 units outstanding as of June 30, 2010 and December 31, 2009)	3,182	3,225
Equity gains on issuance of Buckeye Partners, L.P. limited partner units	2,557	2,557
Total Buckeye GP Holdings L.P. capital	240,003	242,334
Noncontrolling interests	1,163,827	1,209,960
Total partners capital	1,403,830	1,452,294
Total liabilities and partners capital	$ 3,343,879	$ 3,486,571

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE GP HOLDINGS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 104,080	$ 5,312
Adjustments to reconcile net income to cash provided by operating activities:		
Value of ESOP shares released	2,271	380
Depreciation and amortization	29,197	26,923
Asset impairment expense		72,540
Net changes in fair value of derivatives	(12,901)	4,672
Non-cash deferred lease expense	2,117	2,250
Reorganization expense		28,113
Earnings from equity investments of Buckeye Partners, L.P.	(5,416)	(5,224)
Distributions from equity investments of Buckeye Partners, L.P.	3,700	2,827
Amortization of other non-cash items	5,060	3,170
Change in assets and liabilities:		
Trade receivables	10,589	(2,832)
Construction and pipeline relocation receivables	2,469	4,855
Inventories	28,065	(27,742)
Prepaid and other current assets	36,962	(17,692)
Accounts payable	7,629	5,236
Accrued and other current liabilities	11,058	(5,506)
Other non-current assets	3,370	(7,069)
Other non-current liabilities	3,701	9,424
Total adjustments from operating activities	127,871	94,325
Net cash provided by operating activities	231,951	99,637
Cash flows from investing activities:		
Capital expenditures	(27,572)	(39,819)
Contributions to equity investments		(3,880)
Net proceeds from disposal of property, plant and equipment	22,274	21
Net cash used in investing activities	(5,298)	(43,678)
Cash flows from financing activities:		
Net proceeds from issuance of Buckeye Partners, L.P. limited partner units		104,779
Proceeds from exercise of Buckeye Partners, L.P. unit options	2,976	38
Repayment of long-term debt	(3,104)	(3,162)
Borrowings under credit facility	95,000	77,333

Repayments under credit facility	(173,000)	(166,600)
Net (repayments) borrowings under BES credit agreement	(45,621)	3,000
Debt issuance costs	(3,227)	(18)
Costs associated with agreement and plan of merger	(1,547)	
Distributions paid to noncontrolling partners of Buckeye Partners, L.P.	(96,435)	(87,064)
Distributions paid to partners	(23,772)	(19,244)
Net cash used in financing activities	(248,730)	(90,938)
Net decrease in cash and cash equivalents	(22,077)	(34,979)
Cash and cash equivalents Beginning of period	37,574	61,281
Cash and cash equivalents End of period	$ 15,497	$ 26,302

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE GP HOLDINGS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL
(In thousands)
(Unaudited)

	Buckeye GP Holdings L.P. Unitholders					
	General Partner Common Units	Limited Partner Common Units	Management Units	Equity Gains on Issuance of Buckeye s Limited Partner Units	Noncontrolling Interests	Total
Balance January 1, 2009	$ 7	$ 226,565	$ 3,037	$ 2,451	$ 1,166,774	$ 1,398,834
Net income*		19,547	374		(14,609)	5,312
Distributions paid to partners		(18,883)	(361)			(19,244)
Recognition of unit-based compensation charges		718	16			734
Equity gains on issuance of Buckeye s limited partner units				106	(106)	
Net proceeds from issuance of 3.0 million of Buckeye s limited partner units					104,779	104,779
Amortization of Buckeye s limited partner unit options					477	477
Exercise of limited partner unit options					38	38
Services Company s non-cash ESOP distributions					(3,122)	(3,122)
Distributions paid to noncontrolling interests					(87,064)	(87,064)
Adjustment to funded status of benefit plans					7,971	7,971
Other					4,166	4,166
Balance June 30, 2009	$ 7	$ 227,947	$ 3,066	$ 2,557	$ 1,179,304	$ 1,412,881
Balance January 1, 2010	$ 7	$ 236,545	$ 3,225	$ 2,557	$ 1,209,960	$ 1,452,294

Net income*		22,350	427		81,303	104,080
Costs associated with agreement and plan of merger		(1,941)	(37)		(1,846)	(3,824)
Distributions paid to partners		(23,327)	(445)			(23,772)
Recognition of unit-based compensation charges		630	12			642
Amortization of Buckeye s limited partner unit options					3,596	3,596
Exercise of limited partner unit options					2,976	2,976
Services Company s non-cash ESOP distributions					(2,639)	(2,639)
Distributions paid to noncontrolling interests					(96,435)	(96,435)
Change in value of derivatives					(36,600)	(36,600)
Investment in Buckeye s limited partner units					4,503	4,503
Other					(991)	(991)
Balance June 30, 2010	$ 7	$ 234,257	$ 3,182	$ 2,557	$ 1,163,827	$ 1,403,830

* Comprehensive income equals net income.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BUCKEYE GP HOLDINGS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Except for per unit amounts, or as otherwise noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands.

1. ORGANIZATION AND BASIS OF PRESENTATION

Partnership Organization

Buckeye GP Holdings L.P. is a publicly traded Delaware master limited partnership (MLP), the common units (Common Units) of which are listed on the New York Stock Exchange (NYSE) under the ticker symbol BGH. We were organized on June 15, 2006 and own 100% of Buckeye GP LLC (Buckeye GP), which is the general partner of Buckeye Partners, L.P. (Buckeye). Buckeye is also a publicly traded Delaware MLP which was organized in 1986, and its limited partner units (LP Units) are separately traded on the NYSE under the ticker symbol BPL. Approximately 62% of our outstanding equity, which includes Common Units and management units (Management Units), are owned by BGH GP Holdings, LLC (BGH GP) and approximately 38% by the public. BGH GP is owned by affiliates of ArcLight Capital Partners, LLC (ArcLight), Kelso & Company (Kelso), and certain investment funds along with certain members of senior management of Buckeye GP. MainLine Management LLC, a Delaware limited liability company (MainLine Management), is our general partner and is wholly owned by BGH GP. As used in these Notes to Unaudited Condensed Consolidated Financial Statements, unless the context requires otherwise, references to *we*, *us*, *our* or "*BGH* are intended to mean the business and operations of Buckeye GP Holdings L.P. on a consolidate basis, including those of Buckeye. References to *Buckeye* mean Buckeye Partners, L.P. and its consolidated subsidiaries.

Our only business is the ownership of Buckeye GP. Buckeye GP s only business is the management of Buckeye and its subsidiaries. At June 30, 2010, Buckeye GP owned an approximate 0.5% general partner interest in Buckeye.

Buckeye owns and operates one of the largest independent refined petroleum products pipeline systems in the United States in terms of volumes delivered with approximately 5,400 miles of pipeline and 67 active products terminals that provide aggregate storage capacity of approximately 27.2 million barrels. In addition, Buckeye operates and maintains approximately 2,400 miles of other pipelines under agreements with major oil and gas, petrochemical and chemical companies, and performs certain engineering and construction management services for third parties. Buckeye also owns and operates a major natural gas storage facility in northern California, and is a wholesale distributor of refined petroleum products in the United States in areas also served by its pipelines and terminals. We, through Buckeye, operate and report in five business segments: Pipeline Operations; Terminalling & Storage; Natural Gas Storage; Energy Services; and Development & Logistics.

Buckeye Pipe Line Services Company (Services Company) was formed in 1996 in connection with the establishment of the Buckeye Pipe Line Services Company Employee Stock Ownership Plan (the ESOP). At June 30, 2010, Services Company owned approximately 3.0% of Buckeye s LP Units. Services Company employees provide services to Buckeye s operating subsidiaries. Pursuant to a services agreement entered into in December 2004 (the Services Agreement), Buckeye s operating subsidiaries reimburse Services Company for the costs of the services provided by Services Company.

Agreement and Plan of Merger

On June 10, 2010, we and our general partner entered into an Agreement and Plan of Merger (the Merger Agreement) with Buckeye, its general partner and Grand Ohio, LLC (Merger Sub), Buckeye s subsidiary, pursuant to which Merger Sub will be merged into BGH, with BGH as the surviving entity (the Merger). In the transaction, the incentive compensation agreement (also referred to as the incentive distribution rights) held by Buckeye s general partner will be cancelled, the general partner units held by Buckeye s general partner (representing an approximate 0.5% general partner interest in Buckeye) will be converted to a non-economic general partner interest, all of the economic interest in us will be acquired by BPL and our unitholders will receive aggregate consideration of approximately 20.0 million of Buckeye s LP Units.

BUCKEYE GP HOLDINGS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The terms of the Merger Agreement were unanimously approved by the audit committee of the board of directors of our general partner (Audit Committee), and by the board of directors of Buckeye s general partner. Additionally, our majority unitholder, BGH GP Holdings, LLC, and ArcLight Energy Partners Fund III, L.P., ArcLight Energy Partners Fund IV, L.P., Kelso Investment Associates VII, L.P., and KEP VI, LLC have executed a Support Agreement (Support Agreement) agreeing to vote in favor of the Merger and against any alternative transaction. The Support Agreement will automatically terminate if the board of directors of our general partner changes its recommendation to our unitholders with respect to the Merger or the Merger Agreement is terminated.

After the Merger, the board of directors of Buckeye s general partner is expected to consist of nine members, three of whom are expected to be the existing independent members of Buckeye s Audit Committee, one of whom is expected to be the existing chief executive officer of Buckeye s general partner and three of whom are expected to be the three existing independent members of the audit committee of the board of directors of our general partner. In addition, our general partner, which will own a non-economic general partner interest in us and will continue to be owned by BGH GP Holdings, LLC, will have the right and authority to designate two additional members of the board of directors, subject to reduction if BGH GP Holdings, LLC s ownership of Buckeye s LP Units drops below certain thresholds. The remaining seven members of Buckeye s general partner s board of directors will be elected by holders of its LP Units.

The Merger Agreement is subject to, among other things, approval by the affirmative vote of the holders of a majority of Buckeye s LP Units outstanding and entitled to vote at a meeting of the holders of Buckeye s LP Units, approval by the (a) affirmative vote of holders of a majority of our Common Units and (b) affirmative vote of holders of a majority of our Common Units and management units, voting together as a single class, and the effectiveness of a registration statement on Form S-4 with respect to the issuance of Buckeye s LP Units in connection with the Merger.

The Merger will be accounted for as an equity transaction. Therefore, changes in our ownership interest as a result of the Merger will not result in gain or loss recognition. We will be considered the surviving consolidated entity for accounting purposes, while Buckeye will be the surviving consolidated entity for legal and reporting purposes.

We and Buckeye incurred a total of $3.8 million of costs associated with the Merger during the three and six months ended June 30, 2010, of which $1.5 million has been paid. We charged these costs directly to partners capital.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of our management, of a normal and recurring nature and necessary for a fair statement of our financial position as of June 30, 2010, and the results of our operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of results of our operations for the 2010 fiscal year. The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). We have eliminated all intercompany transactions in consolidation. The consolidated financial statements also include the accounts of wholly-owned subsidiaries, as well as the accounts of Buckeye and Services Company, on a consolidated basis. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to those rules and regulations. These interim financial statements should be read in conjunction with our consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on March 2, 2010.

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BUCKEYE GP HOLDINGS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Reclassifications

Certain prior year amounts have been reclassified in the condensed consolidated statements of cash flows to conform to the current-year presentation. The reclassification in the condensed consolidated statements of cash flows is as follows:

We have separately disclosed cash flows from the issuance of long-term debt and borrowings under our credit facilities for the six months ended June 30, 2009. These amounts had been included within the same line item in the 2009 period.

This reclassification had no impact on net income (loss) or cash flows from operating, investing or financing activities.

Recent Accounting Developments

Consolidation of Variable Interest Entities (VIEs). In June 2009, the Financial Accounting Standards Board (FASB) amended consolidation guidance for VIEs. The objective of this new guidance is to improve financial reporting by companies involved with VIEs. This guidance requires each reporting company to perform an analysis to determine whether the company s variable interest or interests give it a controlling financial interest in a VIE. The new guidance was effective for us on January 1, 2010. The adoption of this guidance did not have an impact on our consolidated financial statements.

Fair Value Measurements. In January 2010, the FASB issued guidance that requires new disclosures related to fair value measurements. The new guidance requires expanded disclosures related to transfers between Level 1 and 2 activities and a gross presentation for Level 3 activity. The new accounting guidance is effective for fiscal years and interim periods beginning after December 15, 2009, except for the new disclosures related to Level 3 activities, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. The new guidance became effective for us on January 1, 2010, except for the new disclosures related to Level 3 activities, which will be effective for us on January 1, 2011. We have included the enhanced disclosure requirements regarding fair value measurements in Note 12.

2. ACQUISITION AND DISPOSITION

Refined Petroleum Products Terminals and Pipeline Assets Acquisition

On November 18, 2009, we acquired from ConocoPhillips certain refined petroleum product terminals and pipeline assets for approximately $47.1 million in cash. In addition, we acquired certain inventory on hand upon completion of the transaction for additional consideration of $7.3 million. The assets include over 300 miles of active pipeline that provide connectivity between the East St. Louis, Illinois and East Chicago, Indiana markets and three terminals providing 2.3 million barrels of storage tankage. ConocoPhillips entered into certain commercial contracts with us concurrent with our acquisition regarding usage of the acquired facilities. We believe the acquisition of these assets has given us greater access to markets and refinery operations in the Midwest and increased the commercial value of these assets and certain of our existing assets to our customers by offering enhanced distribution connectivity and flexible storage capabilities. The operations of these acquired assets are reported in the Pipeline Operations and Terminalling & Storage segments. The purchase price has been allocated to the tangible and intangible assets acquired, as follows:

Inventory	$ 7,287
Property, plant and equipment	44,400
Intangible assets	4,580
Environmental and other liabilities	(1,834)
Allocated purchase price	$ 54,433

BUCKEYE GP HOLDINGS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Sale of Buckeye NGL Pipeline

Effective January 1, 2010, we sold our ownership interest in an approximately 350-mile natural gas liquids pipeline (the Buckeye NGL Pipeline) that runs from Wattenberg, Colorado to Bushton, Kansas for $22.0 million. The assets had been classified as Assets held for sale in our consolidated balance sheet at December 31, 2009 with a carrying amount equal to the proceeds received. Revenues for Buckeye NGL Pipeline for the three and six months ended June 30, 2009 were $3.2 million and $6.5 million, respectively.

3. COMMITMENTS AND CONTINGENCIES

Claims and Proceedings

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

In April 2010, the Pipeline Hazardous Materials Safety Administration (PHMSA) proposed penalties totaling approximately $0.5 million in connection with a tank overfill incident that occurred at our facility in East Chicago, Indiana, in May 2005 and other related personnel qualification issues raised as a result of PHMSA s 2008 Integrity Inspection. We are contesting the proposed penalty. The timing or outcome of this appeal cannot reasonably be determined at this time.

On July 30, 2010, a putative class action was filed by a unitholder against BGH, MainLine Management, BGH GP, and each of MainLine Management s directors in the District Court of Harris County, Texas under the caption *Broadbased Equities v. Forrest E. Wylie, et. al.* In the Petition, the plaintiff alleges that MainLine Management and its directors breached their fiduciary duties to BGH s public unitholders by, among other things, acting to facilitate the sale of BGH to Buckeye in order to facilitate the gradual sale by BGH GP of its interest in BGH and failing to disclose all material facts in order that the BGH unitholders can cast an informed vote on the Merger Agreement. Among other things, the Petition seeks an order certifying a class consisting of all BGH unitholders, a determination that the action is a proper derivative action, damages in an unspecified amount, and an award of attorneys fees and costs. The defendants have not yet answered or otherwise responded to the Petition.

On August 2, 2010, a putative class action was filed by a unitholder against BGH, MainLine Management, Grand Ohio, LLC, Buckeye, Buckeye GP, and each of MainLine Management s directors in the District Court of Harris County, Texas under the caption *Henry James Steward v. Forrest E. Wylie, et. al.* In the Petition, the plaintiff alleges that MainLine Management and its directors breached their fiduciary duties to BGH s public unitholders by, among other things, failing to disclose all material facts in order that the BGH unitholders can cast an informed vote on the Merger Agreement. The Petition also alleges that Buckeye, Buckeye GP and Grand Ohio, LLC aided and abetted the breaches of fiduciary duty. Among other things, the Petition seeks an order certifying a plaintiff class consisting of all of BGH unitholders, an order enjoining the Merger, rescission of the Merger, damages in an unspecified amount, and an award of attorneys fees and costs. Neither we nor the other defendants have yet answered or otherwise responded to the Petition.

On August 2, 2010, a putative class action was filed by a unitholder against BGH, MainLine Management, BGH GP, ArcLight, Kelso, Buckeye, Buckeye GP and each of MainLine Management s directors, in the District Court of Harris County, Texas under the caption *Henry James Steward v. Forrest E. Wylie, et. al.* In the Petition, the plaintiff alleges that MainLine Management and its directors breached their fiduciary duties to BGH s public unitholders by, among other things, accepting insufficient consideration, failing to condition the Merger on a majority vote of public unitholders of BGH, and failing to disclose all material facts in order that the BGH unitholders can cast an informed vote on the Merger Agreement. The Petition also alleges that Buckeye, Buckeye GP, BGH GP, ArcLight and Kelso aided and abetted the breaches of fiduciary duty. Among other things, the Petition seeks an order certifying a class consisting of all of BGH s unitholders, an order enjoining the Merger, damages in an unspecified amount, and an award of attorneys fees and costs. Neither we nor the other defendants have yet answered or otherwise responded to

the Petition.

Environmental Contingencies

In accordance with our accounting policy, we recorded operating expenses, net of insurance recoveries, of $2.5 million and $1.2 million during the three months ended June 30, 2010 and 2009, respectively, and $5.4 million and $6.6 million during the six months ended June 30, 2010 and 2009, respectively, related to environmental expenditures unrelated to claims and proceedings**.**

Ammonia Contract Contingencies

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

EPME has informed BGC that, notwithstanding the parties agreement, it will not continue to pay BGC for shortfalls created by the pass-through of ammonia costs in excess of ammonia revenues. EPME encouraged BGC to seek payment by invoking a $40.0 million guaranty made by El Paso, which guaranteed EPME s obligations to BGC. If EPME fails to reimburse BGC for these shortfalls for a significant period during the remainder of the term of the ammonia agreements, then such unreimbursed shortfalls could exceed the $40.0 million cap on El Paso s guaranty. To the extent the unreimbursed shortfalls significantly exceed the $40.0 million cap, the resulting costs incurred by BGC could adversely affect our financial position, results of operations and cash flows. To date, BGC has continued to receive payment for ammonia costs under the contracts at issue. BGC has not called on El Paso s guaranty and believes only BGC may invoke the guaranty. EPME, however, contends that El Paso s guaranty is the

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source of payment for the shortfalls, but has not clarified the extent to which it believes the guaranty has been exhausted. We have been working with EPME to terminate the ammonia sales contracts and ammonia supply contracts and, at no out of pocket cost to us, have terminated one of the ammonia sales contracts. Given, however, the uncertainty of future ammonia prices and EPME s future actions, we continue to believe we have risk of loss and, at this time, are unable to estimate the amount of any such losses we might incur in the future. We are assessing our options in the event that we and EPME are unable to terminate the remaining contracts or otherwise mitigate the remaining risk, including potential recourse against EPME and El Paso, with respect to this matter.

Customer Bankruptcy

One of our customers filed for bankruptcy in October 2009; approximately $4.2 million remained payable to us from the customer pursuant to a pre-bankruptcy contract. In June 2010, we entered into a settlement with the bankrupt customer and its largest creditor pursuant to which we expect to be paid at least $2.0 million upon the sale of certain of the customer s assets within the bankruptcy proceedings, and we were released from both asserted and unasserted claims. At this time, we expect the sale of the assets to be completed, and the settlement payment to be made to us, in the third quarter of 2010. As a result of the settlement, our Development & Logistics segment recognized approximately $2.1 million in expense related to the write-off of a portion of the outstanding receivable balance during the three and six months ended June 30, 2010.

4. INVENTORIES

Our inventory amounts were as follows at the dates indicated:

	June 30, 2010	December 31, 2009
Refined petroleum products (1)	$ 264,638	$ 299,473
Materials and supplies	10,536	10,741
Total inventories	$ 275,174	$ 310,214

(1) Ending inventory was 130.4 million and 141.7 million gallons of refined petroleum products at June 30, 2010 and December 31, 2009, respectively.

At June 30, 2010 and December 31, 2009, approximately 95% and 99%, respectively, of our inventory was hedged. Hedged inventory is valued at current market prices with the change in value of the inventory reflected in our condensed consolidated statements of operations.

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5. PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets consist of the following at the dates indicated:

	June 30, 2010	December 31, 2009
Prepaid insurance	$ 2,435	$ 7,088
Insurance receivables	11,238	13,544
Ammonia receivable	1,690	7,429
Margin deposits	7,921	21,037
Prepaid services	21,742	21,571
Unbilled revenue	2,469	13,201
Tax receivable	7,162	7,162
Prepaid taxes	4,001	2,213
Other	9,916	11,006
Total prepaid and other current assets	$ 68,574	$ 104,251

6. EQUITY INVESTMENTS

We own interests in related businesses that are accounted for using the equity method of accounting. The following table presents our equity investments, all included within the Pipeline Operations segment, at the dates indicated:

	Ownership	June 30, 2010	December 31, 2009
Muskegon Pipeline LLC	40.0%	$ 14,514	$ 15,273
Transport4, LLC	25.0%	373	379
West Shore Pipe Line Company	24.9%	30,526	30,320
West Texas LPG Pipeline Limited Partnership	20.0%	53,155	50,879
Total equity investments		$ 98,568	$ 96,851

The following table presents earnings from equity investments for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Muskegon Pipeline LLC	$ 227	$ 173	$ 571	$ 538
Transport4, LLC	30	40	69	70
West Shore Pipe Line Company	1,294	1,094	2,501	2,197
West Texas LPG Pipeline Limited Partnership	1,213	1,835	2,275	2,419
Total earnings from equity investments	$ 2,764	$ 3,142	$ 5,416	$ 5,224

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Combined income statement data for the periods indicated for our equity method investments is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$35,754	$32,846	$67,299	$64,414
Costs and expenses	20,343	16,543	36,244	32,613
Non-operating expense	3,461	2,961	7,038	5,869
Net income	11,950	13,342	24,017	25,932

7. INTANGIBLE ASSETS

Intangible assets consist of the following at the dates indicated:

	June 30, 2010	December 31, 2009
Customer relationships	$ 38,300	$ 38,300
Accumulated amortization	(7,115)	(5,631)
Net carrying amount	31,185	32,669
Customer contracts	16,380	16,380
Accumulated amortization	(4,634)	(3,892)
Net carrying amount	11,746	12,488
Total intangible assets	$ 42,931	$ 45,157

For the three months ended June 30, 2010 and 2009, amortization expense related to intangible assets was $1.1 million and $0.9 million, respectively. For the six months ended June 30, 2010 and 2009, amortization expense related to intangible assets was $2.2 million and $1.8 million, respectively. Amortization expense related to intangible assets is expected to be approximately $4.5 million for each of the next five years.

8. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following at the dates indicated:

	June 30, 2010	December 31, 2009
Prepaid services	$ 8,065	$ 11,640
Derivative assets		17,204
Debt issuance costs	12,459	11,058
Insurance receivables	7,530	7,265
Other	10,064	9,693
Total other non-current assets	$ 38,118	$ 56,860

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9. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following at the dates indicated:

	June 30, 2010	December 31, 2009
Taxes other than income	$ 16,278	$ 15,487
Accrued employee benefit liability	3,287	3,287
Environmental liabilities	11,549	10,799
Accrued interest	30,699	30,613
Payable for ammonia purchase	1,803	7,015
Deferred revenue	20,306	6,829
Compensation and vacation	9,748	11,385
Accrued capital expenditures	425	1,611
Reorganization		2,133
Deferred consideration	2,010	1,675
Other	30,986	22,640
Total accrued and other current liabilities	$ 127,091	$ 113,474

10. DEBT OBLIGATIONS

Long-term debt consists of the following at the dates indicated:

	June 30, 2010	December 31, 2009
BGH:		
BGH Credit Agreement	$	$
Services Company:		
3.60% ESOP Notes due March 28, 2011	4,634	7,790
Retirement premium	(35)	(87)
Buckeye:		
4.625% Notes due July 15, 2013 (1)	300,000	300,000
5.300% Notes due October 15, 2014 (1)	275,000	275,000
5.125% Notes due July 1, 2017 (1)	125,000	125,000
6.050% Notes due January 15, 2018 (1)	300,000	300,000
5.500% Notes due August 15, 2019 (1)	275,000	275,000
6.750% Notes due August 15, 2033 (1)	150,000	150,000
Credit Facility		78,000
BES Credit Agreement	194,179	239,800
Total debt	1,623,778	1,750,503
Other, including unamortized discounts and fair value hedges	(3,819)	(4,030)
Subtotal debt	1,619,959	1,746,473

Less: Current portion of long-term debt	(198,778)	(245,978)
Total long-term debt	$ 1,421,181	$ 1,500,495

(1) We make semi-annual interest payments on these notes based on the rates noted above with the principal balances outstanding to be paid on or before the due dates as shown above.

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The fair values of our aggregate debt and credit facilities were estimated to be $1,677.2 million and $1,769.8 million at June 30, 2010 and December 31, 2009, respectively. The fair values of the fixed-rate debt were estimated by observing market trading prices and by comparing the historic market prices of our publicly-issued debt with the market prices of other MLPs publicly-issued debt with similar credit ratings and terms. The fair values of the variable-rate debt are their carrying amounts, as the carrying amount reasonably approximates fair value due to the variability of the interest rates.

BGH

We have a five-year, $10.0 million unsecured revolving credit facility with SunTrust Bank, as both administrative agent and lender (the BGH Credit Agreement). The BGH Credit Agreement may be used for working capital and other partnership purposes. We have pledged all of the limited liability company interests in Buckeye GP as security for our obligations under the BGH Credit Agreement. Borrowings under the BGH Credit Agreement bear interest under one of two rate options, selected by us, equal to either (i) the greater of (a) the federal funds rate plus 0.5% and (b) SunTrust Bank s prime commercial lending rate; or (ii) the London Interbank Offered Rate (LIBOR), plus a margin which can range from 0.40% to 1.40%, based on the ratings assigned by Standard & Poor s Rating Services and Moody s Investor Service to our senior unsecured non-credit enhanced long-term debt. At June 30, 2010 and December 31, 2009, there were no amounts outstanding under the BGH Credit Agreement.

The BGH Credit Agreement requires us to maintain leverage and funded debt coverage ratios. The leverage ratio covenant requires us to maintain, as of the last day of each fiscal quarter, a ratio of the total funded indebtedness of us and our Restricted Subsidiaries (as defined below), measured as of the last day of each fiscal quarter, to the aggregate dividends and distributions received by us and the Restricted Subsidiaries from Buckeye, plus all other cash received by us and the Restricted Subsidiaries, measured for the preceding twelve months, less expenses, of not more than 2.50 to 1.00. The BGH Credit Agreement defines Restricted Subsidiaries as certain of our wholly owned subsidiaries. The funded debt coverage ratio covenant requires us to maintain, as of the last day of each fiscal quarter, a ratio of us and all of our consolidated subsidiaries total consolidated funded debt to the consolidated EBITDA, as defined in the BGH Credit Agreement, of us and all of our subsidiaries, measured for the preceding twelve months, of not more than 5.25 to 1.00, subject to a provision for increases to 5.75 to 1.00 in connection with future acquisitions. At June 30, 2010, our funded debt coverage ratio was 4.31 to 1.00.

The BGH Credit Agreement contains other covenants that prohibit us from taking certain actions, including but not limited to, declaring dividends or distributions if any default or event of default has occurred or would result from such a declaration and limiting our ability to incur additional indebtedness, creating negative pledges and granting certain liens, making certain loans, acquisitions, and investments, making material changes to the nature of us and our Restricted Subsidiaries business, and entering into a merger, consolidation, or sale of assets. At June 30, 2010, we were not aware of any instances of noncompliance with the covenants under the BGH Credit Agreement.

Services Company ESOP Notes

Services Company had total debt outstanding of $4.6 million and $7.7 million at June 30, 2010 and December 31, 2009, respectively, consisting of 3.60% Senior Secured Notes (the 3.60% ESOP Notes) due March 28, 2011 payable by the ESOP to a third-party lender. The 3.60% ESOP Notes were issued on May 4, 2004. The 3.60% ESOP Notes are collateralized by Services Company s common stock and are guaranteed by Services Company. In addition, Buckeye has committed that, in the event that the value of Buckeye s LP Units owned by Services Company falls below 125% of the balance payable under the 3.60% ESOP Notes, Buckeye will fund an escrow account with sufficient assets to bring the value of the total collateral (the value of Buckeye s LP Units owned by Services Company and the escrow account) up to the 125% minimum. Amounts deposited in the escrow account are returned to Buckeye when the value of Buckeye s LP Units owned by Services Company returns to an amount that exceeds the 125% minimum. At June 30, 2010, the value of Buckeye s LP Units owned by Services Company exceeded the 125% requirement.

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Credit Facility

Buckeye has a borrowing capacity of $580.0 million under an unsecured revolving credit agreement (the Credit Facility) with SunTrust Bank, as administrative agent, which may be expanded up to $780.0 million subject to certain conditions and upon the further approval of the lenders. The Credit Facility s maturity date is August 24, 2012, which Buckeye may extend for up to two additional one-year periods. Borrowings under the Credit Facility bear interest under one of two rate options, selected by Buckeye, equal to either (i) the greater of (a) the federal funds rate plus 0.5% and (b) SunTrust Bank s prime rate plus an applicable margin, or (ii) LIBOR plus an applicable margin. The applicable margin is determined based on the current utilization level of the Credit Facility and ratings assigned by Standard & Poor s Rating Services and Moody s Investor Service for Buckeye s senior unsecured non-credit enhanced long-term debt. At June 30, 2010, no amounts were outstanding under the Credit Facility, while at December 31, 2009, $78.0 million was outstanding under the Credit Facility.

The Credit Facility requires Buckeye to maintain a specified ratio (the Funded Debt Ratio) of no greater than 5.00 to 1.00 subject to a provision that allows for increases to 5.50 to 1.00 in connection with certain future acquisitions. The Funded Debt Ratio is calculated by dividing consolidated debt by annualized EBITDA, which is defined in the Credit Facility as earnings before interest, taxes, depreciation, depletion and amortization, in each case excluding the income of certain of Buckeye s majority-owned subsidiaries and equity investments (but including distributions from those majority-owned subsidiaries and equity investments). At June 30, 2010, Buckeye s Funded Debt Ratio was approximately 3.86 to 1.00. As permitted by the Credit Facility, the $194.2 million of borrowings by Buckeye Energy Services LLC (BES) under its separate credit agreement (discussed below) was excluded from the calculation of the Funded Debt Ratio.

In addition, the Credit Facility contains other covenants including, but not limited to, covenants limiting Buckeye s ability to incur additional indebtedness, to create or incur liens on its property, to dispose of property material to its operations, and to consolidate, merge or transfer assets. At June 30, 2010, we were not aware of any instances of noncompliance with the covenants under Buckeye s Credit Facility.

At June 30, 2010 and December 31, 2009, Buckeye had committed $1.4 million in support of letters of credit. The obligations for letters of credit are not reflected as debt on our condensed consolidated balance sheets.

BES Credit Agreement

BES had a credit agreement (the BES Credit Agreement) that provided for borrowings of up to $250.0 million with a maturity date of May 20, 2011. On June 25, 2010, BES amended and restated the BES Credit Agreement to increase the total commitments for borrowings available to BES up to $500.0 million. However, the maximum amount available to be borrowed under the amended and restated BES Credit Agreement is initially limited to $350.0 million. An accordion feature provides BES the ability to increase the commitments under the BES Credit Agreement to $500.0 million, subject to obtaining the requisite commitments and satisfying other customary conditions. In addition to the accordion, subject to BES s satisfaction of certain financial covenants as set forth in the financial covenants table below, BES may, from time to time, elect to increase or decrease the maximum amount available for borrowing under the BES Credit Agreement in $5.0 million increments, but in no event below $150.0 million or above $500.0 million. The maturity date of the BES Credit Agreement is June 25, 2013. BES incurred $3.2 million of debt issuance costs related to the amendment, which will be amortized into interest expense over the term of the BES Credit Agreement.

Under the BES Credit Agreement, borrowings accrue interest under one of three rate options, at BES s election, equal to (i) the Administrative Agent s Cost of Funds (as defined in the BES Credit Agreement) plus 2.25%, (ii) the Eurodollar Rate (as defined in the BES Credit Agreement) plus 2.25% or (iii) the Prime Rate (as defined in the BES Credit Agreement) plus 1.25%. The BES Credit Agreement also permits Daylight Overdraft Loans (as defined in the BES Credit Agreement), Swingline Loans (as defined in the BES Credit Agreement) and letters of credit. Such alternative extensions of credit are subject to certain conditions as specified in the BES Credit Agreement. The BES Credit Agreement is secured by liens on certain assets of BES, including its inventory, cash deposits (other than certain accounts), investments and hedging accounts, receivables and intangibles.

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The balances outstanding under the BES Credit Agreement were approximately $194.2 million and $239.8 million at June 30, 2010 and December 31, 2009, respectively, both of which were classified as current liabilities in our condensed consolidated balance sheets. The BES Credit Agreement requires BES to meet certain financial covenants, which are defined in the BES Credit Agreement and summarized below (in millions, except for the leverage ratio):

Borrowings outstanding on BES Credit Agreement	Minimum Consolidated Tangible Net Worth	Minimum Consolidated Net Working Capital	Maximum Consolidated Leverage Ratio
$150	$ 40	$ 30	7.0 to 1.0
Above $150 up to $200	$ 50	$ 40	7.0 to 1.0
Above $200 up to $250	$ 60	$ 50	7.0 to 1.0
Above $250 up to $300	$ 72	$ 60	7.0 to 1.0
Above $300 up to $350	$ 84	$ 70	7.0 to 1.0
Above $350 up to $400	$ 96	$ 80	7.0 to 1.0
Above $400 up to $450	$ 108	$ 90	7.0 to 1.0
Above $450 up to $500	$ 120	$ 100	7.0 to 1.0

At June 30, 2010, BES s Consolidated Tangible Net Worth and Consolidated Net Working Capital were $121.3 million and $71.5 million, respectively, and the Consolidated Leverage Ratio was 2.3 to 1.0. The weighted average interest rate for borrowings outstanding under the BES Credit Agreement was 2.5% at June 30, 2010.

In addition, the BES Credit Agreement contains other covenants, including, but not limited to, covenants limiting BES s ability to incur additional indebtedness, to create or incur certain liens on its property, to consolidate, merge or transfer its assets, to make dividends or distributions, to dispose of its property, to make investments, to modify its risk management policy, or to engage in business activities materially different from those presently conducted. At June 30, 2010, we were not aware of any instances of noncompliance with the covenants under the BES Credit Agreement.

11. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following at the dates indicated:

	June 30, 2010	December 31, 2009
Accrued employee benefit liabilities (see Note 13)	$ 45,799	$ 45,837
Accrued environmental liabilities	18,891	19,053
Derivative liabilities	18,953	
Deferred consideration	17,420	18,425
Deferred rent	11,275	9,158
Deferred revenue	7,082	1,532
Other	8,860	8,937
Total other non-current liabilities	$ 128,280	$ 102,942

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12. DERIVATIVE INSTRUMENTS, HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENTS

We are exposed to certain risks, including changes in interest rates and commodity prices, in the course of our normal business operations. We use derivative instruments to manage risks associated with certain identifiable and anticipated transactions. Derivatives are financial instruments whose fair value is determined by changes in a specified benchmark such as interest rates or commodity prices. Typical derivative instruments include futures, forward contracts, swaps and other instruments with similar characteristics. We have no trading derivative instruments and do not engage in hedging activity with respect to trading instruments.

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

Interest Rate Derivatives

Buckeye utilizes forward-starting interest rate swaps to manage interest rate risk related to forecasted interest payments on anticipated debt issuances. This strategy is a component in controlling its cost of capital associated with such borrowings. When entering into interest rate swap transactions, Buckeye becomes exposed to both credit risk and market risk. Buckeye is subject to credit risk when the value of the swap transaction is positive and the risk exists that the counterparty will fail to perform under the terms of the contract. Buckeye is subject to market risk with respect to changes in the underlying benchmark interest rate that impacts the fair value of the swaps. Buckeye manages its credit risk by only entering into swap transactions with major financial institutions with investment-grade credit ratings. Buckeye manages its market risk by associating each swap transaction with an existing debt obligation or a specified expected debt issuance generally associated with the maturity of an existing debt obligation.

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

Buckeye expects to issue new fixed-rate debt (i) on or before July 15, 2013, to repay the $300.0 million of 4.625% Notes that are due on July 15, 2013, and (ii) on or before October 15, 2014, to repay the $275.0 million of 5.300% Notes that are due on October 15, 2014, although no assurances can be given that the issuance of fixed-rate debt will be possible on acceptable terms. During 2009, Buckeye entered into four forward-starting interest rate swaps with a total aggregate notional amount of $200.0 million related to the anticipated issuance of debt on or before July 15, 2013 and three forward-starting interest rate swaps with a total aggregate notional amount of $150.0 million related to the anticipated issuance of debt on or before October 15, 2014. During the three months ended June 30, 2010, Buckeye entered into two forward-starting interest rate swaps with a total aggregate notional amount of $100.0 million related to the anticipated issuance of debt on or before July 15, 2013 and three forward-starting interest rate swaps with a total aggregate notional amount of $125.0 million related to the anticipated issuance of debt on or before October 15, 2014. The purpose of these swaps is to hedge the variability of the forecasted interest payments on these expected debt issuances that may result from changes in the benchmark interest rate until the expected debt is issued. During the three and six months ended June 30, 2010, unrealized losses of $34.9 million and $36.2 million, respectively, were recorded in Buckeye s accumulated other comprehensive income (loss) to reflect the change in the fair values of the forward-starting interest rate swaps. Buckeye designated the swap agreements as cash flow hedges at inception and expects the changes in values to be highly correlated with the changes in value of the underlying borrowings.

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Over the next twelve months, Buckeye expects to reclassify $1.0 million of accumulated other comprehensive loss as an increase to interest expense that was generated by forward-starting interest rate swaps terminated in 2008 associated with its 6.050% Notes.

Commodity Derivatives

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

Our Energy Services segment has not used hedge accounting with respect to its fixed-price sales contracts. Therefore, our fixed-price sales contracts and the related futures contracts used to offset those fixed-price sales contracts are all marked-to-market on the condensed consolidated balance sheets with gains and losses being recognized in earnings during the period.

In order to hedge the cost of natural gas used to operate our turbine engines at our Linden, New Jersey location, our Pipeline Operations segment bought natural gas futures contracts in March 2009 with terms that coincide with the remaining term of an ongoing natural gas supply contract (through July 2011). We designated the futures contract as a cash flow hedge at inception.

The following table summarizes our commodity derivative instruments outstanding at June 30, 2010 (amounts in thousands of gallons, except as noted):

	Volume (1)		**Accounting**
Derivative Purpose	**Current**	**Long-Term** (2)	**Treatment**
Derivatives NOT designated as hedging instruments:			
Fixed-price sales contracts	29,050	168	Mark-to-market
Futures contracts for fixed-price sales contracts	24,612	168	Mark-to-market
Futures contracts for inventory	2,777		Mark-to-market
Derivatives designated as hedging instruments:			
Futures contracts for inventory	123,522		Fair Value Hedge
Futures contracts for natural gas (BBtu) (3)	360	30	Cash Flow Hedge

(1) Volume represents net

notional position.

(2) The maximum term for derivatives included in the long-term column is October 2011.

(3) BBtu represents one billion British thermal units.

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The following table sets forth the fair value of each classification of derivative instruments at the dates indicated:

	June 30, 2010			December 31, 2009		
	Assets Fair value	(Liabilities) Fair value	Derivative Net Carrying Value	Assets Fair value	(Liabilities) Fair value	Derivative Net Carrying Value
Derivatives NOT designated as hedging instruments:						
Fixed-price sales contracts	$ 5,213	$ (258)	$ 4,955	$ 4,959	$ (3,662)	$ 1,297
Futures contracts for fixed-price sales contracts	1,492	(1,806)	(314)	7,594	(384)	7,210
Futures contracts for inventory	3,336	(3,457)	(121)			
Derivatives designated as hedging instruments:						
Futures contracts for inventory	8,094	(2,748)	5,346	1,992	(20,517)	(18,525)
Futures contracts for natural gas		(140)	(140)	312		312
Interest rate contracts		(18,953)	(18,953)	17,204		17,204
Total			$ (9,227)			$ 7,498

Balance Sheet Locations:	June 30, 2010	December 31, 2009
Derivative assets	$ 10,093	$ 4,959
Other non-current assets		17,204
Derivative liabilities	(367)	(14,665)
Other non-current liabilities	(18,953)	
Total	$ (9,227)	$ 7,498

Our hedged inventory portfolio extends to the first quarter of 2011. The majority of the unrealized income of $5.2 million at June 30, 2010 for inventory hedges represented by futures contracts will be realized by the third quarter of 2010 as the related inventory is sold. Gains recorded on inventory hedges that were ineffective were

approximately $1.0 million and $3.3 million for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010 and 2009, gains recorded on inventory hedges that were ineffective were approximately $5.8 million and $7.6 million, respectively. At June 30, 2010, open refined petroleum product derivative contracts (represented by the fixed-price sales contracts and futures contracts for fixed-price sales contracts noted above) varied in duration, but did not extend beyond October 2011. In addition, at June 30, 2010, we had refined petroleum product inventories which we intend to use to satisfy a portion of the fixed-price sales contracts.

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

		Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
	Location	2010	2009	2010	2009
Derivatives NOT designated as hedging instruments:					
Fixed-price sales contracts	Product sales	$ 6,268	$(13,866)	$ 8,678	$ (571)
Futures contracts for fixed-price sales contracts	Cost of product sales and natural gas storage services	(2,972)	19,007	(3,466)	11,461
Futures contracts for inventory	Cost of product sales and natural gas storage services	20		266	
Derivatives designated as fair value hedging instruments:					
Futures contracts for inventory	Cost of product sales and natural gas storage services	$18,123	$(31,251)	$13,213	$ (3,603)

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

		Gain (Loss) Reclassified from AOCI to Income			
		Three Months Ended June 30,		Six Months Ended June 30,	
	Location	2010	2009	2010	2009
Derivatives designated as cash flow hedging instruments:					
Futures contracts for natural gas	Cost of product sales and natural gas storage services	$ (96)	$(162)	$(168)	$(215)
Futures contracts for refined petroleum products	Cost of product sales and natural gas storage services		(379)		(146)
Interest rate contracts	Interest and debt expense	(242)	(164)	(482)	(656)

	Change in Value Recognized in OCI on Derivatives			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Derivatives designated as cash flow hedging instruments:				

Futures contracts for natural gas	$ 85	$ 46	$ (611)	$ 163
Interest rate contracts	(34,853)	(158)	(36,157)	(157)

BUCKEYE GP HOLDINGS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. Our fair value estimates are based on either (i) actual market data or (ii) assumptions that other market participants would use in pricing an asset or liability, including estimates of risk. Recognized valuation techniques employ inputs such as product prices, operating costs, discount factors and business growth rates. These inputs may be either readily observable, corroborated by market data or generally unobservable. In developing our estimates of fair value, we endeavor to utilize the best information available and apply market-based data to the extent possible. Accordingly, we utilize valuation techniques (such as the income or market approach) that maximize the use of observable inputs and minimize the use of unobservable inputs.

A three-tier hierarchy has been established that classifies fair value amounts recognized or disclosed in the financial statements based on the observability of inputs used to estimate such fair values. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). At each balance sheet reporting date, we categorize our financial assets and liabilities using this hierarchy. The characteristics of fair value amounts classified within each level of the hierarchy are described as follows:

Level 1 inputs are based on quoted prices, which are available in active markets for identical assets or liabilities as of the reporting date. Active markets are defined as those in which transactions for identical assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are based on pricing inputs other than quoted prices in active markets and are either directly or indirectly observable as of the measurement date. Level 2 fair values include instruments that are valued using financial models or other appropriate valuation methodologies and include the following:

§ Quoted prices in active markets for similar assets or liabilities.

§ Quoted prices in markets that are not active for identical or similar assets or liabilities.

§ Inputs other than quoted prices that are observable for the asset or liability.

§ Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3 inputs are based on unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity s own ideas about the assumptions that market participants would use in pricing an asset or liability (including assumptions about risk). Unobservable inputs are based on the best information available in the circumstances, which might include the reporting entity s internally developed data. The reporting entity must not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Level 3 inputs are typically used in connection with internally developed valuation methodologies where management makes its best estimate of an instrument s fair value.

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Recurring

The following table sets forth financial assets and liabilities, measured at fair value on a recurring basis, as of the measurement dates, June 30, 2010 and December 31, 2009, and the basis for that measurement, by level within the fair value hierarchy:

	June 30, 2010		December 31, 2009	
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
Financial assets:				
Fixed-price sales contracts	$	$ 5,121	$	$ 4,959
Futures contracts for inventory and fixed-price sales contracts	4,973			
Asset held in trust			1,793	
Interest rate derivatives				17,204
Financial liabilities:				
Fixed-price sales contracts		(166)		(3,662)
Futures contracts for inventory and fixed-price sales contracts	(202)		(11,003)	
Interest rate derivatives		(18,953)		
Total	$ 4,771	$ (13,998)	$ (9,210)	$ 18,501

The value of the Level 1 derivative assets and liabilities were based on quoted market prices obtained from the NYMEX. The value of the Level 1 asset held in trust was obtained from quoted market prices. The value of the Level 2 derivative assets and liabilities were based on observable market data related to the obligations to provide petroleum products. The value of the Level 2 interest rate derivatives was based on observable market data related to similar obligations.

The Level 2 derivative assets of $5.1 million and $5.0 million as of June 30, 2010 and December 31, 2009, respectively, are net of a credit valuation adjustment (CVA) of ($0.6) million and ($0.9) million, respectively. Because few of the Energy Services segment s customers entering into these fixed-price sales contracts are large organizations with nationally-recognized credit ratings, the Energy Services segment determined that a CVA, which is based on the credit risk of such contracts, is appropriate. The CVA is based on the historical and expected payment history of each customer, the amount of product contracted for under the agreement and the customer s historical and expected purchase performance under each contract.

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Non-Recurring

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. The following table presents the fair value of an asset carried on the condensed consolidated balance sheet by asset classification and by level within the valuation hierarchy (as described above) at the date indicated for which a nonrecurring change in fair value has been recorded during the three and six months ended June 30, 2009:

	June 30, 2009	Level 1	Level 2	Level 3	Total Losses
Assets held for sale (1)	$5,760	$	$	$5,760	$72,540

(1) Represents net assets held for sale that were included in prepaid and other current assets at June 30, 2009 (see Note 2).

As a result of a loss in the customer base utilizing the Buckeye NGL Pipeline, we recorded a non-cash impairment charge of $72.5 million during the three and six months ended June 30, 2009. The estimated fair value was based on a probability-weighted combination of income and market approaches.

13. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Services Company, which employs the majority of our workforce, sponsors a retirement income guarantee plan (RIGP), which is a defined benefit plan that generally guarantees employees hired before January 1, 1986 a retirement benefit based on years of service and the employee s highest compensation for any consecutive 5-year period during the last 10 years of service or other compensation measures as defined under the respective plan provisions. The retirement benefit is subject to reduction at varying percentages for certain offsetting amounts, including benefits payable under a retirement and savings plan discussed further below. Services Company funds the plan through contributions to pension trust assets, generally subject to minimum funding requirements as provided by applicable law.

Services Company also sponsors an unfunded post-retirement benefit plan (the Retiree Medical Plan), which provides health care and life insurance benefits to certain of its retirees. To be eligible for these benefits, an employee must have been hired prior to January 1, 1991 and meet certain service requirements.

The components of the net periodic benefit cost for the RIGP and Retiree Medical Plan were as follows for the three months ended June 30, 2010 and 2009:

	RIGP Three Months Ended June 30,		Retiree Medical Plan Three Months Ended June 30,	
	2010	2009	2010	2009
Service cost	$ 65	$ 207	$ 117	$ 105
Interest cost	227	369	786	491
Expected return on plan assets	(86)	(189)		
Amortization of prior service benefit	(11)	(118)	(1,175)	(859)

Amortization of unrecognized losses	242	355	354	261
Settlement/curtailment charge (1)		7,171		800
Net periodic benefit costs	$ 437	$ 7,795	$ 82	$ 798

(1) In connection with Buckeye s reorganization in 2009, $8.0 million of the aggregate amount of $28.1 million of expenses incurred through June 30, 2009 was recorded as an adjustment to the funded status of the RIGP and the Retiree Medical Plan, which represent settlement and curtailment adjustments.

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The components of the net periodic benefit cost for the RIGP and Retiree Medical Plan were as follows for the six months ended June 30, 2010 and 2009:

	RIGP Six Months Ended June 30,		Retiree Medical Plan Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	$ 133	$ 415	$ 147	$ 210
Interest cost	459	740	991	983
Expected return on plan assets	(174)	(380)		
Amortization of prior service benefit	(23)	(235)	(1,482)	(1,719)
Amortization of unrecognized losses	490	712	447	522
Settlement/curtailment charge (1)		7,171		800
Net periodic benefit costs	$ 885	$ 8,423	$ 103	$ 796

(1) In connection with Buckeye s reorganization in 2009, $8.0 million of the aggregate amount of $28.1 million of expenses incurred through June 30, 2009 was recorded as an adjustment to the funded status of the RIGP and the Retiree Medical Plan, which represent settlement and curtailment adjustments.

During the six months ended June 30, 2010, we contributed $1.5 million to the RIGP.

14. UNIT-BASED COMPENSATION PLANS

We have Management Units (see Note 1) and an equity compensation plan (GP Equity Compensation Plan) for certain members of our and BGH GP s senior management. The GP Equity Compensation Plan includes both time-based and performance-based participation in the equity of BGH GP (but not ours) referred to as override units. Compensation expense recorded with respect to the override units was $0.3 million and $0.4 million for the three months ended June 30, 2010 and 2009, respectively, and $0.6 million and $0.7 million for the six months ended June 30, 2010 and 2009, respectively.

Buckeye awards unit-based compensation to employees and directors primarily under the 2009 Long-Term Incentive Plan of Buckeye Partners, L.P. (the LTIP), which became effective in March 2009. Buckeye formerly awarded options to acquire LP Units to employees pursuant to the Buckeye Partners, L.P. Unit Option and Distribution Equivalent Plan (the Option Plan). We recognized total unit-based compensation expense related to the LTIP and the Option Plan of $1.3 million and $0.4 million for the three months ended June 30, 2010 and 2009, respectively, and $2.5 million and $0.5 million for the six months ended June 30, 2010 and 2009, respectively.

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BGH GP s Override Units

No override units were granted or forfeited during the six months ended June 30, 2010. The following is a summary of the activity of the override units as of June 30, 2010 (units in thousands):

	Number of Override Units			Total Number of Units
	Value A Units	Value B Units	Operating Units	Awarded
Unvested at December 31, 2009	1,699	1,699	812	4,210
Vested			(165)	(165)
Unvested at June 30, 2010	1,699	1,699	647	4,045

	Compensation Costs for Override Units			
	Value A Units	Value B Units	Operating Units	Totals
Total fair value of all outstanding override units	$3,587	$ 2,179	$ 5,808	$11,574
Less: Expense recorded from plan inception to June 30, 2010			(3,984)	(3,984)
Estimated future compensation costs at June 30, 2010	$3,587	$ 2,179	$ 1,824	$ 7,590

Buckeye s Long-Term Incentive Plan

The LTIP provides for the issuance of up to 1,500,000 LP Units, subject to certain adjustments. After giving effect to the issuance or forfeiture of phantom unit and performance unit awards through June 30, 2010, awards representing a total of 1,113,451 additional LP Units could be issued under the LTIP.

On December 16, 2009, the Compensation Committee approved the terms of the Buckeye Partners, L.P. Unit Deferral and Incentive Plan (Deferral Plan). The Compensation Committee is expressly authorized to adopt the Deferral Plan under the terms of the LTIP, which grants the Compensation Committee the authority to establish a program pursuant to which Buckeye s phantom units may be awarded in lieu of cash compensation at the election of the employee. At December 31, 2009, eligible employees were allowed to defer up to 50% of their 2009 compensation award under Buckeye s Annual Incentive Compensation Plan or other discretionary bonus program in exchange for grants of phantom units equal in value to the amount of their cash award deferral (each such unit, a Deferral Unit). Participants also receive one matching phantom unit for each Deferral Unit. Approximately $1.8 million of 2009 compensation awards had been deferred at December 31, 2009, for which 62,332 phantom units (including matching units) were granted during the three months ended March 31, 2010. These grants are included as granted in the LTIP activity table below.

Awards under the LTIP

During the six months ended June 30, 2010, the Compensation Committee granted 123,290 phantom units to employees (including the 62,332 phantom units granted pursuant to the Deferral Plan discussed above), 12,000 phantom units to independent directors of Buckeye GP and MainLine Management, and 121,926 performance units to

employees. The amount paid with respect to phantom unit distribution equivalents under the LTIP was $0.3 million for the six months ended June 30, 2010.

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The following table sets forth the LTIP activity for the periods indicated:

	Number of LP Units	Weighted Average Grant Date Fair Value per LP Unit (1)	Total Value
Unvested at January 1, 2010	140,095	$ 39.81	$ 5,577
Granted	257,216	56.20	14,455
Vested	(18,454)	39.17	(723)
Forfeited	(11,281)	48.28	(545)
Unvested at June 30, 2010	367,576	$ 51.05	$ 18,764

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

At June 30, 2010, approximately $13.1 million of compensation expense related to the LTIP is expected to be recognized over a weighted average period of approximately 2.2 years.

Buckeye s Unit Option and Distribution Equivalent Plan

Buckeye also sponsors the Option Plan, pursuant to which it historically granted options to employees to purchase LP Units at the market price of its LP Units on the date of grant. Generally, the options vest three years from the date of grant and expire ten years from the date of grant. As unit options are exercised, Buckeye issues new LP Units to the holder. Buckeye has not historically repurchased, and does not expect to repurchase in 2010, any of its LP Units.

The impact of Buckeye s Option Plan is immaterial to our condensed consolidated financial statements.

15. RELATED PARTY TRANSACTIONS

Approximately 62% of our outstanding equity, which includes Common Units and Management Units, are owned by BGH GP and approximately 38% by the public. BGH GP is owned by affiliates of ArcLight, Kelso and certain investment funds along with certain members of senior management of Buckeye GP. MainLine Management is our general partner and is wholly owned by BGH GP.

Services Company and Buckeye are considered related parties with respect to us. As discussed in Note 1, our condensed consolidated financial statements include the accounts of Services Company and Buckeye on a

consolidated basis, and all intercompany transactions have been eliminated.

We incurred a senior administrative charge for certain management services performed by affiliates of Buckeye GP of $0.5 million for the three months ended March 31, 2009. The senior administrative charge was waived indefinitely on April 1, 2009 as these affiliates are currently not providing services to us that were contemplated as being covered by the senior administrative charge. As a result, there were no related charges recorded in the last nine months of 2009 or during the six months ended June 30, 2010.

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16. CASH DISTRIBUTIONS

We generally make quarterly cash distributions to unitholders of substantially all of our available cash, generally defined in our partnership agreement as consolidated cash receipts less consolidated cash expenditures and such retentions for working capital, anticipated cash expenditures and contingencies as our general partner deems appropriate. Cash distributions totaled $23.8 million and $19.2 million during the six months ended June 30, 2010 and 2009, respectively.

On August 6, 2010, we announced a quarterly distribution of $0.45 per Common Unit that will be paid on August 31, 2010, to unitholders of record on August 16, 2010. Total cash distributed to unitholders on August 31, 2010 will total approximately $12.7 million.

17. EARNINGS PER PARTNERSHIP UNIT

Basic and diluted earnings per partnership unit is calculated by dividing net income, after deducting the amount allocated to Buckeye, by the weighted-average number of partnership units outstanding during the period.

The following table is a reconciliation of the weighted average number of Common Units used in the basic and diluted earnings per unit calculations for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic:				
Weighted average common units outstanding	27,774	27,770	27,774	27,770
Weighted average management units outstanding	526	530	526	530
Units for basic	28,300	28,300	28,300	28,300
Diluted:				
Units used for basic calculation	28,300	28,300	28,300	28,300
Dilutive effect of additional management units				
Units for diluted	28,300	28,300	28,300	28,300

18. BUSINESS SEGMENTS

We operate and report in five business segments: Pipeline Operations; Terminalling & Storage; Natural Gas Storage; Energy Services; and Development & Logistics.

Each segment uses the same accounting policies as those used in the preparation of our consolidated financial statements. All inter-segment revenues, operating income and assets have been eliminated. All periods are presented on a consistent basis. All of our operations and assets are conducted and located in the United States.

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Financial information about each segment is presented below for the periods or at the dates indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue:				
Pipeline Operations	$ 99,339	$ 98,175	$ 195,876	$ 197,370
Terminalling & Storage	40,768	29,429	83,139	60,072
Natural Gas Storage	21,249	16,672	46,655	31,749
Energy Services	501,949	201,676	1,070,151	470,156
Development & Logistics	10,785	8,805	18,300	17,930
Intersegment	(6,814)	(3,537)	(15,671)	(9,217)
Total revenue	$ 667,276	$ 351,220	$ 1,398,450	$ 768,060
Operating income (loss):				
Pipeline Operations	44,535	$ (51,085)	$ 89,900	$ (6,638)
Terminalling & Storage	23,914	11,115	47,039	21,772
Natural Gas Storage	3,302	5,817	6,753	11,981
Energy Services	(471)	(1,432)	(3,868)	4,784
Development & Logistics	659	153	1,606	1,534
Total operating income (loss)	$ 71,939	$ (35,432)	$ 141,430	$ 33,433
Depreciation and amortization:				
Pipeline Operations	9,079	$ 8,984	$ 18,032	$ 17,823
Terminalling & Storage	2,349	1,866	4,665	3,588
Natural Gas Storage	1,640	1,243	3,281	2,702
Energy Services	1,176	983	2,371	1,960
Development & Logistics	425	483	848	850
Total depreciation and amortization	$ 14,669	$ 13,559	$ 29,197	$ 26,923
Capital additions, net: (1)				
Pipeline Operations			$ 14,252	$ 12,561
Terminalling & Storage			7,621	12,021
Natural Gas Storage			3,292	12,906
Energy Services			2,064	1,802
Development & Logistics			343	529
Total capital additions, net			$ 27,572	$ 39,819
Contributions to equity investments:				

Pipeline Operations	$	$ 3,880
Total contributions to equity investments	$	$ 3,880

(1) Amount excludes ($1.2) million and ($0.9) million of non-cash changes in accruals for capital expenditures for the six months ended June 30, 2010 and 2009, respectively (see Note 19).

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BUCKEYE GP HOLDINGS L.P.
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	June 30, 2010	December 31, 2009
Total Assets:		
Pipeline Operations (1)	$ 1,536,124	$ 1,592,916
Terminalling & Storage	526,720	532,971
Natural Gas Storage	548,061	573,261
Energy Services	436,271	482,025
Development & Logistics	63,159	74,476
Consolidating level	233,544	230,922
Total assets	$ 3,343,879	$ 3,486,571
Goodwill:		
Pipeline Operations	$ 198,632	$ 198,632
Terminalling & Storage	49,618	49,618
Natural Gas Storage	169,560	169,560
Energy Services	1,132	1,132
Development & Logistics	13,182	13,182
Total goodwill	$ 432,124	$ 432,124

(1) All equity investments are included in the assets of the Pipeline Operations segment.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flows and non-cash transactions were as follows for the periods indicated:

	Six Months Ended June 30,	
	2010	2009
Cash paid for interest (net of capitalized interest)	$40,165	$33,349
Cash paid for income taxes	419	1,298
Capitalized interest	1,117	2,684
Non-cash changes in assets and liabilities:		
Change in capital expenditures in accounts payable	$ (1,186)	$ (865)

20. SUBSEQUENT EVENT

On August 2, 2010, we completed the acquisition of additional shares of West Shore Pipe Line Company (West Shore) common stock from an affiliate of BP plc, resulting in an increase in our ownership interest in West Shore

from 24.9% to 34.6%. We paid approximately $13.4 million for this additional interest.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following information should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this report. The following information and such unaudited condensed consolidated financial statements should also be read in conjunction with the consolidated financial statements and related notes, together with our discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Cautionary Note Regarding Forward-Looking Statements

This discussion contains various forward-looking statements and information that are based on our beliefs, as well as assumptions made by us and information currently available to us. When used in this document, words such as proposed, anticipate, project, potential, could, should, continue, estimate, expect, may, believe, will, plan, seek, outlook and similar expressions and statements regarding our plans and objectives for future operations are intended to identify forward-looking statements. Although we believe that such expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions as described in more detail in Item 1A Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2009 and in this quarterly report on Form 10-Q. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. You should not put undue reliance on any forward-looking statements. The forward-looking statements in this Quarterly Report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

Overview of Critical Accounting Policies and Estimates

A summary of the significant accounting policies we have adopted and followed in the preparation of our condensed consolidated financial statements is included in our Annual Report on Form 10-K for the year ended December 31, 2009. Certain of these accounting policies require the use of estimates. As more fully described therein, the following estimates, in our opinion, are subjective in nature, require the exercise of judgment and involve complex analysis: depreciation methods, estimated useful lives and disposals of property, plant and equipment; reserves for environmental matters; fair value of derivatives; measuring the fair value of goodwill; and measuring recoverability of long-lived assets and equity method investments. These estimates are based on our knowledge and understanding of current conditions and actions we may take in the future. Changes in these estimates will occur as a result of the passage of time and the occurrence of future events. Subsequent changes in these estimates may have a significant impact on our financial position, results of operations and cash flows.

Overview of BGH

Buckeye GP Holdings L.P. is a publicly traded Delaware master limited partnership (MLP), the common units (Common Units) of which are listed on the New York Stock Exchange (NYSE) under the ticker symbol BGH. We own 100% of Buckeye GP LLC (Buckeye GP), which is the general partner of Buckeye Partners, L.P. (Buckeye). Buckeye is also a publicly traded Delaware MLP which was organized in 1986, and its limited partner units (LP Units) are separately traded on the NYSE under the ticker symbol BPL. Approximately 62% of our outstanding equity, which includes Common Units and management units (Management Units) are owned by BGH GP Holdings, LLC (BGH GP) and approximately 38% by the public. BGH GP is owned by affiliates of ArcLight Capital Partners, LLC (ArcLight), Kelso & Company (Kelso), and certain investment funds along with certain members of senior management of Buckeye GP. MainLine Management LLC, a Delaware limited liability company (MainLine Management), is our general partner and is wholly owned by BGH GP. Unless the context requires otherwise, references to *we*, *us*, *our* or *BGH* are intended to mean the business and operations of Buckeye GP Holdings L.P. o consolidated basis, including those of Buckeye. References to *Buckeye* mean Buckeye Partners, L.P. and its consolidated subsidiaries.

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Our only cash-generating assets are our partnership interests in Buckeye, comprised primarily of the following:

the incentive distribution rights in Buckeye;

the indirect ownership of the general partner interests in certain of Buckeye s operating subsidiaries (representing an approximate 1% interest in each of such operating subsidiaries);

the general partner interests in Buckeye (representing 243,914 general partner units (the GP Units), or an approximate 0.5% interest in Buckeye); and

80,000 of Buckeye s LP Units.

The incentive distribution rights noted above entitle us to receive amounts equal to specified percentages of the incremental amount of cash distributed by Buckeye to the holders of LP Units when target distribution levels for each quarter are exceeded. The 2,573,146 LP Units originally issued to the Buckeye Pipe Line Services Company Employee Stock Ownership Plan (the ESOP) are excluded for the purpose of calculating incentive distributions. The target distribution levels begin at $0.325 and increase in steps to the highest target distribution level of $0.525 per eligible LP Unit. When Buckeye makes quarterly distributions above this level, the incentive distributions include an amount equal to 45% of the incremental cash distributed to each eligible unitholder for the quarter, or approximately 29.5% of total incremental cash distributed by Buckeye above $0.525 per LP Unit.

Our earnings and cash flows are, therefore, directly dependent upon the ability of Buckeye and its operating subsidiaries to make cash distributions to its unitholders. The actual amount of cash that Buckeye will have available for distribution will depend primarily on its ability to generate earnings and cash flows beyond its working capital requirements.

The following table summarizes the cash we received for the three and six months ended June 30, 2010 and 2009 as a result of our partnership interests in Buckeye (in thousands, except unit amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Incentive payments from Buckeye	$ 12,604	$ 11,466	$ 24,918	$ 21,971
Distributions from the indirect 1% ownership in certain of Buckeye s operating subsidiaries		534	403	896
Distributions from the ownership of 243,914 of Buckeye s GP Units	231	220	460	436
Distributions from the ownership of 80,000 of Buckeye s LP Units	76	72	151	143
Cash received	$ 12,911	$ 12,292	$ 25,932	$ 23,446

Overview of Buckeye Partners, L.P.

Buckeye s primary business strategies are to generate stable cash flows, increase pipeline and terminal throughput and pursue strategic cash-flow accretive acquisitions that complement its existing asset base, improve operating efficiencies and allow increased cash distributions to its unitholders.

We, through Buckeye, operate and report in five business segments: Pipeline Operations; Terminalling & Storage; Natural Gas Storage; Energy Services; and Development & Logistics. Buckeye owns and operates one of the largest independent refined petroleum products pipeline systems in the United States in terms of volumes delivered with approximately 5,400 miles of pipeline and 67 active products terminals that provide aggregate storage capacity of approximately 27.2 million barrels. In addition, Buckeye operates and maintains approximately 2,400 miles of other pipelines under agreements with major oil and gas, petrochemical and chemical companies, and performs certain engineering and construction management services for third parties. Buckeye also owns and operates a major natural

gas storage facility in northern California, and is a wholesale distributor of refined petroleum products in the United States in areas also served by its pipelines and terminals.

Recent Developments

Agreement and Plan of Merger

On June 10, 2010, we and our general partner entered into an Agreement and Plan of Merger (the Merger Agreement) with Buckeye, its general partner, and Grand Ohio, LLC (Merger Sub), Buckeye s subsidiary, pursuant to which Merger Sub will be merged into BGH, with BGH as the surviving entity (the Merger). In the transaction, the incentive compensation agreement (also referred to as the incentive distribution rights) held by Buckeye s general partner will be cancelled, the general partner units held by Buckeye s general partner (representing an approximate 0.5% general partner interest in Buckeye) will be converted to a non-economic general partner interest, all of the economic interest in us will be acquired by BPL and our unitholders will receive aggregate consideration of approximately 20.0 million of Buckeye s LP Units.

The terms of the Merger Agreement were unanimously approved by the audit committee of the board of directors of our general partner (Audit Committee), and by the board of directors of Buckeye s general partner. Additionally, our majority unitholder, BGH GP Holdings, LLC, and ArcLight Energy Partners Fund III, L.P., ArcLight Energy Partners Fund IV, L.P., Kelso Investment Associates VII, L.P., and KEP VI, LLC have executed a Support Agreement (Support Agreement) agreeing to vote in favor of the Merger and against any alternative transaction. The Support Agreement will automatically terminate if the board of directors of our general partner changes its recommendation to our unitholders with respect to the Merger or the Merger Agreement is terminated.

After the Merger, the board of directors of Buckeye s general partner is expected to consist of nine members, three of whom are expected to be the existing independent members of Buckeye s Audit Committee, one of whom is expected to be the existing chief executive officer of Buckeye s general partner and three of whom are expected to be the three existing independent members of the audit committee of the board of directors of our general partner. In addition, our general partner, which will own a non-economic general partner interest in us and will continue to be owned by BGH GP Holdings, LLC, will have the right and authority to designate two additional members of the board of directors, subject to reduction if BGH GP Holdings, LLC s ownership of Buckeye s LP Units drops below certain thresholds. The remaining seven members of Buckeye s general partner s board of directors will be elected by holders of its LP Units.

The Merger Agreement is subject to, among other things, approval by the affirmative vote of the holders of a majority of Buckeye s LP Units outstanding and entitled to vote at a meeting of the holders of Buckeye s LP Units, approval by the (a) affirmative vote of holders of a majority of our Common Units and (b) affirmative vote of holders of a majority of our Common Units and management units, voting together as a single class, and the effectiveness of a registration statement on Form S-4 with respect to the issuance of Buckeye s LP Units in connection with the Merger.

The Merger will be accounted for as an equity transaction. Therefore, changes in our ownership interest as a result of the Merger will not result in gain or loss recognition. We will be considered the surviving consolidated entity for accounting purposes, while Buckeye will be the surviving consolidated entity for legal and reporting purposes.

We and Buckeye incurred a total of $3.8 million of costs associated with the Merger during the three and six months ended June 30, 2010, of which $1.5 million has been paid. We charged these costs directly to partners capital.

Amendment to BES Credit Agreement

On June 25, 2010, Buckeye Energy Services LLC (BES) amended and restated its credit agreement (the BES Credit Agreement) to increase the total commitments for borrowings available to BES up to $500.0 million. However, the maximum amount available to be borrowed under the amended and restated BES Credit Agreement is initially limited to $350.0 million. An accordion feature provides BES the ability to increase the commitments under the BES Credit Agreement to $500.0 million, subject to obtaining the requisite commitments and satisfying other customary conditions. In addition to the accordion, subject to BES s satisfaction of certain financial covenants, BES may, from time to time, elect to increase or decrease the maximum amount available for borrowing

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under the BES Credit Agreement in $5.0 million increments, but in no event below $150.0 million or above $500.0 million. The maturity date of the BES Credit Agreement is June 25, 2013. BES incurred $3.2 million of debt issuance costs related to the amendment, which will be amortized into interest expense over the term of the BES Credit Agreement. See Note 10 in the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion.

Purchase of Additional Interest in West Shore Pipe Line Company

On August 2, 2010, we completed the acquisition of additional shares of West Shore Pipe Line Company (West Shore) common stock from an affiliate of BP plc, resulting in an increase in our ownership interest in West Shore from 24.9% to 34.6%. We paid approximately $13.4 million for this additional interest.

Sale of Buckeye NGL Pipeline

Effective January 1, 2010, we sold our ownership interest in an approximately 350-mile natural gas liquids pipeline (the Buckeye NGL Pipeline) that runs from Wattenberg, Colorado to Bushton, Kansas for $22.0 million. The assets had been classified as Assets held for sale in our consolidated balance sheet at December 31, 2009 with a carrying amount equal to the proceeds received.

Results of Operations

The results of operations discussed below principally reflect the activities of Buckeye. Since our condensed consolidated financial statements include the consolidated results of Buckeye, our condensed consolidated financial statements are substantially similar to Buckeye s except as noted below:

Interest of noncontrolling partners in Buckeye Our condensed consolidated balance sheets include a noncontrolling interests capital account that reflects the proportion of Buckeye owned by its partners other than us. Similarly, the ownership interests in Buckeye held by its partners other than us are reflected in our condensed consolidated statements of operations as income attributable to noncontrolling interests. These noncontrolling interest accounts are not reflected in Buckeye s condensed consolidated financial statements.

Our capital structure In addition to incorporating the assets and liabilities of Buckeye, our condensed consolidated balance sheets include our own indebtedness and related debt placement costs, and the partners capital on our condensed consolidated balance sheets represent our partners capital as opposed to the capital reflected in Buckeye s condensed consolidated balance sheets, which reflects the ownership interest of all its partners, including its owners other than us or Services Company. Consequently, our condensed consolidated statements of operations reflect additional interest expense, interest income and debt amortization expense that is not reflected in Buckeye s condensed consolidated financial statements.

Inclusion of Services Company The financial statements of Services Company, which employs the employees who manage and operate our assets, are consolidated into our financial statements. The condensed consolidated financial statements of Buckeye do not include the financial statements of Services Company.

Our general and administrative expenses We incur general and administrative expenses that are independent from Buckeye s operations and are not reflected in Buckeye s condensed consolidated financial statements.

Elimination of intercompany transactions Intercompany obligations and payments among Buckeye and its consolidated subsidiaries, us and Services Company are reflected in Buckeye s condensed consolidated financial statements but are eliminated in our condensed consolidated financial statements.

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Segment Results

A summary of financial information by business segment follows for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Pipeline Operations	$ 99,339	$ 98,175	$ 195,876	$ 197,370
Terminalling & Storage	40,768	29,429	83,139	60,072
Natural Gas Storage	21,249	16,672	46,655	31,749
Energy Services	501,949	201,676	1,070,151	470,156
Development & Logistics	10,785	8,805	18,300	17,930
Intersegment	(6,814)	(3,537)	(15,671)	(9,217)
Total revenues	$ 667,276	$ 351,220	$ 1,398,450	$ 768,060
Total costs and expenses: (1)				
Pipeline Operations	$ 54,804	$ 149,260	$ 105,976	$ 204,008
Terminalling & Storage	16,854	18,314	36,100	38,300
Natural Gas Storage	17,947	10,855	39,902	19,768
Energy Services	502,420	203,108	1,074,019	465,372
Development & Logistics	10,126	8,652	16,694	16,396
Intersegment	(6,814)	(3,537)	(15,671)	(9,217)
Total costs and expenses	$ 595,337	$ 386,652	$ 1,257,020	$ 734,627
Depreciation and amortization:				
Pipeline Operations	$ 9,079	$ 8,984	$ 18,032	$ 17,823
Terminalling & Storage	2,349	1,866	4,665	3,588
Natural Gas Storage	1,640	1,243	3,281	2,702
Energy Services	1,176	983	2,371	1,960
Development & Logistics	425	483	848	850
Total depreciation and amortization	$ 14,669	$ 13,559	$ 29,197	$ 26,923
Asset impairment expense:				
Pipeline Operations	$	$ 72,540	$	$ 72,540
Reorganization expense:				
Pipeline Operations	$	$ 23,054	$	$ 23,054
Terminalling and Storage		2,402		2,402
Natural Gas Storage		291		291
Energy Services		944		944
Development and Logistics		1,422		1,422
Total reorganization expense	$	$ 28,113	$	$ 28,113

Operating income (loss):				
Pipeline Operations	$ 44,535	$ (51,085)	$ 89,900	$ (6,638)
Terminalling & Storage	23,914	11,115	47,039	21,772
Natural Gas Storage	3,302	5,817	6,753	11,981
Energy Services	(471)	(1,432)	(3,868)	4,784
Development & Logistics	659	153	1,606	1,534
Total operating income (loss)	$ 71,939	$ (35,432)	$ 141,430	$ 33,433

(1) Total costs and expenses includes depreciation and amortization, asset impairment expense and reorganization expense.

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Costs and expenses attributable to Buckeye, Services Company and us were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Attributable to Buckeye	$ 593,437	$ 385,728	$ 1,253,591	$ 732,465
Elimination of Buckeye deferred charge	(1,175)	(1,175)	(2,349)	(2,349)
Net effect of ESOP charges	1,211	246	2,086	645
Attributable to BGH	1,864	1,853	3,692	3,866
Total costs and expenses	$ 595,337	$ 386,652	$ 1,257,020	$ 734,627

Amounts attributable to us were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Payroll and payroll benefits	$ 1,109	$ 1,182	$ 2,225	$ 2,369
Professional fees	311	359	432	656
Other	444	312	1,035	841
Total	$ 1,864	$ 1,853	$ 3,692	$ 3,866

Payroll and benefits costs include salaries and benefits for the four highest paid executives performing services on behalf of Buckeye based on a negotiated fee, as well as allocations of the cost of Buckeye personnel performing administrative services directly for us.

The following table presents product volumes transported in the Pipeline Operations segment and average daily throughput for the Terminalling & Storage segment in barrels per day (bpd) and total volumes sold in gallons for the Energy Services segment for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Pipeline Operations (average bpd):				
Gasoline	668,900	685,700	639,100	659,200
Jet fuel	339,300	345,100	330,900	339,200
Diesel fuel	223,100	193,200	225,300	207,500
Heating oil	36,100	52,200	74,800	91,500
LPGs	21,300	18,800	20,900	16,600
NGLs		20,500		20,900
Other products	3,700	10,000	2,100	11,700
Total Pipeline Operations	1,292,400	1,325,500	1,293,100	1,346,600
Terminalling & Storage (average bpd):				
Products throughput (1)	570,000	459,800	563,200	470,200

Energy Services (in thousands of gallons):				
Sales volumes	235,100	134,000	502,100	317,000

(1) Reported quantities exclude transfer volumes, which are non-revenue generating transfers among our various terminals. For the three and six months ended June 30, 2009, we previously reported 489.4 thousand and 505.1 thousand, respectively, which included transfer volumes.

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Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Consolidated

Consolidated income attributable to unitholders. Consolidated income attributable to our unitholders was $11.5 million for the three months ended June 30, 2010 compared to $9.8 million for the three months ended June 30, 2009. The increase in income attributable to our unitholders was due to increases in Buckeye s quarterly cash distribution. As mentioned above, the incentive distribution rights entitle us to receive amounts equal to specified percentages of the incremental amount of cash distributed by Buckeye to the holders of Buckeye s LP Units when target distribution levels for a quarter are exceeded. As a result, increases in Buckeye s distributions cause increases in income attributable to our unitholders. During the three months ended June 30, 2010, Buckeye paid a $0.95 per LP Unit distribution as compared to a $0.90 per LP Unit distribution in the three months ended June 30, 2009, which resulted in an increase of $1.1 million in incentive distributions in the 2010 period as compared to the corresponding period in 2009.

Revenue. Revenue was $667.3 million for the three months ended June 30, 2010, which is an increase of $316.1 million, or 90.0%, from the three months ended June 30, 2009. This overall increase was caused by increases in revenues in all segments for the three months ended June 30, 2010 as compared to the corresponding period in 2009 as follows:

- an increase of $300.2 million in revenue from the Energy Services segment, resulting from an overall increase in refined petroleum product prices and volumes of product sold during the three months ended June 30, 2010 as compared to the corresponding period in 2009;
- an increase of $11.4 million in revenue from the Terminalling & Storage segment, resulting from increased throughput volumes, increased fees, storage and rental revenue, including $1.5 million in storage fees from previously underutilized tankage identified in connection with our best practices initiative and other marketing opportunities, increased revenue from the contribution of terminals acquired in November 2009 and favorable settlement experience;
- an increase of $4.5 million in revenue from the Natural Gas Storage segment, resulting primarily from higher fees from hub services transactions recognized as revenue, partially offset by reduced lease revenues as a result of general market conditions, including reduced market-based fees charged for storage services as a result of high storage inventory levels in the western region, above normal temperatures and general uncertainty regarding the economic recovery;
- an increase of $2.0 million in revenue from the Development & Logistics segment, resulting primarily from the sale of ammonia linefill; and
- an increase of $1.1 million in revenue from the Pipeline Operations segment, resulting from the benefit of higher tariffs, favorable settlement experience, increased revenues from the contribution of pipeline assets acquired in November 2009 and increased other revenues.

Total Costs and Expenses. Total costs and expenses were $595.3 million for the three months ended June 30, 2010, which is an increase of $208.6 million, or 54.0%, from the corresponding period in 2009. Total costs and expenses reflect:

- an increase in refined petroleum product prices, which, coupled with an increase in volumes sold, resulted in a $299.7 million increase in the Energy Services segment s cost of product sales in the 2010 period as compared to the 2009 period;
- an increase of $7.1 million in the Natural Gas Storage segment s costs and expenses resulting from higher costs associated with hub services transactions recognized as expense caused primarily by general market conditions as discussed above;

an increase in the Development & Logistics segment s costs and expenses due to $2.4 million of expenses related to the write-off in the 2010 period of a portion of an outstanding receivable balance and other costs associated with a customer bankruptcy (see Note 3 in the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion); and

an increase of $1.0 million in depreciation and amortization, primarily due to expense on assets placed in service in the second half of 2009 in connection with the Kirby Hills Phase II expansion project, and certain internal-use software, which was placed in service in the fourth quarter of 2009, and an increase of $1.1 million in non-cash unit-based compensation expense.

Total costs and expenses in the 2009 period include the recognition of a non-cash $72.5 million asset impairment expense in the Pipeline Operations segment related to the Buckeye NGL Pipeline and $28.1 million of expenses across all segments associated with organizational restructuring. These two charges were the primary cause of a partially offsetting decrease in total costs and expenses for the 2010 period as compared to the 2009 period. Total costs and expenses for the three months ended June 30, 2010 reflect the effectiveness of cost management efforts we implemented in 2009. Largely as a result of these efforts, costs decreased by approximately $4.6 million during the three months ended June 30, 2010 as compared to the corresponding period in 2009.

Total costs and expenses also reflect the following decreases:

a decrease in costs and expenses of the Pipeline Operations segment, resulting substantially from a decrease related to the asset impairment expense and the organizational restructuring charges recognized in the 2009 period as discussed above and lower payroll and benefits costs, which was primarily attributable to the organizational restructuring that occurred in 2009 and resulted in reduced headcount, partially offset by increased integrity program expenses and increased professional fees; and

a decrease in costs and expenses of the Terminalling & Storage segment, resulting primarily from a decrease related to expenses for organizational restructuring recognized in the 2009 period and decreased payroll and benefits costs, partially offset by higher environmental remediation expenses and higher operating expenses for terminals acquired in November 2009.

Operating Income. Operating income was $71.9 million for the three months ended June 30, 2010 compared to operating loss of $35.4 million for the three months ended June 30, 2009. Interest and debt expense increased by $5.2 million for the three months ended June 30, 2010 as compared to the corresponding period in 2009, which increase was largely attributable to the issuance in August 2009 of $275.0 million aggregate principal amount of 5.500% Notes due 2019 and higher outstanding borrowings under the BES Credit Agreement, partially offset by lower outstanding borrowings under Buckeye s unsecured revolving credit agreement (the Credit Facility). In addition, depreciation and amortization increased by $1.0 million, primarily due to expense on assets placed in service in the second half of 2009 in connection with the Kirby Hills Phase II expansion project, and certain internal-use software, which was placed in service in the fourth quarter of 2009. Income from equity investments decreased by $0.3 million for the three months ended June 30, 2010 as compared to the corresponding period in 2009. Other revenue and expense items impacting operating income are discussed above.

Income attributable to noncontrolling interests. Income attributable to noncontrolling interests, which represents the allocation of Buckeye s income to its limited partner interest not owned by us or Services Company, was $41.9 million for the three months ended June 30, 2010 as compared to a loss of $58.2 million in the corresponding period in 2009, primarily due to the recognition of the asset impairment expense and the organizational restructuring charges in the 2009 period.

For a more detailed discussion of the above factors affecting our results, see the following discussion by segment.

Pipeline Operations

Revenue. Revenue from the Pipeline Operations segment was $99.3 million for the three months ended June 30, 2010, which is an increase of $1.1 million, or 1.2%, from the corresponding period in 2009. Revenues increased due to the benefit of higher tariffs of $1.9 million, the result of overall average tariff increases of approximately 3.8% implemented on July 1, 2009 and 2.61% implemented on May 1, 2010. In addition, favorable settlement experience of $1.0 million, increased revenues of $0.8 million from pipeline assets acquired in November 2009 and increased other revenue of $2.4 million contributed to the increase in revenues. These increases in revenue were

partially offset by a $3.2 million decrease related to a 2.5% decrease in transportation volumes due in part to the sale of the Buckeye NGL Pipeline on January 1, 2010 and reduced revenues of $1.3 million from a product supply arrangement with a wholesale distributor and contract service activities at customer facilities connected to our refined petroleum products pipelines pursuant to the assignment of such service contract to the Development & Logistics segment.

Total Costs and Expenses. Total costs and expenses from the Pipeline Operations segment were $54.8 million for the three months ended June 30, 2010, which is a decrease of $94.5 million, or 63.3%, from the corresponding period in 2009. Total costs and expenses for the 2009 period include a $72.5 million non-cash asset impairment expense and $23.1 million of expense related to an organizational restructuring. These charges in the 2009 period were the primary reason that costs and expenses in the 2009 period were 63.3% higher than in the 2010 period. Total costs and expenses for the three months ended June 30, 2010 also reflect an increase of $2.1 million in integrity program expenses, primarily due to increased levels of pipeline maintenance activities, and an increase of $0.7 million in professional fees, partially offset by a decrease of $1.3 million in payroll and benefits costs primarily related to our best practices initiative in 2009, and a decrease of $1.2 million in operating power costs due to lower transportation volumes and power contract renegotiations as part of our best practices initiative.

Operating Income. Operating income from the Pipeline Operations segment was $44.5 million for the three months ended June 30, 2010 compared to an operating loss of $51.1 million for the three months ended June 30, 2009. Income from equity investments decreased by $0.3 million for the three months ended June 30, 2010 as compared to the corresponding period in 2009. Other revenue and expense items impacting operating income are discussed above.

Terminalling & Storage

Revenue. Revenue from the Terminalling & Storage segment was $40.8 million for the three months ended June 30, 2010, which is an increase of $11.4 million, or 38.5%, from the corresponding period in 2009. Approximately $8.7 million of the increase resulted primarily from terminals acquired in November 2009, internal growth projects, increased throughput volumes, higher fees, higher storage and rental revenue, including $1.5 million in storage fees from previously underutilized tankage identified in connection with our best practices initiative and other marketing opportunities, and increased butane-blending revenue. Also contributing to the improved revenue was an increase of $2.6 million in settlement experience reflecting the favorable impact of higher refined petroleum product prices during the three months ended June 30, 2010 as compared to the corresponding period in 2009. In addition to the 13.8% increase in volumes resulting from the acquisition of terminals in November 2009, terminalling volumes increased 10.2% for the three months ended June 30, 2010 as compared to the corresponding period in 2009, largely due to increased ethanol throughput volumes.

Total Costs and Expenses. Total costs and expenses from the Terminalling & Storage segment were $16.9 million for the three months ended June 30, 2010, which is a decrease of $1.4 million, or 8.0%, from the corresponding period in 2009. The decrease in total costs and expenses in the 2010 period as compared to the 2009 period is due to a $2.4 million decrease related to expenses for organizational restructuring recognized in the 2009 period and a $1.1 million decrease in payroll and benefits costs primarily related to our best practices initiative in 2009. These decreases were partially offset by a $0.8 million increase in environmental remediation expenses, a $0.6 million increase in operating expenses for terminals acquired in November 2009 and a $0.4 million increase in depreciation and amortization.

Operating Income. Operating income from the Terminalling & Storage segment was $23.9 million for the three months ended June 30, 2010 compared to operating income of $11.1 million for the three months ended June 30, 2009. Depreciation and amortization increased by $0.4 million for the three months ended June 30, 2010 as a result of the terminals acquired in November 2009. Other revenue and expense items impacting operating income are discussed above.

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Natural Gas Storage

Revenue. Revenue from the Natural Gas Storage segment was $21.2 million for the three months ended June 30, 2010, which is an increase of $4.5 million, or 27.5%, from the corresponding period in 2009. This overall increase is attributable to greater underlying volume and higher fees recognized as revenue for hub services provided during the three months ended June 30, 2010. The fees for hub services agreements are based on the relative market prices of natural gas over different delivery periods. A positive market price spread results in receipt of a fee from the customer that is reflected as transportation and other services revenue. A negative market price spread results in payment of a fee to the customer that is reflected as cost of natural gas storage services. These fees are recognized as revenue or cost of natural gas storage services ratably as the underlying services are provided or utilized. Such agreements allow us to maximize the daily utilization of the natural gas storage facility and to attempt to capture value from seasonal price differences in the natural gas markets. During the three months ended June 30, 2010 and 2009, there were 165 and 150 outstanding hub service contracts, respectively, for which revenue was being recognized ratably. Market conditions contributed to higher fees of $5.2 million for hub service agreements recognized as revenue during the three months ended June 30, 2010 compared to the same period in 2009, partially offset by reduced market-based fees charged for storage services as a result of high storage inventory levels in the western region, above normal temperatures and general uncertainty regarding the economic recovery. Additionally, lease revenue decreased $0.6 million for the three months ended June 30, 2010, as a decrease in the fee charged for each volumetric unit of storage capacity leased was partially offset by increased storage capacity from the commissioning of the Kirby Hills Phase II expansion project, which was placed in service in June 2009.

Total Costs and Expenses. Total costs and expenses from the Natural Gas Storage segment were $17.9 million for the three months ended June 30, 2010, which is an increase of $7.1 million, or 65.3%, from the corresponding period in 2009. The primary driver of the increase in expenses is an increase in hub services fees paid to customers for hub service activities. As stated above, hub service fees are based on the relative market prices of natural gas over different delivery periods; a negative market price spread results in payment of a fee to the customer that is reflected as cost of natural gas storage services ratably as those services are provided. Other operating expenses increased $0.7 million, primarily due to increased fuel costs, professional fees, maintenance materials expense and rental expense. Total costs and expenses also include an increase of $0.4 million in depreciation and amortization, partially offset by a decrease of $0.3 million related to an organizational restructuring recognized in the 2009 period.

Operating Income. Operating income from the Natural Gas Storage segment was $3.3 million for the three months ended June 30, 2010 compared to operating income of $5.8 million for the three months ended June 30, 2009. Depreciation and amortization increased by $0.4 million for the three months ended June 30, 2010 from the corresponding period in 2009 due to expense on assets placed in service in the second half of 2009 in connection with the Kirby Hills Phase II expansion project. Other revenue and expense items impacting operating income are discussed above.

Energy Services

Revenue. Revenue from the Energy Services segment was $501.9 million for the three months ended June 30, 2010, which is an increase of $300.2 million, or 148.9%, from the corresponding period in 2009. This increase was primarily due to an increase in refined petroleum product prices, which correspondingly increased the cost of product sales, and an increase of 75.4% in sales volumes.

Total Costs and Expenses. Total costs and expenses from the Energy Services segment were $502.4 million for the three months ended June 30, 2010, which is an increase of $299.3 million, or 147.4%, from the corresponding period in 2009. The increase in total costs and expenses was primarily due to an increase of $299.7 million in cost of product sales as a result of increased volumes sold and an increase in refined petroleum product prices, an increase of $0.4 million in payroll related costs and an increase of $0.4 million in bad debt expense, partially offset by a decrease of $0.7 million in maintenance materials expense and professional fees and a decrease of $0.9 million related to an organizational restructuring recognized in the 2009 period.

Operating Income (loss). Operating loss from the Energy Services segment was $0.5 million for the three months ended June 30, 2010 compared to an operating loss of $1.4 million for the three months ended June 30, 2009. Depreciation and amortization increased by $0.2 million for the three months ended June 30, 2010 from the corresponding period in 2009 due to amortization of certain internal-use software that was placed in service in the fourth quarter of 2009. Other revenue and expense items impacting operating income (loss) are discussed above.

Development & Logistics

Revenue. Revenue from the Development & Logistics segment, which consists principally of our contract operations and engineering services for third-party pipelines, was $10.8 million for the three months ended June 30, 2010, which is an increase of $2.0 million, or 22.5%, from the corresponding period in 2009. The increase in revenue was partially due to a $1.5 million increase in other revenue, primarily from the recognition of $1.1 million of revenue related to the sale of ammonia linefill. In addition, operating service revenues increased $2.2 million from the 2009 period, primarily due to the assignment of certain service contracts from the Pipeline Operations segment to the Development & Logistics segment. These increases in revenue were partially offset by the completion and non-replacement of construction projects in 2009, resulting in a $2.1 million reduction in certain construction contract revenues.

Total Costs and Expenses. Total costs and expenses from the Development & Logistics segment were $10.1 million for the three months ended June 30, 2010, which is an increase of $1.4 million, or 17.0%, from the corresponding period in 2009. The increase in total costs and expenses was the result of the recognition of $2.4 million of expenses related to the write-off in the 2010 period of a portion of an outstanding receivable balance and other costs associated with a customer bankruptcy, and increased operating services activities discussed above, partially offset by reduced construction contract activity and lower income tax expense. Total costs and expenses also include a decrease of $1.4 million related to an organizational restructuring recognized in the 2009 period.

Operating Income. Operating income from the Development & Logistics segment was $0.7 million for the three months ended June 30, 2010 compared to operating income of $0.2 million for the three months ended June 30, 2009. Income tax expense decreased by $0.7 million for the three months ended June 30, 2010 due to the recognition of a tax benefit of $0.6 million primarily related to the write-off of a portion of an outstanding receivable balance and other costs associated with a customer bankruptcy as discussed above. Other revenue and expense items impacting operating income are discussed above.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Consolidated

Consolidated income attributable to our unitholders was $22.8 million for the six months ended June 30, 2010 compared to $19.9 million for the six months ended June 30, 2009. The i