

BUCKEYE PARTNERS L P
Form 10-Q
July 25, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

ý **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2006 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 1-9356

BUCKEYE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5002 Buckeye Road
P. O. Box 368
Emmaus, PA
(Address of principal executive
offices)

23-2432497
(IRS Employer
Identification No.)

18049
(Zip Code)

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Registrant's telephone number, including area code: **484-232-4000**

Not Applicable

(Former name, former address and former fiscal year, if changed since last report).

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

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class |
|---------------------------|
| Limited Partnership Units |

| Outstanding at July 19, 2006 |
|------------------------------|
| 39,431,746 Units |

BUCKEYE PARTNERS, L.P.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Buckeye Partners, L.P.

Condensed Consolidated Statements of Income

(In thousands, except per Unit amounts)

(Unaudited)

| Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--------------------------------|------------|---|------------------------------|------------|--|
| 2006 | 2005 | | 2006 | 2005 | |
| \$ 111,495 | \$ 101,916 | Revenue | \$ 217,240 | \$ 197,805 | |
| | | Costs and expenses: | | | |
| 52,542 | 49,359 | Operating expenses | 102,804 | 94,223 | |
| 11,147 | 9,157 | Depreciation and amortization | 21,339 | 17,676 | |
| 4,753 | 3,833 | General and administrative expenses | 9,552 | 8,871 | |
| 68,442 | 62,349 | Total costs and expenses | 133,695 | 120,770 | |
| 43,053 | 39,567 | Operating income | 83,545 | 77,035 | |
| | | Other income (expenses): | | | |
| 1,604 | 1,358 | Investment and equity income | 3,196 | 2,728 | |
| (12,889) | (10,826) | Interest and debt expense | (25,360) | (20,957) | |
| (6,174) | (4,762) | General Partner incentive compensation | (11,896) | (9,335) | |
| (1,428) | (911) | Minority interests and other | (2,341) | (1,883) | |
| (18,887) | (15,141) | Total other income (expenses) | (36,401) | (29,447) | |
| \$ 24,166 | \$ 24,426 | Net income | \$ 47,144 | \$ 47,588 | |
| | | Net income allocated to General Partner | | | |
| \$ 148 | \$ 159 | | \$ 293 | \$ 321 | |
| | | Net income allocated to Limited Partners | | | |
| \$ 24,018 | \$ 24,267 | | \$ 46,851 | \$ 47,267 | |
| | | Weighted average units outstanding: | | | |
| 39,674 | 36,890 | Basic | 39,132 | 36,032 | |
| 39,695 | 36,926 | Assuming dilution | 39,156 | 36,072 | |
| | | Earnings per Partnership Unit- basic: | | | |
| \$ 0.61 | \$ 0.66 | Net income allocated to General and Limited Partners per Partnership Unit | \$ 1.20 | \$ 1.32 | |

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| Earnings per Partnership Unit - assuming dilution: | | | | | |
|--|------|----|------|----|------|
| Net income allocated to General and Limited Partners per Partnership Unit | | | | | |
| \$ | 0.61 | \$ | 0.66 | \$ | 1.20 |
| | | | | \$ | 1.32 |

See notes to condensed consolidated financial statements.

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Buckeye Partners, L.P.

Condensed Consolidated Balance Sheets

(In thousands)

(Unaudited)

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 18,325 | \$ 24,862 |
| Trade receivables | 39,936 | 38,864 |
| Construction and pipeline relocation receivables | 12,992 | 10,571 |
| Inventories | 13,416 | 12,997 |
| Prepaid and other current assets | 23,077 | 11,074 |
| Total current assets | 107,746 | 98,368 |
| Property, plant and equipment, net | 1,702,464 | 1,576,652 |
| Goodwill | 11,355 | 11,355 |
| Other non-current assets | 120,264 | 130,492 |
| Total assets | \$ 1,941,829 | \$ 1,816,867 |
| Liabilities and partners' capital | | |
| Current liabilities: | | |
| Accounts payable | \$ 13,086 | \$ 16,925 |
| Accrued and other current liabilities | 54,788 | 45,228 |
| Total current liabilities | 67,874 | 62,153 |
| Long-term debt | 961,102 | 899,077 |
| Minority interests | 20,310 | 19,516 |
| Other non-current liabilities | 79,895 | 77,544 |
| Total liabilities | 1,129,181 | 1,058,290 |
| Commitments and contingent liabilities | | |
| Partners' capital: | | |
| General Partner | 2,459 | 2,529 |
| Limited Partners | 810,653 | 756,531 |
| Receivable from exercise of options | (464) | (483) |
| Total partners' capital | 812,648 | 758,577 |
| Total liabilities and partners' capital | \$ 1,941,829 | \$ 1,816,867 |

See notes to condensed consolidated financial statements.

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Buckeye Partners, L.P.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 47,144 | \$ 47,588 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 21,339 | 17,676 |
| Minority interests | 2,341 | 1,883 |
| Equity earnings | (2,795) | (2,465) |
| Distributions from equity investments | 3,167 | 1,649 |
| Amortization of debt discount | 25 | 15 |
| Amortization of option grants | 239 | |
| Change in assets and liabilities, net of amounts related to acquisitions: | | |
| Trade receivables | (1,072) | (11,606) |
| Construction and pipeline relocation receivables | (2,421) | (459) |
| Inventories | (419) | (712) |
| Prepaid and other current assets | (12,003) | 3,577 |
| Accounts payable | (3,839) | (4,904) |
| Accrued and other current liabilities | 9,537 | (4,075) |
| Other non-current assets | (399) | 1,767 |
| Other non-current liabilities | 2,351 | 1,998 |
| Total adjustments from operating activities | 16,051 | 4,344 |
| Net cash provided by operating activities | 63,195 | 51,932 |
| Cash flows from investing activities: | | |
| Capital expenditures | (43,943) | (36,586) |
| Acquisitions | (92,790) | (178,854) |
| Net (expenditures) proceeds from disposal of property, plant and equipment | (139) | 69 |
| Net cash used in investing activities | (136,872) | (215,371) |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of Partnership units | 64,105 | 156,103 |
| Debt issuance costs | | (910) |
| Proceeds from exercise of unit options | 486 | 1,154 |
| Distributions to minority interests | (1,548) | (949) |
| Proceeds from issuance of long-term debt | 127,000 | 324,767 |
| Payment of long-term debt | (65,000) | (268,000) |
| Distributions to Unitholders | (57,903) | (49,453) |
| Net cash provided by financing activities | 67,140 | 162,712 |
| Net decrease in cash and cash equivalents | (6,537) | (727) |
| Cash and cash equivalents at beginning of period | 24,862 | 19,017 |
| Cash and cash equivalents at end of period | \$ 18,325 | \$ 18,290 |

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Supplemental cash flow information:

| | | | | |
|--|----|--------|----|--------|
| Cash paid for interest (net of amount capitalized) | \$ | 27,073 | \$ | 21,666 |
| Capitalized interest | \$ | 1,010 | \$ | 1,166 |
| Cash paid for income taxes | \$ | 5 | \$ | 557 |

Non cash change in assets and liabilities:

| | | | | |
|--|----|-------|----|---------|
| Fair value hedge accounting | \$ | (118) | \$ | (118) |
| Environmental obligations related to acquisition of Northeastern Pipelines and Terminals | \$ | | \$ | (2,332) |

See notes to condensed consolidated financial statements.

BUCKEYE PARTNERS, L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying condensed consolidated financial statements of Buckeye Partners, L.P. (the Partnership), which are unaudited except that the Balance Sheet as of December 31, 2005 is derived from audited financial statements, include all adjustments necessary to present fairly the Partnership's financial position as of June 30, 2006, along with the results of the Partnership's operations for the three and six months ended June 30, 2006 and 2005 and its cash flows for the six months ended June 30, 2006 and 2005. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

The Partnership is a master limited partnership organized in 1986 under the laws of the state of Delaware. The Partnership conducts all of its operations through subsidiary entities. These operating subsidiaries are Buckeye Pipe Line Company, L.P. (Buckeye), Laurel Pipe Line Company, L.P. (Laurel), Everglades Pipe Line Company, L.P. (Everglades), Buckeye Pipe Line Holdings, L.P. (BPH), Wood River Pipe Lines LLC (Wood River), Buckeye Pipe Line Transportation LLC (BPL Transportation) and Buckeye NGL Pipe Lines LLC (Buckeye NGL). Buckeye NGL commenced operations on January 31, 2006 with the acquisition of a natural gas liquids pipeline located in Colorado and Kansas (see Note 3). Each of these entities is referred to hereinafter as an Operating Subsidiary or collectively as the Operating Subsidiaries. The Partnership owns an approximate 99% limited partnership interest in each Operating Subsidiary except Wood River, BPL Transportation and Buckeye NGL, in each of which it owns a 100% interest.

Buckeye GP LLC (the General Partner) serves as the general partner of the Partnership. As of June 30, 2006, the General Partner owned approximately a 0.6% general partnership interest in the Partnership and approximately a 1% general partnership interest in each Operating Subsidiary except Wood River, BPL Transportation and Buckeye NGL. The General Partner is a wholly-owned subsidiary of MainLine Sub LLC (MainLine Sub), which is a wholly-owned subsidiary of MainLine L.P. (MainLine). MainLine is a limited partnership owned by affiliates of Carlyle/Riverstone Global Energy and Power Fund II, L.P. (Carlyle/Riverstone) and certain members of senior management. See Note 11 for other events.

At June 30, 2006, Buckeye Pipe Line Services Company (Services Company) employed all of the employees who work for the Operating Subsidiaries. Under a services agreement entered into in December 2004, (the Services Agreement), the Operating Subsidiaries and their subsidiaries directly reimburse Services Company for the cost of the services provided by the employees. Under the Services Agreement, certain executive compensation costs and related benefits for the General Partner's four highest salaried officers are not reimbursed by the Partnership or the Operating Subsidiaries, but are reimbursed to Services Company by MainLine Sub. At June 30, 2006, Services Company owned an approximate 5.9% limited partnership interest in the Partnership.

The General Partner receives reimbursement for certain costs and expenses (other than the costs charged by Services Company) from the Partnership and the Operating Subsidiaries in accordance with the terms of the Partnership Agreement, the governing documents of the respective Operating Subsidiaries and certain management agreements. The General Partner also receives cash distributions on its partnership interests in the Partnership and each Operating Subsidiary except Wood River, BPL Transportation and Buckeye NGL. In addition, MainLine Sub receives cash distributions on limited partnership interests it owns in the Partnership and incentive compensation payments from the

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Partnership based on the cash distributions paid to the limited partners of the Partnership. As a result

of their ownership interest in MainLine, Carlyle/Riverstone and certain members of senior management indirectly benefit from the cash distributions paid to the General Partner and the cash distributions and incentive compensation paid to MainLine Sub.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the condensed consolidated financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005.

2. CONTINGENCIES

Claims and Proceedings

The Partnership and the Operating Subsidiaries in the ordinary course of business are involved in various claims and legal proceedings, some of which are covered by insurance. The General Partner is generally unable to predict the timing or outcome of these claims and proceedings. Based upon its evaluation of existing claims and proceedings and the probability of losses relating to such contingencies, the Partnership has accrued certain amounts relating to such claims and proceedings, none of which are considered material.

Environmental Contingencies

In accordance with its accounting policy on environmental expenditures, the Partnership recorded operating expenses, net of insurance recoveries, of \$2.2 million and \$2.8 million for the three months ended June 30, 2006 and 2005, respectively, and \$3.9 million and \$5.6 million for the six months ended June 30, 2006 and 2005, respectively, which were related to environmental expenditures unrelated to claims and proceedings. Expenditures, both capital and operating, relating to environmental matters are expected to continue due to the Partnership's commitment to maintaining high environmental standards and to increasingly strict environmental laws and government enforcement policies.

3. ACQUISITIONS

On January 1, 2006, the Partnership acquired a refined petroleum products terminal located in Niles, Michigan from affiliates of Shell Oil Products, U.S. (Shell) for \$13.0 million. On January 31, 2006, the Partnership completed the acquisition of a natural gas liquids pipeline, which extends generally from Wattenberg, Colorado to Bushton, Kansas, from BP Pipelines (North America) Inc. for approximately \$87.0 million, which includes a deposit of \$7.7 million paid in December 2005. Buckeye NGL acquired the natural gas liquids pipeline and Buckeye Terminals, LLC, a subsidiary of BPH, acquired the refined petroleum products terminal. The Partnership also completed certain miscellaneous asset acquisitions during the first six months of 2006 which approximated \$1 million.

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In connection with each of these acquisitions, the Partnership determined that the transaction represented the acquisition of various assets, and not the acquisition of a business, as that term is defined in Statement of Financial Accounting Standards No. 141 - Business Combinations . Accordingly, the Partnership has allocated, on a preliminary basis, the cost of each acquisition to the various tangible assets acquired, principally property, plant and equipment. The Partnership is in the process of determining the final allocation.

In December 2005, the Partnership acquired a refined petroleum products terminal and related assets (including certain railroad offloading facilities) located in Taylor, Michigan for \$20 million. The Partnership allocated, on a preliminary basis, the cost of the assets to the tangible terminal assets acquired, and is in the process of determining the final allocation.

4. LONG-TERM DEBT AND CREDIT FACILITIES

Long-term debt consists of the following:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| | (In thousands) | |
| 4.625% Notes due June 15, 2013 | \$ 300,000 | \$ 300,000 |
| 6.75% Notes due August 15, 2033 | 150,000 | 150,000 |
| 5.30% Notes due October 15, 2014 | 275,000 | 275,000 |
| 5.125% Notes due July 1, 2017 | 125,000 | 125,000 |
| Borrowings under Revolving Credit Facility | 112,000 | 50,000 |
| Less: Unamortized discount | (2,545) | (2,688) |
| Adjustment to fair value associated with hedge of fair value | 1,647 | 1,765 |
| Total | \$ 961,102 | \$ 899,077 |

The fair value of the Partnership's debt was estimated to be \$899 million as of June 30, 2006 and \$908 million at December 31, 2005. The values at June 30, 2006 and December 31, 2005 were based on approximate market value on the respective dates.

The Partnership has a \$400 million 5-year revolving credit facility (the "Credit Facility") with a syndicate of banks led by SunTrust Bank. The Credit Facility contains a one-time expansion feature to \$550 million subject to certain conditions. Borrowings under the Credit Facility are guaranteed by certain of the Partnership's subsidiaries. The Credit Facility matures on August 6, 2009. The weighted average interest rate on amounts outstanding under the Credit Facility at June 30, 2006 was 5.8%.

Borrowings under the Credit Facility bear interest under one of two rate options, selected by the Partnership, equal to either (i) the greater of (a) the federal funds rate plus one half of one percent and (b) SunTrust Bank's prime rate or (ii) the London Interbank Offered Rate ("LIBOR") plus an applicable margin. The applicable margin is determined based upon ratings assigned by Standard and Poors and Moody's Investor Services for the Partnership's senior unsecured non-credit enhanced long-term debt. The applicable margin will increase during any period in which the Partnership's Funded Debt Ratio (described below) exceeds 5.25 to 1.0. At June 30, 2006 and December 31, 2005, the Partnership had \$112.0 million and \$50.0 million outstanding under the Credit Facility, respectively, and had committed \$1.7 million and \$1.3 million in support of letters of credit, respectively.

The Credit Facility contains covenants and provisions that:

Restrict the Partnership and certain of its subsidiaries' ability to incur additional indebtedness based on certain ratios described below;

Prohibit the Partnership and certain of its subsidiaries from creating or incurring certain liens on their property;

Prohibit the Partnership and certain of its subsidiaries from disposing of property material to their operations;

Limit consolidations, mergers and asset transfers by the Partnership and certain of its subsidiaries.

The Credit Facility requires that the Partnership and certain of its subsidiaries maintain a maximum Funded Debt Ratio and a minimum Fixed Charge Coverage Ratio . The Funded Debt Ratio equals the ratio of the long-term debt of the Partnership and certain of its subsidiaries (including the current portion, if any) to Adjusted EBITDA , which is defined in the Credit Facility as earnings before interest, taxes, depreciation, depletion, amortization and incentive compensation payments to the General Partner, for the four preceding fiscal

quarters. As of the end of any fiscal quarter, the Funded Debt Ratio may not exceed 4.75 to 1.00, subject to a provision for increases to 5.25 to 1.00 in connection with future acquisitions. At June 30, 2006 the Partnership's Funded Debt Ratio was 4.48 to 1.00.

The Fixed Charge Coverage Ratio is defined as the ratio of Adjusted EBITDA for the four preceding fiscal quarters to the sum of payments for interest and principal on debt plus certain capital expenditures required for the ongoing maintenance and operation of the Partnership's assets. The Partnership is required to maintain a Fixed Charge Coverage Ratio of greater than 1.25 to 1.00 as of the end of any fiscal quarter. As of June 30, 2006, the Partnership's Fixed Charge Coverage Ratio was 2.70 to 1.00.

At June 30, 2006 the Partnership was in compliance with all of the covenants under the Credit Facility.

In December 2004, the Partnership terminated an interest rate swap agreement associated with the 4.625% Notes due June 15, 2013 and received proceeds of \$2.0 million. In accordance with FASB Statement No. 133 - Accounting for Derivative Instruments and Hedging Activities, the Partnership has deferred the \$2.0 million gain as an adjustment to the fair value of the hedged portion of the Partnership's debt and is amortizing the gain as a reduction of interest expense over the remaining term of the hedged debt. Interest expense was reduced by \$59 thousand during each of the three months ended June 30, 2006 and 2005 and \$118 thousand during each of the six months ended June 30, 2006 and 2005, related to the amortization of the gain on the interest rate swap.

5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

| | June 30, 2006 | December 31, 2005 |
|--------------------------------------|------------------|----------------------|
| | (In thousands) | |
| Taxes other than income | \$ 6,027 | \$ 5,811 |
| Accrued charges due General Partner | 753 | 3,821 |
| Accrued charges due Services Company | 1,240 | 450 |
| Environmental liabilities | 9,522 | 6,996 |
| Interest | 14,246 | 16,634 |
| Accrued top-up reserve | 715 | 1,059 |
| Retainage | 707 | 639 |
| Payable for ammonia purchase | 7,151 | |
| Other | 14,427 | 9,818 |
| Total | \$ 54,788 | \$ 45,228 |

6. PARTNERS CAPITAL AND EARNINGS PER PARTNERSHIP UNIT

Partners capital consists of the following:

| | General Partner | Limited Partners (In thousands) | Receivable from Exercise of Options | Total |
|--|--------------------|---------------------------------------|---|------------|
| Partners Capital - 1/1/06 | \$ 2,529 | \$ 756,531 | \$ (483) | \$ 758,577 |
| Net income | 293 | 46,851 | | 47,144 |
| Distributions | (363) | (57,540) | | (57,903) |
| Net proceeds from issuance of Partnership units | | 64,105 | | 64,105 |
| Amortization of unit options | | 239 | | 239 |
| Net change in receivable from exercise of unit options | | | 19 | 19 |
| Exercise of unit options | | 467 | | 467 |
| Partners Capital - 6/30/06 | \$ 2,459 | \$ 810,653 | \$ (464) | \$ 812,648 |

During the six months ended June 30, 2006, Partnership net income equaled comprehensive income.

The following is a reconciliation of basic and diluted net income per Partnership Unit for the three month and six month periods ended June 30:

| | Income (Numerator) | 2006 Units (Denominator) | Three Months Ended June 30, | | 2005 Units (Denominator) | Per Unit Amount |
|---|-----------------------|--------------------------------|-----------------------------|---|--------------------------------|--------------------|
| | | | Income (Numerator) | Per Unit Amount (In thousands, except per unit amounts) | | |
| Net income | \$ 24,166 | | \$ 24,426 | | | |
| Basic earnings per Partnership Unit | 24,166 | 39,674 | \$ 0.61 | 24,426 | 36,890 | \$ 0.66 |
| Effect of dilutive securities - options | | 21 | | | 36 | |
| Diluted earnings per Partnership Unit | \$ 24,166 | 39,695 | \$ 0.61 | \$ 24,426 | 36,926 | \$ 0.66 |

| | Income (Numerator) | 2006 Units (Denominator) | Six Months Ended June 30, | | 2005 Units (Denominator) | Per Unit Amount |
|------------|-----------------------|--------------------------------|---------------------------|---|--------------------------------|--------------------|
| | | | Income (Numerator) | Per Unit Amount (In thousands, except per unit amounts) | | |
| Net income | \$ 47,144 | | \$ 47,588 | | | |

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| | | | | | | | | |
|---|-----------|--------|----|------|-----------|--------|----|------|
| Basic earnings per Partnership Unit | 47,144 | 39,132 | \$ | 1.20 | 47,588 | 36,032 | \$ | 1.32 |
| Effect of dilutive securities - options | | 24 | | | | 40 | | |
| Diluted earnings per Partnership Unit | \$ 47,144 | 39,156 | \$ | 1.20 | \$ 47,588 | 36,072 | \$ | 1.32 |

7. CASH DISTRIBUTIONS

The Partnership generally makes quarterly cash distributions of substantially all of its available cash, generally defined as consolidated cash receipts less consolidated cash expenditures and such retentions for working capital, anticipated cash expenditures and contingencies as the General Partner deems appropriate.

On July 24, 2006, the Partnership declared a cash distribution of \$0.7625 per unit payable on August 31, 2006 to Unitholders of record on August 4, 2006. The total cash distribution to Unitholders will amount to approximately \$30,253,000. As a result of the cash distribution, the Partnership will also pay to MainLine Sub an incentive compensation payment of approximately \$6,381,000.

8. RELATED PARTY ACCRUED TRANSACTIONS

Accrued and other current liabilities include \$753,000 and \$3,821,000 due to the General Partner, MainLine Sub and MainLine for direct and indirect costs related to the business activities of the Partnership and Operating Subsidiaries at June 30, 2006 and December 31, 2005, respectively. Accrued and other current liabilities included a payable to Services Company of \$1,240,000 and \$450,000 at June 30, 2006 and December 31, 2005, respectively.

9. UNIT OPTION AND DISTRIBUTION EQUIVALENT PLAN

The Partnership sponsors the Unit Option and Distribution Equivalent Plan (the "Option Plan"), pursuant to which it grants options to purchase limited partner units ("LP units") at 100% of the market price of the LP units on the date of grant. Generally the options vest three years from the date of grant and expire ten years from date of grant. As unit options are exercised, the Partnership issues new LP units. The Partnership has not historically repurchased, and does not expect to repurchase, any of its LP units in 2006.

Effective January 1, 2006, the Partnership adopted the fair value measurement and recognition provisions of Statement of Financial Accounting Standards 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), using the modified prospective basis transition method. Under this method, unit-based compensation expense recognized in the first six months of fiscal year 2006 includes: (a) compensation expense for all grants made prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all grants made on or after January 1, 2006, based on the grant date fair value estimated using the Black-Scholes option pricing model. The Partnership will recognize compensation expense for awards granted on or after January 1, 2006 on a straight-line basis over the requisite service period.

For the retirement eligibility provisions of the Option Plan, the Partnership follows the non-substantive vesting method and recognizes compensation expense immediately for options granted to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved. Unit-based compensation expense recognized in the Condensed Consolidated Statements of Income for the first six months of 2006 is based upon options ultimately expected to vest. In accordance with SFAS 123R, forfeitures have been estimated at the time of grant and will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based upon historical experience.

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As a result of adopting SFAS 123R on January 1, 2006, the Partnership's net income for the three month and six month periods ended June 30, 2006 was \$0.1

million and \$0.2 million, respectively, lower than it would have been if the Partnership had continued to account for unit-based compensation under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). Basic and diluted earnings per unit would not have changed for the three and six months ended June 30, 2006. The reported basic and diluted earnings per unit for the three months ended June 30, 2006 were \$0.61 each. The reported basic and diluted earnings per unit for the six months ended June 30, 2006 were \$1.20 each. The following table summarizes the total unit-based compensation expense included in the Partnership's Condensed Consolidated Statements of Income:

| | Three Months Ended June 30, 2006 | (in thousands) | Six Months Ended June 30, 2006 |
|--|-------------------------------------|----------------|-----------------------------------|
| Unit-based operating expenses | \$ | 52 | \$ 184 |
| Unit-based general and administrative expenses | | 15 | 55 |
| Total unit-based compensation | \$ | 67 | \$ 239 |

Prior to January 1, 2006, the Partnership accounted for the Option Plan under the recognition and measurement provisions of APB No. 25, and related Interpretations, as permitted by Financial Accounting Standards Board Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148). No unit-based employee compensation cost was recognized in the Condensed Consolidated Statements of Income for the three-month and six-month periods ended June 30, 2005, as all unit options granted under the Option Plan had an exercise price equal to the market value of the underlying units on the date of grant.

The following table illustrates the effect on net income for the three and six months ended June 30, 2005 as if the Partnership had applied the fair value recognition provisions of SFAS 123 to options granted under the Option Plan. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option pricing model and amortized to expense over the units' vesting periods:

| | Three Months Ended June 30, 2005 | (in thousands, except per unit amounts) | Six Months Ended June 30, 2005 |
|--|-------------------------------------|---|-----------------------------------|
| Net income as reported | \$ | 24,426 | \$ 47,588 |
| Stock-based employee compensation cost included in net income | | | |
| Stock-based employee compensation cost that would have been included in net income under the fair value method | | (61) | (119) |
| Pro forma net income as if the fair value method had been applied to all awards | \$ | 24,365 | \$ 47,469 |
| Basic earnings per unit | As reported | \$ 0.66 | \$ 1.32 |
| | Pro forma | \$ 0.66 | \$ 1.32 |
| Diluted earnings per unit | As reported | \$ 0.66 | \$ 1.32 |
| | Pro forma | \$ 0.66 | \$ 1.32 |

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The fair value of unit options granted to employees was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for the three and six months ended June 30, 2006 and 2005, respectively:

| | 2006 | 2005 |
|---|---------|---------|
| Expected dividend yield | 6.9% | 6.0% |
| Expected unit price volatility | 20.7% | 16.2% |
| Risk-free interest rate | 4.6% | 4.0% |
| Expected life (in years) | 6.5 | 4.0 |
| Weighted-average fair value at grant date | \$ 4.52 | \$ 3.56 |

The expected volatility for the quarter ended June 30, 2006 is based upon historical volatility of the Partnership's market-traded LP units. Effective January 1, 2006, the Partnership has elected to use the simplified method for the expected life which is the option vesting period of three years plus the option term of ten years divided by two. The risk-free interest rate is calculated using the U.S. Treasury yield curves in effect at the time of grant, for the periods within the expected life of the options.

The following table summarizes employee unit option activity for the six month period ended June 30, 2006:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---------------------------------|----------------------|--|---|---------------------------------|
| Outstanding, January 1, 2006 | 246,900 | \$ 39.44 | | |
| Granted | 81,900 | 44.72 | | |
| Exercised | (13,400) | 34.86 | | |
| Forfeited, cancelled or expired | | | | |
| Outstanding, June 30, 2006 | 315,400 | \$ 41.00 | 7.8 | \$ 341,600 |
| Exercisable, June 30, 2006 | 114,700 | \$ 34.34 | 5.7 | \$ 792,200 |

The aggregate intrinsic value in the preceding table represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on June 30, 2006. Intrinsic value is determined by calculating the difference between the Partnership's closing LP unit price on the last trading day of the second quarter of 2006 and the exercise price, multiplied by the number of units. The total intrinsic value of options exercised during the six month period ended June 30, 2006 was \$122,200. The total number of in-the-money options exercisable as of June 30, 2006 was 114,700. As of June 30, 2006, total unrecognized compensation cost related to unvested options was \$374,900. The cost is expected to be recognized over a weighted average period of 1.1 years. At June 30, 2006, 576,000 LP units were available for grant in connection with the Option Plan.

10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Services Company sponsors a retirement income guaranty plan (a defined benefit plan) which generally guarantees employees hired before January 1, 1986 a retirement benefit at least equal to the benefit they would have received under a previously terminated defined benefit plan (Pension Benefit). Services Company's policy is to fund amounts necessary to at least meet the minimum funding requirements under ERISA.

Services Company also provides postretirement health care and life insurance benefits to certain of its retirees (Postretirement Benefit). To be eligible for these benefits, an employee must have been hired prior to January 1, 1991 with respect to health care benefits and January 1, 2002 with respect to life insurance benefits, and the employee must satisfy certain service requirements. Services Company does not pre-fund this postretirement benefit obligation.

In the three months ended June 30, 2006 and 2005, the components of the net periodic benefit cost recognized by the Partnership for Services Company's retirement income guarantee plan and postretirement health care and life insurance plan were as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|------------------|--------|-------------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 179 | \$ 256 | \$ 225 | \$ 203 |
| Interest cost | 215 | 262 | 725 | 689 |
| Expected return on plan assets | (211) | (194) | | |
| Amortization of prior service benefit | (115) | (119) | (125) | (86) |
| Amortization of unrecognized losses | 111 | 211 | 273 | 144 |
| Net periodic benefit cost | \$ 179 | \$ 416 | \$ 1,098 | \$ 950 |

In the six months ended June 30, 2006 and 2005, the components of the net periodic benefit cost recognized by the Partnership for Services Company's retirement income guarantee plan and postretirement health care and life insurance plan were as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|------------------|--------|-------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 461 | \$ 459 | \$ 450 | \$ 408 |
| Interest cost | 500 | 470 | 1,450 | 1,378 |
| Expected return on plan assets | (423) | (348) | | |
| Amortization of prior service benefit | (227) | (213) | (250) | (173) |
| Amortization of unrecognized losses | 306 | 378 | 548 | 288 |
| Net periodic benefit cost | \$ 617 | \$ 746 | \$ 2,198 | \$ 1,901 |

The Partnership previously disclosed in its financial statements for the year ended December 31, 2005 that a minimum funding contribution was not required to be made during 2006.

11. SEGMENT INFORMATION

Prior to 2005, the Partnership determined that it had one reportable operating segment, the transportation segment, based on its management and financial reporting structure. Beginning in the fourth quarter of 2004 and continuing throughout 2005, the Partnership substantially expanded its business, including a significant increase in its terminalling operations. In the fourth quarter of 2005, the Partnership determined that its operations are appropriately presented in three reportable operating segments: Pipeline Operations, Terminalling and Storage and Other Operations.

Pipeline Operations:

The Pipeline Operations segment receives petroleum products including gasoline, jet and diesel fuel and other distillates from refineries, connecting pipelines, bulk and marine terminals and transports these products to other locations for a tariff charge. This segment owns and operates approximately 5,350 miles of pipelines in the following states: California, Colorado, Connecticut, Florida, Illinois, Indiana, Kansas, Massachusetts, Michigan, Missouri, New Jersey, Nevada, New York, Ohio, Pennsylvania and Tennessee. This segment also includes the operations of Buckeye NGL.

Terminalling and Storage:

The Terminalling and Storage segment provides bulk storage and terminal throughput services. This segment owns and operates 45 terminals that have the capacity to store an aggregate of approximately 17.6 million barrels of refined petroleum products. The terminals are located in Indiana, Illinois, Massachusetts, Michigan, Missouri, New York, Ohio and Pennsylvania.

Other Operations:

The Other Operations segment consists primarily of the Partnership's contract operation of third-party pipelines, which are owned primarily by major petrochemical companies and are located in Texas. This segment also performs pipeline construction management services, typically for cost plus a fixed fee, for these same customers. The Other Operations segment also includes the Partnership's ownership and operation of interests in two petrochemical pipelines.

Financial information about each segment is presented below. Each segment uses the same accounting policies as those used in the preparation of the Partnership's condensed consolidated financial statements. All inter-segment revenues, operating income and assets have been eliminated. All periods are presented on a consistent basis.

| Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|------|------------------------------|------|
| 2006 | 2005 | 2006 | 2005 |
| (in thousands) | | (in thousands) | |

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Revenues:

| | | | | | | | | |
|--------------------------|----|---------|----|---------|----|---------|----|---------|
| Pipeline Operations | \$ | 86,538 | \$ | 74,102 | \$ | 168,405 | \$ | 147,374 |
| Terminalling and Storage | | 18,441 | | 15,008 | | 36,609 | | 32,147 |
| Other Operations | | 6,516 | | 12,806 | | 12,226 | | 18,284 |
| Total | \$ | 111,495 | \$ | 101,916 | \$ | 217,240 | \$ | 197,805 |

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | (in thousands) | |
| <u>Operating income:</u> | | | | |
| Pipeline Operations | \$ 35,841 | \$ 30,823 | \$ 67,091 | \$ 59,378 |
| Terminalling and Storage | 5,532 | 5,604 | 13,397 | 13,745 |
| Other Operations | 1,680 | 3,140 | 3,057 | 3,912 |
| Total | \$ 43,053 | \$ 39,567 | \$ 83,545 | \$ 77,035 |
| <u>Depreciation and amortization:</u> | | | | |
| Pipeline Operations | \$ 9,607 | \$ 7,789 | \$ 18,306 | \$ 15,028 |
| Terminalling and Storage | 1,142 | 1,041 | 2,246 | 1,995 |
| Other Operations | 398 | 327 | 787 | 653 |
| Total | \$ 11,147 | \$ 9,157 | \$ 21,339 | \$ 17,676 |

| | Six Months Ended June 30, | | |
|------------------------------|------------------------------|--------|------------|
| | 2006 | | 2005 |
| | (in thousands) | | |
| <u>Capital expenditures:</u> | | | |
| Pipeline Operations | \$ | 31,332 | \$ 35,141 |
| Terminalling and Storage | | 9,487 | 1,269 |
| Other Operations | | 3,124 | 176 |
| Total | \$ | 43,943 | \$ 36,586 |
| <u>Acquisitions:</u> | | | |
| Pipeline Operations | \$ | 79,286 | \$ 153,633 |
| Terminalling and Storage | | 13,504 | 25,221 |
| Other Operations | | | |
| Total | \$ | 92,790 | \$ 178,854 |

| | June 30, 2006 | December 31, 2005 |
|--------------------------|------------------|----------------------|
| | (In thousands) | |
| *Assets: | | |
| Pipeline Operations | \$ 1,568,500 | \$ 1,466,512 |
| Terminalling and Storage | 306,636 | 288,972 |
| Other Operations | 66,693 | 61,383 |
| Total | \$ 1,941,829 | \$ 1,816,867 |

* All equity investments are included in the assets of Pipeline Operations.

12. OTHER EVENTS

On July 14, 2006, Buckeye GP Holdings L.P. (Buckeye GP Holdings), filed an Amendment No. 3 to its Registration Statement on Form S-1 with the Securities and Exchange Commission to register the sale of 14,100,000 of its common units representing limited partner interests. Buckeye GP Holdings was formed in June 2006 in order to (i) reorganize the ownership of the general partner interests in the

Partnership which are indirectly owned by MainLine, (ii) become the owner of the general partnership interests in the Partnership, and (iii) complete an initial public offering of its common units.

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

RESULTS OF OPERATIONS

Overview

Buckeye Partners, L.P. (the Partnership) is a master limited partnership which operates through subsidiary entities (the Operating Subsidiaries) in the transportation, terminalling and storage of refined petroleum products on a fee basis through facilities owned and operated by the Partnership. The Partnership also operates pipelines owned by third parties under contracts with major integrated oil and chemical companies, and performs certain construction activities, generally for the owners of these third-party pipelines.

The Partnership's subsidiaries are Buckeye Pipe Line Company, L.P. (Buckeye), Laurel Pipe Line Company, L.P. (Laurel), Everglades Pipe Line Company, L.P. (Everglades), Buckeye Pipe Line Holdings, L.P. (BPH), Wood River Pipe Lines LLC (Wood River), Buckeye Pipe Line Transportation LLC (BPL Transportation) and Buckeye NGL Pipe Lines LLC (Buckeye NGL). Each of these entities is referred to individually as an Operating Subsidiary and collectively as the Operating Subsidiaries. The Partnership owns approximately a 99% interest in each Operating Subsidiary except Wood River, BPL Transportation and Buckeye NGL, in each of which it owns a 100% interest.

The following discussion provides an analysis of the results for each of the Partnership's operating segments, an overview of its liquidity and capital resources and other items related to the Partnership. The following discussion and analysis should be read in conjunction with (i) the accompanying interim condensed consolidated financial statements and related notes and (ii) the Partnership's consolidated financial statements, related notes and management's discussion and analysis of financial condition and results of operations included in the Annual Report on Form 10-K for the year ended December 31, 2005.

In May 2005, the Partnership acquired a refined petroleum products pipeline system comprising approximately 478 miles of pipeline and four refined products terminals with aggregate storage capacity of approximately 1.3 million barrels located in the northeastern United States from affiliates of ExxonMobil Corporation (the Northeast Pipelines and Terminals). In December 2005, the Partnership acquired a refined petroleum products terminal and related assets (including certain railroad offloading facilities) located in Taylor, Michigan for \$20 million. On January 1, 2006, the Partnership acquired a refined petroleum products terminal located in Niles, Michigan, with aggregate storage capacity of 630,000 barrels from affiliates of Shell for \$13.0 million. On January 31, 2006, Buckeye NGL acquired a natural gas liquids pipeline (the NGL Pipeline) with aggregate mileage of approximately 350 miles from BP Pipelines (North America) Inc. for approximately \$87.0 million, which includes a deposit of \$7.7 million paid in December 2005. The NGL Pipeline extends generally from Wattenberg, Colorado to Bushton, Kansas. The acquired assets have been included in the Partnership's operations from their dates of acquisition. The asset acquisitions completed in 2005 and 2006 added \$6.1 million of revenue in the three months ended June 30, 2006 and \$13.9 million of revenue in the six months ended June 30, 2006.

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The Partnership's business comprises three operating segments: Pipeline Operations, Terminalling and Storage and Other Operations. The business of each operating segment is:

Pipeline Operations:

The Pipeline Operations segment receives petroleum products including gasoline, jet and diesel fuel and other distillates from refineries, connecting pipelines, and bulk and marine terminals and transports those products to other locations for a fee. As of June 30, 2006, this segment owned and operated approximately 5,350 miles of pipeline systems in the following states: California, Colorado, Connecticut, Florida, Illinois, Indiana, Kansas, Massachusetts, Michigan, Missouri, New Jersey, Nevada, New York, Ohio, Pennsylvania and Tennessee. This segment also includes the operations of Buckeye NGL.

Terminalling and Storage:

The Terminalling and Storage segment provides bulk storage and terminal throughput services. This segment owns and operates 45 active terminals with the capacity to store an aggregate of approximately 17.6 million barrels of refined petroleum products. The terminals are located in Indiana, Illinois, Massachusetts, Michigan, Missouri, New York, Ohio and Pennsylvania.

Other Operations:

The Other Operations segment consists primarily of the Partnership's contract operation of third-party pipelines, which are owned primarily by major petrochemical companies and are located in Texas. This segment also performs pipeline construction management services, typically for cost plus a fixed fee, for these same customers. The Other Operations segment also includes the Partnership's ownership and operation of interests in two petrochemical pipelines.

Results of Operations

Summary operating results for the Partnership were as follows:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | | | |
|-------------------------|--------------------------------|----------|------|------------------------------|----|----------|----|----------|
| | 2006 | | 2005 | 2006 | | 2005 | | |
| | (in thousands) | | | (in thousands) | | | | |
| Revenue | \$ | 111,495 | \$ | 101,916 | \$ | 217,240 | \$ | 197,805 |
| Costs and expenses | | 68,442 | | 62,349 | | 133,695 | | 120,770 |
| Operating income | | 43,053 | | 39,567 | | 83,545 | | 77,035 |
| Other income (expenses) | | (18,887) | | (15,141) | | (36,401) | | (29,447) |

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| | | | | | | | | |
|---------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Net income | \$ | 24,166 | \$ | 24,426 | \$ | 47,144 | \$ | 47,588 |
| Earnings per unit - basic | \$ | 0.61 | \$ | 0.66 | \$ | 1.20 | \$ | 1.32 |
| Earnings per unit - assuming dilution | \$ | 0.61 | \$ | 0.66 | \$ | 1.20 | \$ | 1.32 |

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Revenues and operating income by operating segment for the three months ended June 30, 2006 and 2005 were as follows:

| | Three Months Ended June 30, | |
|--------------------------|--------------------------------|------------|
| | 2006 | 2005 |
| | (in thousands) | |
| <u>Revenues:</u> | | |
| Pipeline Operations | \$ 86,538 | \$ 74,102 |
| Terminalling and Storage | 18,441 | 15,008 |
| Other Operations | 6,516 | 12,806 |
| Total | \$ 111,495 | \$ 101,916 |
| <u>Operating income:</u> | | |
| Pipeline Operations | \$ 35,841 | \$ 30,823 |
| Terminalling and Storage | 5,532 | 5,604 |
| Other Operations | 1,680 | 3,140 |
| Total | \$ 43,053 | \$ 39,567 |

Second Quarter

Total revenues for the quarter ended June 30, 2006 were \$111.5 million, \$9.6 million or 9.4% greater than revenue of \$101.9 million in 2005.

Pipeline Operations:

Revenue from Pipeline Operations was \$86.5 million for the quarter ended June 30, 2006 compared to \$74.1 million for the quarter ended June 30, 2005. The net increase in revenue from Pipeline Operations of \$12.4 million was primarily the result of:

BPL Transportation revenue increased by \$2.2 million (BPL Transportation's assets were acquired on May 5, 2005);

Buckeye NGL revenue of \$2.8 million (Buckeye NGL's assets were acquired on January 31, 2006);

an increase in market-based interstate and certain intrastate tariff rates averaging approximately 4.8% effective May 1, 2006, an increase in index based interstate tariff rates of approximately 3.6% effective July 1, 2005, and an increase in market-based interstate and certain intrastate tariff rates averaging approximately 4.3% effective May 1, 2005;

a 0.1%, or \$0.1 million, decrease, net of BPL Transportation revenue, in gasoline transportation revenue on a 2.6% decrease in gasoline volumes delivered;

a 11.2%, or \$1.4 million, increase, net of BPL Transportation revenue, in jet fuel transportation revenue on a 7.0% increase in jet fuel volumes delivered;

a 0.5%, or \$0.1 million increase, net of BPL Transportation revenue, in distillate transportation revenue on a 3.2% decrease in distillate volumes delivered;

an increase in liquefied petroleum gas (LPG) and other product transportation revenue of \$0.5 million as a result of higher tariffs and an increase in volumes delivered;

a \$1.4 million increase in incidental revenue primarily from increased revenues under a product supply arrangement in connection with WesPac Pipelines - Reno LLC (WesPac - Reno);

a \$2.0 million increase in other revenues principally resulting from the Memphis terminal;

a \$0.8 million increase in operating services revenue due to an increase in reimbursable maintenance and inspection activities under an operating services contract;

a \$0.3 million increase in miscellaneous rental revenue; and

a \$0.2 million increase in transportation settlement revenue, representing primarily the settlement of overages and shortages on product deliveries.

Product deliveries for each of the quarters ended June 30, 2006 and 2005, including BPL Transportation product deliveries were as follows:

| Product | Barrels per Day Three Months Ended June 30, | |
|------------|--|-----------|
| | 2006 | 2005 |
| Gasoline | 734,200 | 736,500 |
| Distillate | 281,700 | 288,700 |
| Jet Fuel | 359,200 | 330,700 |
| LPG s | 33,800 | 24,000 |
| NGL s | 21,900 | |
| Other | 10,500 | 7,000 |
| Total | 1,441,300 | 1,386,900 |

In the second quarter of 2006, certain of the Partnership's Operating Subsidiaries filed pipeline tariffs reflecting increased rates on average of approximately 6.1%. Tariff rate increases were not filed in connection with certain of the Partnership's pipelines regulated by state regulatory agencies which represent less than 8% of the Partnership's pipeline volumes. These tariff rate increases are expected to generate approximately \$17 million in additional revenue on an annual basis. The Partnership also filed with the Federal Energy Regulatory Commission, effective June 1, 2006, a tariff rate surcharge to recover anticipated capital and operating costs associated with the pipeline transportation of ultra low sulfur diesel fuel. The tariff rate surcharge is expected to generate approximately \$3 million in additional revenue on an annual basis. The tariff rate surcharge is designed to permit the Partnership to recover, over time, its capital investment (and a reasonable rate of return thereon) and its operating costs related to infrastructure improvements in connection with the transportation of ultra low sulfur diesel fuel.

Terminalling and Storage:

Terminalling and Storage revenues of \$18.4 million for the quarter ended June 30, 2006 increased by \$3.4 million from the comparable quarter in 2005.

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Recent terminal acquisitions increased Terminalling and Storage revenues by \$1.9 million for the quarter ended June 30, 2006 compared to the comparable period in 2005. The increase is related to periods in 2006 during which the acquired terminals were owned compared to the comparable period in 2005 during which the acquired terminals were not owned.

Terminalling and Storage revenues at existing terminals owned by the Partnership were \$15.9 million for the quarter ended June 30, 2006, an increase of \$1.6 million from the second quarter of 2005, which is principally related to an increase in terminal throughput volumes.

Average daily throughput for the refined products terminals for quarters ended June 30 was as follows:

| | Quarter Ended June 30, | |
|-----------------------------------|-------------------------------|-------------|
| | 2006 | 2005 |
| Refined products throughput (bpd) | 514,700 | 433,200 |

Other Operations:

Revenue from other operations of \$6.5 million for the quarter ended June 30, 2006 decreased by \$6.3 million from the comparable period in 2005 primarily as a result of the absence of a large construction contract which provided approximately \$6.5 million of revenue in the second quarter of 2005.

Operating Expenses:

Costs and expenses for the three months ended June 30, 2006 and 2005 were as follows:

| | Operating Expenses | |
|-------------------------------|---------------------------|-------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Payroll and payroll benefits | \$ 19,594 | \$ 18,241 |
| Depreciation and amortization | 11,147 | 9,157 |
| Operating power | 7,047 | 5,959 |
| Outside services | 8,104 | 5,739 |
| Property and other taxes | 4,025 | 4,181 |
| Construction management | 1,424 | 5,058 |
| All other | 17,101 | 14,014 |
| Total | \$ 68,442 | \$ 62,349 |

Payroll and payroll benefits were \$19.6 million in the second quarter of 2006, an increase of \$1.4 million compared to the second quarter of 2005. Of this increase, approximately \$0.6 million is related to employees hired as a result of acquisitions that occurred during the previous twelve months. Increases in salaries and wages of \$1.3 million resulted from an increase in the number of employees and overtime pay due to

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the Partnership's expanded operations and higher wage rates. These increases were partially offset by an increase in capitalized payroll of \$0.7 million resulting from increased charges to capital projects by internal personnel.

Depreciation and amortization expense was \$11.1 million in the second quarter of 2006, an increase of \$2.0 million from the second quarter of 2005. Depreciation related to recent acquisitions was \$0.7 million. The remaining increase resulted from assets placed into service during 2006.

Operating power costs were \$7.0 million in the three months ended June 30, 2006, an increase of \$1.1 million from the same period in 2005. Of this

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increase, \$0.6 million is related to recent acquisitions. The remainder of the increase is due to additional pipeline volumes in the Partnership's pipeline operations. Operating power consists primarily of electricity required to operate pumping facilities.

Outside services costs increased \$2.4 million from \$5.7 million in the second quarter of 2005 to \$8.1 million in the second quarter of 2006. Outside services costs related to acquisitions that occurred during the previous twelve months added \$0.2 million of outside services costs. The Partnership incurred an additional \$0.7 million for pipeline inspection and maintenance costs related to an operating service contract. The Partnership also incurred additional expense of \$0.3 million for public awareness programs. The remainder of the increase is due to additional pipeline and tank inspections and maintenance work that occurred during the second quarter of 2006. Outside services costs consist principally of third-party contract services for maintenance activities.

Property and other taxes decreased by \$0.2 million from \$4.2 million in the second quarter of 2005 to \$4.0 million for the same period in 2006. The Partnership was reimbursed \$0.9 million in 2006 for certain property taxes under an operating service agreement. This decrease was partially offset by an increase of \$0.3 million related to recent acquisitions and \$0.4 million related to higher real property assessments over the same period in 2005.

Construction management costs were \$1.4 million in the second quarter of 2006, which is a decrease of \$3.6 million from the second quarter of 2005. The decrease is principally a result from the absence of a large construction project that was completed in the second quarter 2005.

All other costs were \$17.1 million in the three months ended June 30, 2006, an increase of \$3.1 million compared to \$14.0 million in the same period in 2005. The increase reflects \$1.3 million of costs associated with fuel purchases by Wes Pac - Reno related to a product-supply arrangement. Other costs related to recent acquisitions were \$0.4 million. These increases were partially offset by a decrease in casualty losses of \$0.7 million. The remainder of the increase is due to increases in various other costs resulting from the Partnership's expanded operations.

Costs and expenses by segment for the quarters ended June 30, 2006 and 2005 were as follows:

| | Costs and Expenses | |
|---------------------------------|---------------------------|------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Total costs and expenses | | |
| Pipeline Operations | \$ 50,697 | \$ 43,279 |
| Terminalling and Storage | 12,909 | 9,404 |
| Other Operations | 4,836 | 9,666 |
| Total | \$ 68,442 | \$ 62,349 |

Other income (expense) for the three months ended June 30, 2006 and 2005 was as follows:

| | Other Income | |
|------------------------------|-----------------------|-------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Investment and equity income | \$ 1,604 | \$ 1,358 |

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| | | |
|--|-------------|-------------|
| Interest and debt expense | (12,889) | (10,826) |
| General Partner incentive compensation | (6,174) | (4,762) |
| Minority interests and other | (1,428) | (911) |
| Total | \$ (18,887) | \$ (15,141) |

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Interest expense was \$12.9 million in the three months ended June 30, 2006, an increase of \$2.1 million from \$10.8 million in the three months ended June 30, 2005. The Partnership incurred approximately \$1.6 million in interest related to its 5.125% Notes due 2017, which were issued in June 2005. The remainder of the increase is due to higher average balances outstanding and higher interest rates on the Partnership's 5-year revolving credit facility.

General Partner incentive compensation was \$6.2 million in the second quarter of 2006, compared to \$4.8 million in the second quarter of 2005, an increase of \$1.4 million. The increase is a result of the issuance of 1.5 million limited partnership units (LP Units) in March 2006 and 2.5 million LP Units in May 2005, as well as an increase in the quarterly distribution rate to LP unitholders in the 2006 period compared to the 2005 period.

Six Months

Revenues for the six months ended June 30, 2006 and 2005 were as follows:

| | Revenues | |
|--------------------------|-----------------------|-------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Pipeline Operations | \$ 168,405 | \$ 147,374 |
| Terminalling and Storage | 36,609 | 32,147 |
| Other Operations | 12,226 | 18,284 |
| Total | \$ 217,240 | \$ 197,805 |

Total revenue for the six months ended June 30, 2006 was \$217.2 million, \$19.4 million, or 9.8%, greater than revenue of \$197.8 million for the same period in 2005.

Pipeline Operations:

Revenue from Pipeline Operations was \$168.4 million for the six months ended June 30, 2006 compared to \$147.4 million for the six months ended June 30, 2005. The net increase of \$21.0 million in Pipeline Operations revenue was primarily the result of:

BPL Transportation revenue increase of \$6.9 million (BPL Transportation's assets were acquired on May 5, 2005);

Buckeye NGL revenue of \$4.6 million (Buckeye NGL's assets were acquired on January 31, 2006);

an increase in market-based interstate and certain intrastate tariff rates averaging approximately 4.8% effective May 1, 2006, an increase in index based interstate tariff rates of approximately 3.6% effective July 1, 2005, and an increase in market-based interstate and certain intrastate tariff rates averaging approximately 4.3% effective May 1, 2005;

a 0.2% decrease, or \$0.2 million, net of BPL Transportation, in gasoline transportation revenue on a 2.8% decrease in gasoline volumes delivered;

a 11.0% increase, or \$2.6 million, net of BPL Transportation, in jet fuel transportation revenue on a 6.3% increase in jet fuel volumes delivered;

a 3.4% increase, or \$1.2 million, net of BPL Transportation, in distillate transportation revenue on a 0.3% increase in distillate volumes delivered;

an increase in LPG transportation revenue of \$0.9 million as a result of higher tariffs and an increase in volumes delivered;

a \$2.5 million increase in incidental revenue primarily from increased revenues under a product supply arrangement in connection with WesPac-Reno;

a \$2.7 million increase in other revenues principally resulting from the Memphis terminal;

a \$1.1 million increase in operating services revenue due to an increase in reimbursable maintenance and inspection activities under an operating services contract;

a \$1.2 million increase in miscellaneous rental revenue; and

a decrease in transportation settlement revenue, representing the settlement of overages and shortages on product deliveries, of \$3.3 million.

Product deliveries for the six months ended June 30, 2006 and 2005, including Buckeye NGL and BPL Transportation product deliveries were as follows:

| Product | Barrels per Day | |
|------------|---------------------------|---------|
| | Six Months Ended June 30, | 2005 |
| | 2006 | |
| Gasoline | 712,800 | 700,200 |
| Distillate | 324,200 | 315,000 |
| Jet Fuel | 345,900 | 314,700 |
| LPG s | 23,800 | 18,000 |
| NGL s | 17,800 | |
| Other | 10,500 | 6,300 |

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| | | |
|-------|-----------|-----------|
| Total | 1,435,000 | 1,354,200 |
|-------|-----------|-----------|

Terminalling and Storage:

Terminalling and Storage revenues of \$36.6 million for the six months ended June 30, 2006 increased by \$4.5 million from the comparable period in 2005.

Recent terminal acquisitions increased Terminalling and Storage revenues by \$4.2 million for six months ended June 30, 2006 compared to the comparable period in 2005. The increase is related to periods in 2006 during which the acquired terminals were owned compared to the comparable period in 2005 during which the acquired terminals were not owned.

Terminalling and Storage revenues at existing terminals owned by the Partnership were \$31.7 million for the six months ended June 30, 2006, an increase of \$0.3 million from the first six months of 2005.

Average daily throughput for the refined products terminals for six months ended June 30, 2006 and 2005 was as follows:

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Six Months ended June 30,
2006 **2005**

| | | |
|-----------------------------------|---------|---------|
| Refined products throughput (bpd) | 484,200 | 408,000 |
|-----------------------------------|---------|---------|

Other Operations:

Other Operations revenues of \$12.2 million for the six months ended June 30, 2006 declined by \$6.1 million from the comparable period in 2005 primarily as a result of the absence of a large construction project which provided approximately \$6.8 million of revenue in the first six months of 2005.

Operating Expenses:

Costs and expenses for the six month periods ended June 30, 2006 and 2005 were as follows:

| | Costs and Expenses | |
|-------------------------------|---------------------------|-------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Payroll and payroll benefits | \$ 39,467 | \$ 36,822 |
| Depreciation and amortization | 21,339 | 17,676 |
| Operating power | 14,137 | 12,038 |
| Outside services | 13,163 | 10,411 |
| Property and other taxes | 9,079 | 8,149 |
| Construction management | 1,986 | 5,356 |
| All other | 34,524 | 30,318 |
| Total | \$ 133,695 | \$ 120,770 |

Payroll and payroll benefits were \$39.5 million for the six months ended June 30, 2006 an increase of \$2.6 million compared to the comparable period in 2005. Of this increase, approximately \$1.5 million is related to employees added as a result of recent acquisitions. Increases in salaries and wages of \$2.5 million resulted from an increase in the number of employees and overtime pay due to the Partnership's expanded operations and higher wage rates. The Partnership also experienced an increase in benefit costs of \$0.3 million. These increases were partially offset by an increase of capitalized payroll of \$1.4 million resulting from increased charges to capital projects by internal personnel and a decrease in severance pay. The Partnership incurred expense of \$0.6 million for severance pay in 2005 which did not occur during 2006.

Depreciation and amortization expense was \$21.3 million for the six months ended June 30, 2006, an increase of \$3.7 million from the comparable period of 2005. Depreciation related to recent acquisitions was \$1.9 million. The remaining increase resulted from assets placed into service during the six months ended June 30, 2006.

Operating power costs of \$14.1 million in the first six months of 2006 were \$2.1 million higher than the same period in 2005. Recent acquisitions added \$1.5 million. The remainder of the increase is due to additional pipeline volumes in the Partnership's pipeline operations. Operating power consists primarily of electricity required to operate pumping facilities.

Outside services costs were \$13.2 million in the first six months of 2006, or \$2.8 million greater than the same period in 2005. Outside services costs related to recent acquisitions were \$0.4 million. The Partnership incurred an additional \$0.9 million for pipeline inspection and maintenance costs related to an operating service contract. The Partnership also incurred additional expense of \$0.3 million for public awareness programs. The remainder of the

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increase is due to additional pipeline and tank inspections and maintenance work that occurred during the first half of 2006.

Property and other taxes increased by \$1.0 million from \$8.1 million in the second quarter of 2005 to \$9.1 million for the same period in 2006. Of this increase, \$0.9 million related to recent acquisitions. This increase was offset by a reimbursement of \$0.9 million in 2006 for certain property taxes under an operating service agreement. The remainder of the increase is due to higher real property assessments over the same period in 2005.

Construction management costs were \$2.0 million in the six months ended June 30, 2006, which is a decrease of \$3.4 million from the same period in 2005. The decrease is a result of the absence of a significant construction contract that was completed in 2005.

All other costs were \$34.5 million, an increase of \$4.2 million, in the first six months of 2006 compared to the first six months of 2005. The increase reflects \$2.6 million of costs associated with fuel purchases by Wes Pac - Reno related to a product-supply arrangement. Other costs related to recent acquisitions were \$1.3 million. These increases were partially offset by a decrease in casualty losses of \$1.7 million. The remainder of the increases related to various other pipeline operating costs resulting from the Partnership's expanded operations.

Costs and expenses by segment for the six months ended June 30, 2006 and 2005 were as follows:

| | Costs and Expenses | |
|---------------------------------|--------------------|-------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Total costs and expenses | | |
| Pipeline Operations | \$ 101,314 | \$ 87,996 |
| Terminalling and Storage | 23,212 | 18,402 |
| Other Operations | 9,169 | 14,372 |
| Total | \$ 133,695 | \$ 120,770 |

Other income (expense) for the six month periods ended June 30, 2006 and 2005 was as follows:

| | Other Income (Expenses) | |
|--|-------------------------|--------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Investment and equity income | \$ 3,196 | \$ 2,728 |
| Interest and debt expense | (25,360) | (20,957) |
| General Partner incentive compensation | (11,896) | (9,335) |
| Minority interests and other | (2,341) | (1,883) |
| Total | \$ (36,401) | \$ (29,447) |

Investment and equity income for the six months ended June 30, 2006 was \$3.2 million, which is an increase of \$0.5 million from the comparable period in 2005. The increase is a result of equity income earned from the Partnership's approximate 40% interest in Muskegon Pipeline LLC which was acquired in December 2005.

Interest expense was \$25.4 million in the six months ended June 30, 2006, an increase of \$4.4 million from \$21.0 million in the six months ended June 30, 2005. The Partnership incurred approximately \$3.2 million in interest related to the 5.125% Notes due 2017, which were issued in June 2005.

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The balance of the increase in interest expense resulted from higher average balances outstanding and interest rates on the Partnership's 5-year revolving credit facility.

General Partner incentive compensation was \$11.9 million in the first six months of 2006, compared to \$9.3 million for the same period in 2005, an increase of \$2.6 million. The increase is a result of the issuance of 2.5 million LP Units in May 2005 and the issuance of 1.5 million LP Units issued in March 2006 and an increase in the quarterly distribution rate to LP unitholders in the 2006 period compared to the 2005 period.

LIQUIDITY AND CAPITAL RESOURCES

The Partnership's financial condition at June 30, 2006 and December 31, 2005 is highlighted in the following comparative summary:

Liquidity and Capital Indicators

| | 6/30/06 | As of | 12/31/05 |
|--|-----------|-------|----------|
| Current ratio (1) | 1.6 to 1 | | 1.6 to 1 |
| Ratio of cash and cash equivalents, and trade receivables to current liabilities | 0.9 to 1 | | 1.0 to 1 |
| Working capital - in thousands (2) | \$ 39,872 | \$ | 36,215 |
| Ratio of total debt to total capital (3) | .54 to 1 | | .54 to 1 |
| Book value (per Unit) (4) | \$ 20.48 | \$ | 19.88 |

(1) current assets divided by current liabilities

(2) current assets minus current liabilities

(3) long-term debt divided by long-term debt plus total partners' capital

(4) total partners' capital divided by Units outstanding at the end of the period.

During the first six months of 2006 and 2005, the Partnership's principal sources of liquidity were cash from operations, borrowings under its revolving credit facility and proceeds from the issuance of the Partnership's LP Units. In the first six months of 2006 and 2005, the Partnership's principal uses of cash were capital expenditures, distributions to Unitholders, debt payments and acquisitions described in Cash Flows From Investing Activities below.

At June 30, 2006, the Partnership had \$962 million aggregate amount of long-term debt, which consisted of \$300 million of the Partnership's 4.625% Notes due 2013 (the 4.625% Notes), \$275 million of the Partnership's 5.30% Notes due 2014 (the 5.30% Notes), \$150 million of the Partnership's 6.75% Notes due 2033 (the 6.75% Notes), \$125 million of the Partnership's 5.125% Notes due 2017 (the 5.125% Notes) and \$112 million outstanding under the Partnership's revolving credit facility.

The Partnership has a \$400 million 5-year revolving credit facility (the Credit Facility) with a syndicate of banks led by SunTrust Bank. The Credit Facility contains a one-time expansion feature to \$550 million subject to certain conditions. Borrowings under the Credit Facility are guaranteed by certain of the Partnership's subsidiaries. The Credit Facility matures on August 6, 2009. At June 30, 2006, the weighted average interest rate on amounts outstanding was 5.8%.

Borrowings under the Credit Facility bear interest under one of two rate options, selected by the Partnership, equal to either (i) the greater of (a) the federal funds rate plus one half of one percent and (b) SunTrust

Bank's prime rate or (ii) the London Interbank Offered Rate (LIBOR) plus an applicable margin. The applicable margin is determined based upon ratings assigned by Standard and Poors and Moody's Investor Services for the Partnership's senior unsecured non-credit enhanced long-term debt. The applicable margin will increase during any period in which the Partnership's Funded Debt Ratio (described below) exceeds 5.25 to 1.0. At June 30, 2006 and December 31, 2005, the Partnership had \$112.0 million and \$50.0 million outstanding under the Credit Facility, respectively, and had committed \$1.7 million and \$1.3 million, respectively, in support of letters of credit.

The Credit Facility contains covenants and provisions that:

Restrict the Partnership and certain of its subsidiaries' ability to incur additional indebtedness based on certain ratios described below;

Prohibit the Partnership and certain of its subsidiaries from creating or incurring certain liens on their property;

Prohibit the Partnership and certain of its subsidiaries from disposing of property material to their operations;

Limit consolidations, mergers and asset transfers by the Partnership and certain of its subsidiaries.

The Credit Facility requires that the Partnership and certain of its subsidiaries maintain a maximum Funded Debt Ratio and a minimum Fixed Charge Coverage Ratio. The Funded Debt Ratio equals the ratio of the long-term debt of the Partnership and certain of its subsidiaries (including the current portion, if any) to Adjusted EBITDA, which is defined in the Credit Facility as earnings before interest, taxes, depreciation, depletion, amortization and incentive compensation payments to the General Partner, for the four preceding fiscal quarters. As of the end of any fiscal quarter, the Funded Debt Ratio may not exceed 4.75 to 1.00, subject to a provision for increases to 5.25 to 1.00 in connection with future acquisitions. At June 30, 2006 the Partnership's Funded Debt Ratio was 4.48 to 1.00.

The Fixed Charge Coverage Ratio is defined as the ratio of Adjusted EBITDA for the four preceding fiscal quarters to the sum of payments for interest and principal on debt plus certain capital expenditures required for the ongoing maintenance and operation of the Partnership's assets. The Partnership is required to maintain a Fixed Charge Coverage Ratio of greater than 1.25 to 1.00 as of the end of any fiscal quarter. As of June 30, 2006, the Partnership's Fixed Charge Coverage Ratio was 2.70 to 1.00.

At June 30, 2006 the Partnership was in compliance with all of the covenants under the Credit Facility.

The Partnership had no derivative instruments outstanding at June 30, 2006.

Cash Flows from Operations

The components of cash flows from operations for the six months ended June 30, 2006 and 2005 are as follows:

**Cash Flows from
Operations**
(In thousands)

| | 2006 | | 2005 |
|---|-------------|----|-------------|
| Net income | \$ 47,144 | \$ | 47,588 |
| Depreciation and amortization | 21,339 | | 17,676 |
| Minority interests | 2,341 | | 1,883 |
| Changes in current assets and liabilities | (10,217) | | (18,179) |
| Changes in other assets and liabilities | 1,952 | | 3,765 |
| Other | 636 | | (801) |
| Total | \$ 63,195 | \$ | 51,932 |

Cash flows from operations were \$63.2 million for the first six months of 2006, an increase of \$11.3 million over the first six months of 2005. Net income was \$47.1 million for the first six months of 2006 and \$47.6 million for the same period of 2005, a decrease of \$0.5 million. Depreciation and amortization was \$21.3 million for 2006 compared to \$17.7 million during the same period in 2005. The increase principally resulted from recent acquisitions and an increase in assets placed into service during the first six months of 2006. Cash used by working capital was \$10.2 million compared to cash used by working capital of \$18.2 million in 2005.

During the six months ended June 30, 2006, cash used for working capital resulted from increases in trade receivables of \$1.1 million, construction and pipeline relocation receivables of \$2.4 million and prepaid and other current assets of \$12.0 million and a decrease in accounts payable of \$3.8 million. The decreases in cash were partially offset by an increase in accrued and other current liabilities of \$9.5 million. The increase in trade receivables is partly due to activity at Buckeye NGL which commenced operations in January 2006. The increase in construction and pipeline relocations receivables is due to an increase in relocation project activity. Prepaid and other current assets increased due to an increase in insurance receivables and an increase in a receivable for activity on a 29-mile ammonia pipeline acquired in November 2005. The decrease in accounts payable resulted from the timing of invoice payments at year end of 2005. The increase in accrued and other current liabilities is due to activity on the 29-mile ammonia pipeline.

In 2005, cash used for working capital resulted principally from reductions in accounts payable of \$4.9 million and other current liabilities of \$4.1 million as well as an increase in trade receivables and construction and pipeline relocation receivables of \$11.6 million and \$0.5 million, respectively, partially offset by a reduction in prepaid and other current assets of \$3.6 million. The decrease in accounts payable resulted principally from the timing of invoice payments at year-end 2004 as well as lower maintenance and outside service activities at the end of the second quarter compared to year-end. A reduction in accrued and other current liabilities resulted from a decline in interest payable and declines in accruals for capital expenditures and other operating expenses. The increase in trade receivables resulted principally from the timing of billings related to terminals operations. The reduction in prepaid and other current assets resulted principally from the collection of insurance receivables in the first half.

Cash Flows from Investing Activities

Net cash used in investing activities for the six months ended June 30, 2006 and 2005 are as follows:

| Investing Activities For the Six Months Ended June 30, | | | |
|---|----------------|-----------|--------------|
| | 2006 | | 2005 |
| | (in thousands) | | |
| Capital expenditures | \$ | (43,943) | \$ (36,586) |
| Investments and acquisitions | | (92,790) | (178,854) |
| Other | | (139) | 69 |
| Total | \$ | (136,872) | \$ (215,371) |

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In the six months ended June 30, 2006, the Partnership expended \$92.8 million related to acquisitions, including \$79.3 million related to Buckeye NGL, \$12.5 million related to the acquisition of the Niles, Michigan terminal and approximately \$1 million for miscellaneous asset acquisitions. In the six months ended June 30, 2005, the Partnership spent approximately \$178.9 million related to acquisitions, of which \$176.3 related to the acquisition of the Northeast Pipelines and Terminals and the remainder related to the purchase of the remaining 25% interest in WesPac Pipelines - Reno LLC, an indirect subsidiary of BPH, from Kealine Partners for \$2.5 million.

Capital expenditures are summarized below:

| Capital Expenditures | | | |
|--|-----------------------|--------|-------------|
| For the Six Months Ended June 30, | | | |
| | 2006 | | 2005 |
| | (in thousands) | | |
| Sustaining capital expenditures | \$ | 11,240 | \$ 5,023 |
| Expansion and cost reduction | | 32,703 | 31,563 |
| Total | \$ | 43,943 | \$ 36,586 |

The Partnership incurred \$11.2 million of sustaining capital expenditures and \$32.7 million of expansion and cost reduction expenditures in the first six months of 2006. Expansion projects in 2006 include the completion of an approximate 11-mile pipeline and related terminal facilities to serve the Memphis International Airport, the addition of pipelines, tankage and equipment to meet new handling requirements for ultra-low sulfur diesel, and a capacity expansion in Illinois to handle additional LPG volumes. Other expansion projects underway in 2006 include various ethanol-blending and butane-blending projects at terminals owned by the Partnership, and an expansion of the recently completed pipeline and terminal infrastructure at the Memphis International Airport to accommodate a new generation of cargo planes for Federal Express Corporation. The Memphis International Airport project is owned by WesPac Pipelines - Memphis LLC, a 75%-owned subsidiary of the Partnership.

In the six months ended June 30, 2005, \$5.0 million represented sustaining capital expenditures and \$31.6 million represented expansion and cost reduction projects. Expansion and cost reduction projects in 2005 included the completion of a pipeline capacity expansion project in Pennsylvania and expenditures for the pipeline and terminals serving the Memphis International Airport.

The Partnership estimates sustaining capital expenditures will be approximately \$30 million for all of 2006.

Cash Flows from Financing Activities

On March 7, 2006, the Partnership issued 1.5 million LP Units in an underwritten public offering at \$44.22 per LP Unit. Proceeds from the offering, after underwriter's discount of \$1.45 per LP Unit and offering expenses, were approximately \$64.1 million, and were used to reduce amounts outstanding under the Credit Facility.

During the first six months of 2006, the Partnership borrowed \$127 million under its Credit Facility and repaid \$65 million, principally from the proceeds of the LP Unit offering.

Distributions to Unitholders were \$57.9 million in the first six months of 2006 compared to \$49.5 million in the six months of 2005. The increase resulted principally from additional LP Units outstanding as a result of the Partnership's issuance of 2.5 million LP Units in May 2005, the issuance of 1.5 million LP Units in March 2006 and increases in the per-unit distribution amount.

OTHER MATTERS

Accounting Pronouncements

There were no new accounting pronouncements issued in the three months ended June 30, 2006 that would have a material impact on the financial statements of the Partnership.

Forward Looking Statements

The information contained above in this Management's Discussion and Analysis and elsewhere in this Report on Form 10-Q includes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements use forward-looking words such as anticipate, continue, estimate, expect, may, will, or other similar words, although some forward-looking statements are expressed differently. These statements discuss future expectations and contain projections. Specific factors that could cause actual results to differ from those in the forward-looking statements include: (1) price trends and overall demand for refined petroleum products in the United States in general and in our service areas in particular (economic activity, weather, alternative energy sources, conservation and technological advances may affect price trends and demands); (2) changes, if any, in laws and regulations, including, among others, safety, tax and accounting matters or Federal Energy Regulatory Commission regulation of our tariff rates; (3) liability for environmental claims; (4) security issues affecting our assets, including, among others, potential damage to our assets caused by vandalism, acts of war or terrorism; (5) unanticipated capital expenditures and operating expenses to repair or replace our assets; (6) availability and cost of insurance on our assets and operations; (7) our ability to successfully identify and complete strategic acquisitions and make cost saving changes in operations; (8) expansion in the operations of our competitors; (9) our ability to integrate any acquired operations into our existing operations; (10) shut-downs or cutbacks at major refineries that use our services; (11) deterioration in our labor relations; (12) changes in real property tax assessments; (13) disruptions to the air travel system; and (14) interest rate fluctuations and other capital market conditions.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. Although the expectations in the forward-looking statements are based on our current beliefs and expectations, we do not assume responsibility for the accuracy and completeness of such statements. Further, we undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk - Trading Instruments

Currently the Partnership has no derivative instruments and does not engage in hedging activity with respect to trading instruments.

Market Risk - Other than Trading Instruments

The Partnership is exposed to risk resulting from changes in interest rates. The Partnership does not have significant commodity or foreign exchange risk. The Partnership is exposed to fair value risk with respect to the fixed portion of its financing arrangements (the 5.125% Notes, the 5.300% Notes, the 4.625% Notes and the 6.75% Notes) and to cash flow risk with respect to its variable rate obligations (the Credit Facility). Fair value risk represents the risk that the value of the fixed portion of its financing arrangements will rise or fall depending on changes in interest rates. Cash flow risk represents the risk that interest costs related to the Credit Facility will rise or fall depending on changes in interest rates.

The Partnership's practice with respect to derivative transactions has been to have each transaction authorized by the Board of Directors of the General Partner.

At June 30, 2006, the Partnership had total fixed debt obligations at face value of \$850 million, consisting of \$125 million of the 5.125% Notes, \$275 million of the 5.300% Notes, \$300 million of the 4.625% Notes and \$150 million of the 6.75% Notes. The fair value of these obligations at June 30, 2006 was approximately \$787 million. The Partnership estimates that a 1% decrease in rates for obligations of similar maturities would increase the fair value of these obligations by \$62 million. The Partnership's variable debt obligation under the Credit Facility at June 30, 2006 was \$112 million. Based on the balance outstanding at June 30, 2006, a 1% increase or decrease in interest rates would increase or decrease annual interest expense by \$1.1 million.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The management of the General Partner, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures for the Partnership as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the General Partner's disclosure controls and procedures for the Partnership as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by the General Partner in reports filed on behalf of the Partnership under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in the General Partner's internal control over financial reporting for the Partnership occurred during the Partnership's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the General Partner's internal control over financial reporting for the Partnership.

Part II - Other Information

Item 1. Legal Proceedings

In late October 2005, the Partnership experienced a release of approximately 43,000 gallons of unleaded gasoline at its Macungie, Pennsylvania station and tank farm complex. The Partnership has recovered a substantial portion of the released gasoline. The Partnership is actively engaged in delineation of impacted soils and groundwater and has instituted product recovery through remediation systems. As of June 30, 2006, the Partnership had expended approximately \$4.1 million on external costs for emergency response and environmental remediation efforts. The Partnership expects that insurance reimbursements will cover expenses in connection with environmental remediation costs in excess of \$2.5 million.

The Partnership is working with the United States Environmental Protection Agency (EPA) and the Pennsylvania Department of Environmental Protection (PA DEP) in connection with the delineation of the contamination and the development of a long-term remediation plan for the site. In the first quarter of 2006, Buckeye entered into administrative consent orders with the EPA and the PA DEP. In connection with the administrative consent order entered into with the PA DEP, Buckeye agreed (without admitting to any violations of law) to pay a civil penalty in connection with the release in the amount of \$150,000. Buckeye is unable to estimate whether any additional penalties may be assessed by regulatory agencies in connection with the release.

Item 6. Exhibits

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) under the Securities Exchange Act of 1934.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

32.1 Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BUCKEYE PARTNERS, L.P.
(Registrant)

By: Buckeye GP LLC
as General Partner

Date: July 25, 2006

By: ROBERT B. WALLACE

Robert B. Wallace
Senior Vice President, Finance
and Chief Financial Officer
*(Principal Accounting and
Financial Officer)*