

BUCKEYE PARTNERS, L.P.

Form 10-Q

August 08, 2014

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2014

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission file number 1-9356

Buckeye Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

23-2432497

(IRS Employer
Identification number)

One Greenway Plaza

Suite 600

Houston, TX

(Address of principal executive offices)

77046

(Zip Code)

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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As of August 1, 2014, there were 116,247,887 limited partner units outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013 (Unaudited)	2
Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013 (Unaudited)	3
Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 (Unaudited)	4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013 (Unaudited)	5
Condensed Consolidated Statements of Partners' Capital for the Six Months Ended June 30, 2014 and 2013 (Unaudited)	6
Notes to Unaudited Condensed Consolidated Financial Statements:	
1. Organization and Basis of Presentation	7
2. Acquisitions	8
3. Discontinued Operations	9
4. Commitments and Contingencies	10
5. Inventories	12
6. Equity Investments	12
7. Long-Term Debt	13
8. Derivative Instruments and Hedging Activities	13
9. Fair Value Measurements	17
10. Pensions and Other Postretirement Benefits	19
11. Unit-Based Compensation Plans	19
12. Partners' Capital and Distributions	21
13. Earnings Per Unit	22
14. Business Segments	22
15. Supplemental Cash Flow Information	26
16. Subsequent Event	26
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Item 4.</u>	
<u>Controls and Procedures</u>	42
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	42
<u>Item 1A.</u>	
<u>Risk Factors</u>	43
<u>Item 6.</u>	
<u>Exhibits</u>	43

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****BUCKEYE PARTNERS, L.P.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per unit amounts)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Product sales	\$ 1,492,697	\$ 734,396	\$ 3,170,439	\$ 1,803,613
Transportation, storage and other services	316,254	259,192	630,341	521,053
Total revenue	1,808,951	993,588	3,800,780	2,324,666
Costs and expenses:				
Cost of product sales	1,510,043	725,300	3,175,422	1,788,598
Operating expenses	133,018	99,436	257,847	191,788
Depreciation and amortization	43,394	37,551	86,385	73,250
General and administrative	20,330	17,330	37,687	33,583
Total costs and expenses	1,706,785	879,617	3,557,341	2,087,219
Operating income	102,166	113,971	243,439	237,447
Other income (expense):				
Earnings from equity investments	2,170	1,953	3,436	3,582
Interest and debt expense	(42,012)	(30,237)	(83,225)	(60,486)
Other income (expense)	(232)	198	(96)	299
Total other expense, net	(40,074)	(28,086)	(79,885)	(56,605)
Income from continuing operations before taxes	62,092	85,885	163,554	180,842
Income tax expense	(153)	(195)	(76)	(326)
Income from continuing operations	61,939	85,690	163,478	180,516
Loss from discontinued operations	(38,186)	(8,320)	(48,228)	(12,647)
Net income	23,753	77,370	115,250	167,869
Less: Net income attributable to noncontrolling interests	(733)	(940)	(1,762)	(2,098)
Net income attributable to Buckeye Partners, L.P.	\$ 23,020	\$ 76,430	\$ 113,488	\$ 165,771
Basic earnings (loss) per unit attributable to Buckeye Partners, L.P.:				
Continuing operations	\$ 0.53	\$ 0.80	\$ 1.40	\$ 1.71
Discontinued operations	(0.33)	(0.08)	(0.42)	(0.12)
Total	\$ 0.20	\$ 0.72	\$ 0.98	\$ 1.59

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Diluted earnings (loss) per unit attributable to

Buckeye Partners, L.P.:

Continuing operations	\$	0.53	\$	0.80	\$	1.39	\$	1.70
Discontinued operations		(0.33)		(0.08)		(0.41)		(0.12)
Total	\$	0.20	\$	0.72	\$	0.98	\$	1.58

Weighted average units outstanding:

Basic	116,078	105,701	115,701	104,481
Diluted	116,652	106,171	116,226	104,878

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**BUCKEYE PARTNERS, L.P.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 23,753	\$ 77,370	\$ 115,250	\$ 167,869
Other comprehensive (loss) income:				
Unrealized (losses) gains on derivative instruments	(9,208)	23,907	(18,812)	32,526
Reclassification of derivative gains and losses to net income	1,778	1,093	3,557	1,321
Recognition of costs related to benefit plans to net income	394	89	787	403
Adjustments to recognize the funded status of benefit plans		338		
Total other comprehensive (loss) income	(7,036)	25,427	(14,468)	34,250
Comprehensive income	16,717	102,797	100,782	202,119
Less: Comprehensive income attributable to noncontrolling interests	(733)	(940)	(1,762)	(2,098)
Comprehensive income attributable to Buckeye Partners, L.P.	\$ 15,984	\$ 101,857	\$ 99,020	\$ 200,021

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**BUCKEYE PARTNERS, L.P.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except unit amounts)****(Unaudited)**

	June 30, 2014	December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	\$ 21,906	\$ 4,950
Trade receivables, net	376,478	326,243
Construction and pipeline relocation receivables	22,173	23,135
Inventories	443,909	312,135
Derivative assets	9,201	4,412
Prepaid and other current assets	60,013	48,503
Assets held for sale (Note 3)	138,984	181,708
Total current assets	1,072,664	901,086
Property, plant and equipment, net	5,034,269	4,925,294
Equity investments	75,513	72,349
Goodwill	821,500	821,500
Intangible assets, net	206,647	225,364
Other non-current assets	63,096	59,970
Total assets	\$ 7,273,689	\$ 7,005,563
Liabilities and partners' capital:		
Current liabilities:		
Line of credit	\$ 400,000	\$ 226,000
Accounts payable	109,863	149,520
Derivative liabilities	61,955	44,672
Accrued and other current liabilities	227,582	227,084
Liabilities held for sale (Note 3)	35,984	37,767
Total current liabilities	835,384	685,043
Long-term debt	3,309,293	3,092,711
Other non-current liabilities	134,812	146,973
Total liabilities	4,279,489	3,924,727
Commitments and contingencies (Note 4)		
Partners' capital:		
Buckeye Partners, L.P. capital:		
Limited Partners (116,247,624 and 115,063,617 units outstanding as of June 30, 2014 and December 31, 2013 respectively)	3,098,808	3,169,217
Accumulated other comprehensive loss	(118,020)	(103,552)
Total Buckeye Partners, L.P. capital	2,980,788	3,065,665
Noncontrolling interests	13,412	15,171
Total partners' capital	2,994,200	3,080,836
Total liabilities and partners' capital	\$ 7,273,689	\$ 7,005,563

Table of Contents

BUCKEYE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 115,250	\$ 167,869
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Settlement of terminated interest rate swap agreement		(62,009)
Depreciation and amortization	86,385	77,043
Asset impairment expense	26,254	
Net changes in fair value of derivatives	(6,332)	(12,374)
Non-cash deferred lease expense	1,819	1,884
Amortization of unfavorable storage contracts	(5,536)	(5,497)
Earnings from equity investments	(3,436)	(3,582)
Distributions from equity investments	125	125
Other non-cash items	12,037	9,805
Change in assets and liabilities, net of amounts related to acquisitions:		
Trade receivables	(51,213)	48,932
Construction and pipeline relocation receivables	962	(1,846)
Inventories	(131,774)	64,287
Prepaid and other current assets	4,739	11,743
Accounts payable	(26,708)	(19,277)
Accrued and other current liabilities	12,264	15,508
Other non-current assets	(5,739)	2,221
Other non-current liabilities	(6,977)	(3,927)
Net cash provided by operating activities	22,120	290,905
Cash flows from investing activities:		
Capital expenditures	(201,515)	(147,867)
Net proceeds from insurance settlement	549	
Proceeds from disposal of property, plant and equipment	691	578
Net cash used in investing activities	(200,275)	(147,289)
Cash flows from financing activities:		
Net proceeds from issuance of LP Units	74,517	372,824
Net proceeds from exercise of unit options	615	980
Payment of tax withholding on issuance of LTIP awards	(4,791)	(3,728)
Issuance of long-term debt		499,050
Debt issuance costs		(3,250)
Borrowings under BPL Credit Facility	847,000	601,000
Repayments under BPL Credit Facility	(631,000)	(1,266,000)
Net borrowings (repayments) under BES Credit Facility	174,000	(130,200)
Acquisition of additional interest in WesPac Memphis	(9,510)	(9,727)
Distributions paid to noncontrolling interests	(3,549)	(5,210)
Distributions paid to unitholders	(252,171)	(201,242)
Net cash provided by (used in) financing activities	195,111	(145,503)
Net increase (decrease) in cash and cash equivalents	16,956	(1,887)
Cash and cash equivalents Beginning of period	4,950	6,776

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Cash and cash equivalents	End of period	\$	21,906	\$	4,889
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See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**BUCKEYE PARTNERS, L.P.****CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL****(In thousands)****(Unaudited)**

	Limited Partners	Class B Units	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Partners capital - January 1, 2014	\$ 3,169,217	\$	\$ (103,552)	\$ 15,171	\$ 3,080,836
Net income	113,488			1,762	115,250
Acquisition of additional interest in WesPac Memphis	(7,933)			(1,577)	(9,510)
Distributions paid to unitholders	(253,849)			1,678	(252,171)
Net proceeds from issuance of LP Units	74,517				74,517
Amortization of unit-based compensation awards	8,190				8,190
Net proceeds from exercise of unit options	615				615
Payment of tax withholding on issuance of LTIP awards	(4,791)				(4,791)
Distributions paid to noncontrolling interests				(3,549)	(3,549)
Other comprehensive loss			(14,468)		(14,468)
Noncash accrual for distribution equivalent rights	(666)				(666)
Other	20			(73)	(53)
Partners capital - June 30, 2014	\$ 3,098,808	\$	\$ (118,020)	\$ 13,412	\$ 2,994,200
Partners capital - January 1, 2013	\$ 2,117,788	\$ 413,304	\$ (158,779)	\$ 16,527	\$ 2,388,840
Net income	152,873	12,898		2,098	167,869
Acquisition of additional interest in WesPac Memphis	(8,232)			(1,495)	(9,727)
Distributions paid to unitholders	(204,164)			2,922	(201,242)
Net proceeds from issuance of LP Units	372,824				372,824
Amortization of unit-based compensation awards	7,327				7,327
Net proceeds from exercise of unit options	980				980
Payment of tax withholding on issuance of LTIP awards	(3,728)				(3,728)
Distributions paid to noncontrolling interests				(5,210)	(5,210)
Other comprehensive income			34,250		34,250
Noncash accrual for distribution equivalent rights	(667)				(667)
Other	(10)			41	31
Partners capital - June 30, 2013	\$ 2,434,991	\$ 426,202	\$ (124,529)	\$ 14,883	\$ 2,751,547

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Buckeye Partners, L.P. is a publicly traded Delaware master limited partnership and its limited partnership units representing limited partner interests (LP Units) are listed on the New York Stock Exchange (NYSE) under the ticker symbol BPL. Buckeye GP LLC (Buckeye GP) is our general partner. As used in these Notes to Unaudited Condensed Consolidated Financial Statements, *we*, *us*, *our* and *Buckeye* mean Buckeye Partners, L.P. and, where the context requires, includes our subsidiaries.

Buckeye owns and operates a diversified network of integrated assets providing midstream logistic solutions, primarily consisting of the transportation, storage and marketing of liquid petroleum products. We are one of the largest independent liquid petroleum products pipeline operators in the United States in terms of volumes delivered, miles of pipeline and active products terminals across our portfolio of pipelines, inland terminals and an integrated network of marine terminals located primarily on the U.S. East Coast and in the Caribbean. Our flagship marine terminal in The Bahamas, Bahamas Oil Refining Company International Limited (BORCO), is one of the largest marine crude oil and petroleum products storage facilities in the world and provides an array of logistics and blending services for the global flow of petroleum products. Our network of marine terminals enables us to facilitate global flows of crude oil, refined petroleum products, and other commodities, and to offer our customers connectivity to some of the world's most important bulk storage and blending hubs. We are also a wholesale distributor of refined petroleum products in areas served by our pipelines and terminals. Finally, Buckeye operates and/or maintains third-party pipelines under agreements with major oil and gas, petrochemical and chemical companies, and performs certain engineering and construction management services for third parties.

In December 2013, the Board of Directors of Buckeye GP (the Board) approved a plan to divest our Natural Gas Storage segment and its related assets as we no longer believe this business is aligned with our long-term business strategy. In this report, we refer to this group of assets and related liabilities as our Natural Gas Storage disposal group. Accordingly, we have classified the disposal group as Assets held for sale and Liabilities held for sale in our unaudited condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013 and also reported the results of operations as discontinued operations for all periods presented in this report. In July 2014, we signed a purchase and sale agreement to sell our Natural Gas Storage business for \$105 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015, subject to regulatory approvals and customary closing conditions. For additional information, see Note 3 and Note 16 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Additionally, in December 2013, we changed our organizational structure to align our strategic business units into four reportable segments: Pipelines & Terminals, Global Marine Terminals, Merchant Services and Development & Logistics. See Note 14 for additional information. We have adjusted our prior period segment information to conform to the current alignment of our continuing business and discontinued operations.

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements and the accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules of the U.S. Securities and Exchange Commission (SEC). Accordingly, our financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of our results of operations for the interim periods. The unaudited condensed consolidated financial statements include the accounts of our subsidiaries controlled by us and variable interest entities of which we are the primary beneficiary. We have eliminated all intercompany transactions in consolidation.

We believe that the disclosures in these unaudited condensed consolidated financial statements are adequate to make the information presented not misleading. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Recent Accounting Developments*

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board issued guidance to clarify principles used to recognize revenue for all entities. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration included in the transaction price and allocating the transaction price to each separate performance obligation. The new guidance is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. We are currently evaluating the impact, if any, the adoption of this guidance will have on our consolidated financial statements.

2. ACQUISITIONS

In December 2013, we acquired certain wholesale distribution contracts and 20 liquid petroleum products terminals with total storage capacity of approximately 39 million barrels from Hess Corporation (Hess) for \$856.4 million, net of cash acquired (the Hess Terminals Acquisition). The acquisition cost has been allocated to assets acquired and liabilities assumed based on estimated fair values at the acquisition date, with amounts exceeding the fair value recorded as goodwill, which represents both expected synergies from combining our operations from the Hess Terminals Acquisition with our existing operations and the economic value attributable to future expansion projects resulting from this acquisition. Fair values have been developed using recognized business valuation techniques and are subject to change pending final valuation analysis. The purchase price has been allocated to tangible and intangible assets acquired and liabilities assumed on a preliminary basis. As of June 30, 2014, there has been no change to the purchase price allocation reported in our consolidated financial statements for the year ended December 31, 2013.

The following table summarizes revenue and net income related to the assets acquired from Hess included in our unaudited condensed consolidated statement of operations for the periods indicated (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Revenue	\$ 325,501	\$ 674,568
Net income (1)	13,229	26,770

(1) Includes transition expenses of \$2.0 million and \$5.6 million for the three and six months ended June 30, 2014, respectively.

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Acquisition of Additional Interest in WesPac Pipelines - Memphis LLC

In April 2014, our operating subsidiary, Buckeye Pipe Line Holdings, L.P. (BPH), purchased an additional 10% ownership interest in WesPac Pipelines - Memphis LLC (WesPac Memphis) from Kealine LLC for \$9.5 million. As a result of the acquisition, our ownership interest in WesPac Memphis increased from 80% to 90%. Since BPH retains controlling interest in WesPac Memphis, this acquisition was accounted for as an equity transaction.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****3. DISCONTINUED OPERATIONS**

In December 2013, the Board approved a plan to divest our Natural Gas Storage segment and its related assets as we no longer believe this business is aligned with our long-term business strategy. In this report, we refer to this group of assets as our Natural Gas Storage disposal group. We expect to complete the disposition of these assets in 2014. Accordingly, we have classified the disposal group as Assets held for sale and Liabilities held for sale in our accompanying unaudited condensed consolidated balance sheet as of June 30, 2014 and December 31, 2013. We have reported the results of operations for the disposal group as discontinued operations for all periods presented in this report. We discontinued depreciation and amortization of the Natural Gas Storage disposal group's property, plant and equipment upon approval of a plan to sell our Natural Gas Storage business.

In July 2014, we signed a purchase and sale agreement to sell our Natural Gas Storage business for \$105 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015, subject to regulatory approvals and customary closing conditions. As a result of the sale, we recorded a non-cash asset impairment charge of \$26.3 million within Loss from discontinued operations on our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2014. See Note 9 and Note 16 for further discussion.

The following table summarizes the results from discontinued operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 5,223	\$ 11,791	\$ 17,769	\$ 25,674
Loss from discontinued operations	(38,186)	(8,320)	(48,228)	(12,647)

The total assets and liabilities held for sale consisted of the following at the dates indicated (in thousands):

	June 30, 2014	December 31, 2013
Property, plant and equipment, net	\$ 131,174	\$ 157,261
Other current assets	7,803	24,443
Other non-current assets	7	4
Assets held for sale	\$ 138,984	\$ 181,708
Accounts payable	\$ 1,117	\$ 2,182
Accrued liabilities and other current liabilities	6,330	8,947

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Other non-current liabilities		28,537		26,638
Liabilities held for sale	\$	35,984	\$	37,767

Table of Contents

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. COMMITMENTS AND CONTINGENCIES

Claims and Legal Proceedings

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

BORCO Jetty. On May 25, 2012, a ship, Cape Bari, allided with a jetty at our BORCO facility while berthing, causing damage to portions of the jetty. Buckeye has insurance to cover this loss, subject to a \$5 million deductible. On May 26, 2012, we commenced legal proceedings in The Bahamas against the vessel's owner and the vessel to obtain security for the cost of repairs and other losses incurred as a result of the incident. Full security for our claim has been provided by the vessel owner's insurers, reserving all of their defenses. We also have notified the customer on whose behalf the vessel was at the BORCO facility that we intend to hold them responsible for all damages and losses resulting from the incident pursuant to the terms of an agreement between the parties. Any disputes between us and our customer on this matter are subject to arbitration in Houston, Texas.

The vessel owner has claimed that it is entitled to limit its liability to approximately \$17 million, but we are contesting the right of the vessel owner to such limitation. The Bahamas court of first instance denied the vessel owner the right to limit its liability for the incident, leaving the vessel owner responsible for all provable damages. The vessel interests appealed, and the Bahamas Court of Appeals reversed, holding that the vessel interests may limit their liability. We have filed a motion for leave to appeal that decision to the Privy Council, which motion is pending. We believe the motion for leave will be granted but can express no view on whether the Court of Appeals decision ultimately will be affirmed or reversed.

We experienced no material interruption of service at the BORCO facility as a result of the incident, and the repairs of the damaged sections are complete.

The aggregate cost to repair and reconstruct the damaged portions of the jetty and pursue recovery in court has been approximately \$23 million. We recorded a loss on disposal due to the assets destroyed in the incident and other related costs incurred; however, since we believe recovery of our losses is probable, we recorded a corresponding receivable. As of June 30, 2014, we had a \$5.9 million receivable included in Other non-current assets in our unaudited condensed consolidated balance sheet, representing reimbursement of the deductible. Additionally, we have received cash proceeds of \$15.8 million related to insurance reimbursements, and to the extent the aggregate proceeds from the recovery of our losses is in excess of the carrying value of the destroyed assets or other costs incurred, we will recognize a gain when such proceeds are received and are not refundable. BORCO's insurers have paid most of the claim and have now appeared in the Bahamas litigation. As of June 30, 2014, no gain had been recognized; however, we recorded a \$13.9 million deferred gain in Accrued and other current liabilities in our unaudited

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condensed consolidated balance sheet, representing excess proceeds received over the loss on disposal and other costs incurred.

On May 12, 2014, the vessel interests filed a third-party complaint against a BORCO subsidiary, Borco Towing Company Limited, which provided pilots and tugs to assist the Cape Bari alleging that Borco Towing was negligent. We are investigating those allegations, but, at this time, we believe that we have defenses and intend to vigorously defend ourselves and pursue our claims against the vessel interests.

Table of Contents

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Federal Energy Regulatory Commission (FERC) Proceedings

FERC Docket No. OR12-28-000 Airlines Complaint against Buckeye Pipe Line Company, L.P. (BPLC) New York City Jet Fuel Rates. On September 20, 2012, a complaint was filed with FERC by Delta Air Lines, JetBlue Airways, United/Continental Air Lines, and US Airways challenging BPLC's rates for transportation of jet fuel from New Jersey to three New York City airports. The complaint was not directed at BPLC's rates for service to other destinations and does not involve pipeline systems and terminals owned by Buckeye's other operating subsidiaries. The complaint challenges these jet fuel transportation rates as generating revenues in excess of costs and thus being unjust and unreasonable under the Interstate Commerce Act. On October 10, 2012, BPLC filed its answer to the complaint, contending that the airlines' allegations are based on inappropriate adjustments to the pipeline's costs and revenues, and that, in any event, any revenue recovery by BPLC in excess of costs would be irrelevant because BPLC's rates are set under a FERC-approved program that ties rates to competitive levels. BPLC also sought dismissal of the complaint to the extent it seeks to challenge the portion of BPLC's rates that were deemed just and reasonable, or grandfathered, under Section 1803 of the Energy Policy Act of 1992. BPLC further contested the airlines' ability to seek relief as to past charges where the rates are lawful under BPLC's FERC-approved rate program. On October 25, 2012, the complainants filed their answer to BPLC's motion to dismiss and answer. On November 9, 2012, BPLC filed a response addressing newly raised arguments in the complainants' October 25th answer. On February 22, 2013, FERC issued an order setting the airline complaint in Docket (Dkt.) No. OR12-28-000 for hearing, but holding the hearing in abeyance and setting the dispute for settlement procedures before a settlement judge. If FERC were to find these challenged rates to be in excess of costs and not otherwise protected by law, it could order BPLC to reduce these rates prospectively and could order repayment to the complaining airlines of any past charges found to be in excess of just and reasonable levels for up to two years prior to the filing date of the complaint. BPLC intends to vigorously defend its rates. On March 8, 2013, an order was issued consolidating, for settlement purposes, this complaint proceeding with the proceeding regarding BPLC's application for market-based rates in the New York City market in Dkt. No. OR13-3-000 (discussed below), and settlement discussions under the supervision of the FERC settlement judge continued until April 2014. On April 1, 2014, the FERC settlement judge issued a status report stating that the parties had been unable to reach a settlement, and recommending that both Dkt. Nos. OR12-28-000 and OR13-3-000 be set for hearing. The settlement judge further recommended that settlement procedures under the supervision of the settlement judge continue concurrently because the parties hope to continue settlement talks after the commencement of litigation. On April 17, 2014, the FERC Chief Administrative Law Judge (the ALJ) ruled in favor of separate proceedings and of continuing the existing settlement procedures concurrently with litigation. The timing or outcome of final resolution of this matter cannot reasonably be determined at this time.

FERC Docket No. OR13-3-000 BPLC's Market-Based Rate Application. On October 15, 2012, BPLC filed an application with FERC seeking authority to charge market-based rates for deliveries of liquid petroleum products to the New York City-area market (the Application). In the Application, BPLC seeks to charge market-based rates from its three origin points in northeastern New Jersey to its five destinations on its Long Island System, including deliveries of jet fuel to the Newark, LaGuardia, and JFK airports. The jet fuel rates were also the subject of the airlines' OR12-28-000 complaint discussed above. On December 14, 2012, Delta Air Lines, JetBlue Airways, United/Continental Air Lines, and US Airways filed a joint intervention and protest challenging the Application and requesting its rejection. On January 14, 2013, BPLC filed its answer to the protest and requested summary disposition as to those non-jet-fuel rates that were not challenged in the protest. On January 29, 2013, the protestants responded to BPLC's answer, and on February 13, 2013, BPLC filed a further answer to the protestants' January 29, 2013 pleading. On February 28, 2013, FERC issued an order setting the Application for hearing, holding the hearing in abeyance and setting the dispute for settlement procedures before a settlement judge. As discussed above, the Application has been consolidated with the complaint proceeding in Dkt. No. OR12-28-000 for settlement purposes and the settlement judge has reported to the FERC and the Chief that the application should be set for hearing. The settlement judge also recommended that settlement procedures under the supervision of the settlement judge continue concurrently because the parties hope to continue settlement talks after the commencement of litigation. As noted above, the FERC Chief ALJ ruled that Dkt. No. OR13-3-000 will proceed separately from the Dkt. No. OR12-28-000 proceeding and that the existing settlement procedures will continue concurrently with litigation. If FERC were to approve the Application, BPLC would be permitted prospectively to set these rates in response to competitive forces, and the basis for the airlines' claim for relief in their OR12-28-000 complaint as

to BPLC's future rates would be irrelevant prospectively. The timing or outcome of FERC's review of the Application cannot reasonably be determined at this time.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Environmental Contingencies*

We recorded operating expenses, net of insurance recoveries, of \$1.6 million and \$1.5 million during the three months ended June 30, 2014 and 2013, respectively, related to environmental remediation liabilities unrelated to claims and legal proceedings. For the six months ended June 30, 2014 and 2013, we recorded operating expenses, net of recoveries, of \$2.2 million and \$3.0 million, respectively, related to environmental remediation liabilities unrelated to claims and legal proceedings. Costs incurred may be in excess of our estimate, which may have a material impact on our financial condition, results of operations or cash flows. As of June 30, 2014 and December 31, 2013, we recorded environmental remediation liabilities of \$57.2 million for both periods, respectively. At June 30, 2014 and December 31, 2013, we had \$13.5 million and \$10.6 million, respectively, of receivables related to these environmental remediation liabilities covered by insurance or third party claims.

5. INVENTORIES

Our inventory amounts were as follows at the dates indicated (in thousands):

	June 30, 2014	December 31, 2013
Liquid petroleum products (1)	\$ 428,802	\$ 290,718
Materials and supplies	15,107	21,417
Total inventories	\$ 443,909	\$ 312,135

(1) Ending inventory was 155.5 million and 102.1 million gallons of liquid petroleum products at June 30, 2014 and December 31, 2013, respectively.

At June 30, 2014 and December 31, 2013, approximately 83% and 81% of our liquid petroleum products inventory volumes were designated in a fair value hedge relationship, respectively. Because we generally designate inventory as a hedged item upon purchase, hedged inventory is valued at current market prices with the change in value of the inventory reflected in our unaudited condensed consolidated statements of operations. Our inventory volumes that are not designated as the hedged item in a fair value hedge relationship are economically hedged to reduce our commodity price exposure. Inventory not accounted for as a fair value hedge is accounted for at the lower of cost or market using the weighted average cost method.

6. EQUITY INVESTMENTS

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The following table presents earnings from equity investments for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
West Shore Pipe Line Company	\$ 1,523	\$ 1,323	\$ 2,183	\$ 2,573
Muskegon Pipeline LLC	322	390	571	631
Transport4, LLC	186	140	253	196
South Portland Terminal LLC	139	100	429	182
Total earnings from equity investments	\$ 2,170	\$ 1,953	\$ 3,436	\$ 3,582

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Summarized combined income statement data for our equity method investments are as follows for the periods indicated (amounts represent 100% of investee income statement data in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 21,771	\$ 18,940	\$ 41,465	\$ 36,316
Costs and expenses	(13,223)	(9,278)	(24,645)	(19,213)
Non-operating expenses	(2,859)	(3,498)	(5,580)	(6,120)
Net income	\$ 5,689	\$ 6,164	\$ 11,240	\$ 10,983

7. LONG-TERM DEBT*Current Maturities Expected to be Refinanced*

It is our intent to refinance the \$275 million of 5.300% notes maturing on October 15, 2014 (the 5.300% Notes) in the latter half of 2014. If necessary, the 5.300% Notes could be refinanced using our \$1.25 billion revolving credit facility dated September 26, 2011 (the Credit Facility) with SunTrust Bank. At June 30, 2014, we had \$605 million of additional borrowing capacity under our Credit Facility. Therefore, we have classified the 5.300% Notes as long-term debt in our unaudited condensed consolidated balance sheet at June 30, 2014. Additionally, our interest rate swaps that are designated as cash flow hedges related to the refinancing of the 5.300% Notes, which will expire on October 15, 2014, have a financial liability of \$48.9 million at June 30, 2014 (see Note 8 below for additional information).

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to financial market risks, including changes in interest rates and commodity prices, in the course of our normal business operations. We use derivative instruments to manage risks.

Interest Rate Derivatives

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We utilize forward-starting interest rate swaps to hedge the variability of the forecasted interest payments on anticipated debt issuances that may result from changes in the benchmark interest rate until the expected debt is issued. When entering into interest rate swap transactions, we become exposed to both credit risk and market risk. We are subject to credit risk when the change in fair value of the swap instrument is positive and the counterparty may fail to perform under the terms of the contract. We are subject to market risk with respect to changes in the underlying benchmark interest rate that impacts the fair value of the swaps. We manage our credit risk by entering into swap transactions only with major financial institutions with investment-grade credit ratings. We manage our market risk by aligning the swap instrument with the existing underlying debt obligation or a specified expected debt issuance generally associated with the maturity of an existing debt obligation.

We entered into six forward-starting interest rate swaps with a total aggregate notional amount of \$275.0 million, which we entered into in anticipation of the issuance of debt on or before October 15, 2014. We designated the swap agreements as cash flow hedges at inception and expect the changes in values to be highly correlated with the changes in value of the underlying borrowings. We expect to issue new fixed-rate debt on or before October 15, 2014 to repay the \$275.0 million of 5.300% Notes that are due on October 15, 2014, although no assurances can be given that the issuance of fixed-rate debt will be possible on acceptable terms.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

During the three months ended June 30, 2014 and 2013, unrealized losses of \$9.2 million and unrealized gains of \$23.9 million, respectively, were recorded in accumulated other comprehensive loss to reflect the change in the fair values of the forward-starting interest rate swaps. For the six months ended June 30, 2014 and 2013, unrealized losses of \$18.8 million and unrealized gains of \$32.5 million, respectively, were recorded in accumulated other comprehensive loss to that effect. Additionally, over the next twelve months, we expect to reclassify \$7.1 million of net losses from accumulated other comprehensive loss to interest and debt expense. The loss consists of the forward-starting interest rate swaps that were settled in 2008 and 2013, partially offset by a gain attributable to the settlement of a treasury lock agreement settled in 2011.

Commodity Derivatives

Our Merchant Services segment primarily uses exchange-traded refined petroleum product futures contracts to manage the risk of market price volatility on its refined petroleum product inventories and its physical derivative contracts. The futures contracts used to hedge refined petroleum product inventories are designated as fair value hedges with changes in fair value of both the futures contracts and physical inventory reflected in earnings. Physical contracts and futures contracts that have not been designated in a hedge relationship are marked-to-market.

The following table summarizes our commodity derivative instruments outstanding at June 30, 2014 (amounts in thousands of gallons):

Derivative Purpose	Current	Volume (1)	Long-Term	Accounting Treatment
Derivatives NOT designated as hedging instruments:				
Physical fixed price derivative contracts	24,843		84	Mark-to-market
Physical index derivative contracts	37,358			Mark-to-market
Futures contracts for refined petroleum products	17,808		84	Mark-to-market
Derivatives designated as hedging instruments:				
Futures contracts for refined petroleum products	129,108			Fair Value Hedge

(1) Volume represents absolute value of net notional volume position.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following table sets forth the fair value of each classification of derivative instruments and the locations of the derivative instruments on our unaudited condensed consolidated balance sheets at the dates indicated (in thousands):

	June 30, 2014				
	Derivatives NOT Designated as Hedging Instruments	Derivatives Designated as Hedging Instruments	Derivative Carrying Value	Netting Balance Sheet Adjustment (1)	Total
Physical fixed price derivative contracts	\$ 9,354	\$	\$ 9,354	\$ (187)	\$ 9,167
Physical index derivative contracts	34		34		34
Futures contracts for refined products	93,845	929	94,774	(94,774)	
Total current derivative assets	103,233	929	104,162	(94,961)	9,201
Physical fixed price derivative contracts	8		8		8
Futures contracts for refined products	6		6		6
Total non-current derivative assets	14		14		14
Physical fixed price derivative contracts	(9,035)		(9,035)	187	(8,848)
Physical index derivative contracts	(274)		(274)		(274)
Futures contracts for refined products	(86,225)	(12,525)	(98,750)	94,774	(3,976)
Interest rate derivatives		(48,857)	(48,857)		(48,857)
Total current derivative liabilities	(95,534)	(61,382)	(156,916)	94,961	(61,955)
Net derivative assets (liabilities)	\$ 7,713	\$ (60,453)	\$ (52,740)	\$	\$ (52,740)

(1) Amounts represent the netting of physical fixed and index contracts assets and liabilities when a legal right of offset exists. Futures contracts are subject to settlement through margin requirements and are additionally presented on a net basis.

	December 31, 2013				
	Derivatives NOT Designated as Hedging Instruments	Derivatives Designated as Hedging Instruments	Derivative Carrying Value	Netting Balance Sheet Adjustment (1)	Total
Physical fixed price derivative contracts	\$ 5,164	\$	\$ 5,164	\$ (780)	\$ 4,384
Physical index derivative contracts	48		48	(20)	28
Futures contracts for refined products	45,589	66	45,655	(45,655)	
Total current derivative assets	50,801	66	50,867	(46,455)	4,412
Physical fixed price derivative contracts	(7,027)		(7,027)	780	(6,247)

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Physical index derivative contracts	(330)		(330)	20	(310)
Futures contracts for refined products	(52,240)	(1,485)	(53,725)	45,655	(8,070)
Interest rate derivatives		(30,045)	(30,045)		(30,045)
Total current derivative liabilities	(59,597)	(31,530)	(91,127)	46,455	(44,672)
Net derivative liabilities	\$ (8,796)	\$ (31,464)	\$ (40,260)	\$	\$ (40,260)

(1) Amounts represent the netting of physical fixed and index contracts assets and liabilities when a legal right of offset exists. Futures contracts are subject to settlement through margin requirements and are additionally presented on a net basis.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Our hedged inventory portfolio extends to the first quarter of 2015. The majority of the unrealized loss at June 30, 2014 for inventory hedges represented by futures contracts of \$11.6 million will be realized by the fourth quarter of 2014 as the related inventory is sold. At June 30, 2014, open refined petroleum product derivative contracts (represented by the physical fixed-price contracts, physical index contracts, and futures contracts for fixed-price sales contracts noted above) varied in duration in the overall portfolio, but did not extend beyond December 2015. In addition, at June 30, 2014, we had refined petroleum product inventories that we intend to use to satisfy a portion of the physical derivative contracts.

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

Location		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Derivatives NOT designated as hedging instruments:					
Physical fixed price derivative contracts	Product sales	\$ (7,280)	\$ 2,795	\$ (10,652)	\$ 3,376
Physical index derivative contracts	Product sales	(79)	700	(73)	1,109
	Cost of product sales				
Physical fixed price derivative contracts		7,210	(359)	8,621	(445)
	Cost of product sales				
Physical index derivative contracts		(521)	(541)	(713)	(544)
	Cost of product sales				
Futures contracts for refined products		(6,301)	1,457	187	5,797
Derivatives designated as fair value hedging instruments:					
	Cost of product sales				
Futures contracts for refined products		(13,732)	8,159	(12,453)	8,935
	Cost of product sales				
Physical inventory - hedged items		7,954	(8,959)	1,729	(9,440)
Ineffectiveness excluding the time value component on fair value hedging instruments:					
	Cost of product sales				
Fair value hedge ineffectiveness (excluding time value)		(1,122)	(5,212)	3,610	(3,627)
	Cost of product sales				
Time value excluded from hedge assessment		(4,656)	4,412	(14,334)	3,122
Net loss in income		\$ (5,778)	\$ (800)	\$ (10,724)	\$ (505)

[Table of Contents](#)**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

		Loss Reclassified from AOCI to Income for the			
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
Location		2014	2013	2014	2013
Derivatives designated as cash flow hedging instruments:					
Interest rate contracts	Interest and debt expense	\$ (1,778)	\$ (1,093)	\$ (3,557)	\$ (1,321)

		Gain (Loss) Recognized in OCI on Derivatives for the			
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2014	2013	2014	2013
Derivatives designated as cash flow hedging instruments:					
Interest rate contracts		\$ (9,208)	\$ 23,907	\$ (18,812)	\$ 32,526

9. FAIR VALUE MEASUREMENTS

We categorize our financial assets and liabilities using the three-tier hierarchy as follows:

Recurring

The following table sets forth financial assets and liabilities measured at fair value on a recurring basis, as of the measurement dates indicated, and the basis for that measurement, by level within the fair value hierarchy (in thousands):

		June 30, 2014		December 31, 2013	
		Level 1	Level 2	Level 1	Level 2
Financial assets:					
Physical fixed price derivative contracts	\$	\$	9,175	\$	4,384

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Physical index derivative contracts	34	28
Futures contracts for refined products	6	
Financial liabilities:		
Physical fixed price derivative contracts	(8,848)	(6,247)
Physical index derivative contracts	(274)	(310)
Futures contracts for refined products	(3,976)	(8,070)
Interest rate derivatives	(48,857)	(30,045)
Fair value	\$ (3,976)	\$ (48,764) \$ (8,070) \$ (32,190)

The values of the Level 1 derivative assets and liabilities were based on quoted market prices obtained from the New York Mercantile Exchange.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The values of the Level 2 interest rate derivatives were determined using expected cash flow models, which incorporated market inputs including the implied forward London Interbank Offered Rate yield curve for the same period as the future interest swap settlements.

The values of the Level 2 commodity derivative contracts were calculated using market approaches based on observable market data inputs, including published commodity pricing data, which is verified against other available market data, and market interest rate and volatility data. Level 2 fixed price derivative assets are net of credit value adjustments (CVAs) determined using an expected cash flow model, which incorporates assumptions about the credit risk of the derivative contracts based on the historical and expected payment history of each customer, the amount of product contracted for under the agreement and the customer's historical and expected purchase performance under each contract. The Merchant Services segment determined CVAs are appropriate because few of the Merchant Services segment's customers entering into these derivative contracts are large organizations with nationally-recognized credit ratings. The Level 2 fixed price derivative assets of \$9.2 million and \$4.4 million as of June 30, 2014 and December 31, 2013, respectively, are net of CVAs of (\$0.1) million for both periods, respectively. As of June 30, 2014, the Merchant Services segment did not hold any net liability derivative position containing credit contingent features.

Financial instruments included in current assets and current liabilities are reported in the unaudited condensed consolidated balance sheets at amounts which approximate fair value due to the relatively short period to maturity of these financial instruments. The fair values of our fixed-rate debt were estimated by observing market trading prices and by comparing the historic market prices of our publicly issued debt with the market prices of the publicly-issued debt of other master limited partnerships with similar credit ratings and terms. The fair values of our variable-rate debt are their carrying amounts, as the carrying amount reasonably approximates fair value due to the variability of the interest rates. The carrying value and fair value, using Level 2 input values, of our debt were as follows at the dates indicated (in thousands):

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Fixed-rate debt	\$ 3,064,293	\$ 3,301,393	\$ 3,063,711	\$ 3,148,634
Variable-rate debt	645,000	645,000	255,000	255,000
Total debt	\$ 3,709,293	\$ 3,946,393	\$ 3,318,711	\$ 3,403,634

We recognize transfers between levels within the fair value hierarchy as of the beginning of the reporting period. We did not have any transfers between Level 1 and Level 2 during the six months ended June 30, 2014 and 2013, respectively.

Non-Recurring

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. During the three and six months ended June 30, 2014, we recorded a non-cash asset impairment charge of \$26.3 million related to our Natural Gas Storage disposal group since the carrying amount of the disposal group exceeded the estimated fair value less costs to sell the disposal group. We estimated fair value based on a market approach supported by a

binding purchase and sale agreement for the disposal group. For additional information, see Note 3 and Note 16 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****10. PENSIONS AND OTHER POSTRETIREMENT BENEFITS**

Buckeye Pipe Line Services Company, which employs the majority of our workforce, sponsors a defined benefit plan, the Retirement Income Guarantee Plan (the RIGP), and an unfunded post-retirement benefit plan (the Retiree Medical Plan). The components of the net periodic benefit cost for the RIGP and Retiree Medical Plan were as follows for the three months ended June 30, 2014 and 2013 (in thousands):

	RIGP		Retiree Medical Plan	
	Three Months Ended		Three Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Service cost	\$ 55	\$ 55	\$ 107	\$ 71
Interest cost	135	187	352	404
Expected return on plan assets	(98)	(103)		
Amortization of prior service credit			(406)	(615)
Amortization of unrecognized losses	308	308	298	284
Actuarial loss due to settlements	194	112		
Net periodic benefit cost	\$ 594	\$ 559	\$ 351	\$ 144

The components of the net periodic benefit cost for the RIGP and the Retiree Medical Plan were as follows for the six months ended June 30, 2014 and 2013 (in thousands):

	RIGP		Retiree Medical Plan	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Service cost	\$ 109	\$ 122	\$ 215	\$ 157
Interest cost	269	414	704	897
Expected return on plan assets	(196)	(227)		
Amortization of prior service credit			(812)	(1,365)
Amortization of unrecognized losses	616	685	596	630
Actuarial loss due to settlements	387	453		
Net periodic benefit cost	\$ 1,185	\$ 1,447	\$ 703	\$ 319

During the three months ended June 30, 2014 and 2013, we contributed \$0.5 million and \$0.4 million, respectively, in aggregate to the RIGP and Retiree Medical Plans. For the six months ended June 30, 2014 and 2013, we contributed \$1.4 million and \$0.7 million, respectively, in aggregate to the RIGP and Retiree Medical Plans.

11. UNIT-BASED COMPENSATION PLANS

We award unit-based compensation to employees and directors primarily under the Buckeye Partners, L.P. 2013 Long-Term Incentive Plan (the LTIP). We formerly awarded options to acquire LP Units to employees pursuant to the Buckeye Partners, L.P. Unit Option and Distribution Equivalent Plan (the Option Plan). These compensation plans are further discussed below.

We recognized compensation expense from continuing operations related to the LTIP, which includes awards under the 2009 Long-Term Incentive Plan (the 2009 Plan), discussed below, and the Option Plan, of \$4.8 million and \$3.8 million for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014 and 2013, we recognized compensation expense of \$7.9 million and \$7.1 million, respectively.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***LTIP*

The LTIP is the successor long-term incentive compensation plan to the 2009 Plan. The LTIP was approved by our unitholders in June 2013, and following such approval, (i) the 2009 Plan was merged with and into the LTIP, (ii) no further grants will be made under the 2009 Plan, and (iii) LP Units with respect to all grants outstanding under the 2009 Plan will be issued under the LTIP. As of June 30, 2014, there were 2,921,300 LP Units available for issuance under the LTIP.

Deferral Plan under the LTIP

We also maintain the Buckeye Partners, L.P. Unit Deferral and Incentive Plan, as amended and restated effective July 31, 2013 (the Deferral Plan), pursuant to which we issue phantom and matching units under the LTIP to certain employees in lieu of a portion of the cash payments such employees would be entitled to receive under the Buckeye Partners, L.P. Annual Incentive Compensation Plan, as amended and restated, effective January 1, 2012. At December 31, 2013 and 2012, actual compensation awards deferred under the Deferral Plan were \$2.7 million and \$1.4 million, for which 75,870 and 51,668 phantom units (including matching units) were granted during the six months ended June 30, 2014, and the year ended 2013, respectively. These grants are included as granted in the LTIP activity table below.

Awards under the LTIP

During the six months ended June 30, 2014, the Compensation Committee of the Board granted 201,409 phantom units to employees (including the 75,870 phantom units granted pursuant to the Deferral Plan, as discussed above), 16,000 phantom units to independent directors of Buckeye GP and 174,221 performance units to employees.

The following table sets forth the LTIP activity for the periods indicated (in thousands, except per unit amounts):

	Number of LP Units	Weighted Average Grant Date Fair Value per LP Unit
Unvested at January 1, 2014	813	\$ 59.36
Granted	392	71.37

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Vested	(173)	63.85
Forfeited	(63)	63.77
Unvested at June 30, 2014	969 \$	63.11

At June 30, 2014, \$31.5 million of compensation expense related to the LTIP is expected to be recognized over a weighted average period of 2 years.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Unit Option Plan*

The following is a summary of the changes in the options outstanding (all of which are vested) under the Option Plan for the periods indicated (in thousands, except per unit amounts):

	Number of LP Units	Weighted Average Strike Price per LP Unit	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2014	46	\$ 47.32	2.4	\$ 1,080
Exercised	(13)	45.88		
Forfeited, cancelled or expired	(2)			
Outstanding at June 30, 2014	31	48.26	2.1	\$ 1,058
Exercisable at June 30, 2014	31	\$ 48.26	2.1	\$ 1,058

(1) Aggregate intrinsic value reflects fully vested LP Unit options at the date indicated. Intrinsic value is determined by calculating the difference between our closing LP Unit price on the last trading day in June 2014 and the exercise price, multiplied by the number of exercisable, in-the-money options.

The total intrinsic value of options exercised was \$0.4 million during each of the six months ended June 30, 2014 and 2013.

12. PARTNERS CAPITAL AND DISTRIBUTIONS

During the six months ended June 30, 2014, we sold 1.0 million LP Units in aggregate under the equity distribution agreements entered into in May 2013 with each of Wells Fargo Securities, LLC, Barclays Capital Inc., SunTrust Robinson Humphrey, Inc. and UBS Securities LLC (each an Equity Distribution Agreement and collectively the Equity Distribution Agreements) and received \$74.5 million in net proceeds after deducting commissions and other related expenses. During the six months ended June 30, 2014, we paid \$0.8 million of compensation in aggregate to the agents under the Equity Distribution Agreements.

Summary of Changes in Outstanding Units

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The following is a summary of changes in LP Units outstanding for the periods indicated (in thousands):

	Limited Partners
Outstanding at January 1, 2014	115,064
LP Units issued pursuant to the Option Plan (1)	13
LP Units issued pursuant to the LTIP (1)	159
Issuance of LP Units through Equity Distribution Agreements	1,012
Outstanding at June 30, 2014	116,248

(1) The number of units issued represents issuance net of tax withholding.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Distributions*

We generally make quarterly cash distributions to unitholders of substantially all of our available cash, generally defined in our partnership agreement as consolidated cash receipts less consolidated cash expenditures and such retentions for working capital, anticipated cash expenditures and contingencies as our general partner deems appropriate. Actual cash distributions on our LP Units totaled \$253.8 million and \$204.2 million during the six months ended June 30, 2014 and 2013, respectively.

On August 8, 2014, we announced a quarterly distribution of \$1.1125 per LP Unit that will be paid on August 25, 2014 to unitholders of record on August 18, 2014. Based on the LP Units outstanding as of June 30, 2014, cash distributed to unitholders on August 25, 2014 will total \$129.8 million.

13. EARNINGS PER UNIT

The following table is a reconciliation of the weighted average units outstanding used in computing the basic and diluted earnings per unit for the periods indicated (in thousands, except per unit amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to Buckeye Partners, L.P.	\$ 23,020	\$ 76,430	\$ 113,488	\$ 165,771
Basic:				
Weighted average units outstanding - basic	116,078	105,701	115,701	104,481
Earnings per unit - basic	\$ 0.20	\$ 0.72	\$ 0.98	\$ 1.59
Diluted:				
Weighted average units outstanding - basic	116,078	105,701	115,701	104,481
Dilutive effect of LP Unit options and LTIP awards granted	574	470	525	397
Weighted average units outstanding - diluted	116,652	106,171	116,226	104,878
Earnings per unit - diluted	\$ 0.20	\$ 0.72	\$ 0.98	\$ 1.58

14. BUSINESS SEGMENTS

We operate and report in four business segments: (i) Pipelines & Terminals; (ii) Global Marine Terminals; (iii) Merchant Services; and (iv) Development & Logistics. Each segment uses the same accounting policies as those used in the preparation of our unaudited condensed consolidated financial statements. All inter-segment revenues, operating income and assets have been eliminated. Reclassifications of prior period amounts were made to operating and general and administrative expenses between our segments. The reclassification impacted adjusted EBITDA by segment and had no impact on our unaudited condensed consolidated net income or partners' capital.

Pipelines & Terminals

The Pipelines & Terminals segment receives liquid petroleum products from refineries, connecting pipelines, vessels, and bulk and marine terminals and transports those products to other locations for a fee and provides bulk storage and terminal throughput services in the continental United States. This segment owns and operates pipeline systems and liquid petroleum products terminals in the continental United States, including five terminals owned by the Merchant Services segment but operated by the Pipelines & Terminals segment and 17 terminals acquired in conjunction with the Hess Terminals Acquisition in December 2013. In addition, the segment provides crude oil services, including train off-loading, storage and throughput.

Table of Contents

BUCKEYE PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Global Marine Terminals

The Global Marine Terminals segment provides marine bulk storage and marine terminal throughput services along the U.S. East Coast and Caribbean. The segment has liquid petroleum product terminals located in The Bahamas, Puerto Rico and St. Lucia in the Caribbean, and the New York Harbor. The Global Marine Terminals segment operates three liquid petroleum products terminals acquired in conjunction with the Hess Terminals Acquisition in December 2013.

Merchant Services

The Merchant Services segment is a wholesale distributor of refined petroleum products in the United States and in the Caribbean. This segment recognizes revenues when products are delivered. The segment's products include gasoline, propane, ethanol, biodiesel and petroleum distillates such as heating oil, diesel fuel, kerosene and fuel oil. The segment owns five terminals which are operated by the Pipelines & Terminals segment. The segment's customers consist principally of product wholesalers as well as major commercial users of these refined petroleum products.

Development & Logistics

The Development & Logistics segment consists primarily of our contract operations of third-party pipelines, which are owned principally by major oil and gas, petrochemical and chemical companies and are located primarily in Texas and Louisiana. Additionally, this segment performs pipeline construction management services, typically for cost plus a fixed fee. This segment also owns and operates two underground propane storage caverns in Indiana and Illinois and an ammonia pipeline, as well as our majority ownership of the Sabina Pipeline, located in Texas.

Natural Gas Storage Disposal Group

In December 2013, the Board approved a plan to divest the natural gas storage segment facility and related assets that our subsidiary Lodi Gas Storage, L.L.C. owns and operates in Northern California as we no longer believe this business is aligned with our long-term business strategy. In this report, we refer to this group of assets as our Natural Gas Storage disposal group. Accordingly, we have classified the disposal group as Assets held for sale and Liabilities held for sale in our unaudited condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013 and reported the results of operations as discontinued operations for all periods presented in this report. As such, we have adjusted our prior period segment information to conform to the current alignment of our continuing business and discontinued operations. In July 2014, we signed a purchase and sale agreement to sell our Natural Gas Storage business for \$105 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015, subject to regulatory approvals and customary closing conditions. As a result of the sale, we

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recorded a non-cash asset impairment charge of \$26.3 million within Loss from discontinued operations on our unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2014. Please see Note 3 and Note 16 in the Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

The following table summarizes revenue by each segment for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>Revenue:</i>				
Pipelines & Terminals	\$ 218,624	\$ 184,715	\$ 437,163	\$ 374,290
Global Marine Terminals	90,791	64,146	179,560	125,283
Merchant Services	1,495,441	736,466	3,173,743	1,812,623
Development & Logistics	18,802	13,697	35,634	25,609
Intersegment	(14,707)	(5,436)	(25,320)	(13,139)
Total revenue	\$ 1,808,951	\$ 993,588	\$ 3,800,780	\$ 2,324,666

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended June 30, 2014, one customer contributed 11% of the consolidated revenue. For the three months ended June 30, 2013, no customers contributed 10% or more of consolidated revenue. For the six months ended June 30, 2014 and 2013, no customers contributed 10% or more of consolidated revenue.

The following table summarizes revenue for our continuing operations, by major geographic area, for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>Revenue:</i>				
United States	\$ 1,726,435	\$ 939,458	\$ 3,633,787	\$ 2,217,836
International	82,516	54,130	166,993	106,830
Total revenue	\$ 1,808,951	\$ 993,588	\$ 3,800,780	\$ 2,324,666

Adjusted EBITDA

Adjusted EBITDA is the primary measure used by our senior management, including our Chief Executive Officer, to: (i) evaluate our consolidated operating performance and the operating performance of our business segments; (ii) allocate resources and capital to business segments; (iii) evaluate the viability of proposed projects; and (iv) determine overall rates of return on alternative investment opportunities. Adjusted EBITDA eliminates: (i) non-cash expenses, including but not limited to depreciation and amortization expense resulting from the significant capital investments we make in our businesses and from intangible assets recognized in business combinations; (ii) charges for obligations expected to be settled with the issuance of equity instruments; and (iii) items that are not indicative of our core operating performance results and business outlook.

We believe that investors benefit from having access to the same financial measures that we use and that these measures are useful to investors because they aid in comparing our operating performance with that of other companies with similar operations. The Adjusted EBITDA data presented by us may not be comparable to similarly titled measures at other companies because these items may be defined differently by other companies.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following tables present Adjusted EBITDA by segment and on a consolidated basis and a reconciliation of income from continuing operations to Adjusted EBITDA for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>Adjusted EBITDA from continuing operations:</i>				
Pipelines & Terminals	\$ 115,679	\$ 107,635	\$ 242,399	\$ 223,020
Global Marine Terminals	55,559	37,803	109,262	73,282
Merchant Services	(26,169)	4,724	(23,036)	10,918
Development & Logistics	5,719	3,667	10,787	6,840
Adjusted EBITDA from continuing operations	\$ 150,788	\$ 153,829	\$ 339,412	\$ 314,060
<i>Reconciliation of Income from continuing operations to Adjusted EBITDA from continuing operations:</i>				
Income from continuing operations	\$ 61,939	\$ 85,690	\$ 163,478	\$ 180,516
Less: Net income attributable to noncontrolling interests	(733)	(940)	(1,762)	(2,098)
Income from continuing operations attributable to Buckeye Partners, L.P.	61,206	84,750	161,716	178,418
Add: Interest and debt expense	42,012	30,237	83,225	60,486
Income tax expense	153	195	76	326
Depreciation and amortization	43,394	37,551	86,385	73,250
Non-cash unit-based compensation expense	4,799	3,845	7,921	7,077
Hess acquisition and transition expense	1,992		5,625	
Less: Amortization of unfavorable storage contracts (1)	(2,768)	(2,749)	(5,536)	(5,497)
Adjusted EBITDA from continuing operations	\$ 150,788	\$ 153,829	\$ 339,412	\$ 314,060

(1) Represents amortization of negative fair values allocated to certain unfavorable storage contracts acquired in connection with the BORCO acquisition.

Table of Contents**BUCKEYE PARTNERS, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****15. SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental cash flows and non-cash transactions were as follows for the periods indicated (in thousands):

		Six Months Ended June 30,	
	2014		2013
Cash paid for interest (net of capitalized interest)	\$	78,471	\$ 57,813
Cash paid for income taxes		399	542
Capitalized interest		3,774	3,178
Non-cash investing activities:			
Decrease in accounts payable and accrued and other current liabilities related to capital expenditures	\$	(24,544)	\$ (6,020)
Non-cash financing activities:			
Issuance of Class B units in lieu of quarterly cash distribution (1)	\$		\$ 16,843

(1) In September 2013, all of our Class B units, which represented a separate class of our limited partnership interests, converted into LP Units on a one-for-one basis. No Class B units have been issued subsequent to the conversion of Class B units into LP Units. See our Annual Report on Form 10-K for the year ended December 31, 2013 for further discussion.

16. SUBSEQUENT EVENT

In July 2014, we signed a purchase and sale agreement to sell our Natural Gas Storage business for \$105 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015, subject to regulatory approvals and customary closing conditions. We intend to use the proceeds from the sale to reduce the indebtedness outstanding under our revolving credit facility. For additional information, see Note 3 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this Report) contains various forward-looking statements and information that are based on our beliefs, as well as assumptions made by us and information currently available to us. When used in this Report, words such as proposed, anticipate, project, potential, could, should, continue, estimate, expect, may, believe, will, plan, seek, outlook and similar expressions and statements regarding our plans and objectives for future operations are intended to identify forward-looking statements. Although we believe that such expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions as described in more detail in Part I Item 1A, Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2013. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Although the expectations in the forward-looking statements are based on our current beliefs and expectations, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

The following information should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this Report.

Overview of Business

Buckeye Partners, L.P. is a publicly traded Delaware master limited partnership and its limited partnership units representing limited partner interests (LP Units) are listed on the New York Stock Exchange (NYSE) under the ticker symbol BPL. Buckeye GP LLC (Buckeye GP) is our general partner. As used in this Report, unless otherwise indicated, we, us, our and Buckeye mean Buckeye Partners, L.P. and, where the context requires, includes our subsidiaries.

Buckeye owns and operates a diversified network of integrated assets providing midstream logistic solutions, primarily consisting of the transportation, storage and marketing of liquid petroleum products. We are one of the largest independent liquid petroleum products pipeline operators in the United States in terms of volumes delivered, with approximately 6,000 miles of pipeline and more than 120 liquid petroleum products terminals with aggregate storage capacity of over 110 million barrels across our portfolio of pipelines, inland terminals and an integrated network of marine terminals located primarily on the U.S. East Coast and in the Caribbean. Our flagship marine terminal in The Bahamas, Bahamas Oil Refining Company International Limited (BORCO), is one of the largest marine crude oil and petroleum products storage facilities in the world and provides an array of logistics and blending services for the global flow of petroleum products. Our network of marine terminals enables us to facilitate global flows of crude oil, refined petroleum products, and other commodities, and to offer our customers connectivity to some of the world's most important bulk storage and blending hubs. We are also a wholesale distributor of refined petroleum products in areas served by our pipelines and terminals. Finally, Buckeye operates and/or maintains third-party pipelines under agreements with major oil and gas, petrochemical and chemical companies, and performs certain engineering and construction management services for third parties.

Table of Contents

In December 2013, the Board approved a plan to divest our Natural Gas Storage segment and its related assets as we no longer believe this business is aligned with our long-term business strategy. In this report, we refer to this group of assets and related liabilities as our Natural Gas Storage disposal group. Accordingly, we have classified the disposal group as Assets held for sale and Liabilities held for sale in our consolidated balance sheets as of June 30, 2014 and December 31, 2013 and reported the results of operations as discontinued operations for all periods presented in this report. In July 2014, we signed a purchase and sale agreement to sell our Natural Gas Storage business for \$105 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015, subject to regulatory approvals and customary closing conditions. For additional information, see Note 3 and Note 16 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Our primary business objective is to provide stable and sustainable cash distributions to our LP unitholders, while maintaining a relatively low investment risk profile. The key elements of our strategy are to: (i) operate in a safe and environmentally responsible manner; (ii) maximize utilization of our assets at the lowest cost per unit; (iii) maintain stable long-term customer relationships; (iv) optimize, expand and diversify our portfolio of energy assets; and (v) maintain a solid, conservative financial position and our investment-grade credit rating.

Recent Developments

Execution of Purchase and Sale Agreement to Divest the Natural and Gas Storage Segment

In July 2014, we signed a purchase and sale agreement to sell our Natural Gas Storage business for \$105 million. The transaction is expected to close in the fourth quarter of 2014 or the first quarter of 2015, subject to regulatory approvals and customary closing conditions. We intend to use the proceeds from the sale to reduce the indebtedness outstanding under our revolving credit facility.

At-the-Market Offering Program

During the six months ended June 30, 2014, we sold 1.0 million LP Units in aggregate under the equity distribution agreements entered into in May 2013 with each of Wells Fargo Securities, LLC, Barclays Capital Inc., SunTrust Robinson Humphrey, Inc. and UBS Securities LLC (each an Equity Distribution Agreement and collectively the Equity Distribution Agreements) and received \$74.5 million in net proceeds after deducting commissions and other related expenses. During the three and six months ended June 30, 2014, we paid \$0.3 million and \$0.8 million, respectively, of compensation in aggregate to the agents under the Equity Distribution Agreements.

Acquisition of Additional Interest in WesPac Pipelines - Memphis LLC

In April 2014, our operating subsidiary, Buckeye Pipe Line Holdings, L.P. (BPH), purchased an additional 10% ownership interest in WesPac Pipelines - Memphis LLC (WesPac Memphis) from Kealine LLC for \$9.5 million. As a result of the acquisition, our ownership interest in WesPac Memphis increased from 80% to 90%. Since BPH retains controlling interest in WesPac Memphis, this acquisition was accounted for as an equity transaction.

Table of Contents

Overview of Operating Results

Net income attributable to our unitholders was \$113.5 million for the six months ended June 30, 2014, which was a decrease of \$52.3 million, or 31.5% from \$165.8 million for the corresponding period in 2013. Operating income was \$243.4 million for the six months ended June 30, 2014, which is an increase of \$6.0 million, or 2.5% from \$237.4 million for the corresponding period in 2013. Our results for the six months ended June 30, 2014 include year-over-year improvement in our Pipelines & Terminals, Global Marine Terminals and Development & Logistics segments, while our Merchant Services segment experienced a loss as a result of weaker business conditions in the various refined petroleum markets in which we serve, and unfavorable results from implementing strategies intended to increase the utilization of our physical assets, grow our marketing business and mitigate risk. These losses are attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business.

We will continue to align our risk management activities with our long-term strategic initiatives which may result in the exiting of markets that are either illiquid or exposed to price volatility that cannot be adequately hedged. We are focused on targeting refined petroleum markets within our existing asset footprint with attractive competitive dynamics and liquidity that align with our current risk profile.

The decrease in net income attributable to our unitholders was primarily the result of the loss in our Merchant Services segment as described above, as well as an increase in interest expense resulting from the long term debt issuances in 2013, including the debt issued to partially fund the assets acquired from Hess Corporation (Hess) in December 2013, and an increase in depreciation and amortization expense due to the assets acquired from Hess. These decreases were offset by increased revenue in our Pipelines & Terminals segment, as well as increased contribution from our Global Marine Terminals segment. Revenue contributions from the assets acquired from Hess benefited both our Pipelines & Terminals and Global Marine Terminals segments as a result of successful and timely integration of the assets into our operations. Additionally, terminalling volumes for 2014 increased over the prior year period in our Pipelines & Terminals segment, primarily from the impact of capital investments in internal growth and diversification initiatives, which include continuous expansion of our butane blending capabilities as well as crude oil logistic projects centered at our Chicago complex, which serves as our Midwestern hub.

The loss from discontinued operations of our natural gas storage facility for the six months ended June 30, 2014 of \$48.2 million is \$35.6 million more unfavorable than a loss of \$12.6 million for the corresponding period in 2013. The loss increase is primarily due to a \$26.3 million non-cash impairment charge and losses due to the extreme price volatility we experienced when taking certain operative measures to ensure we met the deliverability requirements of our customers during peak times, resulting in costs of approximately \$7 million during the period. For additional information see Note 3, Note 9 and Note 16 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**Results of Operations***Consolidated Summary*

Our summary operating results were as follows for the periods indicated (in thousands, except per unit amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 1,808,951	\$ 993,588	\$ 3,800,780	\$ 2,324,666
Costs and expenses	1,706,785	879,617	3,557,341	2,087,219
Operating income	102,166	113,971	243,439	237,447
Other expense, net	(40,074)	(28,086)	(79,885)	(56,605)
Income from continuing operations, before taxes	62,092	85,885	163,554	180,842
Income tax expense	(153)	(195)	(76)	(326)
Income from continuing operations	61,939	85,690	163,478	180,516
Loss from discontinued operations	(38,186)	(8,320)	(48,228)	(12,647)
Net income	23,753	77,370	115,250	167,869
Less: Net income attributable to noncontrolling interests	(733)	(940)	(1,762)	(2,098)
Net income attributable to Buckeye Partners, L.P.	\$ 23,020	\$ 76,430	\$ 113,488	\$ 165,771

Non-GAAP Financial Measures

Adjusted EBITDA is the primary measure used by our senior management, including our Chief Executive Officer, to: (i) evaluate our consolidated operating performance and the operating performance of our business segments; (ii) allocate resources and capital to business segments; (iii) evaluate the viability of proposed projects; and (iv) determine overall rates of return on alternative investment opportunities. Distributable cash flow is another measure used by our senior management to provide a clearer picture of cash available for distribution to its unitholders. Adjusted EBITDA and distributable cash flow eliminate: (i) non-cash expenses, including but not limited to, depreciation and amortization expense resulting from the significant capital investments we make in our businesses and from intangible assets recognized in business combinations; (ii) charges for obligations expected to be settled with the issuance of equity instruments; and (iii) items that are not indicative of our core operating performance results and business outlook.

We believe that investors benefit from having access to the same financial measures that we use and that these measures are useful to investors because they aid in comparing our operating performance with that of other companies with similar operations. The Adjusted EBITDA and distributable cash flow data presented by us may not be comparable to similarly titled measures at other companies because these items may be defined differently by other companies.

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Table of Contents

The following table presents Adjusted EBITDA by segment and on a consolidated basis, distributable cash flow and a reconciliation of income from continuing operations, which is the most comparable GAAP financial measure, to Adjusted EBITDA and distributable cash flow for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>Adjusted EBITDA from continuing operations:</i>				
Pipelines & Terminals	\$ 115,679	\$ 107,635	\$ 242,399	\$ 223,020
Global Marine Terminals	55,559	37,803	109,262	73,282
Merchant Services	(26,169)	4,724	(23,036)	10,918
Development & Logistics	5,719	3,667	10,787	6,840
Adjusted EBITDA from continuing operations	\$ 150,788	\$ 153,829	\$ 339,412	\$ 314,060
<i>Reconciliation of Income from continuing operations to Adjusted EBITDA from continuing operations and Distributable cash flow:</i>				
Income from continuing operations	\$ 61,939	\$ 85,690	\$ 163,478	\$ 180,516
Less: Net income attributable to noncontrolling interests	(733)	(940)	(1,762)	(2,098)
Income from continuing operations attributable to Buckeye Partners, L.P.	61,206	84,750	161,716	178,418
Add:				
Interest and debt expense	42,012	30,237	83,225	60,486
Income tax expense	153	195	76	326
Depreciation and amortization	43,394	37,551	86,385	73,250
Non-cash unit-based compensation expense	4,799	3,845	7,921	7,077
Hess acquisition and transition expense	1,992		5,625	
Less:				
Amortization of unfavorable storage contracts (1)	(2,768)	(2,749)	(5,536)	(5,497)
Adjusted EBITDA from continuing operations	\$ 150,788	\$ 153,829	\$ 339,412	\$ 314,060
Less:				
Interest and debt expense, excluding amortization of deferred financing costs, debt discounts and other	(39,073)	(28,505)	(77,346)	(57,887)
Income tax expense	(153)	(195)	(76)	(326)
Maintenance capital expenditures	(17,139)	(13,016)	(35,772)	(18,140)
Distributable cash flow from continuing operations	\$ 94,423	\$ 112,113	\$ 226,218	\$ 237,707

(1) Represents amortization of negative fair values allocated to certain unfavorable storage contracts acquired in connection with the BORCO acquisition.

Table of Contents

The following table presents product volumes and average tariff rates for the Pipelines & Terminals segment in barrels per day (bpd) and total volumes sold in gallons for the Merchant Services segment for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Pipelines & Terminals (average bpd in thousands):				
Pipelines:				
Gasoline	721.4	756.3	679.9	697.3
Jet fuel	340.4	337.8	323.1	329.6
Middle distillates (1)	326.2	320.5	374.7	366.1
Other products (2)	45.0	28.9	38.1	29.1
Total pipelines throughput	1,433.0	1,443.5	1,415.8	1,422.1
Terminals:				
Products throughput	1,144.7	993.1	1,126.2	973.6
Pipeline Average Tariff (cents/bbl)	86.4	82.3	84.8	80.6
Merchant Services (in millions of gallons):				
Sales volumes	538.5	266.6	1,107.5	624.2

(1) Includes diesel fuel and heating oil.

(2) Includes liquefied petroleum gas (LPG), intermediate petroleum products and crude oil.

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Consolidated

Adjusted EBITDA was \$150.8 million for the three months ended June 30, 2014, which is a decrease of \$3.0 million, or 2.0%, from \$153.8 million for the corresponding period in 2013. The decrease in Adjusted EBITDA was primarily related to the loss in the Merchant Services segment as a result of weaker business conditions in the various refined petroleum markets in which we serve, and unfavorable results from implementing strategies intended to increase the utilization of our physical assets, grow our marketing business and mitigate risk. These losses are attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business. The decrease in Adjusted EBITDA was partially offset by positive contribution from the assets acquired from Hess in December 2013 in the Pipelines & Terminals and Global Marine Terminals segments and benefit of contributions from growth capital spending in the Pipelines & Terminals segment.

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Revenue was \$1,809.0 million for the three months ended June 30, 2014, which is an increase of \$815.4 million, or 82.1%, from \$993.6 million for the corresponding period in 2013. The increase in revenue was primarily related to an increase in the fuel oil supply and distribution services in the Caribbean and increased product sales volumes in our Merchant Services segment, as well as the benefit of the terminals acquired from Hess in December 2013 in both our Pipelines & Terminals and Global Marine Terminals segments.

Table of Contents

Operating income was \$102.2 million for the three months ended June 30, 2014, which is a decrease of \$11.8 million, or 10.4%, from \$114.0 million for the corresponding period in 2013. The decrease in operating income was primarily related to the loss in the Merchant Services segment attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business, and the increase in depreciation and amortization expenses primarily due to the assets acquired from Hess in December 2013. These decreases were offset by the benefit of the terminals acquired from Hess in December 2013 in both our Pipelines & Terminals and Global Marine Terminals segments.

Distributable cash flow was \$94.4 million for the three months ended June 30, 2014, which is a decrease of \$17.7 million, or 15.8%, from \$112.1 million for the corresponding period in 2013. The decrease in distributable cash flow was primarily related to a \$10.6 million increase in interest expense, excluding amortization of deferred financing costs, debt discounts and other, primarily resulting from the long-term debt issuances in 2013, including the debt issued to partially fund the assets acquired from Hess in December 2013, \$4.1 million increase in maintenance capital expenditures relating to a concerted effort to more timely perform pipeline and tank integrity work throughout the year in the Pipelines & Terminals segment and decrease of \$3.0 million in Adjusted EBITDA as described above.

Adjusted EBITDA by Segment

Pipelines & Terminals. Adjusted EBITDA from the Pipelines & Terminals segment was \$115.7 million for the three months ended June 30, 2014, which is an increase of \$8.1 million, or 7.5%, from \$107.6 million for the corresponding period in 2013. The positive factors impacting Adjusted EBITDA were primarily related to a \$17.3 million increase in revenue resulting from an increase in terminalling throughput and storage contracts, including those associated with the assets acquired from Hess in December 2013, a \$7.7 million increase in revenue due to increases in average pipeline tariff rates and longer-haul shipments, \$6.6 million in more favorable product settlement experience, including settlement experience associated with the assets acquired from Hess in December 2013, and \$6.6 million incremental revenue from capital investments in internal growth and diversification initiatives, including butane blending capabilities and crude oil handling services.

The negative factors impacting Adjusted EBITDA were a \$27.4 million increase in operating expenses, primarily related to outside services for asset-maintenance activities and incremental costs necessary to operate the terminals acquired from Hess in December 2013 and \$2.7 million decrease in revenue due to lower pipeline volumes.

Pipeline volumes remained relatively flat despite weaker gasoline shipments resulting from changes in regional production and supply. Overall terminalling volumes increased by 15.3% primarily due to effective commercialization and integration of the terminals acquired from Hess in December 2013. Legacy terminalling volumes increased by 2.6% due to higher demand for gasoline, distillates and jet fuel, new customer contracts and service offerings at select locations, including the benefit of contributions from growth capital spending.

Global Marine Terminals. Adjusted EBITDA from the Global Marine Terminals segment was \$55.6 million for the three months ended June 30, 2014, which is an increase of \$17.8 million, or 47.0%, from \$37.8 million for the corresponding period in 2013. The positive factors impacting Adjusted EBITDA were a \$17.7 million increase in storage revenue primarily as a result of the assets acquired from Hess in December 2013 and a \$7.6 million increase in revenue from ancillary services. Ancillary services include the berthing of ships at our jetties, settlement gains/losses and heating services. The increase in revenue was offset by a \$7.5 million increase in operating expenses primarily

related to incremental costs necessary to operate the assets acquired from Hess in December 2013.

Table of Contents

Merchant Services. Adjusted EBITDA from the Merchant Services segment was a loss of \$26.2 million for the three months ended June 30, 2014, which is a decrease of \$30.9 million from earnings of \$4.7 million for the corresponding period in 2013. The loss experienced during the period is attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business.

Adjusted EBITDA was positively impacted by a \$758.9 million increase in revenue, which included a \$751.1 million increase due to 102.0% higher volumes sold and a \$7.8 million increase in refined petroleum product sales due to a price increase of \$0.02 per gallon (average sales price per gallon were \$2.78 and \$2.76 for the 2014 and 2013 periods, respectively) and \$0.2 million decrease in operating expenses, which primarily related to overhead costs.

Adjusted EBITDA was negatively impacted by a \$790.0 million increase in cost of product sales, which included a \$742.6 million increase due to 102.0% higher volumes sold and a \$47.4 million increase in refined petroleum product cost due to a price increase of \$0.09 per gallon (average cost prices per gallon were \$2.82 and \$2.73 for the 2014 and 2013 periods, respectively).

Development & Logistics. Adjusted EBITDA from the Development & Logistics segment was \$5.7 million for the three months ended June 30, 2014, which is an increase of \$2.0 million, or 56.0%, from \$3.7 million for the corresponding period in 2013. The increase in Adjusted EBITDA was primarily due to a \$3.9 million increase in third-party engineering and operations revenue primarily due to increased project activity and a \$1.2 million increase in revenue related to the LPG storage caverns primarily due to the favorable seasonal impact of the depletion of inventory, partially offset by a \$3.1 million increase in engineering and operations expenses.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Consolidated

Adjusted EBITDA was \$339.4 million for the six months ended June 30, 2014, which is an increase of \$25.3 million, or 8.1%, from \$314.1 million for the corresponding period in 2013. The increase in Adjusted EBITDA was primarily related to positive contribution from the assets acquired from Hess in December 2013 in the Pipelines & Terminals and Global Marine Terminals segments and benefit of contributions from growth capital spending in the Pipelines & Terminals segment. These increases in Adjusted EBITDA were offset by the loss in the Merchant Services segment as a result of weaker business conditions in the various refined petroleum markets in which we serve, and unfavorable results from implementing strategies intended to increase the utilization of our physical assets, grow our marketing business and mitigate risk. These losses are attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business.

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Revenue was \$3,800.8 million for the six months ended June 30, 2014, which is an increase of \$1,476.1 million, or 63.5%, from \$2,324.7 million for the corresponding period in 2013. The increase in revenue was primarily related to increase in the fuel oil supply and distribution services in the Caribbean and increased product sales volumes in our Merchant Services segment, as well as the benefit of the terminals acquired from Hess in December 2013 in both our Pipelines & Terminals and Global Marine Terminals segments.

Table of Contents

Operating income was \$243.4 million for the six months ended June 30, 2014, which is an increase of \$6.0 million, or 2.5%, from \$237.4 million for the corresponding period in 2013. The increase in operating income was primarily related to the benefit of the terminals acquired from Hess in December 2013 in both our Pipelines & Terminals and Global Marine Terminals segments. These increases were offset by the loss in the Merchant Services segment attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business, and the increase in depreciation and amortization expense primarily due to the assets acquired from Hess in December 2013.

Distributable cash flow was \$226.2 million for the six months ended June 30, 2014, which is a decrease of \$11.5 million, or 4.8%, from \$237.7 million as compared to the corresponding period in 2013. The decrease in distributable cash flow was primarily related to a \$19.5 million increase in interest expense, excluding amortization of deferred financing costs, debt discounts and other, primarily resulting from the long-term debt issuances in 2013, including the debt issued to partially fund the assets acquired from Hess in December 2013, \$17.6 million increase in maintenance capital expenditures relating to a concerted effort to more timely perform pipeline and tank integrity work throughout the year in the Pipelines & Terminals segment, partially offset by an increase of \$25.3 million in Adjusted EBITDA as described above and a \$0.3 million decrease in income tax expense.

Adjusted EBITDA by Segment

Pipelines & Terminals. Adjusted EBITDA from the Pipelines & Terminals segment was \$242.4 million for the six months ended June 30, 2014, which is an increase of \$19.4 million, or 8.7%, from \$223.0 million for the corresponding period in 2013. The positive factors impacting Adjusted EBITDA were related to a \$33.1 million increase in revenue resulting from an increase in terminalling throughput and storage contracts, including those associated with the assets acquired from Hess in December 2013, \$14.2 million incremental revenue from capital investments in internal growth and diversification initiatives, including butane blending capabilities, crude oil handling services, as well as storage and throughput of other hydrocarbons, a \$13.1 million increase in revenue due to increases in average pipeline tariff rates and longer-haul shipments, and \$6.3 million in more favorable settlement experience, including product settlement experience associated with the assets acquired from Hess in December 2013.

The negative factors impacting Adjusted EBITDA were a \$45.3 million increase in operating expenses, primarily related to outside services for asset-maintenance activities and incremental costs necessary to operate the terminals acquired from Hess in December 2013, a \$1.6 million decrease in revenue due to lower pipeline volumes and a \$0.4 million decrease in earnings from equity investments primarily due to higher asset integrity expenses.

Pipeline volumes remained relatively flat despite weaker gasoline and jet fuel shipments resulting from extreme weather conditions in early 2014. Overall terminalling volumes increased by 15.7% due to effective commercialization and integration of the terminals acquired from Hess in December 2013. Legacy terminalling volumes increased by 1.8% due to higher demand for gasoline, distillates and jet fuel, new customer contracts and service offerings at select locations, including the benefit of contributions from growth capital spending.

Global Marine Terminals. Adjusted EBITDA from the Global Marine Terminals segment was \$109.3 million for the six months ended June 30, 2014, which is an increase of \$36.0 million, or 49.1%, from \$73.3 million for the corresponding period in 2013. The positive factors impacting

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Adjusted EBITDA were \$36.0 million increase in storage revenue primarily as a result of the assets acquired from Hess in December 2013 and a \$14.9 million increase in revenue from ancillary services. Ancillary services include the berthing of ships at our jetties, settlement gains/losses and heating services. The increase in revenue was offset by a \$14.9 million increase in operating expenses primarily related to incremental costs necessary to operate the assets acquired from Hess in December 2013.

Table of Contents

Merchant Services. Adjusted EBITDA from the Merchant Services segment was a loss of \$23.0 million for the six months ended June 30, 2014, which is a decrease of \$33.9 million from earnings of \$10.9 million for the corresponding period in 2013. The loss experienced during the period is attributed to (i) costs associated with entering into new markets to grow our marketing business and support the optimization of our underlying physical assets, (ii) losses on the liquidation of physical positions in markets less liquid than in our core markets, (iii) losses resulting from the timing of activity intended to mitigate risk on gasoline and distillates for the current driving season and upcoming heating season, and (iv) a significant decline in the value of ethanol which is carried in inventory to support our gasoline business. These negative factors were partially offset by strong domestic rack margins driven by the cold weather in the Northeast.

Adjusted EBITDA was positively impacted by a \$1,361.1 million increase in revenue, which included a \$1,403.4 million increase due to 77.4% of higher volumes sold, offset by a \$42.3 million decrease in refined petroleum product sales due to a price decrease of \$0.03 per gallon (average sales prices per gallon were \$2.87 and \$2.90 for the 2014 and 2013 periods, respectively).

Adjusted EBITDA was negatively impacted by a \$1,393.7 million increase in cost of product sales, which included a \$1,390.4 million increase due to 77.4% of higher volumes sold and a \$3.3 million increase in refined petroleum product cost due to a negligible price increase of \$0.003 per gallon (average cost prices per gallon were \$2.88 and \$2.88 for the 2014 and 2013 periods, respectively) and a \$1.3 million increase in operating expenses, which primarily related to overhead costs.

Development & Logistics. Adjusted EBITDA from the Development & Logistics segment was \$10.8 million for the six months ended June 30, 2014, which is an increase of \$4.0 million, or 57.7%, from \$6.8 million for the corresponding period in 2013. The increase in Adjusted EBITDA was primarily due to a \$7.4 million increase in third-party engineering and operations revenue primarily due to increased project activity and \$2.6 million increase in revenue related to the LPG storage caverns due to the favorable seasonal impact of the depletion of inventory and a one-time gain recognition of inventory, partially offset by a \$6.0 million increase in engineering and operations expenses.

Liquidity and Capital Resources

General

Our primary cash requirements, in addition to normal operating expenses and debt service, are for working capital, capital expenditures, business acquisitions and distributions to partners. Our principal sources of liquidity are cash from operations, borrowings under our \$1.25 billion revolving credit facility dated September 26, 2011 (the Credit Facility) with SunTrust Bank and proceeds from the issuance of our LP Units. We will, from time to time, issue debt securities to permanently finance amounts borrowed under our Credit Facility. Buckeye Energy Services LLC (BES) funds its working capital needs principally from its operations and its portion of our Credit Facility. Our fuel oil supply and distribution services in the Caribbean are additionally funded principally from their own operations and the Credit Facility. Our financial policy has been to fund maintenance capital expenditures with cash from continuing operations. Expansion and cost reduction capital expenditures, along with acquisitions, have typically been funded from external sources including our Credit Facility, as well as debt and equity offerings. Our goal has been to fund at least half of these expenditures with proceeds from equity offerings in order to maintain our investment-grade credit rating. Based on current market conditions, we believe our borrowing capacity under our Credit Facility, cash flows from continuing operations and access to debt and equity markets, if necessary, will be sufficient to fund our primary cash requirements, including our expansion plans over the next 12 months.

Current Liquidity

As of June 30, 2014, we had \$237.3 million of working capital (including net assets held for sale of \$103.0 million) and \$605 million of additional borrowing capacity under our Credit Facility.

Table of Contents

Capital Structuring Transactions

As part of our ongoing efforts to maintain a capital structure that is closely aligned with the cash-generating potential of our asset-based business, we may explore additional sources of external liquidity, including public or private debt or equity issuances. Matters to be considered will include cash interest expense and maturity profile, all to be balanced with maintaining adequate liquidity. We have a universal shelf registration statement that does not place any dollar limits on the amount of debt and equity securities that we may issue thereunder and a traditional shelf registration statement on file with the U.S. Securities and Exchange Commission (SEC) that, as of June 30, 2014, had \$674.5 million of unsold equity securities that we may issue thereunder. The timing of any transaction may be impacted by events, such as strategic growth opportunities, legal judgments or regulatory or environmental requirements. The receptiveness of the capital markets to an offering of debt or equity securities cannot be assured and may be negatively impacted by, among other things, our long-term business prospects and other factors beyond our control, including market conditions. In addition, we periodically evaluate engaging in strategic transactions as a source of capital or may consider divesting assets where such evaluation suggests such a transaction is in the best interest of Buckeye.

Capital Allocation

We continually review our investment options with respect to our capital resources that are not distributed to our unitholders or used to pay down our debt and seek to invest these capital resources in various projects and activities based on their return to Buckeye. Potential investments could include, among others: add-on or other enhancement projects associated with our current assets; greenfield or brownfield development projects; and merger and acquisition activities.

Debt

It is our intent to refinance the \$275 million of 5.300% notes maturing on October 15, 2014 (the 5.300% Notes) in the latter half of 2014. If necessary, the 5.300% Notes could be refinanced using our Credit Facility. At June 30, 2014, we had \$605 million of additional borrowing capacity under our Credit Facility. Additionally, our interest rate swaps that are designated as cash flow hedges related to the refinancing of the 5.300% Notes, which will expire on October 15, 2014, have a financial liability of \$48.9 million at June 30, 2014.

At June 30, 2014, we had total fixed-rate and variable-rate debt obligations of \$3,064.3 million and \$645.0 million, respectively, with an aggregate fair value of \$3,946.4 million. At June 30, 2014, we were in compliance with the covenants under our Credit Facility.

Equity

In May 2013, we entered into four separate Equity Distribution Agreements under which we may offer and sell up to \$300 million in aggregate gross sales proceeds of LP Units from time to time through such firms, acting as agents of the Partnership or as principals, subject in each case to the terms and conditions set forth in the applicable Equity Distribution Agreement. See Note 12 in the Notes to Unaudited Condensed Consolidated Financial Statements for additional information. During the six months ended June 30, 2014, we sold 1.0 million LP Units in

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aggregate under the Equity Distribution Agreements, received \$74.5 million in net proceeds after deducting commissions and other related expenses. During the three and six months ended June 30, 2014, we paid \$0.3 million and \$0.8 million, respectively, of compensation in aggregate to the agents under the Equity Distribution Agreements.

Table of Contents*Cash Flows from Operating, Investing and Financing Activities*

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated (in thousands):

	Six Months Ended June 30,	
	2014	2013
Cash provided by (used in):		
Operating activities	\$ 22,120	\$ 290,905
Investing activities	(200,275)	(147,289)
Financing activities	195,111	(145,503)
Net increase (decrease) in cash and cash equivalents	\$ 16,956	\$ (1,887)

Operating Activities

Net cash provided by operating activities of \$22.1 million for the six months ended June 30, 2014 primarily related to \$115.3 million of net income and \$86.4 million of depreciation and amortization expense, offset by a \$131.8 million increase in inventory, primarily due to the seasonal build-up of inventory for the heating season, and a \$51.2 million increase in trade receivables resulting primarily from the expanding business and the new merchant activities supporting the terminals acquired from Hess in December 2013.

Net cash provided by operating activities of \$290.9 million for the six months ended June 30, 2013 primarily related to \$167.9 million of net income, \$77.0 million of depreciation and amortization expense and \$64.3 million associated with a reduction in inventory, partially offset by a \$62.0 million settlement to terminate the interest rate swap agreements related to the \$500.0 million of 4.150% Notes due July 1, 2023 (the 4.150% Notes).

Future Operating Cash Flows. Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including demand for our services, the cost of commodities, the effectiveness of our strategy, legal, environmental and regulatory requirements and our ability to capture value associated with commodity price volatility.

Investing Activities

Net cash used in investing activities of \$200.3 million and \$147.3 million for the six months ended June 30, 2014 and 2013, respectively, primarily related to capital expenditures. See below for a discussion of capital spending.

Financing Activities

Net cash provided by financing activities of \$195.1 million for the six months ended June 30, 2014 primarily related to \$390.0 million of net borrowings under the Credit Facility and \$74.5 million of net proceeds from the issuance of 1.0 million LP Units under the Equity Distribution Agreements, partially offset by \$252.2 million of cash distributions paid to our unitholders (\$2.1875 per LP Unit).

Net cash used in financing activities of \$145.5 million for the six months ended June 30, 2013 primarily related to \$795.2 million of net repayments under the Credit Facility and \$201.2 million of cash distributions paid to our unitholders (\$2.0875 per LP Unit), partially offset by \$499.1 million of proceeds from the issuance of the 4.150% Notes due on July 1, 2023, \$349.2 million of net proceeds from the issuance of 6.9 million LP Units and \$23.6 million of net proceeds from the issuance of 0.4 million LP Units under the Equity Distribution Agreements.

Table of Contents*Capital Expenditures*

We have capital expenditures, which we define as maintenance capital expenditures, in order to maintain and enhance the safety and integrity of our pipelines, terminals, storage facilities and related assets, and expansion and cost reduction capital expenditures to expand the reach or capacity of those assets, to improve the efficiency of our operations, reduce costs and to pursue new business opportunities. Capital expenditures, excluding non-cash changes in accruals for capital expenditures, were as follows for the periods indicated (in thousands):

		Six Months Ended June 30,	
	2014		2013
Maintenance capital expenditures	\$	35,933	\$ 18,202
Expansion and cost reduction		165,582	129,665
Total capital expenditures, net	\$	201,515	\$ 147,867

In the six months ended June 30, 2014 and 2013, maintenance capital expenditures included pump replacements and truck rack infrastructure upgrades, as well as pipeline and tank integrity work. Expansion and cost reduction capital expenditures included investments in storage tank enhancements at BORCO and Perth Amboy, butane blending, rail off-loading facilities, crude oil storage/transportation and various other cost reduction and revenue generating projects.

We have estimated our capital expenditures as follows for the year ending December 31, 2014 (in thousands):

		2014	
	Low		High
<i>Pipelines & Terminals:</i>			
Maintenance capital expenditures	\$	60,000	\$ 70,000
Expansion and cost reduction		160,000	180,000
Total capital expenditures	\$	220,000	\$ 250,000
<i>Global Marine Terminals:</i>			
Maintenance capital expenditures	\$	15,000	\$ 25,000
Expansion and cost reduction		100,000	110,000
Total capital expenditures	\$	115,000	\$ 135,000
<i>Overall:</i>			
Maintenance capital expenditures	\$	75,000	\$ 95,000
Expansion and cost reduction		260,000	290,000
Total capital expenditures	\$	335,000	\$ 385,000

Table of Contents

Estimated maintenance capital expenditures include renewals and replacement of pipeline sections, tank floors and tank roofs and upgrades to station and terminalling equipment, field instrumentation and cathodic protection systems. Estimated major expansion and cost reduction expenditures include storage tank enhancement and refurbishment projects across our system; continued installation of vapor recovery units throughout our system of terminals; various upgrades and expansions of our butane blending business; and construction of a new crude oil rail off-loading system at Perth Amboy.

Off-Balance Sheet Arrangements

At June 30, 2014, we had no off-balance sheet debt or arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following should be read in conjunction with Quantitative and Qualitative Disclosures About Market Risk included under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes in that information other than as discussed below. Also see Note 8 in the Notes to Unaudited Condensed Consolidated Financial Statements for additional discussion related to derivative instruments and hedging activities.

Market Risk Non-Trading Instruments

We are exposed to financial market risks, including changes in commodity prices and interest rates. The primary factors affecting our market risk and the fair value of our derivative portfolio at any point in time are the volume of open derivative positions, changing refined petroleum commodity prices, and prevailing interest rates for our interest rate swaps. We are also susceptible to basis risk created when we enter into financial hedges that are priced at a certain location, but the sales or exchanges of the underlying commodity are at another location where prices and price changes might differ from the prices and price changes at the location upon which the hedging instrument is based. Since prices for refined petroleum products and interest rates are volatile, there may be material changes in the fair value of our derivatives over time, driven both by price volatility and the changes in volume of open derivative transactions.

The following is a summary of changes in fair value of our derivative instruments for the periods indicated (in thousands):

	Commodity Instruments	Interest Rate Swaps	Total
Fair value of contracts outstanding at January 1, 2014	\$ (10,215)	\$ (30,045)	\$ (40,260)
Items recognized or settled during the period	21,415		21,415
Fair value attributable to new deals	7,347		7,347
Change in fair value attributable to price movements	(22,424)	(18,812)	(41,236)
Change in fair value attributable to non-performance risk	(6)		(6)
Fair value of contracts outstanding at June 30, 2014	\$ (3,883)	\$ (48,857)	\$ (52,740)

Table of Contents**Commodity Risk**

Our Merchant Services segment primarily uses exchange-traded refined petroleum product futures contracts to manage the risk of market price volatility on its refined petroleum product inventories and its physical derivative contracts. Based on a hypothetical 10% movement in the underlying quoted market prices of the futures contracts and observable market data from third-party pricing publications for physical derivative contracts related to designated hedged refined petroleum products inventories outstanding and physical derivative contracts at June 30, 2014, the estimated fair value would be as follows (in thousands):

Scenario	Resulting Classification	Fair Value
Fair value assuming no change in underlying commodity prices (as is)	Asset	\$ 424,920
Fair value assuming 10% increase in underlying commodity prices	Asset	\$ 423,752
Fair value assuming 10% decrease in underlying commodity prices	Asset	\$ 426,088

Interest Rate Risk

We utilize forward-starting interest rate swaps to hedge the variability of the forecasted interest payments on anticipated debt issuances that may result from changes in the benchmark interest rate until the expected debt is issued. When entering into interest rate swap transactions, we are exposed to both credit risk and market risk. We manage our credit risk by entering into swap transactions only with major financial institutions with investment-grade credit ratings. We are subject to credit risk when the change in fair value of the swap instruments is positive and the counterparty may fail to perform under the terms of the contract. We are subject to market risk with respect to changes in the underlying benchmark interest rate that impact the fair value of swaps. We manage our market risk by aligning the swap instrument with the existing underlying debt obligation or a specified expected debt issuance generally associated with the maturity of an existing debt obligation.

Based on a hypothetical 10% movement in the underlying interest rates at June 30, 2014, the estimated fair value of the interest rate derivative contracts would be as follows (in thousands):

Scenario	Resulting Classification	Fair Value
Fair value assuming no change in underlying interest rates (as is)	Liability	\$ (48,857)
Fair value assuming 10% increase in underlying interest rates	Liability	\$ (42,139)
Fair value assuming 10% decrease in underlying interest rates	Liability	\$ (56,537)

See Note 8 in the Notes to Unaudited Condensed Consolidated Financial Statements for additional discussion related to derivative instruments and hedging activities.

Table of Contents

Foreign Currency Risk

Puerto Rico is a commonwealth country under the U.S., and uses the U.S. dollar as its official currency. BORCO's functional currency is the U.S. dollar and it is equivalent in value to the Bahamian dollar. St. Lucia is a sovereign island country in the Caribbean and its official currency is the Eastern Caribbean dollar, which is pegged to the U.S. dollar and has remained fixed for many years. The functional currency for our operations in St. Lucia is the U.S. dollar. Foreign exchange gains and losses arising from transactions denominated in a currency other than the U.S. dollar relate to a nominal amount of supply purchases and are included in other income (expense) within the unaudited condensed consolidated statements of operations. The effects of foreign currency transactions were not considered to be material for the three and six months ended June 30, 2014 and 2013.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), evaluated the design and effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report are designed and operating effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, 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 CEO and CFO, 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.

There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) or in other factors during the second quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated version of its Internal Control - Integrated Framework (the "2013 Framework"). Originally issued in 1992 (the "1992 Framework"), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of June 30, 2014, the Partnership continues to utilize the 1992 Framework during its transition to the 2013 Framework by the end of 2014.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

In the ordinary course of business, we are involved in various claims and legal proceedings, some of which are covered by insurance. We are generally unable to predict the timing or outcome of these claims and proceedings. For information on unresolved legal proceedings not otherwise described below, see Part I, Item 1, Financial Statements, Note 4, *Commitments and Contingencies* in the Notes to Unaudited Condensed Consolidated Financial Statements included in this quarterly report, which is incorporated into this item by reference.

In April 2014, Buckeye received a penalty from the Pipeline Hazardous Materials Safety Administration totaling \$0.3 million in connection with certain procedural and personnel qualification issues related to a product release that occurred in Findlay, Ohio in May 2011. We determined not to contest the penalty and paid it in full.

Table of Contents

On December 3, 2012, a complaint was filed in the Circuit Court for Washington County, Wisconsin by Chad Altschaf, et al., as plaintiffs, naming Buckeye, Buckeye Pipe Line Services Company (Services Company) Buckeye Pipe Line Holdings, L.P. (BPH), Buckeye Pipe Line Company, L.P. (BPLC) and West Shore Pipe Line Company (West Shore) as defendants, which complaint was amended by the plaintiffs on April 18, 2013, August 1, 2013 and again on September 23, 2013. The second amended complaint filed on August 1, 2013 named Zurich American Insurance Co. (Zurich) as an additional defendant. The plaintiffs are owners of 216 properties located in and around the Town of Jackson, Wisconsin. The complaint attempts to allege various emotional distress and property damage claims under Wisconsin law arising out of a release of gasoline from a pipeline owned by West Shore in the Town of Jackson, Wisconsin on July 17, 2012. On January 21, 2013, we filed an answer to the complaint, denying plaintiffs' claims and asserting affirmative defenses. No dollar amount of damages is stated in the complaint, but the plaintiffs seek damages to reimburse them for, among other things, alleged costs of restoring their properties, of installing a permanent supply of potable water, and the alleged diminution in value of their properties. The plaintiffs also seek punitive damages. On February 7, 2014, the plaintiffs filed a stipulation to voluntarily dismiss Zurich without prejudice and on February 19, 2014, the court entered an order dismissing Zurich. Pursuant to the proposed scheduling order jointly submitted by the parties, a trial is scheduled to begin in August 2015. The timing or outcome of final resolution of this matter cannot reasonably be determined at this time. Buckeye, Services Company, BPH and BPLC are entitled to certain indemnifications by West Shore pursuant to an agreement between BPLC and West Shore, which we believe would result in West Shore indemnifying us for any losses stemming from this litigation. In addition, West Shore has insurance that we believe should cover such losses, subject to a \$3 million deductible. West Shore is pursuing that insurance coverage.

Item 1A. Risk Factors

Security holders and potential investors in our securities should carefully consider the risk factors set forth below and in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013. We have identified these risk factors as important factors that could cause our actual results to differ materially from those contained in any written or oral forward-looking statements made by us or on our behalf.

Item 6. Exhibits

(a) Exhibits

- 3.1 Amended and Restated Certificate of Limited Partnership of Buckeye Partners, L.P., dated as of February 4, 1998 (Incorporated by reference to Exhibit 3.2 of Buckeye Partners, L.P.'s Annual Report on Form 10-K for the year ended December 31, 1997).
- 3.2 Certificate of Amendment to Amended and Restated Certificate of Limited Partnership of Buckeye Partners, L.P., dated as of April 26, 2002 (Incorporated by reference to Exhibit 3.2 of Buckeye Partners, L.P.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002).
- 3.3 Certificate of Amendment to Amended and Restated Certificate of Limited Partnership of Buckeye Partners, L.P., dated as of June 1, 2004, effective as of June 3, 2004 (Incorporated by reference to Exhibit 3.3 of the Buckeye Partners, L.P.'s Registration Statement on Form S-3 filed June 16, 2004).
- 3.4 Certificate of Amendment to Amended and Restated Certificate of Limited Partnership of Buckeye Partners, L.P., dated as of December 15, 2004 (Incorporated by reference to Exhibit 3.5 of Buckeye Partners, L.P.'s Annual Report on Form 10-K for the year ended December 31, 2004).

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- 3.5 Amended and Restated Agreement of Limited Partnership of Buckeye Partners, L.P., dated as of November 19, 2010
(Incorporated by reference to Exhibit 3.1 of Buckeye Partners, L.P.'s Current Report on Form 8-K filed November 22, 2010).

Table of Contents

3.6	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Buckeye Partners, L.P., dated as of January 18, 2011 (Incorporated by reference to Exhibit 3.1 of Buckeye Partners, L.P.'s Current Report on Form 8-K filed on January 20, 2011).
3.7	Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Buckeye Partners, L.P., dated as of February 21, 2013 (Incorporated by reference to Exhibit 3.1 of Buckeye Partners, L.P.'s Current Report on Form 8-K filed on February 25, 2013).
3.8	Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Buckeye Partners, L.P., dated as of October 1, 2013, (Incorporated by reference to Exhibit 3.1 of Buckeye Partners, L.P.'s Current Report on Form 8-K filed on October 7, 2013).
*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 by Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
*32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

Table of Contents

SIGNATURES

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

By: BUCKEYE PARTNERS, L.P.
(Registrant)

By: Buckeye GP LLC,
as General Partner

Date: August 8, 2014

By: /s/ Keith E. St.Clair
Keith E. St.Clair
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)