

Blueknight Energy Partners, L.P.  
Form 10-Q  
May 10, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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 001-33503

BLUEKNIGHT ENERGY PARTNERS, L.P.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

20-8536826  
(IRS Employer  
Identification No.)

Two Warren Place  
6120 South Yale Avenue, Suite 500  
Tulsa, Oklahoma 74136  
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (918) 237-4000

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

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

Indicate by check mark whether the registrant 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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

As of May 5, 2010, there were 21,727,724 common units and 12,570,504 subordinated units outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

BLUEKNIGHT ENERGY PARTNERS, L.P.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except per unit data)

	As of December 31, 2009 (unaudited)	As of March 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,548	\$ 4,703
Accounts receivable, net of allowance for doubtful accounts of \$429 for both dates	10,549	10,405
Receivables from related parties, net of allowance for doubtful accounts of \$0 for both dates	1,253	282
Prepaid insurance	3,474	2,851
Other current assets	2,292	2,557
Total current assets	23,116	20,798
Property, plant and equipment, net of accumulated depreciation of \$99,948 and \$104,627 at December 31, 2009 and March 31, 2010, respectively	274,492	270,348
Goodwill	6,340	6,340
Debt issuance costs, net	6,384	5,939
Other assets, net	369	180
Total assets	\$ 310,701	\$ 303,605
<b>LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 7,061	\$ 7,207
Accounts payable to related parties	—	40
Accrued interest payable	2,242	3,693
Accrued property taxes payable	3,175	2,166
Unearned revenue	5,205	4,124
Unearned revenue with related parties	1,185	1,075
Accrued payroll	3,425	4,855
Other accrued liabilities	2,339	3,377
Current portion of capital lease obligations	248	83
Current portion of long term debt	9,000	9,500
Total current liabilities	33,880	36,120
Long-term debt	419,000	414,707
Commitments and contingencies (Notes 4, 10 and 13)		
Partners' capital (deficit):		
Common unitholders (21,727,724 units issued and outstanding for both dates)	471,701	468,579
	(290,257)	(292,078)

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Subordinated unitholders (12,570,504 units issued and outstanding for both dates)			
General partner interest (2.0% interest with 690,725 general partner units outstanding for both dates)		(323,623)	(323,723)
Total partners' capital (deficit)		(142,179)	(147,222)
Total liabilities and partners' capital (deficit)	\$	310,701	\$ 303,605

See accompanying notes to unaudited consolidated financial statements.

BLUEKNIGHT ENERGY PARTNERS, L.P.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per unit data)

	Three Months Ended March 31,	
	2009	2010
	(unaudited)	
Service revenue:		
Third party revenue	\$ 24,110	\$ 33,961
Related party revenue	18,060	3,071
Total revenue	42,170	37,032
Expenses:		
Operating	22,213	25,843
General and administrative	8,707	3,768
Total expenses	30,920	29,611
Operating income	11,250	7,421
Other expenses:		
Interest expense	12,849	12,423
Loss before income taxes	(1,599)	(5,002)
Provision for income taxes	61	49
Net loss	\$ (1,660)	\$ (5,051)
Allocation of net loss for calculation of earnings per unit:		
General partner interest in net loss	\$ (33)	\$ (100)
Loss allocable to limited partners	\$ (1,627)	\$ (4,951)
Basic and diluted net loss per common unit		
	\$ (0.05)	\$ (0.14)
Basic and diluted net loss per subordinated unit		
	\$ (0.05)	\$ (0.14)
Weighted average common units outstanding - basic and diluted		
	21,557	21,728
Weighted average subordinated units outstanding - basic and diluted		
	12,571	12,571

See accompanying notes to unaudited consolidated financial statements.

BLUEKNIGHT ENERGY PARTNERS, L.P.  
 CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL (DEFICIT)  
 (in thousands)

	Common Unitholders	Subordinated Unitholders	General Partner Interest	Total Partners' Capital (Deficit)
	(unaudited)			
Balance, December 31, 2009	\$ 471,701	\$ (290,257)	\$ (323,623)	\$ (142,179)
Net loss	(3,127)	(1,824)	(100)	(5,051)
Equity-based incentive compensation	5	3	—	8
Balance, March 31, 2010	\$ 468,579	\$ (292,078)	\$ (323,723)	\$ (147,222)

See accompanying notes to unaudited consolidated financial statements.

BLUEKNIGHT ENERGY PARTNERS, L.P.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Three Months Ended March 31,	
	2009	2010
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (1,660)	\$ (5,051)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,741	5,514
Amortization of debt issuance costs	2,867	1,064
Asset impairment charge	—	779
Gain on sale of assets	(37)	(115)
Equity-based incentive compensation	2	8
Changes in assets and liabilities:		
Decrease in accounts receivable	514	144
Decrease (increase) in receivables from related parties	(514)	971
Decrease in prepaid insurance	597	623
Increase in other current assets	(390)	(265)
Decrease in other assets	36	189
Decrease in accounts payable	(581)	(146)
Increase in payables to related parties	1,994	40
Increase (decrease) in accrued interest payable	(175)	1,451
Decrease in accrued property taxes	(761)	(1,009)
Increase in interest rate swap settlements payable	28	—
Decrease in unearned revenue	(1,755)	(1,081)
Decrease in unearned revenue from related parties	—	(110)
Increase in accrued payroll	2,653	1,430
Increase in other accrued liabilities	61	1,038
Net cash provided by operating activities	8,620	5,474
Cash flows from investing activities:		
Capital expenditures	(1,247)	(1,859)
Proceeds from sale of assets	37	117
Net cash used in investing activities	(1,210)	(1,742)
Cash flows from financing activities:		
Debt issuance costs	(1,402)	(619)
Payments on capital lease obligations	(286)	(165)
Borrowings under credit facility	—	16,500
Payments under credit facility	—	(20,293)
Net cash used in financing activities	(1,688)	(4,577)
Net decrease in cash and cash equivalents	5,722	(845)
Cash and cash equivalents at beginning of period	28,785	5,548
Cash and cash equivalents at end of period	\$ 34,507	\$ 4,703
Supplemental disclosure of cash flow information:		
Increase in accounts payable related to purchases of property, plant and equipment	\$ 64	\$ 292



See accompanying notes to unaudited consolidated financial statements.

BLUEKNIGHT ENERGY PARTNERS, L.P.  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS

Blueknight Energy Partners, L.P. (formerly SemGroup Energy Partners, L.P.) and subsidiaries (the “Partnership”) is a publicly traded master limited partnership with operations in twenty-three states. The Partnership provides integrated terminalling, storage, gathering and transportation services for companies engaged in the production, distribution and marketing of crude oil and asphalt product. The Partnership manages its operations through three operating segments: (i) crude oil terminalling and storage services, (ii) crude oil gathering and transportation services and (iii) asphalt services. The Partnership was formed in February 2007 as a Delaware master limited partnership initially to own, operate and develop a diversified portfolio of complementary midstream energy assets.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared assuming that the Partnership will continue as a going concern. Due to the events related to SemGroup, L.P.’s (collectively, with its successors (including SemGroup Corporation), affiliates and subsidiaries other than the Partnership and the Partnership’s general partner during periods in which the Partnership and its general partner were affiliated with SemGroup, L.P., “SemCorp”) bankruptcy filings, including decreased revenues in the Partnership’s crude oil gathering and transportation and asphalt services segments, increased general and administrative expenses related to legal and financial advisors as well as other related costs, and uncertainties related to securities and other litigation, the Partnership continues to face uncertainties with respect to its ability to comply with covenants under its credit facility as discussed in the Partnership’s annual report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (the “SEC”) on March 30, 2010 (the “2009 Form 10-K”) and as discussed below. These factors raise substantial doubt about the Partnership’s ability to continue as a going concern. Management’s plans in regard to these matters are discussed in the 2009 Form 10-K. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The financial statements have been prepared in accordance with accounting principles and practices generally accepted in the United States of America (“GAAP”).

The consolidated balance sheets, statements of operations, statement of changes in partners’ capital (deficit) and the statement of cash flows for the three months ended March 31, 2009 and 2010 are unaudited. In the opinion of management, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary to present fairly the financial position and results of operations for the respective interim periods. All adjustments are of a recurring nature unless otherwise disclosed herein. These consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the 2009 Form 10-K. Interim financial results are not necessarily indicative of the results to be expected for an annual period. The year-end balance sheet data was derived from the audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

3. PROPERTY, PLANT AND EQUIPMENT

	Estimated Useful Lives (Years)	December 31, 2009	March 31, 2010
		(dollars in thousands)	
Land		\$ 15,430	\$ 15,430

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Land improvements	10-20	5,431	5,181
Pipelines and facilities	5-31	98,327	98,199
Storage and terminal facilities	10-35	165,392	164,939
Transportation equipment	3-10	22,781	22,109
Office property and equipment and other	3-31	20,601	20,170
Pipeline linefill and tank bottoms		7,763	7,763
Construction-in-progress		38,715	39,245
Property, plant and equipment, gross		374,440	373,036
Asset held for sale		—	1,480
Accumulated depreciation		(99,948)	(104,168)
Property, plant and equipment, net		\$ 274,492	\$ 270,348

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Property, plant and equipment includes assets under capital leases of \$0.3 million and \$0.1 million, net of accumulated depreciation of \$5.9 million and \$5.8 million at December 31, 2009 and March 31, 2010, respectively. All capital leases relate to the transportation equipment asset category. At March 31, 2010, \$37.3 million of construction-in-progress consists of a 130-mile, 8-inch pipeline that was acquired by the Partnership on May 12, 2008. Management currently intends to put the asset into service in the fourth quarter of 2010.

Depreciation expense for the three months ended March 31, 2009 and 2010 was \$5.7 million and \$5.5 million, respectively.

As of March 31, 2010, the Partnership's asphalt products facility located in Morehead City, North Carolina is considered an asset held for sale. At the time SemCorp rejected the Terminalling and Storage Agreement in 2009, the Partnership began efforts to contract the services of this facility with other third parties. In the first quarter of 2010, the Partnership received an indication of interest in purchasing the facility which was idle at the time and decided to pursue the opportunity to sell the facility. As a result of the Partnership's plan to sell the facility, the assets associated with this facility, comprised solely of property, plant and equipment, are classified as held for sale as of March 31, 2010 and are presented in the consolidated balance sheet in property, plant and equipment, net.. In April of 2010, the Partnership received a purchase offer and completed the sale of this facility. The Partnership determined the sales price of the facility to be the best indicator of the fair value of the facility as of March 31, 2010. As a result of the carrying amount of the facility exceeding the fair value of the facility, the Partnership concluded that the carrying amount would not be fully recovered, and recognized a corresponding \$0.8 million impairment in the first quarter of 2010. This impairment charge is included in operating expenses in the consolidated statement of operations and relates to the Partnership's asphalt services operating segment.

#### 4. LONG TERM DEBT

As of March 31, 2010, the Partnership's credit agreement is comprised of a \$394.5 million term loan facility and a \$39.7 million revolving credit facility. As of March 31, 2010, \$394.5 million was outstanding under the term loan facility and \$29.7 million was outstanding under the revolving credit facility. In addition, as of March 31, 2010, the Partnership had outstanding letters of credit issued under the credit agreement of \$0.9 million. As of March 31, 2010, the Partnership had an aggregate unused credit availability under its revolving credit facility of approximately \$9.1 million.

On March 29, 2010, the Partnership entered into a Waiver and Amendment to Credit Agreement (the "March 2010 Amendment") with its lenders who are a party thereto. The March 2010 Amendment, among other things, (i) subject to certain limitations, waives the requirement for the report of the Partnership's independent registered public accounting firm accompanying the Partnership's financial statements for the year ended December 31, 2009 to not contain an explanatory paragraph expressing significant doubt about the Partnership's ability to continue as a going concern, (ii) subject to certain limitations, waives the requirement for the report of the Partnership's independent registered public accounting firm accompanying the Partnership's financial statements for the 2010 fiscal year to not contain an explanatory paragraph expressing significant doubt about the Partnership's ability to continue as a going concern, and (iii) increases the applicable interest rate under the credit agreement by 2.0% per annum (the "Deferred Interest"); provided, that the Deferred Interest is not payable until the earlier of (a) the June 30, 2011 maturity date of the credit agreement or (b) the repayment in full of all amounts outstanding under the credit agreement and the termination of the lenders' commitments under the credit agreement. If the Partnership refinances all of the debt under its credit agreement on or before January 6, 2011, all Deferred Interest will be automatically forgiven by the lenders.

After giving effect to the March 2010 Amendment, amounts outstanding under the Partnership's credit facility bear interest at either the LIBOR rate plus 6.50% per annum, with a LIBOR floor of 3.00%, or the Base rate plus 5.50% per annum, with a Base rate floor of 4.00% per annum. The Partnership pays a fee of 1.50% per annum on unused

commitments under its revolving credit facility. After giving effect to the March 2010 Amendment, interest on amounts outstanding under the Partnership's credit facility must be paid monthly. In addition, the Partnership accrues 2.0% interest per annum of Deferred Interest. In addition to the Deferred Interest, the Partnership's credit facility requires the Partnership to pay additional interest on October 6, 2009, April 6, 2010, October 6, 2010 and April 6, 2011, equal to the product of (i) the sum of the total amount of term loans then outstanding plus the aggregate commitments under the revolving credit facility and (ii) 0.50%, 0.50%, 1.00% and 1.00%, respectively. In October 2009 and April 2010, the Partnership paid additional interest of \$2.3 million and \$2.2 million, respectively. The Partnership is recognizing these additional interest payments over the term of the debt agreement utilizing the effective interest method.

During the three months ended March 31, 2009 and 2010, the weighted average interest rate incurred by the Partnership was 11.6 % and 11.9%, respectively.

The Partnership's credit facility requires the Partnership to make (i) minimum quarterly amortization payments on March 31, 2010 in the amount of \$2.0 million, June 30, 2010 in the amount of \$2.0 million, September 30, 2010 in the amount of \$2.5 million, December 31, 2010 in the amount of \$2.5 million and March 31, 2011 in the amount of \$2.5 million, (ii) mandatory prepayments of amounts outstanding under the revolving credit facility (with no commitment reduction) whenever cash on hand exceeds \$15.0 million, (iii) mandatory prepayments with 100% of asset sale proceeds, (iv) mandatory prepayment with 50% of the proceeds raised through equity sales and (v) annual prepayments with 75% of excess cash flow (as defined in the credit agreement). The Partnership's credit facility prohibits the Partnership from making draws under the revolving credit facility if it would have more than \$15.0 million of cash on hand after making the draw and applying the proceeds thereof. On March 31, 2010, the Partnership paid the mandatory quarterly amortization payment of \$2.0 million and an excess cash flow payment of \$3.8 million. Based on the borrowing rates currently available to the Partnership for debt with similar terms and maturities and consideration of the Partnership's non-performance risk, long-term debt at March 31, 2010 approximates its fair value.

Under the credit agreement, the Partnership is subject to certain limitations, including limitations on its ability to grant liens, incur additional indebtedness, engage in a merger, consolidation or dissolution, enter into transactions with affiliates, sell or otherwise dispose of its assets (other than the sale or other disposition of the assets of the asphalt business, provided that such disposition is at arm's length to a non-affiliate for fair market value in exchange for cash and the proceeds of the disposition are used to pay down outstanding loans), businesses and operations, materially alter the character of its business, and make acquisitions, investments and capital expenditures. The credit agreement prohibits the Partnership from making distributions of available cash to its unitholders if any default or event of default (as defined in the credit agreement) exists. The credit agreement requires the Partnership to maintain a leverage ratio (the ratio of its consolidated funded indebtedness to its consolidated adjusted EBITDA, in each case as defined in the credit agreement), determined as of the last day of each month for the twelve month period ending on the date of determination, that ranges on a monthly basis from not more than 5.50 to 1.00 to not more than 9.75 to 1.00. In addition, the Partnership's ability to make acquisitions and investments in unrestricted subsidiaries is limited and the Partnership may only make distributions if its leverage ratio is less than 3.50 to 1.00 and certain other conditions are met. As of March 31, 2010, the Partnership's leverage ratio was 6.87 to 1.00, which is in compliance with the covenant specified in the Partnership's credit facility. However, if the Partnership's leverage ratio does not improve, it may not make quarterly distributions to its unitholders in the future.

The credit agreement also requires the Partnership to maintain an interest coverage ratio (the ratio of its consolidated EBITDA to its consolidated interest expense, in each case as defined in the credit agreement) that ranges on a monthly basis from not less than 2.50 to 1.00 to not less than 1.00 to 1.00. As of March 31, 2010, the Partnership's interest coverage ratio was 1.33 to 1.00, which is in compliance with the covenant specified in the Partnership's credit facility.

Further, the Partnership is required to maintain a monthly consolidated adjusted EBITDA for the prior twelve months ranging from \$45.4 million to \$82.9 million as determined at the end of each month. In addition, capital expenditures are limited to \$8.0 million in 2010 and \$4.0 million in the six months ending June 30, 2011. As of March 31, 2010, the Partnership is in compliance with these covenants.

The credit agreement specifies a number of events of default (many of which are subject to applicable cure periods), including, among others, failure to pay any principal when due or any interest or fees within three business days of the due date, failure to perform or otherwise comply with the covenants in the credit agreement, failure of any representation or warranty to be true and correct in any material respect, failure to pay debt, and other customary defaults. In addition, a change of control of the Partnership or the Partnership's general partner will be an event of default under the credit agreement. If an event of default exists under the credit agreement, the lenders will be able to accelerate the maturity of the credit agreement and exercise other rights and remedies, including taking available cash in the Partnership's bank accounts. If an event of default exists and the Partnership is unable to obtain forbearance

from its lenders or a waiver of the events of default under its credit agreement, it may be forced to sell assets, make a bankruptcy filing or take other action that could have a material adverse effect on its business, the price of its common units and its results of operations. The Partnership is also prohibited from making cash distributions to its unitholders while the events of default exist.

Interest expense related to debt issuance cost amortization for the three month periods ended March 31, 2009 and 2010 was \$2.9 million and \$1.1 million, respectively. Interest expense in the three months ended March 31, 2009 includes \$0.4 million of debt issuance cost amortization expense attributable to 2008, which is not material to the 2009 financial statements. In connection with the forbearance agreement and the credit agreement amendments, \$1.4 million, \$8.8 million and \$0.6 million in debt issuance costs were capitalized in March 2009, April 2009 and March 2010, respectively.

## 5. DISTRIBUTIONS

The Partnership has not made a distribution to its common unitholders, subordinated unitholders or general partner since May 15, 2008 due to the events of default that existed under its credit agreement, restrictions under the credit agreement, and the uncertainty of its future cash flows relating to SemCorp's bankruptcy filings. The Partnership's unitholders will be required to pay taxes on their share of the Partnership's taxable income even though they did not receive a distribution for the quarters ended June 30, 2008 through December 31, 2009, and will not receive a distribution for the quarter ended March 31, 2010. Pursuant to the credit agreement, the Partnership is prohibited from making distributions to its unitholders if its leverage ratio (as defined in the credit agreement) exceeds 3.50 to 1.00. As of March 31, 2010, the Partnership's leverage ratio was 6.87 to 1.00. If the Partnership's leverage ratio does not improve, it may not make quarterly distributions to its unitholders in the future. The Partnership's partnership agreement provides that, during the subordination period, which the Partnership is currently in, the Partnership's common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.3125 per common unit per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. After giving effect to the nonpayment of distributions for the quarters ended June 30, 2008 through March 31, 2010, each common unit was entitled to an arrearage of \$2.50, or total arrearages for all common units of \$54.3 million based upon 21,727,724 common units outstanding as of May 5, 2010.

## 6. NET INCOME PER LIMITED PARTNER UNIT

For purposes of calculating earnings per unit, the excess of distributions over earnings or excess of earnings over distributions for each period are allocated to the entities' general partner based on the general partner's ownership interest at the time. The following sets forth the computation of basic and diluted net loss per common and subordinated unit (in thousands, except per unit data):

	Three Months Ended March 31,	
	2009	2010
Net loss	\$ (1,660)	\$ (5,051)
Less: General partner interest in net loss	(33)	(100)
Net loss available to limited partners	\$ (1,627)	\$ (4,951)
Basic and diluted weighted average number of units:		
Common units	21,557	21,728
Subordinated units	12,571	12,571
Restricted and phantom units	448	13
Basic and diluted net loss per common unit	\$ (0.05)	\$ (0.14)
Basic and diluted net income loss per subordinated unit	\$ (0.05)	\$ (0.14)

## 7. RELATED PARTY TRANSACTIONS

On November 24, 2009, a subsidiary of Vitol Holding B.V. (collectively, with its affiliates and subsidiaries other than the Partnership and the Partnership's general partner, "Vitol") acquired 100% of the membership interests in the Partnership's general partner and the Partnership's outstanding subordinated units (the "Vitol Change of Control"). As such, Vitol effectively controls the Partnership's general partner and the Partnership. As a result of the Vitol Change of Control, for the three months ended March 31, 2010, related party revenue consists of services provided to Vitol, and for the three months ended March 31, 2009, related party revenue consists of services provided to SemCorp.



The Partnership provides crude oil terminalling and storage services to Vitol. For the three months ended March 31, 2009 and 2010, the Partnership recognized revenues of \$2.8 million and \$3.1 million, respectively, for services provided to Vitol. Revenues recognized in the three months ended March 31, 2009 are classified as third party revenues. Revenues recognized in the three months ended March 31, 2010 are classified as related party revenues. As of March 31, 2010, the Partnership had receivables from Vitol of \$0.3 million and unearned revenue with Vitol of \$1.1 million.

For the three month period ended March 31, 2009, the Partnership recorded general and administrative expenses of \$1.8 million for the services provided under an omnibus agreement by SemCorp. The obligation for SemCorp to provide services under the omnibus agreement and the corresponding administrative fee payable by the Partnership were terminated in connection with the events related to the change of control of the Partnership's general partner in July 2008. SemCorp continued to provide such services to the Partnership until the effective date of the settlement with SemCorp in April of 2009 at which time SemCorp rejected the omnibus agreement and SemCorp and the Partnership entered into a shared services agreement and a transition services agreement relating to the provision of such services. The transition services agreement has been terminated and the Partnership is in the process of transitioning the services provided under the shared services agreement away from SemCorp. In addition, in connection with the settlement agreement, SemCorp waived the fixed administrative fee payable by the Partnership under the omnibus agreement for the month of March 2009.

Prior to entering into the shared services agreement with SemCorp, the Partnership also reimbursed SemCorp for direct operating payroll and payroll-related costs and other operating costs associated with services SemCorp's employees provided to the Partnership. For the three month period ended March 31 2009, the Partnership recorded \$7.8 million in compensation costs and \$0.6 million in other operating costs related to services provided by SemCorp's employees which are reflected as operating expenses in the accompanying statement of operations.

#### 8. LONG-TERM INCENTIVE PLAN

In July 2007, the Partnership's general partner adopted the Blueknight Energy Partners G.P., L.L.C. Long-Term Incentive Plan (the "Plan"). The compensation committee of the Partnership's general partner's Board of Directors (the "Board") administers the Plan. The Plan authorizes the grant of an aggregate of 1.25 million common units deliverable upon vesting. Although other types of awards are contemplated under the Plan, currently outstanding awards include "phantom" units, which convey the right to receive common units upon vesting, and "restricted" units, which are grants of common units restricted until the time of vesting. The phantom unit awards also include distribution equivalent rights ("DERs").

Subject to applicable earning criteria, a DER entitles the grantee to a cash payment equal to the cash distribution paid on an outstanding common unit prior to the vesting date of the underlying award. Recipients of restricted units are entitled to receive cash distributions paid on common units during the vesting period which distributions are reflected initially as a reduction of partners' capital. Distributions paid on units which ultimately do not vest are reclassified as compensation expense. Awards granted to date are equity awards and, accordingly, the fair value of the awards as of the grant date is expensed over the vesting period. For the three months ended March 31, 2009 and 2010, the Partnership recognized expense under the Plan of approximately \$2,000 and \$8,000, respectively.

In November 2009, 10,000 restricted common units were granted which vest in one-third increments over three years. This grant was made in connection with the reorganization of the Board. In December 2009, 2,500 restricted common units were granted which vest in one-third increments over three years.

Activity pertaining to phantom common unit and restricted common unit awards granted under the Plan is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2009	12,500	\$ 9.29
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested at March 31, 2010	12,500	\$ 9.29

9.

EMPLOYEE BENEFIT PLAN

Under the Partnership's 401(k) Plan, which was formed in 2009, employees who meet specified service requirements may contribute a percentage of their total compensation, up to a specified maximum, to the plan. The Partnership may match each employee's contribution, up to a specified maximum, in full or on a partial basis. The Partnership recognized expense of \$0.2 million for the first quarter of 2010 for discretionary contributions under the plan.

10.

COMMITMENTS AND CONTINGENCIES

The Partnership is subject to various legal actions and claims, including governmental investigations and a securities class action and other lawsuits due to events related to SemCorp's bankruptcy filings (see Note 13). The Partnership intends to vigorously defend these actions. There can be no assurance regarding the outcome of the litigation. An estimate of possible loss, if any, or the range of loss cannot be made and therefore the Partnership has not accrued a loss contingency related to these actions.

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The Partnership is from time to time subject to various legal actions and claims incidental to its business, including those arising out of environmental-related matters. As described in “Part I, Item 1A. Risk Factors” of the Partnership’s 2009 Form 10-K, these legal proceedings may have a material adverse effect on the financial position, results of operations or cash flows of the Partnership. Once management determines that information pertaining to a legal proceeding indicates that it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated, an accrual is established equal to its estimate of the likely exposure. The Partnership did not have an accrual for legal settlements as of December 31, 2009 or March 31, 2010.

The Partnership has contractual obligations to perform dismantlement and removal activities in the event that some of its liquid asphalt cement and residual fuel oil terminalling and storage assets are abandoned. These obligations include varying levels of activity including completely removing the assets and returning the land to its original state. The Partnership has determined that the settlement dates related to the retirement obligations are indeterminate. The assets with indeterminate settlement dates have been in existence for many years and with regular maintenance will continue to be in service for many years to come. Also, it is not possible to predict when demands for the Partnership’s terminalling and storage services will cease, and the Partnership does not believe that such demand will cease for the foreseeable future. Accordingly, the Partnership believes the date when these assets will be abandoned is indeterminate. With no reasonably determinable abandonment date, the Partnership cannot reasonably estimate the fair value of the associated asset retirement obligations. Management believes that if the Partnership’s asset retirement obligations were settled in the foreseeable future the potential cash flows that would be required to settle the obligations based on current costs are not material. The Partnership will record asset retirement obligations for these assets in the period in which sufficient information becomes available for it to reasonably determine the settlement dates.

## 11. OPERATING SEGMENTS

The Partnership’s operations consist of three operating segments: (i) crude oil terminalling and storage services, (ii) crude oil gathering and transportation services and (iii) asphalt services.

**CRUDE OIL TERMINALLING AND STORAGE SERVICES** — The Partnership provides crude oil terminalling and storage services at its terminalling and storage facilities located in Oklahoma and Texas.

**CRUDE OIL GATHERING AND TRANSPORTATION SERVICES** — The Partnership owns and operates two pipeline systems, the Mid-Continent system and the Longview system, that gather crude oil purchased by SemCorp and its other customers and transports it to refiners, to common carrier pipelines for ultimate delivery to refiners or to terminalling and storage facilities owned by the Partnership and others. The Partnership refers to its gathering and transportation system located in Oklahoma and the Texas Panhandle as the Mid-Continent system. It refers to its second gathering and transportation system, which is located in Texas, as the Longview system. In addition to its pipelines, the Partnership uses its owned and leased tanker trucks to gather crude oil for SemCorp and its other customers at remote wellhead locations generally not covered by pipeline and gathering systems and to transport the crude oil to aggregation points and storage facilities located along pipeline gathering and transportation systems. In connection with its gathering services, the Partnership also provides a number of producer field services, ranging from gathering condensates from natural gas companies to hauling produced water to disposal wells.

**ASPHALT SERVICES** — The Partnership provides asphalt product and residual fuel terminalling, storage and blending services at its terminalling and storage facilities located in twenty-three states.

The Partnership’s management evaluates performance based upon segment operating margin, which includes revenues from related parties and external customers and operating expenses excluding depreciation and amortization. The non-GAAP measure of operating margin (in the aggregate and by segment) is presented in the following table. The

Partnership computes the components of operating margin by using amounts that are determined in accordance with GAAP. A reconciliation of operating margin to income (loss) before income taxes, which is its nearest comparable GAAP financial measure, is included in the following table. The Partnership believes that investors benefit from having access to the same financial measures being utilized by management. Operating margin is an important measure of the economic performance of the Partnership's core operations. This measure forms the basis of the Partnership's internal financial reporting and is used by its management in deciding how to allocate capital resources between segments. Income (loss) before income taxes, alternatively, includes expense items, such as depreciation and amortization, general and administrative expenses and interest expense, which management does not consider when evaluating the core profitability of the Partnership's operations.

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The following table reflects certain financial data for each segment for the periods indicated.

	Crude Oil Terminalling and Storage Services	Crude Oil Gathering and Transportation Services (in thousands)	Asphalt Services	Total
Three Months Ended March 31, 2009				