Buckeye GP Holdings L.P.
Form 10-Q
September 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from to

Commission file number 001-32963

BUCKEYE GP HOLDINGS L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**11-3776228** (IRS Employer Identification No.)
5002 Buckeye Road **P. O. Box 368** **Emmaus, PA** (Address of principal executive offices)	**18049** (Zip Code)

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

Not Applicable

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

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

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x

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

As of August 9, 2006, there were 26,938,000 Common Units and 1,362,000 Management Units outstanding.

PART I

FINANCIAL INFORMATION

PART II
OTHER INFORMATION

Part I. Financial Information

Item 1. Financial Statements

BUCKEYE GP HOLDINGS L.P.

Balance Sheet
June 30, 2006
(Unaudited)

Assets	$
Partners Equity:	
Limited partners equity	$ 999.90
General partner s equity	.10
Receivable from partners	(1,000.00)
Total partners equity	$

See Notes to Balance Sheet.

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BUCKEYE GP HOLDINGS L.P.

NOTES TO BALANCE SHEET
(UNAUDITED)

1. ORGANIZATION AND OPERATIONS

Buckeye GP Holdings L.P. (Buckeye GP Holdings) is a Delaware limited partnership formed on June 15, 2006 in order to facilitate the reorganization of MainLine L.P. and its affiliates.

Concurrent with Buckeye GP Holdings formation, MainLine Management LLC, as general partner, contributed $0.10 and the limited partners of Mainline L.P. contributed $999.90 to Buckeye GP Holdings. The contribution receivable was reflected as a reduction to equity in accordance with accounting principles generally accepted in the United States of America. Buckeye GP Holdings received payment on the contribution in August of 2006. The accompanying financial statement reflects the financial position of Buckeye GP Holdings immediately subsequent to its capitalization.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of Buckeye GP Holdings financial statement in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions. These estimates and assumptions, which may differ from actual results, will affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement.

3. SUBSEQUENT EVENT

Initial Public Offering

On August 9, 2006, Buckeye GP Holdings sold 10.5 million common units in an underwritten initial public offering (IPO), the net proceeds of which were approximately $167.4 million. Buckeye GP Holdings used the net proceeds from the IPO, along with cash on hand, to repay all outstanding indebtedness under a Senior Secured Credit Facility with a consortium of financial institutions arranged by Goldman Sachs Credit Partners (the Term Loan) and to make distributions to its pre-IPO equity owners. The common units sold in the IPO represent approximately 37.1% of the outstanding equity of Buckeye GP Holdings, which includes common units and management units.

In connection with the consummation of the IPO, the pre-IPO equity owners of MainLine L.P. (the Company) contributed all of their equity interests in the Company to Buckeye GP Holdings. This contribution was accounted for as a transfer of assets between entities under common control in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations . The financial information for the Company is included in this report because it is the predecessor to Buckeye GP Holdings.

$10 Million Credit Facility

On August 9, 2006, Buckeye GP Holdings entered into a five-year $10 million revolving credit facility with SunTrust Bank, as both administrative agent and lender (the Credit Agreement). The credit facility may be used for working capital and other partnership purposes. Buckeye GP Holdings has pledged all of the limited liability company interests in Buckeye GP LLC to SunTrust Bank as security for its obligations under the Credit Agreement.

The Credit Agreement permits Buckeye GP Holdings to prepay all loans under the credit facility at any time without premium or penalty (other than customary LIBOR breakage costs). Borrowings under the Credit Agreement bear interest under one of two rate options, selected by Buckeye GP Holdings, equal to either:

- the greater of (1) the federal funds rate plus 0.5% and (2) SunTrust Bank s prime commercial lending rate; or

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- LIBOR, plus a margin which can range from 0.40% to 1.40%, based upon the ratings assigned by Standard & Poor s Rating Services and Moody s Investor Services to the senior unsecured non-credit enhanced long-term debt of Buckeye Partners, L.P.

Buckeye GP Holdings ability to borrow amounts under the Credit Agreement is subject to satisfaction of certain customary conditions precedent to revolving loans and compliance with terms and conditions included in the Credit Agreement.

The Credit Agreement defines Restricted Subsidiaries of Buckeye GP Holdings as Buckeye GP Holdings, and certain of its wholly owned subsidiaries.

The Credit Agreement requires Buckeye GP Holdings to maintain leverage and funded debt coverage ratios. The leverage ratio covenant requires Buckeye GP Holdings to maintain, as of the last day of each fiscal quarter, a ratio of the total funded indebtedness of Buckeye GP Holdings and its Restricted Subsidiaries, measured as of the last day of each fiscal quarter, to the aggregate dividends and distributions received by Buckeye GP Holdings and its Restricted Subsidiaries from Buckeye, plus all other cash received by Buckeye GP Holdings and the Restricted Subsidiaries, measured for the preceding twelve months, less expenses, of not more than 2.50 to 1.00. The funded debt coverage ratio covenant requires Buckeye GP Holdings to maintain, as of the last day of each fiscal quarter, a ratio of total consolidated funded debt of Buckeye GP Holdings and all of its subsidiaries to the consolidated EBITDA, as defined in the Credit Agreement, of Buckeye GP Holdings and all of its subsidiaries, measured for the preceding twelve months, of not more than 5.25 to 1.00, subject to a provision for increases to 5.75 to 1.00 in connection with future acquisitions.

The Credit Agreement prohibits Buckeye GP Holdings from declaring dividends or distributions if any default or event of default, as defined in the Credit Agreement, has occurred or would result from such a declaration. In addition, the Credit Agreement contains covenants and provisions requiring Buckeye GP Holdings to adhere to certain covenants and limiting the ability of Buckeye GP Holdings and its Restricted Subsidiaries to, among other things:

- incur or guarantee indebtedness;
- make certain negative pledges and grant certain liens;
- make certain loans, acquisitions and investments;
- make any material changes to the nature of Buckeye GP Holdings or Restricted Subsidiaries business; or
- enter into a merger, consolidation or sale of assets.

If an event of default exists under the Credit Agreement, the lender will be able to terminate the Credit Agreement and accelerate the maturity of all outstanding loans, as well as exercise other rights and remedies. The following are some of the events which would constitute an event of default under the Credit Agreement:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure of any representation or warranty to be true and correct in any material respect;
- failure to perform or otherwise comply with the covenants in the Credit Agreement or other loan documents, subject to certain grace periods;
- default by Buckeye GP Holdings or any Restricted Subsidiary on the payment of any other indebtedness in excess of $5.0 million or default by Buckeye or any of its subsidiaries on the payment of any indebtedness in excess of $25.0 million, or any default in the performance of any obligation or condition with respect to such indebtedness beyond the applicable grace period if the effect of the default is to permit or cause the acceleration of the indebtedness;

- bankruptcy or insolvency events involving Buckeye GP Holdings;

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- the entry against Buckeye GP Holdings of a judgment in excess of specified amounts, or otherwise having a material adverse effect, that is not stayed, discharged or deferred within specified periods;

- a change in control of Buckeye GP Holdings (as such term is defined in the Credit Agreement);

- the invalidity or unenforceability of any material provision in the Credit Agreement or related documents; and

- the occurrence of certain events with respect to employee benefit plans subject to ERISA.

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MAINLINE L.P.

Condensed Consolidated Statements of Income
(In thousands, except per Unit amounts)
(Unaudited)

Three Months Ended June 30, 2006	2005		Six Months Ended June 30, 2006	2005
$ 111,495	$ 101,916	Revenue	$ 217,240	$ 197,805
		Costs and expenses:		
53,570	49,984	Operating expenses	104,831	96,565
10,018	8,067	Depreciation and amortization	19,122	15,498
6,534	5,192	General and administrative expenses	12,449	10,941
70,122	63,243	Total costs and expenses	136,402	123,004
41,373	38,673	Operating income	80,838	74,801
		Other income (expenses):		
302	193	Investment income	622	348
(16,211)	(13,955)	Interest and debt expense	(31,940)	(27,052)
(15,909)	(13,762)	Total other income (expenses)	(31,318)	(26,704)
25,464	24,911	Income before equity income and Non-controlling interest	49,520	48,097
1,415	1,225	Equity income	2,795	2,465
(24,892)	(24,217)	Non-controlling interest expense	(48,089)	(47,415)
$ 1,987	1,919	Net income	$ 4,226	$ 3,147
145,950	145,950	Units outstanding basic and diluted	145,950	145,950
$ 0.01	$ 0.01	Earnings per unit basic and diluted	$ 0.03	$ 0.02

See Notes to condensed consolidated financial statements.

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MAINLINE L.P.

Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 26,695	$ 28,984
Trade receivables	39,936	38,864
Construction and pipeline relocation receivables	12,992	10,571
Inventories	13,416	12,997
Prepaid and other current assets	24,743	12,325
Total current assets	117,782	103,741
Property, plant and equipment, net	1,713,522	1,587,741
Restricted cash	5,729	5,117
Goodwill	234,603	234,603
Other non-current assets	102,527	109,630
Total assets	$ 2,174,163	$ 2,040,832
Liabilities and partners capital		
Current liabilities:		
Current portion of long-term debt	$ 7,883	$ 7,811
Accounts payable	14,593	18,648
Accrued and other current liabilities	63,946	48,824
Total current liabilities	86,422	75,283
Long-term debt	1,151,593	1,096,849
Other non-current liabilities	78,912	76,536
Non-controlling interest	771,684	711,722
Total liabilities	2,088,611	1,960,390
Commitments and contingent liabilities		
Partners capital:		
General Partner	7	7
Limited Partners A Units	78,358	74,132
Limited Partners B Units	3,473	3,473
Equity gains on issuance of Buckeye Partners, L.P. limited partnership units	1,482	1,316
Accumulated other comprehensive income	2,232	1,514
Total partners capital	85,552	80,442
Total liabilities and partners capital	$ 2,174,163	$ 2,040,832

See Notes to condensed consolidated financial statements.

MAINLINE L.P.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 4,226	$ 3,147
Adjustments to reconcile net income to net cash provided by operating activities:		
Value of ESOP shares released	2,073	2,546
Depreciation and amortization	19,122	15,498
Amortization of deferred compensation		1,959
Non-controlling interest	48,089	47,415
Equity earnings	(2,795)	(2,465)
Distributions from equity investments	3,167	1,649
Amortization of debt discount	25	15
Amortization of option grants	239	
Change in assets and liabilities, net of amounts related to acquisitions:		
Trade receivables	(1,072)	(11,606)
Construction and pipeline relocation receivables	(2,421)	(459)
Inventories	(419)	(712)
Prepaid and other current assets	(12,418)	2,524
Accounts payable	(4,055)	(5,184)
Accrued and other current liabilities	14,734	(1,521)
Other non-current assets	(225)	2,190
Other non-current liabilities	2,476	2,126
Total adjustments from operating activities	66,520	53,975
Net cash provided by operating activities	70,746	57,122
Cash flows from investing activities:		
Capital expenditures	(44,028)	(36,586)
Acquisitions	(92,790)	(178,854)
Net (expenditures) proceeds from disposal of property, plant and equipment	(139)	69
Restricted cash	(612)	(2,956)
Net cash used in investing activities	(137,569)	(218,327)
Cash flows from financing activities:		
Net proceeds from issuance of Buckeye Partners, L.P. units	64,105	156,103
Debt issuance costs		(910)
Proceeds from exercise of unit options	486	1,154
Proceeds from issuance of long-term debt	127,000	324,767
Payment of long-term debt	(72,209)	(274,614)
Distributions to non-controlling partners of Buckeye Partners, L.P.	(54,848)	(46,048)
Net cash provided by financing activities	64,534	160,452
Net decrease in cash and cash equivalents	(2,289)	(753)
Cash and cash equivalents at beginning of period	28,984	21,352
Cash and cash equivalents at end of period	$ 26,695	$ 20,599
Supplemental cash flow information:		
Cash paid for interest (net of amount capitalized)	$ 30,382	$ 28,525
Capitalized interest	$ 1,010	$ 1,166
Cash paid for income taxes	$ 65	$ 585
Non-cash changes in assets and liabilities:		
Fair value hedge accounting	$ 599	$ 586

Environmental obligations related to acquisition of Northeast Pipelines and Terminals	$		$	(2,332)

See Notes to condensed consolidated financial statements.

MAINLINE L.P.

Consolidated Statement of Changes in Partners Equity
(In thousands)
(Unaudited)

	General Partner	Limited Partners A Units	Limited Partners B Units	Equity Gains on Issuance of Buckeye LP units	Accumulated Other Comprehensive Income	Total
Partners capital at December 31, 2005	$ 7	$ 74,132	$ 3,473	$ 1,316	$ 1,514	$ 80,442
Net income		4,226				4,226
Change in fair value of cash flow hedges, net					718	718
Comprehensive income		4,226			718	4,944
Equity gains on issuance of Buckeye LP units				166		166
Partners capital at June 30, 2006	$ 7	$ 78,358	$ 3,473	$ 1,482	$ 2,232	$ 85,552

See Notes to condensed consolidated financial statements.

MAINLINE L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

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

Pursuant to the rules and regulations of the Securities and Exchange Commis−sion, the condensed consolidated financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2005 included in Buckeye GP Holdings registration statement on Form S-1, as amended (Registration No. 333-133433) and as filed with the Securities and Exchange Commission on July 25, 2006.

The Company is a limited partnership organized on February 24, 2004 under the laws of the state of Delaware. As of June 30, 2006, MainLine Management LLC (MainLine Management) was the general partner of the Company and is currently the general partner of Buckeye GP Holdings L.P. (Buckeye GP Holdings). As of June 30, 2006, the Company owned 100% of Buckeye GP LLC (Buckeye GP). Buckeye GP is the general partner of Buckeye Partners, L.P. (Buckeye). Buckeye is a publicly traded (NYSE:BPL) master limited partnership organized in 1986 under the laws of the state of Delaware. As of June 30, 2006, the Company was owned by affiliates of Carlyle/Riverstone Global Energy and Power Fund II, L.P. (Carlyle/Riverstone) and certain members of Buckeye GP s senior management. The Company s primary business was the management of Buckeye. At June 30, 2006, the Company owned an approximate 2% overall general partner interest in Buckeye and its operating subsidiaries.

In connection with the initial public offering (IPO) of common units of Buckeye GP Holdings on August 9, 2006, the pre-IPO owners of the Company contributed all of their equity interests in the Company to Buckeye GP Holdings. This contribution was accounted for as a transfer of assets between entities under common control in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. The financial information for the Company is included in this report because it is the predecessor to Buckeye GP Holdings.

All of the employees who provide services to the Company and its subsidiaries and Buckeye and its subsidiaries are paid and employed by Buckeye Pipe Line Services Company (Services Company). Pursuant to a services agreement and an executive employment agreement, Services Company is reimbursed by the Company or Buckeye s subsidiaries for the cost of these employees. The Company is responsible for the total compensation, including all benefits, paid for the four highest salaried officers performing duties for Buckeye GP with respect to the functions of operations, finance, legal, marketing and business development, treasury, or performing the function of president of Buckeye GP. The four highest salaried officers are William H. Shea, Jr., Stephen C. Muther, Robert B. Wallace, and Eric A. Gustafson. Services Company is owned by an employee stock ownership plan (the ESOP). Services Company owns approximately a 5.9% equity interest in Buckeye at June 30, 2006. The services agreement extends until all payments due under the ESOP s 3.60% Senior Secured Notes are satisfied, which is currently scheduled to occur in March 2011.

Description of the Business

At June 30, 2006, the Company had no operating assets other than its general partner ownership interest in Buckeye and its operating subsidiaries. Because the Company owned Buckeye GP, its ownership interest in Buckeye is reflected on a consolidated basis, which means that the Company s financial results are combined with Buckeye s financial results. The limited partner interests in Buckeye not owned by the Company or Services Company are reflected as Non-controlling interest expense , in the enclosed condensed consolidated statements of income. Buckeye s principal line of business is the transportation, terminalling and storage of petroleum products in the United States for major integrated oil companies, large refined product marketing companies and major end users of petroleum products on a fee basis through facilities owned and operated by Buckeye. Buckeye also operates pipelines owned by third parties under contracts with major integrated oil and chemical companies, and performs certain construction activities, generally for the owners of these third-party pipelines.

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As of June 30, 2006, Buckeye conducted all of its operations through subsidiary entities. These operating subsidiaries are Buckeye Pipe Line Company, L.P. (Buckeye Pipe Line), Laurel Pipe Line Company, L.P. (Laurel), Everglades Pipe Line Company, L.P. (Everglades), Buckeye Pipe Line Holdings, L.P. (BPH), Wood River Pipe Lines LLC (Wood River), Buckeye Pipe Line Transportation LLC (BPL Transportation) and Buckeye NGL Pipe Lines LLC (Buckeye NGL). Buckeye NGL commenced operations on January 31, 2006 with the acquisition of a natural gas liquids pipeline located in Colorado and Kansas (See Note 3). These entities are hereinafter referred to as an Operating Subsidiary or collectively as the Operating Subsidiaries. Buckeye owns an approximate 99% ownership interest in each Operating Subsidiary except Wood River, BPL Transportation and Buckeye NGL, in which it owns a 100% interest.

Buckeye s Operating Subsidiaries aggregate into three reportable operating segments: Pipeline Operations, Terminalling and Storage and Other Operations. See Note 10 for a further discussion.

2. CONTINGENCIES

Claims and Proceedings

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

Environmental Contingencies

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

3. ACQUISITIONS

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

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

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

4. DEBT AND CREDIT FACILITIES

Debt consists of the following:

	June 30, 2006 (In thousands)	December 31, 2005
MainLine L.P.:		
Term Loan	$ 169,000	$ 173,250
Services Company:		
3.60% ESOP Notes due March 28, 2011	30,437	33,617
Retirement premium	(1,063)	(1,284)
Buckeye:		
4.625% Notes due June 15, 2013	300,000	300,000
6.750% Notes due August 15, 2033	150,000	150,000
5.30% Notes due October 15, 2014	275,000	275,000
5.125% Notes due July 1, 2017	125,000	125,000
Borrowings under Revolving Credit Facility	112,000	50,000
Total principal debt	1,160,374	1,105,583
Other, including unamortized discounts and changes in fair value (1)	(898)	(923)
Subtotal long-term debt	1,159,476	1,104,660
Less current maturities of debt	(7,883)	(7,811)
Long-term debt	$ 1,151,593	$ 1,096,849

(1) The June 30, 2006 amount includes $1,647,000 related to an adjustment to fair value associated with a hedge of fair value and $2,545,000 in unamortized discounts. The December 31, 2005 amount includes $1,765,000 related to an adjustment to fair value associated with a hedge of fair value and $2,688,000 in unamortized discounts.

The Company

As of June 30, 2006, the Company was party to a Senior Secured Credit Facility (Term Loan) with a consortium of financial institutions arranged by Goldman Sachs Credit Partners under which the Company had $169.0 million outstanding. Borrowings under the Term Loan bore interest under one of two rate options selected by the Company equal to either (i) the greater of (a) the federal funds rate plus one half of one percent and (b) the prime interest rate or (ii) the London Interbank Offered Rate (LIBOR) plus an applicable margin. The applicable margin, which was 2.375% at June 30, 2006, was determined based upon an interest coverage ratio defined in the loan agreement. At June 30, 2006 the interest rate under the Term Loan was approximately 7.81%.

The Term Loan also contained a requirement that the Company maintain an interest expense reserve account in the amount of the anticipated interest payments for the next two quarterly periods, although failure to maintain such a balance was not an event of default under the Term Loan. At June 30, 2006, the amount on deposit in the interest expense reserve account was $5.7 million, compared to estimated interest in the next two quarters of $6.6 million.

All amounts outstanding under the Term Loan were repaid with the proceeds of Buckeye GP Holdings initial public offering, together with cash on hand, on August 9, 2006. See Note 12 for a discussion of Buckeye GP Holdings current credit facility.

Services Company

Services Company s debt consists of 3.60% Senior Secured Notes (the 3.60% ESOP Notes) due March 28, 2011 payable by the ESOP to a third-party lender. The 3.60% ESOP Notes were issued May 4, 2004. The 3.60% ESOP Notes are collateralized by Services Company s common stock and are guaranteed by Services Company. In addition, Buckeye has committed that, in the event that the value of Buckeye s LP units owned by Services Company falls below 125% of the balance payable under the 3.60% ESOP Notes, Buckeye will fund an escrow account with sufficient assets to bring the value of the total collateral (the value Buckeye s LP units owned by the Services Company and the escrow account) up to the 125% minimum.

Amounts deposited in the escrow account are returned to Buckeye when the value of Buckeye s LP units owned by Services Company s returns to an amount which exceeds the 125% minimum. At June 30, 2006, the value of Buckeye s LP units owned by Services Company exceeded the 125% requirement.

Buckeye

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

Borrowings under Buckeye s Credit Facility bear interest under one of two rate options, selected by Buckeye, equal to either (i) the greater of (a) the federal funds rate plus one half of one percent and (b) SunTrust Bank s prime rate or (ii) the LIBOR plus an applicable margin. The applicable margin is determined based upon ratings assigned by Standard and Poors and Moody s Investor Services for Buckeye s senior unsecured non-credit enhanced long-term debt. The applicable margin will increase during any period in which Buckeye s Funded Debt Ratio (described below) exceeds 5.25 to 1.0. At June 30, 2006 and December 31, 2005, Buckeye had $112 million and $50 million outstanding under Buckeye s Credit Facility, respectively, and had committed $1.7 million and $1.3 million in support of letters of credit, respectively.

Buckeye s Credit Facility contains covenants and provisions that:

- Restrict Buckeye and certain of its subsidiaries ability to incur additional indebtedness based on certain ratios described below;
- Prohibit Buckeye and certain of its subsidiaries from creating or incurring certain liens on their property;
- Prohibit Buckeye and certain of its subsidiaries from disposing of property material to their operations; and
- Limit consolidations, mergers and asset transfers by Buckeye and certain of its subsidiaries.

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

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

Covenants. The Company and its subsidiaries, Services Company, Buckeye and its Operating Subsidiaries are in compliance with the various covenants of the debt agreements at June 30, 2006.

Derivative Instruments. At June 30, 2006, the Company had three derivative instruments outstanding related to the Company s Term Loan. The Term Loan replaced the Company s $100,000,000 Senior Secured Credit Facility (the Prior Term Loan) which was entered into on May 4, 2004. Proceeds from the Term Loan were used to refund the amounts outstanding under the Prior Term Loan. In accordance with requirements under the Prior Term Loan, the Company purchased an interest rate cap from Goldman Sachs Capital Markets, L.P. on a notional amount of $50 million for $375,000. Under the interest rate cap, if the variable interest rate the Company paid on the Prior Term Loan exceeded 5.0%, Goldman Sachs would pay the Company the difference between the variable rate in effect on the $50 million notional amount and the capped rate. The Company did not designate the interest rate cap as a cash flow hedge and, accordingly, changes in value of the cap have been reflected in income. The Company did not terminate the interest rate cap when the Prior Term Loan was repaid.

In accordance with requirements under the Term Loan, the Company entered into two interest rate swap agreements with Goldman Sachs Capital Markets L.P. The Company designated these transactions as hedges of the Company s cash flow risk associated with the Term Loan. The first agreement, which terminated on December 22, 2005, was for a notional amount of $172.8 million and called for the Company to receive floating rate payments based on the notional amount times a rate equal to three-month LIBOR in exchange for paying a fixed rate based on the notional amount times 3.029%. The interest rate swap was effective December 22, 2004, and was terminated on December 22, 2005. The three-month LIBOR reset on dates that coincided with the reset dates for the variable interest rate of the Term Loan. The second agreement is for a notional amount of $86 million and calls for the Company to receive the floating rate payments based on the notional amount times a rate equal to three-month LIBOR in exchange for paying a fixed rate based on the notional amount times 3.853%. The agreement became effective on December 22, 2005 and will terminate December 22, 2007. During 2005, the Company entered into another interest rate swap agreement. This agreement is for a notional amount of $12 million and calls for the Company to receive the floating rate payments based on the notional amount times a rate equal to three-month LIBOR in exchange for paying a fixed rate based on the notional amount times 4.54%.

In connection with Buckeye GP Holdings initial public offering, the interest rate swaps noted above were liquidated. See Note 12 for a further discussion.

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

5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

	June 30, 2006	December 31, 2005
	(In thousands)	
Taxes other than income	$ 6,609	$ 6,569
Environmental liabilities	9,522	6,996
Interest	17,403	16,648
Retainage	707	639
Payable for ammonia purchase	7,151	
Compensation and vacation	7,610	8,751
Other	14,944	9,221
Total	$ 63,946	$ 48,824

6. EARNINGS PER UNIT

In connection with its formation, the Company issued 14,595 general partner units (GP Units) and 145,935,405 limited partner A Units (A Units) to Carlyle/Riverstone and certain members of senior management of Buckeye GP for $1.00 per unit. The Company also issued 16,216,668 limited partner B Units (B Units) to certain members of senior management for no consideration.

Distributions are paid on the B Units only after the holders of the A Units and GP Units have been distributed sufficient cash to recover their entire investment along with a cumulative annual return of 9% compounded from May 4, 2004 to the date of payment. Thus, the B Units are subordinate to the A Units and the GP Units.

The Company has determined that, under EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share, a two-class method of computing earnings per unit is required. According to the EITF Issue No. 03-6, the Company s A Units and GP Units are considered to be participating securities requiring the use of the two-class method for the computation of basic and diluted earnings per unit. The two-class computation method for each period reflects the cash distributions (or dividends) paid per unit for each class of stock, plus the amount of allocated undistributed earnings per unit computed using the participation percentage which reflects this change. The A Units and GP Units are considered to be participating securities as they are entitled to receive a distribution yield in excess of the B Units.

As of June 30, 2006, the holders of the A Units and the GP Units had received neither the return of their initial investment nor the 9% cumulative return. As a result, basic and diluted earnings per unit, and any distributions for the three and six months ended June 30, 2006 and 2005 are based on 145,950,000 units consisting of 145,935,405 of A Units and 14,595 of GP Units.

For the three and six months ended June 30, 2006 and 2005, there were no other securities, other than the B Units, with a potentially dilutive effect on the Company s earnings. As a result, basic earnings per unit and diluted earnings per unit were equal.

7. UNIT-BASED COMPENSATION

Prior to January 1, 2006, management accounted for its unit-based compensation plans using the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 (APB No. 25), and related interpretations, as permitted by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148). Effective January 1, 2006, the Company adopted the fair value measurement and recognition provisions of Statement of Financial Accounting Standards 123 (revised 2004), Share-Based Payment (SFAS No. 123R), for both of its unit option plans using the modified prospective basis transition method.

Management currently accounts for two unit-based compensation plans.

Option Plan

Buckeye has a Unit Option and Distribution Equivalent Plan (the Option Plan). This plan grants options to purchase limited partner units (LP units) at 100% of the market price of the LP units on the date of grant. Generally the options vest three years from the date of grant and expire ten years from date of grant. Buckeye recognizes compensation expense for awards granted on or after January 1, 2006 at the grant-date fair value reduced by estimated forfeitures on a straight-line basis over the requisite service period. The impact of adopting the accounting provisions of SFAS No. 123R for this plan is immaterial to the condensed consolidated financial statements.

Unit Compensation Plan

The Company has a Unit Compensation Plan utilizing the B units. On May 4, 2004, the Company issued 16,216,668 B units to certain members of senior management for no consideration. As discussed in Note 6, the B Units were, as of June, 2006, subordinate to the A Units. One half, or 8,108,334, of the B Units (Time Based B Units) vest ratably over five years. The remaining, or 8,108,334, B units (Performance Based B Units) vest over five years only if certain performance targets based on the incentive compensation received by the Company from Buckeye are met. The performance targets are based on annual periods ending on each of June 30, 2005 to 2009. The performance targets are cumulative, in that shortfalls or excess in one period can be made up or carried over in subsequent periods.

The Company recorded no compensation expense for Time Based B Units for the three and six months periods ending June 30, 2006 and 2005. Although May 4, 2004 represented the measurement date for the Time Based B Units (the date both the number of units available for purchase and the purchase price (zero) were known), there was a nominal fair value for these units to charge to earnings. Under the modified prospective transition method permitted by SFAS No. 123R, compensation expense for the Time Based B Units subsequent to January 1, 2006 is measured based on the nominal fair value established at the grant date.

Prior to January 1, 2006, the Company recognized deferred compensation for the Performance Based B Units when it was probable that the performance target specified in the Company s partnership agreement would be met. Such deferred compensation was recorded over the respective service periods of the performance targets until December 31, 2005. Compensation expense for the Performance Based B Units of $0.7 million and $2.0 million was recorded in general and administrative expenses in the condensed consolidated statements of income in the three and six months periods ended June 30, 2005, respectively. Under the modified prospective transition method permitted by SFAS No. 123R, compensation expense for the Performance Based B Units subsequent to January 1, 2006 is measured based on the nominal fair value established at the grant date. Accordingly, there was a nominal amount charged to earnings in the three and six month periods ending June 30, 2006.

At June 30, 2006, there were 16,216,668 of B Units outstanding, of which 2,837,917 Time Based B Units were vested and 1,621,667 of Performance Based B Units were vested. The aggregate intrinsic value of vested B Units was approximately $4.6 million at June 30, 2006. Intrinsic value is determined by calculating the difference between the fair value of the B Units on June 30, 2006 and the exercise price (which is zero), multiplied by the number of vested B Units. At June 30, 2006, there were no additional B Units available for grant in connection with the Unit Compensation Plan.

In connection with Buckeye GP Holdings initial public offering, the Unit Compensation Plan has changed. See Note 12 for a further discussion.

8. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

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

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

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

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

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

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

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

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses the following methods and assumptions in estimating fair value disclosures for financial instruments:

At June 30, 2006 and December 31, 2005, cash and cash equivalents, trade receivables, construction and pipeline relocation receivables, prepaid and other current assets, restricted cash, and all current liabilities are reported in the Condensed Consolidated Balance Sheets at amounts which approximate fair value due to the relatively short period to maturity of these financial instruments.

The fair value of the Company s debt was estimated to be $1,097 million and $1,114 million at June 30, 2006 and December 31, 2005 respectively. The value was calculated using interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities and approximate market values on the respective dates.

During the first six months of 2006, the Company had no ineffectiveness with respect to its cash flow hedges and, accordingly, no change in the fair value of the hedge has been reflected in net income. At June 30, 2006 and December 31, 2005, the fair value of the interest rate swaps was a non-current asset of $2.2 million and $1.5 million, respectively. The change in fair value has been reflected as non-current assets in the Condensed Consolidated Balance Sheets, with the net change reflected in other comprehensive income.

In connection with Buckeye GP Holdings initial public offering, the interest rate swaps noted above were liquidated. See Note 12 for a further discussion.

Changes in the fair value of the Company s interest rate cap have been reflected in net income. At June 30, 2006 and December 31, 2005, the value of the interest rate cap was $0.3 million and $0.1 million, respectively. Interest expense was reduced by $0.1 million and $0.2 million for the three and six months ended June 30, 2006, respectively. Interest expense was increased by $0.1 million in both the three and six month periods ended June 30, 2005 due to changes in the value of the interest rate cap.

10. SEGMENT INFORMATION

All of the Company s operations are conducted through Buckeye and its Operating Subsidiaries. Based on the financial information provided to senior management, Buckeye presents its operations in three reportable operating segments: Pipeline Operations, Terminalling and Storage and Other Operations. The Company also has certain consolidated-level assets, principally consisting of goodwill, which are not allocable to the individual reporting segments because they are not used by the chief operating decision maker to make operating decisions or to allocate resources. However, Buckeye has recorded approximately $11.4 million of goodwill in its Terminalling and Storage segment. The Company s reportable operating segments consist of the following:

Pipeline Operations:

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

Terminalling and Storage:

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

Other Operations:

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

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

	Three Months Ended June 30, 2006 (In thousands)	2005	Six Months Ended June 30, 2006 (In thousands)	2005
Revenues:				
Pipeline Operations	$ 86,538	$ 74,102	$ 168,405	$ 147,374
Terminalling and Storage	18,441	15,008	36,609	32,147
Other Operations	6,516	12,806	12,226	18,284
Total	$ 111,495	$ 101,916	$ 217,240	$ 197,805
Operating income:				
Pipeline Operations	$ 34,933	$ 30,594	$ 65,666	$ 58,414
Terminalling and Storage	4,965	5,289	12,477	13,038
Other Operations	1,475	2,790	2,695	3,349
Total	$ 41,373	$ 38,673	$ 80,838	$ 74,801
Depreciation and amortization:				
Pipeline Operations	$ 8,478	$ 6,699	$ 16,089	$ 12,850
Terminalling and Storage	1,142	1,041	2,246	1,995
Other Operations	398	327	787	653
Total	$ 10,018	$ 8,067	$ 19,122	$ 15,498

	Six Months Ended June 30, 2006 (In thousands)	2005
Capital expenditures:		
Pipeline Operations	$ 31,332	$ 35,141
Terminalling and Storage	9,487	1,269
Other Operations	3,124	176
Consolidating-level	85	
Total	$ 44,028	$ 36,586
Acquisitions:		
Pipeline Operations	$ 79,286	$ 153,633
Terminalling and Storage	13,504	25,221
Total	$ 92,790	$ 178,854

	June 30, 2006 (In thousands)	December 31, 2005
*Assets:		
Pipeline Operations	$ 1,568,500	$ 1,466,512
Terminalling and Storage	306,636	288,972
Other Operations	66,693	61,383
Consolidating-level	232,334	223,965
Total	$ 2,174,163	$ 2,040,832

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

12. SUBSEQUENT EVENTS

Initial Public Offering

On August 9, 2006, Buckeye GP Holdings sold 10.5 million common units in an underwritten initial public offering (IPO), the net proceeds of which were approximately $167.4 million. Buckeye GP Holdings used the net proceeds from the IPO, along with cash on hand, to repay all outstanding indebtedness under the Company s Term Loan and to make distributions to its pre-IPO equity owners. The common units sold in the IPO represent approximately 37.1% of the outstanding equity of Buckeye GP Holdings, which includes common units and management units.

In connection with the consummation of the IPO, the pre-IPO owners of the Company contributed all of their equity interests in the Company to Buckeye GP Holdings. This contribution was accounted for as a transfer of assets between entities under common control in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations . The financial information for the Company is included in this report because it is the predecessor to Buckeye GP Holdings.

$10 Million Credit Facility

On August 9, 2006, Buckeye GP Holdings entered into a five-year $10 million revolving credit facility with SunTrust Bank, as both administrative agent and lender (the Credit Agreement). The credit facility may be used for working capital and other partnership purposes. Buckeye GP Holdings has pledged all of the limited liability company interests in Buckeye GP LLC to SunTrust Bank as security for its obligations under the Credit Agreement.

The Credit Agreement permits Buckeye GP Holdings to prepay all loans under the credit facility at any time without premium or penalty (other than customary LIBOR breakage costs). Borrowings under the Credit Agreement bear interest under one of two rate options, selected by Buckeye GP Holdings, equal to either:

- the greater of (1) the federal funds rate plus 0.5% and (2) SunTrust Bank s prime commercial lending rate; or
- LIBOR, plus a margin which can range from 0.40% to 1.40%, based upon the ratings assigned by Standard & Poor s Rating Services and Moody s Investor Services to the senior unsecured non-credit enhanced long-term debt of Buckeye.

Buckeye GP Holdings ability to borrow amounts under the Credit Agreement is subject to satisfaction of certain customary conditions precedent to revolving loans and compliance with terms and conditions included in the Credit Agreement.

The Credit Agreement defines Restricted Subsidiaries of Buckeye GP Holdings as Buckeye GP Holdings, and certain of its wholly owned subsidiaries.

The Credit Agreement requires Buckeye GP Holdings to maintain leverage and funded debt coverage ratios. The leverage ratio covenant requires Buckeye GP Holdings to maintain, as of the last day of each fiscal quarter, a ratio of the total funded indebtedness of Buckeye GP Holdings and its Restricted Subsidiaries, measured as of the last day of each fiscal quarter, to the aggregate dividends and distributions received by Buckeye GP Holdings and its Restricted Subsidiaries from Buckeye, plus all other cash received by Buckeye GP Holdings and the Restricted Subsidiaries, measured for the preceding twelve months, less expenses, of not more than 2.50 to 1.00. The funded debt coverage ratio covenant requires Buckeye GP Holdings to maintain, as of the last day of each fiscal quarter, a ratio of total consolidated funded debt of Buckeye GP Holdings and all of its subsidiaries to the consolidated EBITDA, as defined in the Credit Agreement, of Buckeye GP Holdings and all of its subsidiaries, measured for the preceding twelve months, of not more than 5.25 to 1.00, subject to a provision for increases to 5.75 to 1.00 in connection with future acquisitions.

The Credit Agreement prohibits Buckeye GP Holdings from declaring dividends or distributions if any default or event of default, as defined in the Credit Agreement, has occurred or would result from such a declaration. In addition, the Credit Agreement contains covenants and provisions requiring Buckeye GP Holdings to adhere to certain covenants and limiting the ability of Buckeye GP Holdings and its Restricted Subsidiaries to, among other things:

- incur or guarantee indebtedness;
- make certain negative pledges and grant certain liens;
- make certain loans, acquisitions and investments;
- make any material changes to the nature of Buckeye GP Holdings or Restricted Subsidiaries business; or
- enter into a merger, consolidation or sale of assets.

If an event of default exists under the Credit Agreement, the lender will be able to terminate the Credit Agreement and accelerate the maturity of all outstanding loans, as well as exercise other rights and remedies. The following are some of the events which would constitute an event of default under the Credit Agreement:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure of any representation or warranty to be true and correct in any material respect;
- failure to perform or otherwise comply with the covenants in the Credit Agreement or other loan documents, subject to certain grace periods;
- default by Buckeye GP Holdings or any Restricted Subsidiary on the payment of any other indebtedness in excess of $5.0 million or default by Buckeye or any of its subsidiaries on the payment of any indebtedness in excess of $25.0 million, or any default in the performance of any obligation or condition with respect to such indebtedness beyond the applicable grace period if the effect of the default is to permit or cause the acceleration of the indebtedness;
- bankruptcy or insolvency events involving Buckeye GP Holdings;
- the entry against Buckeye GP Holdings of a judgment in excess of specified amounts, or otherwise having a material adverse effect, that is not stayed, discharged or deferred within specified periods;
- a change in control of Buckeye GP Holdings (as such term is defined in the Credit Agreement);
- the invalidity or unenforceability of any material provision in the Credit Agreement or related documents; and

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- the occurrence of certain events with respect to employee benefit plans subject to ERISA.

Unit Compensation Plan

Coincident with the IPO, the equity interests of the Company and ownership of the Company s general partner, were exchanged for the equity interests of Buckeye GP Holdings. The 149,950,000 A Units of the Company were exchanged for 16,438,000 Common Units. The 16,216,668 B Units were exchanged for 1,362,000 Management Units. The 9% cumulative annual return on the Company s A Units and GP Units was eliminated as part of the exchange. The Management Units are exchangeable for Common Units on a 1 to 1 basis at the option of the holder. The vesting schedule of the Management Units varies from that of the Company s B Units for which they were exchanged. Management Units of 953,400 were vested immediately upon their exchange and the remaining 408,600 Management Units vest over a three year period with 136,200 Management Units becoming vested on each May 4, of 2007, 2008 and 2009.

As a result of the exchange, Buckeye GP Holdings anticipates recording a one-time non-cash charge of approximately $3.2 million (with an offsetting increase in equity) in the third quarter of 2006 related to the change in vesting of the Management Units compared to the vesting of the Company s B Units. Buckeye GP Holdings also anticipates annual charges of approximately $0.5 million per year during the three year vesting period.

Term Loan

Buckeye GP Holdings also anticipates recording a non-cash charge of approximately $1.5 million in the third quarter of 2006 related to the write-off of deferred financing costs associated with the repayment of all amounts outstanding under the Company s Term Loan on August 9, 2006.

Merger of MainLine Sub LLC

On August 18, 2006, MainLine Sub LLC, a wholly owned subsidiary of the Company and the parent company of Buckeye GP, was merged with and into the Company. The Company succeeded to all of the assets and liabilities of MainLine Sub LLC pursuant to the merger.

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

RESULTS OF OPERATIONS

Overview

As of June 30, 2006, MainLine L.P. (the Company) owned and controlled Buckeye GP LLC (Buckeye GP), which is the general partner of Buckeye Partners, L.P. (Buckeye), a publicly traded Delaware master limited partnership. On August 9, 2006, the pre-IPO owners of the Company contributed all of their equity interests in the Company to Buckeye GP Holdings L.P. (Buckeye GP Holdings). This contribution was accounted for as a transfer of assets between entities under common control in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations . The financial information for the Company is included in this report because it is the predecessor to Buckeye GP Holdings.

On August 9, 2006, Buckeye GP Holdings sold 10.5 million common units in an underwritten initial public offering (IPO), the net proceeds of which were approximately $167.4 million. Buckeye GP Holdings used the net proceeds from the IPO, along with cash on hand, to repay all outstanding indebtedness under a Senior Secured Credit Facility with a consortium of financial institutions arranged by Goldman Sachs Credit Partners (the Term Loan) and to make distributions to its pre-IPO equity owners. The common units sold in the IPO represent approximately 37.1% of the outstanding equity of Buckeye GP Holdings, which includes common units and management units.

Coincident with the IPO, the equity interests of the Company and ownership of the Company s general partner, were exchanged for the equity interests of Buckeye GP Holdings. The 149,950,000 A Units of the Company were exchanged for 16,438,000 Common Units. The 16,216,668 B Units were exchanged for 1,362,000 Management Units. The Management Units are exchangeable for Common Units on a 1 to 1 basis at the option of the holder. The vesting schedule of the Management Units varies from that of the Company s B Units for which they were exchanged. Management Units of 953,400 were vested immediately upon their exchange, and the remaining 408,600 Management Units vest over a three year period with 136,200 Management Units becoming vested each May 4 of 2007, 2008 and 2009.

As a result of the exchange, Buckeye GP Holdings anticipates recording a one-time non-cash charge of approximately $3.2 million (with an offsetting increase in equity) in the third quarter of 2006 related to the change in vesting of the Management Units compared to the vesting of the Company s B Units. Buckeye GP Holdings also anticipates annual charges of approximately $0.5 million per year during the three year vesting period.

Buckeye GP Holdings also anticipates recording a non-cash charge of approximately $1.5 million in the third quarter of 2006 related to the write-off of deferred financing costs associated with the repayment of all amounts outstanding under the Company s Term Loan on August 9, 2006.

Overview of Buckeye

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

In May 2005, Buckeye acquired a refined petroleum products pipeline system comprising approximately 478 miles of pipeline and four refined products terminals with aggregate storage capacity of approximately 1.3 million barrels located in the northeastern United States from affiliates of ExxonMobil Corporation (the Northeast Pipelines and Terminals) for approximately $175.0 million. In December 2005, Buckeye acquired a refined petroleum products terminal and related assets (including certain railroad offloading facilities) located in Taylor, Michigan for $20 million. On January 1, 2006, Buckeye acquired a refined petroleum products terminal located in Niles, Michigan, with aggregate storage capacity of 630,000 barrels from affiliates of Shell for $13.0 million. On January 31, 2006, Buckeye acquired a natural gas liquids pipeline (the NGL Pipeline) with aggregate mileage of approximately 350 miles from BP Pipelines (North America) Inc. for approximately $87.0 million, which includes a deposit of $7.7 million paid in December 2005. The NGL Pipeline extends generally from Wattenberg, Colorado to Bushton, Kansas. The acquired assets have been included in Buckeye s operations from their dates of acquisition. The asset acquisitions completed in 2005 and 2006 added $6.1 million of revenue in the three months ended June 30, 2006 and $13.9 million of revenue in the six months ended June 30, 2006.

The following discussion provides an analysis of the results for each of the Company s operating segments, an overview of its liquidity and capital resources and other items related to the Company, Buckeye and Services Company. The following discussion and analysis should be read in conjunction with (i) the accompanying interim condensed consolidated financial statements and related notes and (ii) the Company s consolidated financial statements, related notes and management s discussion and analysis of financial condition and results of operations for the year ended December 31, 2005 included in the Buckeye GP Holdings registration statement on Form S-1, as amended (Registration No. 333-133433) and as filed with the Securities and Exchange Commission on July 25, 2006.

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

Pipeline Operations:

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

Terminalling and Storage:

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

Other Operations:

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

Results of Operations

Summary operating results for the Company were as follows:

	Three Months Ended June 30, 2006 (In thousands)	2005	Six Months Ended June 30, 2006 (In thousands)	2005
Revenue	$ 111,495	$ 101,916	$ 217,240	$ 197,805
Costs and expenses	70,122	63,243	136,402	123,004
Operating income	41,373	38,673	80,838	74,801
Other income (expenses)	(15,909)	(13,762)	(31,318)	(26,704)
Income before equity income and non-controlling interest	25,464	24,911	49,520	48,097
Equity income	1,415	1,225	2,795	2,465
Non-controlling interest expense	(24,892)	(24,217)	(48,089)	