

NuStar GP Holdings, LLC  
Form 10-Q  
May 06, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**x** **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 1-32940

**NUSTAR GP HOLDINGS, LLC**

(Exact name of registrant as specified in its charter)

# Edgar Filing: NuStar GP Holdings, LLC - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**85-0470977**  
(I.R.S. Employer  
Identification No.)

**2330 North Loop 1604 West**

**San Antonio, Texas**  
(Address of principal executive offices)

**78248**  
(Zip Code)

**Registrant's telephone number, including area code (210) 918-2000**

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

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

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

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 ☒

The number of units outstanding as of May 1, 2010 was 42,547,294.

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**NUSTAR GP HOLDINGS, LLC AND SUBSIDIARIES**

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(Thousands of Dollars)

	<b>March 31, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 486	\$ 371
Receivable from NuStar Energy L.P.	20,595	10,639
Income tax receivable	6,993	5,798
Other receivables	818	795
Prepaid expenses	310	353
Deferred income tax assets, net	55	1,198
<b>Total current assets</b>	<b>29,257</b>	<b>19,154</b>
Investment in NuStar Energy L.P.	547,326	559,519
Long-term receivable from NuStar Energy L.P.	8,330	7,663
Deferred income tax assets, net	7,051	6,923
<b>Total assets</b>	<b>\$ 591,964</b>	<b>\$ 593,259</b>
<b>Liabilities and Members' Equity</b>		
Current liabilities:		
Short-term debt	\$ 14,300	\$ 14,300
Accounts payable	621	351
Accrued compensation expense	20,401	14,593
Accrued liabilities	585	829
Taxes other than income tax	285	848
<b>Total current liabilities</b>	<b>36,192</b>	<b>30,921</b>
Employee benefit plan liabilities	27,457	24,130
Commitments and contingencies (Note 9)		
Members' equity	535,317	545,200
Accumulated other comprehensive income:		
Share of NuStar Energy L.P.'s other comprehensive income	1,292	1,455
Pension adjustments, net of tax	(8,294)	(8,447)
<b>Total accumulated other comprehensive loss</b>	<b>(7,002)</b>	<b>(6,992)</b>

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Total members' equity	528,315	538,208
Total liabilities and members' equity	\$ 591,964	\$ 593,259

See Condensed Notes to Consolidated Financial Statements.

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**NUSTAR GP HOLDINGS, LLC**

**CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Equity in earnings of NuStar Energy L.P.	\$ 9,301	\$ 12,833
General and administrative expenses	(793)	(757)
Other income (expense), net	125	(24)
Interest expense, net	(318)	(27)
Income before income tax benefit (expense)	8,315	12,025
Income tax benefit (expense)	178	(17)
Net income	\$ 8,493	\$ 12,008
Basic and diluted net income per unit	\$ 0.20	\$ 0.28
Weighted average number of basic and diluted units outstanding	42,514,494	42,503,784

See Condensed Notes to Consolidated Financial Statements.

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**NUSTAR GP HOLDINGS, LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, Thousands of Dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 8,493	\$ 12,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of NuStar Energy L.P.	(9,301)	(12,833)
Distributions of equity in earnings from NuStar Energy L.P.	9,301	12,833
Provision (benefit) for deferred income tax	1,015	(985)
Increase in employee benefit plan liabilities	3,327	2,346
Changes in current assets and liabilities (Note 7)	(5,589)	674
Other, net	(792)	68
<b>Net cash provided by operating activities</b>	<b>6,454</b>	<b>14,111</b>
<b>Cash Flows from Investing Activities:</b>		
Distributions in excess of equity in earnings from NuStar Energy L.P.	10,884	6,244
Proceeds from sale of NuStar Energy L.P. units in connection with employee benefit plans	1,271	348
<b>Net cash provided by investing activities</b>	<b>12,155</b>	<b>6,592</b>
<b>Cash Flows from Financing Activities:</b>		
Distributions to unitholders	(18,494)	(18,277)
<b>Net cash used in financing activities</b>	<b>(18,494)</b>	<b>(18,277)</b>
Net increase in cash and cash equivalents	115	2,426
Cash and cash equivalents at the beginning of the period	371	1,791
Cash and cash equivalents at the end of the period	\$ 486	\$ 4,217

See Condensed Notes to Consolidated Financial Statements.

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**NUSTAR GP HOLDINGS, LLC**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) is a publicly held Delaware limited liability company. Unless otherwise indicated, the terms NuStar GP Holdings, we, our and us are used in this report to refer to NuStar GP Holdings, LLC, to one or more of our consolidated subsidiaries or to all of them taken as a whole.

We have no operations or sources of income or cash flows other than our investment in NuStar Energy L.P. (NuStar Energy) (NYSE: NS). As of March 31, 2010, we owned approximately 18.7% of NuStar Energy, consisting of the following:

the 2% general partner interest;

100% of the incentive distribution rights (IDR) issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and

10,238,117 common units of NuStar Energy representing a 16.7% limited partner interest.

NuStar Energy is a publicly held Delaware limited partnership engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and asphalt and fuels marketing. NuStar Energy has terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom.

***Basis of Presentation***

These unaudited consolidated financial statements include the accounts of NuStar GP Holdings and subsidiaries in which it has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation.

We account for our ownership interest in NuStar Energy using the equity method. Therefore, our financial results reflect a portion of NuStar Energy's net income based on our ownership interest in NuStar Energy. We have no separate operating activities apart from those conducted by NuStar Energy and therefore generate no revenues from operations.

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless otherwise indicated. Financial information for the three months ended March 31, 2010 and 2009 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The consolidated balance sheet as of December 31, 2009 has been derived from the audited consolidated financial statements as of that date. You should read these consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.



**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. NEW ACCOUNTING PRONOUNCEMENTS*****Fair Value Measurements***

In January 2010, the Financial Accounting Standards Board (FASB) issued additional guidance that requires new disclosures regarding significant transfers in and out of Level 1 and Level 2 fair value measurements and additional information on the roll forward of Level 3 fair value measurements. This guidance also clarified the existing provisions on determining the appropriate classes of assets and liabilities to be reported and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This additional guidance is effective for interim and annual periods beginning after December 15, 2009, with the exception of the new requirements in the Level 3 roll forward, which will be effective for fiscal years beginning after December 15, 2010. We adopted these provisions effective January 1, 2010, and they did not have a material impact on our disclosures.

***Variable Interest Entities***

In June 2009, the FASB amended certain requirements related to variable interest entities (VIEs), including the requirements for determining whether an entity is a VIE or the primary beneficiary of a VIE. In addition, the amended requirements include additional disclosures about an entity's involvement with a VIE. We adopted the amended requirements on January 1, 2010 without any effect to our financial position or results of operations.

**3. INVESTMENT IN NUSTAR ENERGY*****Summary Financial Information***

Condensed consolidated financial information reported by NuStar Energy is presented below (in thousands of dollars):

	March 31, 2010 (Unaudited)	December 31, 2009
<b>Balance Sheet Information:</b>		
Current assets	\$ 805,034	\$ 734,719
Property, plant and equipment, net	3,040,258	3,028,196
Goodwill	807,742	807,742
Other long-term assets, net	205,212	204,016
Total assets	\$ 4,858,246	\$ 4,774,673
Current liabilities	\$ 407,732	\$ 338,754
Long-term debt, less current portion	1,897,337	1,828,993
Other long-term liabilities	122,847	121,958
Total liabilities	2,427,916	2,289,705
Partners' equity	2,430,330	2,484,968
Total liabilities and partners' equity	\$ 4,858,246	\$ 4,774,673

	Three Months Ended March 31, 20102009 (Thousands of Dollars)	
Statement of Income Information:		
Revenues	\$ 945,529	\$ 634,004
Operating income	39,773	55,434
Net income	19,703	39,355

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Other**

Our investment in NuStar Energy reconciles to NuStar Energy's total partners' equity as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(Thousands of Dollars)</b>	
NuStar Energy's total partners' equity	\$ 2,430,330	\$ 2,484,968
NuStar GP Holdings' ownership interest in NuStar Energy	18.7%	18.7%
NuStar GP Holdings' share of NuStar Energy's partners' equity	454,472	464,689
Step-up in basis related to NuStar Energy's assets and liabilities, including equity method goodwill, and other	92,854	94,830
Investment in NuStar Energy	\$ 547,326	\$ 559,519

**4. RELATED PARTY TRANSACTIONS**

We had a receivable from NuStar Energy of \$20.6 million and \$10.6 million, as of March 31, 2010 and December 31, 2009, respectively, relating to payroll, employee-related benefit plan expenses and unit-based compensation. We also had a long-term receivable of \$8.3 million and \$7.7 million from NuStar Energy as of March 31, 2010 and December 31, 2009, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits. The following table represents total related party transactions charged to NuStar Energy:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Thousands of Dollars)</b>	
Expenses for payroll, employee-related benefit plans and unit-based compensation	\$ 50,978	\$ 45,547
Other	104	81
Total related party transactions charged to NuStar Energy	\$ 51,082	\$ 45,628

**GP Services Agreement**

NuStar Energy and NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings, entered into a services agreement, effective as of January 1, 2008 (the GP Services Agreement). The GP Services Agreement provides that NuStar GP, LLC will furnish administrative and certain operating services necessary to conduct the business of NuStar Energy. All employees providing services to both NuStar GP Holdings and NuStar Energy are employed by NuStar GP, LLC; therefore, NuStar Energy reimburses NuStar GP, LLC for all employee costs, other than the expenses allocated to NuStar GP Holdings (the Holdco Administrative Services Expense).

Beginning with the 2009 fiscal year and for each fiscal year thereafter, the Holdco Administrative Services Expense totals \$1.1 million plus 1.0% of NuStar GP, LLC's domestic bonus and unit compensation expense, subject to certain other adjustments. The GP Services Agreement will terminate on December 31, 2012, with automatic two-year renewals unless terminated by either party upon six months' prior written notice. The aggregate amounts of Holdco Administrative Services Expense we incurred were \$0.4 million and \$0.3 million for the three months ended March 31, 2010 and 2009, respectively.



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The following table reflects the allocation of NuStar Energy's cash distributions earned for the periods indicated among its general and limited partners:

	<b>Three Months Ended March 31, 2010      2009 (Thousands of Dollars,</b>	
	<b>Except Per Unit Data)</b>	
General partner interest	\$ 1,467	\$ 1,318
General partner incentive distribution	7,799	6,929
Total general partner distribution	9,266	8,247
Limited partner distribution	10,905	10,830
Total distributions to NuStar GP Holdings	20,171	19,077
Public unitholders' distributions	53,221	46,761
Total cash distributions	\$ 73,392	\$ 65,838
Cash distributions per unit applicable to limited partners	\$ 1.0650	\$ 1.0575

In January 2010, NuStar Energy declared a quarterly cash distribution of \$1.065 which was paid on February 12, 2010 to unitholders of record on February 5, 2010. This distribution related to the fourth quarter of 2009 and totaled \$73.4 million. In April 2010, NuStar Energy declared a quarterly cash distribution of \$1.065 per unit related to the first quarter of 2010. This distribution will be paid on May 14, 2010 to unitholders of record on May 7, 2010 and will total \$73.4 million.

**6. FAIR VALUE MEASUREMENTS**

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists.

The following liabilities are measured at fair value on a recurring basis:

	<b>Level 1</b>	<b>March 31, 2010 Level 2      Level 3 (Thousands of Dollars)</b>		<b>Total</b>
Accrued compensation expense:				
NuStar Energy restricted units	\$ 11,565	\$	\$	\$ 11,565
NuStar Energy unit options		6,765		6,765
Total	\$ 11,565	\$ 6,765	\$	\$ 18,330

	Level 1	December 31, 2009 Level 2      Level 3 (Thousands of Dollars)		Total
Accrued compensation expense:				
NuStar Energy restricted units	\$ 8,689	\$	\$	\$ 8,689
NuStar Energy unit options		5,418		5,418
Total	\$ 8,689	\$ 5,418	\$	\$ 14,107

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The fair value of our accrued compensation expense for NuStar Energy restricted units is determined using the NuStar Energy unit price at the reporting date. The fair value of our accrued compensation expense for NuStar Energy unit option grants is determined using the Black-Scholes option-pricing model on the reporting date based on the following weighted-average assumptions:

	<b>March 31, 2010</b>
Expected life in years	6.2
Expected volatility	48.6%
Expected distribution yield	7.1%
Risk-free interest rate	0.9%

**7. STATEMENTS OF CASH FLOWS**

Changes in current assets and liabilities were as follows:

	<b>Three Months Ended March 31, 2010      2009 (Thousands of Dollars)</b>	
Decrease (increase) in current assets:		
Receivable from NuStar Energy	\$ (9,685)	\$ (2,022)
Income tax receivable	(1,195)	722
Other receivables	(23)	(1)
Prepaid expenses	43	33
Increase (decrease) in current liabilities:		
Accounts payable	270	60
Income tax payable		246
Accrued compensation expense	5,808	2,294
Accrued liabilities	(244)	(219)
Taxes other than income tax	(563)	(439)
Changes in current assets and liabilities	\$ (5,589)	\$ 674

Cash flows related to interest and income tax were as follows:

	<b>Three Months Ended March 31, 2010      2009 (Thousands of Dollars)</b>	
Cash paid for interest	\$ 222	\$ 29
Cash paid for income tax	\$ 2	\$ 33

**8. CREDIT FACILITY**

Our revolving credit facility matures on July 16, 2010 and has a borrowing capacity of up to \$19.5 million, of which, up to \$10 million may be available for letters of credit (Credit Facility). As of March 31, 2010, we had outstanding borrowings of \$14.3 million and availability of \$5.2 million for borrowings or letters of credit under the Credit Facility. Our Credit Facility bears interest at an alternative base rate plus 3.5% or a

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LIBOR-based rate plus 4.5%, which was 4.8% as of March 31, 2010. The fair value of our Credit Facility approximates its carrying amount.

The terms of the Credit Facility require NuStar Energy to maintain a total debt-to-EBITDA ratio of less than 5.0-to-1.0 for any four consecutive quarters, subject to adjustment following certain acquisitions, which was 4.5x as of March 31, 2010. We are also required to receive cash distributions of at least \$25.0 million in respect of our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the covenants as of March 31, 2010.

We are in discussions with the lenders to renew or replace our Credit Facility.



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### **NUSTAR GP HOLDINGS, LLC**

#### **CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## **9. COMMITMENTS AND CONTINGENCIES**

### ***Litigation and Environmental Matters***

We are not currently a party to any material legal proceedings. However, NuStar Energy is subject to certain loss contingencies, the outcome of which could have an effect on NuStar Energy's results of operations and ability to pay distributions, which would impact our results of operations and ability to pay distributions. NuStar Energy's material contingent liabilities resulting from various litigation, claims and commitments are discussed below.

*Grace Energy Corporation Matter.* In 1997, Grace Energy Corporation (Grace Energy) sued subsidiaries of Kaneb Pipe Line Partners, L.P. (KPP) and Kaneb Services LLC (KSL and, collectively with KPP and their respective subsidiaries, Kaneb) in Texas state court. The complaint sought recovery of the cost of remediation of fuel leaks in the 1970s from a pipeline that had once connected a former Grace Energy terminal with Otis Air Force Base in Massachusetts (Otis AFB). Grace Energy alleges the Otis AFB pipeline and related environmental liabilities had been transferred in 1978 to an entity that was part of Kaneb's acquisition of Support Terminal Services, Inc. and its subsidiaries from Grace Energy in 1993. Kaneb contends that it did not acquire the Otis AFB pipeline and never assumed any responsibility for any associated environmental damage.

In 2000, the court entered final judgment that: (i) Grace Energy could not recover its own remediation costs of \$3.5 million, (ii) Kaneb owned the Otis AFB pipeline and its related environmental liabilities and (iii) Grace Energy was awarded \$1.8 million in attorney costs. Both Kaneb and Grace Energy appealed the final judgment of the trial court to the Texas Court of Appeals in Dallas. In 2001, Grace Energy filed a petition in bankruptcy, which created an automatic stay of actions against Grace Energy. In September 2008, Grace Energy filed its Joint Plan of Reorganization and Disclosure Statement.

The Otis AFB is a part of a Superfund Site pursuant to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The site contains a number of groundwater contamination plumes, two of which are allegedly associated with the Otis AFB pipeline. Relying on the final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the U.S. Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to NuStar Energy indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against NuStar Energy related to this matter and NuStar Energy has not made any payments toward costs incurred by the DOJ. NuStar Energy is currently in settlement discussions with other potentially responsible parties and the DOJ, and a change in NuStar Energy's estimate of this liability may occur in the near term. However, any settlement agreement that is reached must be approved by multiple parties and requires the approval of the bankruptcy court and the federal district court. NuStar Energy cannot currently estimate when or if a settlement will be finalized.

*Eres Matter.* In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants are in breach of a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provides for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contends that NuStar Asphalt and/or NuStar Marketing (together, the NuStar Entities) assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants have failed to perform under the Charter Agreement since January 1, 2008. Eres seeks to compel the Defendants to arbitrate a breach of contract claim in which Eres values its damages at approximately \$78.1 million. CITGO and CARCO also contend that the NuStar Entities assumed the Eres contract, and have demanded that the NuStar Entities defend and indemnify them against Eres' claims. Eres' motion to compel arbitration and CITGO and CARCO's indemnity claims are currently pending in the U.S. District Court for the Southern District of Texas. NuStar Energy intends to vigorously defend against these claims.

*Department of Justice Matter.* In February 2008, the DOJ advised NuStar Energy that the Environmental Protection Agency has requested that the DOJ initiate a lawsuit against NuStar Pipeline Operating Partnership L.P. (NuPOP) for (a) failing to prepare adequate Facility Response Plans, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of its pipeline terminals located in Region VII, by

August 30, 1994, and (b) maintaining

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Spill Prevention, Control and Countermeasure (SPCC) plans at the terminal that deviate from the SPCC regulations, 40 C.F.R. §112.3. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances. The SPCC rule requires specific facilities to prepare, amend and implement plans to prevent, prepare and respond to oil discharges to navigable waters and adjoining shorelines. NuStar Energy cooperated fully with the DOJ's investigation, and all required Facility Response Plans are now in place. On March 18, 2010, the DOJ filed a consent decree in the U.S. District Court for the District of Nebraska. Pursuant to the terms of the consent decree, NuStar Energy agreed to pay a penalty of \$450,000 and implement a supplemental environmental project to install and operate tank monitoring and alarm systems at several of its facilities. The consent decree was entered by the court in late April 2010. NuStar Energy's payment is due in late May 2010.

**Other**

NuStar Energy is also a party to additional claims and legal proceedings arising in the ordinary course of its business. Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on NuStar Energy's results of operations, financial position or liquidity. It is possible that if one or more of the matters described above were decided against NuStar Energy, the effects could be material to its results of operations in the period in which it would be required to record or adjust the related liability and could also be material to its cash flows in the periods it would be required to pay such liability.

**10. MEMBERS' EQUITY AND NET INCOME PER UNIT**

The following table presents changes to our members' equity (in thousands):

Balance as of December 31, 2009	\$ 538,208
Net income	8,493
Distributions to unitholders	(18,494)
Share of NuStar Energy's other comprehensive loss	(163)
Unit-based compensation	118
Other	153
Balance as of March 31, 2010	\$ 528,315

**Comprehensive Income**

Our comprehensive income was as follows:

	Three Months Ended March 31, 2010      2009 (Thousands of Dollars)	
Net income	\$ 8,493	\$ 12,008
Share of NuStar Energy's other comprehensive loss	(163)	(1,222)
Other	153	28
Comprehensive income	\$ 8,483	\$ 10,814

**Net Income Per Unit**

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We include restricted units granted under our long-term incentive plan as participating securities in computing net income per unit pursuant to the two-class method.

The computation of diluted net income per unit for the three months ended March 31, 2010 and 2009 excludes 324,100 outstanding options to purchase NuStar GP Holdings units, as the exercise price exceeded the market price and their effect would be anti-dilutive.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Cash Distributions***

The table set forth below shows our cash distributions applicable to the period in which the distributions were earned:

	<b>Three Months Ended March 31, 2010      2009 (Thousands of Dollars, Except Per Unit Data)</b>	
Cash distributions per unit	\$ 0.45	\$ 0.43
Total cash distributions	\$ 19,132	\$ 18,277

In January 2010, our board of directors declared a quarterly cash distribution of \$0.435 per unit related to the fourth quarter of 2009. This distribution was paid on February 17, 2010 to unitholders of record on February 5, 2010 and totaled \$18.5 million. In April 2010, our board of directors declared a quarterly cash distribution of \$0.450 per unit related to the first quarter of 2010. This distribution will be paid on May 19, 2010 to unitholders of record on May 7, 2010, and totals \$19.1 million.

**11. EMPLOYEE BENEFIT PLANS AND UNIT-BASED COMPENSATION**

The components of net periodic benefit cost related to our defined benefit plans were as follows:

	<b>Pension Plans (a)</b>		<b>Other Postretirement Benefit Plans</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Thousands of Dollars)</b>			
<b>For the three months ended March 31:</b>				
Components of net periodic benefit cost:				
Service cost	\$ 2,846	\$ 2,039	\$ 226	\$ 167
Interest cost	558	336	208	175
Expected return on assets	(579)	(400)		
Amortization of net loss	132	28	21	
Net periodic benefit cost	\$ 2,957	\$ 2,003	\$ 455	\$ 342

(a) Includes amounts related to the pension plan, the excess pension plan and the supplemental executive retirement plan.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** **FORWARD-LOOKING STATEMENTS**

*This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words anticipates, believes, expects, plans, intends, estimates, forecasts, budgets, projects, will, could, should, may and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our annual report on Form 10-K for the year ended December 31, 2009, Part I Risk Factors, for a discussion of certain of those risks, uncertainties and assumptions.*

*If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-Q. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.*

### **OVERVIEW**

NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) is a publicly held Delaware limited liability company. Unless otherwise indicated, the terms NuStar GP Holdings, we, our and us are used in this report to refer to NuStar GP Holdings, LLC, to one or more of our consolidated subsidiaries or to all of them taken as a whole.

Our only cash generating assets are our ownership interests in NuStar Energy L.P. (NuStar Energy), a publicly held Delaware limited partnership (NYSE: NS). As of March 31, 2010, our aggregate ownership interests in NuStar Energy consisted of the following:

the 2% general partner interest;

100% of the incentive distribution rights (IDR) issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and

10,238,117 common units of NuStar Energy representing a 16.7% limited partner interest.

We account for our ownership interest in NuStar Energy using the equity method. Therefore, our financial results reflect a portion of NuStar Energy's net income based on our ownership interest. We have no separate operating activities apart from those conducted by NuStar Energy and therefore generate no revenues from operations.

NuStar Energy is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and asphalt and fuels marketing. NuStar Energy has terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom.

NuStar Energy is required by its partnership agreement to distribute all of its available cash at the end of each quarter, less reserves established by its general partner, in its sole discretion, to provide for the proper conduct of NuStar Energy's business. Similarly, we are required by our limited liability company agreement to distribute all of our available cash at the end of each quarter, less reserves established by our board of directors.

**Table of Contents****RESULTS OF OPERATIONS***Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009***Financial Highlights****(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)**

	<b>Three Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Equity in earnings of NuStar Energy	\$ 9,301	\$ 12,833	\$ (3,532)
General and administrative expenses	(793)	(757)	(36)
Other income (expense), net	125	(24)	149
Interest expense, net	(318)	(27)	(291)
Income before income tax benefit (expense)	8,315	12,025	(3,710)
Income tax benefit (expense)	178	(17)	195
Net income	\$ 8,493	\$ 12,008	\$ (3,515)
Basic and diluted net income per unit	\$ 0.20	\$ 0.28	\$ (0.08)
Weighted average number of basic and diluted units outstanding	42,514,494	42,503,784	10,710

The following table summarizes NuStar Energy's results of operations:

	<b>Three Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
<b>(Unaudited, Thousands of Dollars, Except Per Unit Data)</b>			
<b>NuStar Energy Statement of Income Data:</b>			
Revenues	\$ 945,529	\$ 634,004	\$ 311,525
Cost of product sales	719,221	416,795	302,426
Operating expenses	121,337	103,322	18,015
Depreciation and amortization expense	36,459	34,863	1,596
Segment operating income	68,512	79,024	(10,512)
General and administrative expenses	27,269	22,464	4,805
Other depreciation and amortization expense	1,470	1,126	344
Operating income	\$ 39,773	\$ 55,434	\$ (15,661)
Net income	\$ 19,703	\$ 39,355	\$ (19,652)
Net income per unit applicable to limited partners	\$ 0.19	\$ 0.58	\$ (0.39)
Cash distributions per unit applicable to limited partners	\$ 1.0650	\$ 1.0575	\$ 0.0075

NuStar Energy's net income for the three months ended March 31, 2010 decreased \$19.7 million compared to the three months ended March 31, 2009, primarily due to decreases in segment operating income and other income, as well as an increase in general and administrative expenses.





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The following table summarizes our equity in earnings of NuStar Energy:

	Three Months Ended March 31,		
	2010	2009	Change
(Thousands of Dollars)			
<b>NuStar GP Holdings Equity in Earnings of NuStar Energy:</b>			
General partner interest	\$ 238	\$ 649	\$ (411)
General partner incentive distribution	7,799	6,929	870
General partner's interest in earnings and incentive distributions of NuStar Energy	8,037	7,578	459
Limited partner interest in earnings of NuStar Energy	1,985	5,976	(3,991)
Amortization of step-up in basis related to NuStar Energy's assets and liabilities	(721)	(721)	
Equity in earnings of NuStar Energy	\$ 9,301	\$ 12,833	\$ (3,532)

Our equity in earnings related to our general and limited partner interests in NuStar Energy decreased for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, due to a decrease in NuStar Energy's net income.

NuStar Energy's per unit distributions for the three months ended March 31, 2010, increased compared to the three months ended March 31, 2009, to \$1.0650 from \$1.0575. That increase, coupled with an increase in the number of NuStar Energy units outstanding resulting from the issuance of units in the fourth quarter of 2009, resulted in NuStar Energy increasing its total cash distributions. Since our IDR in NuStar Energy entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR increased for the period.

**OUTLOOK**

Overall, NuStar Energy expects its results for 2010 to improve compared to 2009, mainly in its storage and asphalt and fuels marketing segments. However, NuStar Energy's outlook could change depending on the pace of the economic recovery, changes to refinery maintenance schedules, the demand for asphalt, or other factors that affect overall demand for the products it stores, transports and sells.

***NuStar Energy's Transportation Segment***

NuStar Energy expects its transportation segment results for 2010 to be comparable to or slightly lower than 2009. NuStar Energy forecasts that throughputs for 2010 will increase slightly over 2009, barring any major unplanned turnaround activity and excluding the effect of the sale of its pipelines in 2009. The tariffs on NuStar Energy's pipelines regulated by the Federal Energy Regulatory Commission, which adjust annually based upon changes in the producer price index, will likely decline slightly in July, when the annual adjustment takes effect. Even taking the tariff rate decline into account, NuStar Energy's overall tariff rate for 2010 should be slightly higher than 2009. If NuStar Energy's throughputs increase or if the cost of natural gas increases, NuStar Energy would expect its power expenses to increase in 2010 compared to 2009.

***NuStar Energy's Storage Segment***

For 2010, NuStar Energy expects its earnings for the storage segment to increase compared to 2009. NuStar Energy expects to benefit from a full year's contribution of terminal expansion projects completed in 2009 and from new internal growth projects, a portion of which should be completed in 2010. In addition, NuStar Energy expects to benefit from higher renewal rates.

***NuStar Energy's Asphalt and Fuels Marketing Segment***

NuStar Energy expects the asphalt and fuels marketing segment results to increase in 2010 compared to 2009 in anticipation of a higher margin per barrel and increased sales volumes in its asphalt operations. In addition, NuStar Energy expects an improving economy to boost sales in its fuels marketing operations.

We expect our equity in earnings of NuStar Energy to increase or decrease consistent with NuStar Energy's earnings.



**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES*****General***

Our cash flows consist of distributions from NuStar Energy on our partnership interests, including all of the IDR that we own. Due to our ownership of NuStar Energy's IDR, our portion of NuStar Energy's total distributions may exceed our ownership interest in NuStar Energy. Our primary cash requirements are for distributions to members, capital contributions to maintain our 2% general partner interest in NuStar Energy in the event NuStar Energy issues additional units, debt service requirements, if any, benefit plan funding and general and administrative expenses. In addition, because NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings, elected to be treated as a taxable entity in August 2006, we may be required to pay income taxes, which may exceed the amount of tax expense recorded in the consolidated financial statements. We expect to fund our cash requirements primarily with the quarterly cash distributions we receive from NuStar Energy and borrowings under our revolving credit facility, if necessary. Additionally, NuStar Energy reimburses us for all costs incurred on their behalf, primarily employee-related costs.

***Cash Distributions from NuStar Energy***

NuStar Energy pays quarterly distributions within 45 days following the end of each quarter based on the partnership interests outstanding as of a record date that is set after the end of each quarter. The table set forth below shows the cash distributions earned for the periods shown with respect to our ownership interests in NuStar Energy and IDR:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Thousands of Dollars, Except Per Unit Data)</b>	
Cash distributions per unit	\$ 1.0650	\$ 1.0575
Total cash distributions by NuStar Energy to all partners	\$ 73,392	\$ 65,838
Cash distributions we received from NuStar Energy:		
Distributions on our general partner interest	\$ 1,467	\$ 1,318
Distributions on our IDR	7,799	6,929
Distributions on our limited partnership interests	10,905	10,830
<b>Total cash distributions to us</b>	<b>\$ 20,171</b>	<b>\$ 19,077</b>
Distributions to us as a percentage of total cash distributions	27.5%	29.0%

***Cash Flows for the Three Months Ended March 31, 2010 and 2009***

Cash distributions received from NuStar Energy for the three months ended March 31, 2010 were \$20.2 million compared to \$19.1 million for the three months ended March 31, 2009. The cash distributions we received were used principally to fund distributions to our unitholders totaling \$18.5 million for the three months ended March 31, 2010, compared to \$18.3 million for the three months ended March 31, 2009.

***Credit Facility***

Our revolving credit facility matures on July 16, 2010 and has a borrowing capacity of up to \$19.5 million, of which, up to \$10 million may be available for letters of credit (Credit Facility). As of March 31, 2010, we had outstanding borrowings of \$14.3 million and availability of \$5.2 million for borrowings or letters of credit under the Credit Facility. Our Credit Facility bears interest at an alternative base rate plus 3.5% or a LIBOR-based rate plus 4.5%, which was 4.8% as of March 31, 2010. The fair value of our Credit Facility approximates its carrying amount.

The terms of the Credit Facility require NuStar Energy to maintain a total debt-to-EBITDA ratio of less than 5.0-to-1.0 for any four consecutive quarters, subject to adjustment following certain acquisitions, which was 4.5x as of March 31, 2010. We are also required to receive cash distributions of at least \$25.0 million in respect of our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the covenants as of March 31, 2010.

We are in discussions with the lenders to renew or replace our Credit Facility.

**Table of Contents*****Cash Distributions to Unitholders***

Our limited liability company agreement requires that, within 50 days after the end of each quarter, we distribute all of our available cash to the holders of record of our units on the applicable record date. The table set forth below shows our cash distributions applicable to the period in which the distributions were earned:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Thousands of Dollars, Except Per Unit Data)</b>	
Cash distributions per unit	\$ 0.45	\$ 0.43
Total cash distributions	\$ 19,132	\$ 18,277

***Related Party Transactions***

NuStar Energy reimburses us for its share of costs incurred by us related to employee-related benefit plans and unit-based compensation. Please refer to Note 4 of Condensed Notes to Consolidated Financial Statements for total related party transactions charged to and amounts due from NuStar Energy related to these and other transactions, and a description of agreements.

***Contingencies***

As previously discussed, our only cash-generating assets are our indirect ownership interests in NuStar Energy. NuStar Energy is subject to certain loss contingencies, the outcomes of which could have a material effect on NuStar Energy's results of operations and cash flows. Please refer to Note 9 of Condensed Notes to Consolidated Financial Statements for a more detailed discussion of contingencies.

**CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

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**Item 4. Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of March 31, 2010.
  
- (b) *Changes in internal control over financial reporting.* There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### **PART II - OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

The information below describes new proceedings or material developments in proceedings that we previously reported in our annual report on Form 10-K for the year ended December 31, 2009.

*Department of Justice Matter.* In February 2008, the U.S. Department of Justice (DOJ) advised NuStar Energy that the U.S. Environmental Protection Agency (the EPA) has requested that the DOJ initiate a lawsuit against NuStar Pipeline Operating Partnership L.P. (NuPOP) for (a) failing to prepare adequate Facility Response Plans, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of its pipeline terminals located in Region VII, by August 30, 1994, and (b) maintaining Spill Prevention, Control and Countermeasure (SPCC) plans at the terminal that deviate from the SPCC regulations, 40 C.F.R. §112.3. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances. The SPCC rule requires specific facilities to prepare, amend and implement plans to prevent, prepare and respond to oil discharges to navigable waters and adjoining shorelines. NuStar Energy cooperated fully with the DOJ's investigation, and all required Facility Response Plans are now in place. On March 18, 2010, the DOJ filed a consent decree in the U.S. District Court for the District of Nebraska. Pursuant to the terms of the consent decree, NuStar Energy agreed to pay a penalty of \$450,000 and implement a supplemental environmental project to install and operate tank monitoring and alarm systems at several of its facilities. The consent decree was entered by the court in late April 2010. NuStar Energy's payment is due in late May 2010.

*Illinois EPA Matter.* In September 2008, the Illinois State Attorney General's Office proposed penalties totaling \$240,000 related to contamination at a storage terminal in Chillicothe, Illinois that NuStar Energy previously owned through a joint venture with Center Oil Company until NuStar Energy sold its interest in October 2006. On March 9, 2010, a consent order was entered in the Circuit Court for the 10th Judicial Circuit Peoria County, Illinois. Pursuant to the terms of the consent order, NuStar Energy agreed to pay a penalty of \$133,000 and continue with ongoing remediation efforts. This penalty was paid on March 24, 2010.

*EPA Investigation - Baltimore, Maryland facility.* In September 2009, an administrative complaint was filed by the EPA in Region III against NuStar Terminals Operations Partnership, L.P. (NTOP) and NuStar Terminals Services, Inc. (NTS). The administrative complaint alleges that certain violations occurred at NTOP's Baltimore, Maryland terminal facility. The alleged violations include failure to comply with certain discharge limitations and certain monitoring and reporting obligations, as required by Section 301 of the Clean Water Act, 33 U.S.C. § 1311. The administrative complaint further alleges that NTOP and NTS violated certain provisions of the Code of Maryland Regulations, which the EPA is entitled to enforce on behalf of the State of Maryland pursuant to Section 3008(a) of the Resource Conservation and Recovery Act, 42 U.S.C. § 6928(a). The total civil penalty sought by the EPA is \$199,400. NuStar Energy is currently in settlement negotiations with the EPA regarding this matter.

#### **Item 6. Exhibits**

\*Exhibit 31.01 Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002).

\*Exhibit 32.01 Section 1350 Certifications (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

\* Filed herewith.

+ Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto.

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**SIGNATURES**

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

**NUSTAR GP HOLDINGS, LLC**  
**(Registrant)**

**By: /s/ Curtis V. Anastasio**  
**Curtis V. Anastasio**  
**President and Chief Executive Officer**  
**May 6, 2010**

**By: /s/ Steven A. Blank**  
**Steven A. Blank**  
**Senior Vice President, Chief Financial Officer**  
**and Treasurer**  
**May 6, 2010**

**By: /s/ Thomas R. Shoaf**  
**Thomas R. Shoaf**  
**Vice President and Controller**  
**May 6, 2010**