

MAGELLAN MIDSTREAM PARTNERS LP
Form 8-K
July 27, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): July 27, 2006

Magellan Midstream Partners, L.P.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction)

1-16335
(Commission)

73-1599053
(IRS Employer)

(Incorporation)

(File Number)

(Identification No.)

P.O. Box 22186, Tulsa, Oklahoma
(Address of Principal Executive Offices)

74121-2186
(Zip Code)

Registrant's Telephone Number, Including Area Code: (918) 574-7000

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - .. Pre-commencement communications pursuant to Rule 13c-4(c) under the Exchange Act (17 CFR 240.13e-14(c))
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Item 2.02. Results of Operations and Financial Condition.

Item 9.01. Financial Statements and Exhibits.

The Partnership wishes to disclose its press release dated July 27, 2006, furnished herewith as Exhibit 99.1.

In accordance with General Instruction B.2. of Form 8-K and the Securities and Exchange Commission Release No. 33-8176, the above information is being furnished under Item 2.02, and Item 9.01 related thereto, of Form 8-K and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, and is not deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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 hereunto duly authorized.

Magellan Midstream Partners, L.P.

By: Magellan GP, LLC,
its General Partner

Date: July 27, 2006

By: /s/ Suzanne H. Costin
Name: Suzanne H. Costin
Title: Corporate Secretary

EXHIBIT INDEX

99.1 Copy of the Partnership's press release dated July 27, 2006.

MAGELLAN MIDSTREAM PARTNERS, L.P.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per unit amounts)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2005 | 2006 | 2005 | 2006 |
| Transportation and terminals revenues | \$ 125,933 | \$ 138,555 | \$ 238,625 | \$ 268,746 |
| Product sales revenues | 129,486 | 172,806 | 274,960 | 321,702 |
| Affiliate management fee revenue | 167 | 172 | 334 | 345 |
| Total revenues | 255,586 | 311,533 | 513,919 | 590,793 |
| Costs and expenses: | | | | |
| Operating | 51,800 | 54,578 | 96,055 | 105,691 |
| Environmental | 1,772 | 467 | 2,972 | 2,739 |
| Product purchases | 122,348 | 154,857 | 253,659 | 288,452 |
| Depreciation and amortization | 13,931 | 15,356 | 26,901 | 30,557 |
| Affiliate general and administrative | 15,134 | 15,737 | 30,260 | 30,764 |
| Total costs and expenses | 204,985 | 240,995 | 409,847 | 458,203 |
| Equity earnings | 804 | 946 | 1,322 | 1,665 |
| Operating profit | 51,405 | 71,484 | 105,394 | 134,255 |
| Interest expense | 12,864 | 14,037 | 25,282 | 28,125 |
| Interest income | (1,157) | (601) | (2,142) | (1,247) |
| Debt placement fee amortization | 731 | 678 | 1,463 | 1,355 |
| Other (income) / expense | (1) | | (300) | 339 |
| Net income | \$ 38,968 | \$ 57,370 | \$ 81,091 | \$ 105,683 |
| Allocation of net income for purposes of calculating earnings per limited partner unit: | | | | |
| Limited partners' interest | \$ 32,037 | \$ 41,143 | \$ 68,014 | \$ 77,828 |
| General partner's interest | 6,931 | 16,227 | 13,077 | 27,855 |
| Net income | \$ 38,968 | \$ 57,370 | \$ 81,091 | \$ 105,683 |
| Basic net income per limited partner unit | \$ 0.48 | \$ 0.62 | \$ 1.02 | \$ 1.17 |
| Weighted average number of limited partner units outstanding used for basic net income per unit calculation | 66,361 | 66,361 | 66,361 | 66,361 |
| Diluted net income per limited partner unit | \$ 0.48 | \$ 0.62 | \$ 1.02 | \$ 1.17 |
| Weighted average number of limited partner units outstanding used for diluted net income per unit calculation | 66,604 | 66,482 | 66,536 | 66,482 |

MAGELLAN MIDSTREAM PARTNERS, L.P.

OPERATING STATISTICS

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2005 | 2006 | 2005 | 2006 |
| Petroleum products pipeline system: | | | | |
| Transportation revenue per barrel shipped (dollars per barrel) | \$ 1.029 | \$ 1.078 | \$ 1.025 | \$ 1.054 |
| Transportation barrels shipped (million barrels) | 76.9 | 77.9 | 142.6 | 146.9 |
| Petroleum products terminals: | | | | |
| Marine terminal average storage capacity utilized per month (million barrels) | 16.7 | 18.8 | 16.6 | 18.9 |
| Marine terminal throughput (million barrels) | 13.5 | 12.1 | 25.9 | 23.0 |
| Inland terminal throughput (million barrels) | 28.9 | 30.3 | 55.0 | 58.0 |
| Ammonia pipeline system: | | | | |
| Volume shipped (thousand tons) | 186 | 162 | 338 | 378 |

MAGELLAN MIDSTREAM PARTNERS, L.P.

OPERATING MARGIN RECONCILIATION TO OPERATING PROFIT

(Unaudited, in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2005 | 2006 | 2005 | 2006 |
| Petroleum products pipeline system: | | | | |
| Transportation and terminals revenues | \$ 97,828 | \$ 105,825 | \$ 183,099 | \$ 196,574 |
| Less: Operating expenses | 41,745 | 40,940 | 76,874 | 79,718 |
| Environmental expenses | 1,688 | 6 | 2,530 | 1,914 |
| Transportation and terminals margin | 54,395 | 64,879 | 103,695 | 114,942 |
| Product sales revenues | 126,155 | 168,670 | 268,959 | 312,389 |
| Less: Product purchases | 121,522 | 152,553 | 251,647 | 283,016 |
| Product margin | 4,633 | 16,117 | 17,312 | 29,373 |
| Add: Affiliate management fee revenue | 167 | 172 | 334 | 345 |
| Equity earnings | 804 | 946 | 1,322 | 1,665 |
| Operating margin | \$ 59,999 | \$ 82,114 | \$ 122,663 | \$ 146,325 |
| Petroleum products terminals: | | | | |
| Transportation and terminals revenues | \$ 25,506 | \$ 30,267 | \$ 51,016 | \$ 65,742 |
| Less: Operating expenses | 9,639 | 12,837 | 18,821 | 24,674 |
| Environmental expenses | 52 | 5 | 90 | 126 |
| Transportation and terminals margin | 15,815 | 17,425 | 32,105 | 40,942 |
| Product sales revenues | 3,741 | 4,136 | 6,411 | 9,313 |
| Less: Product purchases | 1,364 | 2,434 | 2,675 | 5,693 |
| Product margin | 2,377 | 1,702 | 3,736 | 3,620 |
| Operating margin | \$ 18,192 | \$ 19,127 | \$ 35,841 | \$ 44,562 |
| Ammonia pipeline system: | | | | |
| Total revenues | \$ 3,506 | \$ 3,428 | \$ 6,207 | \$ 8,149 |
| Less: Operating expenses | 2,012 | 2,530 | 3,414 | 4,534 |
| Environmental expenses | 32 | 456 | 352 | 699 |
| Operating margin | \$ 1,462 | \$ 442 | \$ 2,441 | \$ 2,916 |
| Segment operating margin | \$ 79,653 | \$ 101,683 | \$ 160,945 | \$ 193,803 |
| Add: Allocated corporate depreciation costs | 817 | 894 | 1,610 | 1,773 |
| Total operating margin | 80,470 | 102,577 | 162,555 | 195,576 |
| Less: Depreciation and amortization | 13,931 | 15,356 | 26,901 | 30,557 |
| Affiliate general and administrative | 15,134 | 15,737 | 30,260 | 30,764 |
| Total operating profit | \$ 51,405 | \$ 71,484 | \$ 105,394 | \$ 134,255 |

Note: Amounts may not sum to figures shown on the consolidated statement of income due to intersegment eliminations and allocated corporate depreciation costs.

MAGELLAN MIDSTREAM PARTNERS, L.P.

ALLOCATION OF NET INCOME

(In thousands, unless otherwise noted)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|------------|
| | 2005 | 2006 | 2005 | 2006 |
| Net income | \$ 38,968 | \$ 57,370 | \$ 81,091 | \$ 105,683 |
| Direct charges to the general partner: | | | | |
| Reimbursable general and administrative costs | 601 | 553 | 1,644 | 965 |
| Previously indemnified environmental charges | 171 | (542) | 637 | 58 |
| Total direct charges to general partner | 772 | 11 | 2,281 | 1,023 |
| Income before direct charges to general partner | 39,740 | 57,381 | 83,372 | 106,706 |
| General partner's share of income ^(a) | 19.39% | 28.30% | 18.42% | 27.06% |
| General partner's allocated share of net income before direct charges | 7,703 | 16,238 | 15,358 | 28,878 |
| Direct charges to general partner | 772 | 11 | 2,281 | 1,023 |
| Net income allocated to general partner | \$ 6,931 | \$ 16,227 | \$ 13,077 | \$ 27,855 |
| Net income | \$ 38,968 | \$ 57,370 | \$ 81,091 | \$ 105,683 |
| Less: net income allocated to general partner | 6,931 | 16,227 | 13,077 | 27,855 |
| Net income allocated to limited partners | \$ 32,037 | \$ 41,143 | \$ 68,014 | \$ 77,828 |

- (a) A distribution of \$0.5775 per unit was declared for the three months ended June 30, 2006, which will result in a total quarterly cash distribution payment of \$52.8 million. The partnership's general partner is entitled to 26.40% of this cash distribution. Except for those periods when net income exceeds distributions, net income is allocated between the general partner and limited partners based on the contractually-determined proportion of cash distributions received. Because second-quarter 2006 net income of \$57.4 million exceeded the corresponding quarterly cash distribution, under the two class method of computing earnings per share, as prescribed by Statement of Financial Accounting Standards No. 128, Earnings Per Share, earnings are allocated to participating securities as if all of the earnings for the period had been distributed. A theoretical cash distribution of \$0.61178 per unit would result in a distribution of \$57.4 million, which equals net income for the three months ended June 30, 2006. At this distribution level, the general partner's share of distributions would be 28.30%.

For purposes of calculating earnings per limited partner unit, the general partner's share of distributions for the six months ended June 30, 2006 is equal to its share of actual first quarter 2006 distributions plus its share of theoretical distributions for second quarter 2006.

MAGELLAN MIDSTREAM PARTNERS, L.P.

DISTRIBUTABLE CASH FLOW

(Unaudited, in millions)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|----------|
| | June 30, | | June 30, | |
| | 2005 | 2006 | 2005 | 2006 |
| Net income | \$ 39.0 | \$ 57.4 | \$ 81.1 | \$ 105.7 |
| Add: Depreciation and amortization ⁽¹⁾ | 14.7 | 16.0 | 28.4 | 31.9 |
| Equity-based incentive compensation | 2.4 | 2.3 | 4.4 | 3.8 |
| Direct charges to general partner | 0.8 | | 2.3 | 1.0 |
| Asset impairment expense | | 3.0 | | 3.0 |
| Less: Maintenance capital (net of indemnified spending) | 5.4 | 7.8 | 7.5 | 10.7 |
| Other | 0.7 | 0.1 | 1.2 | 0.6 |
| Distributable cash flow ⁽²⁾ | \$ 50.8 | \$ 70.8 | \$ 107.5 | \$ 134.1 |

⁽¹⁾ Depreciation and amortization includes debt placement fee amortization.

⁽²⁾ Distributable cash flow does not include fluctuations related to working capital or spending for which the partnership has received, or expects to receive, reimbursement through third party indemnifications.