Blueknight Energy Partners, L.P.
Form 10-Q
August 07, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 001-33503

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

Delaware (State or other jurisdiction of incorporation or organization)	20-8536826 (IRS Employer Identification No.)

201 NW 10th, Suite 200
Oklahoma City, Oklahoma 73103
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (405) 278-6400

(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 ý No o

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 ý No o

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

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 3, 2012, there were 30,159,958 Series A Preferred Units and 22,670,137 common units outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of December 31, 2011 (unaudited)	As of June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$1,239	$3,831
Accounts receivable, net of allowance for doubtful accounts of $476 for both dates	14,191	11,636
Receivables from related parties, net of allowance for doubtful accounts of $0 for both dates	4,397	2,505
Prepaid insurance	1,725	3,223
Assets held for sale	603	1,434
Other current assets	1,838	3,151
Total current assets	23,993	25,780
Property, plant and equipment, net of accumulated depreciation of $135,302 and $144,086 at December 31, 2011 and June 30, 2012, respectively	266,355	261,320
Goodwill	7,216	7,216
Debt issuance costs, net	5,000	4,112
Intangibles and other assets, net	2,191	1,922
Total assets	$304,755	$300,350
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$10,138	$4,522
Accrued loss contingency	1,090	—
Accrued interest payable	231	213
Accrued interest payable to related parties	362	179
Accrued property taxes payable	1,813	1,995
Unearned revenue	790	3,752
Unearned revenue with related parties	1,149	1,640
Accrued payroll	5,226	4,030
Other accrued liabilities	3,740	4,602
Current portion of long-term payable to related parties	1,636	1,754
Total current liabilities	26,175	22,687
Long-term payable to related parties	2,681	1,773
Other long-term liabilities	100	186
Long-term debt (including $15.0 million with related parties for both dates)	218,000	215,000
Commitments and contingencies (Notes 5 and 13)		
Partners' capital:		
Series A Preferred Units (30,159,958 units issued and outstanding for both dates)	202,746	204,599
	465,483	466,474

Common unitholders (22,657,638 and 22,670,137 units issued and outstanding at December 31, 2011 and June 30, 2012, respectively)		
General partner interest (2.1% with 1,127,755 general partner units outstanding for both dates)	(610,430)	(610,369)
Total Partners' capital	57,799	60,704
Total liabilities and Partners' capital	$304,755	$300,350

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2012	2011	2012
	(unaudited)			
Service revenue:				
Third party revenue	$32,670	$32,912	$64,624	$66,046
Related party revenue	10,421	10,846	19,990	22,288
Total revenue	43,091	43,758	84,614	88,334
Expenses:				
Operating	30,182	30,518	58,819	59,806
General and administrative	4,777	4,386	9,386	9,489
Total expenses	34,959	34,904	68,205	69,295
Gain on sale of assets	687	263	710	5,219
Operating income	8,819	9,117	17,119	24,258
Other (income) expenses:				
Interest expense	9,112	2,897	18,164	5,968
Change in fair value of embedded derivative within convertible debt	3,431	—	(4,866)	—
Change in fair value of rights offering liability	1,544	—	6,386	—
Income (loss) before income taxes	(5,268)	6,220	(2,565)	18,290
Provision for income taxes	77	73	147	149
Net income (loss)	$(5,345)	$6,147	$(2,712)	$18,141
Allocation of net income (loss) for calculation of earnings per unit:				
General partner interest in net income (loss)	$(46)	$186	$111	$493
Preferred interest in net income	$2,975	$5,391	$8,149	$10,782
Beneficial conversion feature attributable to preferred units	$11,021	$—	$21,920	$1,853
Income (loss) available to limited partners	$(19,295)	$570	$(32,892)	$5,013
Basic and diluted net income (loss) per common unit	$(0.55)	$0.02	$(0.94)	$0.22
Basic and diluted net income (loss) per subordinated unit	$(0.55)	$—	$(0.94)	$—
Weighted average common units outstanding - basic and diluted	21,890	22,670	21,890	22,665
Weighted average subordinated units outstanding - basic and diluted	12,571	—	12,571	—

See accompanying notes to unaudited consolidated financial statements.

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

	Common Unitholders	Series A Preferred Unitholders	General Partner Interest	Total Partners' Capital
	(unaudited)			
Balance, December 31, 2011	$465,483	$202,746	$(610,430)	$57,799
Net income	7,300	10,462	379	18,141
Equity-based incentive compensation	653	—	14	667
Amortization of beneficial conversion feature of Preferred units	(1,853)	1,853	—	—
Distributions	(5,109)	(10,462)	(332)	(15,903)
Balance, June 30, 2012	$466,474	$204,599	$(610,369)	$60,704

See accompanying notes to unaudited consolidated financial statements.

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

	Six months ended June 30,	
	2011	2012
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$(2,712)	$18,141
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,415	11,382
Amortization and write-off of debt issuance costs	966	888
Amortization of subordinated debenture discount	8,756	—
Change in fair value of embedded derivative within convertible debt	(4,866)	—
Change in fair value of rights offering liability	6,386	—
Asset impairment charge	—	1,073
Gain on sale of assets	(710)	(5,219)
Equity-based incentive compensation	209	667
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(4,133)	2,555
Decrease (increase) in receivables from related parties	(222)	1,892
Decrease (increase) in prepaid insurance	(139)	309
Increase in other current assets	(249)	(1,312)
Decrease (increase) in other assets	1,037	(1)
Decrease in accounts payable	(1,210)	(2,718)
Decrease in accrued interest payable	(78)	(18)
Increase (decrease) in accrued interest payable to related parties	2,686	(183)
Increase (decrease) in accrued property taxes	(126)	182
Increase in unearned revenue	385	2,962
Increase (decrease) in unearned revenue from related parties	(2,105)	491
Increase (decrease) in accrued payroll	609	(1,196)
Decrease in other accrued liabilities	(145)	(1,188)
Net cash provided by operating activities	15,754	28,707
Cash flows from investing activities:		
Acquisitions	(133)	—
Capital expenditures	(9,298)	(13,179)
Proceeds from sale of assets	752	7,291
Net cash used in investing activities	(8,679)	(5,888)
Cash flows from financing activities:		
Payment on insurance premium financing agreement	(342)	(534)
Debt issuance costs	(280)	—
Payments on long-term payable to related party	(447)	(790)
Borrowings under credit facility	6,000	24,000
Payments under credit facility	(5,862)	(27,000)
Distributions	(5,278)	(15,903)
Net cash used in financing activities	(6,209)	(20,227)
Net increase in cash and cash equivalents	866	2,592
Cash and cash equivalents at beginning of period	4,840	1,239
Cash and cash equivalents at end of period	$5,706	$3,831

Supplemental disclosure of cash flow information:		
Increase (decrease) in accounts payable related to purchase of property, plant and equipment	$472	$(2,898)
Increase in accrued liabilities related to insurance premium financing agreement	$1,278	$1,580

See accompanying notes to unaudited consolidated financial statements.

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

1. ORGANIZATION AND NATURE OF BUSINESS

Blueknight Energy Partners, L.P. (formerly SemGroup Energy Partners, L.P.) and subsidiaries (the “Partnership”) is a publicly traded master limited partnership with operations in twenty-three states. The Partnership provides integrated terminalling, storage, processing, gathering and transportation services for companies engaged in the production, distribution and marketing of crude oil and asphalt products. The Partnership manages its operations through four operating segments: (i) crude oil terminalling and storage services, (ii) crude oil pipeline services, (iii) crude oil trucking and producer field services and (iv) asphalt services. The Partnership’s common units and preferred units, which represent limited partnership interests in the Partnership, are listed on the NASDAQ Global Market under the symbols “BKEP” and “BKEPP,” respectively. The Partnership was formed in February of 2007 as a Delaware master limited partnership initially to own, operate and develop a diversified portfolio of complementary midstream energy assets.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting principles and practices generally accepted in the United States of America (“GAAP”). The consolidated statements of operations for the three and six months ended June 30, 2011 and 2012, the consolidated statement of changes in partners’ capital for the six months ended June 30, 2012, the statement of cash flows for the six months ended June 30, 2011 and 2012, and the consolidated balance sheet as of June 30, 2012 are unaudited. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary to state fairly the financial position and results of operations for the respective interim periods. All adjustments are of a recurring nature unless otherwise disclosed herein. The 2011 year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. These consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Partnership’s annual report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (the “SEC”) on March 13, 2012 (the “2011 Form 10-K”). Interim financial results are not necessarily indicative of the results to be expected for an annual period. The Partnership’s significant accounting policies are consistent with those disclosed in Note 4 of the Notes to Consolidated Financial Statements in our 2011 Form 10-K. A reclassification has been made in the consolidated financial statements for the three and six months ended June 30, 2011 to conform to the 2012 financial statement presentation. This was a reclassification of gain on sale of assets from operating expenses to a separate component of operating income. The reclassification has no impact on net income.

3. RECENT EVENTS

On January 10, 2012, the Partnership announced the planned retirement of the Chief Executive Officer of Blueknight Energy Partners G.P., L.L.C., the Partnership’s general partner (the “General Partner”), Mr. James Dyer, who will remain as Chief Executive Officer until his successor is appointed.

4. PROPERTY, PLANT AND EQUIPMENT

	Estimated Useful Lives (Years)	December 31, 2011	June 30, 2012
		(dollars in thousands)	
Land	N/A	$16,601	$16,355
Land improvements	10-20	5,671	5,589
Pipelines and facilities	5-30	152,733	155,451
Storage and terminal facilities	10-35	169,139	169,092
Transportation equipment	3-10	20,615	19,943
Office property and equipment and other	3-20	22,901	25,395
Pipeline linefill and tank bottoms	N/A	7,458	5,993
Construction-in-progress	N/A	6,539	7,588
Property, plant and equipment, gross		401,657	405,406
Accumulated depreciation		(135,302)	(144,086)
Property, plant and equipment, net		$266,355	$261,320

Depreciation expense for each of the three months ended June 30, 2011 and 2012 was $5.7 million, and depreciation expense for the six months ended June 30, 2011 and 2012 was $11.4 million and $11.3 million, respectively. In the three and six months ended June 30, 2012, the Partnership recorded asset impairment expense of $1.1 million related to its pipelines and facilities.

5. DEBT

On October 25, 2010, the Partnership entered into a new credit agreement, which includes a $200.0 million term loan facility and a $75.0 million revolving loan facility. On April 5, 2011, the Partnership entered into a Joinder Agreement whereby the Partnership's revolving credit facility was increased from $75.0 million to $95.0 million. As of August 3, 2012, approximately $200.0 million of term loan borrowings and $10.7 million of revolver borrowings and letters of credit were outstanding under the credit facility, leaving the Partnership with approximately $84.3 million available capacity for additional revolver borrowings and letters of credit under the credit facility. Vitol is a lender under the credit agreement and has committed to loan the Partnership $15.0 million pursuant to such agreement. The proceeds of loans made under the credit agreement may be used for working capital and other general corporate purposes of the Partnership.

The credit agreement is guaranteed by all of the Partnership's existing subsidiaries. Obligations under the credit agreement are secured by first priority liens on substantially all of the Partnership's assets and those of the guarantors, including all material pipeline, gathering and processing assets, all material storage tanks and asphalt facilities, all material working capital assets and a pledge of all of the Partnership's equity interests in its subsidiaries.

The credit agreement includes procedures for additional financial institutions to become revolving lenders, or for any existing lender to increase its revolving commitment thereunder, subject to an aggregate maximum of $200.0 million for all revolving loan commitments under the credit agreement.

The credit agreement will mature on October 25, 2014, and all amounts outstanding under the credit agreement will become due and payable on such date. The Partnership may prepay all loans under the credit agreement at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements. The credit agreement requires mandatory prepayments of amounts outstanding thereunder with the net proceeds of certain asset sales, casualty events and debt incurrences, and, in certain circumstances, with a portion of the Partnership's

excess cash flow (as defined in the credit agreement). These mandatory prepayments will be applied to the term loan under the credit agreement until it is repaid in full, then applied to reduce commitments under the revolving loan facility.

Until May 15, 2011, borrowings under the credit agreement bore interest, at the Partnership's option, at either (i) the ABR (the highest of the administrative agent's prime rate, the federal funds rate plus 0.5%, or the one-month eurodollar rate (as defined in the credit agreement) plus 1.0%), plus an applicable margin of 3.25%, or (ii) the eurodollar rate plus an applicable

margin of 4.25%. After May 15, 2011, the applicable margin for loans accruing interest based on the ABR ranges from 3.0% to 3.5%, and the applicable margin for loans accruing interest based on the eurodollar rate ranges from 4.0% to 4.5%, in each case depending on the Partnership's consolidated total leverage ratio (as defined in the credit agreement). The Partnership pays a per annum fee on all letters of credit issued under the credit agreement, which fee equals the applicable margin for loans accruing interest based on the eurodollar rate, and the Partnership pays a commitment fee of 0.5% per annum on the unused availability under the credit agreement. The credit agreement does not have a floor for the ABR or the eurodollar rate. In connection with entering into the credit agreement, the Partnership paid certain upfront fees to the lenders thereunder, and the Partnership paid certain arrangement and other fees to the arranger and administrative agent of the credit agreement. Vitol received its pro rata portion of such fees as a lender under the credit agreement.

The credit agreement includes financial covenants that are tested on a quarterly basis, based on the rolling four-quarter period that ends on the last day of each fiscal quarter (except for the consolidated interest coverage ratio, which builds to a four-quarter test).

The maximum permitted consolidated total leverage ratio is 4.50 to 1.00 for each future fiscal quarter. The minimum permitted consolidated interest coverage ratio (as defined in the credit agreement) is 3.00 to 1.00 for each future fiscal quarter.

In addition, the credit agreement contains various covenants that, among other restrictions, limit the Partnership's ability to:

- create, incur or assume liens;
- engage in mergers or acquisitions;
- repurchase the Partnership's equity, make distributions to unitholders and make certain other restricted payments;
- make investments;
- modify the terms of the convertible subordinated debentures (as defined below) and certain other indebtedness, or prepay certain indebtedness;
- engage in transactions with affiliates;
- enter into certain burdensome contracts;
- change the nature of the Partnership's business;
- enter into operating leases; and
- make certain amendments to the Partnership's partnership agreement.

At June 30, 2012, the Partnership's leverage ratio was 2.88 and the interest coverage ratio was 6.81. The Partnership was in compliance with all covenants of its credit agreement as of June 30, 2012.

The credit agreement permits the Partnership to make quarterly distributions of available cash (as defined in the Partnership's partnership agreement) to unitholders so long as: (i) no default or event of default exists under the credit agreement, (ii) the Partnership has, on a pro forma basis after giving effect to such distribution, at least $10.0 million of availability under the revolving loan facility, and (iii) the Partnership's consolidated total leverage ratio, on a pro forma basis, would not be greater than 4.00 to 1.00 for any future fiscal quarter. The Partnership is currently allowed to make distributions to its unitholders in accordance with these covenants; however, the Partnership will only make distributions to the extent it has sufficient cash from operations after establishment of cash reserves as determined by the General Partner in accordance with the Partnership's cash distribution policy, including the establishment of any reserves for the proper conduct of the Partnership's business. See Note 6 for additional information regarding distributions.

Each of the following is an event of default under the credit agreement:

- failure to meet the quarterly financial covenants;
- failure to observe any other agreement, obligation or covenant in the credit agreement or any related loan document, subject to cure periods for certain failures;
- the Partnership's, or any of its subsidiaries', default under other indebtedness that exceeds a threshold amount;
- judgments against the Partnership or any of its subsidiaries, in excess of a threshold amount;
- certain ERISA events involving the Partnership or any of its subsidiaries, in excess of a threshold amount;
- bankruptcy or other insolvency events involving the Partnership or any of its subsidiaries; and

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• a change in control (as defined in the credit agreement).

If an event of default relating to bankruptcy or other insolvency events occurs, all indebtedness under the credit agreement will immediately become due and payable. If any other event of default exists under the credit agreement, the lenders may accelerate the maturity of the obligations outstanding under the credit agreement and exercise other rights and remedies. In addition, if any event of default exists under the credit agreement, the lenders may commence foreclosure or other actions against the collateral.

If any default occurs under the credit agreement, or if the Partnership is unable to make any of the representations and warranties in the credit agreement, the Partnership will be unable to borrow funds or have letters of credit issued under the credit agreement.

It will constitute a change of control under the credit agreement if either Vitol or Charlesbank ceases to own, directly or indirectly, exactly 50% of the membership interests of the General Partner or if the General Partner ceases to be controlled by both Vitol and Charlesbank.

Interest expense related to debt issuance cost amortization for the three and six months ended June 30, 2011 was $0.5 million and $1.0 million, respectively, and for the three and six month periods ended June 30, 2012 was $0.4 million and $0.9 million, respectively. The Partnership did not capitalize any debt issuance costs in either period.

During the three and six months ended June 30, 2012, the weighted average interest rate under the credit agreement incurred by the Partnership was 5.28% and 5.39%, respectively, and the total weighted average interest rate, including interest associated with the ENPS Throughput Capacity Agreement (as defined below), was 5.45% and 5.56%, respectively, resulting in interest expense of approximately $2.9 million and $6.0 million, respectively.

In October 2010 the Partnership issued the convertible subordinated debentures in a private placement in the aggregate principal amount of $50.0 million. If not previously redeemed, the convertible subordinated debentures, including all outstanding principal and unpaid interest, would have converted to Preferred Units on December 31, 2011. Upon issuance, this conversion feature was considered an embedded derivative, which the Partnership was required to bifurcate and carry at its fair value each reporting period. In connection with the establishment of the conversion price for the Preferred Units following the special meeting of the Partnership's unitholders in September 2011, the conversion option was deemed to meet the scope exception for certain contracts involving an entity's own equity in ACS 815-Derivatives and Hedging, and, therefore, the Partnership reclassified the embedded derivative as partners' capital in the third quarter of 2011. The Partnership redeemed the convertible subordinated debentures on November 9, 2011.

Changes to the fair value of the embedded derivative are reflected on the Partnership's consolidated statements of operations as "Change in fair value of embedded derivative within convertible debt." The value of the embedded derivative was contingent on changes in the expected fair value of the Partnership's preferred units. The Partnership recorded other expense of $3.4 million and other income of $4.9 million due to the change in the fair value of this embedded derivative in the three and six months ended June 30, 2011, respectively.

In addition, the recording of the embedded derivative liability related to the convertible subordinated debentures resulted in the Partnership recording a $20.9 million debt discount on the convertible subordinated debentures. The debt discount was being amortized to interest expense through the mandatory conversion date of December 31, 2011 using the effective interest rate method until the redemption of the convertible subordinated debentures on November 9, 2011. Upon redemption, the remaining unamortized debt discount was considered in the calculation of a $2.4 million extinguishment gain, which was determined to represent a capital transaction and, therefore, was recorded as a capital contribution to the Partnership by the Partnership's general partner. For the purpose of calculating

net income per limited partner unit, this amount was added back to net loss available to limited partners as it represents the recovery of a portion of the additional financing costs resulting from bifurcation of the conversion option and related discount on the convertible subordinated debentures. The Partnership recognized non-cash interest expense of $4.4 million and $8.8 million in the three and six months ended June 30, 2011, respectively, due to the amortization of the debt discount.

6. DISTRIBUTIONS

The Partnership did not make a cash distribution to its common unitholders from May 15, 2008 to February 13, 2012 due, in part, to the events of default that existed under its former credit agreement, restrictions under such credit agreement, and the uncertainty of its future cash flows relating to SemCorp's bankruptcy filings ("SemCorp" refers to SemGroup Corporation and

its predecessors including SemGroup, L.P., subsidiaries and affiliates other than the Partnership and the General Partner during periods in which the Partnership and the General Partner were affiliated with SemGroup, L.P.). As a result of the approval of the Partnership Agreement Amendment Proposal (as defined in the Partnership's Proxy Statement dated July 28, 2011) on September 14, 2011, all cumulative common unit arrearages were eliminated. The Partnership's common unitholders will be required to pay taxes on their share of the Partnership's taxable income even though they did not receive a cash distribution for the quarters ended June 30, 2008 through September 30, 2011. The Partnership is currently allowed to make distributions to its unitholders in accordance with its debt covenants; however, the Partnership will only make distributions to the extent it has sufficient cash from operations after establishment of cash reserves as determined by the General Partner in accordance with the Partnership's cash distribution policy, including the establishment of any reserves for the proper conduct of the Partnership's business. The Partnership resumed distributions for common units on February 14, 2012 for the quarter ended December 31, 2011.

On July 24, 2012, the board of directors of our General Partner (the "Board") approved a distribution of $0.17875 per Preferred Unit, or a total distribution of $5.4 million. The Partnership will pay this distribution on the preferred units on August 15, 2012 to Preferred Unitholders of record as of August 3, 2012.

In addition, the Partnership declared a cash distribution of $0.11 per unit on its outstanding common units. The distribution will be paid on August 15, 2012 to unitholders of record on August 3, 2012. The distribution is for the three months ended June 30, 2012. The total distribution to be paid will be approximately $2.6 million, with approximately $2.5 million and $0.1 million to be paid to the Partnership's common unitholders and general partner, respectively, and $0.1 million to be paid to phantom and restricted unitholders pursuant to awards granted under the Partnership's long-term incentive plan.

7. NET INCOME PER LIMITED PARTNER UNIT

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2012	2011	2012
Net income (loss)	$(5,345)	$6,147	$(2,712)	$18,141
General partner interest in net income (loss)	(46)	186	111	493
Preferred interest in net income	2,975	5,391	8,149	10,782
Beneficial conversion feature attributable to preferred units	11,021	—	21,920	1,853
Income (loss) available to limited partners	$(19,295)	$570	$(32,892)	$5,013
Basic and diluted weighted average number of units:				
Common units	21,890	22,670	21,890	22,665
Subordinated units[1]	12,571	—	12,571	—
Restricted and phantom units	457	633	343	516
Basic and diluted net income (loss) per common unit	$(0.55)	$0.02	$(0.94)	$0.22
Basic and diluted net income (loss) per subordinated unit[1]	$(0.55)	$—	$(0.94)	$—

(1)

On September 14, 2011, Vitol and Charlesbank transferred all of the Partnership's outstanding subordinated units to the Partnership and the Partnership canceled such subordinated units.

8. RELATED PARTY TRANSACTIONS

The Partnership provides crude oil gathering, transportation, terminalling and storage services to Vitol. For the three and six months ended June 30, 2011, the Partnership recognized revenues of $10.4 million and $20.0 million, respectively for services provided to Vitol. For the three and six months ended June 30, 2012, the Partnership recognized revenues of $10.8 million and $22.3 million, respectively for services provided to Vitol. As of June 30, 2012, the Partnership had receivables

from Vitol of $2.5 million.

Vitol Omnibus Agreement

On February 15, 2010, the Partnership entered into an Omnibus Agreement (the “Vitol Omnibus Agreement”) with Vitol. Pursuant to the Vitol Omnibus Agreement, the Partnership agreed to provide certain of its employees, consultants a