GENESIS ENERGY LP
Form 10-Q
November 09, 2009

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

Form 10-Q

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

For the quarterly period ended September 30, 2009

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12295

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

Delaware (State or other jurisdictions of incorporation or organization)	76-0513049 (I.R.S. Employer Identification No.)
919 Milam, Suite 2100, Houston, TX (Address of principal executive offices)	77002 (Zip code)
Registrant's telephone number, including area code:	(713) 860-2500

Securities registered pursuant to Section 12(g) of the Act:

NONE

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 T 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 during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes o 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 T Non-accelerated filer £ 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 T

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. Common Units outstanding as of November 9, 2009: 39,482,971

GENESIS ENERGY, L.P.

Form 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	Page
	Unaudited Consolidated Balance Sheets – September 30, 2009 and December 31, 2008	3
	Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008	4
	Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2009 and 2008	5
	Unaudited Consolidated Statement of Partners' Capital for the Nine Months Ended September 30, 2009 and 2008	6
	Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008	7
	Notes to Unaudited Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	48
Item 4.	Controls and Procedures	49

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	49
Item 1A.	Risk Factors	49
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	49
Item 3.	Defaults upon Senior Securities	50
Item 4.	Submission of Matters to a Vote of Security Holders	50

Item 5.	Other Information	50
Item 6.	Exhibits	50
SIGNATURES		51

Index

GENESIS ENERGY, L.P.
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,700	$ 18,985
Accounts receivable - trade, net of allowance for doubtful accounts of $1,915 and $1,132 at September 30, 2009 and December 31, 2008, respectively	126,533	112,229
Accounts receivable - related party	2,330	2,875
Inventories	38,825	21,544
Net investment in direct financing leases, net of unearned income -current portion - related party	4,088	3,758
Other	9,096	8,736
Total current assets	189,572	168,127
FIXED ASSETS, at cost	370,607	349,212
Less: Accumulated depreciation	(83,857)	(67,107)
Net fixed assets	286,750	282,105
NET INVESTMENT IN DIRECT FINANCING LEASES, net of unearned income - related party	174,108	177,203
CO2 ASSETS, net of accumulated amortization	21,169	24,379
EQUITY INVESTEES AND OTHER INVESTMENTS	20,129	19,468
INTANGIBLE ASSETS, net of accumulated amortization	144,659	166,933
GOODWILL	325,046	325,046
OTHER ASSETS, net of accumulated amortization	6,836	15,413
TOTAL ASSETS	$ 1,168,269	$ 1,178,674
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 97,186	$ 96,454
Accounts payable - related party	3,499	3,105
Accrued liabilities	28,568	26,713
Total current liabilities	129,253	126,272
LONG-TERM DEBT	384,400	375,300
DEFERRED TAX LIABILITIES	16,707	16,806
OTHER LONG-TERM LIABILITIES	3,079	2,834
COMMITMENTS AND CONTINGENCIES (Note 17)		
PARTNERS' CAPITAL:		
Common unitholders, 39,483 and 39,457 units issued and outstanding, at September 30, 2009 and December 31, 2008, respectively	595,698	616,971
General partner	16,205	16,649

Accumulated other comprehensive loss	(908)	(962)
Total Genesis Energy, L.P. partners' capital	610,995	632,658
Noncontrolling interests	23,835	24,804
Total partners' capital	634,830	657,462
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 1,168,269	$ 1,178,674

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Index

GENESIS ENERGY, L.P.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
REVENUES:				
Supply and logistics:				
Unrelated parties	$355,604	$554,838	$833,658	$1,552,559
Related parties	846	1,558	3,218	3,432
Refinery services	30,006	61,306	112,894	160,945
Pipeline transportation, including natural gas sales:				
Transportation services - unrelated parties	4,009	5,062	11,442	16,139
Transportation services - related parties	7,977	8,205	24,175	13,372
Natural gas sales revenues	435	1,158	1,667	4,085
CO2 marketing:				
Unrelated parties	3,712	4,039	9,821	10,895
Related parties	800	753	2,211	2,217
Total revenues	403,389	636,919	999,086	1,763,644
COSTS AND EXPENSES:				
Supply and logistics costs:				
Product costs - unrelated parties	324,162	521,779	751,524	1,471,254
Product costs - related parties	-	-	1,754	-
Operating costs	22,894	20,927	60,766	55,294
Refinery services operating costs	17,160	48,265	73,711	116,700
Pipeline transportation costs:				
Pipeline transportation operating costs	2,852	2,647	7,984	7,493
Natural gas purchases	395	1,136	1,519	3,990
CO2 marketing costs:				
Transportation costs - related party	1,603	1,488	4,251	4,121
Other costs	16	15	47	45
General and administrative	10,128	9,239	27,188	26,929
Depreciation and amortization	15,806	18,100	47,358	51,610
Net loss (gain) on disposal of surplus assets	17	(58)	(141)	36
Total costs and expenses	395,033	623,538	975,961	1,737,472
OPERATING INCOME	8,356	13,381	23,125	26,172
Equity in (losses) earnings of joint ventures	(788)	216	1,382	378
Interest income	18	118	55	352
Interest expense	(3,436)	(4,601)	(9,881)	(8,543)
Income before income taxes	4,150	9,114	14,681	18,359
Income tax (expense) benefit	(253)	1,504	(1,661)	1,233
NET INCOME	3,897	10,618	13,020	19,592
Noncontrolling interests	402	145	1,025	144
NET INCOME ATTRIBUTABLE TO				

GENESIS ENERGY, L.P.	$4,299	$10,763	$14,045	$19,736

Index

GENESIS ENERGY, L.P.
UNAUDITED CONSOLIDATED STATEMENTS
OF OPERATIONS - CONTINUED
(In thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
NET INCOME ATTRIBUTABLE TO GENESIS ENERGY, L.P. PER COMMON UNIT:				
BASIC	$0.14	$0.25	$0.43	$0.45
DILUTED	$0.14	$0.25	$0.43	$0.45
WEIGHTED AVERAGE OUTSTANDING COMMON UNITS:				
BASIC	39,480	39,452	39,467	38,796
DILUTED	39,614	39,524	39,600	38,853

The accompanying notes are an integral part of these unaudited consolidated financial statements.

GENESIS ENERGY, L.P.
UNAUDITED CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	$3,897	$10,618	$13,020	$19,592
Change in fair value of derivatives:				
Current period reclassification to earnings	224	(5)	514	(5)
Changes in derivative financial instruments - interest rate swaps	(315)	(211)	(400)	(211)
Comprehensive income	3,806	10,402	13,134	19,376
Comprehensive loss (income) attributable to noncontrolling interests	46	110	(60)	110
Comprehensive income attributable to Genesis Energy, L.P.	$3,852	$10,512	$13,074	$19,486

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Index

GENESIS ENERGY, L.P.
UNAUDITED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(In thousands)

	Partners' Capital					
	Number of Common Units	Common Unitholders	General Partner	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Capital
Partners' capital, January 1, 2009	39,457	$ 616,971	$ 16,649	$ (962)	$ 24,804	$ 657,462
Comprehensive income:						
Net income	-	17,892	(3,847)	-	(1,025)	13,020
Interest rate swap losses reclassified to interest expense	-	-	-	251	263	514
Interest rate swap loss	-	-	-	(197)	(203)	(400)
Cash contributions	-	-	7	-	-	7
Cash distributions	-	(39,958)	(4,191)	-	(4)	(44,153)
Contribution for executive compensation (See Note 12)	-	-	7,587	-	-	7,587
Unit based compensation expense	26	793	-	-	-	793
Partners' capital, September 30, 2009	39,483	$ 595,698	$ 16,205	$ (908)	$ 23,835	$ 634,830

	Partners' Capital					
	Number of Common Units	Common Unitholders	General Partner	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Capital
Partners' capital, January 1, 2008	38,253	$ 615,265	$ 16,539	$ -	$ 570	$ 632,374
Comprehensive income:						
Net income	-	17,972	1,764	-	(144)	19,592
Interest rate swap loss reclassified to interest expense	-	-	-	(2)	(3)	(5)
Interest rate swap loss	-	-	-	(104)	(107)	(211)
Cash contributions	-	-	510	-	25,505	26,015
Cash distributions	-	(34,805)	(2,017)	-	(4)	(36,826)
Issuance of units	2,037	41,667	-	-	-	41,667
Redemption of units	(838)	(16,667)	-	-	-	(16,667)
Partners' capital, September 30, 2008	39,452	$ 623,432	$ 16,796	$ (106)	$ 25,817	$ 665,939

The accompanying notes are an integral part of these unaudited consolidated financial statements.

-6-

Index

GENESIS ENERGY, L.P.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$13,020	$19,592
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	47,358	51,610
Amortization of credit facility issuance costs	1,448	962
Amortization of unearned income and initial direct costs on direct financing leases	(13,606)	(6,342)
Payments received under direct financing leases	16,390	6,056
Equity in earnings of investments in joint ventures	(1,382)	(378)
Distributions from joint ventures - return on investment	800	971
Non-cash effect of unit-based compensation plans	10,345	(1,342)
Deferred and other tax liabilities	1,084	(3,388)
Other non-cash items	(283)	(1,031)
Net changes in components of operating assets and liabilities (See Note 13)	(19,343)	(10,480)
Net cash provided by operating activities	55,831	56,230
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments to acquire fixed and intangible assets	(28,656)	(29,890)
CO2 pipeline transactions and related costs	-	(228,891)
Distributions from joint ventures - return of investment	-	886
Investments in joint ventures and other investments	(83)	(2,210)
Acquisition of Grifco assets	-	(65,693)
Other, net	500	(213)
Net cash used in investing activities	(28,239)	(326,011)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank borrowings	174,300	490,900
Bank repayments	(165,200)	(179,500)
Credit facility issuance fees	-	(2,255)
Redemption of common units for cash	-	(16,667)
General partner contributions	7	510
Net noncontrolling interest (distributions) contributions	(4)	25,501
Distributions to common unitholders	(39,958)	(34,805)
Distributions to general partner interest	(4,191)	(2,017)
Other, net	(2,831)	(1,366)
Net cash (used in) provided by financing activities	(37,877)	280,301
Net (decrease) increase in cash and cash equivalents	(10,285)	10,520
Cash and cash equivalents at beginning of period	18,985	11,851
Cash and cash equivalents at end of period	$8,700	$22,371

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation and Consolidation

Organization

We are a growth-oriented limited partnership focused on the midstream segment of the oil and gas industry in the Gulf Coast area of the United States. We conduct our operations through our operating subsidiaries and joint ventures. We manage our businesses through four divisions:

- Pipeline transportation of crude oil and carbon dioxide;
- Refinery services involving processing of high sulfur (or "sour") gas streams for refineries to remove the sulfur, and sale of the related by-product, sodium hydrosulfide (or NaHS, commonly pronounced nash);
- Supply and logistics services, which includes terminaling, blending, storing, marketing, and transporting by trucks and barges of crude oil and petroleum products; and
- Industrial gas activities, including wholesale marketing of CO2 and processing of syngas through a joint venture.

Our 2% general partner interest is held by Genesis Energy, LLC, a Delaware limited liability company and an indirect subsidiary of Denbury Resources Inc. Denbury and its subsidiaries are hereafter referred to as Denbury. Our general partner and its affiliates also own 10.2% of our outstanding common units.

Our general partner manages our operations and activities and employs our officers and personnel, who devote 100% of their efforts to our management.

Basis of Presentation and Consolidation

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end and the results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. The consolidated financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they reflect all adjustments (which consist solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial results for interim periods. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the information contained in the periodic reports we file with the SEC pursuant to the Securities Exchange Act of 1934, including the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Except per unit amounts, or as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.

The accompanying unaudited consolidated financial statements and related notes present our consolidated financial position as of September 30, 2009 and December 31, 2008 and our results of operations and changes in comprehensive income for the three and nine months ended September 30, 2009 and 2008, and cash flows and changes in partners' capital for the nine months ended September 30, 2009 and 2008. Intercompany transactions have

been eliminated. The accompanying unaudited consolidated financial statements include Genesis Energy, L.P. and its operating subsidiaries, Genesis Crude Oil, L.P. and Genesis NEJD Holdings, LLC, and their subsidiaries.

We participate in three joint ventures: DG Marine Transportation, LLC (DG Marine), T&P Syngas Supply Company (T&P Syngas) and Sandhill Group, LLC (Sandhill). We acquired our interest in DG Marine in July 2008, and, since then DG Marine has been consolidated in our financial statements. We account for our 50% investments in T&P Syngas and Sandhill by the equity method of accounting.

Our general partner owns a 0.01% general partner interest in Genesis Crude Oil, L.P. and TD Marine, LLC (TD Marine), a related party, owns a 51% economic interest in DG Marine. The net interest of our general partner and TD Marine in our results of operations and financial position are reflected in our financial statements as noncontrolling interests.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

We have considered subsequent events through November 9, 2009, the date of issuance, in preparing the consolidated financial statements and notes thereto.

2. Recent Accounting Developments

Pending

Measuring Liabilities and Fair Value

In August 2009, the FASB issued guidance that provides clarification to the valuation techniques required to measure the fair value of liabilities. The guidance also provides clarification around required inputs to the fair value measurement of a liability and definition of a Level 1 liability. The guidance is effective for interim and annual periods beginning after August 2009. We will adopt this standard beginning with our financial statements for the year ending December 31, 2009. We do not anticipate that our adoption of this standard will have a material effect on our financial statements.

Consolidation of Variable Interest Entities (“VIEs”)

In June 2009, the FASB issued authoritative guidance to amend the manner in which entities evaluate whether consolidation is required for VIEs. The model for determining which enterprise has a controlling financial interest and is the primary beneficiary of a VIE has changed significantly under the new guidance. Previously, variable interest holders had to determine whether they had a controlling interest in a VIE based on a quantitative analysis of the expected gains and/or losses of the entity. In contrast, the new guidance requires an enterprise with a variable interest in a VIE to qualitatively assess whether it has a controlling interest in the entity, and if so, whether it is the primary beneficiary. Furthermore, this guidance requires that companies continually evaluate VIEs for consolidation, rather than assessing based upon the occurrence of triggering events. This revised guidance also requires enhanced disclosures about how a company’s involvement with a VIE affects its financial statements and exposure to risks. This guidance is effective for us beginning January 1, 2010. We are currently assessing the impacts this guidance may have on our financial statements.

Implemented

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162,” (The Codification). The Codification establishes the FASB Accounting Standards Codification (ASC) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The Codification reorganizes GAAP pronouncements by topic and modifies the GAAP hierarchy to include only two levels: authoritative and non-authoritative. All of the content in the Codification carries the same level of authority. This statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the Codification on September 30, 2009. Thus, subsequent references to GAAP in our consolidated financial statements will refer exclusively to the Codification.

Recognized and Non-Recognized Subsequent Events

In May 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of Accounting Standards Codification (ASC) 855, “Subsequent Events”, establishes the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. See “Subsequent Events” included in “Note 1 – Organization and Basis of Presentation and Consolidation” for the related disclosure. The new guidance was applied prospectively beginning in the second quarter of 2009 and did not have a material impact on our consolidated financial statements.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued new guidance regarding interim disclosures about the fair value of financial instruments. The new guidance, which is now part of ASC 825, "Financial Instruments", requires fair value disclosures on an interim basis for financial instruments that are not reflected in the consolidated balance sheets at fair value. Previously, the fair values of those financial instruments were only disclosed on an annual basis. We adopted the new guidance for our quarter ended June 30, 2009, and there was no material impact on our consolidated financial statements.

Business Combinations

In December 2007, the FASB issued revised guidance for the accounting of business combinations. The revised guidance, which is now part of ASC 805, "Business Combinations", retains the purchase method of accounting used in business combinations but replaces superseded guidance by establishing principles and requirements for the recognition and measurement of assets, liabilities and goodwill, including the requirement that most transaction costs and restructuring costs be charged to expense as incurred. In addition, the revised guidance requires disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The revised guidance will apply to acquisitions we make after December 31, 2008. The impact to us will be dependent on the nature of the business combination.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued guidance regarding noncontrolling interests in consolidated financial statements. The new guidance, which is now a part of ASC 810, "Consolidation", establishes accounting and reporting standards for noncontrolling interests, which were referred to as minority interests in prior literature. A noncontrolling interest is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent company. The new guidance requires, among other things, that (i) ownership interests of noncontrolling interests be presented as a component of equity on the balance sheet (i.e. elimination of the mezzanine "minority interest" category); (ii) elimination of minority interest expense as a line item on the statement of operations and, as a result, that net income be allocated between the parent and the noncontrolling interests on the face of the statement of operations; and (iii) enhanced disclosures regarding noncontrolling interests. The provisions of the new guidance were effective for fiscal years beginning after December 15, 2008. On January 1, 2009, we adopted the new guidance which changed the presentation of the interests in Genesis Crude Oil, L.P. held by our general partner and the interests in DG Marine held by our joint venture partner in our consolidated financial statements. Amounts for prior periods have been changed to be consistent with the presentation required by the new guidance.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued new guidance regarding disclosures about derivative instruments and hedging activities. The new guidance, which is now a part of ASC 815, "Derivatives and Hedging Activities", require enhanced disclosures about our derivative and hedging activities. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted the guidance on January 1, 2009 and have included the enhanced disclosures in Note 15.

Application of the Two-Class Method to Master Limited Partnerships

In March 2008, the FASB issued new guidance in ASC 260, "Earnings per Share", regarding the application of the two-class method to Master Limited Partnerships. Under this guidance, the computation of earnings per unit will be affected by the incentive distribution rights ("IDRs") we are contractually obligated to distribute at the end of the each reporting period. In periods when earnings are in excess of cash distributions, we will reduce net income or loss for the current reporting period (for purposes of calculating earnings or loss per unit only) by the amount of available cash that will be distributed to our limited partners and general partner for its general partner interest and incentive distribution rights for the reporting period, and the remainder will be allocated to the limited partner and general partner in accordance with their ownership interests. When cash distributions exceed current-period earnings, net income or loss (for purposes of calculating earnings or loss per unit only) will be reduced (or increased) by cash distributions, and the resulting excess of distributions over earnings will be allocated to the general partner and limited partner based on their respective sharing of losses. The new guidance was effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We adopted ASC 260 on January 1, 2009 and have reflected the calculation of earnings per unit for the three and nine months ended September 30, 2009 and 2008 in accordance with its provisions. See Note 9.

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued revised guidance, which is now a part of ASC 350, “Intangibles – Goodwill and Other”, regarding the determination of the useful life of intangible assets. The revised guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset under superseded guidance. The purpose of the revised guidance is to develop consistency between the useful life assigned to intangible assets and the cash flows from those assets. The revised guidance was effective for fiscal years beginning after December 31, 2008. We adopted the provisions of the revised guidance on January 1, 2009, and adoption had no effect on our consolidated financial statements.

Fair Value Measurements

We adopted new guidance issued by the FASB regarding fair value measurements for our financial assets and financial liabilities on January 1, 2008, which is now a part of ASC 820, “Fair Value Measurements and Disclosures.” The adoption or financial assets and financial liabilities did not have a material impact on us. With regard to our non-recurring non-financial assets and non-financial liabilities, we adopted the provisions of this guidance effective January 1, 2009. This includes applying the provisions to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing, (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value. The adoption for non-financial assets and liabilities does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. The adoption of the guidance for non-financial assets and liabilities as described above had no material impact on us. See Note 16 for further information regarding fair-value measurements.

3. Consolidated Joint Venture – DG Marine

DG Marine is a joint venture we formed with TD Marine. TD Marine owns (indirectly) a 51% economic interest in DG Marine, and we own (directly and indirectly) a 49% economic interest. This joint venture gives us the capability to provide transportation services of petroleum products by barge and complements our other supply and logistics operations.

We have entered into a subordinated loan agreement with DG Marine whereby we may (at our sole discretion) lend up to $25 million to DG Marine. The loan agreement provides for DG Marine to pay us interest on any loans at the prime rate plus 4%. Those loans will mature on January 31, 2012. Under that subordinated loan agreement, DG Marine is required to make monthly payments to us of principal and interest to the extent DG Marine has any available cash that otherwise would have been distributed to the owners of DG Marine in respect of their equity interest. DG Marine also has a revolving credit facility with a syndicate of financial institutions that includes restrictions on DG Marine’s ability to make specified payments under our subordinated loan agreement and distributions in respect of our equity interest. At December 31, 2008, there were no amounts outstanding under the subordinated loan agreement. At September 30, 2009, $17 million was outstanding under the subordinated loan agreement; however this amount was eliminated in consolidation. In October 2009, we loaned an additional $8 million to DG Marine.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2009 and December 31, 2008, our unaudited consolidated balance sheets included the following amounts related to DG Marine:

	September 30, 2009	December 31, 2008
Cash	$ 1,308	$ 623
Accounts receivable - trade	3,176	2,812
Other current assets	2,432	859
Fixed assets, at cost	124,276	110,214
Accumulated depreciation	(7,492)	(3,084)
Intangible assets, net	1,871	2,208
Other assets	1,535	2,178
Total assets	$ 127,106	$ 115,810
Accounts payable	$ 1,448	$ 1,072
Accrued liabilities	10,853	9,258
Long-term debt	49,400	55,300
Other long-term liabilities	906	1,393
Total liabilities	$ 62,607	$ 67,023

4. Inventories

Inventories are valued at the lower of cost or market. The costs of inventories did not exceed market values at September 30, 2009. The costs of inventories at December 31, 2008 exceeded market values by approximately $1.2 million, and are reflected below at those market values. The major components of inventories were as follows:

	September 30, 2009	December 31, 2008
Crude oil	16,358	1,878
Petroleum products	18,781	5,589
Caustic soda	993	7,139
NaHS	2,677	6,923
Other	16	15
Total inventories	$ 38,825	$ 21,544

5. Fixed Assets and Asset Retirement Obligations

Fixed assets consisted of the following:

	September 30, 2009	December 31, 2008
Land, buildings and improvements	$ 13,635	$ 13,549
Pipelines and related assets	153,379	139,184
Machinery and equipment	26,533	22,899
Transportation equipment	32,811	32,833
Barges and push boats	122,913	96,865

Office equipment, furniture and fixtures		4,295		4,401
Construction in progress		4,488		27,906
Other		12,553		11,575
Subtotal		370,607		349,212
Accumulated depreciation and impairment		(83,857)		(67,107)
Total	$	286,750	$	282,105

Depreciation expense was $6.3 million and $19.4 million for the three and nine months ended September 30, 2009, respectively. For the three and nine months ended September 30, 2008, depreciation expense was $6.5 million and $16.8 million, respectively.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Asset Retirement Obligations

The following table summarizes the changes in our asset retirement obligations for the nine months ended September 30, 2009.

Asset retirement obligations as of December 31, 2008	$1,430
Liabilities incurred and assumed in the period	726
Liabilities settled in the period	(117)
Accretion expense	91
Asset retirement obligations as of September 30, 2009	2,130
Less current portion included in accrued liabilities	(150)
Long-term asset retirement obligations as of September 30, 2009	$1,980

Certain of our unconsolidated affiliates have asset retirement obligations recorded at September 30, 2009 and December 31, 2008 relating to contractual agreements. These amounts are immaterial to our financial statements.

6. Intangible Assets and Goodwill

Intangible Assets

The following table reflects the components of intangible assets being amortized at the dates indicated:

		September 30, 2009			December 31, 2008		
	Weighted Amortization Period in Years	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships:							
Refinery services	5	$ 94,654	$ 37,592	$ 57,062	$ 94,654	$ 26,017	$ 68,637
Supply and logistics	5	35,430	14,109	21,321	35,430	9,957	25,473
Supplier relationships -							
Refinery services	2	36,469	27,534	8,935	36,469	24,483	11,986
Licensing Agreements -							
Refinery services	6	38,678	10,555	28,123	38,678	7,176	31,502
Trade names -							
Supply and logistics	7	18,888	4,863	14,025	18,888	3,118	15,770

Favorable lease -							
Supply and logistics	15	13,260	1,026	12,234	13,260	671	12,589
Other	5	3,823	864	2,959	1,322	346	976
Total	5	$ 241,202	$ 96,543	$ 144,659	$ 238,701	$ 71,768	$ 166,933

We are recording amortization of our intangible assets based on the period over which the asset is expected to contribute to our future cash flows. Generally, the contribution to our cash flows of the customer and supplier relationships, licensing agreements and trade name intangible assets is expected to decline over time, such that greater value is attributable to the periods shortly after the acquisition was made. The favorable lease and other intangible assets are being amortized on a straight-line basis. Amortization expense on intangible assets was $8.3 million and $24.8 million for the three and nine months ended September 30, 2009, respectively. Amortization expense on intangible assets was $11.6 million and $34.8 million for the three and nine months ended September 30, 2008, respectively.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Estimated amortization expense for each of the five subsequent fiscal years is expected to be as follows:

Year Ended December 31	Amortization Expense to be Recorded
Remainder of 2009	$ 8,328
2010	$ 26,635
2011	$ 21,918
2012	$ 18,261
2013	$ 14,264
2014	$ 11,790

Goodwill

The carrying amount of goodwill by business segment at September 30, 2009 and December 31, 2008 was $302.0 million to refinery services and $23.1 million to supply and logistics.

7. Equity Investees and Other Investments

T&P Syngas Supply Company

We are accounting for our 50% ownership in T&P Syngas under the equity method of accounting. We received distributions from T&P Syngas of $0.8 million and $1.7 million during the nine months ended September 30, 2009 and 2008, respectively. During the first quarter of 2009, “Equity in earnings of joint ventures” included $1.7 million of non-cash items related to T&P Syngas that increased earnings.

The tables below reflect summarized financial information for T&P Syngas:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues	$ 1,217	$ 1,054	$ 3,368	$ 3,487
Operating expenses and depreciation	(2,809)	(392)	(3,907)	(1,124)
Other income (expense)	(12)	(11)	1	4
Net (loss) income	$ (1,604)	$ 651	$ (538)	$ 2,367

	September 30, 2009	December 31, 2008
Current assets	$ 3,016	$ 3,131
Non-current assets	17,728	18,906
Total assets	$ 20,744	$ 22,037
Current liabilities	$ 1,372	$ 543

Non-current liabilities		213		198
Partners' capital		19,159		21,296
Total liabilities and partners' capital	$	20,744	$	22,037

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

At September 30, 2009, our obligations under credit facilities consisted of the following:

	September 30, 2009	December 31, 2008
Genesis Credit Facility	$ 335,000	$ 320,000
DG Marine Credit Facility	49,400	55,300
Total Long-Term Debt	$ 384,400	$ 375,300

Genesis Credit Facility

We have a $500 million credit facility, $100 million of which can be used for letters of credit, with a group of banks led by Fortis Capital Corp. and Deutsche Bank Securities Inc. Due to the revolving nature of loans under our credit facility, we may repay and re-borrow amounts until the maturity date of November 15, 2011. Our borrowing base is recalculated quarterly and at the time of material acquisitions. Our borrowing base represents the amount that we can borrow or utilize for letters of credit, and it is calculated based on our EBITDA (earnings before interest, taxes, depreciation and amortization), as defined in accordance with the provisions of our credit facility. Our borrowing base may be increased to the extent of pro forma additional EBITDA, (as defined in the credit agreement), attributable to acquisitions or internal growth projects with approval of the lenders.

As of September 30, 2009, our borrowing base was $419 million, and we had $335 million borrowed and $4.1 million in letters of credit outstanding. Thus, our total remaining availability at September 30, 2009 was $79.9 million under our credit facility. As discussed above, our borrowing base may be increased up to $500 million for material acquisitions and internal growth projects.

DG Marine Credit Facility

DG Marine has a $90 million revolving credit facility with a syndicate of banks led by SunTrust Bank and BMO Capital Markets Financing, Inc. That facility, which matures on July 18, 2011, is secured by all of the equity interests issued by DG Marine and substantially all of DG Marine’s assets. Other than the pledge of our equity interest in DG Marine, that facility is non-recourse to us. At September 30, 2009, our Unaudited Consolidated Balance Sheet included $127.1 million of DG Marine’s assets in our total assets.

At September 30, 2009, DG Marine had $49.4 million outstanding under its credit facility. As DG Marine has completed its capital expenditures for its fleet expansion, DG Marine reduced the maximum amount that may be borrowed under its facility to $54 million in November 2009.

In August 2008, DG Marine entered into a series of interest rate swap agreements to effectively fix the underlying LIBOR rate on $32.9 million of its borrowings under its credit facility through July 18, 2011. The fixed interest rates in the swap agreements range from the three-month interest rate of 3.60% in effect at September 30, 2009 to 4.68% at July 18, 2011.

Fair Value of our Debt

We have estimated the total fair value of our long-term debt under our credit agreement and the DG Marine credit facility to be approximately $371.4 million, or $13.0 million less than the carrying value of that debt. As a result of the current credit environment, we believe that the fair value of our debt does not approximate its carrying value as of September 30, 2009 because the applicable interest rate margin on our debt was below the market rates as of that date.

9. Partners’ Capital and Distributions

Partners’ Capital

Partner’s capital at September 30, 2009 consists of 39,482,971 common units, including 4,028,096 units owned by our general partner and its affiliates, representing a 98% aggregate ownership interest in the Partnership and its subsidiaries (after giving effect to the general partner interest), and a 2% general partner interest.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Our general partner owns all of our general partner interest, our incentive distribution rights, and all of the 0.01% general partner interest in Genesis Crude Oil, L.P. (which is reflected as a noncontrolling interest in our Unaudited Consolidated Balance Sheets) and operates our business.

Without obtaining unitholder approval, we may issue an unlimited number of additional limited partner interests and other equity securities, the proceeds from which could be used to provide additional funds for acquisitions or other needs.

Distributions

We will distribute 100% of our available cash (as defined by our partnership agreement) within 45 days after the end of each quarter to unitholders of record and to our general partner. Available cash consists generally of all of our cash receipts less cash disbursements adjusted for net changes to reserves.

Pursuant to our partnership agreement, our general partner receives incremental incentive cash distributions when unitholders' cash distributions exceed certain target thresholds. The allocations of distributions between our common unitholders and our general partner (including its general partner interest and the incentive distribution rights) are as follows:

	Unitholders	General Partner
Quarterly Cash Distribution per Common Unit:		
Up to and including $0.25 per Unit	98.00 %	2.00 %
First Target - $0.251 per Unit up to and including $0.28 per Unit	84.74 %	15.26 %
Second Target - $0.281 per Unit up to and including $0.33 per Unit	74.53 %	25.47 %
Over Second Target - Cash distributions greater than $.033 per Unit	49.02 %	50.98 %

We paid or will pay the following distributions in 2008 and 2009:

Distribution For	Date Paid	Per Unit Amount	Limited Partner Interests Amount	General Partner Interest Amount	General Partner Incentive Distribution Amount	Total Amount
Second quarter 2008	August 2008	$ 0.3150	$ 12,427	$ 254	$ 633	$ 13,314
Third quarter 2008	November 2008	$ 0.3225	$ 12,723	$ 260	$ 728	$ 13,711
Fourth quarter 2008	February 2009	$ 0.3300	$ 13,021	$ 266	$ 823	$ 14,110
First quarter 2009	May 2009	$ 0.3375	$ 13,317	$ 271	$ 1,125	$ 14,713
Second quarter 2009	August 2009	$ 0.3450	$ 13,621	$ 278	$ 1,427	$ 15,326
Third quarter 2009	November 2009 (1)	$ 0.3525	$ 13,918	$ 284	$ 1,729	$ 15,931

(1) This distribution will be paid on November 13, 2009 to our general partner and unitholders of record as of November 2, 2009.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Net Income Allocation to Partners

Net income is allocated to our partners in the Consolidated Statements of Partners' Capital as follows:

- To our general partner – income in the amount of the incentive distributions paid in the period.
- To our general partner – expense in the amount of the executive compensation expense to be borne by our general partner (See Note 12).
- To our limited partners and general partner – the remainder of net income in the ratio of 98% to the limited partners and 2% to our general partner.

Net Income Per Common Unit

Our net income is first allocated to our general partner based on the amount of incentive distributions to be paid for the quarter. New accounting guidance issued by the FASB, effective January 1, 2009 for us, resulted in a change in the calculation of net income per common unit by changing the amount of the incentive distributions to be considered in the calculation from the distributions paid during the quarter to the distributions to be paid with respect to the quarter. As required by the new accounting guidance, we have retrospectively applied the provisions of the new accounting guidance to the calculation of net income per common unit for the periods in 2008 in the table below. As a result, basic and diluted net income per common unit remained the same as compared to amounts previously reported for the three months ended September 30, 2008. However, basic and diluted net income decreased by $0.02 and $0.01, respectively, from the amounts previously reported for the nine months ended September 30, 2008.

We then allocate to our general partner the expense related to the Class B Membership Awards to our executive officers, as our general partner will bear the cash cost of those awards. The remainder of our net income is then allocated 98% to our limited partners and 2% to our general partner. Basic net income per limited partner unit is determined by dividing net income attributable to limited partners by the weighted average number of outstanding limited partner units during the period. Diluted net income per common unit is calculated in the same manner, but also considers the impact to common units for the potential dilution from phantom units outstanding. (See Note 12 for discussion of phantom units.)

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the computation of basic and diluted net income per common unit.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerators for basic and diluted net income per common unit:				
Net income attributable to Genesis Energy, L.P.	$4,299	$10,763	$14,045	$19,736
Less: General partner's incentive distribution to to be paid for the period	(1,729)	(728)	(4,281)	(1,790)
Add: Expense for Class B Membership Awards (Note 12)	3,088	-	7,587	-
Subtotal	5,658	10,035	17,351	17,946
Less: General partner 2% ownership	(113)	(201)	(347)	(359)
Income available for common unitholders	$5,545	$9,834	$17,004	$17,587
Denominator for basic per common unit:				
Common Units	39,480	39,452	39,467	38,796
Denominator for diluted per common unit:				
Common Units	39,480	39,452	39,467	38,796
Phantom Units	134	72	133	57
	39,614	39,524	39,600	38,853
Basic net income per common unit	$0.14	$0.25	$0.43	$0.45
Diluted net income per common unit	$0.14	$0.25	$0.43	$0.45

10. Business Segment Information

Our operations consist of four operating segments: (1) Pipeline Transportation – interstate and intrastate crude oil and CO2; (2) Refinery Services – processing high sulfur (or “sour”) gas streams as part of refining operations to remove the sulfur and selling the related by-product; (3) Supply and Logistics – terminaling, blending, storing, marketing, gathering and transporting crude oil and petroleum products by truck and barge, and (4) Industrial Gases – the sale of CO2 acquired under volumetric production payments to industrial customers and our investment in a syngas processing facility. Substantially all of our revenues are derived from, and substantially all of our assets are located in the United States.

During the fourth quarter of 2008, we revised the manner in which we internally evaluate our segment performance. As a result, we changed our definition of segment margin to include within segment margin all costs that are directly associated with the business segment. Segment margin now includes costs such as general and administrative expenses that are directly incurred by the business segment. Segment margin also includes all payments received under direct financing leases. In order to improve comparability between periods, we exclude from segment margin the non-cash effects of our stock-based compensation plans which are impacted by changes in the market price for our common units. Segment information for the three and nine months ended September 30, 2008 has been retrospectively revised to conform to this segment presentation. We now define segment margin as revenues less cost of sales, operating expenses (excluding non-cash charges, such as depreciation and amortization), and

segment general and administrative expenses, plus our equity in distributable cash generated by our joint ventures. Our segment margin definition also excludes the non-cash effects of our stock-based compensation plans, and includes the non-income portion of payments received under direct financing leases. Our chief operating decision maker (our Chief Executive Officer) evaluates segment performance based on a variety of measures including segment margin, segment volumes where relevant and maintenance capital investment.

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Pipeline Transportation	Refinery Services	Supply &Logistics	Industrial Gases (a)	Total
Three Months Ended September 30, 2009					
Segment margin (b)	$ 10,269	$12,694	$9,423	$2,893	$35,279
Maintenance capital expenditures	$ 451	$162	$723	$-	$1,336
Revenues:					
External customers	$ 10,729	$31,365	$356,783	$4,512	$403,389
Intersegment (d)	1,692	(1,359)	(333)	-	-
Total revenues of reportable segments	$ 12,421	$30,006	$356,450	$4,512	$403,389
Three Months Ended September 30, 2008					
Segment margin (b)	$ 11,474	$11,486	$9,754	$3,906	$36,620
Maintenance capital expenditures	$ 261	$351	$1,371	$-	$1,983
Revenues:					
External customers	$ 11,836	$63,492	$556,799	$4,792	$636,919
Intersegment (d)	2,589	(2,186)	(403)	-	-
Total revenues of reportable segments	$ 14,425	$61,306	$556,396	$4,792	$636,919

Index

GENESIS ENERGY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Pipeline Transportation	Refinery Services	Supply &Logistics	Industrial Gases (a)	Total
Nine Months Ended September 30, 2009					
Segment margin (b)	$ 30,841	$38,643	$21,979	$8,785	$100,248
Capital expenditures (c)	$ 2,963	$2,029	$22,274	$83	$27,349
Maintenance capital expenditures	$ 1,201	$704	$1,853	$-	$3,758
Revenues:					
External customers	$ 32,927	$117,193	$836,934	$12,032	$999,086
Intersegment (d)	4,357	(4,299)	(58)	-	-
Total revenues of reportable segments	$ 37,284	$112,894	$836,876	$12,032	$999,086
Nine Months Ended September 30, 2008					
Segment margin (b)	$ 23,396	$40,195	$21,595	$10,791	$95,977
Capital expenditures (c)	$ 80,926	$2,700	$111,575	$2,210	$197,411
Maintenance capital expenditures	$ 463	$856	$1,648	$-	$2,967
Revenues:					
External customers	$ 27,509	$167,824	$1,555,199	$13,112	$1,763,644
Intersegment (d)	6,087	(6,879)	792	-	-
Total revenues of reportable segments	$ 33,596	$160,945	$1,555,991	$13,112	$1,763,644

a) Industrial gases includes our CO2 marketing operations and our equity income from our investments in T&P Syngas and Sandhill.

b) A reconciliation of segment margin to income before income taxes and noncontrolling interests for the periods presented is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Segment margin	$ 35,279	$ 36,620	$ 100,248	$ 95,977
Corporate general and administrative expenses	(9,141)	(4,743)	(24,218)	(15,729)
Depreciation and amortization				