

NuStar GP Holdings, LLC  
Form 10-Q  
November 05, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**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**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-32940

**NUSTAR GP HOLDINGS, LLC**

(Exact name of registrant as specified in its charter)

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

**2330 North Loop 1604 West**  
**San Antonio, Texas**  
(Address of principal executive offices)

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

**78248**  
(Zip Code)

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

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

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

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

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

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

The number of units outstanding as of November 1, 2009 was 42,548,871.

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**NUSTAR GP HOLDINGS, LLC AND SUBSIDIARIES**

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**NUSTAR GP HOLDINGS, LLC**  
**CONSOLIDATED BALANCE SHEETS**  
(Thousands of Dollars)

|   | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents                                       | \$ 1,274                             | \$ 1,791             |
| Accounts receivable   | 689                                  | 771                  |
| Receivable from NuStar Energy L.P.                              | 9,087                                | 3,441                |
| Income tax receivable   | 3,017                                | 722                  |
| Prepaid expenses  | 207                                  | 219                  |
| Deferred income tax assets, net                                 | 3,835                                | 1,860                |
| <b>Total current assets</b>                                     | <b>18,109</b>                        | <b>8,804</b>         |
| Investment in NuStar Energy L.P.                                | 552,946                              | 553,921              |
| Long-term receivable from NuStar Energy L.P.                    | 7,102                                | 6,645                |
| Deferred income tax assets, net                                 | 3,321                                | 3,463                |
| <b>Total assets</b>   | <b>\$ 581,478</b>                    | <b>\$ 572,833</b>    |
| <b>Liabilities and Members Equity</b>                           |                                      |                      |
| Current liabilities:  |                                      |                      |
| Current portion of long-term debt                               | \$                                   | \$ 6,500             |
| Accounts payable  | 26                                   | 340                  |
| Accrued compensation expense                                    | 14,312                               | 6,445                |
| Accrued liabilities   | 678                                  | 727                  |
| Taxes other than income tax                                     | 486                                  | 908                  |
| <b>Total current liabilities</b>                                | <b>15,502</b>                        | <b>14,920</b>        |
| Employee benefit plan liabilities                               | 21,511                               | 14,463               |
| Commitments and contingencies (Note 9)                          |                                      |                      |
| Members' equity   | 546,043                              | 549,236              |
| Accumulated other comprehensive loss:                           |                                      |                      |
| Share of NuStar Energy L.P.'s other comprehensive income (loss) | 1,217                                | (2,907)              |
| Pension adjustment, net of tax                                  | (2,795)                              | (2,879)              |
| <b>Total accumulated other comprehensive loss</b>               | <b>(1,578)</b>                       | <b>(5,786)</b>       |

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|                                      |            |            |
|--------------------------------------|------------|------------|
| Total members equity                 | 544,465    | 543,450    |
| Total liabilities and members equity | \$ 581,478 | \$ 572,833 |

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)**

|  | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2009</b>                             | <b>2008</b> | <b>2009</b>                            | <b>2008</b> |
| Equity in earnings of NuStar Energy L.P.                       | \$ 18,051                               | \$ 35,662   | \$ 52,780                              | \$ 58,120   |
| General and administrative expenses                            | (679)                                   | (793)       | (2,156)                                | (2,359)     |
| Other income (expense), net                                    | 22                                      | (36)        | 19                                     | (118)       |
| Interest expense, net  | (88)                                    | (57)        | (137)                                  | (153)       |
| Income before income tax benefit                               | 17,306                                  | 34,776      | 50,506                                 | 55,490      |
| Income tax benefit   | 420                                     | 34          | 603                                    | 103         |
| Net income   | \$ 17,726                               | \$ 34,810   | \$ 51,109                              | \$ 55,593   |
| Basic and diluted net income per unit                          | \$ 0.42                                 | \$ 0.82     | \$ 1.20                                | \$ 1.31     |
| Weighted average number of basic and diluted units outstanding | 42,504,238                              | 42,501,433  | 42,503,937                             | 42,501,139  |

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited, Thousands of Dollars)**

|  | <b>Nine Months Ended September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2009</b>                            | <b>2008</b>     |
| <b>Cash Flows from Operating Activities:</b>   |  |                 |
| Net income   | \$ 51,109                              | \$ 55,593       |
| Adjustments to reconcile net income to net cash provided by operating activities:        |  |                 |
| Equity in earnings of NuStar Energy L.P.   | (52,780)                               | (58,120)        |
| Distributions of equity in earnings from NuStar Energy L.P.                              | 52,780                                 | 50,344          |
| Deferred income tax benefit  | (1,833)                                | (452)           |
| Increase in employee benefit plan liabilities  | 7,048                                  | 1,458           |
| Changes in current assets and liabilities (Note 7)                                       | (152)                                  | 1,894           |
| Other, net   | (476)                                  | (2,868)         |
| <b>Net cash provided by operating activities</b>   | <b>55,696</b>                          | <b>47,849</b>   |
| <b>Cash Flows from Investing Activities:</b>   |  |                 |
| Distributions in excess of equity in earnings from NuStar Energy L.P.                    | 4,442                                  |                 |
| Investment in NuStar Energy L.P.   |  | (8,236)         |
| Proceeds from sale of NuStar Energy L.P. units in connection with employee benefit plans | 676                                    | 132             |
| Other, net   |  | (80)            |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>5,118</b>                           | <b>(8,184)</b>  |
| <b>Cash Flows from Financing Activities:</b>   |  |                 |
| Long-term debt borrowings  |  | 5,000           |
| Repayment of long-term debt  | (6,500)                                | (1,500)         |
| Distributions to unitholders   | (54,831)                               | (45,900)        |
| <b>Net cash used in financing activities</b>   | <b>(61,331)</b>                        | <b>(42,400)</b> |
| Net decrease in cash and cash equivalents  | (517)                                  | (2,735)         |
| Cash and cash equivalents at the beginning of the period                                 | 1,791                                  | 3,240           |
| Cash and cash equivalents at the end of the period                                       | \$ 1,274                               | \$ 505          |

See Condensed Notes to Consolidated Financial Statements.

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**NUSTAR GP HOLDINGS, LLC**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

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

We have no operations or sources of income or cash flows other than our investment in NuStar Energy L.P. (NuStar Energy) (NYSE: NS). As of September 30, 2009, we owned approximately 20.4% of NuStar Energy, consisting of the following:

the 2% general partner interest;

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

10,235,418 common units of NuStar Energy representing an 18.4% limited partner interest.

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

***Basis of Presentation***

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

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

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless otherwise indicated. Financial information for the three and nine months ended September 30, 2009 and 2008 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements as of that date. You should read these consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We have reviewed and disclosed, as necessary, subsequent events that occurred after September 30, 2009 through November 5, 2009, the date of issuance of these unaudited financial statements.





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**NUSTAR GP HOLDINGS, LLC**

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

**2. NEW ACCOUNTING PRONOUNCEMENTS**

*Variable Interest Entities*

In June 2009, the FASB amended certain requirements related to variable interest entities (VIEs), including the requirements for determining whether an entity is a VIE or the primary beneficiary of a VIE. In addition, the amended requirements include additional disclosures about an entity's involvement with a VIE. These amended requirements become effective as of the beginning of a company's first annual reporting period that begins after November 15, 2009 and for interim periods within that first annual reporting period. Accordingly, we will be required to comply with the amended requirements on January 1, 2010 and do not expect it to materially affect our financial position or results of operations.

*Subsequent Events*

In May 2009, the FASB established accounting and disclosure requirements for events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. These requirements include the disclosure of the date through which subsequent events have been evaluated, and the basis for determining that date. We adopted these provisions effective April 1, 2009.

*Financial Instruments*

In April 2009, the FASB revised its existing disclosure requirements for the fair value of financial instruments in annual and interim financial statements. Starting with interim periods ending after June 15, 2009, we must disclose the fair value of all financial instruments, whether or not recognized at fair value in the balance sheet, along with the related carrying value and methods and significant assumptions used to estimate the fair value. Retrospective application for comparative periods presented is not required. Our only financial instrument is our revolving credit facility, which bears interest at a variable rate that floats with market rates, and thus the fair value of any outstanding borrowings would approximate its carrying amount. As of September 30, 2009, there were no outstanding borrowings under our revolving credit facility.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. INVESTMENT IN NUSTAR ENERGY****Summary Financial Information**

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

|  | September 30, 2009<br>(Unaudited) | December 31, 2008 |
|--|-----------------------------------|-------------------|
| <b>Balance Sheet Information:</b>      |                                   |                   |
| Current assets                         | \$ 682,139                        | \$ 486,486        |
| Property, plant and equipment, net     | 2,973,547                         | 2,941,824         |
| Goodwill                               | 807,742                           | 806,330           |
| Other long-term assets, net            | 206,192                           | 224,957           |
| Total assets                           | \$ 4,669,620                      | \$ 4,459,597      |
| Current liabilities                    | \$ 410,981                        | \$ 252,024        |
| Long-term debt, less current portion   | 1,914,598                         | 1,872,015         |
| Other long-term liabilities            | 126,801                           | 128,561           |
| Total liabilities                      | 2,452,380                         | 2,252,600         |
| Partners' equity                       | 2,217,240                         | 2,206,997         |
| Total liabilities and partners' equity | \$ 4,669,620                      | \$ 4,459,597      |

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2009                                | 2008         | 2009                               | 2008         |
| <b>Statement of Income Information:</b> |                                     |              |                                    |              |
| Revenues                                | \$ 1,251,247                        | \$ 1,825,226 | \$ 2,873,093                       | \$ 3,795,580 |
| Operating income                        | 87,190                              | 175,478      | 226,700                            | 281,026      |
| Net income                              | 64,440                              | 151,277      | 187,530                            | 221,236      |

**Other**

As of September 30, 2009 and December 31, 2008, our investment in NuStar Energy reconciles to NuStar Energy's total partners' equity as follows:

September 30, 2009      December 31, 2008  
(Thousands of Dollars)

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|   |              |              |
|---|--------------|--------------|
| NuStar Energy's total partners' equity  | \$ 2,217,240 | \$ 2,206,997 |
| NuStar GP Holdings' ownership interest in NuStar Energy   | 20.4%        | 20.5%        |
| NuStar GP Holdings' share of NuStar Energy's partners' equity   | 452,317      | 452,434      |
| Step-up in basis related to NuStar Energy's assets and liabilities, including equity method goodwill, and other | 100,629      | 101,487      |
| Investment in NuStar Energy   | \$ 552,946   | \$ 553,921   |

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We had a receivable from NuStar Energy of \$9.1 million and \$3.4 million, as of September 30, 2009 and December 31, 2008, respectively, relating to payroll, employee-related benefit plan expenses and unit-based compensation. We also had a long-term receivable from NuStar Energy of \$7.1 million and \$6.6 million, as of September 30, 2009 and December 31, 2008, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits. The following table represents total related party transactions charged to NuStar Energy:

|  | <b>Three Months Ended<br/>September 30,<br/>2009</b> |                  | <b>Nine Months Ended<br/>September 30,<br/>2009</b> |                   |
|--|--|------------------|---|-------------------|
|  | <b>2009</b>  | <b>2008</b>      | <b>2009</b>   | <b>2008</b>       |
|  | <b>(Thousands of Dollars)</b>                        |                  |   |                   |
| Expenses for payroll, employee-related benefit plans and unit-based compensation | \$ 40,416  | \$ 46,499        | \$ 133,057  | \$ 120,671        |
| Other  | 154  | 156              | 302   | 257               |
| <b>Total related party transactions charged to NuStar Energy</b>                 | <b>\$ 40,570</b>                                     | <b>\$ 46,655</b> | <b>\$ 133,359</b>                                   | <b>\$ 120,928</b> |

***GP Services Agreement***

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

The Holdco Administrative Services Expense equals \$1.1 million and \$0.8 million for the fiscal years 2009 and 2008, respectively, plus 1.0% of NuStar GP, LLC's domestic bonus and unit compensation expense subject to certain other adjustments. The GP Services Agreement will terminate on December 31, 2012, with automatic two-year renewals unless terminated by either party upon six months' prior written notice. The aggregate amount of expenses we incurred related to the GP Services Agreement were \$0.3 million for the three months ended September 30, 2009 and 2008, and \$1.0 million and \$0.7 million for the nine months ended September 30, 2009 and 2008, respectively.

**5. DISTRIBUTIONS FROM NUSTAR ENERGY**

NuStar Energy's partnership agreement, as amended, determines the amount and priority of cash distributions that NuStar Energy's common unitholders and general partner may receive. We, as NuStar Energy's general partner, are entitled to incentive distributions if the amount NuStar Energy distributes with respect to any quarter exceeds \$0.60 per unit, with the maximum percentage of 23% of the amount of any quarterly distribution in excess of \$0.66 per unit. We also receive a 2% distribution with respect to our general partner interest.

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

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

|  | Three Months Ended                           |                    | Nine Months Ended  |                    |
|--|--|--------------------|--------------------|--------------------|
|  | September 30, 2009                           | September 30, 2008 | September 30, 2009 | September 30, 2008 |
|  | (Thousands of Dollars, Except Per Unit Data) |                    |                    |                    |
| General partner interest                                   | \$ 1,327                                     | \$ 1,318           | \$ 3,963           | \$ 3,740           |
| General partner incentive distribution                     | 7,055  | 6,929              | 20,913             | 18,365             |
| Total general partner distribution                         | 8,382  | 8,247              | 24,876             | 22,105             |
| Limited partner distribution                               | 10,895                                       | 10,872             | 32,552             | 31,003             |
| Total distributions to NuStar GP Holdings                  | 19,277                                       | 19,119             | 57,428             | 53,108             |
| Public unitholders' distributions                          | 47,105                                       | 46,719             | 140,630            | 133,876            |
| Total cash distributions                                   | \$ 66,382                                    | \$ 65,838          | \$ 198,058         | \$ 186,984         |
| Cash distributions per unit applicable to limited partners | \$ 1.0650                                    | \$ 1.0575          | \$ 3.1800          | \$ 3.0275          |

In July 2009, NuStar Energy declared a quarterly cash distribution of \$1.0575, which was paid on August 13, 2009 to unitholders of record on August 6, 2009. This distribution related to the second quarter of 2009 and totaled \$65.8 million. In October 2009, NuStar Energy declared a quarterly cash distribution of \$1.0650 per unit related to the third quarter of 2009. This distribution will be paid on November 12, 2009 to unitholders of record on November 5, 2009 and will total \$66.4 million.

**6. FAIR VALUE MEASUREMENTS**

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

We have applied fair value recognition and disclosure provisions for financial assets and liabilities and for nonfinancial assets and liabilities that are re-measured at least annually as of January 1, 2008. As permitted, we applied the provisions for nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis on January 1, 2009, which did not affect our financial position or results of operations.

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

|                                | Level 1                | September 30, 2009 |         | Total    |
|--------------------------------|------------------------|--------------------|---------|----------|
|                                |                        | Level 2            | Level 3 |          |
|                                | (Thousands of Dollars) |                    |         |          |
| Accrued compensation expense:  |                        |                    |         |          |
| NuStar Energy restricted units | \$ 9,092               | \$                 | \$      | \$ 9,092 |
| NuStar Energy unit options     |                        | 4,135              |         | 4,135    |

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|       |          |          |    |           |
|-------|----------|----------|----|-----------|
| Total | \$ 9,092 | \$ 4,135 | \$ | \$ 13,227 |
|-------|----------|----------|----|-----------|

|                                      | Level 1  | December 31, 2008<br>Level 2    Level 3<br>(Thousands of Dollars) |    | Total    |
|--------------------------------------|----------|---|----|----------|
| <b>Accrued compensation expense:</b> |          |   |    |          |
| NuStar Energy restricted units       | \$ 4,486 | \$  | \$ | \$ 4,486 |
| NuStar Energy unit options           |          | 1,556   |    | 1,556    |
| Total                                | \$ 4,486 | \$ 1,556  | \$ | \$ 6,042 |

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

The fair value of our liability for NuStar Energy restricted units is determined using the NuStar Energy unit price at the reporting date. The fair value of our liability for NuStar Energy unit option grants is determined using the Black-Scholes option-pricing model on the reporting date based on the expected life of options granted, expected volatility, expected dividend yield and the risk-free interest rate.

**7. STATEMENTS OF CASH FLOWS**

Changes in current assets and liabilities were as follows:

|  | <b>Nine Months Ended<br/>September 30,<br/>2009      2008<br/>(Thousands of Dollars)</b> |                 |
|--|--|-----------------|
| Decrease (increase) in current assets:           |  |                 |
| Accounts receivable                              | \$ 82  | \$ (606)        |
| Receivable from NuStar Energy                    | (5,033)  |                 |
| Income tax receivable                            | (2,295)  | 280             |
| Prepaid expenses                                 | 12   | 189             |
| Increase (decrease) in current liabilities:      |  |                 |
| Accounts payable                                 | (314)  | 293             |
| Payable to NuStar Energy                         |  | 881             |
| Accrued compensation expense                     | 7,867  | 1,229           |
| Accrued liabilities                              | (49)   | (266)           |
| Taxes other than income tax                      | (422)  | (106)           |
| <b>Changes in current assets and liabilities</b> | <b>\$ (152)</b>  | <b>\$ 1,894</b> |

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

|                            | <b>Nine Months Ended<br/>September 30,<br/>2009      2008<br/>(Thousands of Dollars)</b> |        |
|----------------------------|--|--------|
| Cash paid for interest     | \$ 85  | \$ 171 |
| Cash paid for income taxes | 3,523  | 69     |

**8. CREDIT FACILITY**

Our three-year revolving credit facility (2006 Credit Facility) matured on July 19, 2009. On July 17, 2009, we entered into an amended and restated revolving credit facility (2009 Credit Facility) that matures on July 16, 2010 with a borrowing capacity of up to \$19.5 million, of which, up to \$10 million may be available for letters of credit. Interest on the 2009 Credit Facility is based upon, at our option, either an alternative base rate plus 3.5% or a LIBOR based rate plus 4.5%. These interest rates are 3.5% to 4.0% higher than the rates that were in effect under the 2006 Credit Facility. As of September 30, 2009, we had no outstanding borrowings under our 2009 Credit Facility.

The terms of the 2009 Credit Facility, which are substantially equivalent to those under the 2006 Credit Facility, require NuStar Energy to maintain a total debt-to-EBITDA ratio of less than 5.0-to-1.0 for any four consecutive quarters, subject to adjustment following certain



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acquisitions. We are also required to receive cash distributions of at least \$25.0 million in respect to our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the covenants as of September 30, 2009.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. COMMITMENTS AND CONTINGENCIES***Litigation and Environmental Matters*

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

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

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

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

*Eres Matter.* In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants are in breach of a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provides for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contends that NuStar Asphalt and/or NuStar Marketing assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants have failed to perform under the Charter Agreement since January 1, 2008. CARCO has demanded that NuStar Asphalt and NuStar Marketing defend and indemnify it against Eres' claims and has filed a lawsuit in the Harris County District Court, Harris County, Texas, seeking to recover on its indemnity claim. This lawsuit has been removed and is currently pending in the U.S. District Court for the Southern District of Texas. In connection with the demand for arbitration, Eres filed a complaint in the U.S. District Court for the Southern District of New York (SDNY) seeking to require the Defendants to arbitrate the dispute and seeking to attach the banking funds of the Defendants (including cash, escrow funds, credits, debts, wire transfers, electronic funds transfers, accounts, letters of credit, freights and charter hire) within the SDNY in amounts of approximately \$78.1 million, pending resolution of arbitration between Eres and the Defendants. This lawsuit has also been removed to and is currently pending in the U.S. District Court for the Southern District of Texas. To date, no funds of the Defendants have been attached. NuStar Energy intends to vigorously defend against these claims.



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

*Department of Justice Matter.* In February 2008, the DOJ advised NuStar Energy that the U.S. Environmental Protection Agency (the EPA) has requested that the DOJ initiate a lawsuit against NuStar Pipeline Operating Partnership L.P. for (a) failing to prepare adequate Facility Response Plans, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of its pipeline terminals located in Region VII, by August 30, 1994, and (b) maintaining Spill Prevention, Control and Countermeasure (SPCC) Plans at the terminal that deviate from the SPCC regulations, 40 C.F.R. §112.3. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances. The SPCC rule requires specific facilities to prepare, amend and implement plans to prevent, prepare and respond to oil discharges to navigable waters and adjoining shorelines. NuStar Energy is currently in settlement negotiations with the DOJ to resolve these matters.

*EPA Investigation.* In November 2006, the EPA commenced an investigation at one of the terminals owned by Shore Terminals LLC (Shore). The investigation concerned allegations that Shore failed to comply with certain of its obligations under the Clean Air Act. Shore cooperated fully with the government in its investigation. At the conclusion of the investigation, Shore agreed to plead guilty to four counts of making a false statement under Title 18 United States Code 1001. Shore also agreed to pay a monetary fine of \$1.75 million, contribute \$750,000 to community environmental projects, serve two years of probation and participate in an environmental compliance program. On July 14, 2009, the United States District Court for the Northern District of California accepted the plea agreement.

**Other**

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

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

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

|   |            |
|---|------------|
| Balance as of December 31, 2008                     | \$ 543,450 |
| Net income  | 51,109     |
| Distributions to unitholders                        | (54,831)   |
| Share of NuStar Energy's other comprehensive income | 4,124      |
| Unit-based compensation                             | 529        |
| Other   | 84         |
| Balance as of September 30, 2009                    | \$ 544,465 |

**Comprehensive Income**

For the three and nine months ended September 30, 2009 and 2008, the difference between our net income and our comprehensive income resulted mainly from our proportionate share of NuStar Energy's other comprehensive income. Our total comprehensive income was as follows:

| Three Months Ended |      | Nine Months Ended |      |
|--------------------|------|-------------------|------|
| September 30,      |      | September 30,     |      |
| 2009               | 2008 | 2009              | 2008 |

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(Thousands of Dollars)

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Net income   | \$ 17,726 | \$ 34,810 | \$ 51,109 | \$ 55,593 |
| Share of NuStar Energy's other comprehensive income (loss) | 1,870     | (2,816)   | 4,124     | (3,566)   |
| Other  | 28        | 4         | 84        | 12        |
| Comprehensive income                                       | \$ 19,624 | \$ 31,998 | \$ 55,317 | \$ 52,039 |

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Net Income Per Unit**

In June 2008, the FASB addressed whether instruments granted in share-based payment transactions are participating securities. The FASB clarified that participating securities now include unvested share-based payment awards if they contain nonforfeitable rights to dividends or dividend equivalents. For all periods subsequent to January 1, 2009 and for any comparable periods, we began treating units granted under the NuStar GP Holdings 2006 Long-Term Incentive Plan as participating securities in computing net income per unit pursuant to the two-class method, and the effect is not material.

The computation of diluted net income per unit for the three and nine months ended September 30, 2009 and 2008 excludes 324,100 outstanding options to purchase NuStar GP Holdings units, as the exercise price is currently above the market price and their effect would be anti-dilutive.

**Cash Distributions**

In July 2009, our board of directors declared a quarterly cash distribution of \$0.430 per unit related to the second quarter of 2009. This distribution was paid on August 18, 2009 to unitholders of record on August 6, 2009 and totaled \$18.3 million. In October 2009, our board of directors declared a quarterly cash distribution of \$0.435 per unit related to the third quarter of 2009. This distribution will be paid on November 17, 2009 to unitholders of record on November 5, 2009 and will total \$18.5 million.

**11. EMPLOYEE BENEFIT PLANS**

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

|   | Pension Plans (a)      |          | Other Postretirement Benefit Plans |        |
|---|------------------------|----------|------------------------------------|--------|
|   | 2009                   | 2008     | 2009                               | 2008   |
|   | (Thousands of Dollars) |          |                                    |        |
| <b>For the three months ended September 30:</b> |                        |          |                                    |        |
| Components of net periodic benefit cost:        |                        |          |                                    |        |
| Service cost                                    | \$ 2,039               | \$ 1,889 | \$ 167                             | \$ 153 |
| Interest cost                                   | 336                    | 188      | 175                                | 135    |
| Expected return on assets                       | (400)                  | (248)    |                                    |        |
| Amortization of net loss                        | 28                     | 4        |                                    |        |
| Net periodic benefit cost                       | \$ 2,003               | \$ 1,833 | \$ 342                             | \$ 288 |
| <b>For the nine months ended September 30:</b>  |                        |          |                                    |        |
| Components of net periodic benefit cost:        |                        |          |                                    |        |
| Service cost                                    | \$ 6,117               | \$ 5,405 | \$ 501                             | \$ 441 |
| Interest cost                                   | 1,008                  | 564      | 525                                | 388    |
| Expected return on assets                       | (1,200)                | (744)    |                                    |        |
| Amortization of net loss                        | 84                     | 12       |                                    |        |
| Net periodic benefit cost                       | \$ 6,009               | \$ 5,237 | \$ 1,026                           | \$ 829 |

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

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

*This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words anticipates, believes, expects, plans, intends, estimates, forecasts, budgets, projects, will, could, should, may and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our annual report on Form 10-K for the year ended December 31, 2008, Part I Risk Factors, as well as our subsequent quarterly reports on Form 10-Q, for a discussion of certain of those risks, uncertainties and assumptions.*

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

**OVERVIEW**

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

Our only cash generating assets are our ownership interests in NuStar Energy L.P. (NuStar Energy), a publicly held Delaware limited partnership (NYSE: NS). As of September 30, 2009, our aggregate ownership interests in NuStar Energy consisted of the following:

the 2% general partner interest;

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

10,235,418 common units of NuStar Energy representing an 18.4% limited partner interest.

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

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

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



**Table of Contents****RESULTS OF OPERATIONS***Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008***Financial Highlights****(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)**

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Change</b> |
|--|---|-------------|---------------|
|  | <b>2009</b>                                 | <b>2008</b> |               |
| Equity in earnings of NuStar Energy                            | \$ 18,051                                   | \$ 35,662   | \$ (17,611)   |
| General and administrative expenses                            | (679)                                       | (793)       | 114           |
| Other income (expense), net                                    | 22  | (36)        | 58            |
| Interest expense, net  | (88)  | (57)        | (31)          |
| Income before income tax benefit                               | 17,306                                      | 34,776      | (17,470)      |
| Income tax benefit   | 420   | 34          | 386           |
| Net income   | \$ 17,726                                   | \$ 34,810   | \$ (17,084)   |
| Basic and diluted net income per unit                          | \$ 0.42                                     | \$ 0.82     | \$ (0.40)     |
| Weighted average number of basic and diluted units outstanding | 42,504,238                                  | 42,501,433  | 2,805         |

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

|  | <b>Three Months Ended<br/>September 30,</b> |              | <b>Change</b> |
|--|---|--------------|---------------|
|  | <b>2009</b>                                 | <b>2008</b>  |               |
| <b>(Unaudited, Thousands of Dollars, Except Per Unit Data)</b> |   |              |               |
| <b>NuStar Energy Statement of Income Data:</b>                 |   |              |               |
| Revenues   | \$ 1,251,247                                | \$ 1,825,226 | \$ (573,979)  |
| Cost of product sales  | 989,868                                     | 1,467,152    | (477,284)     |
| Operating expenses   | 118,190                                     | 127,095      | (8,905)       |
| Depreciation and amortization                                  | 35,580                                      | 34,223       | 1,357         |
| Segment operating income                                       | 107,609                                     | 196,756      | (89,147)      |
| General and administrative expenses                            | 19,213                                      | 20,358       | (1,145)       |
| Other depreciation and amortization expense                    | 1,206                                       | 920          | 286           |
| Operating income   | \$ 87,190                                   | \$ 175,478   | \$ (88,288)   |
| Net income   | \$ 64,440                                   | \$ 151,277   | \$ (86,837)   |
| Net income per unit applicable to limited partners             | \$ 1.03                                     | \$ 2.60      | \$ (1.57)     |
| Cash distributions per unit applicable to limited partners     | \$ 1.0650                                   | \$ 1.0575    | \$ 0.0075     |



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NuStar Energy's net income decreased \$86.8 million for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, primarily due to a decrease in its segment operating income. NuStar Energy's segment operating income decreased \$89.1 million during the three months ended September 30, 2009, compared to the three months ended September 30, 2008, primarily due to a decreased product margin associated with its asphalt operations within its asphalt and fuels marketing segment. The decrease in NuStar Energy's operating income from its asphalt and fuels marketing segment was partially offset by increased operating income from its storage and transportation segments.

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

|   | <b>Three Months Ended<br/>September 30,</b> |                  | <b>Change</b>      |
|---|---|------------------|--------------------|
|   | <b>2009</b>                                 | <b>2008</b>      |                    |
| <b>(Thousands of Dollars)</b>   |   |                  |                    |
| <b>NuStar GP Holdings Equity in Earnings of NuStar Energy:</b>                      |   |                  |                    |
| General partner interest  | \$ 1,148                                    | \$ 2,888         | \$ (1,740)         |
| General partner incentive distribution  | 7,055                                       | 6,929            | 126                |
| General partner's interest in earnings and incentive distributions of NuStar Energy | 8,203                                       | 9,817            | (1,614)            |
| NuStar GP Holdings' limited partner interest in earnings of NuStar Energy           | 10,569                                      | 26,566           | (15,997)           |
| Amortization of step-up in basis related to NuStar Energy's assets and liabilities  | (721)                                       | (721)            |                    |
| <b>NuStar GP Holdings' equity in earnings of NuStar Energy</b>                      | <b>\$ 18,051</b>                            | <b>\$ 35,662</b> | <b>\$ (17,611)</b> |

Our equity in earnings related to our general and limited partner interests in NuStar Energy decreased for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, due to a decrease in NuStar Energy's net income.

NuStar Energy's per unit distributions for the three months ended September 30, 2009, increased compared to the three months ended September 30, 2008, to \$1.0650 from \$1.0575. That increase resulted in NuStar Energy increasing its total cash distributions. Since our IDR in NuStar Energy entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR increased for that period.

**Table of Contents***Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008***Financial Highlights****(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)**

|  | Nine Months Ended<br>September 30, |            | Change     |
|--|------------------------------------|------------|------------|
|  | 2009                               | 2008       |            |
| Equity in earnings of NuStar Energy                            | \$ 52,780                          | \$ 58,120  | \$ (5,340) |
| General and administrative expenses                            | (2,156)                            | (2,359)    | 203        |
| Other income (expense), net                                    | 19                                 | (118)      | 137        |
| Interest expense, net  | (137)                              | (153)      | 16         |
| Income before income tax benefit                               | 50,506                             | 55,490     | (4,984)    |
| Income tax benefit   | 603                                | 103        | 500        |
| Net income   | \$ 51,109                          | \$ 55,593  | \$ (4,484) |
| Basic and diluted net income per unit                          | \$ 1.20                            | \$ 1.31    | \$ (0.11)  |
| Weighted average number of basic and diluted units outstanding | 42,503,937                         | 42,501,139 | 2,798      |

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

|  | Nine Months Ended<br>September 30, |              | Change       |
|--|------------------------------------|--------------|--------------|
|  | 2009                               | 2008         |              |
| <b>(Unaudited, Thousands of Dollars, Except Per Unit Data)</b> |                                    |              |              |
| <b>NuStar Energy Statement of Income Data:</b>                 |                                    |              |              |
| Revenues   | \$ 2,873,093                       | \$ 3,795,580 | \$ (922,487) |
| Cost of product sales  | 2,138,524                          | 3,036,077    | (897,553)    |
| Operating expenses   | 332,017                            | 322,473      | 9,544        |
| Depreciation and amortization                                  | 104,909                            | 97,481       | 7,428        |
| Segment operating income                                       | 297,643                            | 339,549      | (41,906)     |
| General and administrative expenses                            | 67,529                             | 55,985       | 11,544       |
| Other depreciation and amortization expense                    | 3,414                              | 2,538        | 876          |
| Operating income   | \$ 226,700                         | \$ 281,026   | \$ (54,326)  |
| Net income   | \$ 187,530                         | \$ 221,236   | \$ (33,706)  |
| Net income per unit applicable to limited partners             | \$ 2.99                            | \$ 3.77      | \$ (0.78)    |
| Cash distributions per unit applicable to limited partners     | \$ 3.1800                          | \$ 3.0275    | \$ 0.1525    |

NuStar Energy's net income decreased \$33.7 million for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, primarily due to a decrease in segment operating income and an increase in general and administrative expenses. This was partially offset by an increase in other income and a decrease in interest expense.

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NuStar Energy's segment operating income decreased \$41.9 million during the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, primarily due to a \$75.1 million decrease in operating income for the asphalt and fuels marketing segment, which was mainly due to a decreased

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product margin associated with its asphalt operations. This was partially offset by an increase in gross margin due to the \$61.0 million hedging loss in the second quarter of 2008. The decrease in operating income from NuStar Energy's asphalt and fuels marketing segment was partially offset by increased operating income from its storage and transportation segments.

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

|   | Nine Months Ended<br>September 30, |                  | Change            |
|---|------------------------------------|------------------|-------------------|
|   | 2009                               | 2008             |                   |
| (Thousands of Dollars)  |                                    |                  |                   |
| <b>NuStar GP Holdings Equity in Earnings of NuStar Energy:</b>                      |                                    |                  |                   |
| General partner interest  | \$ 3,333                           | \$ 4,069         | \$ (736)          |
| General partner incentive distribution (a)  | 20,913                             | 17,835           | 3,078             |
| General partner's interest in earnings and incentive distributions of NuStar Energy | 24,246                             | 21,904           | 2,342             |
| NuStar GP Holdings' limited partner interest in earnings of NuStar Energy           | 30,697                             | 38,379           | (7,682)           |
| Amortization of step-up in basis related to NuStar Energy's assets and liabilities  | (2,163)                            | (2,163)          |                   |
| <b>NuStar GP Holdings' equity in earnings of NuStar Energy</b>                      | <b>\$ 52,780</b>                   | <b>\$ 58,120</b> | <b>\$ (5,340)</b> |

(a) For the first quarter of 2008, NuStar Energy's net income allocation to general and limited partners reflected total cash distributions based on the partnership interests outstanding as of March 31, 2008. NuStar Energy issued approximately 5.1 million common units in April 2008. Actual distribution payments are made within 45 days after the end of each quarter as of a record date that is set after the end of each quarter. Therefore, our portion of the actual distributions made with respect to the nine months ended September 30, 2008, including the IDR, exceeded the net income allocation to us.

Our equity in earnings related to our general and limited partner interests in NuStar Energy decreased for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, due to a decrease in NuStar Energy's net income.

NuStar Energy's per unit distributions for the nine months ended September 30, 2009, increased compared to the nine months ended September 30, 2008, to \$3.1800 from \$3.0275. That increase resulted in NuStar Energy increasing its total cash distributions. Since our IDR in NuStar Energy entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR increased for that period.

**OUTLOOK**

NuStar Energy expects its results in the fourth quarter to be lower than the third quarter mainly due to lower asphalt sales and margins. Typically, asphalt sales decline in the fourth quarter for seasonal reasons, including decreased road construction during colder months. While NuStar Energy expects relatively strong fourth quarter results from its transportation and storage segments, those will not be enough to offset the decline from its asphalt and fuels marketing segment as compared to the third quarter. Despite increases in the storage and transportation segments, NuStar Energy expects the consolidated results for the full year 2009 to be lower than the results of 2008 due to the decline in the results of the asphalt and fuels marketing segment.

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

NuStar Energy expects throughputs for the fourth quarter of 2009 to increase slightly compared to the third quarter due to a lighter refinery maintenance schedule in the fourth quarter. NuStar Energy expects the fourth quarter to continue to benefit from the tariff increase effective July 1, 2009 and the completion of the pipeline expansion project on June 30, 2009 as well as lower operating expenses.

**Table of Contents*****NuStar Energy's Storage Segment***

Fourth quarter results for NuStar Energy's storage segment should be slightly lower as compared to the third quarter mainly due to higher operating expense.

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

For the fourth quarter of 2009, NuStar Energy expects earnings from its asphalt and fuels marketing segment to be lower compared to the third quarter, primarily due to its asphalt operations, which it expects to follow the typical seasonal decline in sales and margin.

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

**LIQUIDITY AND CAPITAL RESOURCES*****General***

Our cash flows consist of distributions from NuStar Energy on our partnership interests, including all of the IDR that we own. Due to our ownership of NuStar Energy's IDR, our portion of NuStar Energy's total distributions may exceed our 20.4% ownership interest in NuStar Energy. Our primary cash requirements are for distributions to members, capital contributions to maintain our 2% general partner interest in NuStar Energy in the event NuStar Energy issues additional units, debt service requirements, if any, benefit plan funding and general and administrative expenses. In addition, because NuStar GP, LLC elected to be treated as a taxable entity in August 2006, we may be required to pay income taxes, depending upon the taxable income of NuStar GP, LLC. These tax payments may exceed the amount of tax expense recorded in the consolidated financial statements. We expect to fund our cash requirements primarily with the quarterly cash distributions we receive from NuStar Energy and borrowings under our revolving credit facility, if necessary. Additionally, NuStar Energy reimburses us for all costs incurred on their behalf, primarily employee-related costs.

***Cash Distributions from NuStar Energy***

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

|   | <b>Three Months Ended<br/>September 30,</b>         |                  | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---|---|------------------|--|------------------|
|   | <b>2009</b>   | <b>2008</b>      | <b>2009</b>                                | <b>2008</b>      |
|   | <b>(Thousands of Dollars, Except Per Unit Data)</b> |                  |  |                  |
| Cash distributions per unit                                     | \$ 1.0650   | \$ 1.0575        | \$ 3.1800                                  | \$ 3.0275        |
| Total cash distributions by NuStar Energy to all partners       | \$ 66,382   | \$ 65,838        | \$ 198,058                                 | \$ 186,984       |
| <b>Cash distributions we received from NuStar Energy:</b>       |   |                  |  |                  |
| Distributions on our general partner interest                   | \$ 1,327  | \$ 1,318         | \$ 3,963                                   | \$ 3,740         |
| Distributions on our IDR  | 7,055   | 6,929            | 20,913                                     | 18,365           |
| Distributions on our limited partnership interests              | 10,895  | 10,872           | 32,552                                     | 31,003           |
| <b>Total cash distributions to us</b>                           | <b>\$ 19,277</b>                                    | <b>\$ 19,119</b> | <b>\$ 57,428</b>                           | <b>\$ 53,108</b> |
| Distributions to us as a percentage of total cash distributions | 29.0%   | 29.0%            | 29.0%                                      | 28.4%            |

**Table of Contents*****Cash Flows for the Nine Months Ended September 30, 2009 and 2008***

Cash distributions received from NuStar Energy for the nine months ended September 30, 2009 were \$57.2 million, which we used principally to fund distributions to our unitholders totaling \$54.8 million. Employee benefit plan liabilities and accrued compensation expense increased \$7.0 million and \$7.9 million, respectively, for the nine months ended September 30, 2009, due to timing of payments for these liabilities coupled with an increase in long-term incentive plan grants and an increase in NuStar Energy's unit price. These increases in liabilities were offset by an increase in net receivables of \$7.2 million for the nine months ended September 30, 2009, which primarily relate to employee-related costs. We repaid \$6.5 million of long-term debt outstanding on our three-year revolving credit facility from available cash on hand, prior to its maturity on July 19, 2009.

Cash distributions received from NuStar Energy for the nine months ended September 30, 2008 totaled \$50.3 million, which we used principally to fund distributions to our unitholders totaling \$45.9 million. We borrowed \$5.0 million for the nine months ended September 30, 2008, which we used to partially fund our \$8.2 million contribution to NuStar Energy.

***Cash Distributions to Unitholders***

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

|                             | <b>Three Months Ended<br/>September 30,</b>         |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------|---|-------------|--|-------------|
|                             | <b>2009</b>   | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
|                             | <b>(Thousands of Dollars, Except Per Unit Data)</b> |             |  |             |
| Cash distributions per unit | \$ 0.435  | \$ 0.430    | \$ 1.295                                   | \$ 1.150    |
| Total cash distributions    | \$ 18,489   | \$ 18,276   | \$ 55,043                                  | \$ 48,876   |

***Contractual Obligations******Credit Facility***

Our three-year revolving credit facility (2006 Credit Facility) matured on July 19, 2009. On July 17, 2009, we entered into an amended and restated revolving credit facility (2009 Credit Facility) that matures on July 16, 2010 with a borrowing capacity of up to \$19.5 million, of which, up to \$10 million may be available for letters of credit. Interest on the 2009 Credit Facility is based upon, at our option, either an alternative base rate plus 3.5% or a LIBOR based rate plus 4.5%. These interest rates are 3.5% to 4.0% higher than the rates that were in effect under the 2006 Credit Facility. As of September 30, 2009, we had no outstanding borrowings under our 2009 Credit Facility.

The terms of the 2009 Credit Facility, which are substantially equivalent to those under the 2006 Credit Facility, require NuStar Energy to maintain a total debt-to-EBITDA ratio of less than 5.0-to-1.0 for any four consecutive quarters, subject to adjustment following certain acquisitions. We are also required to receive cash distributions of at least \$25.0 million in respect to our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the covenants as of September 30, 2009.

We will use our 2009 Credit Facility to fund capital contributions to NuStar Energy to maintain our 2% general partner interest in the event NuStar Energy issues additional units and to meet other liquidity and capital resource requirements.



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### ***Related Party Transactions***

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

### ***GP Services Agreement***

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

The Holdco Administrative Services Expense equals \$1.1 million and \$0.8 million for the fiscal years 2009 and 2008, respectively, plus 1.0% of NuStar GP, LLC's domestic bonus and unit compensation expense subject to certain other adjustments. The GP Services Agreement will terminate on December 31, 2012, with automatic two-year renewals unless terminated by either party upon six months' prior written notice. The aggregate amount of expenses we incurred related to the GP Services Agreement were \$0.3 million for the three months ended September 30, 2009 and 2008, and \$1.0 million and \$0.7 million for the nine months ended September 30, 2009 and 2008, respectively.

### ***Contingencies***

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

## **CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

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**Item 4. Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of September 30, 2009.
- (b) *Changes in internal control over financial reporting.* There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information below describes new proceedings or material developments in proceedings that we previously reported in our annual report on Form 10-K for the year ended December 31, 2008, as well as our subsequent quarterly reports on Form 10-Q.

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

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

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

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

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**Item 6. Exhibits**

- \*Exhibit 31.01 Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002).
- \*Exhibit 32.01 Section 1350 Certifications (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

- \* Filed herewith.
- + Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto.

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**SIGNATURES**

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

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

**By: /s/ Curtis V. Anastasio**  
**Curtis V. Anastasio**  
**President and Chief Executive Officer**  
**November 5, 2009**

**By: /s/ Steven A. Blank**  
**Steven A. Blank**  
**Senior Vice President, Chief Financial Officer**  
**and Treasurer**  
**November 5, 2009**

**By: /s/ Thomas R. Shoaf**  
**Thomas R. Shoaf**  
**Vice President and Controller**  
**November 5, 2009**