

SemGroup Energy Partners, L.P.
Form S-1
January 18, 2008
Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on January 18, 2008

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT

Under

The Securities Act of 1933

SEMGROUP ENERGY PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

4610 / 5171
(Primary Standard Industrial

20-8536826
(I.R.S. Employer

Classification Code Number)
Two Warren Place

Identification Number)

6120 South Yale Avenue, Suite 500

Tulsa, Oklahoma 74136

(918) 524-5500

(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

Edgar Filing: SemGroup Energy Partners, L.P. - Form S-1

Kevin L. Foxx

President and Chief Executive Officer

SemGroup Energy Partners G.P., L.L.C.

6120 South Yale Avenue, Suite 500

Tulsa, Oklahoma 74136

(918) 524-5500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Douglass M. Rayburn

Michael D. Cooke

Brett E. Braden

Joshua Davidson

W. Deke Canada

David P. Oelman

Baker Botts L.L.P.

Hall, Estill, Hardwick, Gable,

Vinson & Elkins L.L.P.

2001 Ross Avenue

Golden & Nelson, P.C.

1001 Fannin Street, Suite 2500

Dallas, Texas 75201

320 S. Boston Avenue, Suite 400

Houston, Texas 77002

(214) 953-6500

Tulsa, Oklahoma 74103

(713) 758-2222

(918) 594-0400

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per	Proposed Maximum	Amount of
--	-----------------------------------	--	-------------------------	------------------

Edgar Filing: SemGroup Energy Partners, L.P. - Form S-1

		Unit(1)(2)	Aggregate Offering Price(1)(2)	Registration Fee
Common Units representing limited partner interests	6,900,000	\$27.36	\$188,784,000	\$7,420

(1) Includes common units issuable upon exercise of the underwriters' over-allotment option.

(2) Calculated in accordance with Rule 457(c) on the basis of the average of the high and low sales price of our common units on January 14, 2008.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Index to Financial Statements

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 18, 2008

PROSPECTUS

6,000,000 Common Units
Representing Limited Partner Interests
SemGroup Energy Partners, L.P.
\$ per Common Unit

SemGroup Energy Partners, L.P. is offering 6,000,000 common units representing limited partner interests. Our common units are traded on The NASDAQ Global Market under the symbol SGLP. On January 17, 2008, the last reported sale price of our common units on The NASDAQ Global Market was \$27.52 per common unit.

Investing in our common units involves risks. Please see Risk Factors beginning on page 16.

These risks assume the completion of the acquisition of certain liquid asphalt cement terminalling and storage assets described herein and include the following:

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

We depend upon SemGroup, L.P. for substantially all of our revenues, and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

We are exposed to the credit risk of SemGroup, L.P. and any material nonperformance by SemGroup, L.P. could reduce our ability to make distributions to our unitholders.

Edgar Filing: SemGroup Energy Partners, L.P. - Form S-1

We will use the proceeds of this offering, together with borrowings under our amended credit facility, to purchase certain liquid asphalt cement terminaling and storage assets. If such assets do not perform as expected, our future financial performance may be negatively impacted.

Our debt levels may limit our ability to make distributions and our flexibility in obtaining additional financing and in pursuing other business opportunities.

SemGroup, L.P. controls our general partner, which has sole responsibility for conducting our business and managing our operations. SemGroup, L.P. has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

SemGroup, L.P. may compete with us, which could adversely affect our existing business and limit our ability to acquire additional assets or businesses.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Common Unit	Total
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to SemGroup Energy Partners, L.P. (before expenses)	\$	\$

We have granted the underwriters a 30-day option to purchase up to an additional 900,000 common units from us on the same terms and conditions as set forth above if the underwriters sell more than 6,000,000 common units in this offering.

The underwriters expect to deliver the common units through the facilities of The Depository Trust Company on or about _____, 2008.

Citi

, 2008

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

<u>SUMMARY</u>	1
<u>SemGroup Energy Partners, L.P.</u>	1
<u>Description of the Acquired Assets</u>	2
<u>Our Relationship with our Parent</u>	4
<u>Summary of Risk Factors</u>	5
<u>Partnership Structure and Management</u>	7
<u>Simplified Organizational Structure and Ownership of SemGroup Energy Partners, L.P.</u>	8
<u>Summary of Conflicts of Interest and Fiduciary Duties</u>	9
<u>Principal Executive Offices and Internet Address</u>	9
<u>The Offering</u>	10
<u>Summary Historical Financial and Operating Data</u>	14
<u>RISK FACTORS</u>	16
<u>Risks Related to Our Business</u>	16
<u>Risks Inherent in an Investment in Us</u>	26
<u>Tax Risks to Common Unitholders</u>	32
<u>USE OF PROCEEDS</u>	36
<u>CAPITALIZATION</u>	37
<u>PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS</u>	38
<u>CASH DISTRIBUTION POLICY</u>	39
<u>Distributions of Available Cash</u>	39
<u>Operating Surplus and Capital Surplus</u>	40
<u>Subordination Period</u>	42
<u>Distributions of Available Cash from Operating Surplus during the Subordination Period</u>	43
<u>Distributions of Available Cash from Operating Surplus after the Subordination Period</u>	43
<u>General Partner Interest and Incentive Distribution Rights</u>	44
<u>Percentage Allocations of Available Cash from Operating Surplus</u>	44
<u>General Partner's Right to Reset Incentive Distribution Levels</u>	45
<u>Distributions from Capital Surplus</u>	46
<u>Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels</u>	47
<u>Distributions of Cash Upon Liquidation</u>	47
<u>SELECTED HISTORICAL FINANCIAL AND OPERATING DATA</u>	49
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	51
<u>Overview</u>	51
<u>Factors That Will Significantly Affect Our Results</u>	53
<u>The Acquired Assets</u>	54
<u>Results of Operations</u>	56
<u>Effects of Inflation</u>	59
<u>Liquidity and Capital Resources</u>	59
<u>Quantitative and Qualitative Disclosures About Market Risks</u>	62
<u>Critical Accounting Policies and Estimates</u>	62
<u>Recent Accounting Pronouncements</u>	64
<u>THE ACQUIRED ASSETS</u>	66
<u>Overview of the Acquisition</u>	66
<u>The Asphalt Industry</u>	66
<u>The Residual Fuel Oil Industry</u>	68
<u>Our Liquid Asphalt Cement Terminalling and Storage Services</u>	69
<u>Terminalling Agreement</u>	71
<u>Access and Use Agreement</u>	72

Table of Contents

Index to Financial Statements

<u>BUSINESS</u>	73
<u>Overview</u>	73
<u>Competitive Strengths</u>	74
<u>Business Strategies</u>	75
<u>Our Relationship with our Parent</u>	76
<u>Throughput Agreement</u>	77
<u>Our Parent's Operations</u>	79
<u>Crude Oil Industry Overview</u>	81
<u>Our Crude Oil Assets and Services</u>	82
<u>Competition</u>	86
<u>Regulation</u>	86
<u>Environmental, Health and Safety Risks</u>	88
<u>Operational Hazards and Insurance</u>	90
<u>Title to Properties</u>	91
<u>Employees</u>	91
<u>Legal Proceedings</u>	91
<u>MANAGEMENT</u>	92
<u>Management of SemGroup Energy Partners, L.P.</u>	92
<u>Directors and Executive Officers</u>	94
<u>Executive Compensation</u>	95
<u>Compensation Discussion and Analysis</u>	95
<u>Long-Term Incentive Plan</u>	99
<u>Compensation of Directors</u>	101
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	102
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	104
<u>Distributions and Payments to Our General Partner and Its Affiliates</u>	104
<u>Agreements Relating to Our Initial Public Offering</u>	105
<u>Throughput Agreement</u>	105
<u>Purchase and Sale Agreement for the Acquired Assets</u>	105
<u>Amended Omnibus Agreement</u>	105
<u>Terminating Agreement</u>	107
<u>Access and Use Agreement</u>	107
<u>CONFLICTS OF INTEREST AND FIDUCIARY DUTIES</u>	108
<u>Conflicts of Interest</u>	108
<u>Fiduciary Duties</u>	113
<u>DESCRIPTION OF THE COMMON UNITS</u>	116
<u>The Units</u>	116
<u>Transfer Agent and Registrar</u>	116
<u>Transfer of Common Units</u>	116
<u>THE PARTNERSHIP AGREEMENT</u>	118
<u>Organization and Duration</u>	118
<u>Purpose</u>	118
<u>Power of Attorney</u>	118
<u>Cash Distributions</u>	118
<u>Capital Contributions</u>	118
<u>Voting Rights</u>	119
<u>Limited Liability</u>	120
<u>Issuance of Additional Securities</u>	121
<u>Amendment of the Partnership Agreement</u>	122
<u>Merger, Consolidation, Conversion, Sale or Other Disposition of Assets</u>	124

Table of Contents

Index to Financial Statements

<u>Termination and Dissolution</u>	124
<u>Liquidation and Distribution of Proceeds</u>	125
<u>Withdrawal or Removal of the General Partner</u>	125
<u>Transfer of General Partner Units</u>	126
<u>Transfer of Ownership Interests in the General Partner</u>	127
<u>Transfer of Incentive Distribution Rights</u>	127
<u>Change of Management Provisions</u>	127
<u>Limited Call Right</u>	127
<u>Meetings: Voting</u>	128
<u>Status as Limited Partner</u>	128
<u>Non-Taxpayers: Redemption</u>	128
<u>Non-Citizen Assignees: Redemption</u>	129
<u>Indemnification</u>	130
<u>Reimbursement of Expenses</u>	130
<u>Books and Reports</u>	130
<u>Right to Inspect Our Books and Records</u>	130
<u>Registration Rights</u>	131
<u>UNITS ELIGIBLE FOR FUTURE SALE</u>	132
<u>MATERIAL TAX CONSEQUENCES</u>	133
<u>Partnership Status</u>	133
<u>Limited Partner Status</u>	135
<u>Tax Consequences of Unit Ownership</u>	135
<u>Tax Treatment of Operations</u>	140
<u>Disposition of Common Units</u>	141
<u>Uniformity of Units</u>	143
<u>Tax-Exempt Organizations and Other Investors</u>	144
<u>Administrative Matters</u>	145
<u>State, Local, Foreign and Other Tax Considerations</u>	147
<u>INVESTMENT IN SEMGROUP ENERGY PARTNERS, L.P. BY EMPLOYEE BENEFIT PLANS</u>	148
<u>UNDERWRITING</u>	149
<u>VALIDITY OF THE COMMON UNITS</u>	152
<u>EXPERTS</u>	152
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	152
<u>FORWARD-LOOKING STATEMENTS</u>	152
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
<u>Appendix A GLOSSARY OF TERMS</u>	A-1

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Table of Contents

Index to Financial Statements

SUMMARY

This summary provides a brief overview of information contained elsewhere in this prospectus. Because it is abbreviated, this summary does not contain all of the information that you should consider before investing in our common units. You should read the entire prospectus carefully, including the historical financial statements and the notes to those financial statements. You should read Risk Factors beginning on page 16 for more information about important risks that you should consider carefully before buying our common units.

Unless indicated otherwise, the information presented in this prospectus assumes that the underwriters do not exercise their over-allotment option. As used in this prospectus, unless we indicate otherwise: (1) SemGroup Energy Partners, our, we, us and similar terms refer to SemGroup Energy Partners, L.P. together with our subsidiaries and (2) our Parent refers to SemGroup, L.P. and its subsidiaries and affiliates (other than us). We include a glossary of some of the terms used in this prospectus as Appendix A.

SemGroup Energy Partners, L.P.

Overview

We are a Delaware limited partnership formed in 2007 by our Parent, a provider of midstream energy services, to own, operate and develop a diversified portfolio of complementary midstream energy assets. We completed the initial public offering of our common units in July 2007. We currently provide crude oil gathering, transportation, terminalling and storage services primarily in our core operating areas in Oklahoma, Kansas and Texas. Pursuant to a crude oil gathering, transportation, terminalling and storage agreement with our Parent, which we refer to as the Throughput Agreement, our Parent pays us a fee based on the number of barrels of crude oil we gather, transport, terminal or store on behalf of our Parent and has committed to use our services at a level that provides us with minimum monthly fees totaling \$76.1 million annually. We intend to acquire and construct a significant amount of additional midstream energy assets, including assets acquired from our Parent and jointly with our Parent.

Consistent with this strategy, we will acquire substantially all of our Parent's domestic owned liquid asphalt cement terminalling and storage assets for a purchase price of \$378.8 million concurrently with the closing of this offering. We believe this acquisition will increase the scope and scale of our operations, provide geographic diversity to our business and position us to pursue future growth opportunities. At September 30, 2007, our Parent had total consolidated net book value of property, plant and equipment of \$1.3 billion (including the assets of SemGroup Energy Partners, which represent \$0.1 billion of this amount). The Acquired Assets (as defined below) that we will purchase concurrently with the closing of this offering represent approximately \$140 million of this amount. In connection with our acquisition of the Acquired Assets, we will enter into a terminalling and storage agreement with our Parent, which we refer to as the Terminalling Agreement. Pursuant to the Terminalling Agreement, our Parent will pay us a fee based on the number of barrels of liquid asphalt cement we terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum monthly fees totaling \$58.9 million annually. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent.

Current Operations

Our current network of crude oil assets provides our customers the flexibility to access multiple points for the receipt and delivery of crude oil. We do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal and store. As a result, our operations have minimal direct exposure to changes in crude oil prices, but the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. In our crude oil business, we generate revenues by charging a fee for services provided at each transportation stage as crude oil is shipped from its origin at the wellhead to destination points such as the Cushing Interchange, to refineries in Oklahoma, Kansas and Texas or to pipelines, as described below.

Table of Contents

Index to Financial Statements

Crude oil terminalling and storage assets and services. We provide crude oil terminalling and storage services at our terminalling and storage facilities located in Oklahoma, Kansas and Texas. We currently own and operate an aggregate of approximately 6.7 million barrels of storage capacity. Of this storage capacity, approximately 4.8 million barrels are located at our terminal in Cushing, Oklahoma. Our Cushing terminal is strategically located within the Cushing Interchange, one of the largest crude oil marketing hubs in the United States and the designated point of delivery specified in all New York Mercantile Exchange, or NYMEX, crude oil futures contracts. Our terminals have a combined capacity to receive or deliver approximately 10.0 million barrels of crude oil per month. We also own approximately 26 acres of additional land within the Cushing Interchange where we can develop additional storage capacity.

Crude oil gathering and transportation assets and services. We own and operate two pipeline systems, the Mid-Continent system and the Longview system, collectively consisting of approximately 1,150 miles of pipelines that gather crude oil for our Parent and other third-party customers and transport it to refiners, to common carrier pipelines for ultimate delivery to refiners or to terminalling and storage facilities owned by us and others. Our pipeline gathering and transportation system located in Oklahoma and the Texas Panhandle, which we refer to as the Mid-Continent system, has a combined length of approximately 820 miles. Our second pipeline gathering and transportation system located in East Texas, which we refer to as the Longview system, consists of approximately 330 miles of tariff-regulated crude oil gathering pipeline. In addition to our pipelines, we use our approximately 200 owned or leased tanker trucks to gather crude oil in Kansas, Oklahoma, Texas, New Mexico and Colorado for our Parent and other third-party customers at remote wellhead locations generally not connected to pipeline and gathering systems and transport the crude oil to aggregation points and storage facilities located along pipeline gathering and transportation systems. In connection with our gathering services, we also provide a number of producer field services, ranging from gathering condensates from natural gas producers to hauling production waste water to disposal wells.

We presently derive a substantial majority of our revenues from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. Our Parent is obligated to pay us minimum monthly fees totaling \$76.1 million annually in respect of the minimum commitments under the Throughput Agreement, regardless of whether such services are actually utilized by our Parent. Our Parent's crude oil purchasing, marketing and distribution operations are substantially dependent on our services and assets.

Description of the Acquired Assets

On January 14, 2008, we entered into a purchase and sale agreement with our Parent pursuant to which we will acquire substantially all of our Parent's domestic owned liquid asphalt cement terminalling and storage assets from SemMaterials, L.P., a wholly owned subsidiary of our Parent, for a purchase price of \$378.8 million. This acquisition will close concurrently with the closing of this offering and we expect the acquisition to be accretive to our unitholders. The assets to be acquired, which we refer to as the Acquired Assets, include 46 terminals in 23 states with an aggregate shell capacity of approximately 6.6 million barrels. The Acquired Assets include land, receiving infrastructure, machinery, pumps and piping and large liquid asphalt cement storage tanks. We will acquire the terminalling and storage assets associated with the terminals, other than equipment used exclusively for processing and marketing operations, which our Parent will retain. Our Parent will also retain certain domestic leased terminals that are used for storage as well as processing and marketing of finished asphalt products, as well as its asphalt operations in Mexico. In addition, our Parent will retain access to facilities used for both terminalling and storage of liquid asphalt cement and processing of finished asphalt products pursuant to a terminal access and use agreement, which we refer to as the Access and Use Agreement.

Table of Contents

Index to Financial Statements

At the closing of our acquisition of the Acquired Assets, we will also enter into the Terminalling Agreement with our Parent. The Terminalling Agreement has an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon prior notice. Pursuant to the Terminalling Agreement, our Parent will pay us a fee based on the number of barrels of liquid asphalt cement we terminal or store on behalf of our Parent and will commit to utilize our terminalling and storage services at a level that will provide us with minimum monthly fees totaling \$58.9 million annually. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent. Our Parent's finished asphalt product processing and marketing operations are, and will continue to be, substantially dependent on the Acquired Assets and the services we will provide under the Terminalling Agreement. We will not take title to, or marketing responsibility for, the liquid asphalt cement that we will terminal and store.

At the closing of this offering, the following transactions will occur:

we will issue 6,000,000 common units to the public, representing a 17.8% limited partner interest in us;

we will receive a \$3.4 million capital contribution by our general partner to maintain its 2.0% general partner interest in us;

we will borrow approximately \$219.9 million under our credit facility, which will be amended at the closing of this offering to increase our total borrowing capacity to \$ million; and

we will use the net proceeds from this offering, together with our general partner's capital contribution and borrowings under our amended credit facility, to pay expenses associated with this offering and the amendment of our credit facility and to pay consideration of approximately \$378.8 million to our Parent to purchase the Acquired Assets.

The board of directors of SemGroup Energy Partners G.P., L.L.C., our general partner, approved the acquisition of the Acquired Assets as well as the terms of the related agreements based on a recommendation from its conflicts committee, which consists entirely of independent directors. The conflicts committee retained independent legal and financial advisors to assist it in evaluating the transaction and considered a number of factors in approving the acquisition, including an opinion from the committee's independent financial advisor that the consideration to be paid for the Acquired Assets is fair, from a financial point of view, to us.

Competitive Strengths

We believe we are well positioned to successfully achieve our primary business objectives and execute our business strategies based on the following competitive strengths:

following this offering, substantially all of our operations will generate fee-based revenues, including contracted minimum revenues under the Throughput Agreement and the Terminalling Agreement;

our terminalling and storage facilities are strategically located. Our primary crude oil facility is located at the Cushing Interchange, one of the largest crude oil marketing hubs in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts;

our gathering and transportation systems give us the ability to transport crude oil to multiple end points, particularly the Cushing Interchange, which creates increased demand for our services by allowing our customers the flexibility to effectively manage their marketing of crude oil and increase their profitability;

Edgar Filing: SemGroup Energy Partners, L.P. - Form S-1

our relationship with our Parent enhances our ability to make strategic acquisitions and to access other business opportunities;

our properties and facilities have been well maintained resulting in reliable and efficient operations;

Table of Contents

Index to Financial Statements

we will have the financial flexibility through the available capacity under our amended credit facility and our ability to access the capital markets to pursue expansion and acquisition opportunities. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow; and

our Parent has a knowledgeable management team with significant experience in the energy industry and in executing acquisition and expansion strategies.

Business Strategies

Our primary business objectives are to maintain stable cash flows and to increase distributable cash flow per unit over time by becoming a leading provider of midstream services to the energy industry. We intend to accomplish these objectives by executing the following strategies:

leveraging our relationship with our Parent to pursue acquisition and organic growth opportunities by:

jointly pursuing acquisition opportunities in a manner that minimizes our direct commodity price exposure; and

acquiring additional assets or businesses directly from our Parent;

pursuing both strategic and accretive acquisitions within the midstream energy industry, by:

evaluating opportunities in our existing areas of operation as well as other midstream energy acquisition opportunities; and

seeking acquisitions that will enable us to grow our distributable cash flow per unit and enhance our service capabilities;

pursuing organic expansion opportunities through:

constructing additional assets in strategic locations that will allow us to leverage our existing market position; and

expanding storage capacity;

increasing the profitability of our existing assets by:

improving our operating efficiency and by monitoring and controlling our cost structure; and

increasing the utilization of our existing asset infrastructure.

Our Relationship with our Parent

Edgar Filing: SemGroup Energy Partners, L.P. - Form S-1

One of our principal strengths is our relationship with our Parent, a provider of midstream energy services in the United States. Our Parent provides gathering, transportation, terminalling, storage, distribution, marketing and other midstream services primarily to independent natural gas and crude oil producers, as well as refiners located along the North American energy corridor from the Gulf Coast to Central Canada and the West Coast of the United Kingdom. Our Parent has a significant asset base consisting primarily of pipelines, gathering systems, processing plants, storage facilities, terminals and other distribution facilities located between North American production and supply areas, including the Gulf Coast and Mid-Continent regions of the United States and the province of Alberta, Canada and high demand regions such as the Midwest. Upon completion of the acquisition of the Acquired Assets, substantially all of our revenues will be generated by providing services to our Parent's operations under the Throughput Agreement and the Terminalling Agreement.

Since our Parent's inception in April 2000 through September 30, 2007, our Parent has completed 58 acquisitions at an aggregate purchase price of approximately \$1.0 billion, excluding amounts paid for working capital. Our Parent has indicated that it intends to use us as a growth vehicle to pursue the acquisition and

Table of Contents

Index to Financial Statements

expansion of midstream energy businesses and assets. Consistent with our acquisition of the Acquired Assets, we expect to have the opportunity to make additional acquisitions directly from our Parent in the future. We cannot say with any certainty which, if any, of these future acquisition opportunities may be made available to us or if we will choose to pursue any such opportunity. In addition, through our relationship with our Parent, we have access to a significant pool of management talent and strong commercial relationships throughout the energy industry. While our relationship with our Parent may benefit us, it is also a source of potential conflicts. For example, our Parent is not restricted from competing with us, except that upon our acquisition of the Acquired Assets, our Parent will be subject to certain limitations on the terminalling and storage of liquid asphalt cement within 50 miles of our liquid asphalt cement facilities. Our Parent owns substantial midstream assets and may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets, except that upon completion of the acquisition of the Acquired Assets, we will have a right of first refusal on certain of our Parent's finished asphalt product processing assets if our Parent proposes to transfer such assets to a third party. Please see [Conflicts of Interest and Fiduciary Duties](#).

After the completion of this offering, our Parent will retain a significant indirect interest in our partnership through its ownership of a 37.4% limited partner interest represented by subordinated units, a 2% general partner interest and incentive distribution rights. In connection with our initial public offering, we entered into the Throughput Agreement and an omnibus agreement with our Parent, which we refer to as the Omnibus Agreement, both of which govern our relationship with our Parent. In connection with our acquisition of the Acquired Assets, we will enter into the Terminalling Agreement and will amend and restate the Omnibus Agreement, which we refer to as the Amended Omnibus Agreement. Please see [Business Throughput Agreement](#), [The Acquired Assets Terminalling Agreement](#) and [Certain Relationships and Related Party Transactions Amended Omnibus Agreement](#). Our Parent employed approximately 2,200 people as of September 30, 2007, approximately 600 of whom will be dedicated to supporting our operations following our acquisition of the Acquired Assets. We do not have any employees. Please see [Business Employees](#).

Summary of Risk Factors

An investment in our common units involves risks associated with our business, regulatory and legal matters, our partnership structure and the tax characteristics of our common units. The following list of risk factors is presented as if we have completed the acquisition of the Acquired Assets and is not exhaustive. Please read carefully these and other risks described under the caption [Risk Factors](#).

Risks Related to Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

We depend upon our Parent for substantially all of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

Our Parent's obligations under the Throughput Agreement and the Terminalling Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

Table of Contents

Index to Financial Statements

We will use the proceeds of this offering, together with borrowings under our amended credit facility, to purchase the Acquired Assets. If such assets do not perform as expected, our future financial performance may be negatively impacted.

Our debt levels may limit our ability to make distributions and our flexibility in obtaining additional financing and in pursuing other business opportunities.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Our partnership agreement limits our general partner's fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our Parent may compete with us, which could adversely affect our existing business and limit our ability to acquire additional assets or businesses.

Cost reimbursements due to our general partner and its affiliates for services provided, which are determined by our general partner in good faith (which means it must believe the determination is in the best interest of our partnership) in accordance with our partnership agreement and the Amended Omnibus Agreement, may be substantial and will reduce our cash available for distribution to you.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Removal of our gen