Blueknight Energy Partners, L.P.
Form 10-K
March 16, 2011

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

FORM 10-K

Mark One [X]	Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2010
	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 001-33503

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

Delaware (State or other jurisdiction of incorporation or organization)	20-8536826 (I.R.S. Employer Identification No.)
Two Warren Place 6120 South Yale Avenue, Suite 500 Tulsa, Oklahoma (Address of principal executive offices)	74136 (Zip Code)

(918) 237-4000
(Registrant's telephone number, including area code)

_____

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Units representing limited partner interests	OTC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of June 30, 2010, the aggregate market value of the registrant's common units held by non-affiliates of the registrant was approximately $117.1 million, based on $8.40 per common unit, the closing price of the common units as reported on the Pink Sheets over-the-counter securities market on such date.

At March 11, 2011, there were 21,890,224 common units, 12,570,504 subordinated units and 21,538,462 Series A preferred units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:
None

TABLE OF CONTENTS

DEFINITIONS

We use the following terms in this report:

Bankruptcy Filings: On July 22, 2008, and thereafter, SemCorp and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, Case No. 08-11547-BLS. This is referred to as the Bankruptcy Filings. We were not a party to the Bankruptcy Filings, and SemCorp no longer has an ownership interest in us or our General Partner.

Barrel: One barrel of petroleum products equals 42 United States gallons.

Bpd: Barrels per day.

Common carrier pipeline: A pipeline engaged in the transportation of petroleum products as a public utility and common carrier for hire.

Condensate: A natural gas liquid with a low vapor pressure, mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

Feedstock: A raw material required for an industrial process such as in petrochemical manufacturing.

Finished asphalt products: As used herein, the term refers to liquid asphalt cement sold directly to end users and to asphalt emulsions, asphalt cutbacks, polymer modified asphalt cement and related asphalt products processed using liquid asphalt cement. The term is also used to refer to various residual fuel oil products directly sold to end users.

Liquid asphalt cement: Liquid asphalt cement is a dark brown to black cementitious material that is primarily produced by petroleum distillation. When crude oil is separated in distillation towers at a refinery, the heaviest hydrocarbons with the highest boiling points settle at the bottom. These tar-like fractions, called residuum, require relatively little additional processing to become products such as asphalt cement or residual fuel oil. Liquid asphalt cement is primarily used in the road construction and maintenance industry. Residual fuel oil is primarily used as a burner fuel in numerous industrial and commercial business applications. As used herein, the term refers to both liquid asphalt cement and residual fuel oils.

Midstream: The industry term for the components of the energy industry in between the production of oil and gas (upstream) and the distribution of refined and finished products (downstream).

PMAC: Polymer modified asphalt cement.

Predecessor: Our Predecessor refers to the assets, liabilities and operations of that portion of our crude oil business that was contributed to us by SemCorp on July 20, 2007. Our Predecessor had historically been a part of the integrated operations of SemCorp, and neither SemCorp nor our Predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. SemCorp and our Predecessor recognized only the costs associated with providing such services. Accordingly, revenues reflected in the historical financial statements of our Predecessor represent services provided to third parties and do not include any revenues for services provided to SemCorp.

SemCorp: SemCorp refers to SemGroup Corporation and its predecessors (including SemGroup, L.P.), subsidiaries and affiliates (other than our General Partner and us during periods in which we were affiliated with SemGroup, L.P.). SemCorp and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, Case No. 08-11547-BLS. We were not a party to SemCorp's Bankruptcy Filings, and, SemCorp no longer has an ownership interest in us or our General Partner.

Settlement: In April 2009, we entered into a master agreement and related documents with SemCorp in which we settled certain matters with SemCorp related to its Bankruptcy Filings. We refer to this agreement and the related transactions as the Settlement.

Terminalling: The receipt of crude oil and petroleum products for storage into storage tanks and other appurtenant equipment, including pipelines, where the crude oil and petroleum products will be commingled with other products of similar quality; the storage of the crude oil and petroleum products; and the delivery of the crude oil and petroleum products as directed by a distributor into a truck, vessel or pipeline.

Throughput: The volume of product transported or passing through a pipeline, plant, terminal or other facility.

PART I

As used in this annual report, unless we indicate otherwise: (1) "Blueknight Energy Partners," "our," "we," "us" and similar terms refer to Blueknight Energy Partners, L.P. (f/k/a/ SemGroup Energy Partners, L.P.), together with its subsidiaries, (2) our "General Partner" refers to Blueknight Energy Partners G.P., L.L.C. (f/k/a SemGroup Energy Partners G.P., L.L.C.), (3) "SemCorp" refers to SemGroup Corporation and its predecessors (including SemGroup, L.P.), subsidiaries and affiliates (other than our General Partner and us during periods in which we were affiliated with SemGroup, L.P.), (4) "Vitol" refers to Vitol Holding B.V., its affiliates and subsidiaries (other than our General Partner and us) and (5) "Charlesbank" refers to Charlesbank Capital Partners, LLC, its affiliates and subsidiaries (other than our General Partner and us).

Forward Looking Statements

This report contains "forward-looking statements" within the meaning of the federal securities laws. Statements included in this annual report that are not historical facts (including any statements regarding plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements can be identified by the use of forward-looking terminology including "may," "will," "should," "believe," "expect," "intend," "anticipate," "estimate," "continue," or other similar words. These state discuss future expectations, contain projections of results of operations or of financial condition, or state other "forward-looking" information. We and our representatives may from time to time make other oral or written statements that are also forward-looking statements.

Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to be correct. Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other things, those set forth in "Item 1A—Risk Factors," included in this annual report, and those set forth from time to time in our filings with the Securities and Exchange Commission ("SEC"), which are available through the Investor Relations link at www.bkep.com and through the SEC's Electronic Data Gathering and Retrieval System ("EDGAR") at http://www.sec.gov.

All forward-looking statements included in this report are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this report.

Item 1. Business

Overview

We are a publicly traded master limited partnership with operations in twenty-two states. We provide integrated terminalling, storage, processing, gathering and transportation services for companies engaged in the production, distribution and marketing of crude oil and asphalt product. We do not take title of the crude oil and asphalt for which we provide services for our customers, and our only inventory consists of pipeline linefill and tank bottoms necessary to operate our assets. We manage our operations through four operating segments: (1) crude oil terminalling and storage services, (2) crude oil pipeline services, (3) crude oil trucking and producer field services, and (4) asphalt

services. During the fourth quarter of 2010, we changed the structure of our internal organization in a manner that caused the composition of our operating and reportable segments to change. Previously, the crude oil pipeline services segment and the crude oil trucking and producer field services segment were presented on a combined basis.

Our Operational History and Structure

We were formed as a Delaware limited partnership in 2007 to own, operate and develop a diversified portfolio of complementary midstream energy assets. Our operating assets are owned by, and our operations are conducted through, our subsidiaries. Our General Partner has sole responsibility for conducting our business and for managing our operations. Our General Partner is jointly owned by Blueknight Energy Holding, Inc. (which is an affiliate of Vitol) and CB-Blueknight, LLC (which is an affiliate of Charlesbank). As such, Vitol and Charlesbank control our operations. Our General Partner has previously been controlled by other entities. See "Management's Discussion and Analysis of Financial Condition—Our History" for a discussion of these other controlling entities.

Our General Partner has no business or operations other than managing our business. In addition, outside of its investment in us, our General Partner owns no assets or property other than a minimal amount of cash which has been distributed by us to our General Partner in respect of its interest in us. Our partnership agreement imposes no additional material liabilities upon our General Partner or obligations to contribute to us other than those liabilities and obligations imposed on general partners under the Delaware Revised Uniform Limited Partnership Act.

The following diagram depicts our organizational structure, including our relationship with our affiliates and subsidiaries, as of December 31, 2010:

Our Strengths and Strategies

Strategically placed assets. Our primary crude oil terminalling and storage facilities are 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 NYMEX crude oil futures contracts. We believe that the Cushing Interchange will continue to serve as one of the largest crude oil marketing hubs in the United States. In addition, we have approximately 1,285 miles of strategically positioned gathering and transportation pipelines in Oklahoma and Texas as well as 45 asphalt terminals located in 22 states that we believe are well positioned to provide services in the market areas they serve throughout the continental United States.

Growth opportunities. Vitol and Charlesbank have indicated that they intend to use us as a growth vehicle to pursue the acquisition and expansion of midstream energy businesses and assets. Vitol and Charlesbank have formed a new company ("Development Company") that they have informed us is intended to be focused on developing projects that we may later have the opportunity to acquire. Vitol and Charlesbank own Development Company and we have no interest in this new entity. Vitol and Charlesbank have informed us that they have committed to contribute up to $200 million in the aggregate to the development of projects within Development Company. We cannot say with any certainty if Development Company will develop any projects or, if it does, which, if any, of these future acquisition opportunities may be made available to us by Development Company or if we will choose to pursue any such opportunity.

Experienced management team. Our General Partner has an experienced and knowledgeable management team with extensive experience in the energy industry. We expect to directly benefit from this management team's strengths, including significant relationships throughout the energy industry with producers, marketers and refiners of crude oil and customers of our asphalt services.

Our relationship with Vitol and Charlesbank. Vitol and Charlesbank jointly own our General Partner and therefore control our operations. Vitol owns a diversified portfolio of midstream energy assets in the United States and internationally. Charlesbank is a middle-market private equity investment firm based in Boston and New York. These relationships may provide us with additional capital sources for future growth as well as increased opportunities to provide terminalling, storage, processing, gathering and transportation services. While these relationships may benefit us, they may also be a source of potential conflicts. For example, Vitol and Charlesbank are not restricted from competing with us and they 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.

Industry Overview

Crude Oil Industry

We provide crude oil gathering, transportation, storage and terminalling services to producers, marketers and refiners of crude oil products. The market we serve, which begins at the source of production and extends to the point of distribution to the end user customer, is commonly referred to as the "midstream" market. Our crude oil operations are located primarily in Oklahoma, Kansas and Texas, where there are extensive crude oil production operations in place and our assets extend from gathering systems and trucking networks in and around these producing fields to transportation pipelines carrying crude oil to logistics hubs, such as the Cushing Interchange (Cushing, Oklahoma), where we have substantial terminalling and storage facilities that aid our customers in managing the delivery of their crude oil.

Gathering and transportation. Pipeline transportation is generally considered the lowest cost method for shipping crude oil and refined petroleum products to other locations. Crude oil and refined products pipelines transport about two-thirds of the petroleum shipped in the United States. Crude oil pipelines transport oil from the wellhead to logistics hubs and/or refineries. Logistics hubs like the Cushing Interchange provide storage and connections to other pipeline systems and modes of transportation, such as tankers, railroads, and trucks. Vessels and railroads provide additional transportation capabilities shipping crude oil between gathering storage systems, pipelines, terminals and storage centers and end-users. Vessel transportation is typically a cost-efficient mode of transportation that allows for the ability to transport large volumes of crude oil over long distances.

Trucking complements pipeline gathering systems by gathering crude oil from operators at remote wellhead locations not served by pipeline gathering systems. These trucks can also be used to transport crude oil to aggregation points and storage facilities, which are generally located along pipeline gathering and transportation systems. Trucking is generally limited to low volume, short haul movements where other alternatives to pipeline transportation are often unavailable. Trucking costs escalate sharply with distance, making trucking the most expensive mode of crude oil transportation. Despite being small in terms of both volume per shipment and distance, trucking is an essential component of the oil distribution system.

Terminalling and storage. Terminalling and storage facilities complement the crude oil pipeline gathering and transportation systems. Terminals are facilities where crude oil is transferred to or from a storage facility or transportation system, such as a gathering pipeline, to another transportation system, such as trucks or another pipeline. Terminals play a key role in moving crude oil to end-users such as refineries by providing storage and inventory management and distribution.

Storage and terminalling assets generate revenues through a combination of storage and throughput charges to third parties. Storage fees are generated when tank capacity is provided to third parties. Terminalling services fees, also referred to as throughput services fees, are generated when a terminal receives crude oil from a shipper and redelivers it to another shipper. Both storage and terminalling services fees are earned from refiners and gatherers that need segregated storage for refining feedstocks, pipeline operators, refiners or traders that need segregated storage for foreign cargoes, traders who make or take delivery under NYMEX contracts and producers and marketers that seek to increase their marketing alternatives.

Overview of the Cushing Interchange (Cushing, Oklahoma). The Cushing Interchange is 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. As the NYMEX delivery point and a cash market hub, the Cushing Interchange serves as the primary source of refinery feedstock for Midwest refiners and plays an integral role in establishing and maintaining markets for many varieties of foreign and domestic crude oil. The following table lists certain of the incoming pipelines connected to the Cushing Interchange, the proprietary terminals within the complex and all outgoing pipelines from the Cushing Interchange for delivery throughout the United States:

Incoming Pipelines to Cushing Interchange	Cushing Interchange Terminals	Outgoing Pipelines from Cushing Interchange
Blueknight Energy Partners, L.P.	Blueknight Energy Partners, L.P.	Blueknight Energy Partners, L.P.
BP p.l.c.	Enterprise Products Partners L.P.	BP p.l.c.
Enterprise Products Partners L.P.	Enbridge Energy Partners, L.P.	ConocoPhillips
Sunoco Logistics Partners, L.P.	Plains All American Pipeline, L.P.	Sunoco Logistics Partners, L.P.
Plains All American Pipeline, L.P.	ConocoPhillips	Enbridge Energy Partners, L.P.
Seaway Crude Pipeline Company	SemGroup Corporation	Osage Pipeline Company, LLC
Enbridge Energy Partners, L.P.	Magellan Midstream Partners, L.P.	Ozark Pipeline
SemGroup Corporation	Deeprock Energy Resources LLC /	Plains All American Pipeline, L.P.
Basin Pipeline System	Kinder Morgan Energy Partners, L.P.	Magellan Midstream Partners, L.P.
TransCanada Corp.		Centurion Pipeline L.P.
EOG Resources, Inc.		
White Cliffs Pipeline, LLC		

Due to our pipeline and terminalling infrastructure, we have the ability to receive and/or deliver, directly or indirectly, to all pipelines and terminals within the Cushing Interchange.

Asphalt Industry

Liquid asphalt cement is one of the oldest engineering materials. Liquid asphalt cement's adhesive and waterproofing properties have been used for building structures, waterproofing ships, mummification and numerous other applications.

Production of liquid asphalt cement begins with the production of crude oil. Liquid asphalt cement is a dark brown to black cementitious material that is primarily produced by petroleum distillation. When crude oil is separated in distillation towers at a refinery, the heaviest hydrocarbons with the highest boiling points settle at the bottom. These tar-like fractions, called residuum, require relatively little additional processing to become products such as asphalt base or residual fuel oil. Liquid asphalt cement production represents only a small portion of the total product production in the crude oil refining process. The liquid asphalt cement produced by petroleum distillation can be sold by the refinery either directly into the wholesale and retail liquid asphalt cement markets or to a liquid asphalt cement marketer.

In its normal state, asphalt cement is too viscous a liquid to be used at ambient temperatures. For paving applications, asphalt cement can be heated (as for hot mix asphalt), diluted or cut back with petroleum solvents (cutback asphalts), or emulsified in a water base with emulsifying chemicals by a colloid mill (asphalt emulsions). Hot mix asphalt is produced by mixing hot asphalt cement and heated aggregate (stone, sand and/or gravel). The hot mix asphalt is loaded into trucks for transport to the paving site, where it is placed on the road surface by paving machines and compacted by rollers. Hot mix asphalt is used for new construction, reconstruction and for thin maintenance overlays on existing roads.

Asphalt emulsions and cutback asphalts are used for a variety of applications including spraying as a tack coat between an old pavement and a new hot mix asphalt overlay, cold mix pothole patching material, and preventive maintenance surface applications such as chip seals. Asphalt emulsions are also used for fog seal, slurry seal, scrub seal, sand seal and microsurfacing maintenance treatments, for warm mix emulsion/aggregate mixtures, base stabilization and both central plant and in-place recycling. Asphalt emulsions and cutback asphalts are generally sold directly to government agencies but are also sold to contractors for use in applications such as chip seals.

The asphalt industry in the United States is characterized by a high degree of seasonality. Much of this seasonality is due to the impact that weather conditions have on road construction schedules, particularly in cold weather states. Refineries produce liquid asphalt cement year round, but the peak asphalt demand season is during the warm weather months when most of the road construction activity in the United States takes place. As a result, liquid asphalt cement prices can vary dramatically from the winter to summer months. Liquid asphalt cement marketers and finished asphalt product producers with access to extensive storage capacity possess the inherent advantage of being able to purchase supply from refineries at low prices in the low demand winter months and then sell finished asphalt products at higher prices in the peak summer demand season.

Residual Fuel Oil Industry

Like asphalt cement, residual fuel oil is another by-product of the crude oil distillation process. Residual fuel oil is primarily used as a burner fuel in numerous industrial and commercial business applications including the utility industry, the shipping and paper industry, steel mills, tire manufacturing, schools and food processors.

The residual fuel oil industry in the United States is characterized by a high degree of seasonality with much of the seasonality driven by the impact of weather on the need to produce power for heating and cooling applications. The residual fuel oil market is largely a commodity market with price functioning as the primary decision-making criterion. However, many customers have unique product specifications driven by their particular business applications that require the blending of various components to meet those specifications.

Residual fuel oil is purchased from a variety of refiners by our customers and transported to our terminalling and storage facilities via numerous transportation methods including rail tank car, barge, ship and truck. Some of our

customers use our asphalt assets to service their residual fuel oil business.

Crude Oil Terminalling and Storage Services

With approximately 8.1 million barrels of above-ground crude oil terminalling facilities and storage tanks, we are able to provide our customers the ability to effectively manage their crude oil inventories and significant flexibility in their marketing and operating activities. Our crude oil terminalling and storage assets are located throughout our core operating areas with the majority of our crude oil terminalling and storage strategically located at the Cushing Interchange.

Our crude oil terminals and storage assets receive crude oil products from pipelines, including those owned by us, and distribute these products to interstate common carrier pipelines and regional independent refiners, among other third parties. Our crude oil terminals derive most of their revenues from terminalling services fees charged to customers.

The table below sets forth the total average barrels stored at and delivered out of our Cushing terminal in each of the periods presented and the total storage capacity at our Cushing terminal and at our other terminals at the end of such periods:

	Year Ended December 31,	
	2009	2010
Average crude oil barrels stored per month at our Cushing terminal	5,754,807	5,113,699
Average crude oil delivered (Bpd) to our Cushing terminal	76,777	59,989
Total storage capacity at our Cushing terminal (barrels at end of period)	6,710,000	6,713,200
Total other storage capacity (barrels at end of period)	1,492,000	1,396,584

The following table outlines the location of our crude oil terminals and their storage capacities and number of tanks as of December 31, 2010:

Location	Storage Capacity (barrels)	Number of Tanks
Cushing, Oklahoma	6,713,200	36
Longview, Texas	430,000	7