

MAGELLAN MIDSTREAM PARTNERS LP

Form 424B5

August 04, 2010

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. We are not using this preliminary prospectus supplement to offer to sell these securities or to solicit offers to buy these securities in any place where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-162929

Subject to completion, dated August 4, 2010

Preliminary prospectus supplement

(To prospectus dated November 5, 2009)

\$

% Senior Notes due

Interest payable on *and*

This is an offering by Magellan Midstream Partners, L.P. of \$ million of % Senior Notes due . Interest on the notes is payable on and of each year beginning . Interest on the notes will accrue from August , 2010. The notes will mature on .

We may redeem some or all of the notes at any time or from time to time at a redemption price that includes a make-whole premium, as described under the caption Description of notes Optional redemption.

The notes will be our senior unsecured obligations and will rank equally with all of our existing and future senior debt and senior to any future subordinated debt that we may incur.

Investing in the notes involves risks. See Risk factors beginning on page S-8 of this prospectus supplement and on page 3 of the accompanying prospectus as well as the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	Price to public(1)	Underwriting discounts	Proceeds to us(1)
Per Note	%	%	%
Total	\$	\$	\$

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(1) Includes accrued interest from August , 2010.

The notes will not be listed on any national securities exchange or quoted on any automated quotation system. Currently, there is no public market for the notes.

It is expected that delivery of the notes will be made to investors in registered book-entry form only through the facilities of The Depository Trust Company on or about August , 2010.

Joint Book-Running Managers

J.P. Morgan

BofA Merrill Lynch

Morgan Stanley

Wells Fargo Securities

August , 2010

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Prospectus dated November 5, 2009

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About this prospectus supplement

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of notes. The second part is the accompanying prospectus, which gives more general information about the securities we may offer from time to time. Generally when we refer only to the prospectus, we are referring to both parts combined.

If the information about the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized anyone to provide you with different or additional information. We and the underwriters are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus supplement, in the accompanying prospectus and in any free writing prospectus is accurate as of any date other than the dates shown in those documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

None of Magellan Midstream Partners, L.P., the underwriters or any of their respective representatives is making any representation to you regarding the legality of an investment in the notes by you under applicable laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of an investment in the notes.

As used in this prospectus supplement and the accompanying prospectus, unless we indicate otherwise, the terms our, we, us and similar terms refer to Magellan Midstream Partners, L.P., together with our subsidiaries.

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This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering. Please read Risk factors beginning on page S-8 of this prospectus supplement and page 3 of the accompanying prospectus as well as the Risk Factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 for more information about important factors that you should consider before buying notes in this offering.

Magellan Midstream Partners, L.P.

We were formed as a limited partnership under the laws of the State of Delaware in August 2000. We are principally engaged in the transportation, storage and distribution of refined petroleum products. As of June 30, 2010, our three operating segments included:

our petroleum products pipeline system, which is primarily comprised of our 9,500-mile petroleum products pipeline system, including 52 terminals;

our petroleum products terminals, which principally includes our six marine terminal facilities, 27 inland terminals and one crude oil terminal, which is under construction; and

our ammonia pipeline system, representing our 1,100-mile ammonia pipeline system.

Our principal executive offices are located in One Williams Center, Tulsa, Oklahoma 74172 and our phone number is (918) 574-7000.

Partnership structure and management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. Our general partner, which is also a wholly owned subsidiary, has sole responsibility for conducting our business and managing our operations. Our general partner has a non-economic general partner interest in us and does not receive a management fee or other compensation in connection with its management of our business.

The following table describes our current ownership structure. The percentages reflected in the table, other than the general partner interest, represent approximate ownership interests in us.

Ownership of Magellan Midstream Partners, L.P.	Percentage interest
Public common units	99.7%
Officer and director common units	0.3%
General partner interest	0.0%
Total	100.0%

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Recent developments

Sale of common units in public offering

On July 19, 2010, we closed a public offering of 5,750,000 of our common units at a price to the public of \$46.65 per common unit. We received net proceeds of approximately \$258.8 million after deducting underwriting discounts but before offering expenses payable by us. We applied a portion of the net proceeds from that offering to repay the borrowings outstanding under our existing \$550.0 million revolving credit facility, which we refer to as our revolving credit facility, with the balance used for general partnership purposes, including investments in interest bearing securities or accounts.

Acquisition of storage and pipeline assets

On July 12, 2010, we entered into a definitive agreement with BP Pipelines (North America), Inc. to purchase certain crude oil storage assets and crude oil and refined petroleum products pipelines located in Texas and Oklahoma for \$289.0 million in cash. With limited exceptions, we are also assuming all pre-closing and post-closing liabilities related to the acquired assets. The assets to be purchased include:

Crude oil storage assets. The crude oil storage assets are located at the crude oil marketing hub in Cushing, Oklahoma and have an aggregate 7.8 million barrels of storage capacity. These crude oil storage assets will be supported by a multi-year utilization agreement with the seller.

Crude oil pipeline system. The crude oil pipeline system is a common carrier pipeline system consisting of nearly 40 miles of crude oil pipelines, 24 to 26 inches in diameter, running between Houston, Texas and Texas City, Texas with connections to multiple refineries.

Refined petroleum products pipeline system. The refined petroleum products pipeline system consists of two 35-mile common carrier pipelines that transport refined petroleum products from the Texas City refining region to the Houston area, including connections to third-party pipelines for delivery to other end-use markets. An 18-inch pipeline transports gasoline and a 12-inch pipeline transports distillates, such as diesel fuel.

We expect the acquisition to close within 60 days of the signing of the definitive agreement, subject to regulatory approval and other customary closing conditions. At closing, we will also purchase from the seller certain crude oil working inventories associated with the Cushing crude oil storage assets for fair market value, which we currently estimate to be approximately \$50.0 million. We cannot assure you that the acquisition will close within the anticipated 60-day period or at all. This offering of senior notes is not contingent upon the closing of the acquisition and the closing of the acquisition is not contingent upon the successful completion of this offering of senior notes.

We intend to fund a portion of the \$289.0 million purchase price for the crude oil storage assets and crude oil and refined petroleum products pipelines we have agreed to acquire from BP Pipelines (North America), Inc. and the purchase of certain crude oil working inventories associated with those storage and pipeline assets with the net proceeds from this offering. We expect to fund the balance of the purchase price with borrowings under our revolving credit facility or cash on hand, or a combination of both. Pending such use, we intend to use the net proceeds from this offering for general partnership purposes, including investments in interest bearing securities or accounts.

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The notes offering

Issuer	Magellan Midstream Partners, L.P.
Securities	\$ million aggregate principal amount of % Senior Notes due .
Maturity Date	, .
Interest Payment Dates	and of each year, beginning , . Interest will accrue from August , 2010.
Use of Proceeds	We intend to use the net proceeds from this offering to fund a portion of the \$289.0 million cash purchase price for the crude oil storage assets and crude oil and refined petroleum products pipelines we have agreed to acquire from BP Pipelines (North America), Inc. and the purchase of certain crude oil working inventories associated with those assets. We expect to fund the balance of the purchase price with borrowings under our revolving credit facility or cash on hand, or a combination of both. Pending such use, we intend to use the net proceeds from this offering for general partnership purposes, including investments in interest bearing securities or accounts.
Optional Redemption	We may redeem some or all of the notes at any time or from time to time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest, if any, to the redemption date, as described under the caption Description of notes Optional redemption.
Subsidiary Guarantees	Our subsidiaries will not initially guarantee the notes. In the future, however, we will cause any of our subsidiaries that guarantees or becomes a co-obligor in respect of any of our funded debt to equally and ratably guarantee the notes offered hereby.
Ranking	The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior debt, including borrowings under our revolving credit facility, and senior to any future subordinated debt. We conduct substantially all of our business through our subsidiaries. The notes will be structurally subordinated to all existing and future debt and other liabilities, including trade payables, of any of our non-guarantor subsidiaries. As of June 30, 2010, our subsidiaries had no debt for borrowed money owing to any unaffiliated third parties.
Certain Covenants	We will issue the notes under an indenture, as supplemented by the first supplemental indenture, with U.S. Bank National Association, as trustee, that governs the notes. The indenture does not limit the

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amount of unsecured debt we may incur. The indenture contains limitations on, among other things, our ability to:

incur debt secured by certain liens;

engage in certain sale-leaseback transactions; and

consolidate, merge or dispose of all or substantially all of our assets.

Additional Issuances

We may, at any time, without the consent of the holders of the notes, issue additional notes having the same interest rate, maturity and other terms as the notes offered hereby. Any additional notes having such similar terms, together with the notes offered hereby, will constitute a single series under the indenture.

Risk Factors

Please read **Risk Factors** beginning on page S-8 of this prospectus supplement and on page 3 of the accompanying prospectus, as well as the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, for a discussion of factors you should carefully consider before investing in the notes.

Governing Law

The notes and the indenture relating to the notes will be governed by New York law.

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Summary financial and operating data

The following table sets forth summary financial data as of and for the years ended December 31, 2007, 2008 and 2009 and as of and for the six months ended June 30, 2009 and 2010. This financial data was derived from our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009 and from our unaudited consolidated financial statements and related notes included in our Quarterly Report on Form 10-Q for the six months ended June 30, 2010. The financial data set forth below should be read in conjunction with those consolidated financial statements and the notes thereto, which are incorporated by reference into this prospectus supplement and the accompanying prospectus and have been filed with the SEC. All other amounts have been prepared from our financial records.

Beginning in 2010, our East Houston, Texas terminal was transferred from our petroleum products terminals segment to our petroleum products pipeline system segment. The East Houston terminal is an origin for our pipeline system and has been increasingly utilized as a pipeline terminal. For instance, we are currently building a connection between the East Houston terminal and our Houston-to-El Paso pipeline section to serve as an origin for that pipeline. Further, we have constructed a pipeline connection from our East Houston terminal to a third-party pipeline near Houston to allow us to transport petroleum products from the Port Arthur, Texas refinery region into our pipeline markets. We are commercially managing the East Houston terminal in coordination with our pipeline facility to provide efficient marketing to our customers. Since the beginning of 2010, this facility has been realigned under petroleum products pipeline management and its operating results have been reported both internally and externally as part of that segment. As a result, historical financial results for our segments have been adjusted to conform to the current period's presentation.

The financial measures of Adjusted EBITDA and operating margin, which are not prepared in accordance with generally accepted accounting principles, or GAAP, are presented in the summary financial data. We have presented these financial measures because we believe that investors benefit from having access to the same financial measures utilized by management.

We define Adjusted EBITDA, which is a non-GAAP measure, in the following table as net income plus provision for income taxes, debt prepayment premium, debt placement fee amortization, interest expense (net of interest income and interest capitalized) and depreciation and amortization. Adjusted EBITDA should not be considered an alternative to net income, operating profit, cash flow from operations or any other measure of financial performance presented in accordance with GAAP. Because Adjusted EBITDA excludes some items that affect net income and these items may vary among other companies, the Adjusted EBITDA data presented may not be comparable to similarly titled measures of other companies. Our management uses Adjusted EBITDA as a performance measure to assess the viability of projects and to determine overall rates of return on alternative investment opportunities. A reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP measure, is included in the following table.

In addition to Adjusted EBITDA, the non-GAAP measure of operating margin (in the aggregate and by segment) is presented in the Income Statement Data section of the following table. We compute the components of operating margin by using amounts that are determined in accordance with GAAP. A reconciliation of total operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included in the following table. A reconciliation

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of segment operating margin to segment operating profit is included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the six months ended June 30, 2010. Operating margin is an important measure of the economic performance of our core operations. This measure forms the basis of our internal financial reporting and is used by our management in deciding how to allocate capital resources between segments. Operating profit, alternatively, includes expense items, such as depreciation and amortization and general and administrative expenses, which our management does not consider when evaluating the core profitability of a business or segment.

	2007	Year ended December 31, 2008 2009 (in thousands, except per unit amounts and operating statistics)		2009	Six months ended June 30, 2010 (unaudited)
Transportation and terminals revenues	\$ 608,781	\$ 638,810	\$ 678,945	\$ 321,723	\$ 366,342
Product sales revenues	709,564	574,095	334,465	99,043	386,034
Affiliate management fee revenues	712	733	761	380	379
Total revenues	1,319,057	1,213,638	1,014,171	421,146	752,755
Operating expenses	250,935	264,871	257,635	121,315	132,396
Product purchases	633,909	436,567	280,291	93,620	316,523
Gain on assignment of supply agreement		(26,492)			
Equity earnings	(4,027)	(4,067)	(3,431)	(1,458)	(2,669)
Operating margin	438,240	542,759	479,676	207,669	306,505
Depreciation and amortization expense	79,140	86,501	97,216	46,315	52,057
General and administrative expense	74,859	73,302	84,049	41,384	43,420
Operating profit	284,241	382,956	298,411	119,970	211,028
Interest expense, net	47,653	50,479	69,187	29,056	42,633
Debt prepayment premium	1,984				
Debt placement fee amortization	1,554	767	1,112	444	657
Other (income) expense, net	728	(380)	(24)	(647)	
Income before provision for income taxes	232,322	332,090	228,136	91,117	167,738
Provision for income taxes(a)	1,568	1,987	1,661	809	752
Net income	\$ 230,754	\$ 330,103	\$ 226,475	\$ 90,308	\$ 166,986
Basic and diluted net income per limited partner unit	\$ 1.55	\$ 2.21	\$ 2.22	\$ 0.67	\$ 1.56
Balance Sheet Data:					
Working capital (deficit)	\$ (15,609)	\$ (29,644)	\$ 94,571	\$ 100,357	\$ 133,257
Total assets	2,416,931	2,600,708	3,163,148	2,765,754	3,276,958
Long-term debt	914,536	1,083,485	1,680,004	1,314,520	1,779,658
Owners' equity	1,184,566	1,254,132	1,196,354	1,200,777	1,226,730
Cash Distribution Data:					
Cash distributions declared per unit(b)	\$ 2.55	\$ 2.77	\$ 2.84	\$ 1.42	\$ 1.45
Cash distributions paid per unit(b)	\$ 2.49	\$ 2.72	\$ 2.84	\$ 1.42	\$ 1.43

(Footnotes appear on following page)

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	Year ended December 31,			Six months ended	
	2007	2008	2009	2009	June 30, 2010
	(in thousands, except per unit amounts and operating statistics)			(unaudited)	
Other Data:					
Operating margin (loss):					
Petroleum products pipeline system	\$ 354,914	\$ 428,903	\$ 361,598	\$ 152,810	\$ 237,300
Petroleum products terminals	83,289	101,713	110,573	50,826	65,820
Ammonia pipeline system	(2,995)	8,660	3,666	2,137	1,660
Allocated partnership depreciation costs(c)	3,032	3,483	3,839	1,896	1,725
Operating margin	\$ 438,240	\$ 542,759	\$ 479,676	\$ 207,669	\$ 306,505
Reconciliation of Adjusted EBITDA to Net Income:					
Net income	\$ 230,754	\$ 330,103	\$ 226,475	\$ 90,308	\$ 166,986
Provision for income taxes(a)	1,568	1,987	1,661		