

MAGELLAN MIDSTREAM PARTNERS LP

Form 424B3

October 07, 2004

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We will amend and complete the information in this prospectus supplement. This preliminary prospectus supplement and the prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the prospectus are not offers to sell nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

Filed Pursuant to Rule No.: 424(b)(3)

Registration No.: 333-83952

Subject to Completion, dated October 7, 2004

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 16, 2002)

\$250,000,000

% Senior Notes due 2016

This is an offering by Magellan Midstream Partners, L.P. of \$250,000,000 of % Senior Notes due 2016. Interest on the notes is payable on and of each year beginning , 2005. Interest on the notes will accrue from , 2004. The notes will mature on , 2016.

We may redeem some or all of the notes at any 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 unsecured debt and senior to any future subordinated unsecured debt that we may incur.

*Investing in the notes involves risk. Please read **Risk Factors** beginning on page S-11 of this prospectus supplement and on page 2 of the accompanying prospectus.*

	<u>Per Note</u>	<u>Total</u>
Public Offering Price	%	\$
Underwriting Discount	%	\$
Proceeds to Us (before expenses)	%	\$

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

The notes will not be listed on any national securities exchange. 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 _____, 2004.

Book-Running Manager

LEHMAN BROTHERS

CITIGROUP

GOLDMAN, SACHS & Co.

JPMORGAN

SUNTRUST ROBINSON HUMPHREY

UBS INVESTMENT BANK

October , 2004

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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 debt securities we may offer from time to time.

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 or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates shown in these 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.

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SUMMARY

*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-11 of this prospectus supplement and page 2 of the accompanying prospectus for more information about important factors that you should consider before buying notes in this offering. 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.*

Magellan Midstream Partners, L.P.

We are a publicly traded Delaware limited partnership that owns and operates a diversified portfolio of complementary energy assets. We are principally engaged in the transportation, storage and distribution of refined petroleum products. For the year ended December 31, 2003, we had revenues of \$485.2 million, EBITDA of \$161.6 million and net income of \$88.2 million. For the six months ended June 30, 2004, we had revenues of \$275.4 million, EBITDA of \$85.7 million and net income of \$44.3 million. For a reconciliation of EBITDA to net income and a discussion of EBITDA as a performance measure, please read **Summary Selected Financial and Operating Data**.

We completed the initial public offering of our common units in February 2001 at an initial offering price of \$21.50 per common unit. Since our initial public offering, we have increased our quarterly cash distribution for 13 consecutive quarters, resulting in an aggregate increase of approximately 65.7% from \$0.525 per unit, or \$2.10 per unit on an annualized basis, to \$0.87 per unit, or \$3.48 per unit on an annualized basis. Since February 2001, we have completed nine acquisitions, including the Shell acquisition described below, for an aggregate purchase price of approximately \$1.7 billion, and we intend to continue pursuing an asset acquisition strategy.

On October 1, 2004, we acquired more than 2,000 miles of refined petroleum products pipeline system assets from Shell Pipeline Company LP and Equilon Enterprises LLC, which had operated these assets under the name Shell Oil Products US, or Shell, for approximately \$489.7 million. For more information about this acquisition, please read **Recent Developments Acquisition of Shell Refined Petroleum Products Pipeline Systems**.

In addition to the assets that we recently acquired from Shell, our other assets consist of:

a 6,700-mile petroleum products pipeline system, including 39 petroleum products terminals, serving the mid-continent region of the United States, referred to as our **6,700-mile petroleum products pipeline system** ;

five petroleum products terminal facilities located along the U.S. Gulf Coast and near the New York harbor, referred to as **marine terminal facilities** ;

29 petroleum products terminals located principally in the southeastern United States, referred to as **inland terminals** ; and

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an 1,100-mile ammonia pipeline system, including six ammonia terminals, serving the mid-continent region of the United States.

Our 6,700-mile petroleum products pipeline system is a common carrier pipeline that provides transportation, storage and distribution services for petroleum products and liquefied petroleum gases, or LPGs,

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in 11 states from Oklahoma through the Midwest to North Dakota, Minnesota, Wisconsin and Illinois. This system generates revenues principally from tariffs regulated by the Federal Energy Regulatory Commission, or the FERC, based on the volumes transported and also from storage and other ancillary fees. Through direct refinery connections and interconnections with other pipelines, this system can access approximately 41% of the refinery capacity in the United States and is well-positioned to adapt to shifts in product supply or demand. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our 6,700-mile petroleum products pipeline system generated approximately 80% of our total revenues.

Our inland terminals and marine terminal facilities, which we refer to collectively as our petroleum products terminals, store and distribute gasoline and other petroleum products throughout 11 states. Our inland terminals are part of a distribution network located primarily throughout the southeastern United States and used by retail suppliers, wholesalers and marketers to receive gasoline and other petroleum products from large, interstate pipelines and to transfer these products to trucks, railcars or barges for delivery to their final destination. Our marine terminal facilities are large storage terminals that principally serve refiners, marketers and large end-users of petroleum products and are strategically located near major refining hubs along the U.S. Gulf Coast and near the New York harbor. Our petroleum products terminals generate revenues principally from volume-based fees charged for the storage and delivery of gasoline and other petroleum products handled by these terminals. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our petroleum products terminals generated approximately 17% and 18%, respectively, of our total revenues.

Our ammonia pipeline system transports and distributes ammonia from production facilities in Texas and Oklahoma to various distribution points in the Midwest for use as an agricultural fertilizer. Our ammonia pipeline system generates revenues principally from volume-based fees charged for the transportation of ammonia on the pipeline system. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our ammonia pipeline system generated approximately 3% and 2%, respectively, of our total revenues.

Business Strategies

Our primary business strategies are to:

grow through strategic acquisitions and expansion projects that increase per unit cash flow;

generate stable cash flows to make quarterly cash distributions; and

conduct safe and efficient operations.

Competitive Strengths

We believe we are well-positioned to execute our business strategies successfully because of the following competitive strengths:

our assets are strategically located in areas with high demand for our services;

we have little direct commodity price exposure;

we have long-term relationships with many of our customers that utilize our pipeline and terminal assets;

we have a strong financial position that allows us to make acquisitions and complete expansion projects; and

our senior management has extensive industry experience.

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Recent Developments

Distribution Increase. On July 22, 2004, the board of directors of our general partner declared a quarterly cash distribution of \$0.87 per common and subordinated unit for the period of April 1 through June 30, 2004. This distribution represents an 11.5% increase over the distribution for the second quarter of 2003 of \$0.78 per unit and an approximate 65.7% increase in our distribution since our initial public offering in February 2001. The distribution was paid on August 13, 2004 to unitholders of record at the close of business on August 3, 2004.

Acquisition of Shell Refined Petroleum Products Pipeline Systems. On October 1, 2004, we acquired more than 2,000 miles of refined petroleum products pipeline system assets from Shell for approximately \$489.7 million. In addition to the purchase price, we paid approximately \$30.0 million for inventory related to a third-party supply agreement under which we received a security interest in a related \$14.0 million cash collateral account, assumed approximately \$25.7 million of existing liabilities and expect to incur approximately \$9.6 million for transaction costs. These assets are located in Colorado, Kansas, Oklahoma and Texas and primarily comprise the following four refined petroleum products pipeline systems, which include six active terminals and six system storage facilities that have a combined storage capacity of approximately 6.4 million barrels:

Orion refined products system: an approximate 1,000-mile pipeline originating at the East Houston terminal in Houston, Texas that we acquired as part of this acquisition that delivers refined products to (i) a terminal in Odessa, Texas that we acquired as part of this acquisition, (ii) a third-party terminal in El Paso, Texas, (iii) third-party facilities in central Texas and (iv) the mid-continent region of the United States through an interconnection with our 6,700-mile petroleum products pipeline system at Duncan, Oklahoma;

Hearne refined products system: an approximate 145-mile pipeline originating in Hearne, Texas that delivers refined products to third-party terminals in Waco and Dallas, Texas and to our existing terminal in Dallas;

Chase refined products system: an approximate 700-mile pipeline originating in El Dorado, Kansas that delivers refined products to (i) two terminals that we acquired as part of this acquisition and one third-party terminal in Kansas, (ii) a terminal near Denver, Colorado that we acquired as part of this acquisition and (iii) the Denver International Airport; and

Cimarron refined products system: an approximate 175-mile pipeline with origin points in Glenpool and Cushing, Oklahoma that delivers refined products to the Chase pipeline connection at El Dorado, Kansas. Our 6,700-mile petroleum products pipeline system serves as an interconnect between the Orion pipeline at Duncan, Oklahoma and the Cimarron pipeline at Cushing, Oklahoma.

The acquisition of the Shell refined petroleum products pipeline system assets provides us with a direct connection to the U.S. Gulf Coast, which is the primary refining region of the United States and a major point of entry for foreign imports of refined petroleum products. The acquisition also extends the reach of our 6,700-mile petroleum products pipeline system into key markets in Colorado and western and northern Texas, including the growing metropolitan centers of Denver, Dallas/Fort Worth and El Paso.

The Orion, Chase and Cimarron refined products systems already have connections to our 6,700-mile petroleum products pipeline system. Given the strategic importance of these assets to us and their connections to our existing assets, we believe that opportunities exist for several expansion projects to improve the utilization of, and integrate the acquired assets into, our existing operations.

Giving effect to the anticipated expansion projects and our marketing of these assets to third parties, including Shell, we expect annual operating profit from the acquired assets to be between \$40.0 and \$45.0 million by 2007 and to average approximately \$37.0 million for the period 2005 to

2007. We expect the related book depreciation to average approximately \$18.0 million per year for the period 2005 to 2007, and the

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maintenance capital for the acquired assets to be approximately \$2.0 million annually. For information about certain factors that could cause the actual operating results attributable to the acquired assets to materially differ from that which we expect, please read [Information Regarding Forward-Looking Statements](#) in this prospectus supplement and [Risk Factors](#) included in and incorporated by reference into this prospectus supplement and the accompanying prospectus.

In connection with this acquisition, we amended our partnership agreement to reduce the incentive cash distributions to be paid to our general partner by \$5.0 million and \$3.0 million for 2005 and 2006, respectively. In addition, the amended partnership agreement reduces the incentive cash distributions to be paid to our general partner for the fourth quarter of 2004 by \$1.25 million. These reductions will accelerate the accretion attributable to the acquisition and increase the cash available for distribution to our limited partners.

Financing of Shell Acquisition. At the closing of the Shell acquisition, we financed the acquisition with (i) cash on hand of approximately \$179.3 million, including net proceeds of approximately \$87.3 million from our August 2004 equity offering and net of an escrow payment of approximately \$24.6 million to Shell in June 2004, (ii) \$300.0 million of borrowings under our short-term acquisition facility and (iii) \$50.0 million of borrowings under our revolving credit facility.

On October 1, 2004, we announced an equity offering consisting of 2.6 million of our common units in a separate registered offering. We priced that offering on October 4, 2004 and expect to close that offering on October 8, 2004. We expect to receive net proceeds of approximately \$138.3 million, including our general partner's related capital contribution, which we will use to repay a portion of the indebtedness and accrued interest outstanding under our \$300.0 million short-term acquisition facility. We expect to use the net proceeds from this offering (i) to repay the indebtedness and accrued interest outstanding under our revolving credit facility, (ii) to repay the remaining indebtedness and accrued interest outstanding under our short-term acquisition facility and (iii) for general partnership purposes. This offering is not conditioned upon our pending common unit offering. If we do not consummate our pending common unit offering, we will use the net proceeds of this offering to repay a portion of the borrowings under our short-term acquisition facility, and the balance of the facility would remain outstanding. Affiliates of four of the underwriters participating in this offering are lenders under our \$300.0 million short-term acquisition facility, and affiliates of all of the underwriters participating in this offering are lenders under our revolving credit facility.

For more information about the acquisition and our related financing plan, please read [Overview of the Shell Acquisition](#), [Use of Proceeds](#) and [Underwriting](#).

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. After giving effect to our pending common unit offering:

There will be 25,795,000 publicly held common units outstanding, representing a 77.1% limited partner interest in us;

Magellan Midstream Holdings, L.P. will own 2,735,541 common units and 4,259,771 subordinated units, representing an aggregate 20.9% limited partner interest in us; and

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Magellan GP, LLC, our general partner, will continue to own a 2.0% general partner interest in us and all of the incentive distribution rights.

Our general partner has sole responsibility for conducting our business and managing our operations. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but it is reimbursed for direct and indirect expenses incurred on our behalf.

The chart on the following page depicts our organizational and ownership structure after giving effect to this offering, our pending common unit offering and application of the net proceeds therefrom. The percentages reflected in the organizational chart represent the approximate ownership interests in us and our operating subsidiaries.

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	Percentage Interest
Ownership of Magellan Midstream Partners, L.P.	
Public common units	77.1%
Magellan Midstream Holdings, L.P. common units	8.2%
Magellan Midstream Holdings, L.P. subordinated units	12.7%
Magellan GP, LLC general partner interest	2.0%
Total	100.0%

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The Notes Offering

Issuer Magellan Midstream Partners, L.P.

Securities \$250,000,000 aggregate principal amount of % Senior Notes due 2016.

Maturity Date , 2016.

Interest Payment Dates and of each year, beginning , 2005.

Use of Proceeds We intend to use a portion the net proceeds from this offering to repay indebtedness and accrued interest outstanding under our revolving credit facility and a portion of the indebtedness and accrued interest outstanding under our \$300.0 million short-term acquisition facility, each of which we used to finance the Shell acquisition. We will use any remaining net proceeds for general partnership purposes.

Optional Redemption We may redeem some or all of the notes at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest, if any, to the redemption date, as described in Description of Notes beginning on page S-23 of this prospectus supplement.

Ranking The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior indebtedness, including indebtedness under our revolving credit facility.

We conduct substantially all of our business through our subsidiaries. The notes will be structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, of any of our subsidiaries. As of June 30, 2004, our subsidiaries had approximately \$302.2 million of outstanding debt to unaffiliated third parties and approximately \$21.2 million of outstanding trade payables. In addition, since June 30, 2004 we have incurred an additional \$350.0 million in total indebtedness under our short-term acquisition facility and our revolving credit facility in connection with our financing of the Shell acquisition. Please read Overview of the Shell Acquisition and Description of Notes Ranking.

Subsidiary Guarantees We will cause any of our existing and future subsidiaries that guarantees or becomes a co-obligor in respect of any of our funded debt to equally and ratably guarantee the notes.

Certain Covenants We will issue the notes under an indenture with SunTrust Bank, as trustee. The indenture does not limit the amount of unsecured debt we may incur. The indenture will contain limitations on, among other things, our ability to:

incur indebtedness secured by certain liens;

engage in certain sale-leaseback transactions; and

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

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The indenture will provide for certain events of default, including default on certain other indebtedness.

Risk Factors

Please read **Risk Factors** beginning on page S-11 and on page 2 of the accompanying prospectus for a discussion of factors you should carefully consider before investing in the notes.

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Summary Selected Financial and Operating Data

We have derived the summary selected historical financial data as of and for the years ended December 31, 2001, 2002 and 2003 from our audited consolidated financial statements and related notes. We have derived the summary selected historical financial data as of and for the six months ended June 30, 2003 and 2004 from our unaudited financial statements, which, in the opinion of our management, include all adjustments necessary for a fair presentation of the data. This financial data is an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto, which are incorporated by reference and have been filed with the Securities and Exchange Commission, or SEC. All other amounts have been prepared from our financial records. Information concerning significant trends in our financial condition and results of operations is contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," which has been filed with the SEC and is incorporated by reference.

The non-generally accepted accounting principle financial measures of EBITDA and operating margin are presented in the summary selected historical 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.

EBITDA is defined as net income plus provision for income taxes, debt placement fee amortization, write-off of unamortized debt placement fees, interest expense (net of interest income) and depreciation and amortization. EBITDA should not be considered an alternative to net income, operating income, cash flow from operations or any other measure of financial performance presented in accordance with generally accepted accounting principles, or GAAP. EBITDA is not intended to represent cash flow. Because EBITDA excludes some but not all items that affect net income and these measures may vary among other companies, the EBITDA data presented may not be comparable to similarly titled measures of other companies. Our management uses EBITDA as a performance measure to assess the viability of projects and to determine overall rates of return on alternative investment opportunities. We believe investors can use EBITDA as a simplified means of measuring cash generated by operations before maintenance capital and fluctuations in working capital. The reconciliation of EBITDA to net income, which is its nearest comparable GAAP measure, is included under the heading "Other Data" presented on the following page.

The components of operating margin are computed by using amounts that are determined in accordance with GAAP. The reconciliation of operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included under the heading "Income Statement Data" presented on the following page. Operating profit includes expense items, such as depreciation and amortization and general and administrative expenses, that management does not consider when evaluating the core profitability of an operation. Our management uses operating margin in deciding how to allocate capital resources between our business segments. We believe that operating margin is an important measure for investors of the economic performance of our core operations.

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	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
(\$ in thousands, except per unit amounts)					
Income Statement Data:					
Transportation and terminals revenues	\$ 339,412	\$ 363,740	\$ 372,848	\$ 183,430	\$ 192,629
Product sales revenues	108,169	70,527	112,312	44,210	82,735
Affiliate construction and management fee revenues	1,018	210			
Total revenues	448,599	434,477	485,160	227,640	275,364
Operating expenses including environmental expenses net of indemnifications	160,880	155,146	166,883	76,402	80,915
Product purchases	95,268	63,982	99,907	39,851	70,881
Equity earnings(a)					(268)
Operating margin	192,451	215,349	218,370	111,387	123,836
Depreciation and amortization	35,767	35,096	36,081	18,262	19,344
General and administrative	47,365	43,182	56,846	26,923	26,394
Operating profit	109,319	137,071	125,443	66,202	78,098
Interest expense, net	12,113	21,758	34,536	16,976	15,773
Debt placement fee amortization	253	9,950	2,830	1,309	1,338
Debt prepayment premium					12,666
Write-off of unamortized debt placement fees					5,002
Gain on derivative					(953)
Other income, net	(431)	(2,112)	(92)		
Income before income taxes	97,384	107,475	88,169	47,917	44,272
Provision for income taxes(b)	29,512	8,322			
Net income	\$ 67,872	\$ 99,153	\$ 88,169	\$ 47,917	\$ 44,272
Basic net income per limited partner unit	\$ 1.87	\$ 3.68	\$ 3.32	\$ 1.75	\$ 1.50
Diluted net income per limited partner unit	\$ 1.87	\$ 3.67	\$ 3.31	\$ 1.74	\$ 1.50
Balance Sheet Data:	&n				