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

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

Commission File Number 1-32940

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**NUSTAR GP HOLDINGS, LLC**

(Exact name of registrant as specified in its charter)

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

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

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

**78248**  
(Zip Code)

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

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

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

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

|                         |  |                           |                          |
|-------------------------|--|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/>                                    | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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

The number of common units outstanding as of July 31, 2011 was 42,564,475.

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**NUSTAR GP HOLDINGS, LLC AND SUBSIDIARIES  
FORM 10-Q**

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

|  | <u>June 30,<br/>2011</u> | <u>December 31,<br/>2010</u> |
|--|--------------------------|------------------------------|
|  | <u>(Unaudited)</u>       |                              |
| <b>Assets</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents                                | \$ 3,317                 | \$ 5,304                     |
| Receivable from NuStar Energy L.P.                       | 15,492                   | 10,345                       |
| Income tax receivable                                    | 742                      | —                            |
| Other receivables  | 850                      | 831                          |
| Deferred income tax assets, net                          | 6,412                    | 4,870                        |
| Other current assets                                     | 98                       | 303                          |
| Total current assets                                     | <u>26,911</u>            | <u>21,653</u>                |
| Investment in NuStar Energy L.P.                         | 551,811                  | 566,676                      |
| Long-term receivable from NuStar Energy L.P.             | 11,411                   | 10,088                       |
| Deferred income tax assets, net                          | 3,782                    | 5,628                        |
| Other assets   | —                        | 1,189                        |
| Total assets   | <u>\$ 593,915</u>        | <u>\$ 605,234</u>            |
| <b>Liabilities and Members' Equity</b>                   |                          |                              |
| Current liabilities:                                     |                          |                              |
| Short-term debt  | \$ 11,000                | \$ 16,000                    |
| Accounts payable   | 367                      | 89                           |
| Accrued compensation expense                             | 24,674                   | 24,727                       |
| Accrued liabilities                                      | 365                      | 398                          |
| Income tax payable                                       | —                        | 302                          |
| Taxes other than income tax                              | 15                       | 1,056                        |
| Total current liabilities                                | <u>36,421</u>            | <u>42,572</u>                |
| Employee benefit plan liabilities                        | 26,833                   | 21,199                       |
| Commitments and contingencies ( <a href="#">Note 9</a> ) |                          |                              |
| Members' equity  | 533,480                  | 540,992                      |
| Accumulated other comprehensive (loss) income            | (2,819)                  | 471                          |
| Total members' equity                                    | <u>530,661</u>           | <u>541,463</u>               |
| Total liabilities and members' equity                    | <u>\$ 593,915</u>        | <u>\$ 605,234</u>            |

See Condensed Notes to Consolidated Financial Statements.

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

|  | Three Months Ended June 30, |                   | Six Months Ended June 30, |                   |
|--|-----------------------------|-------------------|---------------------------|-------------------|
|  | 2011                        | 2010              | 2011                      | 2010              |
| Equity in earnings of NuStar Energy L.P.             | \$ 22,919                   | \$ 23,810         | \$ 34,261                 | \$ 33,111         |
| General and administrative expenses                  | (742)                       | (657)             | (1,486)                   | (1,450)           |
| Other (expense) income, net                          | (46)                        | 7,895             | (665)                     | 8,020             |
| Interest expense, net                                | (165)                       | (339)             | (343)                     | (657)             |
| Income before income tax benefit                     | 21,966                      | 30,709            | 31,767                    | 39,024            |
| Income tax benefit                                   | 95                          | 177               | 477                       | 355               |
| Net income   | <u>\$ 22,061</u>            | <u>\$ 30,886</u>  | <u>\$ 32,244</u>          | <u>\$ 39,379</u>  |
| Basic and diluted net income per unit                | <u>\$ 0.52</u>              | <u>\$ 0.73</u>    | <u>\$ 0.76</u>            | <u>\$ 0.93</u>    |
| Weighted-average number of basic units outstanding   | <u>42,544,659</u>           | <u>42,514,494</u> | <u>42,544,659</u>         | <u>42,514,494</u> |
| Weighted-average number of diluted units outstanding | <u>42,585,924</u>           | <u>42,514,494</u> | <u>42,585,123</u>         | <u>42,514,494</u> |

See Condensed Notes to Consolidated Financial Statements.

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

|  | <b>Six Months Ended June 30,</b> |                 |
|--|----------------------------------|-----------------|
|  | <b>2011</b>                      | <b>2010</b>     |
| <b>Cash Flows from Operating Activities:</b>   |                                  |                 |
| Net income   | \$ 32,244                        | \$ 39,379       |
| Adjustments to reconcile net income to net cash provided by operating activities:                          |                                  |                 |
| Equity in earnings of NuStar Energy L.P.   | (34,261)                         | (33,111)        |
| Distributions of equity in earnings from NuStar Energy L.P.  | 34,261                           | 33,111          |
| Gain related to NuStar Energy L.P.'s issuance of limited partner units                                     | —                                | (7,767)         |
| Loss (gain) on sale of NuStar Energy L.P. limited partner units in connection with unit-based compensation | 665                              | (253)           |
| (Benefit) provision for deferred income tax  | (977)                            | 508             |
| Changes in current assets and liabilities ( <a href="#">Note 7</a> )                                       | (4,216)                          | (7,779)         |
| Decrease in other assets   | 1,189                            | —               |
| Increase in long-term receivable from NuStar Energy L.P.   | (1,323)                          | (1,312)         |
| Increase in employee benefit plan liabilities  | 5,634                            | 6,632           |
| <b>Net cash provided by operating activities</b>   | <b>33,216</b>                    | <b>29,408</b>   |
| <b>Cash Flows from Investing Activities:</b>   |                                  |                 |
| Distributions in excess of equity in earnings from NuStar Energy L.P.                                      | 8,111                            | 7,228           |
| Investment in NuStar Energy L.P.   | (2,105)                          | (5,080)         |
| Proceeds from sale of NuStar Energy L.P. units in connection with unit-based compensation                  | 4,635                            | 2,248           |
| <b>Net cash provided by investing activities</b>   | <b>10,641</b>                    | <b>4,396</b>    |
| <b>Cash Flows from Financing Activities:</b>   |                                  |                 |
| Proceeds from short-term debt borrowings   | —                                | 5,200           |
| Repayment of short-term debt   | (5,000)                          | —               |
| Distributions to unitholders   | (40,844)                         | (37,626)        |
| <b>Net cash used in financing activities</b>   | <b>(45,844)</b>                  | <b>(32,426)</b> |
| Net (decrease) increase in cash and cash equivalents   | (1,987)                          | 1,378           |
| Cash and cash equivalents at the beginning of the period   | 5,304                            | 371             |
| Cash and cash equivalents at the end of the period   | <u>\$ 3,317</u>                  | <u>\$ 1,749</u> |

See Condensed Notes to Consolidated Financial Statements.

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

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

We have no operations or sources of income or cash flows other than our investment in NuStar Energy L.P. (NuStar Energy) (NYSE: NS). As of June 30, 2011, we owned approximately 17.5% of NuStar Energy, consisting of the following:

- the 2% general partner interest;
- 100% of the incentive distribution rights (IDR) issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and
- 10,245,306 common units of NuStar Energy representing a 15.5% limited partner interest.

NuStar Energy is a publicly held Delaware limited partnership engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. NuStar Energy has terminal facilities in the United States, Canada, the Netherlands, including St. Eustatius in the Caribbean, the United Kingdom, Mexico and Turkey.

***Basis of Presentation***

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

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

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless otherwise indicated. Financial information for the three and six months ended June 30, 2011 and 2010 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements as of that date. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

***Reclassifications***

Certain previously reported amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**2. NEW ACCOUNTING PRONOUNCEMENTS**

***Other Comprehensive Income***

In June 2011, the Financial Accounting Standards Board (FASB) amended the disclosure requirements for the presentation of comprehensive income. The amended requirements eliminate the option to present components of other comprehensive income (OCI) as part of the statement of changes in equity. Under the amended requirements, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes are effective for fiscal years and interim periods beginning after December 15, 2011, and retrospective application is required. Accordingly, we will adopt these provisions January 1, 2012. These amendments only affect financial statement presentation and will not impact our financial position or results of operations.

***Fair Value Measurements***

In May 2011, the FASB issued amended guidance and disclosure requirements for fair value measurements. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards. These changes are effective for interim and annual periods beginning on or after December 15, 2011, and early adoption is not permitted. Accordingly, we will adopt these provisions January 1, 2012, and we do not expect the amended guidance to have a material impact on our financial position, results of operations or disclosures.

**3. INVESTMENT IN NUSTAR ENERGY**

***Summary Financial Information***

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

|  | <u>June 30,<br/>2011</u> | <u>December 31,<br/>2010</u> |
|--|--------------------------|------------------------------|
|  | (Unaudited)              |                              |
| <b>Balance Sheet Information:</b>      |                          |                              |
| Current assets                         | \$ 1,315,356             | \$ 939,507                   |
| Property, plant and equipment, net     | 3,361,852                | 3,187,457                    |
| Goodwill                               | 848,949                  | 813,270                      |
| Other long-term assets, net            | 370,551                  | 446,159                      |
| Total assets                           | <u>\$ 5,896,708</u>      | <u>\$ 5,386,393</u>          |
| Current liabilities                    | \$ 885,327               | \$ 393,229                   |
| Long-term debt, less current portion   | 2,186,260                | 2,136,248                    |
| Other long-term liabilities            | 166,155                  | 154,216                      |
| Total liabilities                      | 3,237,742                | 2,683,693                    |
| NuStar Energy partners' equity         | 2,644,221                | 2,702,700                    |
| Noncontrolling interest                | 14,745                   | —                            |
| Total liabilities and partners' equity | <u>\$ 5,896,708</u>      | <u>\$ 5,386,393</u>          |

|   | <u>Three Months Ended June 30,</u> |              | <u>Six Months Ended June 30,</u> |              |
|---|------------------------------------|--------------|----------------------------------|--------------|
|   | <u>2011</u>                        | <u>2010</u>  | <u>2011</u>                      | <u>2010</u>  |
|   | (Thousands of Dollars)             |              |                                  |              |
| <b>Statement of Income Information:</b> |                                    |              |                                  |              |
| Revenues                                | \$ 1,589,184                       | \$ 1,124,941 | \$ 2,823,800                     | \$ 2,070,470 |
| Operating income                        | 117,351                            | 102,030      | 173,082                          | 141,803      |
| Net income                              | 92,605                             | 99,422       | 121,121                          | 119,125      |

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Other**

Our investment in NuStar Energy reconciles to NuStar Energy’s total partners’ equity as follows:

|  | June 30,<br>2011       | December 31,<br>2010 |
|--|------------------------|----------------------|
|  | (Thousands of Dollars) |                      |
| NuStar Energy’s total partners’ equity   | \$ 2,644,221           | \$ 2,702,700         |
| NuStar GP Holdings’ ownership interest in NuStar Energy  | 17.5%                  | 17.6%                |
| NuStar GP Holdings’ share of NuStar Energy’s partners’ equity  | 462,739                | 475,675              |
| Step-up in basis related to NuStar Energy’s assets and liabilities,<br>including equity method goodwill, and other | 89,072                 | 91,001               |
| Investment in NuStar Energy  | <u>\$ 551,811</u>      | <u>\$ 566,676</u>    |

**4. RELATED PARTY TRANSACTIONS**

We had a receivable from NuStar Energy of \$15.5 million and \$10.3 million, as of June 30, 2011 and December 31, 2010, respectively, relating to payroll, employee benefit plans and unit-based compensation. We also had a long-term receivable of \$11.4 million and \$10.1 million from NuStar Energy as of June 30, 2011 and December 31, 2010, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits. The following table represents total related party transactions charged to NuStar Energy:

|   | Three Months Ended June 30, |                  | Six Months Ended June 30, |                  |
|---|-----------------------------|------------------|---------------------------|------------------|
|   | 2011                        | 2010             | 2011                      | 2010             |
|   | (Thousands of Dollars)      |                  |                           |                  |
| Expenses for payroll, employee benefit plans<br>and unit-based compensation | \$ 52,766                   | \$ 47,346        | \$ 104,742                | \$ 98,324        |
| Other   | 70                          | 49               | 151                       | 153              |
| Total related party transactions charged to<br>NuStar Energy                | <u>\$ 52,836</u>            | <u>\$ 47,395</u> | <u>\$ 104,893</u>         | <u>\$ 98,477</u> |

**GP Services Agreement**

NuStar Energy and NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings, entered into a services agreement, effective as of January 1, 2008 (the GP Services Agreement). The GP Services Agreement provides that NuStar GP, LLC will furnish administrative and certain operating services necessary to conduct the business of NuStar Energy. All employees providing services to both NuStar GP Holdings and NuStar Energy are employed by NuStar GP, LLC; therefore, NuStar Energy reimburses NuStar GP, LLC for all employee costs, other than the expenses allocated to NuStar GP Holdings (the Holdco Administrative Services Expense). The GP Services Agreement will terminate on December 31, 2012, with automatic two-year renewals unless terminated by either party upon six months’ prior written notice. The aggregate amounts of Holdco Administrative Services Expense that we incurred were \$0.3 million for the three months ended June 30, 2011 and 2010, respectively, and \$0.7 million for the six months ended June 30, 2011 and 2010, respectively.



**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**5. DISTRIBUTIONS FROM NUSTAR ENERGY**

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

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|--|-----------------------------|-----------|---------------------------|------------|
|  | 2011                        | 2010      | 2011                      | 2010       |
| (Thousands of Dollars, Except Per Unit Data)               |                             |           |                           |            |
| General partner interest                                   | \$ 1,627                    | \$ 1,576  | \$ 3,219                  | \$ 3,043   |
| General partner incentive distribution                     | 8,963                       | 8,369     | 17,531                    | 16,168     |
| Total general partner distribution                         | 10,590                      | 9,945     | 20,750                    | 19,211     |
| Limited partner distribution                               | 11,213                      | 10,867    | 22,235                    | 21,772     |
| Total distributions to NuStar GP Holdings                  | 21,803                      | 20,812    | 42,985                    | 40,983     |
| Public unitholders’ distributions                          | 59,536                      | 57,942    | 117,970                   | 111,163    |
| Total cash distributions                                   | \$ 81,339                   | \$ 78,754 | \$ 160,955                | \$ 152,146 |
| Cash distributions per unit applicable to limited partners | \$ 1.095                    | \$ 1.065  | \$ 2.170                  | \$ 2.130   |

On May 13, 2011, NuStar Energy paid a quarterly cash distribution totaling \$79.6 million, or \$1.075 per unit, related to the first quarter of 2011. On July 28, 2011, NuStar Energy's board of directors approved a quarterly cash distribution of \$1.095 per unit related to the second quarter of 2011. This distribution will be paid on August 12, 2011 to unitholders of record on August 9, 2011 and will total \$81.3 million.

**6. FAIR VALUE MEASUREMENTS**

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

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

|   | June 30, 2011          |          |         |           |
|---|------------------------|----------|---------|-----------|
|   | Level 1                | Level 2  | Level 3 | Total     |
|   | (Thousands of Dollars) |          |         |           |
| Accrued compensation expense:                         |                        |          |         |           |
| NuStar Energy restricted units and performance awards | \$ 16,622              | \$ —     | \$ —    | \$ 16,622 |
| NuStar Energy unit options                            | —                      | 4,848    | —       | 4,848     |
| Total   | \$ 16,622              | \$ 4,848 | \$ —    | \$ 21,470 |
|   | December 31, 2010      |          |         |           |
|   | Level 1                | Level 2  | Level 3 | Total     |
|   | (Thousands of Dollars) |          |         |           |
| Accrued compensation expense:                         |                        |          |         |           |
| NuStar Energy restricted units and performance awards | \$ 14,968              | \$ —     | \$ —    | \$ 14,968 |
| NuStar Energy unit options                            | —                      | 7,076    | —       | 7,076     |
| Total   | \$ 14,968              | \$ 7,076 | \$ —    | \$ 22,044 |

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The fair value of our accrued compensation expense for NuStar Energy restricted units and performance awards is determined using the NuStar Energy unit price at the reporting date. The fair value of our accrued compensation expense for NuStar Energy unit options is determined using the Black-Scholes option-pricing model on the reporting date based on the following weighted-average assumptions:

|                             | June 30,<br>2011 | December 31,<br>2010 |
|-----------------------------|------------------|----------------------|
| Expected life in years      | 6.3              | 6.3                  |
| Expected volatility         | 19.8%            | 23.3%                |
| Expected distribution yield | 6.7%             | 6.2%                 |
| Risk-free interest rate     | 0.3%             | 0.4%                 |

**7. STATEMENTS OF CASH FLOWS**

Changes in current assets and liabilities were as follows:

|   | Six Months Ended June 30, |                   |
|---|---------------------------|-------------------|
|   | 2011                      | 2010              |
|   | (Thousands of Dollars)    |                   |
| Decrease (increase) in current assets:      |                           |                   |
| Receivable from NuStar Energy               | \$ (3,790)                | \$ (13,113)       |
| Income tax receivable                       | 539                       | (865)             |
| Other receivables                           | (19)                      | 52                |
| Other current assets                        | 205                       | 251               |
| Increase (decrease) in current liabilities: |                           |                   |
| Accounts payable                            | 278                       | 203               |
| Accrued compensation expense                | (53)                      | 6,246             |
| Accrued liabilities                         | (33)                      | (223)             |
| Income tax payable                          | (302)                     | —                 |
| Taxes other than income tax                 | (1,041)                   | (330)             |
| Changes in current assets and liabilities   | <u>\$ (4,216)</u>         | <u>\$ (7,779)</u> |

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

|                          | Six Months Ended June 30, |        |
|--------------------------|---------------------------|--------|
|                          | 2011                      | 2010   |
|                          | (Thousands of Dollars)    |        |
| Cash paid for interest   | \$ 250                    | \$ 476 |
| Cash paid for income tax | \$ 264                    | \$ 2   |

**8. CREDIT FACILITY**

Our 364-day revolving credit facility dated July 15, 2010 with a maturity date of July 14, 2011, has a borrowing capacity of up to \$30.0 million, of which, up to \$10.0 million may be available for letters of credit (2010 Credit Facility). As of June 30, 2011, we had outstanding borrowings of \$11.0 million and availability of \$19.0 million for borrowings under the 2010 Credit Facility. The 2010 Credit Facility bears interest at an alternative base rate plus 1.75% or a LIBOR-based rate plus 2.75%, which was 2.9% as of June 30, 2011. The carrying amount of the 2010 Credit Facility approximated its fair value as of June 30, 2011.

The terms of the 2010 Credit Facility require NuStar Energy to maintain a total debt-to-EBITDA ratio of less than 5.0-to-1.0 for any four consecutive quarters. On March 7, 2011, we amended the 2010 Credit Facility to exclude NuStar Energy's unused proceeds from the Gulf Opportunity Zone bond issuances from its total indebtedness in the calculation of the total debt-to-

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

EBITDA ratio. As of June 30, 2011, the total debt-to-EBITDA ratio was 4.3x. We are also required to receive cash distributions of at least \$35.0 million in respect of our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the covenants as of June 30, 2011.

On July 14, 2011, we amended our 2010 Credit Facility to extend the maturity date to July 12, 2012. In addition, borrowings will bear interest at an alternative base rate plus 0.75% or a LIBOR-based rate plus 1.75%.

## **9. COMMITMENTS AND CONTINGENCIES**

### ***Litigation and Environmental Matters***

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

*Grace Energy Corporation Matter.* In 1997, Grace Energy Corporation (Grace Energy) sued subsidiaries of Kaneb Pipeline Partners, L.P. (KPP) and Kaneb Services LLC (KSL and collectively with KPP and their respective subsidiaries, Kaneb) in Texas state court. NuStar Energy acquired Kaneb on July 1, 2005. The complaint sought recovery of the cost of remediation of fuel leaks in the 1970s from a pipeline that had once connected a former Grace Energy terminal with Otis Air Force Base in Massachusetts (Otis AFB). Grace Energy alleges the Otis AFB pipeline and related environmental liabilities had been transferred in 1978 to an entity that was part of Kaneb's acquisition of Support Terminal Services, Inc. and its subsidiaries from Grace Energy in 1993. Kaneb contends that it did not acquire the Otis AFB pipeline and never assumed any responsibility for any associated environmental damage.

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

The Otis AFB is a part of a Superfund Site pursuant to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The site contains a number of groundwater contamination plumes, two of which are allegedly associated with the Otis AFB pipeline. Relying on the final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the United States Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to NuStar Energy indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against NuStar Energy related to this matter, and NuStar Energy has not made any payments toward costs incurred by the DOJ. NuStar Energy is currently in settlement discussions with other potentially responsible parties and the DOJ, and a change in NuStar Energy's estimate of this liability may occur in the near term. However, any settlement agreement that is reached must be approved by multiple parties and requires the approval of the bankruptcy court and the federal district court. NuStar Energy cannot currently estimate when or if a settlement will be finalized.

*Eres Matter.* In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants are in breach of a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provides for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contends that NuStar Asphalt and/or NuStar Marketing (together, the NuStar Entities) assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants have failed to perform under the Charter Agreement since January 1, 2008. Eres has valued its damages for the alleged breach of contract claim at approximately \$78.1 million. Pursuant to a May 2010 ruling by the United States District Court for the Southern District of Texas, the NuStar Entities were found to have assumed the Charter Agreement from CARCO and to be obligated to defend and indemnify CITGO and CARCO against Eres' claims. The Defendants were ordered to proceed with arbitration; an arbitration hearing occurred in June 2011. Additional arbitration hearing dates are currently scheduled for mid-October 2011. NuStar Energy intends to vigorously defend against Eres' claims in arbitration.

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Other**

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

**10. MEMBERS’ EQUITY**

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

|                                 |                   |
|---------------------------------|-------------------|
| Balance as of December 31, 2010 | \$ 541,463        |
| Net income                      | 32,244            |
| Distributions to unitholders    | (40,844)          |
| Other comprehensive loss        | (3,290)           |
| Unit-based compensation         | 1,088             |
| Balance as of June 30, 2011     | <u>\$ 530,661</u> |

**Comprehensive Income**

Our total comprehensive income was as follows:

|  | Three Months Ended June 30, |                  | Six Months Ended June 30, |                  |
|--|-----------------------------|------------------|---------------------------|------------------|
|  | 2011                        | 2010             | 2011                      | 2010             |
|  | (Thousands of Dollars)      |                  |                           |                  |
| Net income   | \$ 22,061                   | \$ 30,886        | \$ 32,244                 | \$ 39,379        |
| Share of NuStar Energy’s other comprehensive loss              | (5,559)                     | (1,288)          | (3,560)                   | (1,451)          |
| Pension and other postretirement benefit plan adjustments, net | 135                         | 153              | 270                       | 306              |
| Comprehensive income   | <u>\$ 16,637</u>            | <u>\$ 29,751</u> | <u>\$ 28,954</u>          | <u>\$ 38,234</u> |

**Cash Distributions**

The table set forth below shows our cash distributions applicable to the period in which the distributions were earned:

|                             | Three Months Ended June 30,                  |           | Six Months Ended June 30, |           |
|-----------------------------|--|-----------|---------------------------|-----------|
|                             | 2011   | 2010      | 2011                      | 2010      |
|                             | (Thousands of Dollars, Except Per Unit Data) |           |                           |           |
| Cash distributions per unit | \$ 0.495                                     | \$ 0.460  | \$ 0.975                  | \$ 0.910  |
| Total cash distributions    | \$ 21,059                                    | \$ 19,556 | \$ 41,481                 | \$ 38,688 |

On May 18, 2011, we paid a quarterly cash distribution totaling \$20.4 million, or \$0.480 per unit, related to the first quarter of 2011. On July 28, 2011, our board of directors approved a quarterly cash distribution of \$0.495 per unit related to the second quarter of 2011. This distribution will be paid on August 16, 2011 to unitholders of record on August 9, 2011, and totals \$21.1 million.

**NUSTAR GP HOLDINGS, LLC**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**11. NET INCOME PER UNIT**

We include restricted units granted under our long-term incentive plan as participating securities in computing net income per unit pursuant to the two-class method.

Unit amounts used in the computation of basic and diluted net income per unit were as follows:

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2011                        | 2010       | 2011                      | 2010       |
| <b>Basic units outstanding:</b>                      |                             |            |                           |            |
| Weighted-average number of basic units outstanding   | 42,544,659                  | 42,514,494 | 42,544,659                | 42,514,494 |
| <b>Diluted units outstanding:</b>                    |                             |            |                           |            |
| Weighted-average number of basic units outstanding   | 42,544,659                  | 42,514,494 | 42,544,659                | 42,514,494 |
| Effect of dilutive securities                        | 41,265                      | —          | 40,464                    | —          |
| Weighted-average number of diluted units outstanding | 42,585,924                  | 42,514,494 | 42,585,123                | 42,514,494 |

The computation of diluted net income per unit for the three and six months ended June 30, 2010 excludes 324,100 outstanding options to purchase NuStar GP Holdings units, respectively, as the exercise price exceeded the average market price and their effect would have been anti-dilutive.

**12. EMPLOYEE BENEFIT PLANS**

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

|  | Pension Plans (a) |          | Other Postretirement Benefit Plans |        |
|--|-------------------|----------|------------------------------------|--------|
|  | 2011              | 2010     | 2011                               | 2010   |
| (Thousands of Dollars)                     |                   |          |                                    |        |
| <b>For the three months ended June 30:</b> |                   |          |                                    |        |
| Components of net periodic benefit cost:   |                   |          |                                    |        |
| Service cost                               | \$ 3,121          | \$ 2,846 | \$ 260                             | \$ 226 |
| Interest cost                              | 720               | 558      | 222                                | 208    |
| Expected return on assets                  | (904)             | (579)    | —                                  | —      |
| Amortization of prior service credit       | (4)               | (4)      | —                                  | —      |
| Amortization of net loss                   | 121               | 136      | 18                                 | 21     |
| Net periodic benefit cost                  | \$ 3,054          | \$ 2,957 | \$ 500                             | \$ 455 |
| <b>For the six months ended June 30:</b>   |                   |          |                                    |        |
| Components of net periodic benefit cost:   |                   |          |                                    |        |
| Service cost                               | \$ 6,212          | \$ 5,692 | \$ 513                             | \$ 452 |
| Interest cost                              | 1,440             | 1,116    | 444                                | 416    |
| Expected return on assets                  | (1,808)           | (1,158)  | —                                  | —      |
| Amortization of prior service credit       | (8)               | (8)      | —                                  | —      |
| Amortization of net loss                   | 242               | 272      | 36                                 | 42     |
| Net periodic benefit cost                  | \$ 6,078          | \$ 5,914 | \$ 993                             | \$ 910 |

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

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD-LOOKING STATEMENTS

*This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words "anticipates," "believes," "expects," "plans," "intends," "estimates," "forecasts," "budgets," "projects," "will," "could," "should," "may" and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our annual report on Form 10-K for the year ended December 31, 2010, Part I "Risk Factors," as well as our subsequent current and quarterly reports, for a discussion of certain of those risks, uncertainties and assumptions.*

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

### OVERVIEW

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

Our only cash generating assets are our ownership interests in NuStar Energy L.P. (NuStar Energy), a publicly held Delaware limited partnership (NYSE: NS). As of June 30, 2011, our aggregate ownership interests in NuStar Energy consisted of the following:

- the 2% general partner interest;
- 100% of the incentive distribution rights (IDR) issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and
- 10,245,306 common units of NuStar Energy representing a 15.5% limited partner interest.

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

NuStar Energy is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. NuStar Energy has terminal facilities in the United States, Canada, the Netherlands, including St. Eustatius in the Caribbean, the United Kingdom, Mexico and Turkey.

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

**RESULTS OF OPERATIONS**

*Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010*

**Financial Highlights**  
**(Unaudited, Thousands of Dollars, Except Per Unit Data)**

|                                       | Three Months Ended June 30, |                  | Change            |
|---------------------------------------|-----------------------------|------------------|-------------------|
|                                       | 2011                        | 2010             |                   |
| Equity in earnings of NuStar Energy   | \$ 22,919                   | \$ 23,810        | \$ (891)          |
| General and administrative expenses   | (742)                       | (657)            | (85)              |
| Other (expense) income, net           | (46)                        | 7,895            | (7,941)           |
| Interest expense, net                 | (165)                       | (339)            | 174               |
| Income before income tax benefit      | 21,966                      | 30,709           | (8,743)           |
| Income tax benefit                    | 95                          | 177              | (82)              |
| Net income                            | <u>\$ 22,061</u>            | <u>\$ 30,886</u> | <u>\$ (8,825)</u> |
| Basic and diluted net income per unit | <u>\$ 0.52</u>              | <u>\$ 0.73</u>   | <u>\$ (0.21)</u>  |

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

|  | Three Months Ended June 30, |                   | Change           |
|--|-----------------------------|-------------------|------------------|
|  | 2011                        | 2010              |                  |
| <b>(Unaudited, Thousands of Dollars, Except Per Unit Data)</b> |                             |                   |                  |
| <b>NuStar Energy Statement of Income Data:</b>                 |                             |                   |                  |
| Revenues   | \$ 1,589,184                | \$ 1,124,941      | \$ 464,243       |
| Cost of product sales  | 1,269,448                   | 842,588           | 426,860          |
| Operating expenses   | 134,626                     | 119,943           | 14,683           |
| Depreciation and amortization expense                          | 40,056                      | 36,744            | 3,312            |
| Segment operating income                                       | 145,054                     | 125,666           | 19,388           |
| General and administrative expenses                            | 26,119                      | 22,195            | 3,924            |
| Other depreciation and amortization expense                    | 1,584                       | 1,441             | 143              |
| Operating income   | <u>\$ 117,351</u>           | <u>\$ 102,030</u> | <u>\$ 15,321</u> |
| Net income   | \$ 92,605                   | \$ 99,422         | \$ (6,817)       |
| Net income per unit applicable to limited partners             | \$ 1.27                     | \$ 1.43           | \$ (0.16)        |
| Cash distributions per unit applicable to limited partners     | \$ 1.095                    | \$ 1.065          | \$ 0.030         |

NuStar Energy's net income decreased \$6.8 million for the three months ended June 30, 2011, compared to the three months ended June 30, 2010. NuStar Energy's higher segment operating income was more than offset by increased general and administrative expenses, higher income tax expense and lower other income. NuStar Energy's segment operating income increased \$19.4 million for the three months ended June 30, 2011, compared to the three months ended June 30, 2010, mainly due to increased operating income from its asphalt and fuels marketing segment, partially offset by decreased operating income from its transportation segment.



**Equity in earnings of NuStar Energy**

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

|   | <b>Three Months Ended June 30,</b> |                  | <b>Change</b>   |
|---|------------------------------------|------------------|-----------------|
|   | <b>2011</b>                        | <b>2010</b>      |                 |
| <b>(Thousands of Dollars)</b>   |                                    |                  |                 |
| <b>NuStar GP Holdings' Equity in Earnings of NuStar Energy:</b>                     |                                    |                  |                 |
| General partner interest  | \$ 1,673                           | \$ 1,821         | \$ (148)        |
| General partner incentive distribution  | 8,963                              | 8,369            | 594             |
| General partner's interest in earnings and incentive distributions of NuStar Energy | 10,636                             | 10,190           | 446             |
| Limited partner interest in earnings of NuStar Energy                               | 13,004                             | 14,341           | (1,337)         |
| Amortization of step-up in basis related to NuStar Energy's assets and liabilities  | (721)                              | (721)            | —               |
| Equity in earnings of NuStar Energy   | <u>\$ 22,919</u>                   | <u>\$ 23,810</u> | <u>\$ (891)</u> |

NuStar Energy's per unit distributions for the three months ended June 30, 2011 increased, compared to the three months ended June 30, 2010, from \$1.065 to \$1.095. That increase resulted in NuStar Energy increasing its total cash distributions. Since our IDR in NuStar Energy entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR increased for the period.

Our equity in earnings related to our limited partner interest in NuStar Energy decreased for the three months ended June 30, 2011, compared to the three months ended June 30, 2010, due to a decrease in NuStar Energy's net income per unit applicable to limited partners.

**Other (expense) income, net**

Other (expense) income, net decreased for the three months ended June 30, 2011, compared to the three months ended June 30, 2010 due to NuStar Energy's issuance of 4,400,000 common units in May 2010. This issuance resulted in a gain of \$7.8 million representing the increase in the value of our proportionate share of NuStar Energy's capital.



**Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010**
**Financial Highlights  
(Unaudited, Thousands of Dollars, Except Per Unit Data)**

|                                       | Six Months Ended June 30, |                  | Change            |
|---------------------------------------|---------------------------|------------------|-------------------|
|                                       | 2011                      | 2010             |                   |
| Equity in earnings of NuStar Energy   | \$ 34,261                 | \$ 33,111        | \$ 1,150          |
| General and administrative expenses   | (1,486)                   | (1,450)          | (36)              |
| Other (expense) income, net           | (665)                     | 8,020            | (8,685)           |
| Interest expense, net                 | (343)                     | (657)            | 314               |
| Income before income tax benefit      | 31,767                    | 39,024           | (7,257)           |
| Income tax benefit                    | 477                       | 355              | 122               |
| Net income                            | <u>\$ 32,244</u>          | <u>\$ 39,379</u> | <u>\$ (7,135)</u> |
| Basic and diluted net income per unit | <u>\$ 0.76</u>            | <u>\$ 0.93</u>   | <u>\$ (0.17)</u>  |

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

|  | Six Months Ended June 30, |                   | Change           |
|--|---------------------------|-------------------|------------------|
|  | 2011                      | 2010              |                  |
| <b>(Unaudited, Thousands of Dollars, Except Per Unit Data)</b> |                           |                   |                  |
| <b>NuStar Energy Statement of Income Data:</b>                 |                           |                   |                  |
| Revenues   | \$ 2,823,800              | \$ 2,070,470      | \$ 753,330       |
| Cost of product sales  | 2,261,815                 | 1,561,809         | 700,006          |
| Operating expenses   | 254,865                   | 241,280           | 13,585           |
| Depreciation and amortization expense                          | 78,790                    | 73,203            | 5,587            |
| Segment operating income                                       | 228,330                   | 194,178           | 34,152           |
| General and administrative expenses                            | 52,102                    | 49,464            | 2,638            |
| Other depreciation and amortization expense                    | 3,146                     | 2,911             | 235              |
| Operating income   | <u>\$ 173,082</u>         | <u>\$ 141,803</u> | <u>\$ 31,279</u> |
| Net income   | \$ 121,121                | \$ 119,125        | \$ 1,996         |
| Net income per unit applicable to limited partners             | \$ 1.57                   | \$ 1.64           | \$ (0.07)        |
| Cash distributions per unit applicable to limited partners     | \$ 2.170                  | \$ 2.130          | \$ 0.040         |

NuStar Energy's net income increased \$2.0 million for the six months ended June 30, 2011, compared to the six months ended June 30, 2010, primarily due to an increase in segment operating income, partially offset by a decrease in other income. NuStar Energy's segment operating income increased \$34.2 million for the six months ended June 30, 2011, compared to the six months ended June 30, 2010, due to increased operating income from its asphalt and fuels marketing segment and storage segment, partially offset by a decrease in operating income from its transportation segment.

**Equity in earnings of NuStar Energy**

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

|   | Six Months Ended June 30, |                  | Change          |
|---|---------------------------|------------------|-----------------|
|   | 2011                      | 2010             |                 |
| (Thousands of Dollars)  |                           |                  |                 |
| <b>NuStar GP Holdings' Equity in Earnings of NuStar Energy:</b>                     |                           |                  |                 |
| General partner interest  | \$ 2,071                  | \$ 2,059         | \$ 12           |
| General partner incentive distribution  | 17,531                    | 16,168           | 1,363           |
| General partner's interest in earnings and incentive distributions of NuStar Energy | 19,602                    | 18,227           | 1,375           |
| Limited partner interest in earnings of NuStar Energy                               | 16,101                    | 16,326           | (225)           |
| Amortization of step-up in basis related to NuStar Energy's assets and liabilities  | (1,442)                   | (1,442)          | —               |
| Equity in earnings of NuStar Energy   | <u>\$ 34,261</u>          | <u>\$ 33,111</u> | <u>\$ 1,150</u> |

NuStar Energy's per unit distributions for the six months ended June 30, 2011 increased, compared to the six months ended June 30, 2010, from \$2.130 to \$2.170. That increase, coupled with an increase in the number of NuStar Energy units outstanding resulting from the issuance of units in the second quarter of 2010, resulted in NuStar Energy increasing its total cash distributions. Since our IDR in NuStar Energy entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR increased for the period.

Our equity in earnings related to our limited partner interest in NuStar Energy decreased for the six months ended June 30, 2011, compared to the six months ended June 30, 2010, due to a decrease in NuStar Energy's net income per unit applicable to limited partners.

**Other (expense) income, net**

Other (expense) income, net decreased for the six months ended June 30, 2011, compared to the six months ended June 30, 2010 due to NuStar Energy's issuance of 4,400,000 common units in May 2010. This issuance resulted in a gain of \$7.8 million representing the increase in the value of our proportionate share of NuStar Energy's capital.

**OUTLOOK**

Overall, NuStar Energy expects its operating income for 2011 to be higher than 2010 due mainly to increases in its storage segment and its asphalt and fuels marketing segment.

**NuStar Energy's Storage Segment**

For the full year 2011, NuStar Energy expects the storage segment earnings to increase compared to 2010. NuStar Energy expects to benefit from internal growth projects completed in the second half of 2010 as well as those expected to be completed in 2011, mainly at its St. Eustatius terminal in the Caribbean and its St. James, Louisiana terminal.

**NuStar Energy's Transportation Segment**

NuStar Energy expects the transportation segment earnings for the full year 2011 to be lower than 2010. NuStar Energy's throughputs are forecasted to be lower in 2011 mainly due to changing market conditions and planned turnaround activity at refineries served by its pipelines. However, the tariffs on NuStar Energy's pipelines regulated by the Federal Energy Regulatory Commission, which adjust annually based upon changes in the producer price index, are expected to increase by 6.9 percent effective July 1, 2011, when the adjustment takes effect. In addition, NuStar Energy completed a pipeline expansion project at the end of the second quarter that serves Eagle Ford Shale production and it expects to benefit from this pipeline for the remainder of 2011. The pipeline expansion and the tariff increase effective July 1, 2011 will only partially offset the impact from the lower throughputs for the full year 2011, compared to 2010.

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

NuStar Energy expects the asphalt and fuels marketing segment results to increase for the full year 2011 compared to 2010. NuStar Energy's operations are expected to benefit from a full year of heavy fuel and bunker fuel sales in new markets it entered into in 2010, and from its acquisition of a refinery in San Antonio, Texas, which closed on April 19, 2011.

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

**LIQUIDITY AND CAPITAL RESOURCES**

***General***

Our cash flows consist of distributions from NuStar Energy on our partnership interests, including the IDR that we own. Due to our ownership of NuStar Energy's IDR, our portion of NuStar Energy's total distributions may exceed our 17.5% ownership interest in NuStar Energy as of June 30, 2011. Our primary cash requirements are for distributions to members, capital contributions to maintain our 2% general partner interest in NuStar Energy in the event that NuStar Energy issues additional units, debt service requirements, if any, benefit plan funding and general and administrative expenses. In addition, because NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings, elected to be treated as a taxable entity in August 2006, we may be required to pay income taxes, which may exceed the amount of tax expense recorded in the consolidated financial statements. We expect to fund our cash requirements primarily with the quarterly cash distributions we receive from NuStar Energy and borrowings under our revolving credit facility, if necessary. Additionally, NuStar Energy reimburses us for all costs incurred on their behalf, primarily employee-related costs.

***Cash Distributions from NuStar Energy***

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

|   | Three Months Ended June 30,                  |           | Six Months Ended June 30, |            |
|---|--|-----------|---------------------------|------------|
|   | 2011   | 2010      | 2011                      | 2010       |
|   | (Thousands of Dollars, Except Per Unit Data) |           |                           |            |
| Cash distributions per unit                                     | \$ 1.095                                     | \$ 1.065  | \$ 2.170                  | \$ 2.130   |
| Total cash distributions by NuStar Energy to all partners       | \$ 81,339                                    | \$ 78,754 | \$ 160,955                | \$ 152,146 |
| Cash distributions we received from NuStar Energy:              |  |           |                           |            |
| General partner interest  | \$ 1,627                                     | \$ 1,576  | \$ 3,219                  | \$ 3,043   |
| General partner incentive distribution                          | 8,963  | 8,369     | 17,531                    | 16,168     |
| Limited partner interest – common units                         | 11,213                                       | 10,867    | 22,235                    | 21,772     |
| Total cash distributions to us                                  | \$ 21,803                                    | \$ 20,812 | \$ 42,985                 | \$ 40,983  |
| Distributions to us as a percentage of total cash distributions | 26.8%  | 26.4%     | 26.7%                     | 26.9%      |

***Cash Flows for the Six Months Ended June 30, 2011 and June 30, 2010***

Cash distributions received from NuStar Energy for the six months ended June 30, 2011 were \$42.4 million compared to \$40.3 million for the six months ended June 30, 2010. The cash distributions we received were used principally to fund distributions to our unitholders totaling \$40.8 million for the six months ended June 30, 2011, compared to \$37.6 million for the six months ended June 30, 2010. We also used excess cash to repay \$5.0 million on our revolving credit facility for the six months ended June 30, 2011.

We borrowed \$5.2 million for the six months ended June 30, 2010 to fund our \$5.1 million contribution to NuStar Energy in order to maintain our 2% general partner interest following its issuance of common units in May 2010. This issuance resulted in a gain of \$7.8 million, which is included on the statement of cash flows as an adjustment to reconcile net income to net cash provided by operating activities.

**Credit Facility**

Our 364-day revolving credit facility dated July 15, 2010 with a maturity date of July 14, 2011, has a borrowing capacity of up to \$30.0 million, of which, up to \$10.0 million may be available for letters of credit (2010 Credit Facility). As of June 30, 2011, we had outstanding borrowings of \$11.0 million and availability of \$19.0 million for borrowings under the 2010 Credit Facility. The 2010 Credit Facility bears interest at an alternative base rate plus 1.75% or a LIBOR-based rate plus 2.75%, which was 2.9% as of June 30, 2011. The carrying amount of the 2010 Credit Facility approximated its fair value as of June 30, 2011.

The terms of the 2010 Credit Facility require NuStar Energy to maintain a total debt-to-EBITDA ratio of less than 5.0-to-1.0 for any four consecutive quarters. On March 7, 2011, we amended the 2010 Credit Facility to exclude NuStar Energy's unused proceeds from the Gulf Opportunity Zone bond issuances from its total indebtedness in the calculation of the total debt-to-EBITDA ratio. As of June 30, 2011, the total debt-to-EBITDA ratio was 4.3x. We are also required to receive cash distributions of at least \$35.0 million in respect of our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the covenants as of June 30, 2011.

On July 14, 2011, we amended our 2010 Credit Facility to extend the maturity date to July 12, 2012. In addition, borrowings will bear interest at an alternative base rate plus 0.75% or a LIBOR-based rate plus 1.75%.

**Cash Distributions to Unitholders**

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

|                             | Three Months Ended June 30,                  |           | Six Months Ended June 30, |           |
|-----------------------------|--|-----------|---------------------------|-----------|
|                             | 2011   | 2010      | 2011                      | 2010      |
|                             | (Thousands of Dollars, Except Per Unit Data) |           |                           |           |
| Cash distributions per unit | \$ 0.495                                     | \$ 0.460  | \$ 0.975                  | \$ 0.910  |
| Total cash distributions    | \$ 21,059                                    | \$ 19,556 | \$ 41,481                 | \$ 38,688 |

**Related Party Transactions**

Please refer to [Note 4 of Condensed Notes to Consolidated Financial Statements](#) for total related party transactions charged to and amounts due from NuStar Energy, and a description of the agreement.

**Contingencies**

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

**CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 4. Controls and Procedures**

*(a) Evaluation of disclosure controls and procedures.*

Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of June 30, 2011.

*(b) Changes in internal control over financial reporting.*

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 6. Exhibits

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 10.01                 | NuStar GP, LLC 2000 Third Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit 10.01 of NuStar Energy L.P.'s Current Report on Form 8-K filed May 10, 2011)  |
| 10.02                 | Second Amendment to 364-Day Revolving Credit Agreement dated as of July 14, 2011, among NuStar GP Holdings, LLC, as Borrower, JP Morgan Chase Bank, N.A., as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.01 of NuStar GP Holdings, LLC's Current Report on Form 8-K filed July 19, 2011)   |
| *31.01                | Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer   |
| *31.02                | Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer   |
| *32.01                | Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal executive officer   |
| *32.02                | Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal financial officer   |
| **101                 | The following interactive data files pursuant to Rule 405 of Regulation S-T from NuStar GP Holdings, LLC's Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statements |

\* Filed herewith.

\*\* Submitted electronically herewith.

In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act. The financial information contained in the XBRL-related documents is "unaudited" or "unreviewed."

## SIGNATURES

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

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

**By: /s/ Curtis V. Anastasio**  
\_\_\_\_\_  
**Curtis V. Anastasio**  
**President and Chief Executive Officer**  
**August 4, 2011**

**By: /s/ Steven A. Blank**  
\_\_\_\_\_  
**Steven A. Blank**  
**Senior Vice President, Chief Financial Officer and Treasurer**  
**August 4, 2011**

**By: /s/ Thomas R. Shoaf**  
\_\_\_\_\_  
**Thomas R. Shoaf**  
**Vice President and Controller**  
**August 4, 2011**