UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from __________ to _________

Commission File Number 001-33503

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

Delaware	20-8536826
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Two Warren Place
6120 South Yale Avenue, Suite 500
Tulsa, Oklahoma 74136
(Address of principal executive offices, zip code)

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

(Former name, former address and former fiscal year, if changed since last report)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o

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

Large accelerated filer o Accelerated filer x

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

As of November 7, 2011, there were 21,538,462 Series A Preferred Units and 22,657,638 common units outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BLUEKNIGHT ENERGY PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per unit data)

		As of December 31, 2010		As of September 30, 2011
				(unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	$	4,840	$	1,010
Accounts receivable, net of allowance for doubtful accounts of $429 for both dates		8,824		12,980
Receivables from related parties, net of allowance for doubtful accounts of $0 for both dates		1,912		2,843
Insurance recovery receivable		13,000		13,000
Prepaid insurance		1,413		2,525
Other current assets		2,147		1,673
Total current assets		32,136		34,031
Property, plant and equipment, net of accumulated depreciation of $119,735 and $132,052 at December 31, 2010 and September 30, 2011, respectively		274,069		271,624
Goodwill		7,083		7,216
Debt issuance costs, net		6,675		5,494
Intangibles and other assets, net		3,875		2,410
Total assets	$	323,838	$	320,775
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)				
Current liabilities:				
Accounts payable	$	8,829	$	8,057
Accrued loss contingency (see Note 13)		20,200		19,976
Accrued interest payable		357		171
Accrued interest payable to related parties		1,214		5,187
Accrued property taxes payable		2,254		2,990
Unearned revenue		3,506		3,911
Unearned revenue with related parties		2,154		—
Accrued payroll		4,130		4,918
Other accrued liabilities		3,709		3,648
Convertible Debentures (see Note 5)		31,725		44,932
Fair value of derivative embedded within Convertible Debentures		27,550		—
Fair value of rights offering liability		10,441		8,603
Current portion of long-term payable to related parties		1,183		1,580
Total current liabilities		117,252		103,973
Long-term payable to related parties		4,317		3,112
Other long-term liabilities		150		150
Long-term debt (including $15.0 million with related parties for both dates)		239,862		226,000
Commitments and contingencies (Notes 5 and 13)				
Partners' capital (deficit):				

Series A Preferred Units (21,538,462 units issued and outstanding for both dates)		91,376		124,437
Common unitholders (21,890,224 units issued and outstanding for both dates)		478,575		475,990
Subordinated unitholders (12,570,504 and zero units issued and outstanding at December 31, 2010 and September 30, 2011, respectively)		(286,264)		—
General partner interest (2.0% and 3.0% interest at December 31, 2010 and September 30, 2011, respectively, with 1,127,755 general partner units outstanding for both dates)		(321,430)		(612,887)
Total Partners' deficit		(37,743)		(12,460)
Total liabilities and Partners' deficit	$	323,838	$	320,775

See accompanying notes to unaudited consolidated financial statements.

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BLUEKNIGHT ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011
	(unaudited)			
Service revenue:				
Third party revenue	$ 31,113	$ 35,124	$ 97,895	$ 99,748
Related party revenue	6,943	11,387	15,637	31,377
Total revenue	38,056	46,511	113,532	131,125
Expenses:				
Operating	23,441	27,617	73,442	85,726
General and administrative	3,883	4,679	11,037	14,065
Total expenses	27,324	32,296	84,479	99,791
Operating income	10,732	14,215	29,053	31,334
Other (income) expenses:				
Interest expense	13,530	9,120	39,502	27,284
Change in fair value of embedded derivative within convertible debt	—	(15,358)	—	(20,224)
Change in fair value of rights offering liability	—	(8,224)	—	(1,838)
Income (loss) before income taxes	(2,798)	28,677	(10,449)	26,112
Provision for income taxes	50	72	151	219
Net income (loss)	$ (2,848)	$ 28,605	$ (10,600)	$ 25,893
Allocation of net income (loss) for calculation of earnings per unit:				
General partner interest in net income (loss)	$ (57)	$ 643	$ (209)	$ 754
Preferred interest in net income	$ —	$ 2,975	$ —	$ 11,124
Beneficial conversion feature attributable to preferred units	$ —	$ 11,141	$ —	$ 33,061
Income (loss) available to common and subordinated unitholders	$ (2,791)	$ 13,846	$ (10,391)	$ (19,046)
Basic and diluted net income (loss) per common unit	$ (0.08)	$ 0.38	$ (0.30)	$ (0.56)
Basic and diluted net income (loss) per subordinated unit	$ (0.08)	$ 0.42	$ (0.30)	$ (0.52)
Weighted average common units outstanding - basic and diluted	21,728	21,890	21,728	21,890
Weighted average subordinated units outstanding - basic and diluted	12,571	10,248	12,571	11,788

See accompanying notes to unaudited consolidated financial statements.

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BLUEKNIGHT ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL (DEFICIT)
(in thousands)

	Common Unitholders	Subordinated Unitholders	Series A Preferred Unitholders (unaudited)	General Partner Interest	Total Partners' Deficit
Balance, December 31, 2010	$ 478,575	$ (286,264)	$ 91,376	$ (321,430)	$ (37,743)
Net income	11,540	5,674	8,149	530	25,893
Equity-based incentive compensation	246	124	—	7	377
Amortization of beneficial conversion feature of Preferred units	(21,697)	(11,364)	33,061	—	—
Distributions	—	—	(8,149)	(164)	(8,313)
Debt conversion option classified as equity	7,326	—	—	—	7,326
Contribution and cancellation of subordinated units	—	291,830	—	(291,830)	—
Balance, September 30, 2011	$ 475,990	$ —	$ 124,437	$ (612,887)	$ (12,460)

See accompanying notes to unaudited consolidated financial statements.

BLUEKNIGHT ENERGY PARTNERS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ (10,600)	$ 25,893
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,228	17,066
Amortization and write-off of debt issuance costs	3,640	1,461
Amortization of subordinated debenture discount	—	13,207
Decrease in fair value of embedded derivative within convertible debt	—	(20,224)
Decrease in fair value of rights offering liability	—	(1,838)
Asset impairment charge	779	—
Gain on sale of assets	(103)	(1,852)
Equity-based incentive compensation	27	377
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	138	(4,156)
Decrease (increase) in receivables from related parties	130	(931)
Decrease in prepaid insurance	1,020	450
Decrease in other current assets	1,076	474
Decrease (increase) in other assets	(276)	1,118
Decrease in accounts payable	(1,169)	(2,036)
Increase (decrease) in accrued interest payable	6,377	(186)
Increase in accrued interest payable to related parties	61	3,973
Increase (decrease) in accrued property taxes	(570)	736
Increase (decrease) in unearned revenue	(2,649)	405
Increase (decrease) in unearned revenue from related parties	955	(2,154)
Increase in accrued payroll	588	788
Increase (decrease) in other accrued liabilities	832	(795)
Net cash provided by operating activities	16,484	31,776
Cash flows from investing activities:		
Acquisitions	—	(133)
Capital expenditures	(11,279)	(13,686)
Proceeds from sale of assets	1,628	2,244
Net cash used in investing activities	(9,651)	(11,575)
Cash flows from financing activities:		
Payment on insurance premium financing agreement	(174)	(768)
Debt issuance costs	(1,119)	(280)
Payments on capital lease obligations	(248)	—
Borrowings from related party	5,500	—
Payments on long-term payable to related party	—	(808)
Borrowings under credit facility	40,700	6,000
Payments under credit facility	(54,971)	(19,862)
Distributions	—	(8,313)
Net cash used in financing activities	(10,312)	(24,031)

Net decrease in cash and cash equivalents		(3,479)		(3,830)
Cash and cash equivalents at beginning of period		5,548		4,840
Cash and cash equivalents at end of period	$	2,069	$	1,010
Supplemental disclosure of cash flow information:				
Increase in accounts payable related to purchase of property, plant and equipment	$	189	$	1,264
Increase in accrued liabilities related to insurance premium financing agreement	$	407	$	1,278

See accompanying notes to unaudited consolidated financial statements.

BLUEKNIGHT ENERGY PARTNERS, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS

Blueknight Energy Partners, L.P. (formerly SemGroup Energy Partners, L.P.) and subsidiaries (the “Partnership”) is a publicly traded master limited partnership with operations in twenty-three states. The Partnership provides integrated terminalling, storage, processing, gathering and transportation services for companies engaged in the production, distribution and marketing of crude oil and asphalt products. The Partnership manages its operations through four operating segments: (i) crude oil terminalling and storage services, (ii) crude oil pipeline services, (iii) crude oil trucking and producer field services and (iv) asphalt services. The Partnership’s common units, which represent limited partnership interests in the Partnership, are listed on the NASDAQ Global Market. The Partnership was formed in February of 2007 as a Delaware master limited partnership initially to own, operate and develop a diversified portfolio of complementary midstream energy assets.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting principles and practices generally accepted in the United States of America (“GAAP”). The consolidated statements of operations for the three and nine months ended September 30, 2010 and 2011, the consolidated statement of changes in partners’ capital (deficit) for the nine months ended September 30, 2011, the statement of cash flows for the nine months ended September 30, 2010 and 2011, and the consolidated balance sheet as of September 30, 2011 are unaudited. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary to present fairly the financial position and results of operations for the respective interim periods. All adjustments are of a recurring nature unless otherwise disclosed herein. The 2010 year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. These consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Partnership’s annual report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the “SEC”) on March 16, 2011 (the “2010 Form 10-K”). Interim financial results are not necessarily indicative of the results to be expected for an annual period. The Partnership’s significant accounting policies are consistent with those disclosed in Note 3 of the Notes to Consolidated Financial Statements in our 2010 Form 10-K.

3. RECENT EVENTS

On October 25, 2010, the Partnership entered into a Global Transaction Agreement by and among the Partnership, Blueknight Energy Partners, G.P., L.L.C., which is the Partnership’s general partner (the “General Partner”), Vitol (“Vitol” refers to Vitol Holding B.V., its affiliates and subsidiaries other than the Partnership’s general partner and the Partnership) and Charlesbank (“Charlesbank” refers to Charlesbank Capital Partners, LLC, its affiliates and subsidiaries other than the Partnership’s general partner and the Partnership), pursuant to which the Partnership effected a refinancing of its existing debt. The Global Transaction Agreement contemplated three events comprised of Phase I Transactions, a unitholder vote and Phase II Transactions. Phase I transactions were completed concurrently with the execution of the Global Transaction Agreement. For a detailed description of the Global Transaction Agreement, see the Partnership’s 2010 Form 10-K.

On May 12, 2011, the Partnership, the General Partner, Vitol and Charlesbank entered into the First Amendment to Global Transaction Agreement (the “Amendment”) pursuant to which the Unitholder Vote Transactions and the Phase II Transactions contemplated in the Global Transaction Agreement were modified.

Pursuant to the Global Transaction Agreement, as amended by the Amendment, the General Partner filed a definitive proxy statement with the Securities and Exchange Commission (the "SEC") relating to a special meeting (the "Unitholder Meeting") that occurred on September 14, 2011 during which the Partnership's unitholders considered and voted upon (i) certain amendments to the Partnership's partnership agreement (the "Partnership Agreement Amendment Proposal") as more fully set forth below and (ii) an amendment to the General Partner's Long-Term Incentive Plan to increase the number of common units issuable under such plan by 1,350,000 common units from 1,250,000 common units to 2,600,000 common units (the "LTIP Proposal"). Pursuant to the Partnership Agreement Amendment Proposal, the Partnership's partnership agreement would be amended to:

- reset (1) the minimum quarterly distribution to $0.11 per unit per quarter from $0.3125 per unit per quarter, (2) the first target distribution to $0.1265 per unit per quarter from $0.3594 per unit per quarter, (3) the second target distribution to $0.1375 per unit per quarter from $0.3906 per unit per quarter and (4) the third target distribution to $0.1825 per unit per quarter from $0.4688 per unit per quarter;

- waive the cumulative common unit arrearage;

- remove provisions in the partnership agreement relating to the subordinated units, including concepts such as a subordination period (and any provisions that expressly apply only during the subordination period) and common unit arrearage, in connection with the transfer to the Partnership, and its subsequent cancellation, of all of the Partnership's outstanding subordinated units;

- provide that distributions shall not accrue or be paid to the holders of the Partnership's incentive distribution rights for an eight quarter period beginning with the quarter in which the special meeting occurs;

- provide that during the period beginning on the date of this special meeting and ending on June 30, 2015 (the "Senior Security Restriction Period"), the Partnership will not issue any class or series of partnership securities that, with respect to distributions on such partnership securities or distributions upon liquidation of the Partnership, ranks senior to the common units during the Senior Security Restriction Period, or "Senior Securities", without the consent of the holders of at least a majority of the outstanding common units (excluding the common units held by the General Partner and its affiliates and excluding any Senior Securities that are convertible into common units), subject to certain exceptions; and

- make certain other amendments relating to the conversion of the Partnership's Series A Preferred Units (the "Preferred Units").

On September 14, 2011, the Partnership's unitholders approved the proposals outlined above. As a result, (i) the General Partner adopted the Fourth Amended and Restated Agreement of Limited Partnership of the Partnership (the "Amended and Restated Partnership Agreement") to reflect the approval of the Partnership Agreement Amendment Proposal, (ii) Vitol and Charlesbank transferred all of the Partnership's outstanding subordinated units to the Partnership and the Partnership cancelled such subordinated units and (iii) the Partnership was obligated to undertake an approximately $77 million rights offering.

On October 3, 2011, the Partnership commenced the rights offering. Pursuant to the terms of the rights offering, the Partnership distributed to its common unitholders of record as of the close of business on September 27, 2011, 0.5412 rights for each outstanding common unit, with each whole right entitling the holder to acquire, for a subscription price of $6.50, a newly issued Preferred Unit. The rights offering expired on October 31, 2011.

The results of the rights offering indicate that the rights offering was over-subscribed and, accordingly, on November 9, 2011, the Partnership issued a total of 11,846,990 Preferred Units to unitholders that exercised their rights. The Partnership received net proceeds of approximately $77 million from the rights offering. The net proceeds from the rights offering, after deducting expenses, were used to redeem convertible debentures in the aggregate principal amount of $50 million plus accrued interest thereon that the Partnership issued to Vitol and Charlesbank (the "Convertible Debentures") and to repurchase an aggregate of 3,225,494 Preferred Units from Vitol and Charlesbank. The Partnership expects that Preferred Units subscribed for in the rights offering will be mailed to participants or credited through DTC on or about Wednesday, November 9, 2011. In addition, the Partnership expects that the

Preferred Units will begin trading on the NASDAQ Global Market on or about Thursday, November 10, 2011 under the symbol “BKEPP.”

4. PROPERTY, PLANT AND EQUIPMENT

	Estimated Useful Lives (Years)	December 31, 2010	September 30, 2011
		(dollars in thousands)	
Land	N/A	$ 15,611	$ 16,981
Land improvements	10-20	5,268	5,731
Pipelines and facilities	5-31	149,402	152,927
Storage and terminal facilities	10-35	166,538	170,226
Transportation equipment	3-10	24,177	20,839
Office property and equipment and other	3-31		