

GLOBAL PARTNERS LP  
Form 10-Q  
November 14, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2006**

**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 001-32593**

**Global Partners LP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation  
or organization)

**74-3140887**

(I.R.S. Employer Identification No.)

**P.O. Box 9161  
800 South Street  
Waltham, Massachusetts 02454-9161**

(Address of principal executive offices, including zip code)

**(781) 894-8800**

(Registrant's telephone number, including area code)

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

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to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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

The issuer had 5,642,424 common units and 5,642,424 subordinated units outstanding as of November 6, 2006.

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## Item 1. Financial Statements

## GLOBAL PARTNERS LP

**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except unit data)  
(Unaudited)

|  | September 30,<br>2006 | December 31,<br>2005 |
|--|-----------------------|----------------------|
| <b>Assets</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 2,051              | \$ 1,769             |
| Accounts receivable, net   | 156,476               | 237,861              |
| Accounts receivable affiliates   | 1,156                 | 2,005                |
| Inventories  | 250,112               | 260,714              |
| Brokerage margin deposits  | 8,933                 | 9,210                |
| Fair value of forward fixed contracts  | 59,170                |                      |
| Prepaid expenses and other current assets  | 14,092                | 7,781                |
| Total current assets   | 491,990               | 519,340              |
| Property and equipment, net  | 31,030                | 21,975               |
| Intangible assets, net   | 9,434                 | 10,603               |
| Other assets   | 2,648                 | 2,838                |
| Total assets   | \$ 535,102            | \$ 554,756           |
| <b>Liabilities and partners equity</b>   |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable   | \$ 158,239            | \$ 259,463           |
| Notes payable, other current portion   | 298                   | 297                  |
| Income taxes payable   | 834                   | 1,200                |
| Accrued expenses and other current liabilities   | 25,815                | 28,615               |
| Obligations on forward fixed contracts and other derivatives   |                       | 1,038                |
| Total current liabilities  | 185,186               | 290,613              |
| Long-term liabilities:   |                       |                      |
| Revolving line of credit   | 259,700               | 181,600              |
| Notes payable, other less current portion  | 1,337                 | 1,559                |
| Other long-term liabilities  | 4,834                 | 4,676                |
| Total long-term liabilities  | 265,871               | 187,835              |
| Partners equity  |                       |                      |
| Common unitholders (5,642,424 units issued and outstanding at September 30, 2006 and December 31, 2005)                      | 101,304               | 97,512               |
| Subordinated unitholders (5,642,424 units issued and outstanding at September 30, 2006 and December 31, 2005)                | (16,581)              | (20,372)             |
| General partner interest (2% interest with 230,303 equivalent units outstanding at September 30, 2006 and December 31, 2005) | (678)                 | (832)                |
| Total partners equity  | 84,045                | 76,308               |
| Total liabilities and partners equity  | \$ 535,102            | \$ 554,756           |

*The accompanying notes are an integral part of these financial statements.*



**GLOBAL PARTNERS LP**

**CONSOLIDATED/COMBINED STATEMENTS OF OPERATIONS**

**(In thousands, except per unit data)**

**(Unaudited)**

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|   | Successor<br>Three Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br>2005<br>Combined | Successor<br>Nine Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br>2005<br>Combined |
|---|--|---------------------------------|---|---------------------------------|
| Sales   | \$ 995,834   | \$ 854,853                      | \$ 3,378,210  | \$ 2,770,129                    |
| Cost of sales   | 970,113  | 835,903                         | 3,299,628   | 2,708,300                       |
| Gross profit  | 25,721   | 18,950                          | 78,582  | 61,829                          |
| Selling, general and administrative expenses                            | 10,284   | 11,644                          | 30,272  | 29,427                          |
| Operating expenses  | 5,336  | 4,707                           | 16,153  | 14,617                          |
| Amortization expenses   | 358  | 406                             | 1,170   | 1,217                           |
| Operating income  | 9,743  | 2,193                           | 30,987  | 16,568                          |
| Interest expense  | 3,414  | 3,191                           | 7,520   | 7,169                           |
| Other expense   |  | 1,050                           |   | 1,050                           |
| Income (loss) before income tax expense                                 | 6,329  | (2,048 )                        | 23,467  | 8,349                           |
| Income tax expense  | 95   |                                 | 1,065   |                                 |
| Net income (loss)   | 6,234  | \$ (2,048 )                     | 22,402  | \$ 8,349                        |
| Less:   |  |                                 |   |                                 |
| General partner's interest in net income                                | 125  |                                 | 449   |                                 |
| Limited partners' interest in net income                                | \$ 6,109   |                                 | \$ 21,953   |                                 |
| Net income per limited partner unit, basic and diluted(1)               | \$ 0.53  |                                 | \$ 1.68   |                                 |
| Weighted average limited partners' units outstanding, basic and diluted | 11,285   |                                 | 11,285  |                                 |

(1) See Note 3 for net income per limited partner unit calculation.

*The accompanying notes are an integral part of these financial statements.*

**GLOBAL PARTNERS LP**

**CONSOLIDATED/COMBINED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**



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|   | Successor<br>Nine Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br><br>2005<br>Combined |
|---|---|-------------------------------------|
| <b>Operating activities</b>   |   |                                     |
| Net income  | \$ 22,402   | \$ 8,349                            |
| Adjustments to reconcile net income to net cash used in operating activities: |   |                                     |
| Depreciation and amortization   | 2,989   | 2,896                               |
| Amortization of deferred financing fees                                       | 298   | 380                                 |
| Loss on surrender of split dollar insurance policy                            |   | 1,050                               |
| Disposition of property and equipment   | 175   | 34                                  |
| Changes in operating assets and liabilities:                                  |   |                                     |
| Accounts receivable   | 81,385  | (2,580 )                            |
| Accounts receivable affiliate   | 849   | (321 )                              |
| Inventories   | 10,602  | (134,328 )                          |
| Prepaid expenses, all other current assets and other assets                   | (6,142 )  | (14,776 )                           |
| Forward fixed contracts and other liabilities                                 | (60,208 )   | 94,466                              |
| Accounts payable and income taxes payable                                     | (101,590 )  | 48,531                              |
| Accrued expenses and all other current liabilities                            | (2,800 )  | (5,764 )                            |
| Other long-term liabilities   | 158   | (313 )                              |
| Net cash used in operating activities   | (51,882 )   | (2,376 )                            |
| <b>Investing activities</b>   |   |                                     |
| Terminal acquisitions   | (6,531 )  |                                     |
| Maintenance capital expenditures  | (1,207 )  | (1,037 )                            |
| Capital improvement expenditures  | (3,334 )  |                                     |
| Proceeds from sale of property and equipment                                  | 22  | 144                                 |
| Net cash used in investing activities   | (11,050 )   | (893 )                              |
| <b>Financing activities</b>   |   |                                     |
| Proceeds from revolving line of credit, net                                   | 78,100  | 20,800                              |
| Payments on note payable, other   | (221 )  | (206 )                              |
| Distributions to partners   | (14,665 )   |                                     |
| Distributions to members  |   | (11,895 )                           |
| Net cash provided by financing activities                                     | 63,214  | 8,699                               |
| Increase in cash and cash equivalents   | 282   | 5,430                               |
| Cash and cash equivalents at beginning of period                              | 1,769   | 3,306                               |
| Cash and cash equivalents at end of period                                    | \$ 2,051  | \$ 8,736                            |
| <b>Supplemental information</b>   |   |                                     |
| Cash paid during the period for interest                                      | \$ 7,403  | \$ 7,900                            |

*The accompanying notes are an integral part of these financial statements.*

**GLOBAL PARTNERS LP**

**CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY**  
**(In thousands)**  
**(Unaudited)**

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|                               | <b>Common<br/>Unitholders</b> | <b>Subordinated<br/>Unitholders</b> | <b>General<br/>Partner<br/>Interest</b> | <b>Total<br/>Partners<br/>Equity</b> |
|-------------------------------|-------------------------------|-------------------------------------|---|--------------------------------------|
| Balance at December 31, 2005  | \$ 97,512                     | \$ (20,372 )                        | \$ (832 )                               | \$ 76,308                            |
| Distribution to partners      | (7,185 )                      | (7,185 )                            | (295 )                                  | (14,665 )                            |
| Net income                    | 10,977                        | 10,976                              | 449                                     | 22,402                               |
| Balance at September 30, 2006 | \$ 101,304                    | \$ (16,581 )                        | \$ (678 )                               | \$ 84,045                            |

*The accompanying notes are an integral part of these financial statements.*

**GLOBAL PARTNERS LP**

**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1.** Organization and Basis of Presentation

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### Organization

Global Partners LP (the Partnership) is a publicly traded limited partnership that engages in the wholesale and commercial distribution of refined petroleum products and natural gas and provides ancillary services to companies domestically and, on a limited basis, internationally. The Partnership commenced operations on October 4, 2005 upon the completion of its initial public offering of common units (the IPO). (See the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005 for more information regarding the IPO.)

The Partnership has four operating subsidiaries: Global Companies LLC, its subsidiary, Glen Hes Corp., Global Montello Group Corp. and Chelsea Sandwich LLC (the four operating subsidiaries, collectively, the Companies). The Companies (other than Glen Hes Corp.) are wholly owned by Global Operating LLC, a wholly owned subsidiary of the Partnership.

The Partnership's 2% general partner interest is held by Global GP LLC (the General Partner). The General Partner, which is owned by affiliates of the Slifka family, manages the Partnership's operations and activities and employs its officers and substantially all of its personnel. Affiliates of the General Partner, including its directors and executive officers, own 60,224 common units and 5,642,424 subordinated units, representing a combined 49.5% limited partner interest.

References to Global Partners LP or the Partnership or the General Partner as it relates to the combined financial statements and these accompanying notes with respect to the three and nine months ended September 30, 2005 refer to the business of Global Companies LLC and its affiliates, Glen Hes Corp., Global Montello Group LLC and Chelsea Sandwich LLC (collectively, the Predecessor).

Immediately after becoming a publicly traded limited partnership, the Partnership converted Global Montello Group LLC (the predecessor to Global Montello Group Corp.) into a taxable corporation. References to the Companies in the Partnership's combined financial statements and these accompanying notes include Global Montello Group LLC with respect to the three and nine months ended September 30, 2005 and, in the consolidated financial statements and notes, Global Montello Group Corp. with respect to the three and nine months ended September 30, 2006.

### Basis of Presentation



*Interim Financial Statements*

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**The accompanying consolidated financial statements as of September 30, 2006 and December 31, 2005 and for the three and nine months ended September 30, 2006 reflect the accounts of the Partnership. The accompanying combined financial statements for the three and nine months ended September 30, 2005 reflect the accounts of the Predecessor. All intercompany balances and transactions have been eliminated.**

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The accompanying unaudited consolidated/combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition and operating results for the interim periods. The interim financial information, which has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ), should be read in conjunction with the consolidated/combined financial statements for the year ended December 31, 2005 and notes thereto contained in the Partnership's Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2006.

As demand for some of the Partnership's refined petroleum products, especially home heating oil and residual oil for space heating purposes, is generally greater during the winter months, sales are expected to be higher during the first and fourth quarters of the calendar year which may result in significant fluctuations in the Partnership's quarterly operating results.

The balance sheet at December 31, 2005 has been derived from the audited financial statements and footnotes thereto included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005.

**Note 2.**            Reclassification

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Certain prior year amounts in the consolidated/combined financial statements and accompanying notes have been reclassified to conform to the current year presentation.

### **Note 3.** Net Income Per Limited Partner Unit

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The computation of net income per limited partner unit is based on the weighted average number of common and subordinated units outstanding during the year. Basic and diluted net income per limited partner unit are determined by dividing net income after deducting the amount allocated to the general partner interest (including its incentive distribution in excess of its 2% interest) by the weighted average number of outstanding limited partner units during the period in accordance with Emerging Issues Task Force ( EITF ) 03-06, Participating Securities and the Two-Class Method under FASB Statement No. 128 ( EITF 03-06 ). EITF 03-06 addresses the computation of earnings per share (in the Partnership's case, net income per limited partner unit) by an entity that has issued securities other than common stock (in the Partnership's case, limited partner units) that contractually entitle the holder to participate in dividends and earnings of the entity when, and if, it declares dividends on its common stock (in the Partnership's case, distributions on its units). Essentially, EITF 03-06 provides that in any accounting period where the Partnership's aggregate net income exceeds its aggregate distribution for such period, the Partnership is required to present net income per limited partner unit as if all of the earnings for the periods were distributed, regardless of whether those earnings would actually be distributed during a particular period from an economic or practical perspective. EITF 03-06 does not impact the Partnership's overall net income or other financial results; however, for periods in which the Partnership's aggregate net income exceeds its aggregate distributions for such period, it will have the impact of reducing the earnings per limited partner unit. This result occurs as a larger portion of the Partnership's aggregate earnings is allocated to the incentive distribution rights held by the General Partner, as if distributed, even though the Partnership makes cash distributions on the basis of cash available for distributions, not earnings, in any given accounting period. In accounting periods where aggregate net income does not exceed aggregate distributions for such period, EITF 03-06 does not have any impact on the Partnership's net income per limited partner unit calculation.

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The following sets forth the net income allocation using this method for the three and nine months ended September 30, 2006 (in thousands, except per unit data):

|   | Three Months<br>Ended<br>September 30,<br>2006 | Nine Months<br>Ended<br>September 30,<br>2006 |
|---|--|---|
| Net income  | \$ 6,234                                       | \$ 22,402                                     |
| Less:   |  |   |
| General Partner's 2% interest                             | (125 )   | (449 )  |
| Net income available to limited partners                  | 6,109  | 21,953  |
| Dilutive impact of theoretical distribution of earnings   | (123 )   | (2,995 )                                      |
| Net income available to limited partners under EITF 03-06 | \$ 5,986                                       | \$ 18,958                                     |
| Per unit data:  |  |   |
| Net income available to limited partners                  | \$ 0.54  | \$ 1.95                                       |
| Dilutive impact of theoretical distribution of earnings   | (0.1 )   | (0.27 )                                       |
| Net income available to limited partners under EITF 03-06 | \$ 0.53  | \$ 1.68                                       |
| Weighted average limited partner units outstanding        | 11,285   | 11,285  |

The Partnership did not and was not required to declare cash distributions during the three and nine months ended September 30, 2006 which would result in an incentive distribution to the General Partner.

## Note 4. Inventories

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Inventories, which are valued at the lower of cost or market based on the first-in, first-out method, consisted of the following (in thousands):

|   | September 30,<br>2006 | December 31,<br>2005 |
|---|-----------------------|----------------------|
| Distillates: light oil, diesel and kerosene | \$ 187,887            | \$ 195,171           |
| Gasoline                                    | 11,092                | 19,311               |
| Blend stock                                 | 17,397                | 6,782                |
| Residual oil                                | 33,736                | 39,450               |
| Total                                       | \$ 250,112            | \$ 260,714           |

The Partnership hedges substantially all of its inventory purchases through futures and swap agreements. In addition to its own inventory, the Partnership has exchange agreements with unrelated third-party suppliers, whereby it may draw inventory from these other suppliers and suppliers may draw inventory from the Partnership. Positive exchange balances are accounted for as accounts receivable. Negative exchange balances are accounted for as accounts payable. Exchange transactions are valued using current quoted market prices. The impact of exchange agreements was not material to the Partnership's financial statements at September 30, 2006 and December 31, 2005.



**Note 5.** Derivative Financial Instruments

The Partnership accounts for its derivatives in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ( SFAS No. 133 ). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities and requires that an entity recognize derivatives as either assets or liabilities on the balance sheet and measure the instruments at fair value. The fair value of the Partnership s derivatives is determined through the use of independent markets and is based upon the prevailing market prices of such instruments at the date of valuation. The Partnership enters into futures contracts for the receipt or delivery of refined petroleum products in future periods. The contracts are entered into in the normal course of business to reduce risk of loss of inventory on hand, which could result through fluctuations in market prices. Changes in the fair value of these contracts, as well as the offsetting gain or loss on the hedged inventory item, are recognized currently in earnings. Ineffectiveness related to these hedging activities was immaterial at September 30, 2006.

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The Partnership also uses futures contracts and swaps to hedge exposure under forward purchase and sale commitments. These agreements are intended to hedge the cost component of virtually all of the Partnership's forward commitments. Changes in the fair value of these contracts, as well as offsetting gains or losses on the forward fixed purchase and sale commitments, are recognized currently in earnings. Gains and losses on net product margin from forward fixed purchase and sale contracts are reflected in earnings as these contracts mature.

The composition and fair value of (obligations on) derivative instruments relating to forward fixed price contracts on the Partnership's balance sheet consisted of the following (in thousands):

|                               | September 30,<br>2006 | December 31,<br>2005 |
|-------------------------------|-----------------------|----------------------|
| Forward contracts             | \$ 58,149             | \$ 4,587             |
| Swaps, options and other, net | 1,021                 | (5,625 )             |
|                               | \$ 59,170             | \$ (1,038 )          |

The Partnership also markets and sells natural gas. The Partnership generally conducts business by entering into forward purchase commitments for natural gas only when it simultaneously enters into arrangements for the sale of product for physical delivery to third-party users. The Partnership generally takes delivery under its purchase commitments at the same location as it delivers to third-party users. Through these transactions, which establish an immediate margin, the Partnership seeks to maintain a position that is substantially balanced between firm forward purchase and sales commitments. Natural gas is generally purchased and sold at fixed prices and quantities. Current price quotes from actively traded markets are used in all cases to determine the contracts' fair value. Changes in the fair value of these contracts are recognized currently in earnings as an increase or decrease in cost of sales.

The Partnership formally documents all relationships between hedging instruments and hedged items, after its risk management objectives and strategy for undertaking the hedge are determined. The Partnership calculates hedge effectiveness on a quarterly basis. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed. Both at the inception of the hedge and on an ongoing basis, the Partnership assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. The derivative instruments that qualify for hedge accounting are fair value hedges.

The Partnership has a daily margin requirement with its broker based on the prior day's market results on open futures contracts. The required brokerage margin balance was \$8.9 million and \$9.2 million at September 30, 2006 and December 31, 2005, respectively.

The Partnership is exposed to credit loss in the event of nonperformance by counterparties of forward contracts, options and swap agreements, but the Partnership has no current reason to expect any material nonperformance by any of these counterparties. Futures contracts, the primary derivative instrument utilized by the Partnership, are traded on regulated exchanges, greatly reducing potential credit risks. Exposure on swap and certain option agreements is limited to the amount of the recorded fair value as of the balance sheet dates. The Partnership utilizes primarily one broker for all derivative transactions and the right of offset exists. Accordingly, the fair value of all derivative instruments is displayed on a net basis on the balance sheets.

**Note 6. Debt**

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In connection with the closing of its IPO, the Partnership entered into a four-year senior secured credit agreement (the "Credit Agreement") in an aggregate principal amount of up to \$400.0 million as further described below. In November 2005, the Credit Agreement was amended to increase total available commitments from \$400.0 million to \$500.0 million. In August 2006, the Credit Agreement was amended to increase the permanent working capital revolving credit facility commitment by \$100.0 million for total available commitments of \$600.0 million.

The credit facilities are available to fund working capital, make acquisitions and provide payment for general partnership purposes. There are three facilities under the Credit Agreement:

- a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of the Partnership's borrowing base and \$550.0 million, of which two \$50.0 million seasonal overline facilities are available each year only during the period between September 1<sup>st</sup> and June 30<sup>th</sup>;
- a \$35.0 million acquisition facility to be used for funding acquisitions similar to the Partnership's business line that have a purchase price of \$25.0 million or less or \$35.0 million or less in the aggregate in any 12-month period; and
- a \$15.0 million revolving credit facility to be used for general purposes, including payment of distributions to the Partnership's unitholders.

Borrowings under the Partnership's working capital revolving credit, acquisition credit and revolving credit facilities currently bear interest at the Partnership's option at (1) the Eurodollar rate, plus 1%, 1¾% and 1½%, respectively, (2) the cost of funds rate, plus 1%, 1¾% and 1½%, respectively, or (3) the bank's base rate. The Partnership incurs a letter of credit fee of 1% per annum for each letter of credit issued. In addition, the Partnership incurs a commitment fee on the unused portion of the three facilities under the Credit Agreement (including the unused portion of either of the seasonal overline facilities exercised by the Partnership) at a rate of 25 basis points per annum, a facility fee of 10 basis points per annum on any unexercised seasonal overline facility during the period between September 1<sup>st</sup> and June 30<sup>th</sup> and a seasonal overline fee of \$30,000 each time the Partnership elects to exercise either of the seasonal overline facilities.

The Credit Agreement will mature in October 2009. Accordingly, the Credit Agreement has been classified as long-term in the accompanying balance sheets. At September 30, 2006, availability under the Credit Agreement was reduced by the outstanding balance under the working capital revolving credit facility of approximately \$259.7 million and by letters of credit totaling approximately \$67.5 million. The total remaining availability for borrowings and letters of credit at September 30, 2006 was \$172.8 million, which includes the \$35.0 million acquisition facility and the \$15.0 million revolving credit facility and excludes the two \$50.0 million seasonal overline facilities the Partnership did not exercise as of September 30, 2006. The average interest rates for the three and nine months ended September 30, 2006 were 6.3% and 5.9%, respectively.

The Credit Agreement is secured by substantially all of the assets of the Partnership and each of the Companies and is guaranteed by the General Partner. The Credit Agreement imposes certain requirements including, for example, a prohibition against distributions if any potential default or event of default as defined in the Credit Agreement, as amended, would occur, and limitations on the Partnership's ability to grant liens, make certain loans or investments, incur additional indebtedness or guarantee other indebtedness, make any material change to the nature of the Partnership's business or undergo a fundamental change, make any material dispositions, acquire another company, enter into a merger, consolidation, sale leaseback transaction or purchase of assets, or make capital expenditures in excess of specified levels.

The Credit Agreement also imposes covenants that require the Partnership to maintain certain minimum working capital amounts, a minimum EBITDA ratio, a minimum interest coverage ratio and a maximum leverage ratio. The Partnership was in compliance with these covenants at September 30, 2006.

The Credit Agreement limits distributions by the Partnership to its unitholders to the amount of the Partnership's available cash and permits borrowings to fund such distributions only under the revolving credit facility. The revolving credit facility is subject to an annual clean-down period, requiring the Partnership to reduce the amount outstanding under the revolving credit facility to \$0 for 30 consecutive calendar days in each calendar year.

**Note 7. Employee Benefit Plan with Related Party**

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Effective October 4, 2005, the General Partner employs substantially all of the Partnership's employees and charges the Partnership for their services. The Partnership also reimburses the General Partner for its contributions under the General Partner's 401(k) Savings and Profit Sharing Plan and the General Partner's qualified and non-qualified pension plans. The Partnership's net periodic benefit cost for its defined benefit pension plan consisted of the following components (in thousands):

|                                | <b>Successor<br/>Three Months Ended<br/>September 30,<br/>2006<br/>Consolidated</b> | <b>Predecessor<br/><br/>2005<br/>Combined</b> | <b>Successor<br/>Nine Months Ended<br/>September 30,<br/>2006<br/>Consolidated</b> | <b>Predecessor<br/><br/>2005<br/>Combined</b> |
|--------------------------------|---|---|--|---|
| Service cost                   | \$ 192  | \$ 174  | \$ 574   | \$ 514  |
| Interest cost                  | 149   | 142   | 448  | 405   |
| Expected return on plan assets | (145 )  | (141 )  | (434 )   | (413 )  |
| Net periodic benefit cost      | \$ 196  | \$ 175  | \$ 588   | \$ 506  |

### **Note 8. Related Party Transactions**

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In connection with the Partnership's IPO, the Partnership entered into a Second Amended and Restated Terminal Storage Rental and Throughput Agreement which, among other things, extended the term of the then current non-cancelable terminal facility agreement with Global Petroleum Corp. (GPC) through December 2013. The agreement is accounted for as an operating lease. The expense under this agreement (or the applicable predecessor agreement with GPC, as the case may be) was \$2.0 million and \$1.9 million for the three months ended September, 2006 and 2005, respectively, and \$6.1 million and \$5.8 million for the nine months ended September 30, 2006 and 2005, respectively.



GPC provides certain terminal operating management services to the Partnership and uses certain administrative, accounting and information processing services of the Partnership. The expense from these services was approximately \$19,000 and \$16,000 for the three months ended September 30, 2006 and 2005, respectively, and \$58,000 and \$50,000 for the nine months ended September 30, 2006 and 2005, respectively. These affiliate charges have been recorded in selling, general and administrative expenses in the accompanying statements of operations. In connection with the IPO, the Partnership entered into an Amended and Restated Services Agreement with GPC which, among other things, extended the term of the agreement through December 31, 2007.

The Partnership also provides certain administrative, accounting and information processing services, and the use of certain facilities, to Alliance Energy Corp. ( Alliance ), an affiliate of the Partnership that is 90% owned by members of the Slifka family. The income from these services was approximately \$189,000 and \$80,000 for the three months ended September 30, 2006 and 2005, respectively, and \$567,000 and \$240,000 for the nine months ended September 30, 2006 and 2005, respectively. These fees have been recorded as an offset to selling, general and administrative expenses in the statements of operations. In connection with the IPO, the Partnership entered into an Amended and Restated Services Agreement with Alliance which, among other things, extended the term of the agreement through December 31, 2007.

The Partnership sells refined petroleum products to Alliance at arm's length and at prevailing market prices at the time of delivery. Sales to Alliance were \$2.8 million and \$6.1 million for the three months ended September 30, 2006 and 2005, respectively, and \$14.3 million and \$14.6 million for the nine months ended September 30, 2006 and 2005, respectively.

Effective October 4, 2005, the General Partner employs substantially all of the Partnership's employees and charges the Partnership for their services. The amounts expensed for the three and nine months ended September 30, 2006, including payroll taxes and payroll accruals, were \$5.3 million and \$16.1 million, respectively. The Partnership also reimburses the General Partner for its contributions under the General Partner's 401(k) Savings and Profit Sharing Plan and the General Partner's qualified and non-qualified pension plans.

The table below presents receivables and payables incurred in connection with the services agreements (or the applicable predecessor agreements, as the case may be) between Alliance and GPC and the Partnership, as the case may be, and receivables from the General Partner (in thousands):

|  | September 30,<br>2006 | December 31,<br>2005 |
|--|-----------------------|----------------------|
| Receivables from Alliance                | \$ 931                | \$ 1,748             |
| (Payables to) receivables from GPC       | (29                   | ) 56                 |
| Receivables from the General Partner (1) | 225                   | 201                  |

(1) Receivables from the General Partner reflect the Partnership's prepayment of payroll taxes and payroll accruals to the General Partner.

#### **Note 9. Cash Distributions**

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The Partnership intends to consider regular cash distributions to unitholders on a quarterly basis, although there is no assurance as to the future cash distributions since they are dependent upon future cash flows, capital requirements, financial condition and other factors. The Credit Agreement prohibits the Partnership from making cash distributions if any potential default or event of default, as defined in the Credit Agreement, occurs or would result from the cash distribution.

Within 45 days after the end of each quarter, the Partnership will distribute all of its available cash (as defined in its partnership agreement) to unitholders of record on the applicable record date. The amount of available cash is all cash on hand at the end of the quarter; plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter; less the amount of cash reserves established by the General Partner to provide for the proper conduct of the Partnership's business, to comply with applicable law, any of the Partnership's debt instruments, or other agreements or to provide funds for distributions to unitholders and to the General Partner for any one or more of the next four quarters. Working capital borrowings are generally borrowings that are made under the Credit Agreement and in all cases are used solely for working capital purposes or to pay distributions to partners.

The Partnership will make distributions of available cash from operating surplus for any quarter during the subordination period as defined in the partnership agreement in the following manner: firstly, 98% to the common unitholders, pro rata, and 2% to the General Partner, until the Partnership distributes for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; secondly, 98% to the common unitholders, pro rata, and 2% to the General Partner, until the Partnership distributes for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period; thirdly, 98% to the subordinated unitholders, pro rata, and 2% to the General Partner, until the Partnership distributes for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and thereafter, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the General Partner based on the percentages as provided in the partnership agreement.

The Partnership paid the following cash distributions during 2006 (in thousands, except per unit data):

| Cash Distribution Payment Date | Per Unit Cash Distribution | Common Units | Subordinated Units | General Partner | Total Cash Distribution |
|--------------------------------|----------------------------|--------------|--------------------|-----------------|-------------------------|
| 02/14/06                       | \$ 0.4111                  | \$ 2,319     | \$ 2,319           | \$ 95           | \$ 4,733                |
| 05/15/06                       | 0.4250                     | 2,398        | 2,398              | 98              | 4,894                   |
| 08/14/06                       | 0.4375                     | 2,469        | 2,469              | 100             | 5,038                   |
| 11/14/06 (1)                   | 0.4450                     | 2,511        | 2,511              | 102             | 5,124                   |

(1) On October 24, 2006, the board of directors of the General Partner declared this distribution for the period from July 1, 2006 through September 30, 2006 (\$1.78 per unit on an annualized basis) to be paid on November 14, 2006 to the Partnership's common and subordinated unitholders of record as of the close of business on November 3, 2006.

#### Note 10. Segment Reporting

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The Partnership is a wholesale and commercial distributor of distillates, gasoline and residual oil whose business is organized within two operating segments (Wholesale and Commercial), based on the way the chief operating decision maker (CEO) manages the business and on the similarity of customers and expected long-term financial performance of each segment. The accounting policies of the segments are the same as those described in Note 2, Summary of Significant Accounting Policies, in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005.

In the Wholesale segment, the Partnership sells home heating oil, diesel, kerosene, unbranded gasoline and residual oil to home heating oil retailers, retail gasoline station operators and wholesale distributors. Generally, customers use their own vehicles or contract carriers to take delivery of the product at bulk terminals and inland storage facilities that the Partnership owns or controls or with which it has throughput arrangements.

The Commercial segment includes (i) sales of home heating oil, diesel, kerosene, unbranded gasoline and residual oil to customers in the public sector through competitive bidding and to large commercial and industrial customers, and (ii) sales of custom blended residual oil and distillates delivered by bunker barges or from a terminal dock. Commercial segment customers include federal and state agencies, municipalities, large industrial companies, many autonomous authorities such as transportation authorities and water resource authorities, colleges and universities and a limited group of small utilities. Unlike the Wholesale segment, in the Commercial segment, the Partnership generally arranges the delivery of the product to the customer's designated location, typically hiring third-party common carriers to deliver the product.

The Partnership evaluates segment performance based on net product margins before allocations of corporate and indirect operating costs, depreciation, amortization (including non-cash charges) and interest. Based on the way the CEO manages the business, it is not reasonably possible for the Partnership to allocate the components of operating costs and expenses between the reportable segments. Additionally, due to the commingled nature and uses of the Partnership's assets, it is not reasonably possible for the Partnership to allocate assets between the two segments. There were no intersegment sales for the periods presented below.

Summarized financial information for the Partnership's reportable segments is presented below (in thousands):

|   | Successor<br>Three Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br><br>2005<br>Combined | Successor<br>Nine Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br><br>2005<br>Combined |
|---|--|-------------------------------------|---|-------------------------------------|
| <b>Wholesale Segment:</b>                     |  |                                     |   |                                     |
| Sales   | \$ 927,749   | \$ 776,664                          | \$ 3,075,529  | \$ 2,488,010                        |
| Net product margin (1)                        |  |                                     |   |                                     |
| Distillates                                   | \$ 11,873  | \$ 8,016                            | \$ 37,462   | \$ 25,096                           |
| Gasoline                                      | 8,003  | 4,797                               | 18,405  | 11,941                              |
| Residual oil                                  | 3,536  | 4,285                               | 13,456  | 16,723                              |
| Total   | \$ 23,412  | \$ 17,098                           | \$ 69,323   | \$ 53,760                           |
| <b>Commercial Segment:</b>                    |  |                                     |   |                                     |
| Sales   | \$ 68,085  | \$ 78,189                           | \$ 302,681  | \$ 282,119                          |
| Net product margin (1)                        | 2,821  | 2,268                               | 10,601  | 9,310                               |
| <b>Combined sales and net product margin:</b> |  |                                     |   |                                     |
| Sales   | \$ 995,834   | \$ 854,853                          | \$ 3,378,210  | \$ 2,770,129                        |
| Net product margin (1)                        | 26,233   | 19,366                              | 79,924  | 63,070                              |
| Depreciation allocated to cost of sales       | 512  | 416                                 | 1,342   | 1,241                               |
| <b>Combined gross profit:</b>                 | <b>\$ 25,721</b>   | <b>\$ 18,950</b>                    | <b>\$ 78,582</b>  | <b>\$ 61,829</b>                    |

(1) Net product margin is a supplemental non-GAAP financial measure used by management and external users of the Partnership's financial statements to assess product costs associated with the Partnership's business. The table above reconciles net product margin on a combined basis to gross profit, a directly comparable GAAP measure.

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A reconciliation of the totals reported for the reportable segments to the applicable line items in the consolidated/combined financial statements is as follows (in thousands):

|   | <b>Successor<br/>Three Months Ended<br/>September 30,<br/>2006<br/>Consolidated</b> | <b>Predecessor<br/>2005<br/>Combined</b> | <b>Successor<br/>Nine Months Ended<br/>September 30,<br/>2006<br/>Consolidated</b> | <b>Predecessor<br/>2005<br/>Combined</b> |
|---|---|--|--|--|
| <b>Combined gross profit</b>  | \$ 25,721   | \$ 18,950                                | \$ 78,582  | \$ 61,829                                |
| <b>Operating costs and expenses not allocated to reportable segments:</b> |   |  |  |  |
| Selling, general and administrative expenses                              | 10,284  | 11,644                                   | 30,272   | 29,427                                   |
| Operating expenses  | 5,336   | 4,707                                    | 16,153   | 14,617                                   |
| Amortization expenses   | 358   | 406                                      | 1,170  | 1,217                                    |
| Operating income  | 9,743   | 2,193                                    | 30,987   | 16,568                                   |
| Interest expense  | 3,414   | 3,191                                    | 7,520  | 7,169                                    |
| Other expense   |   | 1,050                                    |  | 1,050                                    |
| Income tax expense  | 95  |  | 1,065  |  |
| <b>Net income (loss)</b>  | \$ 6,234  | \$ (2,048)                               | \$ 22,402  | \$ 8,349                                 |

There were no foreign sales for the three and nine months ended September 30, 2006 and 2005. The Partnership has no foreign assets.

## **Note 11. Capital Expenditures**

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The Partnership's terminalling operations require investments to expand, upgrade or enhance existing operations and to meet environmental and operations regulations. The Partnership's capital requirements primarily consist of maintenance capital expenditures and capital improvement expenditures. Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the operating capacity of, or sales generated by, existing assets and extend their useful lives such as expenditures required to maintain equipment reliability, tankage and pipeline integrity and safety, and to address environmental regulations. Capital improvement expenditures include expenditures to acquire assets to grow the Partnership's business and to expand existing facilities, such as projects that increase operating capacity by increasing tankage or adding terminals. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred. The Partnership incurred approximately \$0.7 million and \$0.4 million in maintenance capital expenditures for the three months ended September 30, 2006 and 2005, respectively, and \$1.2 million and \$1.0 million for the nine months ended September 30, 2006 and 2005, respectively.

### **Note 12. Recently Issued Accounting Standards**

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In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123 (revised), Share-Based Payment ( SFAS 123 (revised) ). This revision prescribes the accounting for a wide range of equity-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans, and generally requires the fair value of equity-based awards to be expensed on the income statement. SFAS 123 (revised) allows for either modified prospective recognition of compensation expense or modified retrospective recognition. The Partnership adopted SFAS 123 (revised) on January 1, 2006, and the adoption of this standard did not have a material effect on its consolidated financial statements as there are currently no awards outstanding.



In September 2005, the EITF issued Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty* ( EITF 04-13 ). The EITF concluded that inventory purchases and sales transactions with the same counterparty should be combined for accounting purposes if entered into in contemplation of each other. The EITF provided indicators to be considered for purposes of determining whether such transactions are entered into in contemplation of each other. Guidance was also provided on the circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value. The Partnership adopted EITF 04-13 on April 1, 2006, and the adoption of this standard did not have a material impact on its consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Partnership does not believe adoption of FIN 48 will have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). This statement defines fair value, establishes guidelines for measuring fair value and requires additional disclosures regarding fair value measurements. SFAS No. 157 applies only to fair value measurements currently required or permitted by other accounting standards and is expected to increase the consistency of those measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Partnership will adopt this statement on January 1, 2008 and is in the process of evaluating the impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS No. 158 ). This statement requires the recognition of the overfunded or underfunded status of a defined benefit plan in the statement of financial position with the offset recognized through comprehensive income, changes the measurement date for defined benefit plan assets and obligations to the entity's fiscal year-end and requires additional disclosures. The recognition and disclosures under SFAS No. 158 are required as of the end of the fiscal year ending after December 15, 2006 while the new measurement date is effective for fiscal years ending after December 15, 2008. The Partnership is in the process of evaluating the impact of SFAS No. 158 on its consolidated financial statements.

#### **Note 13. Subsequent Events**

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As previously disclosed in a Form 8-K filed on October 24, 2006, the General Partner's board of directors declared a quarterly cash distribution of \$0.4450 per unit for the period from July 1, 2006 through September 30, 2006 (\$1.78 per unit on an annualized basis). On November 14, 2006, the Partnership will pay this cash distribution to its common and subordinated unitholders of record as of the close of business November 3, 2006.

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

The following discussion and analysis of financial condition and results of operations of Global Partners LP should be read in conjunction with the historical consolidated financial statements of Global Partners LP and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are identified as any statements that do not relate strictly to historical or current facts and can generally be identified by the use of forward-looking terminology including may, believe, expect, anticipate, estimate, continue or other similar words. Such statements may discuss future expectations for or contain projections of results of operations, financial condition or our ability to make distributions to unitholders or state other forward-looking information. Forward-looking statements are not guarantees of performance. Although we believe these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks, many of which are beyond our control, which may cause future results to be materially different from the results stated or implied in this document. These risks and uncertainties include, among other things:

- We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.
- Warmer weather conditions could adversely affect our results of operations and cash available for distribution to our unitholders.
- Our risk management policies cannot eliminate all commodity risk. In addition, any non-compliance with our risk management policies could result in significant financial losses.
- We are exposed to trade credit risk in the ordinary course of our business activities.
- Due to our lack of asset and geographic diversification, adverse developments in the terminals that we use or in our operating areas could reduce our ability to make distributions to our unitholders.
- We are exposed to performance risk in our supply chain.
- Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to the detriment of unitholders.
- Unitholders have limited voting rights and are not entitled to elect our general partner or its directors or initially to remove our general partner without its consent, which could lower the trading price of our common units.
- Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Additional information about risks and uncertainties that could cause actual results to differ materially from forward-looking statements is contained in Part II, Item 1A, Risk Factors.

All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only

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as of the date made, other than as required by law, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Overview

### *General*

We own, control or have access to one of the largest terminal networks of refined petroleum products in the Northeast. We are one of the largest wholesale distributors of distillates (such as home heating oil, diesel and kerosene), gasoline and residual oil to wholesalers, retailers and commercial customers in the Northeast. We are also one of the largest wholesale marketers of home heating oil in New England.

We purchase our refined petroleum products primarily from domestic and foreign refiners, traders and producers and sell these products in two segments, Wholesale and Commercial. Like most independent marketers of refined petroleum products, we base our pricing on spot physical prices and routinely use the New York Mercantile Exchange ( NYMEX ) or derivatives to hedge our commodity risk inherent in buying and selling energy commodities. Through the use of regulated exchanges or derivatives, we maintain a position that is substantially balanced between purchased volumes and sales volumes or future delivery obligations. We earn a margin by selling the product for physical delivery to third parties.

On October 4, 2005, we closed our initial public offering of 5,635,000 common units (including 735,000 common units issued pursuant to the underwriters' exercise of their over-allotment option) representing a 48.9% limited partner interest in us. In connection with the closing of this offering, (1) Global Companies LLC distributed \$45.3 million in cash to those affiliates of the Slifka family holding 100% of the ownership interests in Global Companies LLC and (2) Global Petroleum Corp., Montello Oil Corporation, Larea Holdings, LLC, Larea Holdings II, LLC, Chelsea Terminal Limited Partnership and Sandwich Terminal, L.L.C. contributed all of their ownership interests in Global Companies LLC and its affiliates, Glen Hes Corp., Global Montello Group LLC and Chelsea Sandwich LLC, to us.

Proceeds from the sale of common units in the initial public offering were used in part to repay \$45.3 million of borrowings under our then-existing revolving credit facility and \$51.0 million of outstanding indebtedness under a term loan of Global Petroleum Corp. and certain other Slifka family entities guaranteed by affiliates of Global Petroleum Corp., including Global Companies LLC and its Affiliates.

### *Products and Operational Structure*

Our products include distillates, gasoline, residual oil and bunker fuel. The distillates we sell are used primarily for space heating of residential and commercial buildings and as fuel for trucks and off-road construction equipment. We sell unbranded gasoline, diesel and heating oil under agreements with major suppliers of refined petroleum products. We sell residual oil to major housing units, such as public housing authorities, colleges and hospitals and large industrial facilities that use processed steam in their manufacturing processes. We sell bunker fuel, which we can custom blend, to cruise ships, bulk carriers and fishing fleets.

Our business is divided into two segments:

- *Wholesale.* This segment includes sales of distillates, unbranded gasoline and residual oil to home heating oil retailers, retail gasoline station operators and wholesale distributors.
- *Commercial.* This segment includes sales and deliveries of distillates, unbranded gasoline, residual oil and small amounts of natural gas to customers in the public sector and to large commercial and industrial customers, either through a competitive bidding process or through contracts of various terms. This segment also purchases, custom blends, sells and delivers bunker fuel and diesel to cruise ships, bulk carriers and fishing fleets delivered by bunker barges.

Our business activities are substantially comprised of purchasing, terminalling, storing and selling refined petroleum products. We believe that the combination of our terminalling and storage activities, together with our marketing activities, provides a balance that has a stabilizing effect on our results of operations and cash flows. In a contango market (when product prices for future deliveries are higher than for current deliveries), we may use our storage capacity to improve our margins by storing products we have purchased at lower prices in the current month for delivery to customers at higher prices in future months. In a backwardated market (when product prices for future deliveries are lower than for current deliveries) because of our high turnover of inventory, we are able to minimize our inventories and commodity risk while attempting to maintain or increase net product margins.

### **Outlook**

This section identifies certain risks and certain economic or industry-wide factors that may affect our financial performance and results of operations in the future, both in the short-term and in the long-term. Our primary short-term concerns and uncertainties are as follows:

- *As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company.* We became a public company on September 28, 2005. Prior to that, we had no history operating as a public company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the New York Stock Exchange, has required changes in corporate governance practices of public companies. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

- *We commit substantial resources to pursuing acquisitions, though there is no certainty that we will successfully complete any acquisitions or receive the economic results we anticipate from completed acquisitions.* Consistent with our business strategy, we are continuously engaged in discussions with potential sellers of terminalling, storage and/or marketing assets and related businesses. In an effort to prudently and economically leverage our asset base, knowledge base and skill sets, management has also expanded its efforts to pursue businesses that are closely related to or significantly intertwined with our existing lines of business. Growth in our cash flow per unit may depend on our ability to make accretive acquisitions. We may be unable to make such accretive acquisitions for a number of reasons, including, but not limited to, the following: (1) we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them; (2) we are unable to raise financing for such acquisitions on economically acceptable terms; or (3) we are outbid by competitors. In addition, we may consummate acquisitions, which at the time of consummation we believe will be accretive, but which ultimately may not be accretive. If any of these events were to occur, our future growth would be limited. We can give no assurance that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms that are favorable to us.

Our results of operations and financial condition, as well as those of our competitors, depend in part upon certain economic or industry-wide factors, including the following:

- *Warmer weather conditions could adversely affect our results of operations and financial condition.* Because we supply distributors whose customers depend on home heating oil and residual oil for space heating purposes during the winter, weather conditions have a significant impact on the demand for both home heating oil and residual oil. As a result, warmer-than-normal temperatures during the first and fourth calendar quarters in one or more regions in which we operate can decrease the total volume we sell and the gross profit realized on those sales and, consequently, could adversely affect our results of operations.



- *Our financial results are seasonal and generally better in the first and fourth quarters of the calendar year.* Demand for some of our refined petroleum products, specifically home heating oil and residual oil for space heating purposes, is generally higher during November through March than during April through October. We obtain a significant portion of our sales during these winter months. Therefore, our results of operations for the first and fourth calendar quarters are generally better than for the second and third quarters. With lower cash flow during the second and third calendar quarters, we may be required to borrow money in order to pay the minimum quarterly distribution to our unitholders.
- *Energy efficiency, new technology and alternative fuels, natural gas in particular, could reduce demand for our products.* Increased conservation and technological advances have adversely affected the demand for home heating oil and residual oil. Consumption of residual oil has steadily declined over the last three decades. We could face additional competition from alternative energy sources as a result of future government-mandated controls or regulation further promoting the use of cleaner fuels. Due in part to support for conversion to natural gas on environmental grounds, some industrial residual oil users have switched to natural gas. Those end users who are dual-fuel users have the ability to switch between residual oil and natural gas. During a period of increasing residual oil prices relative to the prices of natural gas, dual-fuel customers may switch to natural gas, or over the long-term, may convert to natural gas. Such switching or conversion could have an adverse effect on our results of operations and financial condition.
- *New, stricter environmental laws and regulations could significantly increase our costs, which could adversely affect our results of operations and financial condition.* Our operations are subject to federal, state and local laws and regulations regulating product quality specifications and other environmental matters. The trend in environmental regulation is towards more restrictions and limitations on activities that may affect the environment. Our business may be adversely affected by increased costs and liabilities resulting from such stricter laws and regulations. We try to anticipate future regulatory requirements that might be imposed and to plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance. However, there can be no assurances as to the timing and type of such changes in existing laws or the promulgation of new laws or the amount of any required expenditures associated therewith.
- *Consolidation of the New England supply network.* In recent years, major terminals have been acquired and their former owners have reduced or eliminated operations in the wholesale market. The largest terminals, which form the core of the region's supply network, are still operating but are owned by fewer companies.

## Results of Operations

### *Evaluating Our Results of Operations*

Our management uses a variety of financial and operational measurements to analyze our performance. These measurements include: (1) net product margin, (2) gross profit, (3) selling, general and administrative expenses (SG&A), (4) operating expenses, (5) heating degree days, (6) adjusted net income per diluted limited partner unit, (7) earnings before interest, taxes, depreciation and amortization (EBITDA) and (8) distributable cash flow.

### *Net Product Margin*

We view net product margin as an important performance measure of the core profitability of our operations. We review net product margin monthly for consistency and trend analysis. We define net product margin as our sales minus product costs. Sales include sales of distillates, unbranded gasoline, residual oil and bunker fuel and natural gas. Product costs include the cost of acquiring the refined petroleum products that we sell and all associated costs including shipping and handling costs to bring such products to the point of sale.





### *Gross Profit*

We define gross profit as our sales minus product costs and terminal depreciation expense allocated to cost of sales. Sales include sales of distillates, unbranded gasoline, residual oil and bunker fuel and natural gas. Product costs include the cost of acquiring the refined petroleum products that we sell and all associated costs to bring such products to the point of sale.

### *Selling, General and Administrative Expenses*

Our SG&A expenses include marketing costs, corporate overhead, employee salaries and benefits, pension and 401(k) plan expenses, discretionary bonuses, non-interest financing costs, professional fees and information technology expenses. Employee-related expenses including employee salaries, discretionary bonuses and related payroll taxes, and benefits, pension and 401(k) plan expenses are paid by our general partner which, in turn, is reimbursed for these expenses by us. We incur additional expenses related to being a public company, most of which are the result of increased accounting and legal expenses.

### *Operating Expenses*

Operating expenses are costs associated with the operation of the terminals used in our business. Lease payments and storage expenses, maintenance and repair, utilities, taxes, labor and labor-related expenses comprise the most significant portion of our operating expenses. These expenses remain relatively stable independent of the volumes through our system but fluctuate slightly depending on the activities performed during a specific period.

### *Degree Day*

A degree day is an industry measurement of temperature designed to evaluate energy demand and consumption. Degree days are based on how far the average temperature departs from a human comfort level of 65°F. Each degree of temperature above 65°F is counted as one cooling degree day, and each degree of temperature below 65°F is counted as one heating degree day. Degree days are accumulated each day over the course of a year and can be compared to a monthly or a long-term (multi-year) average, or normal, to see if a month or a year was warmer or cooler than usual. Degree days are officially observed by the National Weather Service and officially archived by the National Climatic Data Center. For purposes of evaluating our results of operations, we use the normal heating degree day amount as reported by the National Weather Service at its Logan International Airport station in Boston, Massachusetts.

### *Adjusted Net Income Per Diluted Limited Partner Unit*

Net income per diluted limited partner unit as dictated by EITF 03-06 is theoretical and pro forma in nature and does not reflect the economic probabilities of whether earnings for an accounting period would or could be distributed to unitholders. The partnership agreement does not provide for the quarterly distribution of net income, rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter after establishment of sufficient cash reserves required to operate our business in a prudent manner. Accordingly, the distributions we historically paid and will pay in future periods are not impacted by net income per diluted limited partner unit as dictated by EITF 03-06. We use adjusted net income per diluted limited partner unit to measure our financial performance on a per-unit basis. Adjusted net income per diluted limited partner unit is defined as net income after adding back the theoretical amount allocated to the general partner's interest as provided under EITF 03-06, divided by the weighted average number of outstanding diluted limited partner units during the period.

### *EBITDA*

EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;



- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the wholesale marketing and distribution of refined petroleum products business, without regard to financing methods and capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

EBITDA should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA as presented below may not be comparable to similarly titled measures of other companies.

*Distributable Cash Flow*

Distributable cash flow also is an important non-GAAP financial measure for our limited partners since it serves as an indicator of our success in providing a cash return on their investment. Specifically, this financial measure indicates to investors whether or not we are generating cash flows at a level that can sustain or support an increase in our quarterly cash distribution. Distributable cash flow is also a quantitative standard used by the investment community with respect to publicly traded partnerships. However, distributable cash flow is not a generally accepted accounting principle financial measure and should not be considered as an alternative to net income, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. In addition, our distributable cash flow may not be comparable to distributable cash flow or similarly titled measures of other companies. The generally accepted accounting measures most directly comparable to distributable cash flow are net income and cash flow from operating activities.

*Three Months Ended September 30, 2006 and 2005; Nine Months Ended September 30, 2006 and 2005*

*During the third quarter and the nine months ended September 30, 2006, we experienced increases in gross profits and net product margins across both our Wholesale and Commercial segments. Commodity prices rose throughout most of the nine months ended September 30, 2006. Temperatures were 22% warmer and 7% warmer than normal for the three and nine months ended September 30, 2006, respectively, as measured by aggregate heating degree days.*

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The following table provides a summary of some of the key performance indicators that may be used to assess our results of operations. These comparisons are not necessarily indicative of future results (dollars in thousands, except per unit data):

|  | Successor<br>Three Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br><br>2005<br>Combined | Successor<br>Nine Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br><br>2005<br>Combined |    |     |   |
|--|--|-------------------------------------|---|-------------------------------------|----|-----|---|
| Adjusted net income per diluted limited partner unit (1) | \$ 0.54  | \$                                  | \$ 1.95   | \$                                  |    |     |   |
| EBITDA (2)   | \$ 10,870  | \$ 2,192                            | \$ 34,274   | \$ 18,794                           |    |     |   |
| Distributable cash flow (3)                              | \$ 6,669   | \$                                  | \$ 24,482   | \$                                  |    |     |   |
| <b>Wholesale Segment:</b>                                |  |                                     |   |                                     |    |     |   |
| Volume (gallons)   | 469,737  | 425,080                             | 1,620,308   | 1,638,608                           |    |     |   |
| Sales  | \$ 927,749   | \$ 776,664                          | \$ 3,075,529  | \$ 2,488,010                        |    |     |   |
| Net product margin (4)                                   |  |                                     |   |                                     |    |     |   |
| Distillates  | 11,873   | 8,016                               | 37,462  | 25,096                              |    |     |   |
| Gasoline   | 8,003  | 4,797                               | 18,405  | 11,941                              |    |     |   |
| Residual oil   | 3,536  | 4,285                               | 13,456  | 16,723                              |    |     |   |
| Total  | \$ 23,412  | \$ 17,098                           | \$ 69,323   | \$ 53,760                           |    |     |   |
| <b>Commercial Segment:</b>                               |  |                                     |   |                                     |    |     |   |
| Volume (gallons)   | 48,282   | 62,088                              | 214,589   | 263,265                             |    |     |   |
| Sales  | \$ 68,085  | \$ 78,189                           | \$ 302,681  | \$ 282,119                          |    |     |   |
| Net product margin (4)                                   | 2,821  | 2,268                               | 10,601  | 9,310                               |    |     |   |
| <b>Combined sales and net product margin:</b>            |  |                                     |   |                                     |    |     |   |
| Sales  | \$ 995,834   | \$ 854,853                          | \$ 3,378,210  | \$ 2,770,129                        |    |     |   |
| Net product margin (4)                                   | 26,233   | 19,366                              | 79,924  | 63,070                              |    |     |   |
| Depreciation allocated to cost of sales                  | 512  | 416                                 | 1,342   | 1,241                               |    |     |   |
| <b>Combined gross profit</b>                             | <b>\$ 25,721</b>   | <b>\$ 18,950</b>                    | <b>\$ 78,582</b>  | <b>\$ 61,829</b>                    |    |     |   |
| <b>Weather conditions:</b>                               |  |                                     |   |                                     |    |     |   |
| Normal heating degree days                               | 96   | 96                                  | 3,750   | 3,750                               |    |     |   |
| Actual heating degree days                               | 75   | 42                                  | 3,472   | 3,985                               |    |     |   |
| Variance from normal heating degree days                 | (21.9)   | )%                                  | (56.3)  | )% (7.4)                            | )% | 6.3 | % |
| Variance from prior period actual heating degree days    | 78.6   | %                                   | (34.4)  | )% (12.9)                           | )% | 3.1 | % |

(1) Adjusted net income per diluted limited partner unit is a non-GAAP financial measure which is discussed above under Evaluating Our Operating Results. The table below presents a reconciliation of adjusted net income per diluted limited partner unit to the most directly comparable GAAP financial measure.

(2) EBITDA is a non-GAAP financial measure which is discussed above under Evaluating Our Operating Results. The table below presents a reconciliation of EBITDA to the most directly comparable GAAP financial measures.

(3) Distributable cash flow is a non-GAAP financial measure which is discussed above under Evaluating Our Operating Results. On October 4, 2005, we completed our IPO. Accordingly, distributable cash flow is presented for the three and nine months ended September 30, 2006. The table below presents a reconciliation of distributable cash flow to the most directly comparable GAAP financial measure.

(4) Net product margin is a supplemental non-GAAP financial measure used by management and external users of our financial statements to assess product costs associated with our business. The table above reconciles net product margin on a combined basis to gross profit, a directly comparable GAAP measure.



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The following table presents a reconciliation of adjusted net income per diluted limited partner unit to the most directly comparable GAAP financial measure on a historical basis for the three and nine months ended September 30, 2006:

|   | Three Months<br>Ended<br>September 30,<br>2006 | Nine Months<br>Ended<br>September 30,<br>2006 |
|---|--|---|
| <b>Reconciliation of net income per diluted limited partner unit to adjusted net income per diluted limited partner unit:</b> |  |   |
| Net income per diluted limited partner unit under EITF 03-06  | \$ 0.53  | \$ 1.68                                       |
| Dilutive impact of theoretical distribution of earnings   | 0.01   | 0.27  |
| Adjusted net income per diluted limited partner unit  | \$ 0.54  | \$ 1.95                                       |

The following table presents a reconciliation of EBITDA to the most directly comparable GAAP financial measures on a historical basis for each of the periods indicated (in thousands):

|  | Successor<br>Three Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br>2005<br>Combined | Successor<br>Nine Months Ended<br>September 30,<br>2006<br>Consolidated | Predecessor<br>2005<br>Combined |
|--|--|---------------------------------|---|---------------------------------|
| <b>Reconciliation of net income (loss) to EBITDA:</b>                      |  |                                 |   |                                 |
| Net income (loss)  | \$ 6,234   | \$ (2,048 )                     | \$ 22,402   | \$ 8,349                        |
| Add:   |  |                                 |   |                                 |
| Depreciation and amortization  | 1,127  | 1,049                           | 3,287   | 3,276                           |
| Interest expense   | 3,414  | 3,191                           | 7,520   | 7,169                           |
| Income tax expense   | 95   |                                 | 1,065   |                                 |
| EBITDA   | \$ 10,870  | \$ 2,192                        | \$ 34,274   | \$ 18,794                       |
| <b>Reconciliation of cash flow used in operating activities to EBITDA:</b> |  |                                 |   |                                 |
| Cash flow used in operating activities                                     | \$ (64,121 )   | \$ (43,337 )                    | \$ (51,882 )  | \$ (2,376 )                     |
| Increase in operating assets and liabilities                               | 71,482   | 42,338                          | 77,571  | 14,001                          |
| Interest expense   | 3,414  | 3,191                           | 7,520   | 7,169                           |
| Income tax expense   | 95   |                                 | 1,065   |                                 |
| EBITDA   | \$ 10,870  | \$ 2,192                        | \$ 34,274   | \$ 18,794                       |

The following presents reconciliations of distributable cash flow to the most directly comparable GAAP financial measures on a historical basis for the three and nine months ended September 30, 2006 (in thousands):

|   | Three Months<br>Ended<br>September 30,<br>2006 | Nine Months<br>Ended<br>September 30,<br>2006 |
|---|--|---|
| <b>Reconciliation of net income to distributable cash flow:</b>                             |  |   |
| Net income  | \$ 6,234                                       | \$ 22,402                                     |
| Depreciation and amortization   | 1,127  | 3,287   |
| Maintenance capital expenditures  | (692 )   | (1,207 )                                      |
| Distributable cash flow   | \$ 6,669                                       | \$ 24,482                                     |
| <b>Reconciliation of cash flow used in operating activities to distributable cash flow:</b> |  |   |
| Cash flow used in operating activities  | \$ (64,121 )                                   | \$ (51,882 )                                  |
| Increase in operating assets and liabilities  | 71,482   | 77,571  |
| Maintenance capital expenditures  | (692 )   | (1,207 )                                      |
| Distributable cash flow   | \$ 6,669                                       | \$ 24,482                                     |





### ***Consolidated Results***

Our total sales for the third quarter of 2006 increased \$141.0 million, or 16%, to \$995.8 million compared to \$854.9 million for the same period in 2005. The increase was driven by higher refined petroleum product prices and an increase of approximately 30 million gallons, or 6%, to 518 million gallons in aggregate volume of product sold. The increase in aggregate volume sold primarily includes increases of 27 million and 13 million gallons in distillates and gasoline, respectively, offset by a 7 million gallon decrease in residual oil. The number of actual heating degree days increased 79% to 75 compared to 42 for the quarters ended September 30, 2006 and 2005, respectively. Our gross profit for the three months ended September 30, 2006 was \$25.7 million, an increase of \$6.8 million, or 36%, compared to \$19.0 million for the same period in 2005.

Our total sales for the nine months ended September 30, 2006 increased \$608.1 million, or 22%, to \$3,378.2 million compared to \$2,770.1 million for the same period in 2005. The increase was due to higher refined petroleum product prices despite a decrease of approximately 67 million gallons, or 4%, to 1,835 million gallons in aggregate volume of product sold for the nine months ended September 30, 2006 compared to the same period in 2005. The decrease in aggregate volume sold was primarily attributable to decreases of 78 million and 25 million gallons in distillates and residual oil, respectively, offset by a 36 million gallon increase in gasoline. The number of actual heating degree days declined 13% to 3,472 compared to 3,985 for the nine months ended September 30, 2006 and 2005, respectively. Our gross profit for the nine months ended September 30, 2006 was \$78.6 million, an increase of \$16.8 million, or 27%, compared to \$61.8 million for the same period in 2005. The increases in our gross profits for the three and nine months ended September 30, 2006 were primarily due to higher net product margins in our Wholesale and Commercial segments.

### ***Wholesale Segment***

**Distillates.** Wholesale distillate sales for the three months ended September 30, 2006 increased \$85.1 million, or 25%, to \$421.3 million from \$336.2 million for three months ended September 30, 2005 due to higher distillate prices and an increase of 15% in distillate volume sold. During the first nine months of 2006, wholesale distillate sales were \$1,706.1 million compared to \$1,458.1 million for the same period in 2005. The increase of \$248.0 million, or 17%, was due to higher distillate prices despite a decrease of 7% in distillate volume sold for the nine months ended September 30, 2006 compared to the same period in 2005. We attribute the decrease in volume sold to the expiration of supply contracts in the ordinary course of business and a reduction in bulk sales transactions to local competitors.

Our net product margin contribution from distillate sales increased \$3.9 million, or 48%, to \$11.9 million and \$12.4 million, or 49%, to \$37.5 million for the three and nine months ended September 30, 2006, respectively, compared to the same periods in 2005. These increases were, in part, the result of our ability to pass through to customers our increased costs related to sales.

**Gasoline.** Wholesale gasoline sales for the three months ended September 30, 2006 were \$482.0 million compared to \$419.3 million for the three months ended September 30, 2005. During the first nine months of 2006, wholesale gasoline sales were \$1,286.3 million compared to \$979.7 million for the same period in 2005. The increases of \$62.7 million, or 15%, and \$306.6 million, or 31%, for the three and nine months ended September 30, 2006, respectively, were due to higher gasoline prices and an increase of 6% in volume sold for each of the respective periods.

Our net product margin from gasoline sales increased \$3.2 million, or 67%, to \$8.0 million and \$6.5 million, or 54%, to \$18.4 million for the three and nine months ended September 30, 2006, respectively, compared to the same periods in 2005. We attribute these increases in net product margin to increases in our volume of sales as well as sales to higher margin customers.

**Residual Oil.** Wholesale residual oil sales for the three months ended September 30, 2006 were \$24.5 million compared to \$21.2 million for the three months ended September 30, 2005. During the first nine months of 2006, residual oil sales were \$83.1 million compared to \$50.2 million for the same period in 2005. The increases of \$3.3 million, or 16%, and \$32.9 million, or 65%, for the three and nine months ended September 30, 2006, respectively, were the result of higher residual oil prices and increases of 22% and 38% in residual oil volume sold for the respective periods.



Our net product margin contribution from residual oil sales decreased \$0.7 million, or 17%, to \$3.5 million for the three months ended September 30, 2006 and \$3.3 million, or 20%, to \$13.5 million for the nine months ended September 30, 2006, primarily due to a per unit margin reduction.

#### *Commercial Segment*

In our Commercial segment, residual oil accounted for approximately 71% and 84% of total volume sold for the three months ended September 30, 2006 and 2005, respectively, and approximately 80% and 84% of total volume sold for the nine months ended September 30, 2006 and 2005, respectively. Distillates, gasoline and natural gas accounted for the remainder of the total volume sold.

Commercial residual oil sales for the quarter ended September 30, 2006 decreased 42% compared to the same period in 2005 due to a 45% decrease in volume sold. For the nine months ended September 30, 2006, residual oil sales decreased \$8.8 million, or 6%, compared to the same period in 2005 due to a 29% decrease in volume sold. We attribute the decreases in volume sold to the closure of plants and/or reductions in production by certain cyclical industry participants in our territory and competitive pricing from natural gas.

#### *Selling, General and Administrative*

SG&A expenses decreased \$1.4 million, or 12%, to \$10.3 million for the three months ended September 30, 2006 compared to \$11.6 million for the same period in 2005. During the third quarter of 2005, we paid \$3.1 million in bonuses to certain officers and employees in connection with the IPO. During the third quarter of 2006, we had increases in accrued bonuses of \$0.5 million, legal fees of \$0.1 million and expenses associated with becoming a public company, including increased expenses in audit and tax review fees of approximately \$0.6 million, director and officer insurance and fees of \$0.2 million and Sarbanes-Oxley 404 compliance of \$0.1 million.

During the nine months ended September 30, 2006, SG&A expenses increased \$0.8 million, or 3%, to \$30.3 million compared to \$29.4 million for the same period in 2005. During the third quarter 2005, we paid \$3.1 million in bonuses to certain officers and employees in connection with the IPO. During the first nine months of 2006, we had increases in accrued bonuses of \$0.9 million, legal fees of \$0.1 million, insurance related fees of \$0.2 million and expenses associated with becoming a public company, including increased expenses in audit and tax review fees of approximately \$1.3 million, director and officer insurance and fees of \$0.5 million, Schedule K-1 preparation and distribution expenses of \$0.3 million and Sarbanes-Oxley 404 compliance, planning and documentation of \$0.6 million.

#### *Operating Expenses*

Operating expenses increased \$0.6 million, or 13%, to \$5.3 million for the three months ended September 30, 2006 compared to \$4.7 million for the same period in 2005. The increase was primarily due to a \$0.3 million increase in rent for additional tankage at the Capitol Terminal in East Providence, Rhode Island, and \$0.4 million in operating costs associated with the 2006 acquisitions of the Bridgeport, Connecticut, and Macungie, Pennsylvania, facilities.

Operating expenses for the nine months ended September 30, 2006 increased \$1.5 million, or 11%, to \$16.2 million compared to \$14.6 million for the same period in 2005. The increase was primarily due to pipeline repair expenses of \$0.3 million and other repair and maintenance expenses of \$0.1 million at the terminal in Chelsea, Massachusetts, a \$0.6 million increase in rent for additional tankage at the Capitol Terminal in East Providence, Rhode Island, \$0.1 million in costs in connection with the expiration of the New Bedford, Massachusetts, terminal lease and \$0.4 million in operating costs associated with the 2006 acquisitions of the Bridgeport, Connecticut, and Macungie, Pennsylvania, facilities.

#### *Amortization expense*

Amortization expense was \$0.4 million for each of the three months ended September 30, 2006 and 2005 and \$1.2 million for each of the nine months ended September 30, 2006 and 2005.

***Interest expense***

*Interest expense for the three months ended September 30, 2006 increased \$0.2 million, or 7%, to \$3.4 million compared to \$3.2 million for the same period in 2005. Interest expense for the nine months ended September 30, 2006 increased \$0.3 million, or 5%, to \$7.5 million compared to \$7.2 million for the same period in 2005. We attribute these increases to a rise in the market prices throughout most of 2006 for purchases of products and the resulting increased costs of carrying inventory and accounts receivable.*

***Other expense***

*Other expense for the three and nine months ended September 30, 2005 represented a split dollar life insurance policy that was surrendered when the cash value of the policy was less than the amount of premiums paid, resulting in a loss of \$1.1 million.*

**Liquidity and Capital Resources**

***Liquidity***

Our primary liquidity needs are to fund our capital expenditures and our working capital requirements. Cash generated from operations and our working capital revolving credit facility provides our primary sources of liquidity. Working capital was \$306.8 million at September 30, 2006 compared to \$228.7 million at December 31, 2005.

***Capital Expenditures***

Our terminalling operations require investments to expand, upgrade or enhance existing operations and to meet environmental and operations regulations. Our capital requirements primarily consist of maintenance capital expenditures and capital improvement expenditures. Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the operating capacity of, or sales generated by, existing assets and extend their useful lives, such as expenditures required to maintain equipment reliability, tankage and pipeline integrity and safety, and to address environmental regulations. We had approximately \$0.7 million and \$0.4 million in maintenance capital expenditures for the three months ended September 30, 2006 and 2005, respectively, and \$1.2 million and \$1.0 million for the nine months ended September 30, 2006 and 2005, respectively.

Capital improvement expenditures include expenditures to acquire assets to grow our business and to expand existing facilities, such as projects that increase operating capacity by increasing tankage or adding terminals. We had approximately \$4.8 million and \$9.8 million in capital improvement expenditures for the three and nine months ended September 30, 2006, respectively, to increase operating capacity and capabilities. In May of 2006, we acquired the Bridgeport, Connecticut facility for approximately \$2.4 million, and in September of 2006, we acquired the Macungie, Pennsylvania facility for approximately \$4.1 million. We did not incur capital improvement expenditures for the three and nine months ended September 30, 2005. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred.

We anticipate that such maintenance capital expenditures will be funded with cash generated by operations. We believe that we have sufficient liquid assets, cash flow from operations and borrowing capacity under our credit agreement to meet our financial commitments, debt service obligations, contingencies and anticipated capital expenditures. However, we are subject to business and operational risks that could adversely affect our cash flow. A material decrease in our cash flows would likely produce a corollary adverse effect on our borrowing capacity.

**Cash Flow**

The following table summarizes cash flow activity (in thousands):

|   | <b>Successor<br/>Nine Months Ended<br/>September 30,<br/>2006<br/>Consolidated</b> | <b>Predecessor<br/>2005<br/>Combined</b> |
|---|--|--|
| Net cash used in operating activities     | \$ (51,882 )   | \$ (2,376 )                              |
| Net cash used in investing activities     | \$ (11,050 )   | \$ (893 )                                |
| Net cash provided by financing activities | \$ 63,214  | \$ 8,699                                 |

Net cash used in operating activities increased \$49.5 million to \$51.9 million for the nine months ended September 30, 2006 from \$2.4 million for the nine months ended September 30, 2005. Net income increased \$14.1 million to \$22.4 million for the nine months ended September 30, 2006 from \$8.3 million for the nine months ended September 30, 2005. Cash flow from operating activities generally increases during the second and third quarters of the calendar year as accounts receivable, accounts payable and inventories contract as we continue operating during those quarters when sales from heat-based products are typically lower. Because of fluctuations in the price of petroleum products for the nine months ended September 30, 2006, we elected to use our storage capacity to maintain inventories of petroleum products that were similar to the inventories maintained as of September 30, 2005. In addition, because of fluctuations in the price of petroleum products, we used cash to fund the change in the fair value of our forward fixed purchase and sale contracts.

Net cash used in investing activities increased \$10.2 million to \$11.1 million for the nine months ended September 30, 2006 from \$0.9 million for the same period in 2005. The increase is primarily attributable to \$6.5 million in cash used to acquire our Bridgeport, Connecticut, and Macungie, Pennsylvania, terminals and \$3.3 million and \$1.2 million in cash used for capital improvement expenditures and maintenance capital expenditures, respectively, for the nine months ended September 30, 2006.

Net cash provided by financing activities increased \$54.5 million to \$63.2 million for the nine months ended September 30, 2006 from \$8.7 million for the same period in 2005. For the nine months ended September 30, 2006, we paid cash distributions of \$14.7 million to our common and subordinated unitholders and had proceeds of \$78.1 million from of our revolving credit facility to finance business operations. In comparison, for the nine months ended September 30, 2005, we paid cash distributions of \$11.9 million to members of the Predecessor and had proceeds of \$20.8 million from our credit facility.

**Credit Agreement**

In November 2005, we, our general partner, our operating company and our operating subsidiaries amended our four-year senior secured credit agreement to increase total available commitments thereunder from \$400.0 million to \$500.0 million. In August 2006, the Credit Agreement was amended to increase the permanent working capital revolving credit facility commitment by \$100.0 million for total available commitments of \$600.0 million. As of September 30, 2006, we had borrowings outstanding under our working capital revolving credit facility of \$259.7 million and outstanding letters of credit of \$67.5 million, for a total indebtedness of \$327.2 million. The total remaining availability for borrowings and letters of credit at September 30, 2006 was \$172.8 million, which includes the \$35.0 million acquisition facility and the \$15.0 million revolving credit facility and excludes the two \$50.0 million seasonal overline facilities the Partnership did not exercise as of September 30, 2006.

The credit facilities are available to fund working capital, make acquisitions and provide payment for general partnership purposes. There are three facilities under our credit agreement:

- a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of our borrowing base and \$550.0 million, of which two \$50.0 million seasonal overline facilities are available each year only during the period between September 1<sup>st</sup> and June 30<sup>th</sup>;



- a \$35.0 million acquisition facility to be used for funding acquisitions similar to our business line that have a purchase price of \$25.0 million or less or \$35.0 million or less in the aggregate in any 12-month period; and
- a \$15.0 million revolving credit facility to be used for general purposes, including payment of distributions to our unitholders.

Our obligations under the credit agreement are secured by substantially all of our assets and the assets of our operating company and operating subsidiaries.

Indebtedness under the credit agreement is guaranteed by our general partner. Pursuant to the agreement, interest on borrowings under our working capital revolving credit, acquisition credit, and revolving credit facilities is payable at our option at: (1) the Eurodollar rate, plus 1%, 1¾% and 1½ %, respectively, (2) the cost of funds rate, plus 1%, 1¾% and 1½ %, respectively, or (3) the bank's base rate (the average rates for the three and nine months ended September 30, 2006 were approximately 6.3% and 5.9%, respectively). We incur a letter of credit fee of 1% per annum for each letter of credit issued. In addition, we incur a commitment fee on the unused portion of the three facilities (including any seasonal overline facility exercised by us) under the credit agreement at a rate of 25 basis points per annum, a facility fee of 10 basis points per annum on any unexercised seasonal overline facility during the period between September 1st and June 30th, and a seasonal overline fee of \$30,000 each time we elect to exercise either of the seasonal overline facilities. The credit agreement will mature in October of 2009. At that time, the credit agreement will terminate and all outstanding amounts thereunder will be due and payable, unless the credit agreement is amended.

The credit agreement prohibits us from making distributions to unitholders if any potential default or event of default, as defined in the credit agreement, occurs or would result from the distribution. In addition, the credit agreement contains various covenants that may limit, among other things, our ability to:

- grant liens;
- make certain loans or investments;
- incur additional indebtedness or guarantee other indebtedness;
- make any material change to the nature of our business or undergo a fundamental change;
- make any material dispositions;
- acquire another company;
- enter into a merger, consolidation, sale leaseback transaction or purchase of assets;
- make distributions if any potential default or event of default occurs; or
- make capital expenditures in excess of specified levels.

The credit agreement also contains financial covenants requiring us to maintain:

- minimum working capital of \$25.0 million through March 31, 2006 and \$30.0 million thereafter;
- minimum EBITDA (as defined in the credit agreement) of \$20.0 million;
- a minimum EBITDA less capital expenditures to interest coverage ratio of 2.75 to 1; and

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- a maximum leverage to minimum EBITDA ratio of 2.5 to 1 with respect to the aggregate amount of borrowings outstanding under the \$15.0 million revolving credit facility and the \$35.0 million acquisition facility and other funded indebtedness.

If an event of default exists under the credit agreement, the lenders are able to accelerate the maturity of the credit agreement and exercise other rights and remedies. Each of the following could be an event of default:

- failure to pay any principal when due or any interest, fees or other amounts when due;
- failure of any representation or warranty to be true and correct in any material respect;



- failure to perform or otherwise comply with the covenants in the credit agreement or in other loan documents to which we are a borrower;
- any default in the performance of any obligation or condition beyond the applicable grace period relating to any other indebtedness of more than \$2.0 million if the effect of the default is to permit or cause the acceleration of the indebtedness;
- a judgment default for monetary judgments exceeding \$2.0 million or a default under any nonmonetary judgment if such default could have a material adverse effect on us;
- a change in management or ownership control; and
- an ERISA violation or a bankruptcy or insolvency event involving us, our general partner or any of our subsidiaries.

The credit agreement limits distributions to our unitholders to available cash, and borrowings to fund such distributions are only permitted under the \$15.0 million revolving credit facility. The \$15.0 million revolving credit facility is subject to an annual clean-down period, requiring us to reduce the amount outstanding under the \$15.0 million revolving credit facility to \$0 for 30 consecutive calendar days in each calendar year.

#### ***Off-Balance Sheet Arrangements***

We have no off-balance sheet arrangements.

#### **Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated/combined financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions.

These estimates are based on our knowledge and understanding of current conditions and actions that we may take in the future. Changes in these estimates will occur as a result of the passage of time and the occurrence of future events. We have identified the following estimates that, in our opinion, are subjective in nature, require the exercise of judgment, and involve complex analysis: inventory, leases, revenue recognition, derivative financial instruments and environmental and other liabilities.

The significant accounting policies and estimates that we have adopted and followed in the preparation of our consolidated/combined financial statements are detailed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and Note 2 of Notes to Financial Statements, Summary of Significant Accounting Policies included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. There have been no subsequent changes in these policies and estimates that had a significant impact on our financial condition and results of operations for the periods covered in this report.

#### **Recently Issued Accounting Standards**

A description and related impact expected from the adoption of certain new accounting pronouncements is provided in Note 12 of Notes to Financial Statements.

#### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices. The principal market risks to which we are exposed are interest rate risk and commodity risk. We utilize various derivative instruments to manage exposure to commodity risk. Because the outstanding amount under our credit facility fluctuates due to commodity prices and the seasonality of our business, we have chosen currently

and historically not to enter into any hedging instruments related to our variable rate debt.

**Interest Rate Risk**

We utilize variable rate debt and are exposed to market risk due to the floating interest rates on our current credit facility and term loan. Therefore, from time to time, we may utilize interest rate swaps and collars to hedge interest obligations on specific and anticipated debt issuances. We had no interest rate hedging instruments outstanding as of September 30, 2006. Borrowings under our working capital revolving credit, acquisition credit and revolving credit facilities currently bear interest at our option at (1) the Eurodollar rate, plus 1%, 1¾% and 1½ %, respectively, (2) the cost of funds rate, plus 1%, 1¾% and 1½ %, respectively, or (3) the bank's base rate. As of September 30, 2006, we had borrowings outstanding under our working capital revolving credit facility of \$259.7 million. The impact of a 1% increase in the interest rate on this amount of debt would have resulted in an increase in interest expense, and a corresponding decrease in our results of operations, of approximately \$2.6 million annually, assuming, however, that our indebtedness remained constant throughout the year.

**Commodity Risk**

We hedge our exposure to price fluctuations with respect to refined petroleum products in storage and expected purchases and sales of these commodities. The derivative instruments utilized consist primarily of futures and option contracts traded on the NYMEX and over-the-counter transactions, including swap contracts entered into with established financial institutions and other credit-approved energy companies. Our policy is generally to purchase only products for which we have a market and to structure our sales contracts so that price fluctuations do not materially affect the profit we receive. While our policies are designed to minimize market risk, some degree of exposure to unforeseen fluctuations in market conditions remains. Except for the controlled trading program discussed below, we do not acquire and hold futures contracts or other derivative products for the purpose of speculating on price changes that might expose us to indeterminable losses.

While we seek to maintain a position that is substantially balanced within our product purchase activities, we may experience net unbalanced positions for short periods of time as a result of variances in daily sales and transportation and delivery schedules as well as logistical issues associated with inclement weather conditions. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for our business, we engage in a controlled trading program for up to an aggregate of 250,000 barrels of refined petroleum products.

We enter into future contracts to minimize or hedge the impact of market fluctuations on our purchase and fixed forward sales of refined petroleum products. Any hedge ineffectiveness is reflected in our results of operations. We utilize the NYMEX, which is a regulated exchange for energy products that it trades, thereby reducing potential delivery and supply risks. Generally, our practice is to close all NYMEX positions rather than to make or receive physical deliveries. With respect to other energy products, we enter into derivative agreements with counterparties that we believe have a strong credit profile, in order to hedge market fluctuations and/or lock-in margins relative to our commitments.

At September 30, 2006, the fair value of all of our commodity risk derivative instruments and the change in fair value that would be expected from a 10% price decrease are shown in the table below (in thousands):

(Loss) gain:

|                               | Fair Value at<br>September 30, 2006 | Effect of 10%<br>Price Decrease |
|-------------------------------|-------------------------------------|---------------------------------|
| NYMEX contracts               | \$ (19,852 )                        | \$ (34,898 )                    |
| Swaps, options and other, net | (393 )                              | 117                             |
|                               | \$ (20,245 )                        | \$ (34,781 )                    |

The fair values of the futures contracts are based on quoted market prices obtained from the NYMEX. The fair value of the swaps and option contracts are estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at September 30, 2006. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. All hedge positions offset physical exposures to the spot market; none of these offsetting physical exposures are included in the above table. Price-risk sensitivities were calculated by assuming an across-the-board 10% decrease in price regardless of term or historical relationships between



the contractual price of the instruments and the underlying commodity price. In the event of an actual 10% change in prompt month prices, the fair value of our derivative portfolio would typically change less than that shown in the table due to lower volatility in out-month prices. We have a daily margin requirement to maintain a cash deposit with our broker based on the prior day's market results on open futures contracts. The balance of this deposit will fluctuate based on our open market positions and the commodity exchange's requirements. The required brokerage margin balance was \$8.9 million at September 30, 2006.

We are exposed to credit loss in the event of nonperformance by counterparties of forward contracts, options and swap agreements, but do not anticipate nonperformance by any of these counterparties. Futures contracts, the primary derivative instrument utilized, are traded on regulated exchanges, greatly reducing potential credit risks. Exposure on swap and certain option agreements is limited to the amount of the recorded fair value as of the balance sheet dates. We utilize primarily one broker, a major financial institution, for all derivative transactions and the right of offset exists. Accordingly, the fair value of all derivative instruments is displayed on a net basis.

#### **Item 4. Controls and Procedures**

In designing and evaluating controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of the fiscal quarter ended September 30, 2006. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There has not been any change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

#### *General*

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we do not believe that we are a party to any litigation that will have a material adverse impact on our financial condition or results of operations. Except as described below, we are not aware of any significant legal or governmental proceedings against us, or contemplated to be brought against us. We maintain insurance policies with insurers in amounts and with coverage and deductibles as our general partner believes are reasonable and prudent. However, we can provide no assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices.

#### *Environmental*

Global Companies LLC, in addition to several affiliates, has been named as one of over 50 defendants in two lawsuits alleging methyl tertiary-butyl ether ( MTBE ) contamination of groundwater in Massachusetts. MTBE is an oxygenate that has been used extensively to reduce motor vehicle tailpipe emissions. In the cases of Town of Duxbury, et al. v. Amerada Hess Corp., et al., filed December 31, 2003, and City of Lowell v. Amerada Hess Corp., et al., filed December 30, 2004, plaintiffs allege that manufacturers, refiners and others involved in the distribution of gasoline containing MTBE are liable for the costs of investigating possible MTBE groundwater contamination, treating such contaminated groundwater where found, and related relief including treble damages and injunctive relief. The plaintiffs in these cases generally claim to be public water providers or municipal or other government authorities. These cases have been consolidated in multi-district litigation with over 60 other MTBE cases in federal court in the Southern District of New York. We intend to vigorously defend these cases. We do not believe that these cases will have a material impact on our operations although we can provide no assurances in this regard.

On November 29, 2004, a consent decree was lodged by the U.S. Department of Justice in the federal District Court for Massachusetts whereby Global Companies LLC and Global Petroleum Corp. settled alleged violations of Clean Air Act regulations related to fuel quality specifications. This consent decree was entered by the court on January 21, 2005. As part of this settlement, Global Companies LLC has paid a \$500,000 civil penalty and instituted a compliance program for three years to ensure compliance with Clean Air Act fuel quality specifications. The alleged violations stemmed from the importation of finished conventional gasoline, which was not a substantial part of our operations at the time of the alleged violations. We do not believe that compliance with the terms of the consent decree will result in material costs.

#### *Other*

On September 15, 2005, the Office of the Attorney General of the Commonwealth of Massachusetts issued a Civil Investigative Demand to us in connection with an investigation of gasoline distributors and retailers in Massachusetts in the wake of Hurricane Katrina. We believe that the Attorney General's office has issued similar demands to other distributors and retailers. We have taken steps to comply with the demand. While we cannot predict the outcome of the investigation, we do not expect that the outcome will have a material adverse effect on us.

**Item 1A. Risk Factors**

There have been no material changes to the Risk Factors disclosed in the Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

**Item 6. Exhibits**

- |      |  |
|------|--|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer of Global GP LLC, general partner of Global Partners LP. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer of Global GP LLC, general partner of Global Partners LP. |
| 32.1 | Section 1350 Certification of Chief Executive Officer of Global GP LLC, general partner of Global Partners LP.                 |
| 32.2 | Section 1350 Certification of Chief Financial Officer of Global GP LLC, general partner of Global Partners LP.                 |

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Not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section.

**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.

**GLOBAL PARTNERS LP**

By: Global GP LLC,  
its general partner

Dated: November 14, 2006

By: /s/ Eric Slifka  
Eric Slifka  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 14, 2006

By: /s/ Thomas J. Hollister  
Thomas J. Hollister  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)



**INDEX TO EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
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