GLOBAL PARTNERS LP
Form 10-Q
May 06, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission file number 001-32593

Global Partners LP

(Exact name of registrant as specified in its charter)

Delaware	**74-3140887**
(State or other jurisdiction of incorporation	(I.R.S. Employer Identification No.)

or organization)

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 to such filing requirements for the past 90 days. Yes ý No o

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

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

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

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

The issuer had 21,580,563 common units outstanding as of May 4, 2011.

TABLE OF CONTENTS

Item 1. Financial Statements

GLOBAL PARTNERS LP

CONSOLIDATED BALANCE SHEETS

(In thousands, except unit data)

(Unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 5,847	$ 2,361
Accounts receivable, net	479,593	553,066
Accounts receivable affiliates	1,096	1,230
Inventories	618,321	586,831
Brokerage margin deposits	14,567	15,501
Fair value of forward fixed price contracts	2,343	1,942
Prepaid expenses and other current assets	42,629	36,714
Total current assets	1,164,396	1,197,645
Property and equipment, net	418,521	422,684
Intangible assets, net	38,902	40,065
Other assets	11,509	11,922
Total assets	$ 1,633,328	$ 1,672,316
Liabilities and partners equity		
Current liabilities:		
Accounts payable	$ 337,204	$ 443,469
Working capital revolving credit facility current portion	178,652	193,198
Environmental liabilities current portion	4,980	5,535
Trustee taxes payable	72,758	69,828
Accrued expenses and other current liabilities	28,277	30,494
Obligations on forward fixed price contracts and other derivatives	4,539	9,157
Total current liabilities	626,410	751,681
Working capital revolving credit facility less current portion	364,348	293,502
Revolving credit facility	250,000	300,000
Environmental liabilities less current portion	28,455	28,970
Other long-term liabilities	17,744	21,347
Total liabilities	1,286,957	1,395,500
Partners equity		
Common unitholders (21,580,563 units issued and 21,565,207 units outstanding at March 31, 2011 and 13,293,139 units issued and 13,232,629 outstanding at December 31, 2010)	358,364	292,267
Subordinated unitholders (5,642,424 units issued and outstanding at December 31, 2010)		(1,623)
General partner interest (1.06% and 1.20% interest with 230,303 equivalent units outstanding at March 31, 2011 and December 31, 2010, respectively)	(89)	(66)
Accumulated other comprehensive loss	(11,904)	(13,762)
Total partners equity	346,371	276,816
Total liabilities and partners equity	$ 1,633,328	$ 1,672,316

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

GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Sales	$ 3,551,072	$ 1,964,745
Cost of sales	3,494,822	1,916,977
Gross profit	56,250	47,768
Costs and operating expenses:		
Selling, general and administrative expenses	21,110	16,578
Operating expenses	17,804	8,659
Amortization expenses	1,163	691
Total costs and operating expenses	40,077	25,928
Operating income	16,173	21,840
Interest expense	(7,880)	(4,064)
Income before income tax expense	8,293	17,776
Income tax expense		(387)
Net income	8,293	17,389
Less: General partner s interest in net income, including incentive distribution rights	(200)	(339)
Limited partners interest in net income	$ 8,093	$ 17,050
Basic net income per limited partner unit	$ 0.40	$ 1.26
Diluted net income per limited partner unit	$ 0.39	$ 1.23
Basic weighted average limited partner units outstanding	20,424	13,585
Diluted weighted average limited partner units outstanding	20,643	13,838

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

GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities		
Net income	$ 8,293	$ 17,389
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,505	3,662
Amortization of deferred financing fees	1,097	387
Bad debt expense	1,590	190
Stock-based compensation expense	73	128
Changes in operating assets and liabilities:		
Accounts receivable	71,883	67,375
Accounts receivable affiliate	134	(2,657)
Inventories	(31,490)	22,664
Broker margin deposits	934	7,758
Prepaid expenses, all other current assets and other assets	(6,599)	2,554
Accounts payable	(106,265)	(55,801)
Income taxes payable		(334)
Trustee taxes payable	2,930	(1,881)
Change in fair value of forward fixed price contracts	(5,019)	(11,375)
Accrued expenses, all other current liabilities and other long-term liabilities	(5,032)	(4,565)
Net cash (used in) provided by operating activities	(59,966)	45,494
Cash flows from investing activities		
Capital expenditures	(2,179)	(1,930)
Proceeds from sale of property and equipment		16
Net cash used in investing activities	(2,179)	(1,914)
Cash flows from financing activities		
Proceeds from public offering, net	69,666	84,792
Borrowings from (payments on) credit facilities, net	6,300	(121,400)
Repurchased units withheld for tax obligations	(675)	(404)
Distributions to partners	(9,660)	(6,480)
Net cash provided by (used in) financing activities	65,631	(43,492)
Increase in cash and cash equivalents	3,486	88
Cash and cash equivalents at beginning of period	2,361	662
Cash and cash equivalents at end of period	$ 5,847	$ 750
Supplemental information		
Cash paid during the period for interest	$ 7,749	$ 4,071
Non-cash conversion of subordinated unitholders	$ 1,623	$

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

GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF PARTNERS EQUITY

(In thousands)

(Unaudited)

	Common Unitholders	Subordinated Unitholders	General Partner Interest	Accumulated Other Comprehensive Loss	Total Partners Equity
Balance at December 31, 2010	$ 292,267	$ (1,623)	$ (66)	$ (13,762)	$ 276,816
Conversion of subordinated units to common units	(1,623)	1,623			
Proceeds from public offering, net	69,666				69,666
Stock-based compensation	73				73
Distributions to partners	(9,437)		(223)		(9,660)
Repurchased units withheld for tax obligations	(675)				(675)
Comprehensive income:					
Net income	8,093		200		8,293
Other comprehensive income:					
Change in fair value of interest rate collars and forward starting swap				1,718	1,718
Change in pension liability				140	140
Total comprehensive income					10,151
Balance at March 31, 2011	$ 358,364	$	$ (89)	$ (11,904)	$ 346,371

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

Global Partners LP (the Partnership) is a publicly traded master limited partnership that engages in the wholesale and commercial distribution of refined petroleum products, renewable fuels (such as ethanol) and small amounts of natural gas and also provides ancillary services to companies. The Partnership also receives revenue from retail sales of gasoline, convenience store sales and gas station rental income.

The Partnership has five operating subsidiaries: Global Companies LLC, its subsidiary, Glen Hes Corp., Global Montello Group Corp. (GMG), Chelsea Sandwich LLC and Global Energy Marketing LLC (Global Energy) (the five 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. GMG conducts the Partnership s end user business, including certain aspects of its retail gasoline business. Global Energy was formed to conduct the Partnership s natural gas operations. In addition, GLP Finance Corp. (GLP Finance) is a wholly owned subsidiary of the Partnership. GLP Finance has no material assets or liabilities. Its activities will be limited to co-issuing debt securities and engaging in other activities incidental thereto.

Recent Developments

Conversion of Subordinated Units On February 18, 2011 and based upon meeting certain distribution and performance tests provided in the Partnership s partnership agreement, all 5,642,424 subordinated units converted to common units.

Public Offering of Common Units On February 8, 2011, the Partnership completed a public offering of 2,645,000 common units at a price of $27.60 per common unit. Net proceeds were approximately $69.7 million after deducting underwriting fees and offering expenses. The Partnership used the net proceeds to reduce indebtedness under its credit agreement. See Note 14 for additional information related to the public offering.

The Partnership s 1.06% general partner interest (discussed in Note 8) is held by Global GP LLC, the Partnership s general partner (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. As of March 31, 2011, affiliates of the General Partner, including its directors and executive officers, own 5,410,490 common units, representing a 25% limited partner interest.

Basis of Presentation

The accompanying consolidated financial statements as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010 reflect the accounts of the Partnership. All intercompany balances and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and reflect all adjustments (consisting 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 financial statements for the year ended December 31, 2010 and notes thereto contained in the Partnership s Annual Report on Form 10-K. The significant accounting policies described in Note 2, Summary of Significant Accounting Policies, of such Annual Report on Form 10-K are the same used in preparing the accompanying consolidated financial statements.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation (continued)

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2011. The consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2010.

As demand for some of the Partnership s refined petroleum products, specifically home heating oil and residual oil for space heating purposes, is generally greater during the winter months, sales are generally 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 following table presents the Partnership s products as a percentage of total sales for the periods presented:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Gasoline sales	56%	45%
Distillate sales: home heating oil, diesel and kerosene	40%	50%
Residual oil sales	4%	5%
	100%	100%

The Partnership had one significant customer, ExxonMobil Oil Corporation (ExxonMobil), who accounted for approximately 20% and 17% of total sales for the three months ended March 31, 2011 and 2010, respectively.

Note 2. Net Income Per Limited Partner Unit

Under the Partnership s partnership agreement, for any quarterly period, the incentive distribution rights (IDRs) participate in net income only to the extent of the amount of cash distributions actually declared, thereby excluding the IDRs from participating in the Partnership s undistributed net income or losses. Accordingly, the Partnership s undistributed net income is assumed to be allocated to the common and subordinated unitholders, or limited partners interest, and to the General Partner s general partner interest. On February 18, 2011, all subordinated units converted to common units.

On January 19, 2011, the board of directors of the General Partner declared a quarterly cash distribution of $0.50 per unit for the period from October 1, 2010 through December 31, 2010. On April 20, 2011, the board of directors of the General Partner declared a quarterly cash distribution of $0.50 per unit for the period from January 1, 2011 through March 31, 2011. These declared cash distributions resulted in incentive distributions to the General Partner, as the holder of the IDRs, and enabled the Partnership to exceed its first target level distribution with respect to such IDRs. See Note 8, Cash Distributions for further information.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Net Income Per Limited Partner Unit (continued)

The following table provides a reconciliation of net income and the assumed allocation of net income to the limited partners interest for purposes of computing net income per limited partner unit for the three months ended March 31, 2011 and 2010 (in thousands, except per unit data):

	Three Months Ended March 31, 2011			
Numerator:	**Total**	**Limited Partner Interest**	**General Partner Interest**	**IDRs**
Net income (1)	$ 8,293	$ 8,093	$ 200	$
Declared distribution	$ 11,028	$ 10,790	$ 116	$ 122
Assumed allocation of undistributed net income	(2,735)	(2,697)	(38)	
Assumed allocation of net income	$ 8,293	$ 8,093	$ 78	$ 122
Denominator:				
Basic weighted average limited partner units outstanding (2)		20,424		
Dilutive effect of phantom units		219		
Diluted weighted average limited partner units outstanding (2)		20,643		
Basic net income per limited partner unit		$ 0.40		
Diluted net income per limited partner unit		$ 0.39		

	Three months ended March 31, 2010			
Numerator:	**Total**	**Limited Partner Interest**	**General Partner Interest**	**IDRs**
Net income (3)	$ 17,389	$ 17,050	$ 339	$
Declared distribution	$ 8,455	$ 8,278	$ 112	$ 65
Assumed allocation of undistributed net income	8,934	8,772	162	
Assumed allocation of net income	$ 17,389	$ 17,050	$ 274	$ 65
Denominator:				
Basic weighted average limited partner units outstanding (2)		13,585		
Dilutive effect of phantom units		253		
Diluted weighted average limited partner units outstanding (2)		13,838		
Basic net income per limited partner unit		$ 1.26		
Diluted net income per limited partner unit		$ 1.23		

(1) On February 8, 2011, the general partner interest was reduced to 1.06% as a result of the November 2010 and February 2011 public offerings (see Note 14). This calculation includes the effect of these public offerings and is based on a weighted average of 1.11% for the three months ended March 31, 2011.

(2) Limited partner units outstanding exclude common units held on behalf of the Partnership pursuant to its Repurchase Program and for future satisfaction of the General Partner s Obligations (as defined in Note 12). These units are not deemed outstanding for purposes of calculating net income per limited partner unit (basic and diluted).

(3) On March 19, 2010, the general partner interest was reduced to 1.34% as a result of the March 2010 public offering (see Note 14). This calculation includes the effect of this public offering and is based on a weighted average of 1.66% for the three months ended March 31, 2010.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3. Comprehensive Income

The components of comprehensive income consisted of the following (in thousands):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net income	$ 8,293	$ 17,389
Change in fair value of interest rate collars and forward starting swap	1,718	(2,232)
Change in pension liability	140	121
Total comprehensive income	$ 10,151	$ 15,278

Note 4. Inventories

Except for its convenience store inventory, the Partnership hedges substantially all of its inventory purchases through futures contracts and swap agreements. Hedges are executed when inventory is purchased and are identified with that specific inventory. Changes in the fair value of these contracts, as well as the offsetting gain or loss on the hedged inventory item, are recognized in earnings as an increase or decrease in cost of sales. All hedged inventory is valued using the lower of cost, as determined by specific identification, or market. Prior to sale, hedges are removed from specific barrels of inventory, and the then unhedged inventory is sold and accounted for on a first-in, first-out basis. In addition, the Partnership has convenience store inventory which is carried at the lower of historical cost or market.

Inventories consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Distillates: home heating oil, diesel and kerosene	$ 279,667	$ 377,123
Gasoline	174,403	115,542
Residual oil	40,650	35,749
Blend stock	121,002	55,919
Total	615,722	584,333
Convenience store inventory	2,599	2,498
Total	$ 618,321	$ 586,831

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 and amounted to $62.1 million and $126.8 million at March 31, 2011 and December 31, 2010, respectively. Negative exchange balances are accounted for as accounts payable and amounted to $50.3 million and $115.2 million at March 31, 2011 and December 31, 2010, respectively. Exchange transactions are valued using current quoted market prices.

Note 5. Derivative Financial Instruments

Accounting and reporting guidance for derivative instruments and hedging activities requires that an entity recognize derivatives as either assets or liabilities on the balance sheet and measure the instruments at fair value. Changes in the fair value of the derivative are to be recognized currently in earnings, unless specific hedge accounting criteria are met.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the volume of activity related to the Partnership s derivative financial instruments at March 31, 2011:

		Units(1)	Unit of Measure
Product Contracts			
Long		5,197	Thousands of barrels
Short		(10,825)	Thousands of barrels
Natural Gas Contracts			
Long		17,141	Thousands of decatherms
Short		17,141	Thousands of decatherms
Interest Rate Collars	$	200	Millions of dollars
Forward Starting Swap	$	100	Millions of dollars

(1) Number of open positions and gross notional amounts do not quantify risk or represent assets or liabilities of the Partnership, but are used in the calculation of cash settlements under the contracts.

Fair Value Hedges

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 and renewable fuels 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 in earnings as an increase or decrease in cost of sales. Ineffectiveness related to these hedging activities was immaterial for the three months ended March 31, 2011 and 2010.

The Partnership also uses futures contracts and swap agreements 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 purchase and sale commitments. Changes in the fair value of these contracts, as well as offsetting gains or losses on the forward fixed price purchase and sale commitments, are recognized in earnings as an increase or decrease in cost of sales. Gains and losses on net product margin from forward fixed price purchase and sale contracts are reflected in earnings as an increase or decrease in cost of sales as these contracts mature. Ineffectiveness related to these hedging activities was immaterial for the three months ended March 31, 2011 and 2010.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the gross fair values of the Partnership s derivative instruments and firm commitments and their location in the Partnership s consolidated balance sheets at March 31, 2011 and December 31, 2010 (in thousands):

Asset Derivatives	**Balance Sheet Location (Net)**	**March 31, 2011 Fair Value**	**December 31, 2010 Fair Value**
Derivatives designated as hedging instruments and firm commitments			
Product contracts(1)	(2)	$ 6,283	$ 3,896
Derivatives not designated as hedging instruments			
Product and natural gas contracts	(2)	3,278	3,049
Total asset derivatives		$ 9,561	$ 6,945
Liability Derivatives			
Derivatives designated as hedging instruments and firm commitments			
Product contracts(1)	(3)	$ 11,506	$ 13,538
Derivatives not designated as hedging instruments			
Product and natural gas contracts	(3)	3,313	2,896
Total liability derivatives		$ 14,819	$ 16,434

(1) Includes forward fixed price purchase and sale contracts as recognized in the Partnership s consolidated balance sheets at March 31, 2011 and December 31, 2010.

(2) Fair value of forward fixed price contracts and prepaid expenses and other current assets.

(3) Obligations on forward fixed price contracts and other derivatives and accrued expenses and other current liabilities.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the amount of gains and losses from derivatives involved in fair value hedging relationships recognized in the Partnership s consolidated statements of income for the three months ended March 31, 2011 and 2010 (in thousands):

Derivatives in Fair Value Hedging Relationship	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2011	2010