

GLOBAL PARTNERS LP  
Form 10-Q  
November 09, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2012

**OR**

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

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

Commission file number 001-32593

**Global Partners LP**

(Exact name of registrant as specified in its charter)

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(State or other jurisdiction of incorporation  
or organization)

(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 to such filing requirements for the past 90 days.

No  Yes

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  No

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

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

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 27,430,563 common units outstanding as of November 5, 2012.

Table of Contents

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011

Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011

Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2012 and 2011

Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011

Consolidated Statement of Partners' Equity for the nine months ended September 30, 2012

Notes to Consolidated Financial Statements

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

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

**Item 4. Controls and Procedures**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Item 1A. Risk Factors**

**Item 6. Exhibits**

**SIGNATURES**

**INDEX TO EXHIBITS**

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Table of Contents**Item 1. Financial Statements**

**GLOBAL PARTNERS LP**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except unit data)

(Unaudited)

<b>Assets</b>			
Cash and cash equivalents	\$	1,073	\$ 4,328
Accounts receivable - affiliates		1,277	1,776
Brokerage margin deposits		30,272	43,935
Prepaid expenses and other current assets		62,031	61,561
Goodwill		29,123	
Other assets		13,681	10,427
<b>Liabilities and partners' equity</b>			
Accounts payable	\$	704,459	\$ 575,776
Environmental liabilities - current portion		4,373	2,936
Accrued expenses and other current liabilities		59,967	41,307
Total current liabilities		997,802	771,054
Revolving credit facility		422,000	205,000
Other long-term liabilities		33,438	24,110
<b>Partners' equity</b>			
General partner interest (0.83% and 1.06% interest with 230,303 equivalent units outstanding at September 30, 2012 and December 31, 2011, respectively)		(474)	(319)

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Total partners equity	429,615	315,289
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

**GLOBAL PARTNERS LP**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales	\$ 4,617,194	\$ 3,765,765	\$ 12,508,738	\$ 10,728,985
Cost of sales	4,534,574	3,716,486	12,280,124	10,578,885
Gross profit	82,620	49,279	228,614	150,100
Costs and operating expenses:				
Selling, general and administrative expenses	24,105	17,166	70,608	57,085
Operating expenses	40,196	19,373	100,692	54,932
Restructuring charges		1,719		1,719
Amortization expense	1,511	1,216	5,373	3,583
Total costs and operating expenses	65,812	39,474	176,673	117,319
Operating income	16,808	9,805	51,941	32,781
Interest expense	(9,237)	(7,947)	(27,705)	(23,478)
Income before income tax expense	7,571	1,858	24,236	9,303
Income tax expense	(678)		(228)	
Net income	6,893	1,858	24,008	9,303
Less: General partner's interest in net income, including incentive distribution rights	(316)	(142)	(733)	(455)
Limited partners' interest in net income	\$ 6,577	\$ 1,716	\$ 23,275	\$ 8,848
Basic net income per limited partner unit	\$ 0.24	\$ 0.08	\$ 0.89	\$ 0.42
Diluted net income per limited partner unit	\$ 0.24	\$ 0.08	\$ 0.89	\$ 0.41
Basic weighted average limited partner units outstanding	27,311	21,567	26,085	21,188
Diluted weighted average limited partner units outstanding	27,485	21,752	26,258	21,388

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



Table of Contents

## GLOBAL PARTNERS LP

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 6,893	\$ 1,858	\$ 24,008	\$ 9,303
Other comprehensive income (loss):				
Change in fair value of cash flow hedges	515	(5,193)	1,204	(5,013)
Change in pension liability	373	(720)	581	(795)
Total other comprehensive income (loss)	888	(5,913)	1,785	(5,808)
Total comprehensive income (loss)	\$ 7,781	\$ (4,055)	\$ 25,793	\$ 3,495

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

Table of Contents

## GLOBAL PARTNERS LP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
<b>Cash flows from operating activities</b>		
Net income	\$ 24,008	\$ 9,303
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,663	22,725
Amortization of deferred financing fees	4,106	3,450
Bad debt expense	270	1,770
Stock-based compensation expense	(20)	333
Curtailement gain	(469)	
Changes in operating assets and liabilities:		
Accounts receivable	(40,237)	112,965
Accounts receivable - affiliate	499	(46)
Inventories	81,839	(11,987)
Broker margin deposits	13,663	(22,861)
Prepaid expenses, all other current assets and other assets	264	(28,107)
Accounts payable	91,708	(80,769)
Trustee taxes payable	(7,515)	(4,044)
Change in fair value of forward fixed price contracts	(25,450)	(14,226)
Accrued expenses, all other current liabilities and other long-term liabilities	14,371	4,715
Net cash provided by (used in) operating activities	189,700	(6,779)
<b>Cash flows from investing activities</b>		
Acquisition of Alliance (cash component of the purchase price)	(181,898)	
Capital expenditures	(30,907)	(7,471)
Proceeds from sale of property and equipment	6,610	955
Net cash used in investing activities	(206,195)	(6,516)
<b>Cash flows from financing activities</b>		
Proceeds from public offering, net		69,626
(Payments on) borrowings from working capital revolving credit facility	(161,800)	65,300
Borrowings from (payments on) revolving credit facility	217,000	(80,000)
Repurchase of common units	(2,152)	(658)
Repurchased units withheld for tax obligations	(96)	(675)
Distributions to partners	(39,712)	(31,787)
Net cash provided by financing activities	13,240	21,806
(Decrease) increase in cash and cash equivalents	(3,255)	8,511
Cash and cash equivalents at beginning of period	4,328	2,361
Cash and cash equivalents at end of period	\$ 1,073	\$ 10,872
<b>Supplemental information</b>		
Cash paid during the period for interest	\$ 27,720	\$ 23,905
Non-cash conversion of subordinated unitholders	\$	\$ 1,623
<b>Non-cash investing activities</b>		
Effect of acquisition of Alliance:		

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Fair value of tangible assets acquired	\$	(333,212)
Fair value of liabilities assumed		83,209
Fair value of acquired intangible assets		(33,285)
Consideration paid in excess of fair value (goodwill)		(29,123)
Fair value of common units issued		130,513
Net cash paid in connection with the acquisition of Alliance	\$	(181,898)

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

Table of Contents

## GLOBAL PARTNERS LP

## CONSOLIDATED STATEMENTS OF PARTNERS EQUITY

(In thousands)

(Unaudited)

	Common Unitholders	General Partner Interest	Accumulated Other Comprehensive Loss	Total Partners Equity
<b>Balance at December 31, 2011</b>	\$ 336,103	\$ (319)	\$ (20,495)	\$ 315,289
Issuance of common units in connection with the acquisition of Alliance	130,513			130,513
Net income	23,275	733		24,008
Other comprehensive income			1,785	1,785
Stock-based compensation	(20)			(20)
Distributions to partners	(38,907)	(888)		(39,795)
Phantom unit dividends	83			83
Repurchase of common units	(2,152)			(2,152)
Repurchased units withheld for tax obligations	(96)			(96)
<b>Balance at September 30, 2012</b>	\$ 448,799	\$ (474)	\$ (18,710)	\$ 429,615

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

Table of Contents

**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 distribution of refined petroleum products, renewable fuels, crude oil and 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.

On March 1, 2012, the Partnership acquired from AE Holdings Corp. (AE Holdings) 100% of the outstanding membership interests in Alliance Energy LLC (Alliance) (see Note 2). Prior to the closing of the acquisition, Alliance was wholly owned by AE Holdings, which is approximately 95% owned by members of the Slifka family. No member of the Slifka family owned a controlling interest in AE Holdings, nor currently owns a controlling interest in Global GP LLC, the Partnership's general partner (the General Partner). Three independent directors of the General Partner's board of directors serve on a conflicts committee. The conflicts committee unanimously approved the Alliance acquisition and received advice from its independent counsel and independent financial adviser.

As of September 30, 2012, the Partnership had the following subsidiaries: Global Companies LLC (Global Companies), Glen Hes Corp., Global Montello Group Corp. (GMG), Alliance Retail LLC, Chelsea Sandwich LLC, Global Energy Marketing LLC (Global Energy), Alliance and Bursaw Oil LLC (Bursaw) (the subsidiaries, collectively, the Companies). Portside LLC, a former subsidiary, merged into Bursaw in July 2012. The Companies (other than Glen Hes Corp.) are wholly owned by Global Operating LLC, a wholly owned subsidiary of the Partnership. In addition, GLP Finance Corp. (GLP Finance) is a wholly owned subsidiary of the Partnership.

The General Partner, which holds a 0.83% general partner interest in the Partnership, is owned by affiliates of the Slifka family and manages the Partnership's operations and activities and employs its officers and all of its personnel, except for its gasoline station and convenience store employees and certain union personnel, who are employed by GMG. As of September 30, 2012, affiliates of the General Partner, including its directors and executive officers, own 11,488,804 common units, representing a 42% limited partner interest.

**Basis of Presentation**

The financial results of Alliance for the seven months ended September 30, 2012 are included in the accompanying statements of income for the nine months ended September 30, 2012. The accompanying consolidated financial statements as of September 30, 2012 and December 31, 2011

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and for the three and nine months ended September 30, 2012 and 2011 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, 2011 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.

The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2012. The consolidated balance sheet at December 31, 2011 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, 2011.

Table of Contents

## GLOBAL PARTNERS LP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 1. Organization and Basis of Presentation (continued)**

Due to the nature of the Partnership's business and its customers' reliance, in part, on consumer travel and spending patterns, the Partnership may experience more demand for gasoline and gasoline blendstocks during the late spring and summer months than during the fall and winter. Travel and recreational activities are typically higher in these months in the geographic areas in which the Partnership operates, increasing the demand for gasoline and gasoline blendstocks that the Partnership distributes. Therefore, the Partnership's volumes in gasoline and gasoline blendstocks are typically higher in the second and third quarters of the calendar year. In addition, 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, heating oil and residual oil sales are generally higher during the first and fourth quarters of the calendar year. These factors may result in significant fluctuations in the Partnership's quarterly operating results.

**Concentration of Risk**

The following table presents the Partnership's product sales as a percentage of total sales for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gasoline sales: gasoline and gasoline blendstocks such as ethanol and naphtha		480.3	691.9	
<b>Cash and cash equivalents at end of period</b>	318.7		430.3	255.7 349.0

- (1) Dollar amounts represent euro amounts converted at the average exchange rate for the period of US\$1.417 per (except cash and cash equivalents balances converted at the closing exchange rate of US\$1.350 per at September 30, 2011 and of US\$1.336 per at December 31, 2010).
- (2) Dollar amounts represent euro amounts converted at the average exchange rate for the period of US\$1.323 per (except cash and cash equivalents balances converted at the closing exchange rate of US\$1.365 per at September 30, 2010 and of US\$1.441 per at December 31, 2009).

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**Table of Contents**

**COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE-VERITAS, S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Compagnie Générale de Géophysique Veritas, S.A. ( the Company ) and its subsidiaries (together, the Group ) is a global participant in the geophysical services industry, providing a wide range of seismic data acquisition, processing and interpretation services as well as related processing and interpretation software to clients in the oil and gas exploration and production business. It is also a global manufacturer of geophysical equipment.

Given that the Company is listed on Euronext Paris and pursuant to European regulation n° 1606/2002 dated July 19, 2002, the accompanying interim condensed consolidated financial statements have been prepared in accordance with International IAS34 as issued by the International Accounting Standards Board ( IASB ) and adopted by the European Union.

These interim condensed consolidated financial statements have been authorized by the Audit Committee for issue on November 4, 2011.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates due to the change in economic conditions, changes in laws and regulations, changes in strategy and the inherent imprecision associated with the use of estimates.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

**Critical accounting policies**

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group s annual financial statements as of and for the year ended December 31, 2010 included in its report on Form 20-F for the year 2010 filed with the SEC on April 21, 2011.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group s annual financial statements for the year ended December 31, 2010, except for the adoption of the following new Standards and Interpretations:

IAS24 Related Party Disclosures adopted by the European Union in July 2010, and applicable as of January 1, 2011

Amendment to IAS32 Classification of rights issues- adopted by the European Union in December 2009, and applicable as of January 1, 2011

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement adopted by the European Union in July 2010, and applicable as of January 1, 2011

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments adopted by the European Union in July 2010, and applicable as of January 1, 2011

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2008-2010 annual improvements to IFRS adopted by the European Union in February 2011 and applicable as of January 1, 2011. The adoption of these new standards and interpretations did not have any material impact on the Group's interim financial statements.

At the date of issuance of these financial statements, the following Standards and Interpretations were issued but not yet adopted by the European Union:

IFRS9 Financial instruments: Recognition and Measurement of financial assets

IFRS7 Amendment Financial instruments disclosures about transfers of financial assets

IAS12 Amendment Income taxes: Recovery of underlying assets

- 11 -

**Table of Contents**

IFRS 10 Consolidated Financial Statements, replaces parts of IAS 27 Consolidated and Separate Financial statements

IAS 27 Amendment Separate Financial Statements

IFRS 11 Joint Arrangements supersedes IAS 31 Interests in Joint Ventures

IFRS 12 Disclosure of Interests in Other Entities

IFRS 13 Fair Value Measurement

IAS 28 Amendment Investments in associates (equity method)

The Group has not opted for the early adoption of these Standards, Amendments and Interpretations and it is currently reviewing them to measure the potential impact on the interim condensed consolidated financial statements. At this stage, we do not anticipate any significant impact.

***Use of judgment and estimates***

Key judgments and estimates used in the financial statements are summarized in the following table:

<b>Judgments and estimates</b>	<b>Key assumptions</b>
Fair value of assets and liabilities acquired through purchase price allocation	Pattern used to determine the fair value of assets and liabilities
Recoverability of client receivables	Assessment of clients credit default risk
Valuation of investments	Financial assets fair value
	Under equity method companies fair value
Amortization and impairment of Multi-clients surveys	Expected margin rate for each category of surveys Expected useful life of Multi-Client Surveys
Depreciation and Amortization of tangible and intangible assets	Assets useful lives
Recoverable value of Goodwill and intangible assets	Expected geophysical market trends from 2011 to 2013 Discount rate (WACC)
Post employment benefits	Discount rate
	Participation rate to post employment benefit plans Inflation rate
	Return rate on plan assets
Provisions for risks, claims and litigations	Assessment of risks considering courts ruling and attorneys positions
Revenue Recognition	Contracts completion rates
	Assessment of fair value of customers loyalty programs Assessment of fair value of contracts identifiable parts

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Development costs

Assessment of future benefits of each project

Deferred tax assets

Hypothesis supporting the achievement of future taxable benefits

### ***Operating revenues***

Operating revenues are recognized when they can be measured reliably, and when it is likely that the economic benefits associated with the transaction will flow to the entity, which is at the point that such revenues have been realized or are considered realizable.

#### *Multi-client surveys*

Revenues related to multi-client surveys result from (i) pre-commitments and (ii) licenses after completion of the surveys ( after-sales ).

*Pre-commitments* Generally, we obtain commitments from a limited number of customers before a seismic project is completed. These pre-commitments cover part or all of the survey area blocks. In return for the commitment, the customer typically gains the right to direct or influence the project specifications, advance access to data as it is being acquired, and favorable pricing. We record payments that it receives during periods of mobilization as advance billing in the balance sheet in the line item Advance billings to customers .

We recognize pre-commitments as revenue when production has started based on the physical progress of the project, as services are rendered.

## **Table of Contents**

*After sales* Generally, we grant a license entitling non-exclusive access to a complete and ready for use, specifically defined portion of our multi-client data library in exchange for a fixed and determinable payment. We recognize after sales revenue upon the client executing a valid license agreement and having been granted access to the data. Within thirty days of execution and access, the client may exercise our warranty that the medium on which the data is transmitted (a magnetic cartridge) is free from technical defects. If the warranty is exercised, the Company will provide the same data on a new magnetic cartridge. The cost of providing new magnetic cartridges is negligible.

In case after sales agreements contain multiple deliverable elements, the revenue is allocated to the various elements based on specific objective evidence of fair value, regardless of any separate allocations stated within the contract for each element. Each element is appropriately accounted for under the applicable accounting standard.

*After sales volume agreements* We enter into a customer arrangement in which we agree to grant licenses to the customer for access to a specified number of blocks of the multi-client library. These arrangements typically enable the customer to select and access the specific blocks for a limited period of time. We recognize revenue when the blocks are selected and the client has been granted access to the data and if the corresponding revenue can be reliably estimated. Within thirty days of execution and access, the client may exercise our warranty that the medium on which the data is transmitted (a magnetic cartridge) is free from technical defects. If the warranty is exercised, the Company will provide the same data on a new magnetic cartridge. The cost of providing new magnetic cartridges is negligible.

### *Exclusive surveys*

In exclusive surveys, we perform seismic services (acquisition and processing) for a specific customer. We recognize proprietary/contract revenues as the services are rendered. We evaluate the progress to date, in a manner generally consistent with the physical progress of the project, and recognize revenues based on the ratio of the project cost incurred during that period to the total estimated project costs as far as they can reliably be assessed.

The billings and the costs related to the transit of seismic vessels at the beginning of the survey are deferred and recognized over the duration of the contract by reference to the technical stage of completion.

In some exclusive survey contracts and a limited number of multi-client survey contracts, we are required to meet certain milestones. We defer recognition of revenue on such contracts until all milestones that provide the customer a right of cancellation or refund of amounts paid have been met.

### *Equipment sales*

We recognize revenues on equipment sales upon delivery to the customer when risks and rewards are fully transferred. Any advance billings to customers are recorded in current liabilities.

### *Software and hardware sales*

We recognize revenues from the sale of software and hardware products following acceptance of the product by the customer at which time we have no further significant vendor obligations remaining. Any advance billings to customers are recorded in current liabilities.

If an arrangement to deliver software, either alone or together with other products or services, requires significant production, modification, or customization of software, the entire arrangement is accounted for as a production-type contract, i.e. using the percentage of completion method.

If the software arrangement provides for multiple deliverables (e.g. upgrades or enhancements, post-contract customer support such as maintenance, or services), the revenue is allocated to the various elements based on specific objective evidence of fair value, regardless of any separate allocations stated within the contract for each element. Each element is appropriately accounted for under the applicable accounting standard.

Maintenance revenues consist primarily of post contract customer support agreements and are recorded as advance billings to customers and recognized as revenue on a proportional performance basis over the contract period.

## **Table of Contents**

### *Other geophysical sales/ services*

Revenues from our other geophysical sales/services are recognized as the services are performed and, when related to long-term contracts, using the proportional performance method of recognizing revenues.

### *Customer loyalty programs*

We may grant award credits to our main clients. These award credits are contractually based on cumulative services provided during the calendar year and attributable to future services.

These credits are considered as a separate component of the initial sale and measured at their fair value by reference to the contractual rates and the forecasted cumulative revenues for the calendar year. These proceeds are recognized as revenue only when the obligation has been fulfilled.

IFRIC 13 Customers Loyalty Programs issued by the IASB in June 2007 has been applied from December 31, 2008 with the accumulated impact, net of tax, on previous periods recorded in equity as of December 31, 2008. The impact was not material.

### *Multi-client surveys*

Multi-client surveys consist of seismic surveys to be licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalized into the multi-client surveys (including transit costs when applicable). The value of our multi-client library is stated on our balance sheet at the aggregate of those costs less accumulated amortization or at fair value if lower. We review the library for potential impairment at each balance sheet date at the relevant level (independent surveys or groups of surveys).

We amortize the multi-client surveys over the period during which the data is expected to be marketed using a pro-rata method based on recognized revenues as a percentage of total estimated sales.

In this respect, we generally use five amortization rates 50%, 65%, 75%, 80% or 83.3% of revenues depending on the category of the surveys. Multi-client surveys are classified into a same category when they are located in the same area with the same estimated sales ratio, such estimates generally relying on the historical patterns. The 65% amortization rate is applied to the surveys acquired as a result of our acquisition of Veritas.

For all categories of surveys and starting from data delivery, a minimum straight-line depreciation scheme is applied over a five-year period, if total accumulated depreciation from the applicable amortization rate is below this minimum level.

Multi-client surveys acquired as part of the business combination with Veritas and which have been valued for purchase price allocation purposes are amortized based on 65% of revenues and an impairment loss is recognized on a survey by survey basis in case of any indication of impairment.

### *Development costs*

Expenditures on research activities undertaken with the prospect of gaining new scientific or technological knowledge and understanding are recognized in the income statement as expenses as incurred and are presented as Research and development expenses net . Expenditures on development activities, whereby research finding are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if:

the project is clearly defined, and costs are separately identified and reliably measured,

the product or process is technically and commercially feasible,

we have sufficient resources to complete development, and

the intangible asset is likely to generate future economic benefits, either because it is useful to us or through an existing market for the intangible asset itself or for its products.

The expenditures capitalized include the cost of materials, direct labor and an appropriate proportion of overhead. Other development expenditures are recognized in the income statement as expenses as incurred and are presented as Research and development expenses net .

Capitalized development expenditures are stated at cost less accumulated amortization and impairment losses.

## **Table of Contents**

We amortize capitalized developments costs over 5 years.

Research & development expenses in our income statement represent the net cost of development costs that are not capitalized, of research costs, offset by government grants acquired for research and development.

### **NOTE 2 ACQUISITION AND DIVESTITURES**

#### *Norfield*

On January 13, 2011, the exchange of assets between certain subsidiaries of CGGVeritas and the Norwegian group Norfield was completed. As a result of this transaction, we acquired Voyager AS (to be renamed Exploration Vessel Resources II AS), the owner of the seismic vessel *Voyager*, and sold the seismic vessel *Venturer* to Norfield. CGGVeritas is no longer a shareholder of Norfield AS. The gain arising from the disposal of our assets in relation with this transaction amounted to 7.8 million and was recorded in the line item Other revenues (expenses) in our statement of operations.

On the date we acquired it, Voyager AS entered into a U.S.\$45 million credit facility secured by a pledge over the *Voyager* vessel and subject to substantially the same covenants as our US senior credit facilities.

#### *Petrodata*

On March 17, 2011, CGGVeritas purchased for U.S.\$2.5 million Petrodata Consulting LLC, a Moscow-based company offering static and dynamic reservoir modeling, reserve estimation and risking, and field development services to the international oil and gas industry.

#### *Spectrum*

On July 28, 2011, we signed a strategic agreement with Spectrum, a Norwegian multi-client company, for the contribution of our 2D multi-client marine library for a consideration in cash and a 25% equity stake in Spectrum. The transaction was finalized on September 15, 2011. We recognized a 13.4 million gain presented in the line item other revenues (expenses) in our statement of operations. Spectrum was accounted for under the equity method as of September 30, 2011.

### **NOTE 3 COMMON STOCK AND STOCK OPTIONS PLANS**

As of September 30, 2011, our share capital consisted of 151,861,932 shares, each with a par value of 0.4.

#### ***New stock option plans and performance shares allocation plan***

On March 24, 2011, the Board of Directors allocated:

964,263 stock options to certain officers and employees. Their exercise price is 25.48. Rights to these options vest by one-third during each of the first three years of the plan. The options have an eight-year duration.

66,667 stock options to the Chairman and 133,333 options to the Chief Executive Officer. Their exercise price is 25.48. Rights to these options vest by one-third during each of the first three years of the plan. Such vesting is subject to performance conditions based on the fulfillment of one of three objectives. The options have an eight-year duration.

488,886 performance shares including 13,750 performance shares to the Chairman and 27,500 performance shares to the Chief Executive Officer. These performance shares will be allocated on the later of either March 24, 2013 or the date of the shareholders meeting convened to approve the financial statements for fiscal year 2012, provided that the Board of Directors decides that the performance conditions set forth in the plan regulation are fulfilled. These performance conditions are based on the achievement of certain objectives related to operating income and EBITDAS over fiscal years 2011 and 2012.



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**Table of Contents**

**NOTE 4 FINANCIAL DEBT**

Our net financial debt amounted to 1,142.4 million as of September 30, 2011.

*Issue of bonds convertible into and/or exchangeable for new or existing shares*

On January 27, 2011, we issued 12,949,640 bonds convertible into and/or exchangeable for new or existing shares of our company to be redeemed on January 1, 2016 for a total nominal amount of 360 million. We used the net proceeds of the issuance to partially redeem our U.S.\$530 million 7.5% Senior Notes due May 2015, allowing us to reduce our cash interest expense.

The bonds' nominal value was set at 27.80 per bond, representing an issue premium of 25% of the CGGVeritas' reference share price on the regulated market of NYSE Euronext in Paris. The bonds bear interest at a rate of 1.75% payable semi-annually in arrears on January 1 and July 1 of each year. The bonds entitle the holders to receive new and/or existing CGGVeritas shares at the ratio of one share per one bond, subject to adjustments. Under certain conditions, the bonds may be redeemed prior to maturity at our option.

*Issue of senior notes due 2021*

On May 31, 2011, we issued U.S.\$650 million principal amount of 6 1/2 % senior notes due June 1, 2021. The senior notes were issued at a price of 96.45% of their principal amount, resulting in a yield of 7%. We used the net proceeds of the issuance to redeem the remainder of our U.S.\$530 million 7.5% Senior Notes due May 2015 and to repay in full the U.S.\$508 million outstanding under our term loan B facility.

*Redemption of 7 1/2 % Senior Notes due 2015*

On March 1, 2011, we redeemed U.S.\$460 million aggregate principal amount of our U.S.\$530 million 7 1/2 % Senior Notes due 2015 at a price of 103.75% plus accrued interest, and on June 30, 2011, we redeemed the remaining U.S.\$70 million aggregate principal amount of such notes at a price of 102.5% plus accrued interest. The redemptions were financed through the bond issuances described immediately above.

*Redemption of term loan B facility*

On June 2, 2011, we repaid in full the U.S.\$508 million outstanding under our term loan B facility with the proceeds of our issuance of senior bonds due 2021 described above.

*French Revolver*

During the three months ended September 30, 2011, we repaid the 20 million outstanding under our French revolving facility.

All financial ratios included in covenants were complied with as of September 30, 2011.

**NOTE 5 ANALYSIS BY OPERATING SEGMENT AND GEOGRAPHIC AREA**

Financial information by operating segment is reported in accordance with the internal reporting system and shows internal segment information that is used by the chief operating decision maker to manage and measure the performance of CGGVeritas. We divide our business into two operating segments, geophysical services and geophysical equipment.

Since July 1, 2010, our Group has been organized in five divisions and operates in two industry segments:

Geophysical services segment, which comprises:

Marine contract: seismic data acquisition offshore undertaken by us on behalf of a specific client;

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Land contract: seismic data acquisition for land, transition zones and shallow water undertaken by us on behalf of a specific client;

Processing, Imaging and Reservoir: processing and imaging as well as interpretation of geophysical data, data management and reservoir studies for clients, and

Multi-client land and marine: seismic data acquisition undertaken by us and licensed to a number of clients on a non-exclusive basis;

- 16 -

**Table of Contents**

Geophysical equipment segment, which we conduct through Sercel Holding S.A. and its subsidiaries, comprises our manufacturing and sales activities for seismic equipment used for data acquisition, both on land and offshore.

Inter-company sales between the two segments are made at prices approximating market prices and relate primarily to equipment sales made by the geophysical equipment segment to the geophysical services segment. These inter-segment sales and the related operating income recognized by the geophysical equipment segment are eliminated in consolidation and presented as follows in the tables that follow: (i) Operating income for our Services segment is presented after elimination of amortization expense corresponding to capital expenditures between our Equipment segment and Services segment; (ii) Capital expenditures for our Services segment are presented after elimination of inter-segment margin.

Operating income represents operating revenues and other operating income less expenses of the relevant operating segment. It includes non-recurring and unusual items, which are disclosed in the operating segment if material. General corporate expenses, which include Group management, financing, and legal activities, have been included in the column Eliminations and Adjustments in the tables that follow. The Group does not disclose financial expenses or revenues by operating segment because these items are not followed by the segment management and because financing and investment are mainly managed at the corporate level.

The following tables present revenues, operating income and identifiable assets by operating segment, and operating revenues by geographic area (by location of customers).

**Analysis by operating segment**

(Unaudited)	Three months ended September 30,								
	2011			Consolidated		2010			Consolidated
(in millions of euros)	Services	Equipment	Eliminations and Adjustments	Total	Services	Equipment	Eliminations and Adjustments	Total	Total
Revenues from unaffiliated customers	411.8	142.3		554.1	363.7	154.0		517.7	517.7
Inter-segment revenues		48.6	(48.6)		0.3	40.3	(40.6)		
<b>Operating revenues</b>	<b>411.8</b>	<b>190.9</b>	<b>(48.6)</b>	<b>554.1</b>	<b>364.0</b>	<b>194.3</b>	<b>(40.6)</b>	<b>517.7</b>	<b>517.7</b>
Other income from ordinary activities		0.5		0.5		0.9		0.9	0.9
<b>Total income from ordinary activities</b>	<b>411.8</b>	<b>191.4</b>	<b>(48.6)</b>	<b>554.6</b>	<b>364.0</b>	<b>195.2</b>	<b>(40.6)</b>	<b>518.6</b>	<b>518.6</b>
<b>Operating income (loss)</b>	<b>37.5</b>	<b>60.2</b>	<b>(28.9)<sup>(a)</sup></b>	<b>68.8</b>	<b>(12.2)</b>	<b>57.9</b>	<b>(24.6)<sup>(a)</sup></b>	<b>21.1</b>	<b>21.1</b>
Equity in income (loss) of investees	1.3			1.3	(1.4)	0.2		(1.2)	(1.2)
Capital expenditures <sup>(b)</sup>	120.9	4.2		125.1	118.1	6.8	7.5	132.4	132.4
Depreciation and amortization <sup>(c)</sup>	(97.0)	(9.1)	(0.2)	(106.3)	(89.7)	(9.1)	(0.3)	(99.1)	(99.1)
Investments in companies under equity method	14.5			14.5					

(a) Includes general corporate expenses of 8.8 million for the three months ended September 30, 2011 and 8.1 million for the comparable period in 2010.

(b) Includes (i) investments in multi-client surveys of 52.6 million for the three months ended September 30, 2011 and 49.4 million for the three months ended September 30, 2010 (ii), no equipment acquired under capital leases for the three months ended September 30, 2011 and 9.9 million for the comparable period of 2010, (iii) and capitalized development costs of 4.4 million for the three months ended September 30, 2011 and 8.9 million for the comparable period of 2010, in the Services segment and (iv) capitalized development costs in the Equipment segment of 0.9 million for the three months ended September 30, 2011 and 0.6 million for the comparable period of 2010.

**Table of Contents**

- (c) Includes multi-client survey amortization of 44.8 million for the three months ended September 30, 2011 and 45.8 million for the comparable period of 2010.

(in millions of US\$)	Three months ended September 30,							
	2011(1)				2010(1)			
	Services	Equipment	Eliminations and Adjustments	Consolidated Total	Services	Equipment	Eliminations and Adjustments	Consolidated Total
Revenues from unaffiliated customers	591.8	205.0		796.8	460.7	195.6		656.3
Inter-segment revenues		70.0	(70.0)		0.5	51.2	(51.7)	
<b>Operating revenues</b>	<b>591.8</b>	<b>275.0</b>	<b>(70.0)</b>	<b>796.8</b>	<b>461.2</b>	<b>246.8</b>	<b>(51.7)</b>	<b>656.3</b>
Other income from ordinary activities		0.8		0.8		1.2		1.2
<b>Total income from ordinary activities</b>	<b>591.8</b>	<b>275.8</b>	<b>(70.0)</b>	<b>797.6</b>	<b>461.2</b>	<b>248.0</b>	<b>(51.7)</b>	<b>657.5</b>
<b>Operating income (loss)</b>	<b>52.8</b>	<b>86.7</b>	<b>(41.7)</b>	<b>97.8</b>	<b>(16.5)</b>	<b>74.0</b>	<b>(31.0)</b>	<b>26.5</b>

- (1) Corresponding to the nine months ended September 30 in US dollars less the six month ended June 30 in US dollars.

(in millions of euros)	Nine months ended September 30,							
	2011				2010			
	Services	Equipment	Eliminations and Adjustments	Consolidated Total	Services	Equipment	Eliminations and Adjustments	Consolidated Total
Revenues from unaffiliated customers	1,169.8	435.8		1,605.6	1,082.5	431.2		1,513.7
Inter-segment revenues		140.6	(140.6)		0.6	112.6	(113.2)	
<b>Operating revenues</b>	<b>1,169.8</b>	<b>576.4</b>	<b>(140.6)</b>	<b>1,605.6</b>	<b>1,083.1</b>	<b>543.8</b>	<b>(113.2)</b>	<b>1,513.7</b>
Other income from ordinary activities		1.7		1.7		2.5		2.5
<b>Total income from ordinary activities</b>	<b>1,169.8</b>	<b>578.1</b>		<b>1,607.3</b>	<b>1,083.1</b>	<b>546.3</b>	<b>(113.2)</b>	<b>1,516.2</b>
<b>Operating income (loss)</b>	<b>(1.6)</b>	<b>181.8</b>	<b>(83.9)<sup>(a)</sup></b>	<b>96.3</b>	<b>2.0</b>	<b>143.9</b>	<b>(70.0)<sup>(a)</sup></b>	<b>75.9</b>
Equity in income (loss) of investees	(6.8)			(6.8)	(3.5)	0.2		(3.3)
Capital expenditures <sup>(b)</sup>	304.1	12.0		316.1	329.8	19.1	7.5	356.4
Depreciation and amortization <sup>(c)</sup>	(268.9)	(27.4)	0.5	(295.8)	263.4	26.2	1.1	290.7
Investments in companies under equity method	18.0			18.0				
<b>Identifiable assets</b>	<b>4,288.3</b>	<b>853.7</b>	<b>(261.6)</b>	<b>4,880.4</b>	<b>4,202.2</b>	<b>805.4</b>	<b>(260.5)</b>	<b>4,747.1</b>
Unallocated and corporate assets				413.7				332.4

<b>Total Assets</b>	<b>5,294.1</b>	<b>5,079.5</b>
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- (a) Includes general corporate expenses of 29.0million for the nine months ended September 30, 2011 and 29.7 million for the comparable period in 2010.

- 18 -

**Table of Contents**

- (b) Includes (i) investments in multi-client surveys of 116.2 million for the nine months ended September 30, 2011 and 177.4 million for the nine months ended September 30, 2010, (ii) equipment acquired under capital leases for 11.2 million for the nine months ended September 30, 2011 and 9.9 for the comparable period of 2010, (iii) capitalized development costs of 9.6 million for the nine months ended September 30, 2011 and 15.7 million for the comparable period of 2010 in the Services segment and (iv) capitalized development costs in the Equipment segment of 2.9 million for the nine months ended September 30, 2011 and 2.0 million for the comparable period of 2010.
- (c) Includes multi-client survey amortization of 114.4 million for the nine months ended September 30, 2011 and 126.0 million for the comparable period of 2010.

(Unaudited)  (in millions of US\$)	Nine months ended September 30,							
	2011				2010(1)			
	Services (1)	Equipment (2)	Eliminations and Adjustments	Consolidated Total (3)	Services	Equipment	Eliminations and Adjustments	Consolidated Total
Revenues from unaffiliated customers	1,657.4	617.3		2,274.7	1,431.6	567.7		1,999.3
Inter-segment revenues		199.2	(199.2)		0.7	148.2	(148.9)	
<b>Operating revenues</b>	<b>1,657.4</b>	<b>816.5</b>	<b>(199.2)</b>	<b>2,274.7</b>	<b>1,432.3</b>	<b>715.9</b>	<b>(148.9)</b>	<b>1,999.3</b>
Other income from ordinary activities		2.4		2.4		3.3		3.3
<b>Total income from ordinary activities</b>	<b>1,657.4</b>	<b>818.9</b>	<b>(199.2)</b>	<b>2,277.1</b>	<b>1,432.3</b>	<b>719.2</b>	<b>(148.9)</b>	<b>2,002.6</b>
<b>Operating income (loss)</b>	<b>(2.3)</b>	<b>257.6</b>	<b>(118.9)</b>	<b>136.4</b>	<b>2.7</b>	<b>189.4</b>	<b>(91.8)</b>	<b>100.3</b>

- (1) Dollar amounts represent euro amounts converted at the average exchange rate for the period of US\$1.417 per in 2011 and of US\$1.323 per in 2010.
- (2) Dollar amounts were converted at the average rate of US\$1.417 per for the Equipment segment.
- (3) Dollar amounts for the Consolidated total were converted at the rate of US\$1.417 per , corresponding to the weighted average based on each segment s operating revenues.

**Revenues by geographic area**

The following table sets forth our consolidated operating revenues by location of customers, and the percentage of total consolidated operating revenues represented thereby:

Except percentages, in millions of	Three months ended September 30,					
	2011 US\$(1)			2010 US\$(1)		
North America	101.2	145.8	18%	137.0	174.0	27%
Central and South Americas	121.7	174.7	22%	54.2	68.4	10%
Europe, Africa and Middle East	206.2	296.6	37%	232.3	295.4	45%
Asia Pacific	125.0	179.7	23%	94.2	118.5	18%
<b>Total</b>	<b>554.1</b>	<b>796.8</b>	<b>100%</b>	<b>517.7</b>	<b>656.3</b>	<b>100%</b>

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(1) Corresponding to the nine months ended September 30 in US dollars less the six month ended June 30 in US dollars.

Except percentages, in millions of	Nine months ended September 30,					
	2011			2010		
	US\$(1)			US\$(1)		
North America	318.4	451.1	20%	389.8	514.8	26%
Central and South Americas	318.9	451.8	20%	169.9	224.4	11%
Europe, Africa and Middle East	608.4	861.9	38%	645.6	852.8	43%
Asia Pacific	359.9	509.9	22%	308.4	407.3	20%
<b>Total</b>	<b>1,605.6</b>	<b>2,274.7</b>	<b>100%</b>	<b>1,513.7</b>	<b>1,999.3</b>	<b>100%</b>

(1) Dollar amounts represent euro amounts converted at the average exchange rate for the period of US\$1.417 per in 2011 and of US\$1.323 per in 2010.

## **Table of Contents**

### **NOTE 6 COMMITMENTS AND CONTINGENCIES**

#### ***Commitments***

On January 13, 2011, the exchange of assets between certain subsidiaries of CGGVeritas and the Norwegian group Norfield was completed. As a result of this transaction:

the Group acquired the seismic vessel *Voyager*, previously operated by the Group under a time charter contract;

the Group sold the seismic vessel *Venturer* to Norfield. A bareboat contract for this vessel was signed until December 2012;

we extended the contract for our seismic vessel *Champion* for 5 years until December 2019. The previous time charter contract was replaced by a bareboat contract;

we extended the time charter contract for our seismic vessel *Bergen Surveyor* until December 2012. This transaction resulted in a reduction of approximately \$30 million of our operating leases cash-obligations.

On March 26, 2011 the seismic vessel *Pacific Finder* was delivered. The time charter contract applies for eight years until April 2019.

On June 28, 2011, we entered into a five-year marine charter agreement with Bourbon for six new support vessels to assist our seismic operations. The new vessels will be delivered starting at the end of 2012. This represents an increase of \$80 million of our off balance sheet commitments.

#### ***Litigation and other risks***

On February 16, 2011, the United States District Court for the Eastern District of Texas entered its final judgment and permanent injunction with regards to the patent lawsuit between Sercel and ION. The injunction prohibits us from selling Sercel digital sensor DSU technology in the United States. The injunction covers only this DSU technology and is limited to the territory of United States. It does not restrict Sercel's ability to use, manufacture, sell or deliver the DSU products anywhere else in the world. It also does not relate to the Sercel 408UL and 428XL recording systems. Sercel can continue to promote, sell and deliver these systems in the United States.

Specifically, the injunction states that when the manufacture, sale and delivery occur outside the United States, the offer to sell the DSU does not constitute an act of infringement or a violation of the injunction. Furthermore, the promotion or marketing of the DSU technology in the United States does not violate the injunction when the manufacture, sale and delivery occur outside of the United States.

On March 8, 2011, we posted a U.S.\$12.8 million bond (corresponding to the total damages award plus 20% interest) and filed a notice of appeal. Ion Geophysical has also appealed the Court's ruling, seeking, among other things, to reinstate the jury's award of U.S.\$25.2 million with respect to lost profits.

The Company does not expect this claim to have any material impact on the Group's results of operation, financial position, or cash flows. Thus, no provision was recorded in the consolidated financial statements.

As a non-US company, we operate certain of our vessels in Cuban territorial waters or in Cuba's Exclusive Economic Zone from time to time. We take very seriously our obligations to comply with applicable U.S. export controls and sanctions laws in conducting these activities. We have therefore put in place strict internal policies and instructions to ensure compliance. As disclosed in our annual report on Form 20-F, we are aware that a failure to comply with U.S. laws on equipment and services exports could result in material fines and penalties and damage to our reputation. We are also aware that our presence in countries such as Cuba and failure to comply with applicable U.S. laws could reduce demand for our securities among certain investors and adversely affect our share price.

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In order to provide complete and accurate responses to recent requests for information made by representatives of the U.S. Department of Commerce's Bureau of Industry and Security ( BIS ), we conducted an internal review of the facts surrounding shipments to our vessels operating in or near Cuba. During the course of our review, we discovered that, despite our precautions, some

- 20 -

**Table of Contents**

shipments may not have complied fully with our internal policies and possibly violated applicable export controls and sanctions laws. We have provided BIS with all of the information it has requested to date and are cooperating fully with it in this matter. We have also informed on a voluntary basis the U.S. Office of Foreign Assets Control.

The Company does not expect this matter to have any material impact on the Group's results of operation, financial position, or cash flows.

**NOTE 7 SUBSEQUENT EVENTS**

On October 3, 2011, we were allocated NOK27.7 million of convertible loan notes issued by Spectrum in accordance with the notice from the company issued on September 14, 2011. The loan notes can be converted to shares at NOK14 per share. If the loan notes are converted to shares at NOK14, we would have a total holding of 10,840,182 shares, representing 30.6% of the outstanding shares in Spectrum ASA as of September 30, 2011.

On October 3, 2011, the high-capacity seismic vessels *Oceanic Sirius X-BOW*<sup>®</sup> joined the CGGVeritas fleet. The bareboat contract has a twelve year period until October 2023.

On October 3, 2011, we also amended the time charter contract for our seismic vessel *Veritas Viking*. A bareboat contract was signed and extended until December 31, 2015, with two additional three-year extension options and one additional 17-month extension option.

On October 7, 2011, the time charter of our seismic vessel *Pacific Finder* was novated to our joint-venture with PT Elnusa Tbk.

On October 24, 2011, we amended the time charter contract for our seismic vessel *Veritas Vision*. A bareboat contract was signed and extended until July 31, 2017, with two additional extension options – one of five years and the other of three years.

On November 4, 2011, we amended the time charter contract for our seismic vessel *Veritas Vantage*. A bareboat contract was signed and extended until June 30, 2016, with a purchase option.

On November 7, 2011, we amended the time charter contract for our seismic vessel *Viking II*. A bareboat contract was signed and extended until May 31, 2015, with a purchase option.

A ship management agreement was signed with our joint-venture CGGVeritas Eldesvik Ship Management AS for these vessels based on the bareboat contracts duration, corresponding to a commitment of approximately US\$135 million.

**Table of Contents**

**COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE-VERITAS, S.A.**

**Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Group organization**

Since July 1, 2010, our group has been organized in five divisions and operates in two industry segments:

Geophysical services segment, which comprises:

Marine contract: seismic data acquisition offshore undertaken by us on behalf of a specific client;

Land contract: seismic data acquisition for land, transition zones and shallow water undertaken by us on behalf of a specific client;

Processing, imaging and reservoir: processing and imaging, as well as interpretation of geophysical data, data management and reservoir studies for clients; and

Multi-client land and marine: seismic data acquisition undertaken by us and licensed to a number of clients on a non-exclusive basis;

Geophysical equipment segment, which we conduct through Sercel Holding S.A. and its subsidiaries, comprises our manufacturing and sales activities for seismic equipment used for data acquisition, both on land and marine.

We report financial information by operating segment in accordance with our internal reporting system and the internal segment information that is used to manage and measure our performance.

**Factors Affecting Results of Operations**

***Geophysical market environment***

Overall demand for geophysical services and equipment is dependent on spending by oil and gas companies for exploration, development and production and field management activities. We believe the level of spending of such companies depends on their assessment of their ability to efficiently supply the oil and gas market in the future and the current balance of hydrocarbon supply and demand.

The geophysical market has historically been extremely cyclical. We believe many factors contribute to the volatility of this market, such as the geopolitical uncertainties that can harm the confidence and visibility that are essential to our clients' long-term decision-making processes and the expected balance in the mid to long term between supply and demand for hydrocarbons.

We believe that, in this context, oil and gas companies, especially the large international oil companies, have budgeted an overall 15% to 20% increase in exploration and production spending in 2011, with a special focus on exploration. We expect that this will drive the progressive recovery of demand in our seismic services divisions, especially marine. We also expect that Sercel will continue to reap the benefit of its large installed base and the sustained demand for technological intensity.

See Item 4: Information on the Company - Industry Conditions of our annual report on Form 20-F for the year ended December 31, 2010 for a discussion of developments in the geophysical industry.

*Foreign exchange fluctuations*

As a company that derives a substantial amount of its revenue from sales internationally, our results of operations are affected by fluctuations in currency exchange rates. Movements between the U.S. dollar and euro or other currencies may adversely affect our business by negatively impacting our revenues and income.

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## **Table of Contents**

As certain trends in our business may be obscured by currency fluctuations, we have translated certain euro amounts in this Management's Discussion and Analysis of Financial Conditions and Results of Operations into U.S. dollars. See Item 5: Operating and Financial Review and Prospects Trend Information Currency Fluctuations of our annual report on Form 20-F for the year ended December 31, 2010.

Unless otherwise indicated, balance sheet data expressed in U.S. dollars have been converted from euros at the exchange rate on the relevant balance sheet date, and income statement data in U.S. dollars have been converted from euros at the average exchange rate for the relevant year. The exchange rates as of December 31, 2010 and September 30, 2011 were U.S.\$1.336 and U.S.\$1.350 respectively, per euro, and the average exchange rates for the nine-month periods ended September 30, 2010 and 2011 were U.S.\$1.323 and U.S.\$1.417, respectively, per euro.

### ***Acquisitions and divestitures***

On January 13, 2011, the exchange of assets between certain subsidiaries of CGGVeritas and the Norwegian group Norfield was completed. As a result of this transaction, we acquired Voyager AS (to be renamed Exploration Vessel Resources II AS), the owner of the seismic vessel *Voyager*, and sold the seismic vessel *Venturer* to Norfield. CGGVeritas is no longer a shareholder of Norfield AS. The gain arising from the disposal of our assets in relation with this transaction amounted to 7.8 million and was recorded in the line item Other revenues (expenses) in our statement of operations.

On the date we acquired it, Voyager AS entered into a U.S.\$45 million credit facility secured by a pledge over the *Voyager* vessel and subject to substantially the same covenants as our US senior credit facilities.

On March 17, 2011, we purchased for U.S.\$2.5 million Petrodata Consulting LLC, a Moscow-based company offering static and dynamic reservoir modeling, reserve estimation and risking, and field development services to the international oil and gas industry.

On July 28 2011, we signed a strategic agreement with Spectrum, a Norwegian multi-client company, for the contribution of our 2D multi-client marine library for a consideration in cash and a 25% equity stake in Spectrum. The transaction was finalized on September 15, 2011. A gain of 13.4 million (U.S.\$19 million) was recognized in relation with this transaction and was presented in the line item Other revenues (expenses) in our statement of operations.

### ***Indebtedness***

#### ***Issue of bonds convertible into and/or exchangeable for new or existing shares***

On January 27, 2011, we issued 12,949,640 bonds convertible into and/or exchangeable for new or existing shares of our company to be redeemed on January 1, 2016 for a total nominal amount of 360 million. We used the net proceeds of the issuance to partially redeem our U.S.\$530 million 7.5% Senior Notes due May 2015, allowing us to reduce our cash interest expense.

The bonds' nominal value was set at 27.80 per bond, representing an issue premium of 25% of the CGGVeritas' reference share price on the regulated market of NYSE Euronext in Paris. The Bonds bear interest at a rate of 1.75% payable semi-annually in arrears on January 1 and July 1 of each year. The bonds entitle the holders to receive new and/or existing CGGVeritas shares at the ratio of one share per one bond, subject to adjustments. Under certain conditions, the bonds may be redeemed prior to maturity at our option.

#### ***Issue of senior notes due 2021***

On May 31, 2011, we issued U.S.\$650 million principal amount of 6 1/2 % senior notes due June 1, 2021. The senior notes were issued at a price of 96.45% of their principal amount, resulting in a yield of 7%. We used the net proceeds of the issuance to redeem the remainder of our U.S.\$530 million 7.5% Senior Notes due May 2015 and to repay in full the U.S.\$508 million outstanding under our term loan B facility.

#### ***Redemption of 7 1/2 % Senior Notes due 2015***

On March 1, 2011, we redeemed U.S.\$460 million aggregate principal amount of our U.S.\$530 million 7 1/2 % Senior Notes due 2015 at a price of 103.75% plus accrued interest, and on June 30, 2011, we redeemed the remaining U.S.\$70 million aggregate principal amount of such notes at a price of 102.5% plus accrued interest. The redemptions were financed through the bond issuances described immediately above.

#### ***Redemption of term loan B facility***

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On June 2, 2011, we repaid in full the U.S.\$508 million outstanding under our term loan B facility with the proceeds of our issuance of senior bonds due 2021 described above.

- 23 -

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**Table of Contents**

***New stock-option plans and performance shares allocation plan***

On March 24, 2011, the Board of Directors allocated:

964,263 stock options to certain officers and employees. Their exercise price is \$25.48. Rights to these options vest by one-third during each of the first three years of the plan. The options have an eight-year duration.

66,667 stock options to the Chairman and 133,333 options to the Chief Executive Officer. Their exercise price is \$25.48. Rights to these options vest by one-third during each of the first three years of the plan. Such vesting is subject to performance conditions based on the fulfillment of one of three objectives. The options have an eight-year duration.

488,886 performance shares, including 13,750 performance shares to the Chairman and 27,500 performance shares to the Chief Executive Officer. These performance shares will be allocated on the later of either March 24, 2013 or the date of the shareholders meeting convened to approve the financial statements for fiscal year 2012, provided that the Board of Directors decides that the performance conditions set forth in the plan regulation are fulfilled. These performance conditions are based on the achievement of certain objectives related to operating income and EBITDAS over fiscal years 2011 and 2012.

***Legal proceedings, claims and other contingencies***

On February 16, 2011, the United States District Court for the Eastern District of Texas entered its final judgment and permanent injunction with regards to the patent lawsuit between Sercel and ION Geophysical. The injunction prohibits us from selling Sercel digital sensor DSU technology in the United States. The injunction covers only this DSU technology and is limited to the territory of United States. It does not restrict Sercel's ability to use, manufacture, sell or deliver the DSU products anywhere else in the world. It also does not relate to the Sercel 408UL and 428XL recording systems. Sercel can continue to promote, sell and deliver these systems in the United States.

Specifically, the injunction states that when the manufacture, sale and delivery occur outside the United States, the offer to sell the DSU does not constitute an act of infringement or a violation of the injunction. Furthermore, the promotion or marketing of the DSU technology in the United States does not violate the injunction when the manufacture, sale and delivery occur outside of the United States.

On March 8, 2011, we posted a U.S.\$12.8 million bond (corresponding to the total damages award plus 20% interest) and filed a notice of appeal. Ion Geophysical has also appealed the Court's ruling, seeking, among other things, to reinstate the jury's award of U.S.\$25.2 million with respect to lost profits.

As a non-US company, we operate certain of our vessels in Cuban territorial waters or in Cuba's Exclusive Economic Zone from time to time. We take very seriously our obligations to comply with applicable U.S. export controls and sanctions laws in conducting these activities. We have therefore put in place strict internal policies and instructions to ensure compliance. As disclosed in our annual report on Form 20-F, we are aware that a failure to comply with U.S. laws on equipment and services exports could result in material fines and penalties and damage to our reputation. We are also aware that our presence in countries such as Cuba and failure to comply with applicable U.S. laws could reduce demand for our securities among certain investors and adversely affect our share price.

In order to provide complete and accurate responses to recent requests for information made by representatives of the U.S. Department of Commerce's Bureau of Industry and Security (BIS), we conducted an internal review of the facts surrounding shipments to our vessels operating in or near Cuba. During the course of our review, we discovered that, despite our precautions, some shipments may not have complied fully with our internal policies and possibly violated applicable export controls and sanctions laws. We have provided BIS with all of the information it has requested to date and are cooperating fully with it in this matter. We have also informed on a voluntary basis the U.S. Office of Foreign Assets Control.

***Backlog***

Our backlog as of October 1, 2011 was U.S.\$1.2 billion. Contracts for services are occasionally modified by mutual consent and in certain instances are cancelable by the customer on short notice without penalty. Consequently, backlog as of any particular date may not be indicative of actual operating results for any succeeding period.



**Table of Contents****Three months ended September 30, 2011 compared to three months ended September 30, 2010***Operating revenues*

The following table sets forth our consolidated operating revenues by division, and the percentage of total consolidated operating revenues represented thereby, during each of the periods stated.

Except percentages, in millions of	Three months ended September 30, 2011		Three months ended September 30, 2010	
	U.S.\$ <sup>(1)</sup>	%	U.S.\$ <sup>(1)</sup>	%
Marine contract	202.9	37%	136.8	26%
Land contract	46.7	9%	65.2	13%
Processing, Imaging & Reservoir	78.9	14%	73.7	14%
Multi-client	83.3	15%	88.0	17%
Total Services	411.8	75%	363.7	70%
Equipment	142.3	25%	154.0	30%
<b>Total</b>	<b>554.1</b>	<b>100%</b>	<b>517.7</b>	<b>100%</b>

<sup>(1)</sup> Calculated as the nine months ended September 30, in U.S.\$, less the six months ended June 30, in U.S.\$.

Our consolidated operating revenues for the three months ended September 30, 2011 increased 7% to 554.1 million from 517.7 million for the comparable period of 2010. Expressed in U.S. dollars, our consolidated operating revenues increased 21% to U.S.\$796.8 million in the three months ended September 30, 2011 from U.S.\$656.3 million for the comparable period of 2010 mainly driven by a strong Marine performance in a constant low price environment.

*Services*

Operating revenues for our Services segment (excluding intra-group sales) increased 13% to 411.8 million for the three months ended September 30, 2011 from 363.7 million for the comparable period of 2010. In U.S. dollar terms, operating revenues for our Services segment increased 28% mainly due to our Marine contract division.

*Marine contract*

Operating revenues from our Marine contract division for the three months ended September 30, 2011 increased 48% to 202.9 million from 136.8 million for the comparable period of 2010 (and increased 69% in U.S. dollar terms) principally due to stronger vessel utilization rates. The fleet availability and production rates were 91% and 93%, respectively, for the three months ended September 30, 2011 compared to 87% for both for the three months ended September 30, 2010, as a result of the early impact of our performance program with the *Oceanic Phoenix* and *Oceanic Endeavour* returning to operations following their upgrades. 88% of our 3D vessels operated on contract during the three months ended September 30, 2011 and 90% for the comparable period of 2010. We completed three Broadseis<sup>TM</sup> contracts worldwide during the three months ended September 30, 2011.

*Land contract*

Operating revenues from our Land contract division decreased 28% to 46.7 million for the three months ended September 30, 2011 from 65.2 million for the comparable period of 2010 (and decreased 17% in U.S. dollar terms) mainly due to operational difficulties on complex projects and the ongoing impact of the earlier unrest in the Middle East and North Africa.

*Processing, Imaging & Reservoir*

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Operating revenues from our Processing, Imaging & Reservoir division increased 7% to 78.9 million for the three months ended September 30, 2011 from 73.7 million for the comparable period of 2010 (and increased 21% in US dollar terms) with increased activity for high-end projects, including Broadseis projects. During the three months ended September 30, 2011, we were awarded a dedicated processing center for Repsol.

### *Multi-client*

Operating revenues from our Multi-client division for the three months ended September 30, 2011 decreased 5% to 83.3 million from 88.0 million for the comparable period of 2010 and increased 6% in U.S. dollar terms.

Multi-client marine data library revenues decreased 4% to 58.0 million for the three months ended September 30, 2011 from 60.4 million for the comparable period of 2010 (and increased 8% in U.S. dollar terms). Prefunding decreased 55% to 12.7 million for the three months ended September 30, 2011 from 28.0 million for the comparable period of 2010 (and decreased 48%

**Table of Contents**

in U.S. dollar terms), with a prefunding rate of 63%. After-sales increased 40% to 45.3 million for the three months ended September 30, 2011 from 32.5 million for the comparable period of 2010 (and increased 56% in U.S. dollar terms), particularly related to the Gulf of Mexico and Brazil as demand for the Gulf of Mexico and Brazil increased ahead of lease sales scheduled for the end of the year and beginning of 2012.

Multi-client land data library revenues decreased 8% to 25.3 million for the three months ended September 30, 2011 from 27.6 million for the comparable period of 2010 (and increased 3% in U.S. dollar terms). Prefunding, with a rate of 74%, increased 41% to 23.9 million for the three months ended September 30, 2011 from 16.9 million for the comparable period of 2010 (and increased 57% in U.S. dollar terms) with our Marcellus program. After-sales decreased 87% to 1.4 million for the three months ended September 30, 2011 from 10.7 million for the comparable period of 2010 as demand remained low in North America.

**Equipment**

Operating revenues for our Equipment segment, including intra-group sales, decreased 2% to 190.9 million for the three months ended September 30, 2011 from 194.3 million for the comparable period of 2010. In U.S. dollar terms, revenues increased 11% to U.S.\$275.0 million for the three months ended September 30, 2011 from U.S.\$246.8 million for the comparable period of 2010. The growth in land equipment was mainly driven by robust demand for 428™ and Unite™ wireless channels for high density surveys and regional activity.

Operating revenues for our Equipment segment, excluding intra-group sales (which made up 25% of the total), decreased 8% to 142.3 million for the three months ended September 30, 2011 from 154.0 million for the comparable period in 2010 and increased 5% in U.S. dollar terms.

**Operating Expenses**

Cost of operations, including depreciation and amortization, increased 2% to 444.1 million for the three months ended September 30, 2011 from 436.8 million for the comparable period of 2010, and increased 15% in U.S. dollar terms mainly due to increased activity. As a percentage of operating revenues, cost of operations decreased to 80% for the three months ended September 30, 2011 from 84% for the comparable period of 2010. Gross profit increased 35% to 110.5 million for the three months ended September 30, 2011 from 81.8 million for the comparable period of 2010, representing 20% and 16% of operating revenues, respectively.

Research and development expenditures decreased 25% to 12.2 million for the three months ended September 30, 2011, from 16.4 million for the comparable period of 2010 (and decreased 15% in U.S. dollar terms), representing 2% and 3% of operating revenues, respectively.

Selling and marketing expenses decreased 18% to 12.4 million for the three months ended September 30, 2011 from 15.1 million for the comparable period of 2010 (and decreased 6% in U.S. dollar terms).

General and administrative expenses decreased 11% to 31.7 million for the three months ended September 30, 2011 from 35.6 million for the comparable period of 2010 (and increased 3% in U.S. dollar terms).

As a percentage of operating revenues, general and administrative costs decreased to 6% for the three months ended September 30, 2011 from 7% for the comparable period of 2010.

Other revenues amounted to 14.6 million for the three months ended September 30, 2011 compared to 6.4 million for three months ended September 30, 2010, mainly due to a 13.4 million (U.S.\$19 million) gain in relation with the transaction with Spectrum ASA finalized on September 15, 2011.

**Operating Income (Loss)**

Our operating income was 68.8 million for the three months ended September 30, 2011 compared to 21.1 million for the three months ended September 30, 2010 as a result of the factors described above.

Operating income from our Services segment was 37.5 million for the three months ended September 30, 2011 compared to operating loss of 12.2 million for the three months ended September 30, 2010.

Operating income from our Equipment segment was 60.2 million for three months ended September 30, 2011 compared to 57.9 million for the comparable period of 2010.

*Financial Income and Expenses*

Cost of net financial debt decreased 3% to 27.5 million for the three months ended September 30, 2011 from 28.5 million for the comparable period of 2010, and increased 10% in U.S. dollar terms, mainly due to a higher average interest rate resulting from the refinancing of our term loan B facility through the issuance of our of senior bonds due 2021. The cash component of our cost of debt for the three months ended September 30, 2011 was U.S.\$32 million.

- 26 -

**Table of Contents**

Other financial income was 5.4 million for the three months ended September 30, 2011 compared to financial expense of 6.5 million for the three months ended September 30, 2010, due to currency fluctuations.

***Income Taxes***

Income taxes amounted to 18.9 million for the three months ended September 30, 2011 compared to 9.5 million for the three months ended September 30, 2010. The effective tax rate for the three months ended September 30, 2011 was 29%.

***Equity in Income (Loss) of Affiliates***

Income from investments accounted for under the equity method was 1.3 million for the three months ended September 30, 2011 compared to a loss of 1.2 million for the three months ended September 30, 2010. This increase is mainly attributable to our share in the income of Argas, our joint venture in Saudi Arabia.

***Net Income (Loss)***

Net income was 29.1 million, including a 9.5 million (US\$13 million) gain after tax related to the Spectrum transaction for the three months ended September 30, 2011 compared to net loss of 24.6 million for the three months ended September 30, 2010 as a result of the factors discussed above.

**Nine months ended September 30, 2011 compared to nine months ended September 30, 2010*****Operating revenues***

The following table sets forth our consolidated operating revenues by division, and the percentage of total consolidated operating revenues represented thereby, during each of the periods stated.

Except percentages, in millions of	Nine months ended September 30,					
	2011		2010			
	U.S.\$ <sup>(1)</sup>	%	U.S.\$ <sup>(1)</sup>	%	U.S.\$ <sup>(1)</sup>	%
Marine contract	516.6	731.9	32%	431.4	570.6	29%
Land contract	217.8	308.6	14%	208.4	275.6	14%
Processing, Imaging & Reservoir	225.2	319.1	14%	212.4	280.9	14%
Multi-client	210.2	297.8	13%	230.3	304.5	15%
Total Services	1,169.8	1,657.4	73%	1,082.5	1,431.6	72%
Equipment	435.8	617.3	27%	431.2	567.7	28%
<b>Total</b>	<b>1,605.6</b>	<b>2,274.7</b>	<b>100%</b>	<b>1,513.7</b>	<b>1,999.3</b>	<b>100%</b>

<sup>(1)</sup> Dollar amounts represent euros amounts converted at the average exchange rates of U.S.\$1.417 per in 2011 for the Group, the Services segment and the Equipment segment; and U.S.\$1.323, U.S.\$1.323, and U.S.\$1.317 per in 2010 for the Group, the Services segment and the Equipment segment, respectively.

Our consolidated operating revenues for the nine months ended September 30, 2011 increased 6% to 1,605.6 million from 1,513.7 million for the comparable period of 2010. Expressed in U.S dollars, our consolidated operating revenues increased 14% to U.S.\$2,274.7 million in the nine months ended September 30, 2011 from U.S.\$1,999.3 million for the comparable period of 2010. This increase was mainly due to our Services segment.

**Services**

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Operating revenues for our Services segment (excluding intra-group sales) increased 8% to 1,169.8 million for the nine months ended September 30, 2011 from 1,082.5 million for the comparable period of 2010. Expressed in U.S dollars, operating revenues increased 16% due to increased Marine and Land contract activities.

- 27 -

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## **Table of Contents**

### *Marine contract*

Operating revenues from our Marine contract division for the nine months ended September 30, 2011 increased 20% to 516.6 million from 431.4 million for the comparable period of 2010 (and increased 28% in U.S. dollar terms) as we allocated more of our 3D fleet to contract activity compared to multi-client.

### *Land contract*

Operating revenues from our Land contract division increased 5% to 217.8 million for the nine months ended September 30, 2011 from 208.4 million for the comparable period of 2010 (and increased 12% in U.S. dollar terms), as a result of a particularly strong winter campaign in North America during the quarter ended March 31, 2011.

### *Processing, Imaging & Reservoir*

Operating revenues from our Processing, Imaging & Reservoir division increased 6% to 225.2 million for the nine months ended September 30, 2011 from 212.4 million for the comparable period of 2010 (and increased 14% in U.S. dollar terms). Demand remained high in high-end technology.

### *Multi-client*

Operating revenues from our Multi-client division for the nine months ended September 30, 2011 decreased 9% to 210.2 million from 230.3 million for the comparable period of 2010, and decreased 2% in U.S. dollar terms.

Multi-client marine data library revenues decreased 9% to 145.3 million for the nine months ended September 30, 2011 from 159.4 million for the comparable period of 2010 (and decreased 2% in U.S. dollar terms). Prefunding, with a rate of 78%, decreased 59% to 33.7 million for the nine months ended September 30, 2011 from 82.8 million for the comparable period of 2010 (and decreased 56% in U.S. dollar terms) as our 3D fleet was allocated mainly to contract activity in 2011. After-sales increased 46% to 111.6 million for the nine months ended September 30, 2011 from 76.6 million for the comparable period of 2010 (and increased 56% in U.S. dollar terms), with a higher demand worldwide.

Multi-client land data library revenues decreased 8% to 64.9 million for the nine months ended September 30, 2011 from 70.9 million for the comparable period of 2010 (and decreased 2% in U.S. dollar terms). Prefunding, with a rate of 68% increased 23% to 50.4 million for the nine months ended September 30, 2011 from 40.9 million for the comparable period of 2010 (and increased 32% in U.S. dollar terms) due to our activity in the U.S. with our shale plays program. After-sales decreased 52% to 14.5 million for the nine months ended September 30, 2011 from 30.0 million for the comparable period of 2010 (and decreased 48% in U.S. dollar terms) as demand remained low.

### **Equipment**

Operating revenues for our Equipment segment, including intra-group sales, increased 6% to 576.4 million for the nine months ended September 30, 2011 from 543.8 million for the comparable period of 2010. In U.S. dollar terms, revenues increased 14% to U.S.\$816.5 million for the nine months ended September 30, 2011 from U.S.\$715.9 million for the comparable period of 2010. Sales were supported by continued robust demand for both high-end land and marine equipment.

Operating revenues for our Equipment segment, excluding intra-group sales, increased 1% to 435.8 million for the nine months ended September 30, 2011 from 431.2 million for the comparable period in 2010 (and increased 9% in U.S. dollar terms).

### ***Operating Expenses***

Cost of operations, including depreciation and amortization, increased 10% to 1,353.7 million for the nine months ended September 30, 2011 from 1,228.6 million for the comparable period of 2010, mainly due to increased activity. As a percentage of operating revenues, cost of operations increased to 84% for the nine months ended September 31, 2011 from 81% for the comparable period of 2010. Gross profit decreased 12% to 253.6 million for the nine months ended September 30, 2011 from 287.6 million for the comparable period of 2010, representing 16% and 19% of operating revenues, respectively.

Research and development expenditures decreased 13% to 39.2 million for the nine months ended September 30, 2011 compared to 45.2 million for the nine months ended September 30, 2010 (and decreased 7% in U.S. dollar terms), representing 2% and 3% of operating revenues,

respectively.

Marketing and selling expenses decreased 8% to 41.1 million for the nine months ended September 30, 2011 from 45.1 million for the nine months ended September 30, 2010 (and decreased 2% in U.S. dollar terms).

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## **Table of Contents**

General and administrative expenses decreased 24% to 99.8 million for the nine months ended September 30, 2011 from 132.1 million for the comparable period of 2010 (and decreased 19% in U.S. dollar terms) due to costs saving measures. As a percentage of operating revenues, general and administrative costs represented 6% for the nine months ended September 30, 2011 compared to 9% for the nine months ended September 30, 2010.

Other revenues amounted to 22.8 million for the nine months ended September 30, 2011 mainly due to a 7.8 million gain on sale of assets in relation with the Norfield transaction and a 13.4 million (U.S.\$19 million) gain on sale of our 2D marine data library in relation with the Spectrum transaction finalized on September 15, 2011. Other revenues for the nine months ended September 30, 2010 amounted to 10.7 million, principally due to disposal of assets and asset fair value adjustments.

### ***Operating Income (Loss)***

Our operating income increased 27% to 96.3 million for the nine months ended September 30, 2011 from 75.9 million for the comparable period of 2010, as a result of the factors described above.

Operating loss from our Services segment amounted to 1.6 million for the nine months ended September 30, 2011 compared to operating income of 2.0 million for the nine months ended September 30, 2010.

Operating income from our Equipment segment increased 26% to 181.8 million for nine months ended September 30, 2011 from 143.9 million for the comparable period of 2010 (and increased 36% in U.S. dollar terms).

### ***Financial Income and Expenses***

Cost of net financial debt increased 21% to 95.4 million for the nine months ended September 30, 2011 from 78.8 million for the comparable period of 2010 (and increased 30% in U.S. dollar terms) mainly due to (i) the accelerated amortization of U.S.\$22 million in issuing fees related to the redemption of our U.S.\$530 million 7 1/2% Senior Notes due 2015 and repayment of the U.S.\$508 million outstanding under our term loan B facility, and (ii) U.S.\$2.8 million of interest paid on our Senior Notes due 2015 between the issuance, on January 27, 2011, of our convertible bonds for a total nominal amount of 360 million and the partial redemption of the Senior Notes due 2015 with the proceeds of the convertible bonds (following the notice period).

Other financial loss was 7.7 million for the nine months ended September 30, 2011 compared to financial income of 8.8 million for the nine months ended September 30, 2010, principally due to a U.S.\$19 million premium paid for the early redemption of our 7 1/2 % Senior Notes due 2015 described above and currency fluctuations.

### ***Income Taxes***

Income taxes increased to 23.9 million for the nine months ended September 30, 2011 from 20.6 million for the comparable period of 2010.

### ***Equity in Income (Loss) of Affiliates***

Income from investments accounted for under the equity method was 6.8 million for the nine months ended September 30, 2011 compared to a loss of 3.3 million for the nine months ended September 30, 2010. The increase was mainly attributable to our share in the income of Argas, our joint venture in Saudi Arabia.

### ***Net Income (Loss)***

Net loss was 23.9 million, including 19.9 million (US\$28 million) one-off refinancing costs, net of tax, for the nine months ended September 30, 2011 compared to 18.0 million for the nine months ended September 30, 2010 as a result of the factors discussed above.

### ***Liquidity and Capital Resources***

Our principal capital needs are for the funding of ongoing operations, capital expenditures (particularly repairs and improvements to our seismic vessels and acquisition of seismic vessels), investments in our multi-client data library and acquisitions.

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We intend to fund our liquidity needs through cash generated by operations, senior notes and borrowings under our U.S. and French senior secured revolving credit facilities. Our U.S. revolving credit facility is for U.S.\$140 million (undrawn as of September 30, 2011) maturing January 2012, and our French revolving credit facility is for U.S.\$200 million (undrawn as of September 30, 2011) maturing February 2014. We have also raised funds through issuances of shares and convertible bonds and may do so in the future.

- 29 -

## Table of Contents

We believe that we are not subject to near-term liquidity constraints, given our liquidity available as of September 30, 2011, our cash flow generation capability and prospects, and our near-to mid-term debt repayment schedule.

### **Cash Flows**

#### *Operations*

Net cash provided by operating activities was 342.9 million for the nine months ended September 30, 2011 compared to 238.4 million for the comparable period of 2010. Before changes in working capital, net cash provided by operating activities for the nine months ended September 30, 2011 increased to 311.7 million from 269.8 million for the comparable period for 2010 mainly due to the significant increase in EBITDAS. Changes in working capital had a favorable impact on cash from operating activities of 31.2 million in the nine months ended September 30, 2011 compared to an unfavorable impact of 31.4 million for the comparable period for 2010 mainly due to customer payments of trade accounts and notes receivable.

#### *Investing activities*

Net cash used in investing activities was 288.9 million in the nine months ended September 30, 2011 compared to 334.9 million for nine months ended September 30, 2010.

In the nine months ended September 30, 2011, we purchased tangible and intangible assets for 183.2 million mainly for the upgrade of our seismic vessels *Oceanic Phoenix* and *Oceanic Endeavour* and for equipping the *Pacific Finder* and the *Oceanic Sirius* with Sentinel streamers, compared to 165.2 million for the nine months ended September 30, 2010.

We also invested 116.2 million in our multi-client library ( 42.7 million in Marine and 73.5 million in Land), mainly in North America, the North Sea and Brazil, compared to 177.4 million in the comparable period of 2010. As of September 30, 2011, the net book value of our multi-client data library was 432.9 million ( 327.5 million in Marine and 105.4 million in Land) compared to 545.6 million as of December 31, 2010.

#### *Financing activities*

Net cash used in financing activities during the nine months ended September 30, 2011 was 68.3 million compared to 158.2 million for nine months ended September 30, 2010. Our financing activities during the nine months ended September 30, 2011 are described above under Factors Affecting Our Results of Operations Indebtedness .

### **Net debt**

Net financial debt as of September 30, 2011 was 1,142.4 million compared to 1,149.7 million as of December 31, 2010. The ratio of net financial debt to equity was 41% as of September 30, 2011 and 41% as of December 31, 2010.

Gross financial debt is the amount of bank overdrafts, plus current portion of financial debt, plus financial debt, and net financial debt is gross financial debt less cash and cash equivalents. Net financial debt is presented as additional information because we understand that certain investors believe that netting cash against debt provides a clearer picture of the financial liability exposure. However, other companies may present net financial debt differently than we do. Net financial debt is not a measure of financial performance under IFRS and should not be considered as an alternative to any other measures of performance derived in accordance with IFRS.

The following table presents a reconciliation of net financial debt to financing items of the balance sheet at September 30, 2011 and December 31, 2010:

(in millions of euros)	September 30, 2011	December 31, 2010
Bank overdrafts	4.6	4.5
Current portion of long-term debt	60.9	74.5
Long-term debt	1,395.6	1,406.6

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<b>Gross financial debt</b>	<b>1,461.1</b>	<b>1,485.6</b>
Less : cash and cash equivalents	(318.7)	(335.9)
<b>Net financial debt</b>	<b>1,142.4</b>	<b>1,149.7</b>

For a more detailed description of our financing activities, see Item 5: Operating and Financial Review and Prospectus – Liquidity and Capital Resources in our annual report on Form 20-F for the year ended December 31, 2010.

**Table of Contents****EBITDAS**

EBITDAS for the nine months ended September 30, 2011 was 400.0 million compared to 377.6 million for the comparable period of 2010, representing 25% of operating revenue for both periods.

We define EBITDAS as earnings before interest, tax, depreciation, amortization and share-based compensation cost. Share-based compensation includes both stock options and shares issued under our performance share allocation plans. EBITDAS is presented as additional information because we understand that it is a measure used by certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. However, other companies may present EBITDAS and related measures differently than we do. EBITDAS is not a measure of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with IFRS.

The following table presents a reconciliation of EBITDAS to Net cash provided by operating activities, according to our cash-flow statement, for the periods indicated:

(in millions of euros)	Nine months ended September 30,	
	2011	2010
<b>EBITDAS</b>	<b>400.0</b>	<b>377.6</b>
Other financial income (loss)	(7.7)	8.8
Variance on provisions	(11.2)	(55.5)
Net gain on disposal of assets	(16.4)	(0.4)
Dividends received from affiliates	4.9	2.4
Other non cash items	(7.4)	(13.8)
Income taxes paid	(50.5)	(49.3)
Change in trade accounts receivable	80.6	(31.1)
Change in inventories	(25.8)	(24.2)
Change in other current assets	36.5	(26.2)
Change in trade accounts payable	(48.8)	51.7
Change in other current liabilities	1.1	(19.1)
Impact of changes in exchange rate	(12.4)	17.5
<b>Net cash provided by operating activities</b>	<b>342.9</b>	<b>238.4</b>

**Contractual obligations**

The following table sets forth our future cash obligations as of September 30, 2011:

(in millions of euros)	Payments Due by Period				Total
	Less than 1 year	2-3 years	4-5 years	More than 5 years	
Financial Debt	12.0	21.0	535.3	747.0	1,315.3
Finance Lease Obligations (not discounted)	24.6	24.9	18.8	49.1	117.4
Operating Leases	128.0	219.1	203.1	344.3	894.5
Bareboat agreements(a)	79.0	172.3	180.5	295.7	727.5
Other operating lease agreement	49.0	46.8	22.6	48.6	167.0
Other Long-Term Obligations (bond interest)	86.5	171.9	156.8	160.4	575.6
<b>Total Contractual Cash Obligations(b)</b>	<b>251.1</b>	<b>436.9</b>	<b>915.0</b>	<b>1,300.8</b>	<b>2,902.8</b>

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- (a) Includes bareboat agreements for our seismic vessels *Oceanic Sirius* delivered on October 3, 2011 and Bourbon support vessels not delivered yet; and excludes the *Pacific Finder*, transferred to our joint-venture with PT Elnusa Tbk on October 7, 2011.
- (b) Payments in foreign currencies are converted to euros at September 30, 2011 exchange rates.

- 31 -

**Table of Contents****Reconciliation of EBITDAS to U.S. GAAP****Summary of differences between IFRS and U.S. GAAP with respect to EBITDAS**

The principal differences between IFRS and U.S. GAAP as they relate to our EBITDAS relate to the treatment of pension plans, development costs and derivative instruments and hedging activities.

***Pension plan***

Pursuant to an exemption provided by IFRS 1 First-time adoption of IFRS, we have elected to record unrecognized actuarial gains and losses as of January 1, 2004 to retained earnings. Under U.S. GAAP, this exemption is not applicable, which generates a difference resulting from the amortization of actuarial gains and losses recognized in statement of income.

Under IFRS, in accordance with IAS 19 Revised, actuarial gains or losses are recognized in the statement of recognized income and expense (SORIE) attributable to shareholders.

Under U.S. GAAP, we apply Statement 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plan, an amendment of FASB Statements No. 87, 88, 106, and 132(R), effective for fiscal years ending after December 15, 2006.

Gains or losses are amortized over the remaining service period of employees expected to receive benefits under the plan, and therefore recognized in the income statement.

***Development costs***

Under IFRS, expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if:

the project is clearly defined, and costs are separately identified and reliably measured,

the product or process is technically and commercially feasible,

the Group has sufficient resources to complete development, and

the intangible asset is likely to generate future economic benefits.

Under U.S. GAAP, all expenditures related to research and development are recognized as an expense in the income statement.

Unaudited In millions of euros	Nine months ended September 30,	
	2011	2010
<b>EBITDAS as reported</b>	<b>400.0</b>	<b>377.6</b>
Actuarial gains (losses) on pension plan	(0.2)	(0.2)
Cancellation of IFRS capitalization of development costs	(12.2)	(11.3)
<b>EBITDAS according to U.S. GAAP</b>	<b>387.6</b>	<b>366.1</b>

**Item 3: CONTROLS AND PROCEDURES**

There has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

THIS FORM 6-K REPORT IS HEREBY INCORPORATED BY REFERENCE INTO THE PROSPECTUSES CONTAINED IN CGG VERITAS REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-150384) AND CGG VERITAS REGISTRATION STATEMENT ON FORM F-4 (FILE NO.333-177040) AND SHALL BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

**SIGNATURES**

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

/s/ Stéphane-Paul Frydman

Compagnie Générale de Géophysique Veritas  
(Registrant)

/s/ Stéphane-Paul Frydman

Stéphane-Paul Frydman  
Group Chief Financial Officer

Date: November 9, 2011