

GLOBAL PARTNERS LP
Form 10-Q
May 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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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Delaware
(State or other jurisdiction of incorporation
or organization)

74-3140887
(I.R.S. Employer Identification No.)

P.O. Box 9161
800 South Street
Waltham, Massachusetts 02454-9161
(Address of principal executive offices, including zip code)

(781) 894-8800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 May 6, 2013.

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GLOBAL PARTNERS LP
CONSOLIDATED BALANCE SHEETS

(In thousands, except unit data)

(Unaudited)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,938	\$ 5,977
Accounts receivable, net	842,875	696,762
Accounts receivable - affiliates	1,355	1,307
Inventories	432,578	634,667
Brokerage margin deposits	28,429	54,726
Fair value of forward fixed price contracts	18,339	48,062
Prepaid expenses and other current assets	51,269	65,432
Total current assets	1,387,783	1,506,933
Property and equipment, net	784,724	712,322
Goodwill	107,581	32,326
Intangible assets, net	134,608	60,822
Other assets	18,951	17,349
Total assets	\$ 2,433,647	\$ 2,329,752
Liabilities and partners' equity		
Current liabilities:		
Accounts payable	\$ 947,555	\$ 759,698
Working capital revolving credit facility - current portion		83,746
Term loan	115,000	
Environmental liabilities - current portion	4,337	4,341
Trustee taxes payable	78,995	91,494
Accrued expenses and other current liabilities	54,798	71,442
Obligations on forward fixed price contracts	4,080	34,474
Total current liabilities	1,204,765	1,045,195
Working capital revolving credit facility - less current portion	201,500	340,754
Revolving credit facility	399,700	422,000
Senior notes	67,953	
Environmental liabilities - less current portion	38,895	39,831
Other long-term liabilities	43,973	45,511
Total liabilities	1,956,786	1,893,291
Partners' equity		
Global Partners LP equity:		
Common unitholders (27,430,563 units issued and 27,393,786 outstanding at March 31, 2013 and 27,430,563 units issued and 27,310,648 outstanding at December 31, 2012)	455,093	456,538

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General partner interest (0.83% interest with 230,303 equivalent units outstanding at March 31, 2013 and December 31, 2012)	(311)	(407)
Accumulated other comprehensive loss	(17,431)	(19,670)
Total Global Partners LP equity	437,351	436,461
Noncontrolling interest	39,510	
Total partners' equity	476,861	436,461
Total liabilities and partners' equity	\$ 2,433,647	\$ 2,329,752

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

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GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Sales	\$ 5,589,190	\$ 3,975,481
Cost of sales	5,493,338	3,920,162
Gross profit	95,852	55,319
Costs and operating expenses:		
Selling, general and administrative expenses	26,760	22,467
Operating expenses	43,340	23,358
Amortization expense	4,376	1,574
Total costs and operating expenses	74,476	47,399
Operating income	21,376	7,920
Interest expense	(8,916)	(9,320)
Income (loss) before income tax benefit	12,460	(1,400)
Income tax benefit	1,875	
Net income (loss)	14,335	(1,400)
Net loss attributable to noncontrolling interest	490	
Net income (loss) attributable to Global Partners LP	14,825	(1,400)
Less: General partner's interest in net income (loss), including incentive distribution rights	(806)	(108)
Limited partners' interest in net income (loss)	\$ 14,019	\$ (1,508)
Basic net income (loss) per limited partner unit	\$ 0.51	\$ (0.06)
Diluted net income (loss) per limited partner unit	\$ 0.51	\$ (0.06)
Basic weighted average limited partner units outstanding	27,323	23,555
Diluted weighted average limited partner units outstanding	27,420	23,727

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	\$ 14,335	\$ (1,400)
Other comprehensive income:		
Change in fair value of cash flow hedges	1,473	731
Change in pension liability	766	298
Total other comprehensive income	2,239	1,029
Comprehensive income (loss)	16,574	(371)
Comprehensive loss attributable to noncontrolling interest	490	
Comprehensive income (loss) attributable to Global Partners LP	\$ 17,064	\$ (371)

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ 14,335	\$ (1,400)
Adjustments to reconcile net income (loss) to net provided by (cash used) in operating activities:		
Depreciation and amortization	16,691	9,216
Amortization of deferred financing fees	1,571	1,314
Amortization of senior notes discount	53	
Bad debt expense	1,479	90
Stock-based compensation expense	104	(72)
Changes in operating assets and liabilities, exclusive of business combinations:		
Accounts receivable	(145,293)	97,863
Accounts receivable affiliate	(48)	969
Inventories	202,606	3,705
Broker margin deposits	26,297	6,960
Prepaid expenses, all other current assets and other assets	11,154	(1,447)
Accounts payable	185,103	(149,113)
Trustee taxes payable	(12,499)	7,115
Change in fair value of forward fixed price contracts	(671)	(9,965)
Accrued expenses, all other current liabilities and other long-term liabilities	(18,104)	(6,998)
Net cash provided by (used in) operating activities	282,778	(41,763)
Cash flows from investing activities		
Acquisitions	(185,281)	(184,505)
Capital expenditures	(12,258)	(5,184)
Proceeds from sale of property and equipment	400	
Net cash used in investing activities	(197,139)	(189,689)
Cash flows from financing activities		
(Payments on) borrowings from working capital revolving credit facility	(223,000)	53,700
(Payments on) borrowings from revolving credit facility	(22,300)	192,000
Borrowings from term loan	115,000	
Proceeds from senior notes, net of discount	67,900	
Repurchased units withheld for tax obligations		(96)
Distributions to partners	(16,278)	(11,018)
Net cash (used in) provided by financing activities	(78,678)	234,586
Increase in cash and cash equivalents	6,961	3,134
Cash and cash equivalents at beginning of period	5,977	4,328
Cash and cash equivalents at end of period	\$ 12,938	\$ 7,462
Supplemental information		
Cash paid during the period for interest	\$ 8,176	\$ 9,242

Non-cash investing activities (see Note 17)

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF PARTNERS EQUITY

(In thousands)

(Unaudited)

	Common Unitholders	General Partner Interest	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Partners Equity
Balance at December 31, 2012	\$ 456,538	\$ (407)	\$ (19,670)	\$	\$ 436,461
Net income (loss)	14,019	806		(490)	14,335
Acquisition of noncontrolling interest				40,000	40,000
Other comprehensive income			2,239		2,239
Stock-based compensation	104				104
Distributions to partners	(15,636)	(710)			(16,346)
Phantom unit dividends	68				68
Balance at March 31, 2013	\$ 455,093	\$ (311)	\$ (17,431)	\$ 39,510	\$ 476,861

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

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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 Delaware master limited partnership formed in March 2005. As of March 31, 2013, the Partnership had the following wholly owned subsidiaries: Global Companies LLC, Glen Hes Corp., Global Montello Group Corp. (GMG), Chelsea Sandwich LLC, Global Energy Marketing LLC, Alliance Energy LLC, Bursaw Oil LLC, GLP Finance Corp., Global Energy Marketing II LLC, Global CNG LLC and Cascade Kelly Holdings LLC. Global GP LLC, the Partnership's general partner (the General Partner) manages the Partnership's operations and activities and employs its officers and substantially all of its personnel, except for its gasoline station and convenience store employees and certain union personnel who are employed by GMG.

The Partnership is a midstream logistics and marketing company that engages in the purchasing, selling and logistics of transporting domestic and Canadian crude oil and other products via rail, establishing a virtual pipeline from the mid-continent region of the United States and Canada to refiners and other customers on the East and West Coasts. The Partnership owns and controls terminals in North Dakota and Oregon that extend its origin-to-destination capabilities. The Partnership also owns, controls or has access to one of the largest terminal networks of refined petroleum products and renewable fuels in Massachusetts, Maine, Connecticut, Vermont, New Hampshire, Rhode Island, New York, New Jersey and Pennsylvania (collectively, the Northeast). The Partnership is one of the largest distributors of gasoline (including gasoline blendstocks such as ethanol and naphtha), distillates (such as home heating oil, diesel and kerosene), residual oil and renewable fuels to wholesalers, retailers and commercial customers in the New England states and New York. The Partnership is a major multi-brand gasoline distributor and has a portfolio of approximately 1,000 owned, leased and/or supplied gasoline stations primarily in the Northeast. The Partnership is also a distributor of natural gas. In addition, the Partnership provides ancillary services to companies and receives revenue from these ancillary services and from retail sales of gasoline, convenience store sales and gasoline 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 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.

On February 1, 2013, the Partnership acquired a 60% membership interest in Basin Transload LLC (Basin Transload), and on February 15, 2013, the Partnership acquired 100% of the membership interests in Cascade Kelly Holdings LLC (Cascade Kelly). See Note 2.

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The General Partner, which holds a 0.83% general partner interest in the Partnership, is owned by affiliates of the Slifka family. As of March 31, 2013, affiliates of the General Partner, including its directors and executive officers, owned 11,546,993 common units, representing a 42.1% limited partner interest.

Basis of Presentation

The financial results of Basin Transload for the two months ended March 31, 2013 and of Cascade Kelly for the one and one-half months ended March 31, 2013 are included in the accompanying statements of operations for the three months ended March 31, 2013. The Partnership consolidated the March 31, 2013 balance sheet of Basin Transload because the Partnership controls the entity. The accompanying consolidated financial statements as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012 reflect the accounts of the Partnership. All intercompany balances and transactions have been eliminated.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation (continued)

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, 2012 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 months ended March 31, 2013 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2013. The consolidated balance sheet at December 31, 2012 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, 2012.

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. 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.

Noncontrolling Interest

These financial statements reflect the application of ASC 810, Consolidations (ASC 810) which establishes accounting and reporting standards that require: (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within shareholder s equity, but separate from the parent s equity; (ii) the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and (iii) changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently.

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The Partnership acquired a 60% interest in Basin Transload on February 1, 2013. After evaluating ASC 810, the Partnership concluded it is appropriate to consolidate the balance sheet and statement of operations of Basin Transload based on an evaluation of the outstanding voting interests. Amounts pertaining to the noncontrolling ownership interest held by third parties in the financial position and operating results of the Partnership are reported as noncontrolling interest in the accompanying consolidated balance sheet and statement of operations.

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GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization and Basis of Presentation (continued)*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	
	March 31,	
	2013	2012
Gasoline sales: gasoline and gasoline blendstocks such as ethanol and naphtha	53%	59%
Distillates (home heating oil, diesel and kerosene), residual oil, crude oil and natural gas sales	47%	41%
Total	100%	100%

The Partnership had two significant customers, ExxonMobil Corporation (ExxonMobil) and Phillips66 (Phillips66), which accounted for approximately 13% and 14%, respectively, of total sales for the three months ended March 31, 2013. The Partnership had one significant customer, ExxonMobil, which accounted for approximately 16% of total sales for the three months ended March 31, 2012.

Note 2. Business Combinations*2013 Acquisitions**Acquisition of Basin Transload LLC*

On February 1, 2013, the Partnership acquired a 60% membership interest in Basin Transload, which operates two transloading facilities in Columbus and Beulah, North Dakota for crude oil and other products, with a combined rail loading capacity of 160,000 barrels per day. The purchase price, including expenditures related to certain capital expansion projects, was approximately \$91.1 million which the Partnership financed with borrowings under its credit facility.

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The acquisition was accounted for using the purchase method of accounting in accordance with the Financial Accounting Standards Board's (FASB) guidance regarding business combinations. The Partnership's financial statements include the results of operations of its membership interest in Basin Transload subsequent to the acquisition date.

The purchase price allocation is considered preliminary, and additional adjustments may be recorded during the allocation period in accordance with the FASB's guidance regarding business combinations. The purchase price allocation will be finalized as the Partnership receives additional information relevant to the acquisition, including a final valuation of the assets purchased, including tangible and intangible assets, and liabilities assumed.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

The following table presents the preliminary allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Assets purchased:	
Accounts receivable	\$ 2,003
Prepaid expenses	68
Property and equipment	28,016
Intangibles	78,163
Total identifiable assets purchased	108,250
Liabilities assumed:	
Accounts payable	(1,326)
Total liabilities assumed	(1,326)
Net identifiable assets acquired	106,924
Noncontrolling interest	(40,000)
Goodwill	24,178
Net assets acquired	\$ 91,102

Management is currently in the process of evaluating the purchase price accounting. The Partnership has engaged a third-party valuation firm to assist in the valuation of the Partnership's interest in Basin Transload's property and equipment. This valuation is in the early stages, and the fair value estimated for property and equipment in the table above of \$28.0 million was developed by management based on their estimates, assumptions and acquisition history. The fair value of \$78.2 million assigned to the intangibles, primarily customer relationships, was estimated by management based on their estimates, assumptions and acquisition history and will be supported by a third-party valuation firm.

The fair value of the noncontrolling interest has been primarily developed by management based on the fair value of the acquired business as a whole, reduced by the consideration paid by management to obtain control. This fair value of the business was estimated based on the fair value of Basin Transload's net assets and applying a reasonable control premium.

The fair values of the remaining Basin Transload assets and liabilities noted above approximate their carrying values at February 1, 2013. It is possible that once the Partnership receives the completed valuations on the property and equipment and intangible assets, the final purchase price accounting may be different than what is presented above.

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The preliminary purchase price for the acquisition was allocated to assets acquired and liabilities assumed based on their estimated fair values. The Partnership then allocated the purchase price in excess of net tangible assets acquired to identifiable intangible assets, based upon on their estimates and assumptions. Any excess purchase price over the fair value of the net tangible and intangible assets acquired was allocated to goodwill.

The Partnership utilized accounting guidance related to intangible assets which lists the pertinent factors to be considered when estimating the useful life of an intangible asset. These factors include, in part, a review of the expected use by the Partnership of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets and legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset. The Partnership amortizes these intangible assets over their estimated useful lives which is consistent with the estimated undiscounted future cash flows of these assets.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

As part of the purchase price allocation, identifiable intangible assets include customer relationships that are being amortized over five years. For the three months ended March 31, 2013, amortization expense amounted to \$2.6 million. The estimated remaining amortization expense for intangible assets acquired in connection with the acquisition for each of the five succeeding years and thereafter is as follows (in thousands):

2013 (2/1/13 - 12/31/13)	\$	14,300
2014		15,600
2015		15,600
2016		15,600
2017		15,600
Thereafter		1,463
Total	\$	78,163

The \$24.2 million of goodwill was assigned to the Wholesale reporting unit. The goodwill recognized is attributed to the unique origin of the acquired locations through which the Partnership's customers can efficiently supply cost-competitive crude oil to destinations on the East and West Coasts. The goodwill is deductible for income tax purposes.

Acquisition of Cascade Kelly Holdings LLC

On February 15, 2013, the Partnership acquired 100% of the membership interests in Cascade Kelly, which owns a West Coast crude oil and ethanol facility near Portland, Oregon. The total cash purchase price was approximately \$94.2 million which the Partnership funded with borrowings under its credit facility and with proceeds from the issuance of the Partnership's unsecured 8.00% senior notes due 2018 (see Note 6). The transaction includes a rail transloading facility serviced by the Burlington Northern Santa Fe Railway, 200,000 barrels of storage capacity, a deepwater marine terminal with access to a 1,200-foot leased dock and the largest ethanol plant on the West Coast. Situated along the Columbia River in Clatskanie, Oregon, the site is located on land leased under a long-term agreement from the Port of St. Helens.

The acquisition was accounted for using the purchase method of accounting in accordance with the FASB's guidance regarding business combinations. The Partnership's financial statements include the results of operations of Cascade Kelly subsequent to the acquisition date.

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The purchase price allocation is considered preliminary, and additional adjustments may be recorded during the allocation period in accordance with the FASB's guidance regarding business combinations. The purchase price allocation will be finalized as the Partnership receives additional information relevant to the acquisition, including a final valuation of the assets purchased, including tangible and intangible assets, and liabilities assumed.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

The following table presents the preliminary allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Assets purchased:	
Accounts receivable	\$ 296
Inventory	517
Prepaid expenses	96
Property and equipment	45,100
Total identifiable assets purchased	46,009
Liabilities assumed:	
Accounts payable	(1,428)
Other current liabilities	(1,479)
Total liabilities assumed	(2,907)
Net identifiable assets acquired	43,102
Goodwill	51,077
Net assets acquired	\$ 94,179

Management is currently in the process of evaluating the purchase price accounting. The Partnership has engaged a third-party valuation firm to assist in the valuation of Cascade Kelly's property and equipment and possible intangible assets. This valuation is in the early stages, and the fair value estimated for property and equipment in the table above of \$45.1 million was developed by management based on their estimates, assumptions and acquisition history.

The fair values of the remaining Cascade Kelly assets and liabilities noted above approximate their carrying values at February 15, 2013. It is possible that once the Partnership receives the completed valuations on the property and equipment, the final purchase price accounting may be different than what is presented above.

The preliminary purchase price for the acquisition was allocated to assets acquired and liabilities assumed based on their estimated fair values. The Partnership then allocated the purchase price in excess of net tangible assets acquired to identifiable intangible assets, if any, based upon on their estimates and assumptions. Any excess purchase price over the fair value of the net tangible and intangible assets acquired was allocated to goodwill.

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The \$51.7 million of goodwill was assigned to the Wholesale reporting unit. The goodwill recognized is primarily attributed to the crude oil facility and, to a lesser extent, the ethanol plant, which will strategically enhance the Partnership's network of origin and destination assets and extend the Partnership's virtual pipeline to the West Coast. The goodwill is deductible for income tax purposes.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

2012 Acquisition

Alliance Energy LLC On March 1, 2012, pursuant to a Contribution Agreement between the Partnership and AE Holdings (the Contribution Agreement), the Partnership acquired from AE Holdings 100% of the outstanding membership interests in Alliance, a gasoline distributor and operator of gasoline stations and convenience stores. The aggregate purchase price of the acquisition was approximately \$312.4 million, consisting of both cash and non-cash components. Alliance was an affiliate of the Partnership as Alliance was owned by AE Holdings which is approximately 95% owned by members of the Slifka family. Both the Partnership and Alliance shared certain common directors.

The acquisition was accounted for using the purchase method of accounting in accordance with the FASB's guidance regarding business combinations. The Partnership's financial statements include the results of operations of Alliance subsequent to the acquisition date.

The purchase price includes an initial cash payment of \$184.5 million which was funded by the Partnership through additional borrowings under its revolving credit facility. The consideration also includes the issuance of 5,850,000 common units representing limited partner interests in the Partnership which had a fair value of \$22.31 per unit on March 1, 2012, resulting in equity consideration of \$130.5 million. Pursuant to the Contribution Agreement, there was a \$1.9 million adjustment as a result of the timing of the transaction (March 1), the seller's 31 days of actual unit ownership in the 91 days of the quarter and the net receipt by seller (\$1.0 million) of a pro-rated portion of the quarterly cash distribution of \$0.50 per unit paid on the issued 5,850,000 common units. There were also \$0.7 million in miscellaneous adjustments based on certain cash and non-cash changes in the Alliance operations from October 1, 2011 (when the acquisition was initially agreed to by the parties) to February 29, 2012 (collectively with the \$1.9 million adjustment, the Cash Adjustment). The Cash Adjustment was paid by Alliance to the Partnership on May 16, 2012. The net cash paid after consideration of the Cash Adjustment was \$181.9 million.

The purchase price for the acquisition was allocated to assets acquired and liabilities assumed based on their estimated fair values with the exception of environmental liabilities which were recorded on an undiscounted basis (see Note 11). The Partnership then allocated the purchase price in excess of net tangible assets acquired to identifiable intangible assets, based upon a valuation from an independent third party. Any excess purchase price over the fair value of the net tangible and intangible assets acquired was allocated to goodwill and assigned to the Gasoline Distribution and Station Operations reporting unit.

Goodwill The following represents the changes in goodwill from the year ended December 31, 2012 to the current date (in thousands):

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	Goodwill at December 31, 2012		2013 Additions	Goodwill at March 31, 2013
Acquisition of Alliance (1)	\$ 31,151	\$		\$ 31,151
Acquisition of gasoline stations from Mutual Oil (1)	1,175			1,175
Acquisition of 60% interest in Basin Transload (2)			24,178	24,178
Acquisition of Cascade Kelly (2)			51,077	51,077
Total	\$ 32,326	\$	75,255	\$ 107,581

(1) Goodwill allocated to the Gasoline Distribution and Station Operations reporting unit

(2) Goodwill allocated to the Wholesale reporting unit

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

Supplemental Pro-Forma Information Revenues and net income included in the Partnership's consolidated operating results for Basin Transload from February 1, 2013, the acquisition date, and for Cascade Kelly from February 15, 2013, the acquisition date, through the period ended March 31, 2013 were immaterial. Accordingly, the supplemental pro-forma information for the three months ended March 31, 2013 is consistent with the amounts reported in the accompanying statement of operations for the three months ended March 31, 2013.

The following unaudited pro-forma information for 2012 presents the consolidated results of operations of the Partnership as if the acquisitions of Basin Transload, Cascade Kelly and Alliance occurred at the beginning of the period presented, with pro-forma adjustments to give effect to intercompany sales and certain other adjustments (in thousands, except per unit data):

	Three Months Ended March 31, 2012
Sales	\$ 4,214,795
Net loss	\$ (16,973)
Net loss per limited partner unit, basic and diluted	\$ (0.62)

Note 3. Net Income (Loss) Per Limited Partner Unit

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

At March 31, 2013 and December 31, 2012, common units outstanding as reported in the accompanying consolidated financial statements excluded 36,777 and 119,915 common units, respectively, held on behalf of the Partnership pursuant to its repurchase program. These units are not deemed outstanding for purposes of calculating net income per limited partner unit (basic and diluted).

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Note 3. Net Income (Loss) Per Limited Partner Unit (continued)

The following table provides a reconciliation of net income (loss) and the assumed allocation of net income to the limited partners' interest for purposes of computing net income (loss) per limited partner unit for the three months ended March 31, 2013 and 2012 (in thousands, except per unit data):

	Three Months Ended March 31, 2013				Three Months Ended March 31, 2012			
	Total	Limited Partner Interest	General Partner Interest	IDRs	Total	Limited Partner Interest	General Partner Interest	IDRs
Numerator:								
Net income (loss) attributable to Global Partners LP (1)	\$ 14,825	\$ 14,019	\$ 806	\$	\$ (1,400)	\$ (1,508)	\$ 108	\$
Declared distribution	\$ 16,796	\$ 15,979	\$ 134	\$ 683	\$ 13,986	\$ 13,716	\$ 115	\$ 155
Adjustment to distribution in connection with the Alliance acquisition (2)					(1,929)	(1,929)		
Adjusted declared distribution	16,796	15,979	134	683	12,057	11,787	115	155
Assumed allocation of undistributed net income	(1,971)	(1,960)	(11)		(13,457)	(13,295)	(162)	
Assumed allocation of net income (loss)	\$ 14,825	\$ 14,019	\$ 123	\$ 683	\$ (1,400)	\$ (1,508)	\$ (47)	\$ 155
Denominator:								
Basic weighted average limited partner units outstanding		27,323				23,555		
Dilutive effect of phantom units		97				172		
Diluted weighted average limited partner units outstanding		27,420				23,727		
Basic net income (loss) per limited partner unit	\$	0.51			\$	(0.06)		
Diluted net income (loss) per limited partner unit	\$	0.51			\$	(0.06)		

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(1) Calculation includes the effect of the March 1, 2012 issuance of 5,850,000 common units in connection with the acquisition of Alliance. As a result, the general partner interest was 0.83% for the three months ended March 31, 2013 and, based on a weighted average, 0.97% for the three months ended March 31, 2012.

(2) In connection with the acquisition of Alliance on March 1, 2012 and the issuance of 5,850,000 common units, the Contribution Agreement provided that any declared distribution for the first quarter of 2012 reflect the seller's actual period of ownership during that quarter. The payment by the seller of \$1.9 million reflects the timing of the transaction (March 1), the seller's 31 days of actual unit ownership in the 91 days of the quarter and the net receipt by seller (\$1.0 million) of a pro-rated portion of the quarterly cash distribution of \$0.50 per unit paid on the issued 5,850,000 common units.

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Note 4. Inventories

Except for its convenience store inventory, the Partnership hedges substantially all of its inventory, primarily through futures contracts. These futures contracts are entered into when inventory is purchased and are designated as fair value hedges against the inventory on a specific barrel basis. Changes in the fair value of these contracts, as well as the offsetting gain or loss on the hedged inventory item, are recognized in earnings as an increase or decrease in cost of sales. All hedged inventory is valued using the lower of cost, as determined by specific identification, or market. Prior to sale, hedges are removed from specific barrels of inventory, and the then unhedged inventory is sold and accounted for on a first-in, first-out basis. In addition, the Partnership has convenience store inventory which is carried at the lower of historical cost or market. Inventory from Cascade Kelly was nominal at March 31, 2013 and is carried at the lower of cost or market.

Inventories consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Distillates: home heating oil, diesel and kerosene	\$ 107,272	\$ 235,029
Gasoline	102,928	144,269
Gasoline blendstocks	71,424	139,316
Residual oil and crude oil	143,868	109,423
Propane and other	855	
Convenience store inventory	6,231	6,630
Total	\$ 432,578	\$ 634,667

In addition to its own inventory, the Partnership has exchange agreements for petroleum products with unrelated third-party suppliers, whereby it may draw inventory from these other suppliers and suppliers may draw inventory from the Partnership. Positive exchange balances are accounted for as accounts receivable and amounted to \$159.3 million and \$120.9 million at March 31, 2013 and December 31, 2012, respectively. Negative exchange balances are accounted for as accounts payable and amounted to \$173.5 million and \$139.5 million at March 31, 2013 and December 31, 2012, respectively. Exchange transactions are valued using current inventory levels.

Note 5. Derivative Financial Instruments

Accounting and reporting guidance for derivative instruments and hedging activities requires that an entity recognize derivatives as either assets or liabilities on the balance sheet and measure the instruments at fair value. Changes in the fair value of the derivative are to be recognized currently in earnings, unless specific hedge accounting criteria are met. The Partnership principally uses derivative instruments to hedge the commodity risk associated with its inventory and product purchases and sales and to hedge variable interest rates associated with the

Partnership's credit facilities.

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Note 5. Derivative Financial Instruments (continued)

The following table presents the volume of activity related to the Partnership's derivative financial instruments at March 31, 2013:

	Units (1)	Unit of Measure
Futures Contracts		
Long	14,085	Thousands of barrels
Short	(17,646)	Thousands of barrels
Natural Gas Contracts		
Long	7,068	Thousands of decatherms
Short	(7,068)	Thousands of decatherms
Interest Rate Collar	\$ 100.0	Millions of U.S. dollars
Interest Rate Swap	\$ 100.0	Millions of U.S. dollars
Interest Rate Cap	\$ 100.0	Millions of U.S. dollars
Foreign Currency Derivatives		
Open Forward Exchange Contracts (2)	\$ 30.5	Millions of Canadian dollars
	\$ 29.9	Millions of U.S. dollars

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

(2) All-in forward rate Canadian dollars (CAD) \$1.0181 to USD \$1.00.

Fair Value Hedges

The Partnership enters into futures contracts in the normal course of business to reduce the risk of loss of inventory value, which could result from fluctuations in market prices. These futures contracts are designated as fair value hedges against the inventory with specific futures contracts matched to specific barrels of inventory. As a result of the Partnership's hedge designation on these transactions, the futures contracts are recorded on the Partnership's consolidated balance sheet and marked to market through the use of independent markets based on the prevailing market prices of such instruments at the date of valuation. Likewise, the underlying inventory being hedged is also marked to market. Changes in the fair value of the futures contracts, as well as the change in the fair value of the hedged inventory, are recognized in the consolidated statement of income through cost of sales. These futures contracts are settled on a daily basis by the Partnership through brokerage

margin accounts.

The Partnership's futures contracts are settled daily; therefore, there was no corresponding asset or liability on the Partnership's consolidated balance sheet related to these contracts at March 31, 2013 and December 31, 2012. These contracts remain open until their contract end date. The daily settlement of these futures contracts is accomplished through the use of brokerage margin deposit accounts.

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Note 5. Derivative Financial Instruments (continued)

The following table presents the hedge ineffectiveness from derivatives involved in fair value hedging relationships recognized in the Partnership's consolidated statements of operations for the three months ended March 31, 2013 and 2012 (in thousands):

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31,	
		2013	2012
Futures contracts	Cost of sales	\$ (10,384)	\$ (89,878)

Hedged Items in Fair Value Hedge Relationships	Location of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Hedged Items Three Months Ended March 31,	
		2013	2012
Inventories	Cost of sales	\$ 10,396	\$ 89,957

Cash Flow Hedges

The Partnership utilizes various interest rate derivative instruments to hedge variable interest rate on its debt. These derivative instruments are designated as cash flow hedges of the underlying debt. To the extent such hedges are effective, the changes in the fair value of the derivative instrument are reported as a component of other comprehensive income (loss) and reclassified into interest expense or interest income in the same period during which the hedged transaction affects earnings.

In September 2008, the Partnership executed a zero premium interest rate collar with a major financial institution. The collar, which became effective on October 2, 2008 and expires on October 2, 2013, is used to hedge the variability in cash flows in monthly interest payments made on \$100.0 million of one-month LIBOR-based borrowings on the credit facility (and subsequent refinancings thereof) due to changes in the one-month LIBOR rate.

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In October 2009, the Partnership executed an interest rate swap with a major financial institution. The swap, which became effective on May 16, 2011 and expires on May 16, 2016, is used to hedge the variability in interest payments due to changes in the one-month LIBOR swap curve with respect to \$100.0 million of one-month LIBOR-based borrowings on the credit facility at a fixed rate of 3.93%.

In April 2011, the Partnership executed an interest rate cap with a major financial institution. The rate cap, which became effective on April 13, 2011 and expires on April 13, 2016, is used to hedge the variability in interest payments due to changes in the one-month LIBOR rate above 5.5% with respect to \$100.0 million of one-month LIBOR-based borrowings on the credit facility.

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Note 5. Derivative Financial Instruments (continued)

The following table presents the fair value of the Partnership's derivative instruments involved in cash flow hedging relationships and their location in the Partnership's consolidated balance sheets at March 31, 2013 and December 31, 2012 (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	March 31, 2013 Fair Value	December 31, 2012 Fair Value
<i>Asset derivatives</i>			
Interest rate cap	Other assets	\$ 30	\$ 35
<i>Liability derivatives</i>			
Interest rate collar	Other long-term liabilities	\$ 1,253	\$ 1,868
Interest rate swap	Other long-term liabilities	10,671	11,534
Total liability derivatives		\$ 11,924	\$ 13,402

The following table presents the amount of gains and losses from derivatives involved in cash flow hedging relationships recognized in the Partnership's consolidated statements of operations and partners' equity for the three months ended March 31, 2013 and 2012 (in thousands):

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives Three Months Ended		Recognized in Income on Derivatives (Ineffectiveness Portion and Amount Excluded from Effectiveness Testing) Three Months Ended	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Interest rate collars	\$ 615	\$ 315	\$	\$
Interest rate swap	863	439		
Interest rate cap	(5)	(23)		
Total	\$ 1,473	\$ 731	\$	\$

Ineffectiveness related to the interest rate collar and the interest rate swap is recognized as interest expense and was immaterial for the three months ended March 30, 2013 and 2012. The effective portion related to the interest rate collar that was originally reported in other comprehensive income and reclassified to earnings was \$0.6 million for each of the three months ended March 31, 2013 and 2012. None of the effective portion related to the interest rate cap that was originally reported in other comprehensive income was reclassified into earnings for the three months ended March 31, 2013 and 2012.

Other Derivative Activity

The Partnership uses futures contracts, and occasionally swap agreements, to hedge its commodity exposure under forward fixed price purchase and sale commitments on its products. These derivatives are not designated by the Partnership as either fair value hedges or cash flow hedges. Rather, the forward fixed price purchase and sales commitments, which meet the definition of a derivative, are reflected in the Partnership's consolidated balance sheet. The related futures contracts (and swaps, if applicable) are also reflected in the Partnership's consolidated balance sheet, thereby creating an economic hedge. Changes in the fair value of the futures contracts (and swaps, if applicable), as well as offsetting gains or losses due to the change in the fair value of forward fixed price purchase and sale commitments, are recognized in the consolidated statement of operations through cost of sales. These futures contracts are settled on a daily basis by the Partnership through brokerage margin accounts.

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Note 5. Derivative Financial Instruments (continued)

While the Partnership seeks to maintain a position that is substantially balanced within its product purchase activities, it may experience net unbalanced positions for short periods of time as a result of variances in daily sales and transportation and delivery schedules as well as other logistical issues inherent in the business, such as weather conditions. In connection with managing these positions, maintaining a constant presence in the marketplace and managing the futures market outlook for future anticipated inventories, which are necessary for its business, the Partnership engages in a controlled trading program for up to an aggregate of 250,000 barrels of products at any one point in time. Any derivatives not involved in a direct hedging activity are marked to market and recognized in the consolidated statement of income through cost of sales.

The Partnership also markets and sells natural gas by entering into forward purchase commitments for natural gas when it enters into arrangements for the forward sale commitment of product for physical delivery to third-party users. The Partnership reflects the fair value of forward fixed purchase and sales commitments in its consolidated balance sheet. Changes in the fair value of the forward fixed price purchase and sale commitments are recognized in the consolidated statement of operations through cost of sales.

During the three months ended March 31, 2013, the Partnership entered into forward currency contracts to hedge certain foreign denominated (Canadian) product purchases. These forward contracts are not designated and are reflected in the consolidated balance sheet. Changes in the fair values of these forward currency contracts are reflected in cost of sales.

Similar to the futures contracts used by the Partnership to hedge its inventory, the Partnership's futures contracts are settled daily and, accordingly, there was no corresponding asset or liability in the Partnership's consolidated balance sheets related to these contracts at March 31, 2013 and December 31, 2012. These contracts remain open until their contract end date. The daily settlement of these futures contracts is accomplished through the use of brokerage margin deposit accounts.

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Note 5. Derivative Financial Instruments (continued)

The following table summarizes the derivatives not designated by the Partnership as either fair value hedges or cash flow hedges and their respective fair values and location in the Partnership's consolidated balance sheets at March 31, 2013 and December 31, 2012 (in thousands):

Summary of Other Derivatives	Item Pertains to	Balance Sheet Location	March 31, 2013 Fair Value	December 31, 2012 Fair Value
<i>Asset Derivatives</i>				
Forward purchase commitments	Gasoline and Gasoline Blendstocks	(1)	\$ 12,435	\$ 131
	Crude Oil	(1)	4,654	15,127
	Residual Oil	(1)		285
Total forward purchase commitments			17,089	15,543
Forward sales commitments	Gasoline and Gasoline Blendstocks	(1)		30,928
	Distillates	(1)		
	Natural Gas	(1)	1,250	1,591
Total forward sales commitments			1,250	32,519
Total forward fixed price contracts			18,339	48,062
Foreign currency forward contract	Foreign Denominated Sales	(2)		145
Total asset derivatives			\$ 18,339	\$ 48,207
<i>Liability Derivatives</i>				
Forward purchase commitments	Gasoline and Gasoline Blendstocks	(3)	\$	\$ 27,604
	Residual Oil	(3)	288	
	Distillates	(3)	85	2,171
	Natural Gas	(3)	1,239	1,576
Total forward purchase commitments			1,612	31,351
Forward sales commitments	Gasoline and Gasoline Blendstocks	(3)	552	173
	Distillates	(3)	1,916	2,950
Total forward sales commitments			2,468	3,123
Total obligations on forward fixed price contracts			4,080	34,474
Foreign currency forward contract	Foreign Denominated Sales	(4)	175	
			\$ 4,255	\$ 34,474

(1) Fair value of forward fixed price contracts

(2) Prepaid expenses and other current assets

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- (3) Obligations on forward fixed price contracts
- (4) Accrued expenses and other current liabilities

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Note 5. Derivative Financial Instruments (continued)

The following table presents the amount of gains and losses from derivatives not involved in a hedging relationship recognized in the Partnership's consolidated statements of operations for the three months ended March 31, 2013 and 2012 (in thousands):

**Amount of Gain (Loss)
Recognized in Income**