

Global Partners LP  
Form 10-Q  
May 15, 2006

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

WASHINGTON, DC 20549

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**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, 2006

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)

**Delaware**  
(State or other jurisdiction of incorporation or  
organization)

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

**P.O. Box 9161  
800 South Street**

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**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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The issuer had 5,642,424 common units and 5,642,424 subordinated units outstanding as of May 8, 2006.

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## Item 1. Financial Statements

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

(In thousands, except unit data)

(Unaudited)

	March 31, 2006		December 31, 2005	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$	823	\$	1,769
Accounts receivable, net		180,426		237,861
Accounts receivable - affiliates		2,180		2,005
Inventories		150,553		260,714
Brokerage margin deposits		4,769		9,210
Prepaid expenses and other current assets		6,501		7,781
Total current assets		345,252		519,340
Property and equipment, net		22,233		21,975
Intangible assets, net		10,197		10,603
Other assets		2,673		2,838
Total assets	\$	380,355	\$	554,756
<b>Liabilities and partners' equity</b>				
Current liabilities:				
Accounts payable	\$	130,976	\$	259,463
Notes payable, other - current portion		297		297
Income taxes payable		679		1,200
Accrued expenses and other current liabilities		23,346		28,615
Obligations on forward fixed price contracts and other derivatives		5,253		1,038
Total current liabilities		160,551		290,613
Long-term liabilities:				
Revolving line of credit		129,700		181,600
Notes payable, other - less current portion		1,486		1,559
Other long-term liabilities		4,355		4,676
Total long-term liabilities		135,541		187,835
Partners' equity				
Common unitholders (5,642,424 units issued and outstanding at March 31, 2006 and December 31, 2005)		101,410		97,512

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Subordinated unitholders (5,642,424 units issued and outstanding at March 31, 2006 and December 31, 2005)		(16,474)		(20,372)
General partner interest (2% interest with 230,303 equivalent units outstanding at March 31, 2006 and December 31, 2005)		(673)		(832)
Total partners' equity		84,263		76,308
Total liabilities and partners' equity	\$	380,355	\$	554,756

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

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

(In thousands, except per unit data)

(Unaudited)

	Successor Three Months Ended March 31, 2006 Consolidated	Predecessor 2005 Combined
Sales	\$ 1,351,023	\$ 1,152,079
Cost of sales	1,318,806	1,123,691
Gross profit	32,217	28,388
Selling, general and administrative expenses	10,572	9,590
Operating expenses	5,551	5,066
Amortization expenses	406	406
Operating income	15,688	13,326
Interest expense	2,320	2,026
Income before income tax expense	13,368	11,300
Income tax expense	680	
Net income	12,688	\$ 11,300
Less:		
General partner's interest in net income	254	
Limited partners' interest in net income	\$ 12,434	
Net income per limited partner unit, basic and diluted(1)	\$ 0.85	
Weighted average limited partners' units outstanding, basic and diluted	11,285	

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

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

## GLOBAL PARTNERS LP

## CONSOLIDATED/COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Successor Three Months Ended March 31, 2006 Consolidated	Predecessor 2005 Combined
<b>Operating activities</b>		
Net income	\$ 12,688	\$ 11,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	966	958
Amortization of deferred financing fees	106	163
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	57,435	(14,039)
Accounts receivable affiliate	(175)	414
Inventories	110,161	31,144
Loss on sale of property and equipment	11	2
Prepaid expenses, all other current assets and other assets	5,780	3,219
Accounts payable	(129,008)	(6,253)
Accrued expenses and all other current liabilities	(1,375)	14,464
Other long-term liabilities		(597)
Net cash provided by operating activities	56,589	40,775
<b>Investing activities</b>		
Proceeds from sale of property and equipment	19	5
Purchases of property and equipment	(848)	(165)
Net cash used in investing activities	(829)	(160)
<b>Financing activities</b>		
Payments on revolving line of credit, net	(51,900)	(41,900)
Payments on note payable, other	(73)	(68)
Distributions to partners	(4,733)	
Net cash used in financing activities	(56,706)	(41,968)
Decrease in cash and cash equivalents	(946)	(1,353)
Cash and cash equivalents at beginning of period	1,769	3,306
Cash and cash equivalents at end of period	\$ 823	\$ 1,953
<b>Supplemental information</b>		
Cash paid during the period for interest	\$ 2,332	\$ 2,050

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

**GLOBAL PARTNERS LP**  
**CONSOLIDATED STATEMENTS OF PARTNERS EQUITY**

(In thousands)

(Unaudited)

	Common Unitholders	Subordinated Unitholders	General Partner Interest	Total Partners Equity
Balance at December 31, 2005	\$ 97,512	\$ (20,372)	\$ (832)	\$ 76,308
Distribution to partners	(2,319)	(2,319)	(95)	(4,733)
Net income	6,217	6,217	254	12,688
Balance at March 31, 2006	\$ 101,410	\$ (16,474)	\$ (673)	\$ 84,263

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



**GLOBAL PARTNERS LP**

**NOTES TO FINANCIAL STATEMENTS**

**(Unaudited)**

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

*Organization*

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

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

The Partnership's 2% general partner interest is held by Global GP LLC (the General Partner). The General Partner, which is owned by affiliates of the Slifka family, manages the Partnership's operations and activities and employs its officers and substantially all of its personnel. Affiliates of the General Partner, including its directors and executive officers, own 87,724 common units and 5,642,424 subordinated units, representing a combined 49.8% limited partner interest.

References to Global Partners LP or the Partnership or the General Partner as it relates to the combined financial statements and these accompanying notes with respect to the three months ended March 31, 2005 refer to the business of Global Companies LLC and its affiliates, Glen Hes Corp., Global Montello Group LLC and Chelsea Sandwich LLC (collectively, the Predecessor).

Immediately after becoming a master limited partnership, the Partnership converted Global Montello Group LLC (the predecessor to Global Montello Group Corp.) into a taxable corporation. References to the Companies in the Partnership's combined financial statements and these accompanying notes include Global Montello Group LLC with respect to the three months ended March 31, 2005 and Global Montello Group Corp. with respect to the three months ended March 31, 2006.

**Basis of Presentation**

*Interim Financial Statements*

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

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

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

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

### Note 2. Reclassification

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

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

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

The following sets forth the net income allocation using this method for the three months ended March 31, 2006 (in thousands, except per unit data):

		<b>Per Limited Partner Unit</b>
Net income	\$ 12,688	
Less:		
General partner's incentive distribution paid		
Subtotal		12,688

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General partner 2% ownership		(254)	
Net income available to limited partners		12,434	\$ 1.10
Dilutive impact of theoretical distribution of earnings		(2,872)	(0.25)
Net income available to limited partners under EITF 03-06	\$	9,562	\$ 0.85
Weighted average limited partners units outstanding		11,285	

The Partnership did not and was not required to declare cash distributions during the period January 1, 2006 through March 31, 2006 which would result in an incentive distribution to the General Partner as indicated above.

**Note 4. Inventories**

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

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Distillates: light oil, diesel and kerosene	\$ 95,194	\$ 195,171
Gasoline	19,509	19,311
Blend stock	10,948	6,782
Residual oil	24,902	39,450
<b>Total</b>	<b>\$ 150,553</b>	<b>\$ 260,714</b>

The decrease of \$110.2 million was primarily due to lower distillates inventory on hand as the Partnership approached the end of its heating season.

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

**Note 5. Derivative Financial Instruments**

The Partnership recognizes all changes in the fair value of derivatives currently in earnings. The fair value of derivatives is determined through the use of independent markets and is based upon the prevailing market prices of such instruments at the date of valuation. The Partnership enters into futures contracts for the receipt or delivery of refined petroleum products in future periods. The contracts are entered into in the normal course of business to reduce risk of loss of inventory on hand, which could result through fluctuations in market prices. Changes in the fair value of these contracts as well as the offsetting gain or loss on the hedged inventory item are recognized currently in earnings as either an increase or decrease in cost of sales. Ineffectiveness related to these hedging activities was immaterial at March 31, 2006.

The Partnership also uses futures contracts and swaps to hedge exposure under forward purchase and sale commitments. These agreements are intended to hedge the cost component of virtually all of the Partnership's forward commitments. Changes in the fair value of these contracts are recognized currently in earnings as an increase or decrease in cost of sales.

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

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The composition and (obligations on) fair value of derivative instruments consisted of the following (in thousands):

	March 31, 2006		December 31, 2005	
Forward contracts	\$	(2,641)	\$	4,587
Swaps, options and other, net		(2,612)		(5,625)
	\$	(5,253)	\$	(1,038)

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

The Partnership has a daily margin requirement with its broker, based on the prior day's market results on open futures contracts. The required brokerage margin balance was \$4.8 million and \$9.2 million at March 31, 2006 and December 31, 2005, respectively.

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

### Note 6. Debt

In connection with the closing of its IPO, the Partnership entered into a four-year senior secured credit agreement (the "Credit Agreement") in an aggregate principal amount of up to \$400.0 million. In November 2005, the Credit Agreement was amended to increase total available commitments from \$400.0 million to \$500.0 million. The working capital revolving credit facility was increased by \$100.0 million, comprising a \$50.0 million increase in the permanent working capital revolving credit facility commitment and a new seasonal overline facility of \$50.0 million (which is available each year only during the period between September 1st and June 30th).

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

a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of our borrowing base and \$450.0 million, of which two \$50.0 million seasonal overline facilities are available each year only during the period between September 1<sup>st</sup> and June 30<sup>th</sup>;

a \$35.0 million acquisition facility to be used for funding acquisitions similar to our business line that have a purchase price of \$25.0 million or less or \$35.0 million or less in the aggregate in any 12-month period; and

a \$15.0 million revolving credit facility to be used for general purposes, including payment of distributions to our unitholders.

Borrowings under the Partnership's working capital revolving credit, acquisition credit and revolving credit facilities currently bear interest at the Partnership's option at (1) the Eurodollar rate, plus 1%, 1<sup>3</sup>/<sub>4</sub>% or 1<sup>1</sup>/<sub>2</sub>%, respectively, (2) the cost of funds rate, plus 1%, 1<sup>3</sup>/<sub>4</sub>% or 1<sup>1</sup>/<sub>2</sub>%, respectively, or (3) the bank's base rate, at the Partnership's option. The Partnership incurs a letter of credit fee of 1% per annum for each letter of credit issued. In addition, the Partnership incurs a commitment fee on the unused portion of the three facilities under the Credit Agreement (including the unused portion of either of the seasonal overline facilities exercised by the Partnership) at a rate of 25 basis points per annum, a facility fee of 10 basis points per annum on any unexercised seasonal overline facility during the period between September 1<sup>st</sup> and June 30<sup>th</sup> and a seasonal overline fee of \$30,000 each time the Partnership elects to exercise either of the seasonal overline facilities.

The Credit Agreement will mature in October 2009. Accordingly, the Credit Agreement has been classified as long term in the accompanying balance sheets. At March 31, 2006, availability under the Credit Agreement was reduced by the outstanding balance under the working capital revolving credit facility of approximately \$129.7 million and by letters of credit totaling approximately \$55.0 million. The total remaining availability for borrowings and letters of credit at March 31, 2006 was approximately \$315.3 million. The average interest rate for the period from January 1, 2006 through March 31, 2006 was 5.5%.

The Credit Agreement is secured by substantially all of the assets of the Partnership and each of the Companies and is guaranteed by the General Partner. The Credit Agreement imposes certain requirements including, for example, a prohibition against distributions if any potential default or event of default as defined in the Credit Agreement, as amended, would occur, and limitations on the Partnership's ability to grant liens, make certain loans or investments, incur additional indebtedness or guarantee other indebtedness, make any material change to the nature of the Partnership's business or undergo a fundamental change, make any material dispositions, acquire another company, enter into a merger, consolidation, sale leaseback transaction or purchase of assets, or make capital expenditures in excess of specified levels. The Credit Agreement also imposes covenants that require the Partnership to maintain certain minimum working capital amounts, a minimum EBITDA ratio, a minimum interest coverage ratio and a maximum leverage ratio. The Partnership was in compliance with these covenants at March 31, 2006.



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

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

The Partnership's net periodic benefit cost for its defined benefit pension plan consisted of the following components (in thousands):

	Successor Three Months Ended March 31,		Predecessor	
	2006 Consolidated		2005 Combined	
Service cost	\$	191	\$	170
Interest cost		150		131
Expected return on plan assets		(145)		(135)
Net periodic benefit cost	\$	196	\$	166

**Note 8. Related Party Transactions**

In connection with the Partnership's IPO, the Partnership entered into a Second Amended and Restated Terminal Storage Rental and Throughput Agreement which, among other things, extended the term of the then current non-cancelable terminal facility agreement with Global Petroleum Corp. (GPC) through December 2013. The agreement is accounted for as an operating lease. The expense under this agreement (or the applicable predecessor agreement with GPC, as the case may be) was \$2.0 million and \$1.9 million for the three months ended March 31, 2006 and 2005, respectively.

GPC provides certain terminal operating management services to the Partnership and uses certain administrative, accounting and information processing services of the Partnership. The expense from these services was approximately \$17,000 for each of the periods ended March 31, 2006 and 2005. These affiliate charges have been recorded in selling, general and administrative expenses in the accompanying statements of income. In connection with the IPO, the Partnership entered into an Amended and Restated Services Agreement with GPC which, among other things, extended the term of the agreement through December 31, 2007.

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

The Partnership sells refined petroleum products to Alliance at arm's length and at prevailing market prices at the time of delivery. Sales to Alliance were \$5.0 million and \$3.8 million for the three months ended March 31, 2006 and 2005, respectively.

The table below presents receivables incurred in connection with the Amended and Restated Services Agreement (or the applicable predecessor agreement, as the case may be) between Alliance and the Partnership, and receivables (payable) incurred in connection with other transactions

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with affiliates (in thousands):

	March 31, 2006		December 31, 2005	
Receivables from Alliance	\$	2,207	\$	1,748
(Payable) receivables from GPC		(36)		56
Receivables from Global GP LLC		39		202

Effective October 4, 2005, the General Partner employs substantially all of the Partnership's employees and charges the Partnership for their services. The amount charged for the three months ended March 31, 2006 was approximately \$9.0 million including payroll taxes. The Partnership also reimburses the General Partner for its contributions under the General Partner's 401(k) Savings and Profit Sharing Plan and the General Partner's Pension Plan.

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

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

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

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

On January 24, 2006, the board of directors of the General Partner declared a distribution on all common, subordinated, and general partner units for the fourth quarter of 2005, and increased the amount of said distribution by 3% over the minimum quarterly distribution, from \$0.4125 per unit to \$0.425 per unit. On February 14, 2006, the fourth quarter 2005 distribution was paid on a pro rata basis to cover the period from the closing of the Partnership's IPO on October 4, 2005 through December 31, 2005. The aggregate amount of the distribution was approximately \$4.7 million.

On April 24, 2006, the Partnership's board of directors declared a quarterly cash distribution of \$0.425 per unit for the period from January 1, 2006 through March 31, 2006 (\$1.70 per unit on an annualized basis). On May 15, 2006, the Partnership will pay a cash distribution to its common and subordinated unitholders of record as of the close of business on May 4, 2006.



**Note 10. Segment Reporting**

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

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

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

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

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

	Successor Three Months Ended March 31,	
	2006 Consolidated	Predecessor 2005 Combined
<b>Wholesale Segment:</b>		
Sales	\$ 1,196,979	\$ 1,027,162
Net product margin*		
Distillates	\$ 19,597	\$ 14,805
Gasoline	3,236	2,605
Residual oil	4,654	6,583
Total	\$ 27,487	\$ 23,993
<b>Commercial Segment:</b>		
Sales	\$ 154,044	\$ 124,917
Net product margin*	\$ 5,136	\$ 4,801
<b>Combined sales and net product margin:</b>		
Sales	\$ 1,351,023	\$ 1,152,079

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Net product margin*	\$	32,623	\$	28,794
Depreciation allocated to cost of sales		406		406
<b>Combined gross profit</b>	\$	32,217	\$	28,388

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

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

	Successor Three Months Ended March 31, 2006 Consolidated	Predecessor 2005 Combined
<b>Combined gross profit</b>	\$ 32,217	\$ 28,388
<b>Operating costs and expenses not allocated to reportable segments:</b>		
Selling, general and administrative expenses	10,572	9,590
Operating expenses	5,551	5,066
Amortization expenses	406	406
Operating income	15,688	13,326
Interest expense	2,320	2,026
Income tax expense	680	
<b>Net income</b>	\$ 12,688	\$ 11,300

There were no foreign sales for the quarters ended March 31, 2006 and 2005. The Partnership has no foreign assets.

#### Note 11. Recently Issued Accounting Standards

##### *SFAS No. 123 (revised) Share-Based Payment*

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

##### *EITF Issue No. 04-13 Accounting for Purchases and Sales of Inventory with the Same Counterparty*



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In September 2005, the EITF issued Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty ( EITF 04-13 ). The EITF concluded that inventory purchases and sales transactions with the same counterparty should be combined for accounting purposes if entered into in contemplation of each other. The EITF provided indicators to be considered for purposes of determining whether such transactions are entered into in contemplation of each other. Guidance was also provided on the circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value. EITF 04-13 is effective in reporting periods beginning after March 13, 2006. The Partnership believes the adoption of EITF 04-13 will not have a material impact to its financial condition, results of operations or cash flows as the Partnership already records exchange transactions on a combined basis.

**Note 12. Subsequent Event**

As previously announced, on May 8, 2006, the Partnership completed its acquisition of a refined petroleum products terminal in Bridgeport, Connecticut from Connecticut Petroleum Wholesalers and one of its affiliates. The terminal has storage capacity for approximately 109,000 barrels of refined products, including #2 fuel oil and low sulfur diesel, and additional products.

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

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

### Forward-Looking Statements

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

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.

Warmer weather conditions could adversely affect our results of operations and cash available for distribution to our unitholders.

Our risk management policies cannot eliminate all commodity risk. In addition, any non-compliance with our risk management policies could result in significant financial losses.

We are exposed to trade credit risk in the ordinary course of our business activities.

Due to our lack of asset and geographic diversification, adverse developments in the terminals that we use or in our operating areas could reduce our ability to make distributions to our unitholders.

We are exposed to performance risk in our supply chain.

Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to the detriment of unitholders.

Unitholders have limited voting rights and are not entitled to elect our general partner or its directors or initially to remove our general partner without its consent, which could lower the trading price of our common units.

Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

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

All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made, other than as required by law, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Overview

### *General*

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

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

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

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

### *Products and Operational Structure*

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

Our business is divided into two segments:

*Wholesale.* This segment includes sales of distillates, unbranded gasoline and residual oil to home heating oil retailers, retail gasoline station operators and wholesale distributors.

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

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

*Outlook*

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

*As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company.* We became a public company on September 28, 2005. Prior to that, we had no history operating as a public company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the New York Stock Exchange, has required changes in corporate governance practices of public companies. We also expect these new rules and regulations to make it more difficult and more expensive for our general partner to obtain director and officer liability insurance, and we may have to reduce policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage as we have obtained historically. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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

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

*Our financial results are seasonal and generally better in the first and fourth quarters of the calendar year.*

Demand for some of our refined petroleum products, specifically home heating oil and residual oil for space heating purposes, is generally higher during November through March than during April through October. We obtain a significant portion of our sales during these winter months. Therefore, our results of operations for the first and fourth calendar quarters are generally better than for the second and third quarters. With lower cash flow during the second and third calendar quarters, we may be required to borrow money in order to pay the minimum quarterly distribution to our unitholders.

*Energy efficiency, new technology and alternative fuels, natural gas in particular, could reduce demand for our products.* Increased conservation and technological advances have adversely affected the demand for home heating oil and residual oil. Consumption of residual oil has steadily declined over the last three decades. We could face additional competition from alternative energy sources as a result of future government-mandated controls or regulation further promoting the use of cleaner fuels. Due in part to support for conversion to natural gas on environmental grounds, some industrial residual oil users have switched to natural gas. Those end users who are dual-fuel users have the ability to switch between residual oil and natural gas. During a period of increasing residual oil prices relative to the prices of natural gas, dual-fuel customers may switch to natural gas, or over the long-term, may convert to natural gas. Such switching or conversion could have an adverse effect on our results of operations and financial condition.



*New, stricter environmental laws and regulations could significantly increase our costs, which could adversely affect our results of operations and financial condition.* Our operations are subject to federal, state and local laws and regulations regulating product quality specifications and other environmental matters. The trend in environmental regulation is towards more restrictions and limitations on activities that may affect the environment. Our business may be adversely affected by increased costs and liabilities resulting from such stricter laws and regulations. We try to anticipate future regulatory requirements that might be imposed and to plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance. However, there can be no assurances as to the timing and type of such changes in existing laws or the promulgation of new laws or the amount of any required expenditures associated therewith.

*Consolidation of the New England supply network.* In recent years, major terminals have been acquired and their former owners have reduced or eliminated operations in the wholesale market. The largest terminals, which form the core of the region's supply network, are still operating but are owned by fewer companies.

## **Results of Operations**

### *Evaluating Our Results of Operations*

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

### *Net Product Margin*

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

### *Gross Profit*

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

*Selling, General and Administrative Expenses*

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

*Operating Expenses*

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

*Degree Day*

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

*Adjusted Net Income Per Diluted Limited Partner Unit*

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

*EBITDA*

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

our compliance with certain financial covenants included in our debt agreements;

our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;

our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;

our operating performance and return on invested capital as compared to those of other companies in the wholesale

marketing and distribution of refined petroleum products business, without regard to financing methods and capital structure; and

the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

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

*Distributable Cash Flow*

Distributable cash flow also is an important non-GAAP financial measure for our limited partners since it serves as an indicator of our success in providing a cash return on their investment. Specifically, this financial measure indicates to investors whether or not we are generating cash flows at a level that can sustain or support an increase in our quarterly cash distribution. Distributable cash flow is also a quantitative standard used by the investment community with respect to publicly traded partnerships. However, distributable cash flow is not a generally accepted

accounting principle financial measure and should not be considered as an alternative to net income, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. In addition, our distributable cash flow may not be comparable to distributable cash flow or similarly titled measures of other companies. The generally accepted accounting measure most directly comparable to distributable cash flow is net income.

*Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005*

*During the first quarter of 2006, we experienced an increase in gross profits and margins across both our wholesale and commercial segments. Commodity prices continued to rise during the quarter. Prices for distillates, gasoline and residual oil increased approximately 12%, 18% and 29%, respectively, for the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005. Temperatures were 8.2% lower than normal as measured by aggregate heating degree days.*

The following table presents our EBITDA and distributable cash flow, our volume, sales, net product margin and gross profit by segment and information on weather conditions (gallons and dollars in thousands, except per unit data):

	Successor Three Months Ended March 31, 2006 Consolidated	Predecessor Three Months Ended March 31, 2005 Combined
Adjusted net income per diluted limited partner unit (1)	\$ 1.10	\$
EBITDA (2)	\$ 16,760	\$ 14,447
Distributable cash flow (3)	\$ 12,912	\$
<b>Wholesale Segment:</b>		
Volume (gallons)	688,484	752,388
Sales	\$ 1,196,979	\$ 1,027,162
Net product margin (4)		
Distillates	19,597	14,805
Gasoline	3,236	2,605
Residual oil	4,654	6,583
Total	\$ 27,487	\$ 23,993
<b>Commercial Segment:</b>		