

GLOBAL PARTNERS LP
Form 10-Q
May 06, 2011

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, 2011

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)

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

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or organization)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 21,580,563 common units outstanding as of May 4, 2011.

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Item 1. Financial Statements

GLOBAL PARTNERS LP
CONSOLIDATED BALANCE SHEETS

(In thousands, except unit data)

(Unaudited)

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

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per unit data)

(Unaudited)

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

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

(In thousands)

(Unaudited)

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

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

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

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

Recent Developments

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

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

The Partnership's 1.06% general partner interest (discussed in Note 8) is held by Global GP LLC, the Partnership's general partner (the General Partner). The General Partner, which is owned by affiliates of the Slifka family, manages the Partnership's operations and activities and employs its officers and substantially all of its personnel. As of March 31, 2011, affiliates of the General Partner, including its directors and executive officers, own 5,410,490 common units, representing a 25% limited partner interest.

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition and operating results for the interim periods. The interim financial information, which has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), should be read in conjunction with the consolidated financial statements for the year ended December 31, 2010 and notes thereto contained in the Partnership's Annual Report on Form 10-K. The significant accounting policies described in Note 2, Summary of Significant Accounting Policies, of such Annual Report on Form 10-K are the same used in preparing the accompanying consolidated financial statements.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation (continued)

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

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

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

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

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

Note 2. Net Income Per Limited Partner Unit

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

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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- (1) On February 8, 2011, the general partner interest was reduced to 1.06% as a result of the November 2010 and February 2011 public offerings (see Note 14). This calculation includes the effect of these public offerings and is based on a weighted average of 1.11% for the three months ended March 31, 2011.
- (2) Limited partner units outstanding exclude common units held on behalf of the Partnership pursuant to its Repurchase Program and for future satisfaction of the General Partner's Obligations (as defined in Note 12). These units are not deemed outstanding for purposes of calculating net income per limited partner unit (basic and diluted).
- (3) On March 19, 2010, the general partner interest was reduced to 1.34% as a result of the March 2010 public offering (see Note 14). This calculation includes the effect of this public offering and is based on a weighted average of 1.66% for the three months ended March 31, 2010.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3. Comprehensive Income

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

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

Note 4. Inventories

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

Inventories consisted of the following (in thousands):

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

In addition to its own inventory, the Partnership has exchange agreements with unrelated third-party suppliers, whereby it may draw inventory from these other suppliers and suppliers may draw inventory from the Partnership. Positive exchange balances are accounted for as accounts

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

Note 5. Derivative Financial Instruments

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

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

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

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

Fair Value Hedges

The fair value of the Partnership's derivatives is determined through the use of independent markets and is based upon the prevailing market prices of such instruments at the date of valuation. The Partnership enters into futures contracts for the receipt or delivery of refined petroleum products and renewable fuels in future periods. The contracts are entered into in the normal course of business to reduce risk of loss of inventory on hand, which could result through fluctuations in market prices. Changes in the fair value of these contracts, as well as the offsetting gain or loss on the hedged inventory item, are recognized in earnings as an increase or decrease in cost of sales. Ineffectiveness related to these hedging activities was immaterial for the three months ended March 31, 2011 and 2010.

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

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5. Derivative Financial Instruments (continued)

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

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

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

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

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

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

Derivatives in Fair Value Hedging Relationship	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31,	
		2011	2010
Product contracts	Cost of sales	\$ (114,809)	\$ (27)

Hedged Items in Fair Value Hedge Relationships	Location of Gain (Loss) Recognized in Income on Related Hedged Item	Amount of Gain (Loss) Recognized in Income on Hedged Items Three Months Ended March 31,	
		2011	2010
Inventories and forward fixed price contracts	Cost of sales	\$ 115,061	\$ 27

The Partnership's derivative financial instruments do not contain credit risk related to other contingent features that could cause accelerated payments when these financial instruments are in net liability positions.

The table below presents the composition and fair value of forward fixed price purchase and sale contracts on the Partnership's consolidated balance sheet being hedged by the following derivative instruments (in thousands):

	March 31, 2010	December 31, 2010
Futures contracts	\$ (1,469)	\$ (6,480)
Swaps and other, net	(727)	(735)
Total	\$ (2,196)	\$ (7,215)

The total balances of \$2.2 million and \$7.2 million reflect the fair value of the forward fixed price contract liability net of the corresponding asset in the accompanying consolidated balance sheets at March 31, 2011 and December 31, 2010, respectively.

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The Partnership has a daily margin requirement with its broker based on the prior day's market results on open futures contracts. The brokerage margin balance was \$14.6 million and \$15.5 million at March 31, 2011 and December 31, 2010, respectively.

The Partnership is exposed to credit loss in the event of nonperformance by counterparties of forward purchase and sale commitments, futures 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. The Partnership utilizes primarily one clearing broker, a major financial institution, for all New York Mercantile Exchange (NYMEX) derivative transactions and the right of offset exists. Accordingly, the fair value of all derivative instruments is presented on a net basis in the consolidated balance sheets. Exposure on forward purchase and sale commitments and swap and certain option agreements is limited to the amount of the recorded fair value as of the balance sheet dates.

The Partnership generally enters into master netting arrangements to mitigate counterparty credit risk with respect to its derivatives. Master netting arrangements are standardized contracts that govern all specified transactions with the same counterparty and allow the Partnership to terminate all contracts upon occurrence of certain events, such as a counterparty's default or bankruptcy. Because these arrangements provide the right of offset, and the Partnership's intent and practice is to offset amounts in the case of contract terminations, the Partnership records fair value of derivative positions on a net basis.

Cash Flow Hedges

The Partnership links all hedges that are designated as cash flow hedges to forecasted transactions. 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 and reclassified into interest expense in the same period during which the hedged transaction affects earnings.

The Partnership executed two zero premium interest rate collars with major financial institutions. Each collar is designated and accounted for as a cash flow hedge. The first collar, which became effective on May 14, 2007 and expires on May 14, 2011, is used to hedge the variability in interest payments due to changes in the three-month LIBOR rate with respect to \$100.0 million of three-month LIBOR-based borrowings. Under the first collar, the Partnership capped its exposure at a maximum three-month LIBOR rate of 5.75% and established a minimum floor rate of 3.75%. As of March 31, 2011, the three-month LIBOR rate of 0.31% was lower than the floor rate. As a result, in May 2011, the Partnership will remit to the respective financial institution the difference between the floor rate and the current rate which amounted to approximately \$439,300 and, at March 31, 2011, such amount was recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheet. The fair values of the first collar, excluding accrued interest, were liabilities of approximately \$0.4 million and \$1.2 million as of March 31, 2011 and December 31, 2010, respectively, and were recorded in both other long-term liabilities and accumulated other comprehensive income. Hedge effectiveness was assessed at inception and is assessed quarterly, prospectively and

retrospectively. The changes in the fair value of the first collar are expected to be highly effective in offsetting the changes in interest rate payments attributable to fluctuations in the three-month LIBOR rate above and below the first collar's strike rates.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

On September 29, 2008, the Partnership executed its second zero premium interest rate collar. The second 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 the Partnership's \$100.0 million one-month LIBOR-based borrowings (and subsequent refinancings thereof) due to changes in the one-month LIBOR rate. Under the second collar, the Partnership capped its exposure at a maximum one-month LIBOR rate of 5.50% and established a minimum floor rate of 2.70%. As of March 31, 2011, the one-month LIBOR rate of 0.26% was lower than the floor rate. As a result, in April 2011, the Partnership remitted to the respective financial institution the difference between the floor rate and the current rate which amounted to approximately \$203,250 and, at March 31, 2011, such amount was recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheet. The fair values of the second collar, excluding accrued interest, were liabilities of approximately \$4.2 million and \$4.8 million as of March 31, 2011 and December 31, 2010, respectively, and were recorded in both other long-term liabilities and accumulated other comprehensive income in the accompanying consolidated balance sheets. Hedge effectiveness was assessed at inception and is assessed quarterly, prospectively and retrospectively, using the regression analysis. The changes in the fair value of the second collar are expected to be highly effective in offsetting the changes in interest rate payments attributable to fluctuations in the one-month LIBOR rate above and below the second collar's strike rates.

In addition, in October 2009, the Partnership executed a forward starting swap with a major financial institution. The swap, which will become effective on May 16, 2011 and expire on May 16, 2016, will be 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 at a fixed rate of 3.93%. The fair values of the swap were liabilities of approximately \$7.0 million and \$7.3 million as of March 31, 2011 and December 31, 2010, respectively, and were recorded in other long-term liabilities in the accompanying consolidated balance sheets. Hedge effectiveness was assessed at inception and will be assessed quarterly, prospectively and retrospectively, using regression analysis. The changes in the fair value of the swap are expected to be highly effective in offsetting the changes in interest rate payments attributable to fluctuations in the one-month LIBOR swap curve.

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

Derivatives Designated as Hedging Instruments	Balance Sheet Location	March 31, 2011 Fair Value	December 31, 2010 Fair Value
<i>Asset derivatives</i>		\$	\$
<i>Liability derivatives</i>			
Interest rate collar	Accrued expenses and other current liabilities	\$ 407	\$
Interest rate collar	Other long-term liabilities	4,171	6,042
Forward starting swap	Other long-term liabilities	7,041	7,296
Total liability derivatives		\$ 11,619	\$ 13,338

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the amount of gains and losses from derivatives involved in cash flow hedging relationships recognized in the Partnership's consolidated statements of income and partners' equity for the three months ended March 31, 2011 and 2010 (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, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Interest rate collars	\$ 1,464	\$ (368)	\$	\$
Forward starting swap	254	(1,864)		
Total	\$ 1,718	\$ (2,232)	\$	\$

Ineffectiveness related to the interest rate collars and forward starting swap is recognized as interest expense and was immaterial for the three months ended March 31, 2011 and 2010. The effective portion related to the interest rate collars that was originally reported in other comprehensive income and reclassified to earnings was \$1.5 million for each of the three month periods ended March 31, 2011 and 2010.

Derivatives Not Involved in a Hedging Relationship

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 logistical issues inherent in the business, such as weather conditions. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for its business, the Partnership engages in a controlled trading program for up to an aggregate of 250,000 barrels of refined petroleum and renewable fuels products at any one point in time.

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 income for the three months ended March 31, 2011 and 2010 (in thousands):

Amount of Gain (Loss)
Recognized in Income

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives		on Derivatives Three Months Ended	
			March 31, 2011	March 31, 2010
Product contracts	Cost of sales	\$	1,456	\$ (522)

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 6. Debt

On January 26, 2011, the Partnership requested an increase in the working capital revolving credit facility in an amount equal to \$100.0 million, and on February 11, 2011, certain lenders under the Partnership's Amended and Restated Credit Agreement dated May 14, 2010, as amended (the Credit Agreement) committed to the \$100.0 million increase which increased the total available commitments under the Credit Agreement to \$1.25 billion. The Credit Agreement will mature on May 14, 2014.

There are two facilities under the Credit Agreement:

- a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of the Partnership's borrowing base and \$900.0 million; and
- a \$350.0 million revolving credit facility to be used for acquisitions and general corporate purposes.

In addition, the Credit Agreement has an accordion feature whereby the Partnership may request on the same terms and conditions of its then existing Credit Agreement, provided no Event of Default (as defined in the Credit Agreement) then exists, an increase to the revolving credit facility, the working capital revolving credit facility, or both, by up to another \$100.0 million, for a total credit facility of up to \$1.35 billion. Any such request for an increase by the Partnership must be in a minimum amount of \$5.0 million, and the revolving credit facility may not be increased by more than \$50.0 million. The Partnership cannot provide assurance, however, that its lending group will agree to fund any request by the Partnership for additional amounts in excess of the total available commitments of \$1.25 billion.

Availability under the Partnership's working capital revolving credit facility is subject to a borrowing base which is redetermined from time to time and based on specific advance rates on eligible current assets. Under the Credit Agreement, the Partnership's borrowings under the working capital revolving credit facility cannot exceed the then current borrowing base. Availability under the Partnership's borrowing base may be affected by events beyond the Partnership's control, such as changes in refined petroleum product prices, collection cycles, counterparty performance, advance rates and limits, and general economic conditions. These and other events could require the Partnership to seek waivers or amendments of covenants or alternative sources of financing or to reduce expenditures. The Partnership can provide no assurance that such waivers, amendments or alternative financing could be obtained or, if obtained, would be on terms acceptable to the Partnership.

During the period from January 1, 2010 through May 13, 2010, borrowings under the working capital revolving credit facility bore interest at (1) the Eurodollar rate plus 1.75% to 2.25%, (2) the cost of funds rate plus 1.75% to 2.25%, or (3) the base rate plus 0.75% to 1.25%, each depending on the pricing level provided in the previous credit agreement, which in turn depended upon the Combined Interest Coverage Ratio

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(as defined in the previous credit agreement). Borrowings under the revolving credit facility bore interest at (1) the Eurodollar rate plus 2.25% to 2.75%, (2) the cost of funds rate plus 1.75% to 2.25%, or (3) the base rate plus 0.75% to 1.25%, each depending on the pricing level provided in the previous credit agreement, which in turn depended upon the Combined Interest Coverage Ratio under the previous credit agreement.

Commencing May 14, 2010, borrowings under the working capital revolving credit facility bear interest at (1) the Eurodollar rate plus 2.50% to 3.00%,