GLOBAL PARTNERS LP
Form 10-Q
November 07, 2013
Table of Contents

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from to**

**Commission file number 001-32593**

# Global Partners LP

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.

Yes ý No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

The issuer had 27,430,563 common units outstanding as of November 5, 2013.

Table of Contents

## TABLE OF CONTENTS

Table of Contents

**Item 1. Financial Statements**

**GLOBAL PARTNERS LP**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except unit data)**

**(Unaudited)**

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 15,068 | $ 5,977 |
| Accounts receivable, net | 781,800 | 696,762 |
| Accounts receivable affiliates | 1,496 | 1,307 |
| Inventories | 402,221 | 634,667 |
| Brokerage margin deposits | 40,694 | 54,726 |
| Fair value of forward fixed price contracts | 37,001 | 48,062 |
| Prepaid expenses and other current assets | 41,591 | 65,432 |
| Total current assets | 1,319,871 | 1,506,933 |
| | | |
| Property and equipment, net | 838,424 | 712,322 |
| Intangible assets, net | 129,755 | 60,822 |
| Goodwill | 58,890 | 32,326 |
| Other assets | 17,701 | 17,349 |
| Total assets | $ 2,364,641 | $ 2,329,752 |
| | | |
| **Liabilities and partners equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 769,693 | $ 759,698 |
| Working capital revolving credit facility current portion | | 83,746 |
| Term loan | 115,000 | |
| Environmental liabilities current portion | 4,271 | 4,341 |
| Trustee taxes payable | 75,891 | 91,494 |
| Accrued expenses and other current liabilities | 46,403 | 71,442 |
| Obligations on forward fixed price contracts | 38,885 | 34,474 |
| Total current liabilities | 1,050,143 | 1,045,195 |
| | | |
| Working capital revolving credit facility less current portion | 300,300 | 340,754 |
| Revolving credit facility | 399,700 | 422,000 |
| Senior notes | 68,163 | |
| Environmental liabilities less current portion | 37,651 | 39,831 |
| Other long-term liabilities | 44,454 | 45,511 |
| Total liabilities | 1,900,411 | 1,893,291 |
| | | |
| **Partners equity** | | |
| Global Partners LP equity: | | |
| Common unitholders (27,430,563 units issued and 27,268,247 outstanding at September 30, 2013 and 27,430,563 units issued and 27,310,648 outstanding at December 31, 2012) | 427,929 | 456,538 |

| | | | | |
|---|---|---|---|---|
| General partner interest (0.83% interest with 230,303 equivalent units outstanding at September 30, 2013 and December 31, 2012) | | (335) | | (407) |
| Accumulated other comprehensive loss | | (13,877) | | (19,670) |
| Total Global Partners LP equity | | 413,717 | | 436,461 |
| Noncontrolling interest | | 50,513 | | |
| Total partners equity | | 464,230 | | 436,461 |
| Total liabilities and partners equity | $ | 2,364,641 | $ | 2,329,752 |

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

1

Table of Contents

**GLOBAL PARTNERS LP**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In thousands, except per unit data)**

**(Unaudited)**

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|---|---|
| Sales | $ 4,433,426 | $ 4,617,194 | $ 14,794,372 | $ 12,508,738 |
| Cost of sales | 4,337,146 | 4,534,574 | 14,504,383 | 12,280,124 |
| Gross profit | 96,280 | 82,620 | 289,989 | 228,614 |
| Costs and operating expenses: | | | | |
| Selling, general and administrative expenses | 29,086 | 24,105 | 82,923 | 70,608 |
| Operating expenses | 46,713 | 40,196 | 137,420 | 100,692 |
| Amortization expense | 6,676 | 1,511 | 16,729 | 5,373 |
| Total costs and operating expenses | 82,475 | 65,812 | 237,072 | 176,673 |
| Operating income | 13,805 | 16,808 | 52,917 | 51,941 |
| Interest expense | (9,111) | (9,237) | (27,051) | (27,705) |
| Income before income tax expense | 4,694 | 7,571 | 25,866 | 24,236 |
| Income tax expense | (2,727) | (678) | (852) | (228) |
| Net income | 1,967 | 6,893 | 25,014 | 24,008 |
| Net loss attributable to noncontrolling interest | 1,440 | | 1,912 | |
| Net income attributable to Global Partners LP | 3,407 | 6,893 | 26,926 | 24,008 |
| Less: General partner s interest in net income, including incentive distribution rights | (856) | (316) | (2,458) | (733) |
| Limited partners interest in net income | $ 2,551 | $ 6,577 | $ 24,468 | $ 23,275 |
| Basic net income per limited partner unit | $ 0.09 | $ 0.24 | $ 0.89 | $ 0.89 |
| Diluted net income per limited partner unit | $ 0.09 | $ 0.24 | $ 0.89 | $ 0.89 |
| Basic weighted average limited partner units outstanding | 27,333 | 27,311 | 27,350 | 26,085 |
| Diluted weighted average limited partner units outstanding | 27,333 | 27,485 | 27,350 | 26,258 |

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

Table of Contents

**GLOBAL PARTNERS LP**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|---|---|
| Net income | $ 1,967 | $ 6,893 | $ 25,014 | $ 24,008 |
| Other comprehensive income: | | | | |
| Change in fair value of cash flow hedges | (945) | 515 | 2,577 | 1,204 |
| Change in pension liability | 1,191 | 373 | 3,216 | 581 |
| Total other comprehensive income | 246 | 888 | 5,793 | 1,785 |
| Comprehensive income | 2,213 | 7,781 | 30,807 | 25,793 |
| Comprehensive loss attributable to noncontrolling interest | 1,440 | | 1,912 | |
| Comprehensive income attributable to Global Partners LP | $ 3,653 | $ 7,781 | $ 32,719 | $ 25,793 |

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

Table of Contents

**GLOBAL PARTNERS LP**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 25,014 | $ 24,008 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 58,942 | 32,663 |
| Amortization of deferred financing fees | 5,062 | 4,106 |
| Amortization of senior notes discount | 263 | |
| Bad debt expense | 1,659 | 270 |
| Stock-based compensation expense | 955 | (20) |
| Gain on disposition of property and equipment | (1,444) | (162) |
| Curtailment gain | | (469) |
| Changes in operating assets and liabilities, exclusive of business combinations: | | |
| Accounts receivable | (84,398) | (40,237) |
| Accounts receivable affiliate | (189) | 499 |
| Inventories | 232,577 | 81,839 |
| Broker margin deposits | 14,032 | 13,663 |
| Prepaid expenses, all other current assets and other assets | 18,589 | 264 |
| Accounts payable | 7,241 | 91,708 |
| Trustee taxes payable | (15,603) | (7,515) |
| Change in fair value of forward fixed price contracts | 15,472 | (25,450) |
| Accrued expenses, all other current liabilities and other long-term liabilities | (24,060) | 14,533 |
| Net cash provided by operating activities | 254,112 | 189,700 |
| | | |
| **Cash flows from investing activities** | | |
| Acquisitions | (185,262) | (181,898) |
| Capital expenditures | (46,935) | (30,907) |
| Proceeds from sale of property and equipment | 5,769 | 6,610 |
| Net cash used in investing activities | (226,428) | (206,195) |
| | | |
| **Cash flows from financing activities** | | |
| Payments on working capital revolving credit facility | (124,200) | (161,800) |
| (Payments on) borrowings from revolving credit facility | (22,300) | 217,000 |
| Borrowings from term loan | 115,000 | |
| Proceeds from senior notes, net of discount | 67,900 | |
| Repurchase of common units | (4,331) | (2,152) |
| Repurchased units withheld for tax obligations | (2,086) | (96) |
| Noncontrolling interest capital contribution | 1,425 | |
| Distributions to partners | (50,001) | (39,712) |
| Net cash (used in) provided by financing activities | (18,593) | 13,240 |
| | | |
| Increase (decrease) in cash and cash equivalents | 9,091 | (3,255) |
| Cash and cash equivalents at beginning of period | 5,977 | 4,328 |
| Cash and cash equivalents at end of period | $ 15,068 | $ 1,073 |

| | | | | |
|---|---|---|---|---|
| **Supplemental information** | | | | |
| Cash paid during the period for interest | $ | 26,002 | $ | 27,720 |
| **Non-cash investing activities** (see Note 17) | | | | |

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

Table of Contents

**GLOBAL PARTNERS LP**

**CONSOLIDATED STATEMENTS OF PARTNERS EQUITY**

**(In thousands)**

**(Unaudited)**

| | Common Unitholders | General Partner Interest | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Partners Equity |
|---|---|---|---|---|---|
| **Balance at December 31, 2012** | $ 456,538 | $ (407) | $ (19,670) | $ | $ 436,461 |
| Net income (loss) | 24,468 | 2,458 | | (1,912) | 25,014 |
| Acquisition of noncontrolling interest, at fair value | | | | 51,000 | 51,000 |
| Noncontrolling interest capital contribution | | | | 1,425 | 1,425 |
| Other comprehensive income | | | 5,793 | | 5,793 |
| Stock-based compensation | 955 | | | | 955 |
| Distributions to partners | (47,731) | (2,386) | | | (50,117) |
| Repurchase of common units | (4,331) | | | | (4,331) |
| Repurchased units withheld for tax obligation | (2,086) | | | | (2,086) |
| Phantom unit dividends | 116 | | | | 116 |
| **Balance at September 30, 2013** | $ 427,929 | $ (335) | $ (13,877) | $ 50,513 | $ 464,230 |

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

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Organization***

Global Partners LP (the Partnership ) is a publicly traded Delaware master limited partnership formed in March 2005. As of September 30, 2013, the Partnership had the following wholly owned subsidiaries: Global Companies LLC, Glen Hes Corp., Global Montello Group Corp. ( GMG ), Chelsea Sandwich LLC, Global Energy Marketing LLC, Alliance Energy LLC, Bursaw Oil LLC, GLP Finance Corp., Global Energy Marketing II LLC, Global CNG LLC and Cascade Kelly Holdings LLC. Global GP LLC, the Partnership s general partner (the General Partner ) manages the Partnership s operations and activities and employs its officers and substantially all of its personnel, except for its gasoline station and convenience store employees and certain union personnel who are employed by GMG.

The Partnership is a midstream logistics and marketing company. The Partnership is one of the largest distributors of gasoline (including gasoline blendstocks such as ethanol and naphtha), distillates (such as home heating oil, diesel and kerosene), residual oil and renewable fuels to wholesalers, retailers and commercial customers in the New England states and New York. The Partnership also engages in the purchasing, selling and logistics of transporting domestic and Canadian crude oil and other products via rail, establishing a virtual pipeline from the mid-continent region of the United States and Canada to the East and West Coasts for distribution to refiners and other customers. The Partnership owns, controls or has access to one of the largest terminal networks of refined petroleum products and renewable fuels in Massachusetts, Maine, Connecticut, Vermont, New Hampshire, Rhode Island, New York, New Jersey and Pennsylvania (collectively, the Northeast ). The Partnership also owns and controls terminals in North Dakota and Oregon that extend its origin-to-destination capabilities. The Partnership is a major multi-brand gasoline distributor and, as of September 30, 2013, had a portfolio of approximately 900 owned, leased and/or supplied gasoline stations primarily in the Northeast. The Partnership receives revenue from retail sales of gasoline, convenience store sales and gasoline station rental income. The Partnership is also a distributor of natural gas and propane. In addition, the Partnership provides ancillary services to companies and receives revenue from these ancillary services.

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

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

The General Partner, which holds a 0.83% general partner interest in the Partnership, is owned by affiliates of the Slifka family. As of September 30, 2013, affiliates of the General Partner, including its directors and executive officers, owned 11,548,902 common units, representing a 42.1% limited partner interest.

***Basis of Presentation***

The financial results of Basin Transload for the eight months ended September 30, 2013 and of Cascade Kelly for the seven and one-half months ended September 30, 2013 are included in the accompanying statements of income for the nine months ended September 30, 2013. The Partnership consolidated the September 30, 2013 balance sheet of Basin Transload because the Partnership controls the entity. The accompanying consolidated financial statements as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 reflect the accounts of the Partnership. All intercompany balances and transactions have been eliminated.

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition and operating results for the interim periods. The interim financial information, which has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ), should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012 and notes thereto contained in the Partnership s Annual Report on Form 10-K. The significant accounting policies described in Note 2, Summary of Significant Accounting Policies, of such Annual Report on Form 10-K are the same used in preparing the accompanying consolidated financial statements.

The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2013. The consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2012.

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

***Noncontrolling Interest***

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

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

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Concentration of Risk***

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Gasoline sales: gasoline and gasoline blendstocks such as ethanol and naphtha | 65% | 76% | 59% | 70% |
| Distillates (home heating oil, diesel and kerosene), residual oil, crude oil, natural gas and propane sales | 35% | 24% | 41% | 30% |
| Total | 100% | 100% | 100% | 100% |

The Partnership had two significant customers, ExxonMobil Corporation ( ExxonMobil ) and Phillips 66 ( Phillips 66 ), which accounted for approximately 18% and 11%, respectively, of total sales for the three months ended September 30, 2013, and approximately 15% and 14% respectively, of total sales for the nine months ended September 30, 2013. The Partnership had one significant customer, ExxonMobil, which accounted for approximately 16% and 16% of total sales for the three and nine months ended September 30, 2012, respectively.

**Note 2. Business Combinations**

***2013 Acquisitions***

***Acquisition of Basin Transload LLC***

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

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

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

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 2. Business Combinations (continued)**

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

| | | |
|---|---|---|
| Assets purchased: | | |
| Accounts receivable | $ | 2,003 |
| Prepaid expenses | | 68 |
| Property and equipment | | 29,112 |
| Intangibles | | 85,662 |
| Total identifiable assets purchased | | 116,845 |
| Liabilities assumed: | | |
| Accounts payable | | (1,326) |
| Total liabilities assumed | | (1,326) |
| Net identifiable assets acquired | | 115,519 |
| Noncontrolling interest | | (51,000) |
| Goodwill | | 26,564 |
| Net assets acquired | $ | 91,083 |

Management is in the process of finalizing the purchase price accounting. The Partnership engaged a third-party valuation firm to assist in the valuation of the Partnership s interest in Basin Transload s property and equipment, intangible assets and noncontrolling interest. During the quarter ended September 30, 2013, the Partnership recorded certain changes to the preliminary purchase accounting, primarily related to the values assigned to property and equipment, intangibles and the noncontrolling interest based on a preliminary valuation received from a third-party valuation firm. The impact of these changes increased goodwill from $24.1 million at June 30, 2013 to $26.5 million at September 30, 2013.

The Partnership s third party valuation firm primarily used the replacement cost methodology to value property and equipment, adjusted for depreciation associated with the age and estimated condition of the assets. The income approach was used to value the intangible assets, which consist principally of customer relationships.

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

The fair values of the remaining Basin Transload assets and liabilities noted above approximate their carrying values at February 1, 2013. The Partnership is completing its review of the preliminary values received from the third-party valuation firm with a particular emphasis on assessing the appropriate number of years of cash flows used to value the intangible assets given the nature of the industry. It is possible that once the Partnership receives the completed valuations on the property and equipment, intangible assets and noncontrolling interest, the final purchase price accounting may be different than what is presented above.

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

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 2. Business Combinations (continued)**

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

As part of the purchase price allocation, identifiable intangible assets include customer relationships that are being amortized over five years. Amortization expense amounted to $4.9 million and $11.4 million for the three and nine months ended September 30, 2013, respectively. The estimated remaining amortization expense for intangible assets acquired in connection with the acquisition for each of the five succeeding years and thereafter is as follows (in thousands):

| | | |
|---|---|---|
| 2013 (10/1/13 12/31/13) | $ | 4,275 |
| 2014 | | 17,100 |
| 2015 | | 17,100 |
| 2016 | | 17,100 |
| 2017 | | 17,100 |
| Thereafter | | 1,425 |
| Total | $ | 74,100 |

The $26.5 million of goodwill was assigned to the Wholesale reporting unit. The goodwill recognized is attributed to the unique origin of the acquired locations through which the Partnership s customers can efficiently supply cost-competitive crude oil to destinations on the East and West Coasts. The goodwill is deductible for income tax purposes.

***Acquisition of Cascade Kelly Holdings LLC***

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

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

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

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 2. Business Combinations (continued)**

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

| | | |
|---|---|---|
| Assets purchased: | | |
| Accounts receivable | $ | 296 |
| Inventory | | 131 |
| Prepaid expenses | | 96 |
| Property and equipment | | 96,591 |
| Total identifiable assets purchased | | 97,114 |
| Liabilities assumed: | | |
| Accounts payable | | (1,428) |
| Other current liabilities | | (1,507) |
| Total liabilities assumed | | (2,935) |
| Net identifiable assets acquired | $ | 94,179 |

Management is in the process of finalizing the purchase price accounting. The Partnership engaged a third-party valuation firm to assist in the valuation of Cascade Kelly s property and equipment, and the preliminary estimate of fair value is $96.6 million. During the quarter ended September 30, 2013, the Partnership recorded certain changes to the preliminary purchase accounting, primarily related to the values assigned to property and equipment based on a preliminary valuation received from a third-party valuation firm. The impact of these changes decreased goodwill from $51.1 million at June 30, 2013 to $0 at September 30, 2013.

During the preliminary stage of evaluating the purchase price accounting, the estimated fair value of property and equipment developed by management and used in the determination of the acquisition price was based on management s acquisition history and on the crude oil facility. In the third quarter, the Partnership s third-party valuation firm completed inspections of the crude oil and ethanol fixed assets and prepared a preliminary valuation which began with quantifying the replacement cost of the acquired assets. The level of physical depreciation and other forms of depreciation was then quantified and deducted from the replacement cost to arrive at the fair value of the assets. The impact of the valuation was to increase property and equipment by $51.5 million. Management attributed the increase to the completion of the valuation by the third-party valuation firm, which concluded that the fair value of the ethanol assets is more favorable than originally anticipated. The Partnership continues to review the assumptions used in valuing the crude oil and ethanol fixed assets, with a particular focus on the adjustments made between replacement cost and fair value.

The Partnership expects to make the capital improvements necessary to place the ethanol plant into service; therefore, as of September 30, 2013, the fair value of the ethanol plant is included in construction in process. After the plant has been successfully placed into service, depreciation will commence.

It is possible that once the Partnership receives the completed valuations on the property and equipment, the final purchase price accounting may be different than what is presented above.

The fair values of the remaining Cascade Kelly assets and liabilities noted above approximate their carrying values at February 15, 2013.

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

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 2. Business Combinations (continued)**

***2012 Acquisition***

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

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

The purchase price includes cash consideration of $181.9 million which was funded by the Partnership through additional borrowings under its revolving credit facility. The consideration also includes the issuance of 5,850,000 common units representing limited partner interests in the Partnership which had a fair value of $22.31 per unit on March 1, 2012, resulting in equity consideration of $130.5 million.

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

***Goodwill*** The following table presents a summary roll forward of the Partnership s goodwill at September 30, 2013 (in thousands):

| | Goodwill at December 31, 2012 | 2013 Additions | Goodwill at September 30, 2013 |
|---|---|---|---|
| Acquisition of Alliance (1) | $ 31,151 | $ | $ 31,151 |
| | 1,175 | | 1,175 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Acquisition of gasoline stations from Mutual Oil Company (1) | | | | | | |
| Acquisition of 60% interest in Basin Transload (2) | | | | 26,564 | | 26,564 |
| Total | $ | 32,326 | $ | 26,564 | $ | 58,890 |

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

(2) Goodwill allocated to the Wholesale reporting unit

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## Note 2. Business Combinations (continued)

***Supplemental Pro-Forma Information*** Revenues and net income included in the Partnership s consolidated operating results for Basin Transload from January 1, 2013 to February 1, 2013, the acquisition date, and for Cascade Kelly from January 1, 2013 to February 15, 2013, the acquisition date, were immaterial. Accordingly, the supplemental pro-forma information for the nine months ended September 30, 2013 is consistent with the amounts reported in the accompanying statement of income for the nine months ended September 30, 2013.

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

| | | Nine Months Ended September 30, 2012 |
|---|---|---|
| Sales | $ | 12,758,170 |
| Net loss | $ | (4,194) |
| Net loss per limited partner unit, basic and diluted | $ | (0.17) |

The Partnership s 60% interest in Basin Transload s sales and net loss included in the Partnership s consolidated operating results from February 1, 2013, the acquisition date, through the period ended September 30, 2013 were $6.4 million and $2.9 million, respectively. Cascade Kelly s sales and net loss included in the Partnership s consolidated operating results from February 15, 2013, the acquisition date, through the period ended September 30, 2013 were $7.7 million and $1.3 million, respectively.

## Note 3. 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 unitholders, or limited partners interest, and to the General Partner s general partner interest.

At September 30, 2013 and December 31, 2012, common units outstanding as reported in the accompanying consolidated financial statements excluded 162,316 and 119,915 common units, respectively, held on behalf of the Partnership pursuant to its repurchase program (see Note 12). These units are not deemed outstanding for purposes of calculating net income per limited partner unit (basic and diluted).

Table of Contents

**GLOBAL PARTNERS LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 3. 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 and nine months ended September 30, 2013 and 2012 (in thousands, except per unit data):

| | Three Months Ended September 30, 2013 | | | | Three Months Ended September 30, 2012 |
|---|---|---|---|---|---|
| **Numerator:** | **Total** | **Limited Partner Interest** | **General Partner Interest** | **IDRs** | **Total** |