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 (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.

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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.

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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.

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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.

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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.

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF PARTNERS EQUITY

(In thousands)

(Unaudited)

	Common Unitholders	General Partner Interest	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Partners Equity
Balance at December 31, 2012	$ 456,538	$ (407)	$ (19,670)	$	$ 436,461
Net income (loss)	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.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

Global Partners LP (the Partnership) is a publicly traded Delaware master limited partnership formed in March 2005. As of 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.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation (continued)

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

The results of operations for the three 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.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation (continued)

Concentration of Risk

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

	Three Months Ended 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.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

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

Assets purchased:		
Accounts receivable	$	2,003
Prepaid expenses		68
Property and equipment		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.

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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.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

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

Assets purchased:		
Accounts receivable	$	296
Inventory		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.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

2012 Acquisition

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

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

The purchase price includes 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

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2. Business Combinations (continued)

Supplemental Pro-Forma Information Revenues and net income included in the Partnership s consolidated operating results for Basin Transload from 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).

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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**	**Limited Partner Interest**	**General Partner Interest**	**IDRs**
Net income attributable to Global Partners LP	$ 3,407	$ 2,551	$ 856	$	$ 6,893	$ 6,577	$ 316	$
Declared distribution	$ 17,425	$ 16,459	$ 138	$ 828	$ 15,019	$ 14,607	$ 122	$ 290
Assumed allocation of undistributed net income	(14,018)	(13,908)	(110)		(8,126)	(8,030)	(96)	
Assumed allocation of net income	$ 3,407	$ 2,551	$ 28	$ 828	$ 6,893	$ 6,577	$ 26	$ 290
Denominator:								
Basic weighted average limited partner units outstanding		27,333				27,311		
Dilutive effect of phantom units						174		
Diluted weighted average limited partner units outstanding		27,333				27,485		
Basic net income per limited partner unit		$ 0.09				$ 0.24		
Diluted net income per limited partner unit (1)		$ 0.09				$ 0.24		

(1) Basic units were used to calculate diluted net income per limited partner unit for the three months ended September 30, 2013 as using the effects of the phantom units would have an anti-dilutive effect on income per limited partner unit.

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

	Nine Months Ended September 30, 2013				Nine Months Ended September 30, 2012			
Numerator:	**Total**	**Limited Partner Interest**	**General Partner Interest**	**IDRs**	**Total**	**Limited Partner Interest**	**General Partner Interest**	**IDRs**
Net income attributable to Global Partners LP (1)	$ 26,926	$ 24,468	$ 2,458	$	$ 24,008	$ 23,275	$ 733	$
Declared distribution	$ 51,196	$ 48,554	$ 407	$ 2,235	$ 43,786	$ 42,724	$ 358	$ 704
Adjustment to distribution in connection with the Alliance acquisition (2)					(1,929)	(1,929)		
Adjusted declared distribution	51,196	48,554	407	2,235	41,857	40,795	358	704
Assumed allocation of undistributed net income	(24,270)	(24,086)	(184)		(17,849)	(17,520)	(329)	
Assumed allocation of net income	$ 26,926	$ 24,468	$ 223	$ 2,235	$ 24,008	$ 23,275	$ 29	$ 704
Denominator:								
Basic weighted average limited partner units outstanding		27,350				26,085		
Dilutive effect of phantom units						173		
Diluted weighted average limited partner units outstanding		27,350				26,258		
Basic net income per limited partner unit		$ 0.89				$ 0.89		
Diluted net income per limited partner unit (3)		$ 0.89				$ 0.89		

(1) Calculation includes the effect of the March 1, 2012 issuance of 5,850,000 common units in connection with the acquisition of Alliance. As a result, the general partner interest was 0.83% for the nine months ended September 30, 2013 and, based on a weighted average, 0.87% for the nine months ended September 30, 2012.

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

(3) Basic units were used to calculate diluted net income per limited partner unit for the nine months ended September 30, 2013 as using the effects of the phantom units would have an anti-dilutive effect on income per limited partner unit.

On April 24, 2013, the board of directors of the General Partner declared a quarterly cash distribution of $0.5825 per unit for the period from January 1, 2013 through March 31, 2013. On July 23, 2013, the board of directors of the General Partner declared a quarterly cash distribution of $0.5875 per unit for the period from April 1, 2013 through June 30, 2013. On October 23, 2013, the board of directors of the General Partner declared a quarterly cash distribution of $0.60 per unit for the period from July 1, 2013 through September 30, 2013. These declared cash distributions result in incentive distributions to the General Partner, as the holder of the IDRs, and enable the Partnership to exceed its second target level distribution with respect to such IDRs. See Note 8, Cash Distributions for further information.

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Note 4. Inventories

Except for its convenience store inventory, the Partnership hedges substantially all of its inventory, primarily through futures contracts. These futures contracts are entered into when inventory is purchased and are designated as fair value hedges against the inventory on a specific barrel basis. Changes in the fair value of these contracts, as well as the offsetting gain or loss on the hedged inventory item, are recognized in earnings as an increase or decrease in cost of sales. All hedged inventory is valued using the lower of cost, as determined by specific identification, or market. Prior to sale, hedges are removed from specific barrels of inventory, and the then unhedged inventory is sold and accounted for on a first-in, first-out basis. In addition, the Partnership has convenience store inventory which is carried at the lower of historical cost or market. Inventory from Cascade Kelly was nominal at September 30, 2013 and is carried at the lower of cost or market.

Inventories consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Distillates: home heating oil, diesel and kerosene	$ 165,561	$ 235,029
Gasoline	82,061	144,269
Gasoline blendstocks	47,538	139,316
Crude oil	60,837	80,273
Residual oil	36,649	29,150
Propane and other	2,411	
Convenience store inventory	7,164	6,630
Total	$ 402,221	$ 634,667

In addition to its own inventory, the Partnership has exchange agreements for petroleum products with unrelated third-party suppliers, whereby it may draw inventory from these other suppliers and suppliers may draw inventory from the Partnership. Positive exchange balances are accounted for as accounts receivable and amounted to $203.8 million and $120.9 million at September 30, 2013 and December 31, 2012, respectively. Negative exchange balances are accounted for as accounts payable and amounted to $195.0 million and $139.5 million at September 30, 2013 and December 31, 2012, respectively. Exchange transactions are valued using current carrying costs.

Note 5. Derivative Financial Instruments

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

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Note 5. Derivative Financial Instruments (continued)

The following table presents the volume of activity related to the Partnership s derivative financial instruments at September 30, 2013:

		Units (1)	Unit of Measure
Futures Contracts			
Long		19,639	Thousands of barrels
Short		(23,968)	Thousands of barrels
Natural Gas Contracts			
Long		7,481	Thousands of decatherms
Short		(7,481)	Thousands of decatherms
Interest Rate Collar	$	100.0	Millions of U.S. dollars
Interest Rate Swap	$	100.0	Millions of U.S. dollars
Interest Rate Cap	$	100.0	Millions of U.S. dollars
Foreign Currency Derivatives			
Open Forward Exchange Contracts (2)	$	23.8	Millions of Canadian dollars
	$	23.1	Millions of U.S. dollars

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

(2) All-in forward rate Canadian dollars (CAD) $1.0311 to USD $1.00.

Fair Value Hedges

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

The Partnership s futures contracts are settled daily; therefore, there was no corresponding asset or liability on the Partnership s consolidated balance sheet related to these contracts at September 30, 2013 and December 31, 2012. These contracts remain open until their contract end date. The daily settlement of these futures contracts is accomplished through the use of brokerage margin deposit accounts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 5. Derivative Financial Instruments (continued)

The following table presents the hedge ineffectiveness from derivatives involved in fair value hedging relationships recognized in the Partnership s consolidated statements of income for the three and nine months ended September 30, 2013 and 2012 (in thousands):

		Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Fair Value Hedging Relationships	**Location of Gain (Loss) Recognized in Income on Derivative**	**2013**	**2012**	**2013**	**2012**
Futures contracts	Cost of sales	$ (4,348)	$ (100,666)	$ 15,753	$ (110,114)

		Amount of Gain (Loss) Recognized in Income on Hedged Items			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Hedged Items in Fair Value Hedged Relationships	**Location of Gain (Loss) Recognized in Income on Hedged Items**	**2013**	**2012**	**2013**	**2012**
Inventories	Cost of sales	$ 4,545	$ 100,765	$ (15,033)	$ 110,368

Cash Flow Hedges

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

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

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

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

In September 2013, the Partnership executed a forward interest rate swap with a major financial institution. The swap, which became effective on October 2, 2013 and expires on October 2, 2018, is used to hedge the variability in cash flows in monthly interest payments due to changes in the one-month LIBOR swap curve with respect to $100.0 million of one-month LIBOR-based borrowings on the credit facility at a fixed rate of 1.819%. This swap will essentially replace the interest rate collar which expired on October 2, 2013.

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Note 5. Derivative Financial Instruments (continued)

The following table presents the fair value of the Partnership s derivative instruments involved in cash flow hedging relationships and their location in the Partnership s consolidated balance sheets at September 30, 2013 and December 31, 2012 (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	September 30, 2013 Fair Value	December 31, 2012 Fair Value
Asset derivatives			
Interest rate cap	Other assets	$ 49	$ 35
Liability derivatives			
Interest rate collar	Other long-term liabilities	$ 6	$ 1,868
Interest rate swap	Other long-term liabilities	10,833	11,534
Total liability derivatives		$ 10,839	$ 13,402

The following table presents the amount of net 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 and nine months ended September 30, 2013 and 2012 (in thousands):

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives Three Months Ended September 30,		Recognized in Income on Derivatives (Ineffectiveness Portion and Amount Excluded from Effectiveness Testing) Three Months Ended September 30,		Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives Nine Months Ended September 30,		Recognized in Income on Derivatives (Ineffectiveness Portion and Amount Excluded from Effectiveness Testing) Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Interest rate collar	$ 635	$ 481	$	$	$ 1,861	$ 1,341	$	$
Interest rate swap	(1,538)	78			701	133		
Interest rate cap	(42)	(44)			15	(270)		
Total	$ (945)	$ 515	$	$	$ 2,577	$ 1,204	$	$

Ineffectiveness related to the interest rate collar and the interest rate swap is recognized as interest expense and was immaterial for the three and nine months ended September 30, 2013 and 2012. The effective portion related to the interest rate collar that was originally reported in other comprehensive income and reclassified to earnings was $0.6 million for each of the three months ended September 30, 2013 and 2012, and

$1.9 million for each of the nine months ended September 30, 2013 and 2012. None of the effective portion related to the interest rate cap that was originally reported in other comprehensive income was reclassified into earnings for the three and nine months ended September 30, 2013 and 2012.

Other Derivative Activity

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

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Note 5. Derivative Financial Instruments (continued)

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

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

During the three and nine months ended September 30, 2013, the Partnership entered into forward currency contracts to hedge certain foreign denominated (Canadian) product purchases. These forward contracts are not designated and are reflected in the consolidated balance sheet. Changes in the fair values of these forward currency contracts are reflected in cost of sales.

Similar to the futures contracts used by the Partnership to hedge its inventory, the Partnership s futures contracts are settled daily and, accordingly, there was no corresponding asset or liability in the Partnership s consolidated balance sheets related to these contracts at September 30, 2013 and December 31, 2012. These contracts remain open until their contract end date. The daily settlement of these futures contracts is accomplished through the use of brokerage margin deposit accounts.

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Note 5. Derivative Financial Instruments (continued)

The following table summarizes the derivatives not designated by the Partnership as either fair value hedges or cash flow hedges and their respective fair values and location in the Partnership s consolidated balance sheets at September 30, 2013 and December 31, 2012 (in thousands):

Summary of Other Derivatives	Item Pertains to	Balance Sheet Location	September 30, 2013 Fair Value	December 31, 2012 Fair Value
Asset Derivatives				
Forward purchase commitments	Gasoline and Gasoline Blendstocks	(1)	$ 10,328	$ 131
	Crude Oil	(1)	957	15,127
	Residual Oil	(1)		285
Total forward purchase commitments			11,285	15,543
Forward sales commitments	Gasoline and Gasoline Blendstocks	(1)	13,649	30,928
	Distillates	(1)	3,938	
	Crude Oil	(1)	5,874	
	Natural Gas	(1)	2,255	1,591
Total forward sales commitments			25,716	32,519
Total forward fixed price contracts			37,001	48,062
Foreign currency forward contract	Foreign Denominated Sales	(2)		145
Total asset derivatives			$ 37,001	$ 48,207
Liability Derivatives				
Forward purchase commitments	Gasoline and Gasoline Blendstocks	(3)	$ 12,226	$ 27,604
	Residual Oil	(3)	268	
	Distillates	(3)	3,888	2,171
	Crude Oil	(3)	5,243	
	Natural Gas	(3)	2,233	1,576
	Propane	(3)	768	
Total forward purchase commitments			24,626	31,351
Forward sales commitments	Gasoline and Gasoline Blendstocks	(3)	12,675	173
	Distillates	(3)	1,529	2,950
	Crude Oil	(3)	55	
Total forward sales commitments			14,259	3,123
Total obligations on forward fixed price contracts			38,885	34,474
Foreign currency forward contract	Foreign Denominated Sales	(4)	58	
Total liability derivatives			$ 38,943	$ 34,474

(1) Fair value of forward fixed price contracts

(2) Prepaid expenses and other current assets

(3) Obligations on forward fixed price contracts

(4) Accrued expenses and other current liabilities

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Note 5. Derivative Financial Instruments (continued)

The following table presents the amount of gains and losses from derivatives not involved in a hedging relationship recognized in the Partnership s consolidated statements of income for the three and nine months ended September 30, 2013 and 2012 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2013	2012	Amount of Gain (Loss) Recognized in Income on Derivatives Nine Months Ended September 30, 2013	2012
Product contracts	Cost of sales	$ 4,576	$ 11,062	$ 8,223	$ 15,666
Foreign currency contracts	Cost of sales	(437)	160	(203)	121
Total		$ 4,139	$ 11,222	$ 8,020	$ 15,787

Credit Risk

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

Note 6. Debt

Credit Agreement

The Partnership entered into an Amended and Restated Credit Agreement dated May 14, 2010, as amended (the Credit Agreement). Total available commitments under the Credit Agreement are $1.615 billion. The Credit Agreement will mature on May 14, 2015.

As of September 30, 2013, there were 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 the Partnership s borrowing base and $1.0 billion;

- a $500.0 million revolving credit facility to be used for acquisitions and general corporate purposes; and

- a $115.0 million term loan that will mature on January 31, 2014.

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 working capital revolving credit facility, the revolving credit facility or both by up to another $250.0 million, in the aggregate, for a total credit facility of up to $1.865 billion. Any such request for an increase by the Partnership must be in a minimum amount of $5.0 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 $1.615 billion.

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Note 6. Debt (continued)

In addition, the Credit Agreement includes a swing line pursuant to which Bank of America, N.A., as the swing line lender, may make swing line loans in an aggregate amount equal to the lesser of (a) $35.0 million and (b) the Aggregate WC Commitments (as defined in the Credit Agreement). Swing line loans will bear interest at the Base Rate (as defined in the Credit Agreement). The swing line is a sub-portion of the working capital revolving credit facility and is not an addition to the total available commitments of $1.615 billion.

Pursuant to the Credit Agreement, and in connection with any agreement by and between a Loan Party and a Lender (as such terms are defined in the Credit Agreement) or affiliate thereof (an AR Buyer), a Loan Party may sell certain of its accounts receivables to an AR Buyer (the Receivables Sales Agreement). Also pursuant to the Credit Agreement, the Loan Parties are permitted to sell or transfer any account receivable to an AR Buyer only to the extent that (i) no Default or Event of Default (as such terms are defined in the Credit Agreement) has occurred and is continuing or would exist after giving effect to any such sale or transfer; (ii) such accounts receivable are sold for cash; (iii) the cash purchase price to be paid to the selling Loan Party for each account receivable is not less than the amount of credit such Loan Party would have been able to get for such account receivable had such account receivable been included in the Borrowing Base (as defined in the Credit Agreement) or, to the extent such account receivable is not otherwise eligible to be included in the Borrowing Base, then the cash purchase price to be paid is not less than 85% of the face amount of such account receivable; (iv) such account receivable is sold pursuant to a Receivables Sales Agreement; (v) the Loan Parties have complied with the notice requirement set forth in the Credit Agreement; (vi) neither the AR Buyer nor the Administrative Agent has delivered any notice of a termination event; (vii) the aggregate amount of the accounts receivable sold to one or more AR Buyers which has not yet been collected will not exceed $75.0 million at any time; and (viii) the cash proceeds received from the applicable Loan Party in connection with such sale will be used to immediately repay any outstanding WC Loans (as defined in the Credit Agreement). To date, the level of receivables sold has not been significant, and the Partnership has accounted for such transfers as sales pursuant to ASC 860, Transfers and Servicing. Due to the short-term nature of the receivables sold to date, no servicing obligation has been recorded because it would have been de minimus.

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 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.

Commencing November 16, 2012, borrowings under the working capital revolving credit facility bear interest at (1) the Eurodollar rate plus 2.00% to 2.50%, (2) the cost of funds rate plus 2.00% to 2.50%, or (3) the base rate plus 1.00% to 1.50%, each depending on the Utilization Amount (as defined in the Credit Agreement). From January 1, 2012 through November 15, 2012, borrowings under the working capital revolving credit facility bore interest at (1) the Eurodollar rate plus 2.50% to 3.00%, (2) the cost of funds rate plus 2.50% to 3.00%, or (3) the base rate plus 1.50% to 2.00%, each depending on the pricing level provided in the Credit Agreement, which in turn depended upon the Utilization Amount (as defined in the Credit Agreement).

Commencing November 16, 2012, borrowings under the revolving credit facility bear interest at (1) the Eurodollar rate plus 2.50% to 3.50%, (2) the cost of funds rate plus 2.50% to 3.50%, or (3) the base rate plus 1.50% to 2.50%, each depending on the Combined Total Leverage Ratio (as defined in the Credit Agreement). From January 1, 2012 through November 15, 2012, borrowings under the revolving credit facility bore interest at (1) the Eurodollar rate plus 3.00% to 3.875%, (2) the cost of funds rate plus 3.00% to 3.875%, or (3) the base rate plus 2.00% to 2.875%, each depending on the pricing level provided in the Credit Agreement, which in turn depended upon the Combined Total Leverage Ratio (as defined in the Credit Agreement).

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Note 6. Debt (continued)

Borrowings under the term loan bear interest at either the Eurodollar rate or the cost of funds rate, in each case plus 3.50%, or the base rate plus 2.50%.

The average interest rates for the Credit Agreement were 4.3% and 4.1% for the three months ended September 30, 2013 and 2012, respectively, and 4.3% and 4.1% for the nine months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, the Partnership had a zero premium interest rate collar, an interest rate swap and an interest rate cap, all of which were used to hedge the variability in interest payments under the Credit Agreement due to changes in LIBOR rates. Subsequent to September 30, 2013, the interest rate collar expired and was replaced with a forward starting interest swap agreement. See Note 5 for additional information on these cash flow hedges.

The Partnership incurs a letter of credit fee of 2.00% 2.50% per annum for each letter of credit issued. In addition, the Partnership incurs a commitment fee on the unused portion of each facility under the Credit Agreement, ranging from 0.375% to 0.50% per annum.

The Partnership classifies a portion of its working capital revolving credit facility as a long-term liability because the Partnership has a multi-year, long-term commitment from its bank group. The long-term portion of the working capital revolving credit facility was $300.3 million and $340.8 million at September 30, 2013 and December 31, 2012, respectively, representing the amounts expected to be outstanding during the entire year. In addition, the Partnership classifies a portion of its working capital revolving credit facility as a current liability because it repays amounts outstanding and reborrows funds based on its working capital requirements. The current portion of the working capital revolving credit facility was approximately $0 and $83.7 million at September 30, 2013 and December 31, 2012, respectively, representing the amounts the Partnership expects to pay down during the course of the year.

As of September 30, 2013, the Partnership had total borrowings outstanding under the Credit Agreement of $815.0 million, including $399.7 million outstanding on the revolving credit facility and $115.0 million outstanding on the term loan which was used to acquire a 60% membership interest in Basin Transload and a portion of all of the outstanding membership interests in Cascade Kelly. In addition, the Partnership had outstanding letters of credit of $278.4 million. Subject to borrowing base limitations, the total remaining availability for borrowings and letters of credit was $521.6 million and $218.9 million at September 30, 2013 and December 31, 2012, respectively.

The Credit Agreement is secured by substantially all of the assets of the Partnership and the Partnership s wholly owned subsidiaries 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) would occur as a result thereof, 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 imposes financial covenants that require the Partnership to maintain certain minimum working capital amounts, capital expenditure limits, a minimum combined interest coverage ratio, a maximum senior secured leverage ratio and a maximum total leverage ratio. On September 20, 2013, the Partnership entered into a Twelfth Amendment to Amended and Restated Credit Agreement which amended the Credit Agreement to modify a certain financial covenant. The Partnership was in compliance with the foregoing covenants at September 30, 2013. The Credit Agreement also contains a representation whereby there can be no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect (as defined in the Credit Agreement). In addition, the Credit Agreement limits distributions by the Partnership to its unitholders to the amount of the Partnership s Available Cash (as defined in its partnership agreement).

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Note 6. Debt (continued)

Senior Notes

On February 14, 2013, the Partnership entered into a Note Purchase Agreement (the Purchase Agreement) with FS Energy and Power Fund (FS Energy), with respect to the issue and sale by the Partnership to FS Energy of an aggregate principal amount of $70.0 million unsecured 8.00% Senior Notes due 2018 (the Notes). The Notes were issued in a private placement exempt from registration under the Securities Act of 1933, as amended (the Securities Act) and have not been registered under the Securities Act or any state securities laws, and may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and applicable state laws.

Closing of the offering occurred on February 14, 2013. The Notes were sold to FS Energy at 97% of their face amount, resulting in net proceeds to the Partnership of approximately $67.9 million. Additionally, the Partnership separately paid fees and offering expenses. The discount of $2.1 million at issuance will be accreted as additional interest over the expected term on the Notes. On February 15, 2013, the Partnership used the net proceeds from the offering, after paying fees and offering expenses, together with a portion of the $115.0 million term loan to finance its acquisition of all of the outstanding membership interests in Cascade Kelly and to pay related transaction costs.

The Notes were issued pursuant to an indenture dated as of February 14, 2013 (the Indenture) among the Partnership, our subsidiary guarantors and FS Energy. The Notes will mature on February 14, 2018. Interest on the Notes accrued from February 14, 2013 and is paid semi-annually on February 14 and August 14 of each year, beginning on August 14, 2013.

The Partnership may redeem all or some of the Notes at any time or from time to time pursuant to the terms of the Indenture. The Notes are also subject to optional or mandatory exchange for HY Bonds (as such term is defined in the Indenture) at the time and on the terms specified in the Indenture. The holders of the Notes may require the Partnership to repurchase the Notes following certain asset sales or a Change of Control (as defined in the Indenture) at the prices and on the terms specified in the Indenture.

The Notes are guaranteed on a senior, unsecured basis by certain of the Partnership s wholly owned subsidiaries. The Indenture contains covenants that are no more restrictive to the Partnership in the aggregate than the terms, conditions, covenants and defaults contained in its Credit Agreement and will limit the Partnership s ability to, among other things, incur additional indebtedness, make distributions to equity owners, make certain investments, restrict distributions by its subsidiaries, create liens, enter into sale-leaseback transactions, sell assets or merge with other entities.

Deferred Financing Fees

The Partnership incurs bank fees related to its Credit Agreement. These deferred financing fees are amortized over the life of the Credit Agreement. The Partnership capitalized deferred financing fees of $0.2 million and $0 for the three months ended September 30, 2013 and 2012, respectively, and $5.3 million and $1.1 million for the nine months ended September 30, 2013 and 2012, respectively. Amortization expenses of approximately $1.7 million and $1.4 million for the three months ended September 30, 2013 and 2012, respectively, and $5.1 million and $4.1 million for the nine months ended September 30, 2013 and 2012, respectively, are included in selling, general and administrative expenses in the accompanying consolidated statements of income. Unamortized fees are included in other current assets and other long-term assets.

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Note 7. Related Party Transactions

The Partnership is a party to a Second Amended and Restated Terminal Storage Rental and Throughput Agreement, as amended, with Global Petroleum Corp. (GPC), an affiliate of the Partnership that is 100% owned by members of the Slifka family. The agreement, which extends through July 31, 2015, is accounted for as an operating lease. After July 31, 2015, the agreement continues for successive one year terms unless either party gives notice to terminate at least 90 days prior to the expiration of the then current term. The expenses under this agreement totaled approximately $2.3 million and $2.2 million for the three months ended September 30, 2013 and 2012, respectively, and $6.8 million and $6.7 million for the nine months ended September 30, 2013 and 2012, respectively.

Pursuant to an Amended and Restated Services Agreement with GPC, GPC provides certain terminal operating management services to the Partnership and uses certain administrative, accounting and information processing services of the Partnership. The expenses from these services totaled approximately $24,000 for each of the three months ended September 30, 2013 and 2012, and $72,000 for each of the nine months ended September 30, 2013 and 2012. These charges were recorded in selling, general and administrative expenses in the accompanying consolidated statements of income. On March 9, 2012, in connection with the Partnership s acquisition of Alliance (see Note 2), the agreement was amended to include the services provided by GPC to Alliance. The agreement is for an indefinite term, and either party may terminate its receipt of some or all of the services thereunder upon 180 days notice at any time. As of September 30, 2013, no such notice of termination was given by either party.

Prior to the acquisition of Alliance on March 1, 2012, the Partnership was a party to an Amended and Restated Services Agreement with Alliance. Pursuant to the agreement, the Partnership provided certain administrative, accounting and information processing services, and the use of certain facilities, to Alliance. The income from these services was approximately $31,000 for the nine months ended September 30, 2012. These fees were recorded as an offset to selling, general and administrative expenses in the accompanying consolidated statements of income. On March 9, 2012, in connection with the acquisition of Alliance, the agreement was terminated without penalty. There were no settlement gains or losses recognized as a result of the termination of this agreement.

In addition, on March 9, 2012, following the closing of the acquisition of Alliance, Global Companies and AE Holdings entered into a shared services agreement pursuant to which Global Companies provides AE Holdings with certain tax, accounting, treasury and legal support services for which AE Holdings pays Global Companies $15,000 per year. The shared services agreement is for an indefinite term and AE Holdings may terminate its receipt of some or all of the services upon 180 days notice. As of September 30, 2013, no such notice of termination was given by AE Holdings.

Prior to the acquisition of Alliance on March 1, 2012, the Partnership sold refined petroleum products and renewable fuels to Alliance at prevailing market prices at the time of delivery. Sales to Alliance were approximately $40.6 million for the nine months ended September 30, 2012.

In addition, Global Companies and GMG entered into management agreements with Alliance in connection with the Partnership s September 2010 acquisition of retail gasoline stations from ExxonMobil. The management fee and overhead reimbursement were approximately $433,000 and $250,000, respectively, for the nine months ended September 30, 2012. On March 9, 2012, in connection with the acquisition of Alliance, the management agreements were terminated without penalty.

The General Partner employs all of the Partnership s employees, except for its gasoline station and convenience store employees and certain union personnel, who are employed by GMG. The Partnership reimburses the General Partner for expenses incurred in connection with these employees. These expenses, including payroll, payroll taxes and bonus accruals, were $13.9 million and $10.5 million for the three months ended September 30, 2013 and 2012, respectively, and $45.0 million and $30.6 million for the nine months ended September 30, 2013 and 2012, respectively. 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 qualified and non-qualified pension plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 7. Related Party Transactions (continued)

The table below presents trade receivables with GPC and the Partnership and receivables from the General Partner (in thousands):

	September 30, 2013	December 31, 2012
Receivables from GPC	$ 436	$ 275
Receivables from the General Partner (1)	1,060	1,032
Total	$ 1,496	$ 1,307

(1) Receivables from the General Partner reflect the Partnership s prepayment of payroll taxes and payroll accruals to the General Partner.

Note 8. 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, 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 on the date of determination of Available Cash for 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 the General Partner for any one or more of the next four quarters.

The Partnership will make distributions of Available Cash from distributable cash flow for any quarter in the following manner: 99.17% to the common unitholders, pro rata, and 0.83% to the General Partner, until the Partnership distributes for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; and thereafter, cash in excess of the minimum quarterly distribution is distributed to the unitholders and the General Partner based on the percentages as provided below.

As holder of the IDRs, the General Partner is entitled to incentive distributions if the amount that the Partnership distributes with respect to any quarter exceeds specified target levels shown below:

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	**General Partner**
Minimum Quarterly Distribution	$0.4625	99.17%	0.83%
First Target Distribution	$0.4625	99.17%	0.83%
Second Target Distribution	above $0.4625 up to $0.5375	86.17%	13.83%
Third Target Distribution	above $0.5375 up to $0.6625	76.17%	23.83%
Thereafter	above $0.6625	51.17%	48.83%

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Note 8. Cash Distributions (continued)

The Partnership paid the following cash distribution during 2013 (in thousands, except per unit data):

Cash Distribution Payment Date	Per Unit Cash Distribution	Common Units	General Partner	Incentive Distribution	Total Cash Distribution
02/14/13 (1)	$ 0.5700	$ 15,636	$ 131	$ 579	$ 16,346
05/15/13 (2)	0.5825	15,979	134	683	16,796
08/14/13 (3)	0.5875	16,116	135	724	16,975

(1) This distribution of $0.57 per unit resulted in the Partnership exceeding its second target level distribution for the fourth quarter of 2012. As a result, the General Partner, as the holder of the IDRs, received an incentive distribution.

(2) This distribution of $0.5825 per unit resulted in the Partnership exceeding its second target level distribution for the first quarter of 2013. As a result, the General Partner, as the holder of the IDRs, received an incentive distribution.

(3) This distribution of $0.5875 per unit resulted in the Partnership exceeding its second target level distribution for the second quarter of 2013. As a result, the General Partner, as the holder of the IDRs, received an incentive distribution.

In addition, on October 23, 2013, the board of directors of the General Partner declared a quarterly cash distribution of $0.60 per unit ($2.40 per unit on an annualized basis) for the period from July 1, 2013 through September 30, 2013. On November 14, 2013, the Partnership will pay this cash distribution to its common unitholders of record as of the close of business November 5, 2013. This distribution will result in the Partnership exceeding its second target level distribution for the quarter ended September 30, 2013.

Note 9. Segment Reporting

The Partnership engages in the distribution of refined petroleum products, renewable fuels, crude oil, natural gas and propane. The Partnership also engages in the purchasing, selling and logistics of transporting domestic and Canadian crude oil and other products. The Partnership s operating segments are based upon the revenue sources for which discrete financial information is reviewed by the chief operating decision maker (the CODM) and include Wholesale, Gasoline Distribution and Station Operations and Commercial. Each of these operating segments generates revenues and incurs expenses and is evaluated for operating performance on a regular basis.

These operating segments are also the Partnership s reporting segments based on the way the CODM manages the business and on the similarity of customers and expected long-term financial performance of each segment. For the three and nine months ended September 30, 2013 and 2012, the Commercial operating segment did not meet the quantitative metrics for disclosure as a reportable segment on a stand-alone basis as defined in accounting guidance related to segment reporting. However, the Partnership has elected to present segment disclosures for the Commercial operating segment as management believes such disclosures are meaningful to the user of the Partnership s financial information. 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 year ended December 31, 2012.

In the Wholesale reporting segment, the Partnership sells unbranded gasoline (including gasoline blendstocks such as ethanol and naphtha) and diesel to unbranded gasoline customers and other resellers of transportation fuels. The Partnership sells home heating oil, diesel, kerosene, residual oil and propane to home heating oil retailers and wholesale distributors. The Partnership also sells and transports crude oil to refiners. Generally, customers use their own vehicles or contract carriers to take delivery of the gasoline and distillate products at bulk terminals and inland storage facilities that the Partnership owns or controls or with which it has throughput or exchange arrangements. Crude oil is aggregated by truck or pipeline in the mid-continent, transported on land by train and shipped to refineries on the East Coast and West Coast in barges. Additionally, ethanol is shipped primarily by rail and by barge. The results of Basin Transload and Cascade Kelly, both acquired in February 2013 (see Note 2), are included in the Wholesale segment.

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Note 9. Segment Reporting (continued)

In the Gasoline Distribution and Station Operations reporting segment, the Partnership sells branded and unbranded gasoline to gasoline stations and other sub-jobbers. This segment also includes gasoline, convenience store, car wash and other ancillary sales at the Partnership s directly operated stores, as well as rental income from dealer leased or commission agent leased gasoline stations.

The Commercial segment includes sales and deliveries to end user customers in the public sector and to large commercial and industrial end users of unbranded gasoline, home heating oil, diesel, kerosene, residual oil, renewable fuels and natural gas. In the case of commercial and industrial end user customers, the Partnership sells products primarily either through a competitive bidding process or through contracts of various terms. The Commercial segment also includes sales of custom blended fuels delivered by barges or from a terminal dock to ships through bunkering activity.

Commercial segment end user customers include federal and state agencies, municipalities, large industrial companies, many autonomous authorities such as transportation authorities and water resource authorities, colleges and universities and a group of small utilities. In the Commercial segment, the Partnership generally arranges the delivery of the product to the customer s designated location. The Partnership typically hires 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 CODM manages the business, it is not reasonably possible for the Partnership to allocate the components of operating costs and expenses among the reportable segments. There were no intersegment sales for any of the periods presented below.

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Note 9. Segment Reporting (continued)

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Wholesale Segment:				
Sales				
Gasoline and gasoline blendstocks	$ 1,981,536	$ 2,570,580	$ 6,142,691	$ 6,465,950
Other oils and related products (1)	1,326,374	936,991	5,352,215	3,202,108
Total	$ 3,307,910	$ 3,507,571	$ 11,494,906	$ 9,668,058
Net product margin				
Gasoline and gasoline blendstocks	$ 5,829	$ 8,925	$ 31,485	$ 34,382
Other oils and related products (1)	36,425	25,994	108,094	68,449
Total	$ 42,254	$ 34,919	$ 139,579	$ 102,831
Gasoline Distribution and Station Operations Segment:				
Sales				
Gasoline	$ 870,689	$ 907,579	$ 2,449,400	$ 2,181,164
Station operations (2)	40,970	36,760	109,891	91,806
Total	$ 911,659	$ 944,339	$ 2,559,291	$ 2,272,970
Net product margin				
Gasoline	$ 43,443	$ 33,556	$ 110,533	$ 89,284
Station operations (2)	21,287	18,673	59,062	48,367
Total	$ 64,730	$ 52,229	$ 169,595	$ 137,651
Commercial Segment:				
Sales	$ 213,857	$ 165,284	$ 740,175	$ 567,710
Net product margin	$ 4,745	$ 4,779	$ 21,340	$ 14,158
Combined sales and net product margin:				
Sales	$ 4,433,426	$ 4,617,194	$ 14,794,372	$ 12,508,738
Net product margin (3)	$ 111,729	$ 91,927	$ 330,514	$ 254,640
Depreciation allocated to cost of sales	(15,449)	(9,307)	(40,525)	(26,026)
Combined gross profit	$ 96,280	$ 82,620	$ 289,989	$ 228,614

(1) Other oils and related products primarily consist of distillates, residual oil, crude oil and propane and include the February 2013 acquisitions of Basin Transload and Cascade Kelly (see Note 2).

(2) Station operations primarily consist of convenience store sales at the Partnership s directly operated stores and rental income from dealer leased or commission agent leased gasoline stations.

(3) Net product margin is a non-GAAP financial measure used by management and external users of the Partnership s consolidated financial statements to assess the Partnership s business. The table above includes a reconciliation of net product margin on a combined basis to gross profit, a directly comparable GAAP measure.

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Note 9. Segment Reporting (continued)

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Combined gross profit	$ 96,280	$ 82,620	$ 289,989	$ 228,614
Operating costs and expenses not allocated to operating segments:				
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 operating costs and 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 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

There were no foreign sales for the three and nine months ended September 30, 2013 and 2012. The Partnership has no significant foreign assets.

Segment Assets

In connection with its acquisitions of Cascade Kelly and a 60% membership interest in Basin Transload in February 2013, the Partnership acquired assets, including goodwill, of approximately $240.5 million, of which approximately $125.7 million of property and equipment has primarily been allocated to the Wholesale segment as of the respective acquisition dates. As of September 30, 2013, the total property and equipment related to these assets had a net book value of approximately $120.5 million.

The Partnership acquired retail gasoline stations from Alliance in March 2012 and ExxonMobil in September 2010 which have been allocated to the Gasoline Distribution and Station Operations segment. As of September 30, 2013, total property and equipment allocated to this segment had a net book value of approximately $506.1 million.

Due to the commingled nature and uses of the remainder of the Partnership s assets, it is not reasonably possible for the Partnership to allocate these assets among its reportable segments.

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Note 10. Property and Equipment

Property and equipment consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Buildings and improvements	$ 592,285	$ 498,984
Land	287,592	289,903
Fixtures and equipment	23,793	14,554
Construction in process	90,633	17,809
Capitalized internal use software	276	5,847
Total property and equipment	994,579	827,097
Less accumulated depreciation	(156,155)	(114,775)
Total	$ 838,424	$ 712,322

The increase of approximately $167.5 million in gross total property and equipment at September 30, 2013 was primarily due to the Partnership s acquisitions of its membership interest in Basin Transload and Cascade Kelly (see Note 2) and to additions related to the Partnership s gasoline stations and Albany, New York terminal.

Note 11. Environmental Liabilities and Asset Retirement Obligations

Environmental Liabilities

The Partnership owns or leases properties where refined petroleum products, renewable fuels and crude oil are being or may have been handled. These properties and the refined petroleum products, renewable fuels and crude oil handled thereon may be subject to federal and state environmental laws and regulations. Under such laws and regulations, the Partnership could be required to remove or remediate containerized hazardous liquids or associated generated wastes (including wastes disposed of or abandoned by prior owners or operators), to clean up contaminated property arising from the release of liquids or wastes into the environment, including contaminated groundwater, or to implement best management practices to prevent future contamination.

The Partnership maintains insurance of various types with varying levels of coverage that it considers adequate under the circumstances to cover its operations and properties. The insurance policies are subject to deductibles that the Partnership considers reasonable and not excessive. In addition, the Partnership has entered into indemnification agreements with various sellers in conjunction with several of its acquisitions. Allocation of environmental liability is an issue negotiated in connection with each of the Partnership s acquisition transactions. In each case, the Partnership makes an assessment of potential environmental liability exposure based on available information. Based on that assessment and relevant economic and risk factors, the Partnership determines whether to, and the extent to which it will, assume liability for existing environmental conditions.

In connection with the December 2012 acquisition of six New England gasoline stations from Mutual Oil Company, the Partnership assumed certain environmental liabilities, including certain ongoing remediation efforts. As a result, the Partnership recorded, on an undiscounted basis, a total environmental liability of approximately $0.6 million.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 11. Environmental Liabilities and Asset Retirement Obligations (continued)

In connection with the March 2012 acquisition of Alliance, the Partnership assumed Alliance s environmental liabilities, including ongoing environmental remediation at certain of the retail stations owned by Alliance and future remediation activities required by applicable federal, state or local law or regulation. Remedial action plans are in place, as may be applicable with the state agencies regulating such ongoing remediation. Based on reports from environmental engineers, the Partnership s estimated cost of the ongoing environmental remediation for which Alliance was responsible and future remediation activities required by applicable federal, state or local law or regulation is estimated to be approximately $16.1 million to be expended over an extended period of time. Certain environmental remediation obligations at the retail stations acquired by Alliance from ExxonMobil in 2011 are being funded by a third party who assumed the liability in connection with the Alliance/ExxonMobil transaction in 2011 and, therefore, cost estimates for such obligations at these stations are not included in this estimate. As a result, the Partnership recorded, on an undiscounted basis, total environmental liabilities of approximately $16.1 million.

In connection with the September 2010 acquisition of retail gasoline stations from ExxonMobil, the Partnership assumed certain environmental liabilities, including ongoing environmental remediation at and monitoring activities at certain of the acquired sites and future remediation activities required by applicable federal, state or local law or regulation. Remedial action plans are in place with the applicable state regulatory agencies for the majority of these locations, including plans for soil and groundwater treatment systems at certain sites. Based on consultations with environmental engineers, the Partnership s estimated cost of the remediation is expected to be approximately $30.0 million to be expended over an extended period of time. As a result, the Partnership recorded, on an undiscounted basis, total environmental liabilities of approximately $30.0 million.

In connection with the June 2010 acquisition of three refined petroleum products terminals in Newburgh, New York, the Partnership assumed certain environmental liabilities, including certain ongoing remediation efforts. As a result, the Partnership recorded, on an undiscounted basis, a total environmental liability of approximately $1.5 million.

In connection with the November 2007 acquisition of ExxonMobil s Glenwood Landing and Inwood, New York terminals, the Partnership assumed certain environmental liabilities, including the remediation obligations under remedial action plans submitted by ExxonMobil to and approved by the New York Department of Environmental Conservation (NYDEC) with respect to both terminals. As a result, the Partnership recorded, on an undiscounted basis, total environmental liabilities of approximately $1.2 million.

In connection with the May 2007 acquisition of ExxonMobil s Albany and Newburgh, New York and Burlington, Vermont terminals, the Partnership assumed certain environmental liabilities, including the remediation obligations under a proposed remedial action plan submitted by ExxonMobil to NYDEC with respect to the Albany, New York terminal. As a result, the Partnership recorded, on an undiscounted basis, total environmental liabilities of approximately $8.0 million. In June 2008, the Partnership submitted a remedial action work plan to NYDEC, implementing NYDEC s conditional approval of the remedial action plan submitted by ExxonMobil. The Partnership responded to NYDEC s requests for additional information and conducted pilot tests for the remediation outlined in the work plan. Based on the results of such pilot tests, the Partnership changed its estimate and reduced the environmental liability by $2.8 million during the fourth quarter ended December 31, 2008. In July 2009, NYDEC approved the remedial action work plan, and the Partnership signed a Stipulation Agreement with NYDEC to govern implementation of the approved plan. The remedial action work has been implemented pursuant to the approved work plan, and the post-remediation stage of operation, monitoring and maintenance has commenced and is ongoing. As a result, the Partnership changed its estimate and reduced the environmental liability by $1.7 million during the second quarter ended June 30, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 11. Environmental Liabilities and Asset Retirement Obligations (continued)

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

Environmental Liability Related to:	Balance at December 31, 2012	Payments in 2013	Dispositions 2013	Other Adjustments	Balance at September 30, 2013
ExxonMobil Gasoline Stations	$ 26,610	$ (1,018)	$ (366)	$ (3)	$ 25,223
Alliance Gasoline Stations	14,984	(613)	(600)	420	14,191
Mutual Oil	625				625
Newburgh	1,500				1,500
Glenwood Landing and Inwood	347	(25)			322
Albany	106	(45)			61
Total environmental liabilities	$ 44,172	$ (1,701)	$ (966)	$ 417	$ 41,922
Current portion	$ 4,341				$ 4,271
Long-term portion	39,831				37,651
Total environmental liabilities	$ 44,172				$ 41,922

The Partnership s estimates used in these environmental liabilities are based on all known facts at the time and its assessment of the ultimate remedial action outcomes. Among the many uncertainties that impact the Partnership s estimates are the necessary regulatory approvals for, and potential modification of, its remediation plans, the amount of data available upon initial assessment of the impact of soil or water contamination, changes in costs associated with environmental remediation services and equipment, relief of obligation through divestures of sites and the possibility of existing legal claims giving rise to additional claims. Dispositions generally represent relief of legal obligation through the sale of the related property. Other adjustments generally represent changes in estimates for existing obligations or obligations associated with new sites. Therefore, although the Partnership believes that these environmental liabilities are adequate, no assurances can be made that any costs incurred in excess of these environmental liabilities or outside of indemnifications or not otherwise covered by insurance would not have a material adverse effect on the Partnership s financial condition, results of operations or cash flows.

Asset Retirement Obligations

The Partnership is required to account for the legal obligations associated with the long-lived assets that result from the acquisition, construction, development or operation of long-lived assets. Such asset retirement obligations specifically pertain to the treatment of underground gasoline storage tanks (USTs) that exist in those U.S. states which statutorily require removal of the USTs at a certain point in time. Specifically, the Partnership s retirement obligations consist of the estimated costs of removal and disposals of USTs in specific states. The fair value of a liability for an asset retirement obligation is recognized in the year in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying cost of the asset. The Partnership has recorded approximately $1.9 million in total asset retirement obligations which are included in other long-term liabilities in the accompanying balance sheet at September 30, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 12. Long-Term Incentive Plan

The General Partner has a Long-Term Incentive Plan (LTIP) whereby 564,242 common units were initially authorized for issuance. On June 22, 2012, the Partnership s common unitholders approved an amendment and restatement of the LTIP (the Restated LTIP). The Restated LTIP: (i) increases the number of common units available for delivery with respect to awards under the LTIP so that, effective June 22, 2012 a total of 4,300,000 common units are available for delivery with respect to awards under the Restated LTIP, (ii) adds a prohibition on repricing of unit options and unit appreciation rights without approval of the Partnership s unitholders, except in the case of adjustments implemented to reflect certain Partnership transactions, (iii) adds a prohibition on granting unit options or unit appreciation rights with an exercise price less than the fair market value of a common unit on the grant date (other than substitute awards granted in substitution for similar awards held by individuals who become employees, consultants and directors of the Partnership or one of its affiliates as a result of a merger, consolidation or acquisition by the Partnership or its affiliate of another entity or the assets of another entity), (iv) permits the granting of fully-vested common units and (v) incorporates certain other non-material ministerial changes. Any units delivered pursuant to an award under the Restated LTIP may be acquired in the open market, issued by the Partnership, or any combination of the foregoing. The Restated LTIP provides for awards to employees, consultants and directors of the General Partner and employees and consultants of affiliates of the Partnership who perform services for the Partnership. The Restated LTIP allows for the award of options, unit appreciation rights, restricted units, phantom units, unit awards and substitute awards.

Phantom Unit Awards

On June 27, 2013, the Compensation Committee of the board of directors of the General Partner granted a total of 510,836 phantom units under the Restated LTIP to certain employees and non-employee directors of the General Partner. In connection with the awards, grantees who are employees entered into various forms of a Confidentiality, Non-Solicitation, and Non-Competition Agreement with the General Partner. The Partnership currently intends and reasonably expects to issue and deliver the common units upon vesting.

The awards granted to employees, with one exception, will vest on a cumulative basis as follows, subject to continued employment: 33 1/3% on July 1, 2017, 66 2/3% on July 1, 2018 and 100% on July 1, 2019. The phantom unit award to one employee will vest on a cumulative basis as follows, subject to continued employment: 33 1/3% on December 31, 2014, 66 2/3% on December 31, 2015 and 100% on December 31, 2016. The awards granted to the non-employee directors will vest on a cumulative basis as follows: 33 1/3% on December 31, 2014, 66 2/3% on December 31, 2015 and 100% on December 31, 2016.

Accounting guidance for share-based compensation requires that a non-vested equity share unit awarded to an employee is to be measured at its fair value as if it were vested and issued on the grant date. The fair value of the award at the June 27, 2013 grant date approximated the fair value of the Partnership s common unit at that date.

Compensation cost for an award of share-based employee compensation classified as equity, as is the case of the Partnership s award, is recognized over the requisite service period. The requisite service period for the Partnership is from June 27, 2013, the grant date, through the vesting dates described above. The Partnership will recognize as compensation expense for the awards granted to employees and non-employee directors the value of the portion of the award that is ultimately expected to vest over the requisite service period on a straight-line basis. In accordance with the guidance issued for share-based compensation, the Partnership estimated forfeitures at the time of grant. Such estimates, which were based on the Partnership s service history, will be revised, if necessary, in subsequent periods if actual forfeitures differ from estimates. The Partnership recorded compensation expense related to these awards of approximately $0.9 million for the three and nine months ended September 30, 2013, respectively, which is included in selling, general and administrative expenses in the accompanying consolidated statements of income. The total compensation cost related to the non-vested awards not yet recognized at September 30, 2013 was approximately $18.7 million and is expected to be recognized ratably over the remaining requisite service period.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 12. Long-Term Incentive Plan (continued)

Repurchase Program

In May 2009, the board of directors of the General Partner authorized the repurchase of the Partnership s common units (the Repurchase Program) for the purpose of meeting the General Partner s anticipated obligations to deliver common units under the LTIP and meeting the General Partner s obligations under existing employment agreements and other employment related obligations of the General Partner (collectively, the General Partner s Obligations). The Partnership is authorized to acquire up to 942,427 of its common units in the aggregate over an extended period of time, consistent with the General Partner s Obligations. Common units of the Partnership may be repurchased from time to time in open market transactions, including block purchases, or in privately negotiated transactions. Such authorized unit repurchases may be modified, suspended or terminated at any time, and are subject to price, economic and market conditions, applicable legal requirements and available liquidity. Since the Repurchase Program was implemented, the General Partner repurchased 487,915 common units pursuant to the Repurchase Program for approximately $12.0 million, of which approximately $4.3 million was purchased in 2013.

Note 13. Fair Value Measurements

Certain of the Partnership s assets and liabilities are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The FASB established a fair value hierarchy, which prioritizes the inputs used in measuring fair value into the following three levels:

Level 1 Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than the quoted prices in active markets that are observable for assets or liabilities, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in inactive markets.

Level 3 Unobservable inputs based on the entity s own assumptions.

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GLOBAL PARTNERS LP

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(Unaudited)

Note 13. Fair Value Measurements (continued)

The following table presents those financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 (in thousands):

	Fair Value as of September 30, 2013				Fair Value as of December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Hedged inventories	$ 342,379	$	$ 342,379	$	$ 526,107	$	$ 526,107	$
Fair value of forward fixed price contracts	37,001		30,170	6,831	48,062		48,062	
Swap agreements and options	139	134	5		179	54	125	
Foreign currency derivatives					145		145	
Interest rate cap	49		49		35		35	
Broker margin deposits	40,694	40,694			54,726	54,726		
Pension plan	17,885	17,885			17,158	17,158		
Total	$ 438,147	$ 58,713	$ 372,603	$ 6,831	$ 646,412	$ 71,938	$ 574,474	$
Liabilities:								
Obligations on forward fixed price contracts	$ (38,885)	$	$ (33,587)	$ (5,298)	$ (34,474)	$	$ (34,474)	$
Swap agreements and option contracts	(134)	(134)			(54)	(54)		
Foreign currency derivatives	(58)		(58)					
Interest rate collar and swap								