GRAFTECH INTERNATIONAL LTD
Form 10-Q
October 27, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to

Commission file number: 1-13888

GRAFTECH INTERNATIONAL LTD.
(Exact name of registrant as specified in its charter)

Delaware	27-2496053
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Suite 300 Park Center I	44131
6100 Oak Tree Boulevard	(Zip code)
Independence, OH	
(Address of principal executive offices)	

Registrant’s telephone number, including area code: (216) 676-2000

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 ¨*
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer x Accelerated Filer o
Non-Accelerated Filer o Smaller Reporting Company o

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

As of October 15, 2016, 100 shares of common stock, par value $.01 per share, were outstanding.

* The registrant is a voluntary filer and is not subject to the filing requirements of the Securities Exchange Act of 1934. However, during the preceding 12 months, the registrant has filed all reports that it would have been required to file by Section 13 or 15(d) of the Securities Exchange Act of 1934 if the registrant was subject to the filing requirements of the Securities Exchange Act of 1934.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
Unauadited

	Successor	
	As of December 31, 2015	As of September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$6,927	$12,147
Accounts and notes receivable, net of allowance for doubtful accounts of $300 as of December 31, 2015 and $434 as of September 30, 2016	82,390	74,613
Inventories	218,130	166,683
Prepaid expenses and other current assets	21,157	22,792
Current assets of discontinued operations	98,281	94,886
Total current assets	426,885	371,121
Property, plant and equipment	571,329	594,727
Less: accumulated depreciation	20,166	61,810
Net property, plant and equipment	551,163	532,917
Deferred income taxes	15,326	20,324
Goodwill	172,059	171,117
Other assets	152,613	143,131
Long-term assets of discontinued operations	103,975	—
Total assets	$1,422,021	$1,238,610
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$40,147	$41,982
Short-term debt	4,772	6,465
Accrued income and other taxes	5,933	5,577
Rationalizations	1,195	210
Other accrued liabilities	20,994	29,469
Current liabilities of discontinued operations	23,082	16,953
Total current liabilities	96,123	100,656
Long-term debt	362,455	364,132
Other long-term obligations	94,318	89,181
Deferred income taxes	57,430	46,867
Long-term liabilities of discontinued operations	1,167	867
Contingencies – Note 11		—
Stockholders' equity:		
Preferred stock, par value $.01, 10,000,000 shares authorized, none issued	—	—
Common stock, par value $.01, 225,000,000 shares authorized, 100 shares issued as of December 31, 2015 and September 30, 2016	—	—
Additional paid-in capital	854,337	854,337
Accumulated other comprehensive (loss) income	(10,255)	3,864
Accumulated deficit	(33,554)	(221,294)

Total stockholders’ equity	810,528	636,907
Total liabilities and stockholders’ equity	$1,422,021	$1,238,610

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Predecessor	Successor	
	For the Period July 1 2015 Through August 14, 2015	For the Period August 15, 2015 Through September 30, 2015	For the Three Months Ended September 30, 2016
CONSOLIDATED STATEMENTS OF OPERATIONS			
Net sales	$ 51,604	$ 74,774	$ 111,590
Cost of sales	47,408	67,887	113,602
Additions to lower of cost or market inventory reserve	—	—	4,898
Gross profit (loss)	4,196	6,887	(6,910)
Research and development	710	220	526
Selling and administrative expenses	24,585	6,809	12,215
Rationalizations	(39)	156	—
Operating loss	(21,060)	(298)	(19,651)
Other expense (income), net	269	703	(567)
Interest expense	8,790	3,349	6,964
Interest income	(22)	(21)	(158)
Loss from continuing operations before provision for income taxes	(30,097)	(4,329)	(25,890)
Provision for (benefit from) income taxes	5,234	1,107	(1,789)
Net loss from continuing operations	(35,331)	(5,436)	(24,101)
(Loss) income from discontinued operations, net of tax	(6,893)	(1,867)	1,134
Net loss	$ (42,224)	$ (7,303)	$ (22,967)
STATEMENTS OF COMPREHENSIVE LOSS			
Net loss	$ (42,224)	$ (7,303)	$ (22,967)
Other comprehensive loss:			
Foreign currency translation adjustments	(5,840)	(5,966)	2,300
Commodities and foreign currency derivatives and other, net of tax of $10, $13 and $(12), respectively	375	(237)	118
Other comprehensive (loss) income, net of tax:	(5,465)	(6,203)	2,418
Comprehensive loss	$ (47,689)	$ (13,506)	$ (20,549)

See accompanying Notes to Condensed Consolidated Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

4

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Predecessor	Successor	
	For the Period January 1 Through August 14, 2015	For the Period August 15, 2015 Through September 30, 2015	For the Nine Months Ended September 30, 2016
CONSOLIDATED STATEMENTS OF OPERATIONS			
Net sales	$339,907	$74,774	$322,530
Cost of sales	305,001	67,887	331,297
Additions to lower of cost or market inventory reserve	—	—	19,523
Gross profit (loss)	34,906	6,887	(28,290)
Research and development	3,377	220	1,964
Selling and administrative expenses	64,383	6,809	39,372
Rationalizations	14	156	58
Impairments	35,381	—	—
Operating loss	(68,249)	(298)	(69,684)
Other expense (income), net	1,421	703	(1,528)
Interest expense	26,211	3,349	19,860
Interest income	(363)	(21)	(169)
Loss from continuing operations before provision for income taxes	(95,518)	(4,329)	(87,847)
Provision for (benefit from) income taxes	6,452	1,107	(7,675)
Net loss from continuing operations	(101,970)	(5,436)	(80,172)
Loss from discontinued operations, net of tax *	(18,679)	(1,867)	(107,568)
Net loss	$(120,649)	$(7,303)	$(187,740)
STATEMENTS OF COMPREHENSIVE LOSS			
Net loss	$(120,649)	$(7,303)	$(187,740)
Other comprehensive loss:			
Foreign currency translation adjustments	(27,936)	(5,966)	13,974
Commodities and foreign currency derivatives and other, net of tax of ($68), $13 and $1, respectively	1,262	(237)	145
Other comprehensive (loss) income, net of tax:	(26,674)	(6,203)	14,119
Comprehensive loss	$(147,323)	$(13,506)	$(173,621)

* Loss on discontinued operations includes a pretax impairment charge of $105,600 in the nine months ended September 30, 2016. See Note 3 "Discontinued Operations and Related Assets Held for Sale"

See accompanying Notes to Condensed Consolidated Financial Statements

5

Table of Contents

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands, unaudited)

	Predecessor	Successor	
	For the Period January 1 Through August 14, 2015	For the Period August 15, 2015 Through September 30, 2015	For the Nine Months Ended September 30, 2016
Cash flow from operating activities:			
Net loss	$(120,649)	$(7,303)	$(187,740)
Adjustments to reconcile net loss to cash provided by operations:			
Depreciation and amortization	45,461	10,604	62,775
Impairments	35,381	—	105,623
Change in lower of cost or market inventory reserve, net of depreciation	—	—	6,000
Deferred income tax provision	924	863	(11,738)
Post-retirement and pension plan changes	2,998	486	3,164
Stock-based compensation	15,357	—	—
Interest expense	14,180	786	4,872
Other charges, net	102	(492)	(2,042)
Net change in working capital*	45,594	(47)	54,005
Increase in long-term assets and liabilities	(11,025)	(985)	(6,188)
Net cash provided by operating activities	28,323	3,912	28,731
Cash flow from investing activities:			
Capital expenditures	(32,301)	(5,239)	(22,257)
Proceeds from the sale of assets	646	542	685
Derivative instrument settlements, net	(8,263)	84	(1,171)
Net cash used in investing activities	(39,918)	(4,613)	(22,743)
Cash flow from financing activities:			
Short-term debt, net	18,511	(10,180)	503
Revolving Facility borrowings	160,000	22,000	40,000
Revolving Facility reductions	(99,000)	(21,000)	(41,000)
Repayment of Senior Subordinated Notes	(200,000)	—	—
Issuance of Preferred Shares	150,000	—	—
Principal payments on long-term debt	(89)	(12)	(104)
Proceeds from exercise of stock options	32	—	—
Purchase of treasury shares	(63)	—	—
Revolving Facility refinancing fees	(5,068)	—	(922)
Other	(3,499)	(1,385)	—
Net cash provided by (used in) financing activities	20,824	(10,577)	(1,523)
Net change in cash and cash equivalents	9,229	(11,278)	4,465
Effect of exchange rate changes on cash and cash equivalents	(1,746)	(294)	755
Cash and cash equivalents at beginning of period	17,550	25,033	6,927
Cash and cash equivalents at end of period	$25,033	$13,461	$12,147

* Net change in working capital due to the following components:

Accounts and notes receivable, net	$61,008	$(16,927)	$9,685
Inventories	1,164	18,436	41,399
Prepaid expenses and other current assets	2,551	3,375	(1,170)
Change in accounts payable and accruals	(18,728)	(5,822)	1,774
Rationalizations	(2,677)	(1,642)	(2,544)
Increase in interest payable	2,276	2,533	4,861
Net change in working capital	$45,594	$(47)	$54,005

See accompanying Notes to Condensed Consolidated Financial Statements

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and Summary of Significant Accounting Policies

A. Organization

GrafTech International Ltd. (the "Company") is one of the world’s largest manufacturers and providers of high quality synthetic and natural graphite and carbon based products. References herein to “GTI,” “we,” “our,” or “us” refer collectively to GrafTech International Ltd. and its subsidiaries. We have seven major product categories: graphite electrodes, refractory products, needle coke products, advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials.

On February 26, 2016, the Company announced it plans to realign its two business segments. Industrial Materials will now be comprised of graphite electrodes and needle coke products. Engineered Solutions will now be comprised of advanced graphite materials, advanced composite materials, advanced electronic technologies, and refractory products. Refractory products was previously included in the Industrial Materials business segment. Advanced materials products will now be a part of the business segment where these products are produced.

This realignment of the business segments will allow the Company to better direct its resources and simplify its operations. The Industrial Materials business segment will continue to focus on being the lowest cost producer providing the best quality of graphite electrodes in a very challenging market. The Engineered Solutions business segment will continue to leverage the intellectual property of carbon and graphite material science to innovate and commercialize advanced technologies and new products in high growth markets.

The Company also announced that it plans to review strategic alternatives for its Engineered Solutions business segment. This process is currently under way. See Note 3 "Discontinued Operations and Assets Held for Sale" for further information.

B. Basis of Presentation

The interim Consolidated Financial Statements are unaudited; however, in the opinion of management, they have been prepared in accordance with Rule 10-01 of Regulation S-X and in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The December 31, 2015 financial position data included herein was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”) but does not include all disclosures required by GAAP in audited financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, contained in the Annual Report.

The unaudited consolidated financial statements reflect all adjustments (all of which are of a normal, recurring nature) which management considers necessary for a fair statement of financial position, results of operations, comprehensive income and cash flows for the interim periods presented. The results for the interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

C. Predecessor and Successor Reporting

On August 17, 2015, the Company was acquired by affiliates of Brookfield Asset Management Inc. (see Note 2 "Preferred Share Issuance and Merger"). We elected to account for the acquisition under the acquisition method of accounting. Under the acquisition method of accounting, the assets and liabilities of GTI were adjusted to their fair market value as of August 15, 2015, the day that Brookfield effectively took control of the Company.

Our consolidated statements of operations subsequent to the acquisition include amortization expense relating to the fair value adjustments and depreciation expense based on the fair value of the Company's property, plant and equipment that had previously been carried at historical cost less accumulated depreciation. Therefore, the Company's financial information prior to the acquisition is not comparable to the financial information subsequent to the Merger. As a result, the financial statements and certain note presentations are separated into two distinct periods, the period before the consummation of the acquisition (labeled "Predecessor") and the period after the date of acquisition (labeled "Successor"), to indicate the application of the different basis of accounting between the periods presented.

7

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

D. New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605—Revenue Recognition and most industry-specific guidance throughout the Codification. This ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU was expected to be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. On July 9, 2015, the FASB deferred the effective date to fiscal years beginning after December 15, 2017. We are in the process of assessing the impact of the adoption of ASU 2014-09 on the Company's financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU 2015-3, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2015 with early adoption permitted. We had no capitalized debt issuance costs as of December 31, 2015. We adopted this ASU as of January 1, 2016, and adoption resulted in no significant impact on the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under this new guidance, a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. This ASU is effective for fiscal years beginning after Decemeber 15, 2018. The Company is currently evaluating the impact of the adoption of this standard on its financial position, results of operations or cash flows.

(2) Preferred Share Issuance and Merger

Preferred Stock

On August 11, 2015, the Company issued and sold to BCP IV GrafTech Holdings LP ("BCP"), an affiliate of Brookfield Asset Management Inc. (“Brookfield”) (i) 136,616 shares of a new Series A Convertible Preferred Stock, par value $0.01 per share (the “Series A Preferred Stock”), convertible into 19.9% of the shares of common stock of the Company outstanding immediately prior to such issuance and (ii) 13,384 shares of a new Series B Convertible Preferred Stock, par value $0.01 per share (the “Series B Preferred Stock,” and, together with the Series A Preferred Stock, the “Preferred Stock”), for an aggregate purchase price of $150,000,000 in cash (the “Purchase Price”), under the Investment Agreement dated May 4, 2015 (the “Investment Agreement”) between the Company and Brookfield.

The closing of such issuance and sale occurred after the satisfaction of the closing conditions set forth in the Investment Agreement.

Pursuant to the Investment Agreement, the Company reimbursed Brookfield for $500,000 of out-of-pocket fees and expenses (including fees and expenses of legal counsel) incurred by Brookfield in connection with the transaction.

The proceeds from the issuance and sale were used by the Company, along with funds available under the Company’s $40 million delayed draw term loan facility, senior revolving credit facility and cash on hand, to prepay the Company’s $200 million Senior Subordinated Notes due November 30, 2015.

Merger Agreement

On May 18, 2015, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”), dated May 17, 2015, with BCP and Athena Acquisition Subsidiary Inc. a wholly owned subsidiary of BCP (“Acquisition Sub”). Pursuant to the Merger Agreement, on May 26, 2015, BCP commenced a cash tender offer to purchase any and all of the outstanding shares of common stock, par value $0.01 per share (the “Shares”), of the Company, at a purchase price of $5.05 per Share in cash (the “Offer Price”), on the terms and subject to the conditions set forth in the Offer to Purchase, dated May 26, 2015 (together with any amendments and supplements thereto, the “Offer to Purchase”) and in the related Letter of Transmittal (the “Letter of Transmittal” and, together with the Offer to Purchase, the “Offer”).

On August 14, 2015, Acquisition Sub accepted for payment all Shares validly tendered in the Offer and not withdrawn prior to the expiration of the Offer, and payment of the Offer Price for such Shares was made promptly. On August

17, 2015, Acquisition Sub merged with and into the Company, with the Company surviving as a wholly-owned subsidiary of BCP (the "Merger").

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Pursuant to the Merger Agreement, upon consummation of the Merger, each Share that was not tendered and accepted pursuant to the Offer (other than canceled shares, dissenting shares and shares held by the Company's subsidiaries or BCP's subsidiaries (other than Acquisition Sub)) was canceled and converted into cash consideration in an amount equal to the Offer Price.

Business Combination

The computation of the fair value of the total consideration at the date of acquisition follows:

Purchase Consideration
(In thousands except share price)

	# Shares	Unit Price	Amount
Convertible Preferred Equity			
Series A and B	150	$1,000.00	$150,000
Common Equity			
Common Shares	139,397	$5.05	$703,955
Net value of options			$382
Total			$854,337

Recording of assets acquired and liabilities assumed: The acquisition was accounted for using the acquisition method of accounting. Under the acquisition method, the identifiable assets acquired and the liabilities assumed are assigned a new basis of accounting reflecting their estimated fair values. The information included herein has been prepared based on the allocation of purchase price using estimates of the fair values and useful lives of assets acquired and liabilities assumed based on the best available information determined with the assistance of independent valuations, quoted market prices and management estimates.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date:

Net identifiable assets acquired	
Cash	$25,032
Accounts receivable	94,298
Inventories	344,765
Property, plant and equipment	650,405
Intangible assets	155,700
Deferred tax assets	41,606
Prepaid and other current assets	49,716
Other non-current assets	8,428
Accounts payable	(68,005)
Short-term debt	(18,779)
Other accrued liabilities	(53,252)
Long-term debt	(367,811)
Other long-term liabilities	(101,648)
Deferred tax liabilities	(79,235)
Net identifiable assets acquired	$681,220
Goodwill	$173,117

Net assets acquired	$854,337

9

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Goodwill: Goodwill of approximately $173.1 million was recognized for the acquisition and is calculated as the excess of the consideration transferred over the net assets acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was increased by $1.1 million in March 2016, as a result of a decreased inventory valuation of $2.0 million offset by an increase to deferred tax assets of $0.9 million.

(3) Discontinued Operations and Related Assets Held for Sale

On February 26, 2016, the Company announced that it had initiated a strategic review of its Engineered Solutions business segment to better direct its resources and simplify its operations. Any potential sale of assets was prohibited by the Revolving Facility without approval of the requisite lenders thereunder. On April 27, 2016, GrafTech and certain of its subsidiaries entered into an amendment to the Revolving Facility (see Note 8 "Debt and Liquidity") which, among other things, permits the sale of assets with the restriction that the proceeds be utilized to pay down revolver borrowings. As of June 30, 2016, the Engineered Solutions segment qualified for reporting as discontinued operations as we expect the divestiture to be complete within 12 months of the qualification.

During the second quarter, we evaluated the fair value of the Engineered Solutions business segment utilizing the market approach (Level 3 measure). As a result, we incurred an impairment charge to our Engineered Solutions business segment of $105.6 million to align the carrying value with estimated fair value. The analysis was updated as of September 30, 2016, and did not result in further adjustment. The estimate reflects Management's view of the manner in which the Engineered Solutions business will be divested, including assumptions as to if and how it will be split, given the lines of business and asset groups that constitute the Engineered Solutions segment. Amongst other things, the split into groups influences the computation of the impairment charge. The impairment charge and resulting loss in the nine months ended September 30, 2016 is not offset by expected gains on certain group(s), and as a result may or may not later be partially offset through gains depending on the outcome of the divestiture. These assumptions and estimates are subject to change until divestiture is completed and may be adjusted in the quarter that the information becomes available.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following tables summarize the results of the Engineered Solutions business segment, reclassified as discontinued operations for the three and nine months ended September 30, 2015 and 2016.

	For the Period July 1 2015 Through August 14, 2015	
Dilutive effect of phantom units		132
Diluted weighted average limited partner units outstanding		13,203
Basic net income per limited partner unit	$	1.41
Diluted net income per limited partner unit	$	1.40

(1) On March 19, 2010, the general partner interest was reduced to 1.34% as a result of the public offering (see Note 14). This calculation includes the effect of the public offering and is based on a weighted average of 1.66% for the three months ended March 31, 2010. For the three months ended March 31, 2009, the general partner interest was 1.73%.

(2) At March 31, 2010, limited partner units outstanding excluded common units held on behalf of the Partnership pursuant to its Repurchase Program and for future satisfaction of the General Partner s Obligations (as defined in Note 12). These units are not deemed outstanding for purposes of calculating net income per limited partner unit (basic and diluted).

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3. Comprehensive Income

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

	Three Months Ended March 31,	
	2010	2009
Net income	$ 15,028	$ 18,863
Change in fair value of interest rate collars and forward starting swap	(2,232)	1,152
Change in pension liability	121	(242)
Total comprehensive income	$ 12,917	$ 19,773

Note 4. Inventories

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

Inventories consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Distillates: home heating oil, diesel and kerosene	$ 292,379	$ 339,737
Residual oil	43,756	39,787
Gasoline	65,323	64,645
Blend stock	41,801	21,754
Total	$ 443,259	$ 465,923

In addition to its own inventory, the Partnership has exchange agreements with unrelated third-party suppliers, whereby it may draw inventory from these other suppliers and suppliers may draw inventory from the Partnership. Positive exchange balances are accounted for as accounts receivable and amounted to $25.1 million and $22.9 million at March 31, 2010 and December 31, 2009, respectively. Negative exchange balances are accounted for as accounts payable and amounted to $20.4 million and $10.2 million at March 31, 2010 and December 31, 2009, respectively. Exchange transactions are valued using current quoted market prices.

Note 5. Derivative Financial Instruments

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the volume of activity related to the Partnership s derivative financial instruments at March 31, 2010:

		Units(1)	Unit of Measure
Oil Contracts			
Long		7,495	Thousands of barrels
Short		(11,934)	Thousands of barrels
Natural Gas Contracts			
Long		14,585	Thousands of decatherms
Short		(14,585)	Thousands of decatherms
Interest Rate Collars	$	200	Millions of dollars
Forward Starting Swap	$	100	Millions of dollars

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

Fair Value Hedges

The fair value of the Partnership s derivatives is determined through the use of independent markets and is based upon the prevailing market prices of such instruments at the date of valuation. The Partnership enters into futures contracts for the receipt or delivery of refined petroleum products in future periods. The contracts are entered into in the normal course of business to reduce risk of loss of inventory on hand, which could result through fluctuations in market prices. Changes in the fair value of these contracts, as well as the offsetting gain or loss on the hedged inventory item, are recognized in earnings as an increase or decrease in cost of sales. Ineffectiveness related to these hedging activities was immaterial for the three months ended March 31, 2010 and 2009.

The Partnership also uses futures contracts and swap agreements to hedge exposure under forward purchase and sale commitments. These agreements are intended to hedge the cost component of virtually all of the Partnership s forward purchase and sale commitments. Changes in the fair value of these contracts, as well as offsetting gains or losses on the forward fixed price purchase and sale commitments, are recognized in earnings as an increase or decrease in cost of sales. Gains and losses on net product margin from forward fixed price purchase and sale contracts are reflected in earnings as an increase or decrease in cost of sales as these contracts mature. Ineffectiveness related to these hedging activities was immaterial for the three months ended March 31, 2010 and 2009.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the gross fair values of the Partnership s derivative instruments and firm commitments and their location in the Partnership s consolidated balance sheets at March 31, 2010 and December 31, 2009 (in thousands):

Asset Derivatives	**Balance Sheet Location (Net)**		**March 31, 2010 Fair Value**		**December 31, 2009 Fair Value**
Derivatives designated as hedging instruments and firm commitments					
Oil product contracts(1)	(2)	$	3,360	$	4,085
Derivatives not designated as hedging instruments					
Oil product and natural gas contracts	(2)		15,006		11,067
Total asset derivatives		$	18,366	$	15,152
Liability Derivatives					
Derivatives designated as hedging instruments and firm commitments					
Oil product contracts(1)	(3)	$	9,959	$	23,030
Derivatives not designated as hedging instruments					
Oil product and natural gas contracts	(4)		14,277		10,805
Total liability derivatives		$	24,236	$	33,835

(1) Includes forward fixed price purchase and sale contracts as recognized in the Partnership s consolidated balance sheets at March 31, 2010 and December 31, 2009.

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

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

(4) Accrued expenses and other current liabilities

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the amount of gains and losses from derivatives involved in fair value hedging relationships recognized in the Partnership s consolidated statements of income for the three months ended March 31, 2010 and 2009 (in thousands):

Derivatives in Fair Value Hedging Relationship	**Location of Gain (Loss) Recognized in Income on Derivative**	**Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2010**	**2009**
Oil product contracts	Cost of sales	$ (27)	$ (100,224)

Hedged Items in Fair Value Hedge Relationships	**Location of Gain (Loss) Recognized in Income on Related Hedged Item**	**Amount of Gain (Loss) Recognized in Income on Hedged Items Three Months Ended March 31, 2010**	**2009**
Oil product contracts	Cost of sales	$ 27	$ 100,580

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

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

	March 31, 2010	**December 31, 2009**
Futures contracts	$ (5,381)	$ (14,605)
Swaps and other, net	(1,269)	(3,420)
Total	$ (6,650)	$ (18,025)

The total balances of $(6.6) million and $(18.0) million reflect the fair value of the forward fixed price contract liability net of the corresponding asset on the accompanying consolidated balance sheets at March 31, 2010 and December 31, 2009, respectively.

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

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The Partnership has a daily margin requirement with its broker based on the prior day s market results on open futures contracts. The brokerage margin balance was $10.3 million and $18.1 million at March 31, 2010 and December 31, 2009, respectively.

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

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

Cash Flow Hedges

The Partnership links all hedges that are designated as cash flow hedges to forecasted transactions. To the extent such hedges are effective, the changes in the fair value of the derivative instrument is reported as a component of other comprehensive income and reclassified into interest expense in the same period during which the hedged transaction affects earnings.

The Partnership executed two zero premium interest rate collars with major financial institutions. Each collar is designated and accounted for as a cash flow hedge. The first collar, which became effective on May 14, 2007 and expires on May 14, 2011, is used to hedge the variability in interest payments due to changes in the three-month LIBOR rate with respect to $100.0 million of three-month LIBOR-based borrowings. Under the first collar, the Partnership capped its exposure at a maximum three-month LIBOR rate of 5.75% and established a minimum floor rate of 3.75%. As of March 31, 2010, the three-month LIBOR rate of 0.25% was lower than the floor rate. As a result, in April 2010, the Partnership remitted to the respective financial institution the difference between the floor rate and the current rate which amounted to approximately $428,000 and, at March 31, 2010, such amount was recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheets. The fair values of the first collar, excluding accrued interest, were liabilities of approximately $3.5 million and $3.9 million as of March 31, 2010 and December 31, 2009, respectively, and were recorded in both other long-term liabilities and accumulated other comprehensive income. Hedge effectiveness was assessed at inception and is assessed quarterly, prospectively and retrospectively. The changes in the fair value of the first collar are expected to be highly effective in offsetting the changes in interest rate payments attributable to fluctuations in the three-month LIBOR rate above and below the first collar s strike rates.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

On September 29, 2008, the Partnership executed its second zero premium interest rate collar. The second collar, which became effective on October 2, 2008 and expires on October 2, 2013, is used to hedge the variability in cash flows in monthly interest payments made on the Partnership s $100.0 million one-month LIBOR-based borrowings (and subsequent refinancings thereof) due to changes in the one-month LIBOR rate. Under the second collar, the Partnership capped its exposure at a maximum one-month LIBOR rate of 5.50% and established a minimum floor rate of 2.70%. As of March 31, 2010, the one-month LIBOR rate of 0.23% was lower than the floor rate. As a result, in April 2010, the Partnership remitted to the respective financial institution the difference between the floor rate and the current rate which amounted to approximately $206,000 and, at March 31, 2010, such amount was recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheet. The fair values of the second collar, excluding accrued interest, were liabilities of approximately $3.9 million and $3.2 million as of March 31, 2010 and December 31, 2009, respectively, and were recorded in both other long-term liabilities and accumulated other comprehensive income in the accompanying consolidated balance sheets. Hedge effectiveness was assessed at inception and is assessed quarterly, prospectively and retrospectively, using the regression analysis. The changes in the fair value of the second collar are expected to be highly effective in offsetting the changes in interest rate payments attributable to fluctuations in the one-month LIBOR rate above and below the second collar s strike rates.

In addition, in October 2009, the Partnership executed a forward starting swap with a major financial institution. The swap, which will become effective on May 16, 2011 and expire on May 16, 2016, will be used to hedge the variability in interest payments due to changes in the one-month LIBOR swap curve with respect to $100.0 million of one-month LIBOR-based borrowings at a fixed rate of 3.93%. The fair value of the swap was a liability of approximately $1.8 million as of March 31, 2010 and was recorded in other long-term liabilities in the accompanying consolidated balance sheets. The fair value of the swap was an asset of approximately $80,000 as of December 31, 2009 and was recorded in other long-term assets in the accompanying consolidated balance sheets. Hedge effectiveness was assessed at inception and will be assessed quarterly, prospectively and retrospectively, using regression analysis. The changes in the fair value of the swap are expected to be highly effective in offsetting the changes in interest rate payments attributable to fluctuations in the one-month LIBOR swap curve.

The following table presents the fair value of the Partnership s derivative instruments and their location in the Partnership s consolidated balance sheets at March 31, 2010 and December 31, 2009 (in thousands):

Derivatives Designated as Hedging Instruments	**Balance Sheet Location**	**March 31, 2010 Fair Value**	**December 31, 2009 Fair Value**
Asset derivatives			
Forward starting swap	Other assets	$	$ 80
Liability derivatives			
Interest rate collars	Other long-term liabilities	$ 7,416	$ 7,047
Forward starting swap	Other long-term liabilities	1,783	
Total liability derivatives		$ 9,199	$ 7,047

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5. Derivative Financial Instruments (continued)

The following table presents the amount of gains and losses from derivatives involved in cash flow hedging relationships recognized in the Partnership s consolidated statements of income for the three months ended March 31, 2010 and 2009 (in thousands):

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives Three Months Ended March 31, 2010	March 31, 2009	Recognized in Income on Derivatives (Ineffectiveness Portion and Amount Excluded from Effectiveness Testing) Three Months Ended March 31, 2010	March 31, 2009
Interest rate collars	$ (368)	$ 1,152	$	$
Forward starting swap	(1,864)			
Total	$ (2,232)	$ 1,152	$	$

Ineffectiveness related to the interest rate collars and forward starting swap is recognized as interest expense and was immaterial for the three months ended March 31, 2010 and 2009. The effective portion related to the interest rate collars that was originally reported in other comprehensive income and reclassified to earnings was $1.5 million and $1.1 million for the three months ended March 31, 2010 and 2009, respectively.

Derivatives Not Involved in a Hedging Relationship

While the Partnership seeks to maintain a position that is substantially balanced within its product purchase activities, it may experience net unbalanced positions for short periods of time as a result of variances in daily sales and transportation and delivery schedules as well as logistical issues inherent in the business, such as weather conditions. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for its business, the Partnership engages in a controlled trading program for up to an aggregate of 250,000 barrels of refined petroleum products at any one point in time.

The following table presents the amount of gains and losses from derivatives not involved in a hedging relationship recognized in the Partnership s consolidated statements of income for the three months ended March 31, 2010 and 2009 (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 March 31, 2010	March 31, 2009
Oil product contracts	Cost of sales	$ (522)	$ 3,985

Note 6. Debt

The Partnership has a senior secured credit agreement (the Credit Agreement). Pursuant to the Credit Agreement, the Partnership exercised its accordion feature (discussed below) and requested an increase in the Total WC Revolver Commitment (as defined in the Credit Agreement) in an amount equal to $100.0 million. On December 4, 2009, certain lenders under the Credit Agreement agreed to fund the $100.0 million increase, bringing the total available commitments under the Credit Agreement from $750.0 million to $850.0 million.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 6. Debt (continued)

There are three facilities under the Credit Agreement:

- a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of the Partnership s borrowing base and $750.0 million; the $750.0 million includes two $50.0 million seasonal overline facilities that are available each year only during the period between September 1 and June 30;

- an $85.0 million acquisition facility to be used for funding acquisitions similar to the Partnership s business line that have a purchase price of $25.0 million or less or $35.0 million or less in the aggregate in any 12-month period; and

- a $15.0 million revolving credit facility to be used for general purposes.

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: (1) the acquisition facility by up to another $50.0 million, for a total acquisition facility of up to $135.0 million; and (2) the working capital revolving credit facility by up to another $100.0 million, for a total working capital revolving credit facility of up to $850.0 million. Any such request for an increase by the Partnership must be in a minimum amount of $5.0 million, and no more than three such requests may be made for each facility. The Partnership, however, cannot provide assurance that its lending group will agree to fund any request by the Partnership for additional amounts in excess of the total available commitments of $850.0 million.

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 can borrow only up to the level of its then current borrowing base. Availability under the Partnership s borrowing base may be affected by events beyond the Partnership s control, such as changes in refined petroleum product prices, collection cycles, counterparty performance, advance rates and limits and general economic conditions. These and other events could require the Partnership to seek waivers or amendments of covenants or alternative sources of financing or to reduce expenditures. The Partnership can provide no assurance that such waivers, amendments or alternative financing could be obtained or, if obtained, would be on terms acceptable to the Partnership.

Borrowings under the working capital revolving credit facility bear interest at (1) the Eurodollar rate plus 1.75% to 2.25%, (2) the cost of funds rate plus 1.75% to 2.25%, or (3) the base rate plus 0.75% to 1.25%, each depending on the pricing level provided in the Credit Agreement, as amended, which in turn depends upon the Combined Interest Coverage Ratio (as such term is defined in the Credit Agreement). Borrowings under the acquisition and revolving credit facilities bear interest at (1) the Eurodollar rate plus 2.25% to 2.75%, (2) the cost of funds rate plus 1.75% to 2.25%, or (3) the base rate plus 0.75% to 1.25%, each depending on the pricing level provided in the Credit Agreement, as amended, which in turn depends upon the Combined Interest Coverage Ratio. The average interest rates for the Credit Agreement were 3.3% and 3.9% for the three months ended March 31, 2010 and 2009, respectively.

In addition, the Partnership executed two zero premium interest rate collars with major financial institutions. The first collar, which became effective on May 14, 2007, is used to hedge the variability in interest payments due to changes in the three-month LIBOR rate with respect to $100.0 million of three-month LIBOR-based borrowings. The second collar, which became effective on October 2, 2008, is used to hedge the variability in cash flows in monthly interest payments made on the Partnership s $100.0 million one-month LIBOR-based borrowings (and subsequent refinancings thereof) due to changes in the one-month LIBOR rate.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 6. Debt (continued)

Further, in October 2009, the Partnership executed a forward starting swap with a major financial institution. The swap, which will become effective on May 16, 2011 and expire on May 16, 2016, will be used to hedge the variability in interest payments due to changes in the one-month LIBOR swap curve with respect to $100.0 million of one-month LIBOR-based borrowings at a fixed rate of 3.93%. See Note 5 for additional information on the interest rate collars and the forward starting swap.

The Partnership incurs a letter of credit fee of 1.75% per annum for each letter of credit issued. In addition, the Partnership incurs a commitment fee on the unused portion of the three facilities under the Credit Agreement (including the unused portion of either of the seasonal overline facilities exercised by the Partnership) equal to 0.3% to 0.375% per annum, depending on the pricing level and the Combined Interest Coverage Ratio provided in the Credit Agreement. The Partnership also incurs a facility fee of 0.1% per annum on any unexercised seasonal overline facility during the period between September 1 and June 30 and a seasonal overline fee of $30,000 each time the Partnership elects to exercise either of the seasonal overline facilities.

The Credit Agreement will mature on April 22, 2011. 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 $231.4 million and $240.9 million at March 31, 2010 and December 31, 2009, respectively, representing the amounts expected to be outstanding during the 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 $109.8 million and $221.7 million at March 31, 2010 and December 31, 2009, respectively, representing the amounts the Partnership expects to pay down during the course of the year.

As of March 31, 2010, the Partnership had total borrowings outstanding under the Credit Agreement of $412.4 million, including $71.2 million outstanding on the acquisition facility. In addition, the Partnership had outstanding letters of credit of $32.8 million. The total remaining availability for borrowings and letters of credit at March 31, 2010 and December 31, 2009 was $404.8 million and $211.2 million, respectively.

The Credit Agreement is secured by substantially all of the assets of the Partnership and each of the Companies and is guaranteed by the General Partner. The Credit Agreement imposes certain requirements including, for example, a prohibition against distributions if any potential default or Event of Default (as defined in the Credit Agreement) would occur, and limitations on the Partnership s ability to grant liens, make certain loans or investments, incur additional indebtedness or guarantee other indebtedness, make any material change to the nature of the Partnership s business or undergo a fundamental change, make any material dispositions, acquire another company, enter into a merger, consolidation, sale leaseback transaction or purchase of assets, or make capital expenditures in excess of specified levels.

The Credit Agreement imposes financial covenants that require the Partnership to maintain certain minimum working capital amounts, capital expenditure limits, a minimum EBITDA ratio, a minimum combined interest coverage ratio and a maximum leverage ratio. On January 26, 2010, the lenders under the Credit Agreement consented to increase the Partnership s capital expenditures limit for the fiscal year ending December 31, 2010 from $10.0 million to $20.0 million. The Partnership was in compliance with the foregoing covenants at March 31, 2010. 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).

The Credit Agreement also requires that in each calendar year, the outstanding amount under the working capital revolving credit facility must be equal to or less than $263.0 million for a period of ten consecutive calendar days.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 6. Debt (continued)

The Credit Agreement limits distributions by the Partnership to its unitholders to the amount of the Partnership s available cash and permits borrowings to fund such distributions only under the $15.0 million revolving credit facility. The revolving credit facility is subject to an annual clean-down period, requiring the Partnership to reduce the amount outstanding under the revolving credit facility to $0 for 30 consecutive calendar days in each calendar year.

The lending group under the Credit Agreement includes the following institutions: Bank of America, N.A.; Standard Chartered Bank; JPMorgan Chase Bank, N.A.; Societe Generale; RBS Citizens, National Association; Sovereign Bank; Fortis Capital Corp.; Webster Bank National Association; KeyBank National Association; TD Bank, N.A. (f/k/a TD BankNorth, N.A.); Wells Fargo Bank, N.A.; Wachovia Bank, National Association; Calyon New York Branch; and The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Note 7. Employee Benefit Plan with Related Party

The General Partner employs substantially all of the Partnership s employees and charges the Partnership for their services. 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. The Partnership s net periodic benefit cost for the defined benefit pension plan consisted of the following components (in thousands):

	Three Months Ended March 31,	
	2010	**2009**
Service cost	$ 53	$ 325
Interest cost	163	229
Expected return on plan assets	(169)	(161)
Recognized net actuarial loss		48
Net periodic benefit cost	$ 47	$ 441

Effective December 31, 2009, the General Partner s qualified pension plan (the Plan) was amended to freeze participation in and benefit accruals under the Plan. Primarily for this reason, the net periodic benefit cost decreased by approximately $0.4 million for the three months ended March 31, 2010 compared to the same period in 2009.

Note 8. Related Party Transactions

The Partnership is a party to a Second Amended and Restated Terminal Storage Rental and Throughput Agreement with Global Petroleum Corp. (GPC), an affiliate of the Partnership, which extends through December 2013 with annual renewal options thereafter. The agreement is accounted for as an operating lease. The expenses under this agreement totaled approximately $2.2 million and $2.1 million for the three months ended March 31, 2010 and 2009, 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 $21,870 and $21,500 for the three months ended March 31, 2010 and 2009, respectively. These charges were recorded in selling, general and administrative expenses in the accompanying consolidated statements of income. 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 after January 1, 2009. As of March 31, 2010, no such notice of termination was given by either party.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 8. Related Party Transactions (continued)

Pursuant to the Partnership s Amended and Restated Services Agreement with Alliance Energy LLC (Alliance), the Partnership also provides certain administrative, accounting and information processing services, and the use of certain facilities, to Alliance, an affiliate of the Partnership that is wholly owned by AE Holdings Corp., which is approximately 95% owned by members of the Slifka family. The income from these services was approximately $49,000 and $212,000 for the three months ended March 31, 2010 and 2009, respectively. These fees were recorded as an offset to selling, general and administrative expenses in the accompanying consolidated statements of income. The agreement extends through January 1, 2011.

The Partnership sells refined petroleum products to Alliance at prevailing market prices at the time of delivery. Sales to Alliance were approximately $7.3 million and $2.7 million for the three months ended March 31, 2010 and 2009, respectively.

The General Partner employs substantially all of the Partnership s employees and charges the Partnership for their services. The expenses for the three months ended March 31, 2010 and 2009, including payroll, payroll taxes and bonus accruals, were $10.4 million and $12.3 million, 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.

The table below presents trade receivables with Alliance, receivables incurred in connection with the services agreements between Alliance and the Partnership and GPC and the Partnership, as the case may be, and receivables from the General Partner (in thousands):

		March 31, 2010		**December 31, 2009**
Receivables from Alliance	$	938	$	838
Receivables from GPC		246		251
Receivables from the General Partner (1)		3,038		476
Total	$	4,222	$	1,565

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

Note 9. Cash Distributions

The Partnership intends to consider regular cash distributions to unitholders on a quarterly basis, although there is no assurance as to the future cash distributions since they are dependent upon future earnings, 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 to 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 during the subordination period as defined in its partnership agreement in the following manner: firstly, 98.66% to the common unitholders, pro rata, and 1.34% to the General Partner, until the Partnership distributes for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; secondly, 98.66% to the common

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 9. Cash Distributions (continued) unitholders, pro rata, and 1.34% to the General Partner, until the Partnership distributes for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period; thirdly, 98.66% to the subordinated unitholders, pro rata, and 1.34% to the General Partner, until the Partnership distributes for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and thereafter, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the General Partner, as the holder of the IDRs, based on the percentages as provided below.

As the 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	98.66%	1.34%
First Target Distribution	$0.4625	98.66%	1.34%
Second Target Distribution	above $0.4625 up to $0.5375	85.66%	14.34%
Third Target Distribution	above $0.5375 up to $0.6625	75.66%	24.34%
Thereafter	above $0.6625	50.66%	49.34%

The Partnership paid the following cash distribution during 2010 (in thousands, except per unit data):

Cash Distribution Payment Date	**Per Unit Cash Distribution**	**Common Units**	**Subordinated Units**	**General Partner**	**Incentive Distribution**	**Total Cash Distribution**
02/12/10 (1)	$ 0.4875	$ 3,621	$ 2,751	$ 112	$ 50	$ 6,534

(1) This distribution of $0.4875 per unit resulted in the Partnership reaching its second target distribution for the fourth quarter of 2009. As a result, the General Partner, as the holder of the IDRs, received this additional incentive distribution.

In addition, on April 21, 2010, the board of directors of the General Partner declared a quarterly cash distribution of $0.4875 per unit for the period from January 1, 2010 through March 31, 2010 ($1.95 per unit on an annualized basis). On May 14, 2010, the Partnership will pay this cash distribution to its common and subordinated unitholders of record as of the close of business May 5, 2010. This distribution will result in the Partnership reaching its second target distribution for the quarter ended March 31, 2010.

Note 10. Segment Reporting

The Partnership is a wholesale and commercial distributor of gasoline, distillates and residual oil whose business is organized within two operating segments, Wholesale and Commercial, based on the way the chief operating decision maker (CEO) manages the business and on the similarity of customers and expected long-term financial performance of each segment. The accounting policies of the segments are the same as those described in Note 2, Summary of Significant Accounting Policies, in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2009.

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

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 10. Segment Reporting (continued)

The Commercial segment includes (1) sales and deliveries of unbranded gasoline, home heating oil, diesel, kerosene, residual oil and small amounts of natural gas to customers in the public sector and to large commercial and industrial customers, either through a competitive bidding process or through contracts of various terms, and (2) sales of custom blended distillates and residual oil delivered by barges or from a terminal dock through bunkering activity. Commercial segment 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 limited group of small utilities. Unlike the Wholesale segment, in the Commercial segment, the Partnership generally arranges the delivery of the product to the customer s designated location, typically hiring third-party common carriers to deliver the product.

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

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

	Three Months Ended March 31, 2010	2009
Wholesale Segment:		
Sales		
Distillates	$ 959,257	$ 1,006,616
Gasoline	872,326	501,659
Residual oil	12,129	11,490
Total	$ 1,843,712	$ 1,519,765
Net product margin (1)		
Distillates	$ 34,020	$ 33,853
Gasoline	6,350	11,786
Residual oil	2,856	2,820
Total	$ 43,226	$ 48,459
Commercial Segment:		
Sales	$ 118,672	$ 113,190
Net product margin (1)	$ 4,918	$ 4,928
Combined sales and net product margin:		
Sales	$ 1,962,384	$ 1,632,955
Net product margin (1)	$ 48,144	$ 53,387
Depreciation allocated to cost of sales	2,737	2,673
Combined gross profit	$ 45,407	$ 50,714

(1) 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 reconciles net product margin on a combined basis to gross profit, a directly comparable GAAP measure.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 10. 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 March 31, 2010	Three Months Ended March 31, 2009
Combined gross profit	$ 45,407	$ 50,714
Operating costs and expenses not allocated to reportable segments:		
Selling, general and administrative expenses	16,578	18,075
Operating expenses	8,659	8,475
Amortization expenses	691	800
Total operating costs and expenses	25,928	27,350
Operating income	19,479	23,364
Interest expense	(4,064)	(3,776)
Income tax expense	(387)	(725)
Net income	$ 15,028	$ 18,863

There were no foreign sales for the three months ended March 31, 2010 and 2009. The Partnership has no foreign assets.

Note 11. Environmental Liabilities

The Partnership currently owns or leases properties where refined petroleum products are being or have been handled. These properties and the refined petroleum products 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 to 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 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, of which approximately $0.7 million was paid by the Partnership as of March 31, 2010. The remaining liability of $0.5 million was recorded as a current liability of $0.4 million and a long-term liability of $0.1 million in the accompanying consolidated balance sheet at March 31, 2010. The Partnership has implemented the remedial action plans and does not believe that compliance with the terms thereof will result in material costs in excess of the environmental reserve or have a material impact on its operations.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 11. Environmental Liabilities (continued)

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. At March 31, 2010, this liability had a balance of $5.0 million which was recorded as a current liability of $2.9 million and a long-term liability of $2.1 million in the accompanying consolidated balance sheet. 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 Partnership does not believe that compliance with the terms of the approved remedial action work plan will result in material costs in excess of the environmental reserve or have a material impact on its operations.

In connection with the 2006 acquisition of its Macungie, Pennsylvania terminal (the Global Macungie Terminal), the Partnership assumed certain existing environmental liabilities at the terminal. The Partnership did not accrue for these contingencies as it believes that the aggregate amount of these liabilities cannot be reasonably estimated at this time. The Partnership also executed an Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency, Region III (EPA, Region III) requiring certain investigatory activities at the Global Macungie Terminal. The Partnership believes that the investigatory activities required by the AOC have been completed, and a final report concerning these investigatory activities has been submitted. In accordance with the AOC, the Partnership intends to request that EPA, Region III issue a Notice of Completion with respect to the AOC. Although the Partnership cannot predict whether EPA, Region III will grant this request, based upon current information, the Partnership does not anticipate that the outcome will have a material adverse effect on it. Furthermore, the Partnership does not believe that in the event EPA, Region III requests additional activities before issuing a Notice of Completion, those activities will result in material costs or have a material impact on the Partnership s operations.

The Partnership s estimates used in these reserves 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 and the possibility of existing legal claims giving rise to additional claims. Therefore, although the Partnership believes that these reserves are adequate, no assurances can be made that any costs incurred in excess of these reserves 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.

Note 12. Long-Term Incentive Plan

In October 2005, the General Partner adopted a Long-Term Incentive Plan (LTIP) whereby 564,242 common units were authorized for issuance. Any units delivered pursuant to an award under the LTIP may be acquired in the open market or from any affiliate, be newly issued units or any combination of the foregoing. The 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 LTIP allows for the award of unit options, unit appreciation rights, restricted units, phantom units and distribution equivalent rights (DERs).

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 12. Long-Term Incentive Plan (continued)

Long-Term Incentive Plan

On August 14, 2007, the Compensation Committee of the board of directors of the General Partner granted awards of phantom units and associated DERs under the LTIP to certain employees and non-employee directors of the General Partner. The phantom units granted vested on December 31, 2009 and became payable on a one-for-one basis in common units of the Partnership (or cash equivalent) in connection with the achievement of certain performance goals over the vesting period. The DERs that were granted in tandem with the phantom units vested and became payable in cash simultaneously with the vesting of the phantom units.

The Partnership recorded compensation expense with respect to these awards of approximately $0.2 million for the three months ended March 31, 2009 which is included in selling, general and administrative expenses in the accompanying consolidated statements of income. The total compensation cost related to these awards was fully recognized as of December 31, 2009. In March 2010, the Partnership distributed 62,620 common units in settlement of this award, and in April 2010, the Partnership paid approximately $305,000 in associated DERs.

Three-Year Phantom Units

On December 31, 2008, the Compensation Committee of the board of directors of the General Partner granted 99,700 phantom units to a named executive officer, including a contingent right to receive an amount in cash equal to the number of phantom units multiplied by the cash distribution per common unit made by the Partnership from time to time during the period the phantom units are outstanding. The phantom units, which are subject to graded vesting, vest in six equal installments on June 30 and December 31 of each year commencing June 30, 2009. Compensation expense related to these phantom units is recognized using the accelerated attribution method. The Partnership recorded compensation expense related to this phantom unit award of approximately $89,000 and $230,000 for the three months ended March 31, 2010 and 2009, 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 March 31, 2010 is approximately $0.3 million and is expected to be recognized over the remaining requisite service period. On June 30, 2009, 16,617 common units vested under this award and were distributed to the named executive officer, and in July 2009, the Partnership paid a cash distribution related to these units of approximately $8,000. On December 31, 2009, 16,617 common units vested under this award and were distributed, and in January 2010, the Partnership paid a cash distribution related to these units of approximately $32,000.

Five-Year Phantom Units

On February 5, 2009, the Compensation Committee of the board of directors of the General Partner granted awards of 277,777 phantom units under the LTIP to certain employees of the General Partner. The phantom units will vest and become payable on a one-for-one basis in common units of the Partnership (and/or cash in lieu thereof) on December 31, 2013 (or potentially sooner as described below), subject in each case to continued employment of the respective employee and subject to a performance goal for the phantom units granted to one of the recipients. Any phantom units that have not vested as of the end of the five year cliff vesting period will be forfeited.

All or a portion of the phantom units granted to the employees may vest earlier than December 31, 2013 if the Average Unit Price (as defined below) equals or exceeds specified target prices during specified periods. Specifically, if the Average Unit Price equals or exceeds: (i) $21.00 at any time prior to December 31, 2013, then 25% of the phantom units will automatically vest; (ii) $27.00 at any time during the period from February 5, 2011 through December 31, 2013, then an additional 25% of the phantom units will automatically vest; and (iii) $34.00 at any time during the period from June 5, 2012 through December 31, 2013, then all of the remaining phantom units will automatically vest. Average Unit Price means the closing market price of the Partnership s common units for any 10-consecutive trading day period. On August 21, 2009, the Average Unit Price of $21.00 per unit for the first tranche was achieved and, as a result, 25% of the phantom units vested at a price of $22.50 per unit.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 12. Long-Term Incentive Plan (continued)

The fair value of the award at the February 5, 2009 grant date approximated the fair value of the Partnership s common units at that date, reduced by the present value of the distributions stream on the equivalent number of common units over the derived service period. Compensation cost is recognized ratably over the derived service period which was determined for each tranche using the Monte Carlo simulation model. The derived service period of the award was assessed using expected volatility which was estimated based on historical volatility of the Partnership s common units. The Partnership recorded compensation expense related to this phantom unit award of approximately $39,000 and $111,000 for the three months ended March 31, 2010 and 2009, 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 March 31, 2010 is approximately $0.6 million and is expected to be recognized ratably over the remaining derived service periods.

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 assisting it in 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 spend up to $6.6 million to acquire up to 445,000 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. As of March 31, 2010, the General Partner repurchased 195,291 common units pursuant to the Repurchase Program for approximately $4.0 million, of which 62,620 phantom units vested under the *Long-Term Incentive Plan,* 33,234 phantom units vested under the *Three-Year Phantom Units* award and 69,444 phantom units vested under the *Five-Year Phantom Units* award.

At March 31, 2010 and December 31, 2009, common units outstanding excluded 63,444 and 47,143 common units, respectively, held on behalf of the Partnership pursuant to its Repurchase Program and for future satisfaction of the General Partner s Obligations.

Status of Non-Vested Units

The following table presents a summary of the status of the non-vested units as of March 31, 2010:

	Number of Non-vested Units	Weighted Average Grant Date Fair Value
Outstanding non-vested units at January 1, 2010	337,419	$ 6.05
Granted		
Vested		
Forfeited		
Outstanding non-vested units at March 31, 2010	337,419	$ 6.05

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 Financial Accounting Standards Board (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.

The following table presents those financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2010 (in thousands):

	Fair Value March 31, 2010	Fair Value Measurements Using Level 1	Level 2	Level 3
Assets:				
Hedged inventories	$ 460,631	$	$ 460,631	$
Fair value of forward fixed price contracts	12,730		12,730	
Swap agreements and option contracts	1,382	858	524	
Total	$ 474,743	$ 858	$ 473,885	$
Liabilities:				
Obligations on forward fixed price contracts	$ (19,380)	$	$ (19,380)	$
Swap agreements and option contracts	(599)	(13)	(586)	
Interest rate collars	(7,416)		(7,416)	
Forward starting swap	(1,783)		(1,783)	
Total liabilities	$ (29,178)	$ (13)	$ (29,165)	$

The majority of the Partnership s derivatives outstanding are reported at fair value based market quotes that are deemed to be observable inputs in an active market for similar assets and liabilities and are considered Level 2 inputs for purposes of fair value disclosures. Specifically, the fair values of the Partnership s financial assets and financial liabilities provided above were derived from NYMEX and New York Harbor quotes for the Partnership s hedged inventories, forward fixed price contracts, swap agreements and option contracts and from the LIBOR rates for the Partnership s interest rate collars and forward starting swap. The Partnership has not changed its valuation techniques or inputs during the quarter ended March 31, 2010.

For assets and liabilities measured on a non-recurring basis during the period, accounting guidance requires quantitative disclosures about the fair value measurements separately for each major category. During the quarter ended March 31, 2010, the Partnership did not remeasure assets or liabilities at fair value on a non-recurring basis.

Financial Instruments

The fair value of the Partnership s financial instruments approximated the carrying value as of March 31, 2010 and December 31, 2009, in each case due to the short-term and the variable interest rate nature of the financial instruments.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 14. Unitholders Equity

On March 16, 2010, the Partnership entered into an Underwriting Agreement (the Underwriting Agreement) relating to the public offering of 3,400,000 common units representing limited partner interests in the Partnership (the Common Units), at a public offering price of $22.75, less underwriting discounts and commissions of $1.00 per Common Unit. Pursuant to the Underwriting Agreement, the Partnership also granted the underwriters an option to purchase an additional 510,000 Common Units from the Partnership at the same price, which option has been exercised. On March 19, 2010, the Partnership completed the public offering of the 3,910,000 Common Units for approximately $89.0 million. The net proceeds from the offering of $84.8 million, after deducting approximately $4.2 million in underwriting fees and offering expenses, were used to reduce indebtedness under the Partnership s Credit Agreement.

Note 15. Income Taxes

The following table presents a reconciliation of the difference between the statutory federal income tax rate and the effective income tax rate for the periods presented:

	Three Months Ended March 31,	
	2010	2009
Federal statutory income tax rate	34.0%	34.0%
State income tax rate, net of federal tax benefit	6.4%	6.4%
Partnership income not subject to tax	(37.9)%	(36.7)%
Effective income tax rate	2.5%	3.7%

Note 16. Legal Proceedings

General

Although the Partnership may, from time to time, be involved in litigation and claims arising out of its operations in the normal course of business, the Partnership does not believe that it is a party to any litigation that will have a material adverse impact on its financial condition or results of operations. Except as described below and in Note 11 included herein, the Partnership is not aware of any significant legal or governmental proceedings against it, or contemplated to be brought against it. The Partnership maintains insurance policies with insurers in amounts and with coverage and deductibles as the General Partner believes are reasonable and prudent. However, the Partnership can provide no assurance that this insurance will be adequate to protect it from all material expenses related to potential future claims or that these levels of insurance will be available in the future at economically acceptable prices.

Other

On October 22, 2009, the Federal Trade Commission (FTC   ) issued a Civil Investigative Demand and a Subpoena Duces Tecum in connection with the FTC   s regulatory review of the Partnership   s planned acquisition of three refined petroleum terminal facilities in Newburgh, New York from Warex Terminals Corporation. In April 2010, the FTC closed its regulatory review and determined that no further action is warranted by the FTC. The Partnership currently expects to close the transaction by the third quarter of 2010.

GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 16. Legal Proceedings (continued)

Certain of the Partnership s employees at its terminal in Oyster Bay (Commander), New York were employed under a collective bargaining agreement that expired in April 2010. On February 25, 2010, the Partnership received a petition filed with the National Labor Relations Board (NLRB) by the union representing certain employees assigned to Glenwood Landing and Inwood, New York (Local 419) seeking to replace the incumbent union at the Partnership s Oyster Bay, New York terminal (Local 355) with respect to certain hourly employees. On March 1, 2010, Local 355 filed a disclaimer of representation with the NLRB with respect to the Oyster Bay hourly employees. A representation election was held in April 2010 pursuant to the terms of a Stipulated Election Agreement with Local 419 with respect to these employees. Local 419 was elected as the representative of these employees, and the Partnership will negotiate a new collective bargaining agreement with Local 419. The Partnership does not believe the results of these negotiations will have a material adverse effect on its operations.

Note 17. New Accounting Standard

In January 2010, guidance issued by the FASB related to fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements and enhanced detail in the Level 3 reconciliation. This guidance clarifies the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either Level 2 or Level 3. The updated guidance was effective for the Partnership on January 1, 2010, with the exception of the Level 3 disaggregation which is effective for the Partnership on January 1, 2011. The adoption had no impact on the Partnership s consolidated financial statements. See Note 13 for details regarding the Partnership s assets and liabilities measured at fair value.

Note 18. Subsequent Events

The Partnership evaluated all events or transactions that occurred through the date the Partnership issued its financial statements. Except as described below, no material subsequent events have occurred since March 31, 2010 that required recognition or disclosure in the accompanying financial statements.

On April 20, 2010, the board of directors of the General Partner granted 1,200 phantom units under the LTIP to each of the three independent directors. The phantom units vest on December 31, 2010.

On April 21, 2010, the board of directors of the General Partner declared a quarterly cash distribution of $0.4875 per unit ($1.95 per unit on an annualized basis) for the period from January 1, 2010 through March 31, 2010. On May 14, 2010, the Partnership will pay this cash distribution to its common and subordinated unitholders of record as of the close of business May 5, 2010.

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

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

Forward-Looking Statements

Some of the information contained in or incorporated by reference in this Quarterly Report on Form 10-Q may contain forward-looking statements. Forward-looking statements do not relate strictly to historical or current facts and include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words may, believe, should, could, expect, anticipate, plan, intend, estimate, foresee, continue, will likely result, or other similar expressions. In addition, any statemen our management concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions by our partnership or its subsidiaries are also forward-looking statements. Forward-looking statements are not guarantees of performance. Although we believe these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks, many of which are beyond our control, which may cause future results to be materially different from the results stated or implied in this document. These risks and uncertainties include, among other things:

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

- A significant decrease in demand for refined petroleum products in the areas served by our storage facilities would reduce our ability to make distributions to our unitholders.

- Our sales of home heating oil and residual oil could be significantly reduced by conversions to natural gas which conversions could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.

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

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

- Our results of operations are influenced by the overall forward market for refined petroleum products, and increases and/or decreases in the prices of refined petroleum products may adversely impact the amount of borrowing available for working capital under our credit agreement, which credit agreement has borrowing base limitations and advance rates.

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

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

- The condition of credit markets may adversely affect our liquidity.

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

- We are exposed to performance risk in our supply chain.

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

- Unitholders have limited voting rights and are not entitled to elect our general partner or its directors or to remove our general partner without the consent of the holders of at least 66 2/3% of the outstanding units (including units held by our general partner and its affiliates), which could lower the trading price of our common units.

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

Additional information about risks and uncertainties that could cause actual results to differ materially from forward-looking statements is contained in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009 and Part II, Item 1A, Risk Factors, in this Quarterly Report on Form 10-Q. Developments in any of these areas could cause our results to differ materially from results that have been or may be anticipated or projected.

All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date of this Form 10-Q or, in the case of forward-looking statements, contained in any document incorporated by reference, the date of such document, and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

Overview

General

We own, control or have access to one of the largest terminal networks of refined petroleum products in Massachusetts, Maine, Connecticut, Vermont, New Hampshire, Rhode Island, New York, New Jersey and Pennsylvania (collectively, the Northeast). We are one of the largest wholesale distributors of gasoline, distillates (such as home heating oil, diesel and kerosene) and residual oil to wholesalers, retailers and commercial customers in New England and New York. For the three months ended March 31, 2010, we sold approximately $2.0 billion of refined petroleum products and small amounts of natural gas.

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

On December 9, 2009, our general partner entered into the Third Amended and Restated Agreement of Limited Partnership of the Partnership (the Partnership Agreement). The Partnership Agreement amended the Second Amended and Restated Agreement of Limited Partnership of the Partnership, dated May 9, 2007, as amended, to: (i) replace the terms operating surplus and adjusted operating surplus with the term distributable cash flow and thereby eliminate the term working capital borrowings, (ii) increase the minimum quarterly distribution, prospectively, from $0.4125 to $0.4625 per unit per quarter; and (iii) remove the provisions that previously permitted early conversion of a portion of the subordinated units and restate the provisions governing conversion of the subordinated units using distributable cash flow to test whether we have earned the minimum quarterly distribution.

Products and Operational Structure

Our products include gasoline, distillates and residual oil. We sell gasoline to unbranded retail gasoline stations and other resellers of transportation fuels. The distillates we sell are used primarily for fuel for trucks and off-road construction equipment and for space heating of residential and commercial buildings. We sell residual oil to major housing units, such as public housing authorities, colleges and hospitals and large industrial facilities that use processed steam in their manufacturing processes. In addition, we sell bunker fuel, which we can custom blend, to cruise ships, bulk carriers and fishing fleets. We have increased our sales in the non-weather sensitive components of our business, such as transportation fuels; however, we are still subject to the impact that warmer weather conditions may have on our home heating oil and residual oil sales.

Our business is divided into two segments:

- *Wholesale.* This segment includes sales of gasoline, distillates and residual oil to unbranded retail gasoline stations and other resellers of transportation fuels, home heating oil retailers and wholesale distributors.

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

Our business activities are substantially comprised of purchasing, storing, terminalling and selling refined petroleum products. In a contango market (when product prices for future deliveries are higher than for current deliveries), we may use our storage capacity to improve our margins by storing products we have purchased at lower prices in the current market for delivery to customers at higher prices in the future. In a backwardated market (when product prices for future deliveries are lower than current deliveries), we attempt to minimize our inventories to reduce commodity risk and maintain or increase net product margins. See Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009 for additional information related to commodity risk.

Outlook

This section identifies certain risks and certain economic or industry-wide factors that may affect our financial performance and results of operations in the future, both in the short-term and in the long-term. Our results of operations and financial condition depend, in part, upon the following:

- *The condition of credit markets may adversely affect our liquidity.* In the recent past, world financial markets experienced a severe reduction in the availability of credit. Although we were not negatively impacted by this condition, possible negative impacts in the future could include a decrease in the availability of borrowings under our credit agreement, increased counterparty credit risk on our derivatives contracts and our contractual counterparties requiring us to provide collateral. In addition, we could experience a tightening of trade credit from our suppliers.

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

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

- *Warmer weather conditions could adversely affect our results of operations and financial condition.* Weather conditions generally have an impact on the demand for both home heating oil and residual oil. Because we supply distributors whose customers depend on home heating oil and residual oil for space heating purposes during the winter, warmer-than-normal temperatures during the first and fourth calendar quarters in the Northeast can decrease the total volume we sell and the gross profit realized on those sales.

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

- *Our financial condition and results of operations are influenced by the overall forward market for refined petroleum products, and increases and/or decreases in the prices of refined petroleum products may adversely impact the amount of borrowing available for working capital under our credit agreement, which credit agreement has borrowing base limitations and advance rates*. Results from our purchasing, storing, terminalling and selling operations are influenced by prices for refined petroleum products, pricing volatility and the market for such products. Prices in the overall forward market for refined petroleum products may impact our ability to execute advantageous purchasing opportunities. In a contango market (when product prices for future deliveries are higher than for current deliveries), we may use our storage capacity to improve our margins by storing products we have purchased at lower prices in the current market for delivery to customers at higher prices in the future. In a backwardated market (when product prices for future deliveries are lower than current deliveries), we attempt to minimize our inventories to reduce commodity risk and maintain or increase net product margins. When prices for refined petroleum products rise, some of our customers may have insufficient credit to purchase supply from us at their historical purchase volumes, and their customers, in turn, may adopt conservation measures which reduce consumption, thereby reducing demand for product. Furthermore, when prices increase rapidly and dramatically, we may be unable to promptly pass our additional costs to our customers, resulting in lower margins for us which could adversely affect our results of operation. Lastly, higher prices for refined petroleum products may (1) diminish our access to trade credit support and/or cause it to become more expensive and (2) decrease the amount of borrowings available for working capital under our credit agreement as a result of total available commitments, borrowing base limitations and advance rates thereunder. In addition, when prices for refined petroleum products decline, our exposure to risk of loss in the event of nonperformance by our customers of our forward contracts may be increased as they and/or their customers may breach their contracts and purchase refined petroleum products at the then lower spot and/or retail market price. Furthermore, lower prices for refined petroleum products may diminish the amount of borrowings available for working capital under our working capital revolving credit facility as a result of borrowing base limitations.

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

Results of Operations

Evaluating Our Results of Operations

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

Net Product Margin

We view net product margin as an important performance measure of the core profitability of our operations. We review net product margin monthly for consistency and trend analysis. We define net product margin as our sales minus product costs. Sales include sales of unbranded gasoline, distillates, residual oil and natural gas. Product costs include the cost of acquiring the refined petroleum products and natural gas that we sell and all associated costs including shipping and handling costs to bring such products to the point of sale. Net product margin is a non-GAAP financial measure used by management and external users of our consolidated financial statements to assess our business. Net product margin should not be considered as an alternative to net income, operating income, cash flow from operations, or any other measure of financial performance presented in accordance with GAAP. In addition, our net product margin may not be comparable to net product margin or a similarly titled measure of other companies.

Gross Profit

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

Selling, General and Administrative Expenses

Our SG&A expenses include, among other things, marketing costs, corporate overhead, employee salaries and benefits, pension and 401(k) plan expenses, discretionary bonuses, non-interest financing costs, professional fees and information technology expenses. Employee-related expenses including employee salaries, discretionary bonuses and related payroll taxes, benefits, and pension and 401(k) plan expenses are paid by our general partner which, in turn, is reimbursed for these expenses by us.

Operating Expenses

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

Degree Day

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

Net Income Per Diluted Limited Partner Unit

We use net income per diluted limited partner unit to measure our financial performance on a per-unit basis. Net income per diluted limited partner unit is defined as net income, divided by the weighted average number of outstanding diluted common and subordinated units, or limited partner units, during the period.

EBITDA

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

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

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

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

- our operating performance and return on invested capital as compared to those of other companies in the wholesale, marketing and distribution of refined petroleum products, without regard to financing methods and capital structure; and

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

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

Distributable Cash Flow

Distributable cash flow is an important non-GAAP financial measure for our limited partners since it serves as an indicator of our success in providing a cash return on their investment. In December 2009, we amended our partnership agreement to restate the provisions governing conversion of the subordinated units to use distributable cash flow to test whether we have earned the minimum quarterly distribution. Distributable cash flow means our net income plus depreciation and amortization minus maintenance capital expenditures, as well as adjustments to eliminate items approved by the audit committee of the board of directors of our general partner that are extraordinary or non-recurring in nature and that would otherwise increase distributable cash flow. Specifically, this financial measure indicates to investors whether or not we have generated sufficient earnings on a current or historic level that can sustain or support an increase in our quarterly cash distribution. Distributable cash flow is a quantitative standard used by the investment community with respect to publicly traded partnerships. Distributable cash flow should not be considered as an alternative to net income, cash flow from operations, or any other measure of financial performance presented in accordance with GAAP. In addition, our distributable cash flow may not be comparable to distributable cash flow or similarly titled measures of other companies.

Three months ended March 31, 2010 and 2009

During the three months ended March 31, 2010, we experienced the following events:

- Refined petroleum product prices dramatically increased during the first quarter of 2010 compared to the same period in 2009.

- The first quarter of 2010 was marked by significant margin pressure in the gasoline market compared to the first quarter of 2009.

- Temperatures for the three months ended March 31, 2010 were 9% warmer than normal and 12% warmer than the first quarter of 2009.

- We decreased our reserve for credit losses by $450,000 for the three months ended March 31, 2010 compared to the same period in 2009.

- We believe heating oil conservation continued during the three months ended March 31, 2010.

The following table provides the prices of and percentage increases in refined petroleum product and natural gas prices at March 31, 2010 as compared to March 31, 2009:

Period:	**Heating Oil** $ per gallon(1)	**Gasoline** $ per gallon(1)	**Residual Oil** $ per gallon(2)	**Natural Gas** $ per gallon equivalent(3)
At March 31, 2009	$1.34	$1.40	$0.95	$0.62
At March 31, 2010	$2.16	$2.31	$1.76	$0.63
Change	61%	65%	85%	2%

(1) Source: New York Mercantile Exchange (closing price)

(2) Source: Platts Oilgram Price Report (6-1% New York Harbor; average)

(3) Source: Platts Gas Daily Report (Tennessee zone delivered)

Key Performance Indicators

The following table provides a summary of some of the key performance indicators that may be used to assess our results of operations. These comparisons are not necessarily indicative of future results (gallons and dollars in thousands, except per unit amounts):

	Three Months Ended March 31,			
	2010		2009	
Net income	$	15,028	$	18,863
Net income per diluted limited partner unit (1)	$	1.06	$	1.40
EBITDA (2)	$	23,528	$	27,366
Distributable cash flow (3)	$	18,593	$	21,996
Wholesale Segment:				
Volume (gallons)		891,032		1,038,619
Sales				
Distillates	$	959,257	$	1,006,616
Gasoline		872,326		501,659
Residual oil		12,129		11,490
Total	$	1,843,712	$	1,519,765
Net product margin (4)				
Distillates	$	34,020	$	33,853