

GLOBAL PARTNERS LP
Form 10-Q
August 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 001-32593

Global Partners LP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The issuer had 33,995,563 common units outstanding as of August 4, 2016.

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Item 1. Financial Statements

GLOBAL PARTNERS LP

CONSOLIDATED BALANCE SHEETS

(In thousands, except unit data)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,594	\$ 1,116
Accounts receivable, net	358,142	311,354
Accounts receivable—affiliates	3,862	2,578
Inventories	443,994	388,952
Brokerage margin deposits	39,363	31,327
Derivative assets	29,590	66,099
Prepaid expenses and other current assets	67,678	65,609
Total current assets	951,223	867,035
Property and equipment, net	1,207,239	1,242,683
Intangible assets, net	70,200	75,694
Goodwill	435,369	435,369
Other assets	38,938	42,894
Total assets	\$ 2,702,969	\$ 2,663,675
Liabilities and partners' equity		
Current liabilities:		
Accounts payable	\$ 286,807	\$ 303,781
Working capital revolving credit facility—current portion	218,800	98,100
Environmental liabilities—current portion	5,337	5,350
Trustee taxes payable	96,364	95,264
Accrued expenses and other current liabilities	48,471	60,328
Derivative liabilities	24,088	31,911
Total current liabilities	679,867	594,734
Working capital revolving credit facility—less current portion	150,000	150,000
Revolving credit facility	213,400	269,000
Senior notes	657,866	656,564
Environmental liabilities—less current portion	65,144	67,883
Financing obligations	152,371	89,790

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Deferred tax liabilities	79,738	84,836
Other long-term liabilities	56,551	56,884
Total liabilities	2,054,937	1,969,691
Partners' equity		
Global Partners LP equity:		
Common unitholders 33,995,563 units issued and 33,519,030 outstanding at June 30, 2016 and 33,995,563 units issued and 33,506,844 outstanding at December 31, 2015)	614,042	657,071
General partner interest (0.67% interest with 230,303 equivalent units outstanding at June 30, 2016 and December 31, 2015)	(1,496)	(1,188)
Accumulated other comprehensive loss	(6,867)	(8,094)
Total Global Partners LP equity	605,679	647,789
Noncontrolling interest	42,353	46,195
Total partners' equity	648,032	693,984
Total liabilities and partners' equity	\$ 2,702,969	\$ 2,663,675

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Sales	\$ 2,146,199	\$ 2,680,088	\$ 3,897,011	\$ 5,659,204
Cost of sales	2,016,857	2,535,900	3,637,610	5,346,458
Gross profit	129,342	144,188	259,401	312,746
Costs and operating expenses:				
Selling, general and administrative expenses	36,640	45,391	71,624	94,177
Operating expenses	75,891	72,168	148,127	140,824
Amortization expense	2,359	3,070	4,868	8,411
Net loss on sale and disposition of assets and impairment charges	2,530	213	8,635	650
Total costs and operating expenses	117,420	120,842	233,254	244,062
Operating income	11,922	23,346	26,147	68,684
Interest expense	(21,015)	(16,451)	(43,995)	(30,414)
(Loss) income before income tax benefit (expense)	(9,093)	6,895	(17,848)	38,270
Income tax benefit (expense)	550	719	1,470	(247)
Net (loss) income	(8,543)	7,614	(16,378)	38,023
Net loss (income) attributable to noncontrolling interest	1,233	(396)	2,044	(390)
Net (loss) income attributable to Global Partners LP	(7,310)	7,218	(14,334)	37,633
Less: General partner's interest in net (loss) income, including incentive distribution rights	(49)	2,671	(96)	4,850
Limited partners' interest in net (loss) income	\$ (7,261)	\$ 4,547	\$ (14,238)	\$ 32,783
Basic net (loss) income per limited partner unit	\$ (0.22)	\$ 0.15	\$ (0.42)	\$ 1.06
Diluted net (loss) income per limited partner unit	\$ (0.22)	\$ 0.15	\$ (0.42)	\$ 1.06
Basic weighted average limited partner units outstanding	33,518	31,037	33,518	30,819
Diluted weighted average limited partner units outstanding	33,518	31,214	33,518	30,978

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income	\$ (8,543)	\$ 7,614	\$ (16,378)	\$ 38,023
Other comprehensive income:				
Change in fair value of cash flow hedges	592	1,295	853	1,478
Change in pension liability	306	(269)	374	(178)
Total other comprehensive income	898	1,026	1,227	1,300
Comprehensive (loss) income	(7,645)	8,640	(15,151)	39,323
Comprehensive loss (income) attributable to noncontrolling interest	1,233	(396)	2,044	(390)
Comprehensive (loss) income attributable to Global Partners LP	\$ (6,412)	\$ 8,244	\$ (13,107)	\$ 38,933

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities		
Net (loss) income	\$ (16,378)	\$ 38,023
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	57,949	55,240
Amortization of deferred financing fees	2,948	2,927
Amortization of leasehold interests	626	172
Amortization of senior notes discount	690	411
Bad debt expense	50	288
Unit-based compensation expense	2,150	2,072
Write-off of financing fees	1,828	—
Net loss on sale and disposition of assets and impairment charges	8,635	650
Changes in operating assets and liabilities, excluding net assets acquired:		
Accounts receivable	(46,838)	90,971
Accounts receivable-affiliate	(1,284)	(1,372)
Inventories	(55,042)	(72,788)
Broker margin deposits	(8,036)	(1,792)
Prepaid expenses, all other current assets and other assets	(2,277)	3,749
Accounts payable	(16,974)	(145,863)
Trustee taxes payable	1,100	(17,225)
Change in derivatives	28,686	24,232
Accrued expenses, all other current liabilities and other long-term liabilities	(17,816)	(36,927)
Net cash used in operating activities	(59,983)	(57,232)
Cash flows from investing activities		
Acquisitions	—	(561,757)
Capital expenditures	(38,846)	(33,163)
Proceeds from sale of property and equipment	11,682	1,251
Net cash used in investing activities	(27,164)	(593,669)
Cash flows from financing activities		
Proceeds from issuance of common units, net	—	109,305
Net borrowings from working capital revolving credit facility	120,700	168,200
Net (payments on) borrowings from revolving credit facility	(55,600)	134,200

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Proceeds from sale-leaseback, net	62,476	—
Proceeds from senior notes, net of discount	—	295,125
Payments on line of credit	—	(700)
Repurchase of common units	—	(2,442)
Noncontrolling interest capital contribution	—	1,880
Distribution to noncontrolling interest	(1,798)	(3,600)
Distributions to partners	(31,153)	(45,118)
Net cash provided by financing activities	94,625	656,850
Cash and cash equivalents		
Increase in cash and cash equivalents	7,478	5,949
Cash and cash equivalents at beginning of period	1,116	5,238
Cash and cash equivalents at end of period	\$ 8,594	\$ 11,187
Supplemental information		
Cash paid during the period for interest	\$ 23,016	\$ 25,117

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

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GLOBAL PARTNERS LP

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

(In thousands)

(Unaudited)

	Common Unitholders	General Partner Interest	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Partners' Equity
Balance at December 31, 2015	\$ 657,071	\$ (1,188)	\$ (8,094)	\$ 46,195	\$ 693,984
Net (loss) income	(14,238)	(96)	—	(2,044)	(16,378)
Distribution to noncontrolling interest	—	—	—	(1,798)	(1,798)
Other comprehensive income	—	—	1,227	—	1,227
Unit-based compensation	2,150	—	—	—	2,150
Distributions to partners	(31,446)	(212)	—	—	(31,658)
Dividends on repurchased units	505	—	—	—	505
Balance at June 30, 2016	\$ 614,042	\$ (1,496)	\$ (6,867)	\$ 42,353	\$ 648,032

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

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

Global Partners LP (the “Partnership”) is a midstream logistics and marketing master limited partnership formed in March 2005 engaged in the purchasing, selling, storing and logistics of transporting petroleum and related products, including domestic and Canadian crude oil, gasoline and gasoline blendstocks (such as ethanol), distillates (such as home heating oil, diesel and kerosene), residual oil, renewable fuels, natural gas and propane. The Partnership also receives revenue from convenience store sales and gasoline station rental income. The Partnership owns, controls or has access to one of the largest terminal networks of refined petroleum products and renewable fuels in Massachusetts, Maine, Connecticut, Vermont, New Hampshire, Rhode Island, New York, New Jersey and Pennsylvania (collectively, the “Northeast”). The Partnership owns transload and storage terminals in North Dakota and Oregon that extend its origin-to-destination capabilities from the mid-continent region of the United States and Canada to the East and West Coasts. The Partnership is one of the largest distributors of gasoline, distillates, residual oil and renewable fuels to wholesalers, retailers and commercial customers in the New England states and New York. As of June 30, 2016, the Partnership had a portfolio of 1,511 owned, leased and/or supplied gasoline stations, including 290 directly operated convenience stores, in the Northeast, Maryland and Virginia.

Global GP LLC, the Partnership’s general partner (the “General Partner”), manages the Partnership’s operations and activities and employs its officers and substantially all of its personnel, except for most of its gasoline station and convenience store employees who are employed by GMG.

The General Partner, which holds a 0.67% general partner interest in the Partnership, is owned by affiliates of the Slifka family. As of June 30, 2016, affiliates of the General Partner, including its directors and executive officers and their affiliates, owned 7,434,775 common units, representing a 21.9% limited partner interest.

Recent Transactions

Sale Leaseback Transaction—On June 29, 2016, the Partnership and its wholly owned subsidiaries Global Companies LLC (“Global Companies”), Global Montello Group Corp. (“GMG”) and Alliance Energy LLC (“Alliance”), and Alliance’s wholly owned subsidiary, Bursaw Oil LLC (“Bursaw”) sold to a premier institutional real estate investor (the “Buyer”) real property assets, including the buildings, improvements and appurtenances thereto, at 30 gasoline stations and convenience stores located in Connecticut, Maine, Massachusetts, New Hampshire and Rhode Island for a purchase price of approximately \$63.5 million. In connection with the sale, the Partnership, entered into a Master Unitary Lease Agreement with the Buyer to lease back the real property assets sold with respect to these sites. See Note 6.

Expanded Retail Network—In April 2016, the Partnership expanded its gasoline station and convenience-store network in Western Massachusetts with the addition of 22 leased retail sites. Located in the Pittsfield and Springfield areas, the stores were added through long-term leases.

Basis of Presentation

On January 7, 2015, the Partnership acquired, through one of its wholly owned subsidiaries, GMG, 100% of the equity interests in Warren Equities, Inc. (“Warren”) from The Warren Alpert Foundation. On January 14, 2015, the Partnership acquired the Revere terminal (the “Revere Terminal”) located in Boston Harbor in Revere, Massachusetts from Global Petroleum Corp. (“GPC”) and related entities. On June 1, 2015, the Partnership acquired, through one of its wholly owned subsidiaries, Alliance, retail gasoline stations and dealer supply contracts from Capitol Petroleum Group (“Capitol”). See Note 2.

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GLOBAL PARTNERS LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The financial results of Capitol for the one month ended June 30, 2015 are included in the accompanying statements of operations for the three and six months ended June 30, 2015. The financial results of Warren and the Revere Terminal for the three and six months ended June 30, 2015 are included in the accompanying statements of operations for the three and six months ended June 30, 2015. The accompanying consolidated financial statements as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 reflect the accounts of the Partnership. Upon consolidation, all intercompany balances and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition and operating results for the interim periods. The interim financial information, which has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015 and notes thereto contained in the Partnership's Annual Report on Form 10-K. The significant accounting policies described in Note 2, "Summary of Significant Accounting Policies," of such Annual Report on Form 10-K are the same used in preparing the accompanying consolidated financial statements.

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2016. The consolidated balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2015.

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

Noncontrolling Interest

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Concentration of Risk

The following table presents the Partnership's product sales and other revenues as a percentage of the consolidated sales for the periods presented:

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Gasoline sales: gasoline and gasoline blendstocks (such as ethanol)	68 %	62 %	63 %	56 %
Crude oil sales and crude oil logistics revenue	7 %	13 %	8 %	11 %
Distillates (home heating oil, diesel and kerosene), residual oil, natural gas and propane sales	20 %	21 %	25 %	30 %
Convenience store sales, rental income and sundry sales	5 %	4 %	4 %	3 %
Total	100 %	100 %	100 %	100 %

The following table presents the Partnership's product margin by segment as a percentage of the consolidated product margin for the periods presented:

Three Months		Six Months	
Ended		Ended	
June 30,		June 30,	
2016	2015	2016	2015