SUBURBAN PROPANE PARTNERS LP
Form 10-Q
August 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 27, 2009

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 1-14222
SUBURBAN PROPANE PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

Delaware	**22-3410353**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

240 Route 10 West
Whippany, NJ 07981
(973) 887-5300
(Address, including zip code, and telephone number,
including area code, of registrant s principal executive offices)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 **o** No **o**

* The registrant has not yet been phased into the interactive data requirements.

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. (Check one):

Large accelerated filer **þ**	Accelerated filer **o**	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements (Forward-Looking Statements) as defined in the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, relating to future business expectations and predictions and financial condition and results of operations of Suburban Propane Partners, L.P. (the Partnership). Some of these statements can be identified by the use of forward-looking terminology such as prospects, outlook, believes, estimates, intends, may, will, should, anticipates, the negative or other variation of these or similar words, or by discussion of trends and conditions, strategies or risks and uncertainties. These Forward-Looking Statements involve certain risks and uncertainties that could cause actual results to differ materially from those discussed or implied in such Forward-Looking Statements (statements contained in this Quarterly Report identifying such risks and uncertainties are referred to as Cautionary Statements). The risks and uncertainties and their impact on the Partnership s results include, but are not limited to, the following risks:

- The impact of weather conditions on the demand for propane, fuel oil and other refined fuels, natural gas and electricity;
- Volatility in the unit cost of propane, fuel oil and other refined fuels and natural gas, the impact of the Partnership s hedging and risk management activities, and the adverse impact of price increases on volumes as a result of customer conservation;
- The ability of the Partnership to compete with other suppliers of propane, fuel oil and other energy sources;
- The impact on the price and supply of propane, fuel oil and other refined fuels from the political, military or economic instability of the oil producing nations, global terrorism and other general economic conditions;
- The ability of the Partnership to acquire and maintain reliable transportation for its propane, fuel oil and other refined fuels;
- The ability of the Partnership to retain customers;
- The impact of customer conservation, energy efficiency and technology advances on the demand for propane and fuel oil;
- The ability of management to continue to control expenses;
- The impact of changes in applicable statutes and government regulations, or their interpretations, including those relating to the environment and global warming and other regulatory developments on the Partnership s business;
- The impact of legal proceedings on the Partnership s business;
- The impact of operating hazards that could adversely affect the Partnership s operating results to the extent not covered by insurance;
- The Partnership s ability to make strategic acquisitions and successfully integrate them; and
- The impact of current conditions in the global capital and credit markets, and general economic pressures.

Some of these Forward-Looking Statements are discussed in more detail in Management s Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report. Reference is also made to the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 27, 2008. On different occasions, the Partnership or its representatives have made or may make Forward-Looking Statements in other filings with the Securities and Exchange Commission (SEC), press releases or oral statements made by or with the approval of one of the Partnership s authorized executive officers. Readers are cautioned not to place undue reliance on Forward-Looking Statements, which reflect management s view only as of the date made. The Partnership undertakes no obligation to update any Forward-Looking Statement or Cautionary Statement except as otherwise required by law. All subsequent written and oral Forward-Looking Statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements in this Quarterly Report and in future SEC reports.

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 27, 2009	September 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 256,099	$ 137,698
Accounts receivable, less allowance for doubtful accounts of $5,891 and $6,578, respectively	60,948	94,933
Inventories	57,734	79,822
Other current assets	25,705	47,098
Total current assets	400,486	359,551
Property, plant and equipment, net	358,247	367,808
Goodwill	274,902	276,282
Other intangible assets, net	14,353	16,018
Other assets	27,317	16,054
Total assets	$ 1,075,305	$ 1,035,713
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable	$ 31,547	$ 58,079
Accrued employment and benefit costs	36,556	27,053
Accrued insurance	10,530	41,120
Customer deposits and advances	48,359	71,206
Accrued interest	2,465	11,030
Other current liabilities	17,069	15,127
Total current liabilities	146,526	223,615
Long-term borrowings	523,947	531,772
Postretirement benefits obligation	16,868	17,153
Accrued insurance	42,214	31,913
Other liabilities	12,685	11,184
Total liabilities	742,240	815,637
Commitments and contingencies		
Partners capital:		
Common Unitholders (32,797 and 32,725 units issued and outstanding at June 27, 2009 and September 27, 2008, respectively)	374,552	264,231
Accumulated other comprehensive loss	(41,487)	(44,155)

Total partners capital	333,065	220,076
Total liabilities and partners capital	$ 1,075,305	$ 1,035,713

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

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit amounts)
(unaudited)

	Three Months Ended	
	June 27, 2009	June 28, 2008
Revenues		
Propane	$ 139,571	$ 216,999
Fuel oil and refined fuels	23,091	55,262
Natural gas and electricity	12,147	22,507
Services	8,321	9,184
All other	1,242	1,524
	184,372	305,476
Costs and expenses		
Cost of products sold	87,463	212,974
Operating	72,295	76,455
General and administrative	13,108	13,268
Depreciation and amortization	7,713	7,159
	180,579	309,856
Income (loss) before interest expense and provision for (benefit from) income taxes	3,793	(4,380)
Interest expense, net	10,068	9,524
Loss before provision for (benefit from) taxes	(6,275)	(13,904)
Provision for (benefit from) income taxes	1,160	(157)
Net loss	$ (7,435)	$ (13,747)
Loss per Common Unit basic	$ (0.23)	$ (0.42)
Weighted average number of Common Units outstanding basic	32,859	32,725
Loss per Common Unit diluted	$ (0.23)	$ (0.42)
Weighted average number of Common Units outstanding diluted	32,859	32,725

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

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit amounts)
(unaudited)

	Nine Months Ended	
	June 27, 2009	**June 28, 2008**
Revenues		
Propane	$ 750,392	$ 946,700
Fuel oil and refined fuels	142,420	247,609
Natural gas and electricity	66,521	84,693
Services	30,574	34,752
All other	3,005	3,928
	992,912	1,317,682
Costs and expenses		
Cost of products sold	469,952	871,446
Operating	236,206	235,495
General and administrative	45,671	37,632
Depreciation and amortization	21,867	21,325
	773,696	1,165,898
Income before interest expense and provision for income taxes	219,216	151,784
Interest expense, net	28,913	27,330
Income before provision for taxes	190,303	124,454
Provision for income taxes	2,184	1,956
Income from continuing operations	188,119	122,498
Discontinued operations:		
Gain on sale of discontinued operations		43,707
Net income	$ 188,119	$ 166,205
Income per Common Unit basic		
Income from continuing operations	$ 5.73	$ 3.74
Discontinued operations		1.34
Net income	$ 5.73	$ 5.08
Weighted average number of Common Units outstanding basic	32,849	32,719

Income per Common Unit diluted				
Income from continuing operations	$	5.70	$	3.72
Discontinued operations				1.33
Net income	$	5.70	$	5.05
Weighted average number of Common Units outstanding diluted		33,026		32,941

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

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended June 27, 2009	Nine Months Ended June 28, 2008
Cash flows from operating activities:		
Net income	$ 188,119	$ 166,205
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	21,867	21,325
Amortization of debt origination costs	1,410	996
Compensation cost recognized under Restricted Unit Plan	1,885	1,503
Amortization of discount on long-term borrowings	175	175
Gain on disposal of discontinued operations		(43,707)
Gain on disposal of property, plant and equipment, net	(770)	(1,821)
Deferred tax provision	1,380	1,277
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	33,985	(28,375)
Decrease in inventories	22,088	2,541
Decrease in other current assets	21,393	3,656
(Decrease) in accounts payable	(26,532)	(7,469)
Increase (decrease) in accrued employment and benefit costs	9,503	(13,921)
(Decrease) in accrued insurance	(20,289)	(7,844)
(Decrease) in customer deposits and advances	(22,847)	(34,477)
(Decrease) in accrued interest	(8,565)	(5,124)
Increase in other current liabilities	3,942	2,077
(Increase) decrease in other noncurrent assets	(4,092)	2,048
Increase (decrease) in other noncurrent liabilities	846	(2,077)
Net cash provided by operating activities	223,498	56,988
Cash flows from investing activities:		
Capital expenditures	(13,836)	(17,301)
Proceeds from sale of property, plant and equipment	3,965	3,489
Proceeds from sale of discontinued operations		53,715
Net cash (used in) provided by investing activities	(9,871)	39,903
Cash flows from financing activities:		
Repayments of short-term borrowings	(110,000)	
Proceeds from long-term borrowings	100,000	
Issuance costs associated with long-term borrowings	(5,543)	
Partnership distributions	(79,683)	(74,854)
Net cash (used in) financing activities	(95,226)	(74,854)

Net increase in cash and cash equivalents	118,401	22,037
Cash and cash equivalents at beginning of period	137,698	96,586
Cash and cash equivalents at end of period	$ 256,099	$ 118,623

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

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL
(in thousands)
(unaudited)

	Number of Common Units	Common Unitholders	Accumulated Other Comprehensive (Loss)	Total Partners Capital	Comprehensive Income
Balance at September 27, 2008	32,725	$ 264,231	$ (44,155)	$ 220,076	
Net income		188,119		188,119	$ 188,119
Other comprehensive income:					
Net unrealized gains on cash flow hedges			231	231	231
Amortization of net actuarial losses and prior service credits into earnings			2,437	2,437	2,437
Comprehensive income					$ 190,787
Partnership distributions		(79,683)		(79,683)	
Common Units issued under Restricted Unit Plan	72				
Compensation cost recognized under Restricted Unit Plan, net of forfeitures		1,885		1,885	
Balance at June 27, 2009	32,797	$ 374,552	$ (41,487)	$ 333,065	

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per unit amounts)
(unaudited)

1. Partnership Organization

Suburban Propane Partners, L.P. (the Partnership) is a publicly traded Delaware limited partnership principally engaged, through its operating partnership and subsidiaries, in the retail marketing and distribution of propane, fuel oil and refined fuels, as well as the marketing of natural gas and electricity in deregulated markets. In addition, to complement its core marketing and distribution businesses, the Partnership services a wide variety of home comfort equipment, particularly for heating and ventilation. The publicly traded limited partner interests in the Partnership are evidenced by common units traded on the New York Stock Exchange (Common Units), with 32,797,020 Common Units outstanding at June 27, 2009. The holders of Common Units are entitled to participate in distributions and exercise the rights and privileges available to limited partners under the Third Amended and Restated Agreement of Limited Partnership (the Partnership Agreement), adopted on October 19, 2006 following approval by Common Unitholders at the Partnership s Tri-Annual Meeting and as thereafter amended by the Board of Supervisors on July 31, 2007, pursuant to the authority granted to the Board in the Partnership Agreement. Rights and privileges under the Partnership Agreement include, among other things, the election of all members of the Board of Supervisors and voting on the removal of the general partner.

Suburban Propane, L.P. (the Operating Partnership), a Delaware limited partnership, is the Partnership s operating subsidiary formed to operate the propane business and assets. In addition, Suburban Sales & Service, Inc. (the Service Company), a subsidiary of the Operating Partnership, was formed to operate the service work and appliance and parts businesses of the Partnership. The Operating Partnership, together with its direct and indirect subsidiaries, accounts for substantially all of the Partnership s assets, revenues and earnings. The Partnership, the Operating Partnership and the Service Company commenced operations in March 1996 in connection with the Partnership s initial public offering.

The general partner of both the Partnership and the Operating Partnership is Suburban Energy Services Group LLC (the General Partner), a Delaware limited liability company. The General Partner has no economic interest in either the Partnership or the Operating Partnership other than as a holder of 784 Common Units that will remain in the General Partner, no incentive distribution rights are outstanding and the sole member of the General Partner is the Partnership s Chief Executive Officer.

On December 23, 2003, the Partnership acquired substantially all of the assets and operations of Agway Energy Products, LLC, Agway Energy Services, Inc. and Agway Energy Services PA, Inc. (collectively referred to as Agway Energy) pursuant to an asset purchase agreement dated November 10, 2003 (the Agway Acquisition). The operations of Agway Energy consisted of the distribution and marketing of propane, fuel oil and refined fuels, as well as the marketing of natural gas and electricity. The Partnership s fuel oil and refined fuels, natural gas and electricity and services businesses are structured as limited liability companies owned by the Service Company (collectively referred to as the Corporate Entity) and, as such, are subject to corporate level income tax.

Suburban Energy Finance Corporation, a direct wholly-owned subsidiary of the Partnership, was formed on November 26, 2003 to serve as co-issuer, jointly and severally, with the Partnership of the Partnership s 6.875% senior notes due in 2013.

2. Basis of Presentation

Principles of Consolidation. The condensed consolidated financial statements include the accounts of the Partnership, the Operating Partnership and all of its direct and indirect subsidiaries. All significant intercompany transactions and account balances have been eliminated. The Partnership consolidates the results of operations, financial condition and cash flows of the Operating Partnership as a result of the Partnership s 100% limited partner interest in the Operating Partnership.

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The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). They include all adjustments that the Partnership considers necessary for a fair statement of the results for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed. These financial statements should be read in conjunction with the Partnership s Annual Report on Form 10-K for the fiscal year ended September 27, 2008, including management s discussion and analysis of financial condition and results of operations contained therein. Due to the seasonal nature of the Partnership s operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Fiscal Period. The Partnership s fiscal periods typically end on the last Saturday of the quarter.

Revenue Recognition. Sales of propane, fuel oil and refined fuels are recognized at the time product is delivered to the customer. Revenue from the sale of appliances and equipment is recognized at the time of sale or when installation is complete, as applicable. Revenue from repairs, maintenance and other service activities is recognized upon completion of the service. Revenue from service contracts is recognized ratably over the service period. Revenue from the natural gas and electricity business is recognized based on customer usage as determined by meter readings, as adjusted for amounts delivered but unbilled at the end of each accounting period. Revenue from annually billed tank fees is deferred at the time of billing and recognized on a straight-line basis over one year.

Fair Value Measurements. On September 28, 2008, the Partnership adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides a single definition of fai value and a common framework for measuring fair value as well as new disclosure requirements for fair value measurements used in financial statements. Fair value measurements are based upon the exit price concept the price that would be received to sell an asset or paid to transfer a liability exclusive of any transaction costs in an orderly transaction between market participants in either the principal market or the most advantageous market. The principal market is the market with the greatest level of activity and volume for the asset or liability. Adoption of SFAS 157 did not impact the Partnership s financial position, results of operations or cash flows.

SFAS 157 establishes a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Partnership measures the fair value of its options and futures derivative instruments using Level 1 inputs and the fair value of its interest rate swap using Level 2 inputs. See Derivative Instruments and Hedging Activities, below, for disclosure of fair value amounts.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have been made by management in the areas of depreciation and amortization of long-lived assets, insurance and litigation reserves, environmental reserves, pension and other postretirement benefit liabilities and costs, valuation of derivative instruments, asset valuation assessments, tax valuation allowances, as well as the allowance for doubtful accounts. Actual results could differ from those estimates, making it reasonably possible that a change in these estimates could occur in the near term.

Reclassifications. Certain prior period amounts have been reclassified to conform with the current period presentation.

3. Financial Instruments

Cash and Cash Equivalents. The fair value of cash and cash equivalents is not materially different from their carrying amounts because of the short-term nature of these instruments.

Derivative Instruments and Hedging Activities. On December 28, 2008, the Partnership adopted SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about an entity s objectives for using derivative instruments and related hedged items, how those derivative instruments are accounted for under SFAS 133 (defined below) and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows.

Commodity Price Risk. Given the retail nature of its operations, the Partnership maintains a certain level of priced physical inventory to ensure its field operations have adequate supply commensurate with the time of year. The Partnership s strategy is to keep its physical inventory priced relatively close to market for its field operations. The Partnership enters into a combination of exchange-traded futures and option contracts and, in certain instances, over-the-counter forward and option contracts (collectively, derivative instruments) to hedge price risk associated with propane and fuel oil physical inventories, as well as future purchases of propane or fuel oil used in its operations and to ensure adequate supply during periods of high demand. Under this risk management strategy, realized gains or losses on derivative instruments will typically offset losses or gains on the physical inventory once the product is sold. All of the Partnership s derivative instruments are reported on the condensed consolidated balance sheet at their fair values pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). In addition, in the course of normal operations, the Partnership routinely enters into contracts such as forward priced physical contracts for the purchase or sale of propane and fuel oil that, under SFAS 133, qualify for and are designated as normal purchase or normal sale contracts. Such contracts are exempted from the fair value accounting requirements of SFAS 133 and are accounted for at the time product is purchased or sold under the related contract. The Partnership does not use derivative instruments for speculative trading purposes. Market risks associated with futures, options and forward contracts are monitored daily for compliance with the Partnership s Hedging and Risk Management Policy which includes volume limits for open positions. Priced on-hand inventory is also reviewed and managed daily as to exposures to changing market prices.

On the date that futures, forward and option contracts are entered into, other than those designated as normal purchases or normal sales, the Partnership makes a determination as to whether the derivative instrument qualifies for designation as a hedge. Changes in the fair value of derivative instruments are recorded each period in current period earnings or other comprehensive income (OCI), depending on whether the derivative instrument is designated as a hedge and, if so, the type of hedge. For derivative instruments designated as cash flow hedges, the Partnership formally assesses, both at the hedge contract s inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in cash flows of hedged items. Changes in the fair value of derivative instruments designated as cash flow hedges are reported in OCI to the extent effective and reclassified into cost of products sold during the same period in which the hedged item affects earnings. The mark-to-market gains or losses on ineffective portions of cash flow hedges are recognized in cost of products sold immediately. Changes in the fair value of derivative instruments that are not designated as cash flow hedges, and that do not meet the normal purchase and normal sale exemption under SFAS 133, are recorded within cost of products sold as they occur. Cash flows associated with derivative instruments are reported as operating activities within the condensed consolidated statement of cash flows.

Credit Risk. Exchange-traded futures and options are guaranteed by the New York Mercantile Exchange (NYMEX) and, as a result, have minimal credit risk. The Partnership is subject to credit risk with over-the-counter, forward and propane option contracts to the extent the counterparties do not perform. The Partnership evaluates the financial condition of each counterparty with which it conducts business and establish credit limits to reduce exposure to the risk of non-performance by its counterparties.

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Interest Rate Risk. A portion of the Partnership s borrowings bear interest at prevailing interest rates based upon, at the Operating Partnership s option, LIBOR plus an applicable margin or the base rate, defined as the higher of the Federal Funds Rate plus $^1/2$ of 1% or the agent bank s prime rate, or LIBOR plus 1%, plus the applicable margin. The applicable margin is dependent on the level of the Partnership s total leverage (the ratio of total debt to income before deducting interest expense, income taxes, depreciation and amortization (EBITDA)). Therefore, the Partnership is subject to interest rate risk on the variable component of the interest rate. The Partnership manages part of its variable interest rate risk by entering into interest rate swap agreements. The interest rate swap is being accounted for under SFAS 133 and the Partnership has designated it as a cash flow hedg