SUBURBAN PROPANE PARTNERS LP
Form 10-Q
August 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 24, 2006

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ‘‘accelerated filer and large accelerated filer’’ in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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 are subject to 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;
- Fluctuations in the unit cost of propane, fuel oil and other refined fuels and natural gas, and the impact of price increases on 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 energy efficiency and technology advances on the demand for propane and fuel oil;
- The ability of management to continue to control expenses including the results of our recent field realignment initiative;
- 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; and
- The Partnership's ability to integrate acquired businesses successfully.

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. 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. 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.

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 24, 2006	September 24, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,876	$ 14,411
Accounts receivable, less allowance for doubtful accounts of $10,490 and $9,965, respectively	105,974	109,918
Inventories	71,976	80,565
Prepaid expenses and other current assets	16,825	31,909
Total current assets	232,651	236,803
Property, plant and equipment, net	390,797	399,985
Goodwill	281,359	281,359
Other intangible assets, net	18,622	20,685
Other assets	32,213	26,765
Total assets	$ 955,642	$ 965,597
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 45,854	$ 63,569
Accrued employment and benefit costs	32,309	20,291
Short-term borrowings	—	26,750
Current portion of long-term borrowings	—	475
Accrued insurance	6,630	11,505
Customer deposits and advances	34,623	62,099
Accrued interest	3,396	10,975
Other current liabilities	19,251	26,548
Total current liabilities	142,063	222,212
Long-term borrowings	548,245	548,070
Postretirement benefits obligation	29,779	31,058
Accrued insurance	41,288	34,952
Accrued pension liability	44,222	40,206
Other liabilities	14,026	12,983
Total liabilities	819,623	889,481
Commitments and contingencies		
Partners' capital:		
Common Unitholders (30,314 and 30,279 units issued and outstanding at June 24, 2006 and September 24, 2005, respectively)	209,052	159,199
General Partner	(337)	(1,779)
Deferred compensation	(5,860)	(5,887)
Common Units held in trust, at cost	5,860	5,887
Unearned compensation	—	(4,355)
Accumulated other comprehensive loss	(72,696)	(76,949)
Total partners' capital	136,019	76,116
Total liabilities and partners' capital	$ 955,642	$ 965,597

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit amounts)
(unaudited)

	Three Months Ended	
	June 24, 2006	June 25, 2005
Revenues		
Propane	$ 198,505	$ 194,662
Fuel oil and refined fuels	66,540	86,485
Natural gas and electricity	19,662	20,178
HVAC	16,540	22,727
All other	2,751	3,128
	303,998	327,180
Costs and expenses		
Cost of products sold	192,017	219,926
Operating	88,183	99,843
General and administrative	13,778	11,804
Restructuring costs	2,930	—
Depreciation and amortization	7,756	9,196
	304,664	340,769
Loss before interest expense, loss on debt extinguishment and provision for income taxes	(666)	(13,589)
Loss on debt extinguishment	—	36,242
Interest expense, net	9,686	9,943
Loss before provision for income taxes	(10,352)	(59,774)
Provision for income taxes	121	138
Net loss	$ (10,473)	$ (59,912)
General Partner's interest in net loss	(391)	(1,862)
Limited Partners' interest in net loss	$ (10,082)	$ (58,050)
Loss per Common Unit – basic	$ (0.33)	$ (1.92)
Weighted average number of Common Units outstanding – basic	30,314	30,278
Loss per Common Unit – diluted	$ (0.33)	$ (1.92)
Weighted average number of Common Units outstanding – diluted	30,314	(30,278)

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 24, 2006	June 25, 2005
Revenues		
Propane	$ 895,407	$ 814,275
Fuel oil and refined fuels	305,412	352,708
Natural gas and electricity	103,716	81,931
HVAC	70,183	82,001
All other	7,686	7,680
	1,382,404	1,338,595
Costs and expenses		
Cost of products sold	876,716	874,197
Operating	287,971	305,097
General and administrative	45,108	34,829
Restructuring costs	4,427	625
Depreciation and amortization	24,865	27,513
	1,239,087	1,242,261
Income before interest expense, loss on debt extinguishment and provision for income taxes	143,317	96,334
Loss on debt extinguishment	—	36,242
Interest expense, net	31,192	30,286
Income before provision for income taxes	112,125	29,806
Provision for income taxes	354	336
Income from continuing operations	111,771	29,470
Discontinued operations (Note 13):		
Gain on sale of customer service centers	—	976
Net income	$ 111,771	$ 30,446
General Partner's interest in net income	3,511	946
Limited Partners' interest in net income	$ 108,260	$ 29,500
Income per Common Unit – basic		
Income from continuing operations	$ 3.37	$ 0.94

Discontinued operations	—	0.03
Net income	$ 3.37	$ 0.97
Weighted average number of Common Units outstanding – basic	30,309	30,275
Income per Common Unit – diluted		
Income from continuing operations	$ 3.35	$ 0.94
Discontinued operations	—	0.03
Net income	$ 3.35	$ 0.97
Weighted average number of Common Units outstanding – diluted	30,431	30,412

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 24, 2006	June 25, 2005
Cash flows from operating activities:		
Net income	$ 111,771	$ 30,446
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation expense	22,802	24,431
Amortization of intangible assets	2,063	3,082
Amortization of debt origination costs	992	1,171
Compensation cost recognized under Restricted Unit Plan	1,648	1,433
Amortization of discount on long-term borrowings	175	58
Gain on disposal of property, plant and equipment, net	(1,189)	(1,888)
Gain on sale of customer service centers	—	(976)
Loss on debt extinguishment	—	36,242
Changes in assets and liabilities:		
Decrease/(increase) in accounts receivable	3,944	(33,192)
Decrease in inventories	8,589	7,144
Decrease in prepaid expenses and other current assets	15,272	9,124
(Decrease) in accounts payable	(17,715)	(8,208)
Increase/(decrease) in accrued employment and benefit costs	12,018	(1,503)
(Decrease) in accrued interest	(7,579)	(7,151)
(Decrease) in other accrued liabilities	(40,892)	(47,569)
(Increase) in other noncurrent assets	(2,424)	(871)
Increase in other noncurrent liabilities	11,409	10,514

Net cash provided by operating activities	120,884	22,287
Cash flows from investing activities:		
Capital expenditures	(15,303)	(23,130)
Proceeds from sale of property, plant and equipment	2,878	4,004
Net cash (used in) investing activities	(12,425)	(19,126)
Cash flows from financing activities:		
Long-term debt repayments	(475)	(340,440)
Long-term debt issuance, net of discount of $2,047	—	372,953
Short-term borrowings	—	15,250
Repayment of short-term borrowings, net	(26,750)	—
Expenses associated with debt agreements	—	(3,805)
Prepayment premium associated with debt extinguishment	—	(31,980)
Partnership distributions	(57,769)	(57,412)
Net cash (used in) financing activities	(84,994)	(45,434)
Net increase/(decrease) in cash and cash equivalents	23,465	(42,273)
Cash and cash equivalents at beginning of period	14,411	53,481
Cash and cash equivalents at end of period	$ 37,876	$ 11,208

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(in thousands)
(unaudited)

	Number of Common Units	Common Unitholders	General Partner	Deferred Compensation	Common Units Held in Trust	Unearned Compensation	Accumulated Other Comprehensive (Loss)	Total Partners' Capital	Com
Balance at September 24, 2005	30,279	$159,199	$(1,779)	$(5,887)	$5,887	$(4,355)	$(76,949)	$ 76,116	
Net income		108,260	3,511					111,771	$
Other comprehensive income:									
Net unrealized gains on cash flow hedges							4,253	4,253	
Reclassification of realized gains on cash flow hedges into earnings							—	—	
									$

Comprehensive income								
Partnership distributions		(55,700)	(2,069)					(57,769)
Common Units issued under Restricted Unit Plan	35							
Common Units distributed into trust				27	(27)			—
Elimination of unearned compensation upon adoption of SFAS 123R		(4,355)				4,355		—
Compensation cost recognized under Restricted Unit Plan, net of forfeitures		1,648						1,648
Balance at June 24, 2006	30,314	$209,052	$ (337)	$(5,860)	$5,860	$ —	$(72,696)	$136,019

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 and Formation

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 other 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, ventilation and air conditioning (‘‘HVAC’’). The publicly traded limited partner interests in the Partnership are evidenced by common units listed on the New York Stock Exchange (‘‘Common Units’’) with 30,314,262 Common Units outstanding at June 24, 2006. The holders of Common Units are entitled to participate in distributions and exercise the rights and privileges available to limited partners under the Second Amended and Restated Agreement of Limited Partnership (the ‘‘Partnership Agreement’’), such as the election of three of the five 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 is majority-owned by senior management of the Partnership and owns 224,625 general partner units (an approximate 0.74% ownership interest) in the Partnership and a 1.0101% interest in the Operating Partnership. The General Partner also holds all outstanding Incentive Distribution Rights (''IDRs'') of the Partnership (see Note 8). The General Partner appoints two of the five members of the Board of Supervisors. On July 28, 2006, the Partnership announced that it had entered into an agreement with its General Partner to exchange 2,300,000 newly issued Common Units for the General Partner's IDRs and the economic interests in the Partnership and the Operating Partnership included in the general partner interests therein (the ''Proposed Exchange'') (see Note 16).

On January 5, 2001, Suburban Holdings, Inc., a subsidiary of the Operating Partnership, was formed to hold the stock of Gas Connection, Inc. (d/b/a HomeTown Hearth & Grill), Suburban @ Home, Inc. (''Suburban @ Home'') and Suburban Franchising, Inc. (''Suburban Franchising''). HomeTown Hearth & Grill sells and installs natural gas and propane gas grills, fireplaces and related accessories and supplies. Suburban @ Home sells, installs, services and repairs a full range of HVAC equipment and related parts. Suburban Franchising creates and develops propane related franchising business opportunities.

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 ''Agway Energy'') pursuant to an asset purchase agreement dated November 10, 2003 (the ''Agway Acquisition''). Suburban Heating Oil Partners, LLC, a subsidiary of HomeTown Hearth & Grill, was formed to acquire and operate the fuel oil and other refined fuels and HVAC assets and businesses of Agway Energy. In addition, Agway Energy Services, LLC, also a subsidiary of HomeTown Hearth & Grill, was formed to acquire and operate the natural gas and electricity marketing business of Agway Energy.

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 (see Note 7).

2. Basis of Presentation

Principles of Consolidation. The 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 accounts 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 98.9899% limited partner interest in the Operating Partnership and its ability to influence control over the major operating and financial decisions through the powers of the Board of Supervisors provided for in the Partnership Agreement.

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 24, 2005, 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.

Derivative Instruments and Hedging Activities. The Partnership enters into a combination of exchange-traded futures and option contracts, forward contracts and, in certain instances, over-the-counter options (collectively, ''derivative instruments'') to manage the price risk associated with future purchases of the commodities used in its operations, principally propane and fuel oil, as well as to ensure supply during periods of high demand. All derivative instruments are reported on the balance sheet, within other current assets or other current liabilities, at their fair values pursuant to Statement of Financial Accounting Standards (''SFAS'') No. 133, ''Accounting for Derivative Instruments and Hedging Activities,'' as amended by SFAS Nos. 137, 138 and 149 (''SFAS 133''). On the date that futures, forward and option contracts are entered into, 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 (loss) (''OCI''), depending on whether a 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 used to hedge future purchases are recognized in cost of products sold immediately. Changes in the fair value of derivative instruments that are not designated as hedges are recorded in current period earnings within cost of products sold.

A portion of the Partnership's option contracts are not classified as hedges and, as such, changes in the fair value of these derivative instruments are recognized within cost of products sold as they occur. The value of certain option contracts that do qualify as hedges and are designated as cash flow hedges under SFAS 133 have two components of value: time value and intrinsic value. The intrinsic value is the value by which the option is in the money (i.e., the amount by which the value of the commodity exceeds the exercise or ''strike'' price of the option). The remaining amount of option value is attributable to time value. The Partnership does not include the time value of option contracts in its assessment of hedge effectiveness and, therefore, records changes in the time value component of the options currently in earnings.

Market risks associated with the trading of 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. Open inventory positions are also reviewed and managed daily as to exposures to changing market prices.

At June 24, 2006, the fair value of derivative instruments described above resulted in derivative assets of $340 included within prepaid expenses and other current assets and derivative liabilities of $1,323 included within other current liabilities. Beginning with the fiscal 2006 third quarter, the Partnership reports all unrealized (non-cash) gains

or losses attributable to the mark-to-market on derivative instruments within cost of products sold. Unrealized gains or losses for all prior year periods presented have been reclassified from operating expenses to cost of products sold for comparative purposes. Cost of products sold included unrealized (non-cash) gains of $1,024 and $7,509 for the three and nine months ended June 24, 2006, respectively, and of $2,261 and $1,945 for the three and nine months ended June 25, 2005, respectively, attributable to the change in fair value of derivative instruments not designated as cash flow hedges. At June 24, 2006, unrealized losses on derivative instruments designated as cash flow hedges in the amount of $1,056 were included in OCI and are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities market, the corresponding value in OCI is subject to change prior to its impact on earnings.

A portion of the Partnership’s long-term borrowings bear interest at a variable rate based upon either LIBOR or Wachovia National Bank's prime rate, plus an applicable margin depending on the level of the Partnership’s total leverage. 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. On March 31, 2005, the Partnership entered into a $125,000 interest rate swap contract in conjunction with the new Term Loan facility under the Revolving Credit Agreement (see Note 7). The interest rate swap is being accounted for under SFAS 133 and the Partnership has designated the interest rate swap as a cash flow hedge. Changes in the fair value of the interest rate swap are recognized in OCI until the hedged item is recognized in earnings. At June 24, 2006, the fair value of the interest rate swap amounted to $4,016 and is included within other assets.

Asset Impairments.   The Partnership reviews the recoverability of long-lived assets when circumstances occur that indicate that the carrying value of an asset group may not be recoverable. Such circumstances include a significant adverse change in the manner in which an asset group is being used, current operating losses combined with a history of operating losses experienced by the asset group or a current expectation that an asset group will be sold or otherwise disposed of before the end of its previously estimated useful life. Evaluation of possible impairment is based on the Partnership’s ability to recover the value of the asset group from the future undiscounted cash flows expected to result from the use and eventual disposition of the asset group. If the expected undiscounted cash flows are less than the carrying amount of such asset, an impairment loss is recorded as the amount by which the carrying amount of an asset group exceeds its fair value. The fair value of an asset group will be measured using the best information available, including prices for similar assets or the result of using a discounted cash flow valuation technique.

Depreciation expense for the nine months ended June 24, 2006 included a non-cash charge of $1,134 related to impairment of assets to be disposed of as a result of the Partnership’s field realignment efforts (see Note 3), as well as the write-down of certain assets in the All Other business segment related to HomeTown Hearth & Grill.

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. Restructuring Costs

During the fourth quarter of fiscal 2005 the Partnership approved and initiated a plan of reorganization to realign the field operations in an effort to streamline the operating footprint and leverage the system infrastructure to achieve additional operational efficiencies and reduce costs. As a result of this field realignment, the Partnership recorded a restructuring charge of $2,150 during the fourth quarter of fiscal 2005 associated with severance and other employee benefits for approximately 85 positions eliminated under the plan. During the third quarter of fiscal 2006, in furtherance of the Partnership’s efforts to streamline its field operations and to focus on its core operating segments, the Partnership initiated plans to restructure the HVAC service offerings. In this regard, during the third quarter the Partnership eliminated nearly 200 positions, primarily service technicians and sales personnel, supporting its HVAC installation activities. The focus of the Partnership’s ongoing service offerings will be in support of its existing customer base within the propane, refined fuels and natural gas and electricity segments. As a result of this restructuring, as well as the additional steps taken during the first six months of fiscal 2006 in relation to the field realignment, the Partnership has eliminated an additional 265 positions during fiscal 2006 bringing the total to nearly 350 over the past twelve months. During the three and nine months ended June 24, 2006, the Partnership recorded additional severance charges of $2,693 and $3,917, respectively, associated with these activities. In addition, during the three and nine months ended June 24, 2006, the Partnership recorded a restructuring charge of $237 and $510, respectively, related to exit costs, primarily lease terminations costs, associated with a plan to exit certain activities of the HomeTown Hearth & Grill business included within the All Other business segment.

For the nine months ended June 25, 2005, the Partnership recorded restructuring charges of $625 in the consolidated statements of operations related primarily to employee termination costs incurred as a result of actions taken during fiscal 2005.

During fiscal 2004, in connection with the initial integration of certain management and back office functions of Agway Energy, the Partnership’s management approved and initiated plans to restructure the operations of both the Partnership and Agway Energy. Severance and other restructuring or relocation costs associated with assets, employees and operations of Agway Energy in the amount of $2,225 were recorded as liabilities assumed in the purchase business combination and resulted in an increase to goodwill. As of June 24, 2006, the majority of the activities associated with this restructuring plan were completed.

The components of the remaining restructuring charges are as follows:

Charges expensed:	Reserve at September 24, 2005	Charges Through June 24, 2006	Utilization Through June 24, 2006	Reserve at June 24, 2006
Severance and other employee costs	$ 1,671	$ 3,917	$ (3,944)	$ 1,644
Other exit costs	150	510	(57)	603
Total	$ 1,821	$ 4,427	$ (4,001)	$ 2,247

The remaining reserve of $2,247 as of June 24, 2006 is expected to be paid out or utilized over the next twelve months.

4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a weighted average method for propane, fuel oil and other refined fuels and natural gas, and a standard cost basis for

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appliances, which approximates average cost. Inventories consist of the following:

	June 24, 2006	September 24, 2005
Propane and refined fuels	$ 61,967	$ 66,383
Natural gas	670	3,267
Appliances and related parts	9,339	10,915
	$ 71,976	$ 80,565

Cost of products sold for the three and nine months ended June 24, 2006 included a charge of $750 to reduce the carrying value of inventory that will no longer be actively marketed as a result of the Partnership’s field realignment efforts (see Note 3), particularly the steps taken in the HVAC segment during the third quarter of fiscal 2006.

5. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. In accordance with SFAS No. 142, ‘‘Goodwill and Other Intangible Assets’’ (‘‘SFAS 142’’), goodwill is not amortized to expense. Rather, goodwill is subject to an impairment review at a reporting unit level, on an annual basis in August of each year, or when an event occurs or circumstances change that would indicate potential impairment. The Partnership assesses the carrying value of goodwill at a reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit is estimated using discounted cash flow analyses taking into consideration estimated cash flows in a ten-year projection period and a terminal value calculation at the end of the projection period.

Other intangible assets consist of the following:

	June 24, 2006	September 24, 2005
Customer lists	$ 19,866	$ 19,866
Trade names	1,499	2,531
Non-compete agreements	2,406	4,956
Other	1,967	1,967
	25,738	29,320
Less: accumulated amortization	7,116	8,635
	$ 18,622	$ 20,685

Aggregate amortization expense related to other intangible assets for the three and nine months ended June 24, 2006 was $549 and $2,063, respectively, and $1,031 and $3,082 for the three and nine months ended June 25, 2005, respectively.

Aggregate amortization expense related to other intangible assets for the remainder of fiscal 2006 and for each of the five succeeding fiscal years as of June 24, 2006 is as follows: 2006 – $524; 2007 – $2,036; 2008 – $1,999; 2009 – $1,995; 2010 – $1,965 and 2011 – $1,960.

6. Income (Loss) Per Unit

Computations of earnings per Common Unit are performed in accordance with Emerging Issues Task Force (‘‘EITF’’) consensus 03-6 ‘‘Participating Securities and the Two-Class Method Under FAS 128’’ (‘‘EITF 03-6’’), when applicable. EITF 03-6 requires, among other things, the use of the two-class method of computing earnings per unit when participating securities exist. The requirements of EITF 03-6 do not apply to the computation of earnings per Common Unit in periods in which a net loss is reported and therefore did not have any impact on loss per Common Unit for the three months ended June 24, 2006 and June 25, 2005. In addition, the application of EITF 03-6 did not have any impact on income per Common Unit for the nine months ended June 25, 2005.

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Basic income per limited partner unit for the nine months ended June 24, 2006 is computed by dividing the limited partners’ share of income, calculated under the two-class method of computing earnings, by the weighted average number of outstanding Common Units. Diluted income per limited partner unit for the nine months ended June 24, 2006 is computed by dividing the limited partners’ share of income, calculated under the two-class method of computing earnings, by the weighted average number of outstanding Common Units and time vested Restricted Units granted under the 2000 Restricted Unit Plan (see Note 9). The two-class method is an earnings allocation formula that computes earnings per unit for each class of Common Unit and participating security according to distributions declared and the participating rights in undistributed earnings, as if all of the earnings were distributed to the limited partners and the general partner (inclusive of the IDRs of the General Partner which are considered participating securities for purposes of the two-class method). Net income is allocated to the Common Unitholders and the General Partner in accordance with their respective Partnership ownership interests, after giving effect to any priority income allocations for incentive distributions allocated to the General Partner. Application of the two-class method under EITF 03-6 resulted in a negative impact on income per Common Unit of $0.20 for the nine months ended June 24, 2006 compared to the computation under SFAS 128. If the Proposed Exchange is consummated, EITF 03-6 will no longer be applicable to the Partnership since there will only be one class of securities in the form of Common Units representing limited partner interests.

Basic net income (loss) per Common Unit for the three months ended June 24, 2006 and June 25, 2005 and for the nine months ended June 25, 2005 is computed by dividing net income (loss), after deducting the general partner's approximate 3.7% interest, by the weighted average number of outstanding Common Units. Diluted net income (loss) per Common Unit for the three months ended June 24, 2006 and June 25, 2005 and for the nine months ended June 25, 2005 is computed by dividing net income (loss), after deducting the general partner's approximate 3.7% interest, by the weighted average number of outstanding Common Units and time vested Restricted Units granted under our 2000 Restricted Unit Plan (see Note 9).

In computing diluted income per unit, weighted average units outstanding used to compute basic income per unit were increased by 122,679 and 137,069 units for the nine months ended June 24, 2006 and June 25, 2005, respectively, to reflect the potential dilutive effect of the unvested Restricted Units outstanding using the treasury stock method. Diluted loss per unit for the three months ended June 24, 2006 and June 25, 2005 does not include 146,682 and 137,461 Restricted Units, respectively, as their effect would be anti-dilutive.

7. Short-Term and Long-Term Borrowings

Short-term and long-term borrowings consist of the following:

	June 24, 2006	September 24, 2005
Senior Notes, 6.875%, due December 15, 2013, net of unamortized discount of $1,755 and $1,930, respectively	$ 423,245	$ 423,070
Term Loan, 6.29% to 7.16%, due March 31, 2010	125,000	125,000
Note payable, 8%, redeemed May 15, 2006	—	475
Short-term borrowings under the Revolving Credit Agreement		