

SUBURBAN PROPANE PARTNERS LP

Form 10-Q

May 07, 2009

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**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 March 28, 2009**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**22-3410353**  
(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 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  No

\* 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

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



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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)

	<b>March 28, 2009</b>	<b>September 27, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 235,457	\$ 137,698
Accounts receivable, less allowance for doubtful accounts of \$6,603 and \$6,578, respectively	124,240	94,933
Inventories	62,181	79,822
Other current assets	32,461	47,098
Total current assets	454,339	359,551
Property, plant and equipment, net	361,626	367,808
Goodwill	275,822	276,282
Other intangible assets, net	14,908	16,018
Other assets	21,512	16,054
Total assets	\$ 1,128,207	\$ 1,035,713
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
Current liabilities:		
Accounts payable	\$ 45,653	\$ 58,079
Accrued employment and benefit costs	36,795	27,053
Accrued insurance	13,620	41,120
Customer deposits and advances	44,673	71,206
Accrued interest	10,389	11,030
Other current liabilities	16,022	15,127
Total current liabilities	167,152	223,615
Long-term borrowings	531,889	531,772
Postretirement benefits obligation	16,917	17,153
Accrued insurance	35,819	31,913
Other liabilities	11,473	11,184
Total liabilities	763,250	815,637
Commitments and contingencies		
Partners capital:		
Common Unitholders (32,795 and 32,725 units issued and outstanding at March 28, 2009 and September 27, 2008, respectively)	408,072	264,231
Accumulated other comprehensive loss	(43,115)	(44,155)

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Total partners' capital	364,957	220,076
Total liabilities and partners' capital	\$ 1,128,207	\$ 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)

	<b>Three Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Revenues		
Propane	\$ 336,913	\$ 422,376
Fuel oil and refined fuels	65,138	114,312
Natural gas and electricity	32,093	38,203
Services	10,251	11,096
All other	830	1,110
	445,225	587,097
Costs and expenses		
Cost of products sold	208,259	380,757
Operating	86,848	79,697
General and administrative	17,793	15,161
Depreciation and amortization	7,131	7,107
	320,031	482,722
Income before interest expense and provision for income taxes	125,194	104,375
Interest expense, net	9,442	9,418
Income before provision for taxes	115,752	94,957
Provision for income taxes	886	434
Net income	\$ 114,866	\$ 94,523
Income per Common Unit basic	\$ 3.50	\$ 2.89
Weighted average number of Common Units outstanding basic	32,847	32,725
Income per Common Unit diluted	\$ 3.48	\$ 2.87
Weighted average number of Common Units outstanding diluted	33,051	32,959

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)

	<b>Six Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Revenues		
Propane	\$ 610,821	\$ 729,701
Fuel oil and refined fuels	119,329	192,347
Natural gas and electricity	54,374	62,186
Services	22,253	25,568
All other	1,763	2,404
	808,540	1,012,206
Costs and expenses		
Cost of products sold	382,489	658,472
Operating	163,911	159,040
General and administrative	32,563	24,364
Depreciation and amortization	14,154	14,166
	593,117	856,042
Income before interest expense and provision for income taxes	215,423	156,164
Interest expense, net	18,845	17,806
Income before provision for taxes	196,578	138,358
Provision for income taxes	1,024	2,113
Income from continuing operations	195,554	136,245
Discontinued operations:		
Gain on sale of discontinued operations		43,707
Net income	\$ 195,554	\$ 179,952
Income per Common Unit basic		
Income from continuing operations	\$ 5.96	\$ 4.16
Discontinued operations		1.34
Net income	\$ 5.96	\$ 5.50
Weighted average number of Common Units outstanding basic	32,832	32,716

Income per Common Unit diluted			
Income from continuing operations	\$	5.93	\$ 4.14
Discontinued operations			1.33
Net income	\$	5.93	\$ 5.47
Weighted average number of Common Units outstanding diluted		32,996	32,926

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)

	<b>Six Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Cash flows from operating activities:		
Net income	\$ 195,554	\$ 179,952
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	14,154	14,166
Amortization of debt origination costs	664	664
Compensation cost recognized under Restricted Unit Plan	1,241	686
Amortization of discount on long-term borrowings	117	117
Gain on disposal of discontinued operations		(43,707)
Gain on disposal of property, plant and equipment, net	(623)	(1,712)
Deferred tax provision	460	1,521
Changes in assets and liabilities:		
(Increase) in accounts receivable	(29,307)	(100,274)
Decrease in inventories	17,641	41
Decrease (increase) in other current assets	14,637	(6,693)
(Decrease) increase in accounts payable	(12,426)	20,015
Increase (decrease) in accrued employment and benefit costs	9,742	(12,386)
(Decrease) in accrued insurance	(27,500)	(3,400)
(Decrease) in customer deposits and advances	(26,533)	(43,565)
(Decrease) increase in accrued interest	(641)	103
Increase in other current liabilities	2,895	7,577
(Increase) decrease in other noncurrent assets	(4,097)	1,296
Increase (decrease) in other noncurrent liabilities	2,974	(6,014)
Net cash provided by operating activities	158,952	8,387
Cash flows from investing activities:		
Capital expenditures	(8,323)	(11,084)
Proceeds from sale of property, plant and equipment	2,084	2,691
Proceeds from sale of discontinued operations		53,715
Net cash (used in) provided by investing activities	(6,239)	45,322
Cash flows from financing activities:		
Long-term debt repayments	(2,000)	
Partnership distributions	(52,954)	(49,492)
Net cash (used in) financing activities	(54,954)	(49,492)

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Net increase in cash and cash equivalents	97,759	4,217
Cash and cash equivalents at beginning of period	137,698	96,586
Cash and cash equivalents at end of period	\$ 235,457	\$ 100,803

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		195,554		195,554	\$ 195,554
Other comprehensive income:					
Net unrealized losses on cash flow hedges			(584)	(584)	(584)
Amortization of net actuarial losses and prior service credits into earnings			1,624	1,624	1,624
Comprehensive income					\$ 196,594
Partnership distributions		(52,954)		(52,954)	
Common Units issued under Restricted Unit Plan	70				
Compensation cost recognized under Restricted Unit Plan, net of forfeitures		1,241		1,241	
Balance at March 28, 2009	32,795	\$ 408,072	\$ (43,115)	\$ 364,957	

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

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**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 32,795,355 Common Units outstanding at March 28, 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 nonrefundable 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 fair 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 in active markets; 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.

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

**3. 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, forward contracts and, in certain instances, over-the-counter options (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 a variable rate based upon LIBOR, plus an applicable margin depending 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 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.

The following summarizes the Partnership's open derivative instruments as of March 28, 2009:

<b>Transaction Type</b>	<i>(gallons in thousands)</i>
Options	7,350
Futures	19,992

The following summarizes the gross fair value of the Partnership's derivative instruments and their location in the condensed consolidated balance sheet as of March 28, 2009:

	Asset Derivatives		Liability Derivatives	
	Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133:				
Interest rate swap			Other liabilities	\$ 3,785
				\$ 3,785
Derivatives not designated as hedging instruments under SFAS 133:				
Options	Other current assets	\$ 6,996	Other current liabilities	\$ 2,867
Futures	Other current assets	4,910	Other current liabilities	1,134
		\$ 11,906		\$ 4,001

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The effect of the Partnership's derivative instruments on the condensed consolidated statement of operations for the three and six months ended March 28, 2009 and March 29, 2008 are as follows:

Derivatives in	Three months ended March 28, 2009			Three months ended March 29, 2008		
	Amount of Gains (Losses)	Gains (Losses) Reclassified from Accumulated OCI into		Amount of Gains (Losses)	Gains (Losses) Reclassified from Accumulated OCI into	
SFAS 133 Cash	Recognized in OCI			Recognized in OCI		
Flow Hedging	on Derivative (Effective Portion)	Income (Effective Portion)		on Derivative (Effective Portion)	Income (Effective Portion)	
Relationships		Location	Amount		Location	Amount
Interest rate swap	\$ 704	Interest expense	\$	\$ (2,980)	Interest expense	\$
	\$ 704		\$	\$ (2,980)		\$
Derivatives Not Designated as Hedging	Location of Gains (Losses) Recognized in	Unrealized Gains (Losses) Recognized in		Location of Gains (Losses) Recognized in	Unrealized Gains (Losses) Recognized in	
Instruments under SFAS 133	Income on Derivative	Income on Derivative		Income on Derivative	Income on Derivative	
Options	Cost of goods sold	\$ (4,379)		Cost of goods sold	\$ 1,400	
Futures	Cost of goods sold	(5,311)		Cost of goods sold	(3,735)	
		\$ (9,690)			\$ (2,335)	
Derivatives in	Six months ended March 28, 2009			Six months ended March 29, 2008		
SFAS 133 Cash	Amount of Gains (Losses) Recognized in OCI	Gains (Losses) Reclassified from Accumulated OCI into		Amount of Gains (Losses) Recognized in OCI	Gains (Losses) Reclassified from Accumulated OCI into	
Flow Hedging	on Derivative	Income (Effective Portion)		on Derivative	Income (Effective Portion)	
Relationships		Location	Amount		Location	Amount

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	(Effective Portion)	Interest expense	\$	(Effective Portion)	Interest expense	\$
Interest rate swap	\$ (584)			\$ (5,123)		
	\$ (584)		\$	\$ (5,123)		\$
Derivatives Not Designated as Hedging Instruments under SFAS 133	Location of Gains (Losses) Recognized in Income on Derivative	Unrealized Gains (Losses) Recognized in Income on Derivative		Location of Gains (Losses) Recognized in Income on Derivative	Unrealized Gains (Losses) Recognized in Income on Derivative	
Options	Cost of goods sold	\$ 1,546		Cost of goods sold	\$ 667	
Futures	Cost of goods sold	3,769		Cost of goods sold	(5,685)	
		\$ 5,315			\$ (5,018)	

#### 4. Discontinued Operations

The Partnership continuously evaluates its existing operations to identify opportunities to optimize the return on assets employed and selectively divests operations in slower growing or non-strategic markets and seeks to reinvest in markets that are considered to present more opportunities for growth. In line with that strategy, on October 2, 2007, the Operating Partnership completed the sale of its Tirzah, South Carolina underground granite propane storage cavern, and associated 62-mile pipeline, for \$53,715 in cash, after taking into account certain adjustments. The 57.5 million gallon underground storage cavern is connected to the Dixie Pipeline and provides propane storage for the eastern United States. As part of the agreement, the Operating Partnership entered into a long-term storage arrangement, not to exceed 7 million propane gallons, with the purchaser of the cavern that will enable the Operating Partnership to continue to meet the needs of its retail operations, consistent with past practices. As a result of this sale, a gain of \$43,707 was reported as a gain from the disposal of discontinued operations in the Partnership's condensed consolidated statement of operations for the first quarter of fiscal 2008.

**Table of Contents****5. Inventories**

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

	<b>March 28, 2009</b>	<b>As of September 27, 2008</b>
Propane, fuel oil and refined fuels	\$ 58,524	\$ 76,036
Natural gas		283
Appliances and related parts	3,657	3,503
	<b>\$ 62,181</b>	<b>\$ 79,822</b>

**6. Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of net assets of businesses acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ), goodwill is not amortized. 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.

During the first half of fiscal 2009 and fiscal 2008, the Partnership reversed \$460 and \$1,521, respectively, of the deferred tax asset valuation allowance, which was established through purchase accounting for the Agway Acquisition, as a reduction of goodwill. These adjustments resulted from the utilization of a portion of the net operating losses established in purchase accounting for the Agway Acquisition.

Other intangible assets consist of the following:

	<b>March 28, 2009</b>	<b>As of September 27, 2008</b>
Customer lists	\$ 22,316	\$ 22,316
Tradenames	1,499	1,499
Other	2,117	2,117
	<b>\$ 25,932</b>	<b>\$ 25,932</b>
Less: accumulated amortization		
Customer lists	\$ (9,614)	\$ (8,632)
Tradenames	(787)	(712)
Other	(623)	(570)
	<b>(11,024)</b>	<b>(9,914)</b>
	<b>\$ 14,908</b>	<b>\$ 16,018</b>

Aggregate amortization expense related to other intangible assets for the three and six months ended March 28, 2009 was \$555 and \$1,110, respectively, and \$556 and \$1,114 for the three and six months ended March 29, 2008, respectively.



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Aggregate amortization expense related to other intangible assets for the remainder of fiscal 2009 and for each of the five succeeding fiscal years as of March 28, 2009 is as follows: 2009 \$1,110; 2010 \$2,205; 2011 \$2,205; 2012 \$1,730; 2013 \$1,572 and 2014 \$1,237.

**7. Income Per Common Unit**

Computations of earnings per Common Unit are performed in accordance with SFAS No. 128 Earnings per Share ( SFAS 128 ). Basic income per Common Unit was computed by dividing net income by the weighted average number of outstanding Common Units and restricted units granted under the 2000 Restricted Unit Plan, defined below, to retirement-eligible grantees. Diluted income per Common Unit was computed by dividing net income by the weighted average number of outstanding Common Units and unvested restricted units granted under the 2000 Restricted Unit Plan.

In computing diluted income per Common Unit, weighted average units outstanding used to compute basic income per Common Unit were increased by 255,947 and 215,213 units for the three and six months ended March 28, 2009, respectively, and 233,587 and 209,818 for the three and six months ended March 29, 2008, respectively, to reflect the potential dilutive effect of the unvested restricted units outstanding using the treasury stock method.

**8. Long-Term Borrowings**

Long-term borrowings consist of the following:

	<b>March 28, 2009</b>	<b>As of September 27, 2008</b>
Senior Notes, 6.875%, due December 15, 2013, net of unamortized discount of \$1,111 and \$1,228, respectively	\$ 423,889	\$ 423,772
Term Loan, 6.29% to 7.16%, due March 31, 2010	108,000	110,000
	531,889	533,772
Less: current portion of Term Loan		2,000
	\$ 531,889	\$ 531,772

The Partnership and its subsidiary, Suburban Energy Finance Corporation, have issued \$425,000 aggregate principal amount of Senior Notes (the 2003 Senior Notes ) with an annual interest rate of 6.875%. The Partnership's obligations under the 2003 Senior Notes are unsecured and rank senior in right of payment to any future subordinated indebtedness and equally in right of payment with any future senior indebtedness. The 2003 Senior Notes are structurally subordinated to, which means they rank effectively behind, any debt and other liabilities of the Operating Partnership. The 2003 Senior Notes mature on December 15, 2013 and require semi-annual interest payments in June and December. The Partnership is permitted to redeem some or all of the 2003 Senior Notes any time on or after December 15, 2008 at redemption prices specified in the indenture governing the 2003 Senior Notes. In addition, in the event of a change of control of the Partnership, as defined in the indenture governing the 2003 Senior Notes, the Partnership must offer to repurchase the notes at 101% of the principal amount repurchased, if the holders of the notes exercise the right of repurchase.

The Operating Partnership has a revolving credit facility, the Third Amended and Restated Credit Agreement (the Revolving Credit Agreement ), which expires on March 31, 2010. The Revolving Credit Agreement provides for a five-year \$125,000 term loan facility (the Term Loan ) and a separate working capital facility which provides available revolving borrowing capacity up to \$175,000. The Operating Partnership has standby letters of credit issued under the working capital facility of the Revolving Credit Agreement in the aggregate amount of \$57,076 primarily in support of retention levels under the Operating Partnership's self-insurance programs, which expire periodically through April 15, 2010. Therefore, as of March 28, 2009 the Operating Partnership had available borrowing capacity of \$117,924 under the working capital facility of the Revolving Credit Agreement.



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Borrowings under the Revolving Credit Agreement, including the Term Loan, bear interest at a rate based upon LIBOR or the Base Rate, as defined, plus an applicable margin. An annual facility fee ranging from 0.375% to 0.50%, based upon certain financial tests, is payable quarterly whether or not borrowings occur. As of March 28, 2009 and September 27, 2008, there were no borrowings outstanding under the working capital facility of the Revolving Credit Agreement and there have been no borrowings since April 2006.

In connection with the Term Loan, the Operating Partnership also entered into an interest rate swap agreement with an initial notional amount of \$125,000. In connection with the \$15,000 and \$2,000 prepayments of the Term Loan on September 26, 2008 and November 10, 2008, respectively, the Operating Partnership also amended the interest rate swap contract to reduce the notional amount by the amounts of the respective prepayment. From the original borrowing date of March 31, 2005 through March 31, 2010, the Operating Partnership will pay a fixed interest rate of 4.66% to the issuing lender on notional principal amount outstanding, effectively fixing the LIBOR portion of the interest rate at 4.66%. In return, the issuing lender will pay to the Operating Partnership a floating rate, namely LIBOR, on the same notional principal amount. The applicable margin above LIBOR, as defined in the Revolving Credit Agreement, will be paid in addition to this fixed interest rate of 4.66%.

The Revolving Credit Agreement and the 2003 Senior Notes both contain various restrictive and affirmative covenants applicable to the Operating Partnership and the Partnership, respectively, including (i) restrictions on the incurrence of additional indebtedness, and (ii) restrictions on certain liens, investments, guarantees, loans, advances, payments, mergers, consolidations, distributions, sales of assets and other transactions. Under the Revolving Credit Agreement, the Operating Partnership is required to maintain a leverage ratio (the ratio of total debt to EBITDA) of less than 4.0 to 1. In addition, the Operating Partnership is required to maintain an interest coverage ratio (the ratio of EBITDA to interest expense) of greater than 2.5 to 1 at the Partnership level. Under the 2003 Senior Note indenture, the Partnership is generally permitted to make cash distributions equal to available cash, as defined, as of the end of the immediately preceding quarter, if no event of default exists or would exist upon making such distributions, and the Partnership's consolidated fixed charge coverage ratio, as defined, is greater than 1.75 to 1. Under the Revolving Credit Agreement, as long as no default exists or would result, the Operating Partnership is permitted to make cash distributions not more frequently than quarterly in an amount not to exceed available cash, as defined, for the immediately preceding fiscal quarter. The Partnership and the Operating Partnership were in compliance with all covenants and terms of the 2003 Senior Notes and the Revolving Credit Agreement as of March 28, 2009.

Debt origination costs representing the costs incurred in connection with the placement of, and the subsequent amendment to, the 2003 Senior Notes and the Revolving Credit Agreement were capitalized within other assets and are being amortized on a straight-line basis over the term of the respective debt agreements. Other assets at March 28, 2009 and September 27, 2008 include debt origination costs with a net carrying amount of \$4,238 and \$4,902, respectively. Aggregate amortization expense related to deferred debt origination costs included within interest expense for the three months ended March 28, 2009 and March 29, 2008 was \$332 and \$664 for the six months ended March 28, 2009 and March 29, 2008.

The aggregate amounts of long-term debt maturities subsequent to March 28, 2009 are as follows: fiscal 2009 \$0; fiscal 2010 \$108,000; fiscal 2011 \$0; fiscal 2012 \$0; and, thereafter - \$425,000.

Under the Revolving Credit Agreement, proceeds from the sale, transfer or other disposition of any asset of the Operating Partnership, other than the sale of inventory in the ordinary course of business, in excess of \$15,000 must be used to acquire productive assets within twelve months of receipt of the proceeds. Any proceeds not used within twelve months of receipt to acquire productive assets must be used to prepay the outstanding principal of the Term Loan. On September 26, 2008 and November 10, 2008, the Operating Partnership prepaid \$15,000 and \$2,000, respectively, on the Term Loan with the net proceeds from the sale of the Tirzah storage facility that were not used to acquire productive assets within twelve months of receipt.

**9. Distributions of Available Cash**

The Partnership makes distributions to its partners no later than 45 days after the end of each fiscal quarter of the Partnership in an aggregate amount equal to its Available Cash for such quarter. Available Cash, as defined in the Partnership Agreement, generally means all cash on hand at the end of the respective fiscal quarter less the amount of cash reserves established by the Board of Supervisors in its reasonable discretion for future cash requirements. These

reserves are retained for the proper conduct of the Partnership's business, the payment of debt principal and interest and for distributions during the next four quarters.

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On April 22, 2009, the Board of Supervisors declared a quarterly distribution of \$0.815 per Common Unit, or \$3.26 per Common Unit on an annualized basis, in respect of the second quarter of fiscal 2009, payable on May 12, 2009 to holders of record on May 5, 2009. The annualized distribution represents an increase of \$0.02 per Common Unit from the previous distribution rate, and a growth rate of 5.2% compared to the second quarter of fiscal 2008.

**10. Unit-Based Compensation Arrangements**

The Partnership accounts for its unit-based compensation arrangements in accordance with revised SFAS No. 123, Share-Based Payment ( SFAS 123R ), which requires the recognition of compensation cost over the respective service period for employee services received in exchange for an award of equity or equity-based compensation based on the grant date fair value of the award, as well as the measurement of liability awards under a unit-based payment arrangement based on remeasurement of the award's fair value at the conclusion of each quarterly reporting period until the date of settlement, taking into consideration the probability that the performance conditions will be satisfied. The Partnership has historically recognized unearned compensation associated with awards under its 2000 Restricted Unit Plan ratably to expense over the vesting period based on the fair value of the award on the grant date and has historically recognized compensation cost and the associated unearned compensation liability for equity-based awards under its Long-Term Incentive Plan consistent with the requirements of SFAS 123R.

**2000 Restricted Unit Plan.** In November 2000, the Partnership adopted the Suburban Propane Partners, L.P. 2000 Restricted Unit Plan, as amended, (the 2000 Restricted Unit Plan ) which authorizes the issuance of Common Units to executives, managers and other employees and members of the Board of Supervisors of the Partnership. On October 17, 2006, the Partnership adopted amendments to the 2000 Restricted Unit Plan which, among other things, increased the number of Common Units authorized for issuance under the plan by 230,000 for a total of 717,805. Restricted Units issued under the 2000 Restricted Unit Plan vest over time with 25% of the Common Units vesting at the end of each of the third and fourth anniversaries of the grant date and the remaining 50% of the Common Units vesting at the end of the fifth anniversary of the grant date. The 2000 Restricted Unit Plan participants are not eligible to receive quarterly distributions or vote their respective Restricted Units until vested. Restrictions also prohibit the sale or transfer of the units during the restricted periods. The value of the Restricted Unit is established by the market price of the Common Unit on the date of grant. Restricted Units are subject to forfeiture in certain circumstances as defined in the 2000 Restricted Unit Plan. Compensation expense for the unvested awards is recognized ratably over the vesting periods, net of the value of estimated forfeitures.

During the six months ended March 28, 2009, the Partnership awarded 68,799 Restricted Units under the 2000 Restricted Unit Plan at an aggregate grant date fair value of \$1,245. Following is a summary of activity in the 2000 Restricted Unit Plan:

	<b>Units</b>	<b>Weighted Average Grant Date Fair Value Per Unit</b>
<b>Outstanding September 27, 2008</b>	446,515	\$ 30.57
Awarded	68,799	18.09
Forfeited	(11,313)	(35.10)
Issued	(69,972)	(27.91)
<b>Outstanding March 28, 2009</b>	434,029	\$ 28.90

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As of March 28, 2009, \$6,212 of compensation cost related to unvested Restricted Units awarded under the 2000 Restricted Unit Plan remains to be recognized in future periods. Compensation cost associated with unvested awards is expected to be recognized over a weighted-average period of 1.7 years. Compensation expense recognized under the 2000 Restricted Unit Plan, net of forfeitures, for the three and six months ended March 28, 2009 was \$673 and \$1,241, respectively, and \$753 and \$686 for the three and six months ended March 29, 2008, respectively.

**Long-Term Incentive Plan.** The Partnership has a non-qualified, unfunded long-term incentive plan for officers and key employees ( LTIP-2 ) which provides for payment, in the form of cash, of an award of equity-based compensation at the end of a three-year performance period. The level of compensation earned under LTIP-2 is based on the market performance of the Partnership's Common Units on the basis of total return to Unitholders ( TRU ) compared to the TRU of a predetermined peer group consisting solely of other master limited partnerships, approved by the Compensation Committee of the Board of Supervisors, over the same three-year performance period. As a result of the quarterly remeasurement of the liability for awards under LTIP-2, compensation expense for the three and six months ended March 28, 2009 was \$1,551 and \$1,952, respectively, and \$325 and \$418 for the three and six months ended March 29, 2008, respectively. As of March 28, 2009 and September 27, 2008, the Partnership had a liability included within accrued employment and benefit costs (or other liabilities, as applicable) of \$5,107 and \$5,921, respectively, related to estimated future payments under LTIP-2.

**11. Commitments and Contingencies**

**Self-Insurance.** The Partnership is self-insured for general and product, workers' compensation and automobile liabilities up to predetermined thresholds above which third party insurance applies. As of March 28, 2009 and September 27, 2008, the Partnership had accrued insurance liabilities of \$49,439 and \$73,033, respectively, representing the total estimated losses under these self-insurance programs. The Partnership is also involved in various legal actions that have arisen in the normal course of business, including those relating to commercial transactions and product liability. Management believes, based on the advice of legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the Partnership's financial position or future results of operations, after considering its self-insurance liability for known and unasserted self-insured claims, as well as existing insurance policies in force. For the portion of the estimated self-insurance liability that exceeds insurance deductibles, the Partnership records an asset within other assets (or other current assets, as applicable) related to the amount of the liability expected to be covered by insurance which amounted to \$16,139 and \$38,825 as of March 28, 2009 and September 27, 2008, respectively.

During the first quarter of fiscal 2009, the Partnership settled a claim involving alleged product liability for approximately \$30,000. The settlement was covered by insurance above the level of the Partnership's deductible. As a result of this settlement, in which the Partnership denied any liability, the Partnership increased the portion of its estimated self-insurance liability that exceeded the insurance deductible and established a corresponding asset of \$30,000 as of September 27, 2008 to accrue for the settlement and subsequent reimbursement from the Partnership's third party insurance carrier. During the first half of fiscal 2009, the Partnership fully paid the \$30,000 to the claimants in this matter and was reimbursed for the same amount from the Partnership's third party insurance carrier.

**12. Guarantees**

The Partnership has residual value guarantees associated with certain of its operating leases, related primarily to transportation equipment, with remaining lease periods scheduled to expire periodically through fiscal 2016. Upon completion of the lease period, the Partnership guarantees that the fair value of the equipment will equal or exceed the guaranteed amount, or the Partnership will pay the lessor the difference. Although the fair value of equipment at the end of its lease term has historically exceeded the guaranteed amounts, the maximum potential amount of aggregate future payments the Partnership could be required to make under these leasing arrangements, assuming the equipment is deemed worthless at the end of the lease term, was approximately \$17,966 as of March 28, 2009. The fair value of residual value guarantees for outstanding operating leases was de minimis as of March 28, 2009 and September 27, 2008.



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The following table provides the components of net periodic benefit costs for the three and six months ended March 28, 2009 and March 29, 2008:

	<b>Pension Benefits</b>					
	<b>Three Months Ended</b>		<b>Six Months Ended</b>			
	<b>March 28, 2009</b>	<b>March 29, 2008</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Service Cost	\$		\$		\$	
Interest cost		2,372		2,187		4,744
Expected return on plan assets		(2,301)		(2,270)		(4,602)
Amortization of prior service costs						(4,541)
Recognized net actuarial loss		1,012		844		2,024
Net periodic benefit cost	\$	1,083	\$	761	\$	2,166
					\$	1,521

	<b>Postretirement Benefits</b>					
	<b>Three Months Ended</b>		<b>Six Months Ended</b>			
	<b>March 28, 2009</b>	<b>March 29, 2008</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Service Cost	\$	1	\$	2	\$	2
Interest cost		345		350		690
Expected return on plan assets						699
Amortization of prior service costs		(122)		(122)		(244)
Recognized net actuarial loss		(78)				(156)
Net periodic benefit cost	\$	146	\$	230	\$	292
					\$	458

There are no projected minimum employer contribution requirements under Internal Revenue Service Regulations for fiscal 2009 under our defined benefit pension plan. The projected annual contribution requirements related to the Partnership's postretirement health care and life insurance benefit plan for fiscal 2009 is \$1,923, of which \$929 has been contributed during the six months ended March 28, 2009.

**14. Income taxes**

For federal income tax purposes, as well as for state income tax purposes in the majority of the states in which the Partnership operates, the earnings attributable to the Partnership, as a separate legal entity, and the Operating Partnership are not subject to income tax at the Partnership level. Rather, the taxable income or loss attributable to the Partnership, as a separate legal entity, and to the Operating Partnership, which may vary substantially from the income before income taxes, reported by the Partnership in the condensed consolidated statement of operations, are includable in the federal and state income tax returns of the individual partners. The aggregate difference in the basis of the Partnership's net assets for financial and tax reporting purposes cannot be readily determined as the Partnership does not have access to information regarding each partner's basis in the Partnership.

The Partnership's fuel oil and refined fuels, natural gas and electricity, and service businesses are structured collectively as a corporate entity and, as such, are subject to corporate level federal and state income taxes. However, because the Corporate Entity has experienced operating losses in recent years, a full valuation allowance has been provided against the deferred tax assets. The conclusion that a full valuation is necessary was based upon an analysis of all available evidence, both negative and positive at the balance sheet date, which, taken as a whole, indicates that it



is more likely than not that sufficient future taxable income will not be available to utilize the Partnership's deferred tax assets. Management's periodic reviews include, among other things, the nature and amount of the taxable income and expense items, the expected timing when assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considered tax-planning strategies it could use to increase the likelihood that the deferred tax assets will be realized.

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As a result of the profitability of the Corporate Entity during the first half of fiscal 2009 and fiscal 2008, it reported taxable income which enabled utilization of net operating losses to offset the current cash tax liability. Utilization of these net operating losses resulted in a \$460 and \$1,521 deferred tax provision during the first half of fiscal 2009 and fiscal 2008, respectively, and a corresponding reversal of a portion of the valuation allowance established in purchase accounting for the Agway Acquisition, which reduced goodwill.

**15. Segment Information**

The Partnership manages and evaluates its operations in six segments, four of which are reportable segments: Propane, Fuel Oil and Refined Fuels, Natural Gas and Electricity and Services. The chief operating decision maker evaluates performance of the operating segments using a number of performance measures, including gross margins and income before interest expense and provision for income taxes (operating profit). Costs excluded from these profit measures include corporate overhead expenses not allocated to the operating segments. Unallocated corporate overhead expenses include all costs of back office support functions that are reported as general and administrative expenses in the condensed consolidated statements of operations. In addition, certain costs associated with field operations support that are reported in operating expenses in the condensed consolidated statements of operations, including purchasing, training and safety, are not allocated to the individual operating segments. Thus, operating profit for each operating segment includes only the costs that are directly attributable to the operations of the individual segment. The accounting policies of the operating segments are otherwise the same as those described in the summary of significant accounting policies Note in the Partnership's Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

The propane segment is primarily engaged in the retail distribution of propane to residential, commercial, industrial and agricultural customers and, to a lesser extent, wholesale distribution to large industrial end users. In the residential and commercial markets, propane is used primarily for space heating, water heating, cooking and clothes drying. Industrial customers use propane generally as a motor fuel burned in internal combustion engines that power over-the-road vehicles, forklifts and stationary engines, to fire furnaces and as a cutting gas. In the agricultural markets, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control.

The fuel oil and refined fuels segment is primarily engaged in the retail distribution of fuel oil, diesel, kerosene and gasoline to residential and commercial customers for use primarily as a source of heat in homes and buildings.

The natural gas and electricity segment is engaged in the marketing of natural gas and electricity to residential and commercial customers in the deregulated energy markets of New York and Pennsylvania. Under this operating segment, the Partnership owns the relationship with the end consumer and has agreements with the local distribution companies to deliver the natural gas or electricity from the Partnership's suppliers to the customer.

The services segment is engaged in the sale, installation and servicing of a wide variety of home comfort equipment and parts, particularly in the areas of heating and ventilation.

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The following table presents certain data by reportable segment and provides a reconciliation of total operating segment information to the corresponding consolidated amounts for the periods presented:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>
<b>Revenues:</b>				
Propane	\$ 336,913	\$ 422,376	\$ 610,821	\$ 729,701
Fuel oil and refined fuels	65,138	114,312	119,329	192,347
Natural gas and electricity	32,093	38,203	54,374	62,186
Services	10,251	11,096	22,253	25,568
All other	830	1,110	1,763	2,404
Total revenues	\$ 445,225	\$ 587,097	\$ 808,540	\$ 1,012,206
<b>Income before interest expense and income taxes:</b>				
Propane	\$ 129,492	\$ 112,643	\$ 227,161	\$ 172,486
Fuel oil and refined fuels	15,383	8,515	23,859	10,805
Natural gas and electricity	5,852	4,510	9,022	7,438
Services	(3,404)	(4,138)	(5,885)	(6,355)
All other	(404)	(217)	(867)	(423)
Corporate	(21,725)	(16,938)	(37,867)	(27,787)
Total income before interest expense and income taxes	125,194	104,375	215,423	156,164
Reconciliation to income from continuing operations:				
Interest expense, net	9,442	9,418	18,845	17,806
Provision for income taxes	886	434	1,024	2,113
Income from continuing operations	\$ 114,866	\$ 94,523	\$ 195,554	\$ 136,245
<b>Depreciation and amortization:</b>				
Propane	\$ 3,822	\$ 3,890	\$ 7,632	\$ 7,782
Fuel oil and refined fuels	825	844	1,640	1,709
Natural gas and electricity	252	252	504	504
Services	75	80	152	155
All other	17	16	33	47
Corporate	2,140	2,025	4,193	3,969
Total depreciation and amortization	\$ 7,131	\$ 7,107	\$ 14,154	\$ 14,166

As of  
March 28,      September 27,

	<b>2009</b>	<b>2008</b>
<b>Assets:</b>		
Propane	\$ 739,768	\$ 746,281
Fuel oil and refined fuels	91,467	70,548
Natural gas and electricity	26,173	23,658
Services	2,435	2,841
All other	1,211	1,234
Corporate	355,134	279,132
Eliminations	(87,981)	(87,981)
Total assets	\$ 1,128,207	\$ 1,035,713

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**16. Recently Issued Accounting Pronouncements**

In December 2008, the FASB issued an FSP on Statement 132(R)-1, Employers' Disclosure about Postretirement Benefit Plan Assets ( FSP 132(R)-1 ), which amends SFAS No. 132(R) to require more detailed disclosures about employers' pension plan assets. These new disclosures will include more information on investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009, which will be the Partnership's 2010 fiscal year ending September 25, 2010. Since FSP 132(R)-1 only addresses disclosure requirements, its adoption will have no impact on the Partnership's consolidated financial position, results of operations and cash flows.

Also in December 2007, the FASB issued a revised SFAS No. 141 Business Combinations ( SFAS 141R ). Among other things, SFAS 141R requires an entity to recognize acquired assets, liabilities assumed and any noncontrolling interest at their respective fair values as of the acquisition date, clarifies how goodwill involved in a business combination is to be recognized and measured, as well as requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations entered into in fiscal years beginning on or after December 15, 2008, which will be the Partnership's 2010 fiscal year beginning September 27, 2009, with early adoption prohibited.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion of the financial condition and results of operations of the Partnership as of and for the three and six months ended March 28, 2009. The discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

**Executive Overview**

The following are factors that regularly affect our operating results and financial condition. In addition, our business is subject to the risks and uncertainties described in Item 1A included in the Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

***Product Costs and Supply***

The level of profitability in the retail propane, fuel oil, natural gas and electricity businesses is largely dependent on the difference between retail sales price and product cost. The unit cost of our products, particularly propane, fuel oil and natural gas, is subject to volatility as a result of product supply or other market conditions, including, but not limited to, economic and political factors impacting crude oil and natural gas supply or pricing. We enter into product supply contracts that are generally one-year agreements subject to annual renewal, and also purchase product on the open market. We attempt to reduce price risk by pricing product on a short-term basis. Our propane supply contracts typically provide for pricing based upon index formulas using the posted prices established at major supply points such as Mont Belvieu, Texas, or Conway, Kansas (plus transportation costs) at the time of delivery.

To supplement our annual purchase requirements, we may utilize forward fixed price purchase contracts to acquire a portion of the propane that we resell to our customers, which allows us to manage our exposure to unfavorable changes in commodity prices and to assure adequate physical supply. The percentage of contract purchases, and the amount of supply contracted for under forward contracts at fixed prices, will vary from year to year based on market conditions.

Product cost changes can occur rapidly over a short period of time and can impact profitability. There is no assurance that we will be able to pass on product cost increases fully or immediately, particularly when product costs increase rapidly. Therefore, average retail sales prices can vary significantly from year to year as product costs fluctuate with propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, as has been experienced over the past several fiscal years, retail sales volumes have been negatively impacted by customer conservation efforts.

***Seasonality***

The retail propane and fuel oil distribution businesses, as well as the natural gas marketing business, are seasonal because these fuels are primarily used for heating in residential and commercial buildings. Historically, approximately two-thirds of our retail propane volume is sold during the six-month peak heating season from October through March. The fuel oil business tends to experience greater seasonality given its more limited use for space heating and approximately three-fourths of our fuel oil volumes are sold between October and March. Consequently, sales and operating profits are concentrated in our first and second fiscal quarters. Cash flows from operations, therefore, are greatest during the second and third fiscal quarters when customers pay for product purchased during the winter heating season. We expect lower operating profits and either net losses or lower net income during the period from April through September (our third and fourth fiscal quarters). To the extent necessary, we will reserve cash from the second and third quarters for distribution to holders of our Common Units in the fourth quarter and following fiscal year first quarter.

**Table of Contents*****Weather***

Weather conditions have a significant impact on the demand for our products, in particular propane, fuel oil and natural gas, for both heating and agricultural purposes. Many of our customers rely heavily on propane, fuel oil or natural gas as a heating source. Accordingly, the volume sold is directly affected by the severity of the winter weather in our service areas, which can vary substantially from year to year. In any given area, sustained warmer than normal temperatures will tend to result in reduced propane, fuel oil and natural gas consumption, while sustained colder than normal temperatures will tend to result in greater consumption.

***Hedging and Risk Management Activities***

We engage in hedging and risk management activities to reduce the effect of price volatility on our product costs and to ensure the availability of product during periods of short supply. We enter into propane forward and option agreements with third parties, and use fuel oil and crude oil futures and option contracts traded on the New York Mercantile Exchange ( NYMEX ), to purchase and sell propane, fuel oil and crude oil at fixed prices in the future. The majority of the futures, forward and option agreements are used to hedge price risk associated with propane and fuel oil physical inventory, as well as, in certain instances, forecasted purchases of propane or fuel oil. Forward contracts are generally settled physically at the expiration of the contract and futures are generally settled in cash at the expiration of the contract. Although we use derivative instruments to reduce the effect of price volatility associated with priced physical inventory and forecasted transactions, we do not use derivative instruments for speculative trading purposes. Risk management activities are monitored by an internal Commodity Risk Management Committee, made up of five members of management and reporting to our Audit Committee, through enforcement of our Hedging and Risk Management Policy.

***Critical Accounting Policies and Estimates***

Our significant accounting policies are summarized in Note 2, Summary of Significant Accounting Policies, included within the Notes to Consolidated Financial Statements section of our Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

Certain amounts included in or affecting our consolidated financial statements and related disclosures must be estimated, requiring management to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. The preparation of financial statements in conformity with 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. We are also subject to risks and uncertainties that may cause actual results to differ from estimated results. Estimates are used when accounting for depreciation and amortization of long-lived assets, employee benefit plans, self-insurance and litigation reserves, environmental reserves, allowances for doubtful accounts, asset valuation assessments and valuation of derivative instruments. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known to us. Management has reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Supervisors.

***Results of Operations and Financial Condition***

The positive momentum from the first quarter of fiscal 2009 carried into the second quarter despite the continued challenges of the recession. Sales volumes in the propane and refined fuels segments continued to be negatively affected by the adverse economic conditions but benefited to an extent from normal winter temperatures throughout most of the Partnership's service territories. Net income amounted to \$114.9 million, or \$3.50 per Common Unit, compared to \$94.5 million, or \$2.89 per Common Unit, in the prior year second quarter. EBITDA (as defined and reconciled below) for the second quarter of fiscal 2009 amounted to \$132.3 million, an increase of \$20.8 million, or 18.7%, compared to \$111.5 million in the prior year second quarter. With the increased level of earnings during the first half of fiscal 2009 compared to the first half of the prior year, coupled with lower working capital requirements from the generally lower commodity price environment, we ended the second quarter of fiscal 2009 with

\$235.5 million of cash on hand.



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Retail propane gallons sold in the second quarter of fiscal 2009 decreased 11.8 million gallons, or 8.1%, to 134.5 million gallons compared to 146.3 million gallons in the prior year second quarter. Sales of fuel oil and other refined fuels decreased 7.3 million gallons, or 23.2%, to 24.1 million gallons during the second quarter of fiscal 2009 compared to 31.4 million gallons in the prior year second quarter. Overall, temperatures across the Partnership's service territories were at normal levels for the second quarter of fiscal 2009 and 5% colder than the prior year second quarter. The favorable volume impact of the colder average temperatures was more than offset by declines in commercial and industrial volumes resulting from the recession and, to a lesser extent, continued customer conservation.

In the commodities markets, prices continued to trend in the opposite direction of the prior year second quarter, but with similar volatility. Overall, average posted prices for propane and fuel oil declined 53.9% and 50.9%, respectively, compared to the prior year second quarter. This recent decline in commodity prices has contributed to a reduction in our product costs that has outpaced the decline in our average selling prices. As a result, our retail propane and fuel oil unit margins for the second quarter of fiscal 2009 increased compared to the prior year second quarter. In addition, the declining commodity price environment during the second quarter of fiscal 2009 favorably impacted our risk management activities whereas the rising commodity price environment during the second quarter of fiscal 2008 produced a negative effect. Compared to the prior year second quarter our risk management activities favorably affected cost of products sold by \$10.6 million.

The proactive steps we have taken in prior years to create a more efficient and cost effective operating structure continue to produce cost savings and have contributed to the overall strength of our cash flow and financial position. Combined operating and general and administrative expenses of \$104.6 million for the second quarter of fiscal 2009 increased \$9.8 million, or 10.3%, compared to the prior year second quarter, primarily due to higher variable compensation attributable to higher earnings, partially offset by continued savings in payroll and vehicles expenses.

From a cash flow perspective, we continue to fund working capital requirements from cash on hand and have not borrowed under our working capital facility since April 2006. During the second quarter of fiscal 2009, we generated \$133.9 million in cash flow from operations. We ended the second quarter of fiscal 2009 with \$235.5 million in cash on hand and are well positioned as we advance into the second half of the fiscal year. On the strength of these earnings and cash flows, our Board of Supervisors declared the twenty-first increase (since our recapitalization in 1999) in our quarterly distribution from \$0.810 to \$0.815 per Common Unit. The distribution equates to \$3.26 per Common Unit annualized, an increase of \$0.02 per Common Unit from the previous distribution rate, and a growth rate of 5.2% compared to the second quarter of fiscal 2008.

Looking ahead to the remainder of fiscal 2009, we expect that the economic recession and volatile commodity price environment will continue to present challenges in each of our markets that will continue to affect customer buying habits, thus having a possible negative impact on sales volumes. Nonetheless, we believe that our flexible cost structure, focus on operating efficiencies and financial strength are all factors that will help us effectively manage through the challenging operating environment.

Our anticipated cash requirements for the remainder of fiscal 2009 include: (i) maintenance and growth capital expenditures of approximately \$16.7 million; (ii) interest payments of approximately \$18.3 million; and (iii) cash distributions of approximately \$53.5 million to our Common Unitholders based on the most recently increased quarterly distribution rate of \$0.815 per Common Unit. Based on our current estimates of cash flow from operations and our cash position at the end of the second quarter of fiscal 2009, we do not anticipate the need to borrow under the working capital facility of our Revolving Credit Agreement to meet our working capital requirements for the remainder of fiscal 2009. Our Revolving Credit Agreement provides a working capital facility with available revolving borrowing capacity up to \$175.0 million (with unused borrowing capacity of \$117.9 million after considering outstanding letters of credit of \$57.1 million as of March 28, 2009).

**Table of Contents****Three Months Ended March 28, 2009 Compared to Three Months Ended March 29, 2008**  
*Revenues*

(Dollars in thousands)	Three Months Ended		Decrease	Percent Decrease
	March 28, 2009	March 29, 2008		
Revenues				
Propane	\$ 336,913	\$ 422,376	\$ (85,463)	(20.2%)
Fuel oil and refined fuels	65,138	114,312	(49,174)	(43.0%)
Natural gas and electricity	32,093	38,203	(6,110)	(16.0%)
Services	10,251	11,096	(845)	(7.6%)
All other	830	1,110	(280)	(25.2%)
Total revenues	\$ 445,225	\$ 587,097	\$ (141,872)	(24.2%)

Total revenues decreased \$141.9 million, or 24.2%, to \$445.2 million for the three months ended March 28, 2009 compared to \$587.1 million for the three months ended March 29, 2008 due to lower average selling prices associated with lower product costs, and to a lesser extent, lower volumes. Volumes were lower than the prior year second quarter due to the negative impact of adverse economic conditions, particularly on our commercial and industrial accounts, as well as ongoing customer conservation efforts, partially offset by the favorable impact of colder temperatures. In our eastern service territories, temperatures were slightly colder than normal and 7% colder than the prior year. Temperatures in our western service territories were 1% warmer than both normal and the prior year. On an overall basis, temperatures in our service territories were at normal levels during the second quarter of fiscal 2009 and 5% colder than the prior year second quarter.

Revenues from the distribution of propane and related activities of \$336.9 million in the second quarter of fiscal 2009 decreased \$85.5 million, or 20.2%, compared to \$422.4 million in the prior year second quarter, primarily due to lower volumes, particularly in our commercial and industrial accounts. Retail propane gallons sold in the second quarter of fiscal 2009 decreased 11.8 million gallons, or 8.0%, to 134.5 million gallons from 146.3 million gallons in the prior year second quarter. Lower volumes sold in the non-residential customer base accounted for more than 60% of the decline in propane sales volume. Average propane selling prices in the second quarter of fiscal 2009 decreased approximately 12.9% compared to the prior year second quarter due to lower product costs, thereby having a negative impact on revenues. Additionally, included within the propane segment are revenues from wholesale and other propane activities of \$8.3 million in the second quarter of fiscal 2009, which decreased \$3.6 million compared to the prior year second quarter.

Revenues from the distribution of fuel oil and refined fuels of \$65.1 million in the second quarter of fiscal 2009 decreased \$49.2 million, or 43.0%, from \$114.3 million in the prior year second quarter, primarily due to lower volumes and lower average selling prices. Fuel oil and refined fuels gallons sold in the second quarter of fiscal 2009 decreased 7.3 million gallons, or 23.2%, to 24.1 million gallons from 31.4 million gallons in the prior year second quarter. Lower volumes in our fuel oil and refined fuels segment were attributable to the impact of ongoing customer conservation driven by adverse economic conditions and continued high energy prices. Average selling prices in our fuel oil and refined fuels segment in the second quarter of fiscal 2009 decreased 26.9% compared to the prior year second quarter due to lower product costs, thereby having a negative impact on revenues.

Revenues in our natural gas and electricity segment decreased \$6.1 million, or 16.0%, to \$32.1 million in the second quarter of fiscal 2009 compared to \$38.2 million in the prior year second quarter as a result of lower volumes. Revenues in our services segment decreased 7.6% to \$10.3 million in the second quarter of fiscal 2009 from \$11.1 million in the prior year second quarter primarily due to reduced installation activities as a result of the market decline in residential and commercial construction and other adverse economic conditions.



**Table of Contents***Cost of Products Sold*

(Dollars in thousands)	Three Months Ended		Decrease	Percent Decrease
	March 28, 2009	March 29, 2008		
Cost of products sold				
Propane	\$ 141,201	\$ 252,230	\$ (111,029)	(44.0%)
Fuel oil and refined fuels	39,912	93,042	(53,130)	(57.1%)
Natural gas and electricity	24,165	31,740	(7,575)	(23.9%)
Services	2,700	3,312	(612)	(18.5%)
All other	281	433	(152)	(35.1%)
Total cost of products sold	\$ 208,259	\$ 380,757	\$ (172,498)	(45.3%)

As a percent of total revenues 46.8% 64.9%

The cost of products sold reported in the condensed consolidated statements of operations represents the weighted average unit cost of propane and fuel oil sold, including transportation costs to deliver product from our supply points to storage or to our customer service centers. Cost of products sold also includes the cost of natural gas and electricity, as well as the cost of appliances and related parts sold or installed by our customer service centers computed on a basis that approximates the average cost of the products. Unrealized (non-cash) gains or losses from changes in the fair value of derivative instruments that are not designated as cash flow hedges are recorded in each quarterly reporting period within cost of products sold. Cost of products sold is reported exclusive of any depreciation and amortization; these amounts are reported separately within the condensed consolidated statements of operations.

Cost of products sold decreased \$172.5 million, or 45.3%, to \$208.3 million in the second quarter of fiscal 2009 compared to \$380.8 million in the prior year second quarter due to the impact of the decline in product costs, lower volumes sold and the favorable impact of mark-to-market adjustments from our risk management activities. Cost of products sold in the second quarter of fiscal 2009 included a \$9.7 million unrealized (non-cash) loss representing the net change in the fair value of derivative instruments during the period, compared to a \$2.3 million unrealized (non-cash) loss in the prior year second quarter resulting in an increase of \$7.4 million in cost of products sold in the second quarter of fiscal 2009 compared to the prior year second quarter (\$9.1 million cost increase reported within the propane segment and \$1.7 million cost decrease reported within the fuel oil and refined fuels segment).

Cost of products sold associated with the distribution of propane and related activities of \$141.2 million decreased \$111.0 million, or 44.0%, compared to the prior year second quarter. Lower average propane costs and lower propane volumes resulted in a decrease of \$91.5 million and \$19.9 million, respectively, in cost of products sold during the second quarter of fiscal 2009 compared to the prior year second quarter. Realized gains from risk management activities during the second quarter of fiscal 2009 resulted in a \$6.6 million decrease in cost of products sold compared to the prior year second quarter. Cost of products sold from wholesale and other propane activities decreased \$2.1 million compared to the prior year second quarter due to lower volumes.

Cost of products sold associated with our fuel oil and refined fuels segment of \$39.9 million decreased \$53.1 million, or 57.1%, compared to the prior year second quarter. Lower average fuel oil costs and lower fuel oil volumes resulted in a decrease of \$27.2 million and \$20.2 million, respectively, in cost of products sold during the second quarter of fiscal 2009 compared to the prior year second quarter. In addition, realized gains from risk management activities during the second quarter of fiscal 2009 resulted in a \$4.0 million decrease in cost of products sold compared to the prior year second quarter.

Cost of products sold in our natural gas and electricity segment of \$24.2 million decreased \$7.6 million, or 23.9%, compared to the prior year second quarter due to lower product costs and, to a lesser extent, lower volumes. Cost of products sold in our services segment of \$2.7 million decreased \$0.6 million, or 18.5%, compared to the prior year second quarter primarily due to lower sales volumes.



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For the quarter ended March 28, 2009, total cost of products sold represented 46.8% of revenues compared to 64.9% in the prior year second quarter. This decrease was primarily attributable to the decrease in product costs which outpaced the decline in average selling prices, as well as the positive effect of declining commodity prices on our risk management activities during the second quarter of fiscal 2009 compared to the negative effect of rising commodity prices on our risk management activities in the prior year second quarter.

*Operating Expenses*

(Dollars in thousands)	Three Months Ended		Increase	Percent Increase
	March 28, 2009	March 29, 2008		
Operating expenses	\$ 86,848	\$ 79,697	\$ 7,151	9.0%
As a percent of total revenues	19.5%	13.6%		

All costs of operating our retail distribution and appliance sales and service operations are reported within operating expenses in the condensed consolidated statements of operations. These operating expenses include the compensation and benefits of field and direct operating support personnel, costs of operating and maintaining our vehicle fleet, overhead and other costs of our purchasing, training and safety departments and other direct and indirect costs of operating our customer service centers.

Operating expenses of \$86.8 million in the second quarter of fiscal 2009 increased \$7.1 million, or 9.0%, compared to \$79.7 million in the prior year second quarter as a result of higher variable compensation associated with higher earnings, as well as higher insurance costs. These higher costs were partially offset by lower bad debt expense and lower fuel costs to operate our fleet.

*General and Administrative Expenses*

(Dollars in thousands)	Three Months Ended		Increase	Percent Increase
	March 28, 2009	March 29, 2008		
General and administrative expenses	\$ 17,793	\$ 15,161	\$ 2,632	17.4%
As a percent of total revenues	4.0%	2.6%		

All costs of our back office support functions, including compensation and benefits for executives and other support functions, as well as other costs and expenses to maintain finance and accounting, treasury, legal, human resources, corporate development and the information systems functions are reported within general and administrative expenses in the condensed consolidated statements of operations.

General and administrative expenses of \$17.8 million for second quarter of fiscal 2009 increased \$2.6 million, or 17.4%, compared to \$15.2 million in the prior year second quarter. The increase was primarily attributable to higher variable compensation resulting from higher earnings in the second quarter of fiscal 2009 compared to the prior year second quarter and higher compensation cost recognized under certain long-term incentive plans.

**Table of Contents***Depreciation and Amortization*

(Dollars in thousands)	Three Months Ended		Increase	Percent Increase
	March 28, 2009	March 29, 2008		
Depreciation and amortization	\$ 7,131	\$ 7,107	\$ 24	0.3%
As a percent of total revenues	1.6%	1.2%		

Depreciation and amortization expense of \$7.1 million for the second quarter of fiscal 2009 was relatively unchanged compared to the prior year second quarter.

*Interest Expense, net*

(Dollars in thousands)	Three Months Ended		Increase	Percent Increase
	March 28, 2009	March 29, 2008		
Interest expense, net	\$ 9,442	\$ 9,418	\$ 24	0.3%
As a percent of total revenues	2.1%	1.6%		

Net interest expense of \$9.4 million for the second quarter of fiscal 2009 was relatively unchanged compared to the prior year second quarter. As has been the case since April 2006, there were no borrowings under our working capital facility as seasonal working capital needs have been funded through cash on hand and cash flow from operations. We ended the second quarter of fiscal 2009 in a strong cash position with \$235.5 million in cash on the condensed consolidated balance sheet.

*Net Income and EBITDA*

Net income for the second quarter of fiscal 2009 amounted to \$114.9 million, or \$3.50 per Common Unit, an increase of \$20.4 million, or \$0.61 per Common Unit, compared to the prior year second quarter's net income of \$94.5 million, or \$2.89 per Common Unit. EBITDA amounted to \$132.3 million for the second quarter of fiscal 2009 compared to \$111.5 million in the prior year second quarter.

EBITDA represents income before deducting interest expense, income taxes, depreciation and amortization. Our management uses EBITDA as a measure of liquidity and we disclose it because we believe that it provides our investors and industry analysts with additional information to evaluate our ability to meet our debt service obligations and to pay our quarterly distributions to holders of our Common Units. In addition, certain of our incentive compensation plans covering executives and other employees utilize EBITDA as the performance target. Moreover, our Revolving Credit Agreement requires us to use EBITDA as a component in calculating our leverage and interest coverage ratios. EBITDA is not a recognized term under GAAP and should not be considered as an alternative to net income or net cash provided by operating activities determined in accordance with GAAP. Because EBITDA as determined by us excludes some, but not all, items that affect net income, it may not be comparable to EBITDA or similarly titled measures used by other companies.

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The following table sets forth (i) our calculations of EBITDA and (ii) a reconciliation of EBITDA, as so calculated, to our net cash provided by operating activities:

(Dollars in thousands)	<b>Three Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Net income	\$ 114,866	\$ 94,523
Add:		
Provision for income taxes	886	434
Interest expense, net	9,442	9,418
Depreciation and amortization	7,131	7,107
<b>EBITDA</b>	<b>132,325</b>	<b>111,482</b>
Add (subtract):		
Provision for income taxes current	(426)	(190)
Interest expense, net	(9,442)	(9,418)
Compensation cost recognized under Restricted Unit Plan	672	753
Gain on disposal of property, plant and equipment, net	(393)	(283)
Changes in working capital and other assets and liabilities	11,212	(52,004)
 Net cash provided by operating activities	 \$ 133,948	 \$ 50,340

**Six Months Ended March 28, 2009 Compared to Six Months Ended March 29, 2008**

In the commodities markets, prices for the first six months of the fiscal year trended in the opposite direction of the comparable period in the prior year, but with similar volatility. Overall, average posted prices for propane and fuel oil declined 50.4% and 39.2%, respectively, compared to the first six months of the prior year. The decline in commodity prices has contributed to a reduction in our product costs that has outpaced the decline in our average selling prices.

**Revenues**

(Dollars in thousands)	<b>Six Months Ended</b>		<b>Decrease</b>	<b>Percent Decrease</b>
	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Revenues				
Propane	\$ 610,821	\$ 729,701	\$ (118,880)	(16.3%)
Fuel oil and refined fuels	119,329	192,347	(73,018)	(38.0%)
Natural gas and electricity	54,374	62,186	(7,812)	(12.6%)
Services	22,253	25,568	(3,315)	(13.0%)
All other	1,763	2,404	(641)	(26.7%)
 Total revenues	 \$ 808,540	 \$ 1,012,206	 \$ (203,666)	 (20.1%)

Total revenues decreased \$203.7 million, or 20.1%, to \$808.5 million for the six months ended March 28, 2009 compared to \$1,012.2 million for the six months ended March 29, 2008 due to lower volumes, and to a lesser extent, lower average selling prices associated with lower product costs. Volumes for the first six months of fiscal 2009 were lower than the first six months of the prior year due to the negative impact of adverse economic conditions, particularly on our commercial and industrial accounts, as well as ongoing customer conservation, partially offset by the favorable impact of colder temperatures. On an overall basis, temperatures in our service territories were at normal levels during the first six months of fiscal 2009 and 6% colder than the first six months of the prior year.





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Revenues from the distribution of propane and related activities of \$610.8 million for the six months ended March 28, 2009 decreased \$118.9 million, or 16.3%, compared to \$729.7 million for the six months ended March 29, 2008, primarily due to lower volumes in our commercial and industrial accounts and, to a lesser extent, our residential accounts, as well as lower average selling prices. Retail propane gallons sold in the first six months of fiscal 2009 decreased 24.6 million gallons, or 9.5%, to 233.6 million gallons from 258.2 million gallons in the first six months of the prior year. Average propane selling prices in the first six months of fiscal 2009 decreased approximately 7.9% compared to the first six months of the prior year due to lower product costs, thereby having a negative impact on revenues. Additionally, included within the propane segment are revenues from wholesale and other propane activities of \$24.7 million for the six months ended March 28, 2009, which decreased \$1.7 million compared to the six months ended March 29, 2008.

Revenues from the distribution of fuel oil and refined fuels of \$119.3 million for the six months ended March 28, 2009 decreased \$73.0 million, or 38.0%, from \$192.3 million for the six months ended March 29, 2008, primarily due to lower volumes and lower average selling prices. Fuel oil and refined fuels gallons sold in the first six months of fiscal 2009 decreased 14.2 million gallons, or 25.8%, to 40.8 million gallons from 55.0 million gallons in the first six months of the prior year. Lower volumes in our fuel oil and refined fuels segment were attributable to the impact of ongoing customer conservation driven by adverse economic conditions and continued high energy prices, combined with our decision to exit certain lower margin diesel and gasoline businesses. Our decision to exit the majority of our low sulfur diesel and gasoline businesses resulted in a reduction in volumes in the fuel oil and refined fuels segment of approximately 2.2 million gallons, or 15.8% of the total volume decline in the first six months of fiscal 2009 compared to the first six months of the prior year. Average selling prices in our fuel oil and refined fuels segment in the first six months of fiscal 2009 decreased 17.8% compared to the first six months of the prior year due to lower product costs, thereby having a negative impact on revenues.

Revenues in our natural gas and electricity segment decreased \$7.8 million, or 12.6%, to \$54.4 million for the six months ended March 28, 2009 compared to \$62.2 million for the six months ended March 29, 2008 as a result of lower volumes. Revenues in our services segment decreased 13.0% to \$22.3 million for the six months ended March 28, 2009 from \$25.6 million for the six months ended March 29, 2008 primarily due to reduced installation activities as a result of the market decline in residential and commercial construction and other adverse economic conditions.

*Cost of Products Sold*

(Dollars in thousands)	<b>Six Months Ended</b>		<b>Decrease</b>	<b>Percent Decrease</b>
	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Cost of products sold				
Propane	\$ 259,086	\$ 440,133	\$ (181,047)	(41.1%)
Fuel oil and refined fuels	75,517	158,676	(83,159)	(52.4%)
Natural gas and electricity	41,848	51,491	(9,643)	(18.7%)
Services	5,374	7,177	(1,803)	(25.1%)
All other	664	995	(331)	(33.3%)
Total cost of products sold	\$ 382,489	\$ 658,472	\$ (275,983)	(41.9%)

As a percent of total revenues 47.3% 65.1%

Cost of products sold decreased \$276.0 million, or 41.9%, to \$382.5 million for the six months ended March 28, 2009 compared to \$658.5 million for the six months ended March 29, 2008 due to the impact of the decline in product costs, lower volumes sold and the favorable impact of mark-to-market adjustments from our risk management activities. Cost of products sold in the first six months of fiscal 2009 included a \$5.3 million unrealized (non-cash) gain representing the net change in the fair value of derivative instruments during the period, compared to a

\$5.0 million unrealized (non-cash) loss in the first six months of the prior year resulting in a decrease of \$10.3 million in cost of products sold for the six months ended March 28, 2009 compared to the six months ended March 29, 2008 (\$3.5 million reported within the propane segment and \$6.8 million within the fuel oil and refined fuels segment).

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Cost of products sold associated with the distribution of propane and related activities of \$259.1 million for the six months ended March 28, 2009 decreased \$181.0 million, or 41.1%, compared to the six months ended March 29, 2008. Lower average propane costs and lower propane volumes resulted in a decrease of \$123.6 million and \$40.7 million, respectively, in cost of products sold during the first six months of fiscal 2009 compared to the first six months of the prior year. Realized gains from risk management activities during the first six months of fiscal 2009 resulted in a \$10.1 million decrease in cost of products sold compared to the first six months of the prior year. Cost of products sold from wholesale and other propane activities decreased \$3.1 million compared to the first six months of the prior year due to lower product costs and volumes.

Cost of products sold associated with our fuel oil and refined fuels segment of \$75.5 million for the six months ended March 28, 2009 decreased \$83.2 million, or 52.4%, compared to the six months ended March 29, 2008. Lower average fuel oil costs and lower fuel oil volumes resulted in a decrease of \$29.5 million and \$37.9 million, respectively, in cost of products sold during the first six months of fiscal 2009 compared to the first six months of the prior year. In addition, realized gains from risk management activities during the first six months of fiscal 2009 resulted in a \$9.0 million decrease in cost of products sold compared to the first six months of the prior year.

Cost of products sold in our natural gas and electricity segment of \$41.8 million for the six months ended March 28, 2009 decreased \$9.6 million, or 18.7%, compared to the six months ended March 28, 2009 due to lower volumes and, to a lesser extent, lower product costs. Cost of products sold in our services segment of \$5.4 million for the first six months of fiscal 2009 decreased \$1.8 million, or 25.1%, compared to the first six months of fiscal 2008 primarily due to lower sales volumes.

For the six months ended March 28, 2009, total cost of products sold represented 47.3% of revenues compared to 65.1% for the six months ended March 28, 2009. This decrease was primarily attributable to the decrease in product costs which outpaced the decline in average selling prices, as well as the positive effect of declining commodity prices on our risk management activities during the first six months of fiscal 2009 compared to the negative effect of rising commodity prices on our risk management activities in the first six months of the prior year.

*Operating Expenses*

(Dollars in thousands)	<b>Six Months Ended</b>		<b>Increase</b>	<b>Percent Increase</b>
	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Operating expenses	\$ 163,911	\$ 159,040	\$ 4,871	3.1%
As a percent of total revenues	20.3%	15.7%		

Operating expenses of \$163.9 million for the six months ended March 28, 2009 increased \$4.9 million, or 3.1%, compared to \$159.0 million for the six months ended March 29, 2008 as a result of higher variable compensation associated with higher earnings in the first six months of fiscal 2009 compared to the first six months of the prior year, partially offset by our continued efforts to drive operational efficiencies and reduce costs across all operating segments. Savings were primarily attributable to payroll and benefit related expenses as a result of lower headcount and routing efficiencies that enabled a reduction of our vehicle count, as well as lower fuel costs to operate our fleet.

**Table of Contents***General and Administrative Expenses*

(Dollars in thousands)	<b>Six Months Ended</b>		<b>Increase</b>	<b>Percent Increase</b>
	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
General and administrative expenses	\$ 32,563	\$ 24,364	\$ 8,199	33.7%
As a percent of total revenues	4.0%	2.4%		

General and administrative expenses of \$32.6 million for the six months ended March 28, 2009 increased \$8.2 million, or 33.7%, compared to \$24.4 million during the six months ended March 29, 2008. The increase was primarily attributable to higher variable compensation resulting from higher earnings in the first six months of fiscal 2009 compared to the first six months of the prior year and higher compensation cost recognized under certain long-term incentive plans.

*Depreciation and Amortization*

(Dollars in thousands)	<b>Six Months Ended</b>		<b>Decrease</b>	<b>Percent Decrease</b>
	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Depreciation and amortization	\$ 14,154	\$ 14,166	\$ (12)	(0.1%)
As a percent of total revenues	1.8%	1.4%		

Depreciation and amortization expense of \$14.2 million for the six months ended March 28, 2009 was relatively unchanged compared to the six months ended March 29, 2008.

*Interest Expense, net*

(Dollars in thousands)	<b>Six Months Ended</b>		<b>Increase</b>	<b>Percent Increase</b>
	<b>March 28, 2009</b>	<b>March 29, 2008</b>		
Interest expense, net	\$ 18,845	\$ 17,806	\$ 1,039	5.8%
As a percent of total revenues	2.3%	1.8%		

Net interest expense of \$18.8 million for the six months ended March 28, 2009 increased \$1.0 million, or 5.8%, compared to \$17.8 million for the six months ended March 29, 2008 as a result of lower market interest rates for short-term investments, which contributed to less interest income earned. As has been the case since April 2006, there were no borrowings under our working capital facility as seasonal working capital needs have been funded through cash on hand and cash flow from operations. We ended the first half of fiscal 2009 in a strong cash position with \$235.5 million in cash on the condensed consolidated balance sheet.

*Discontinued Operations*

On October 2, 2007, we completed the sale of our Tirzah, South Carolina underground granite propane storage cavern, and associated 62-mile pipeline, for approximately \$53.7 million in cash, after taking into account certain adjustments. As a result of this sale, we reported a \$43.7 million gain on disposal of discontinued operations in the first half of fiscal 2008.

**Table of Contents***Net Income and EBITDA*

Net income for the six months ended March 28, 2009 amounted to \$195.6 million, or \$5.96 per Common Unit, an increase of \$15.6 million, or \$0.46 per Common Unit, compared to \$180.0 million, or \$5.50 per Common Unit for the first six months of the prior year. EBITDA amounted to \$229.6 million for the six months ended March 28, 2009 compared to \$214.0 million for the first six months of the prior year.

The following table sets forth (i) our calculations of EBITDA and (ii) a reconciliation of EBITDA, as so calculated, to our net cash provided by operating activities:

(Dollars in thousands)	<b>Six Months Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Net income	\$ 195,554	\$ 179,952
Add:		
Provision for income taxes	1,024	2,113
Interest expense, net	18,845	17,806
Depreciation and amortization	14,154	14,166
<b>EBITDA</b>	<b>229,577</b>	<b>214,037</b>
Add (subtract):		
Provision for income taxes current	(564)	(592)
Interest expense, net	(18,845)	(17,806)
Compensation cost recognized under Restricted Unit Plan	1,241	686
Gain on disposal of property, plant and equipment, net	(623)	(1,712)
Gain on disposal of discontinued operations		(43,707)
Changes in working capital and other assets and liabilities	(51,834)	(142,519)
<b>Net cash provided by operating activities</b>	<b>\$ 158,952</b>	<b>\$ 8,387</b>

**Liquidity and Capital Resources***Analysis of Cash Flows*

*Operating Activities.* Due to the seasonal nature of the propane and fuel oil businesses, cash flows generated from operating activities are typically greater during the winter and spring seasons (our second and third fiscal quarters) as customers pay for products purchased during the heating season. For the six months ended March 28, 2009, net cash provided by operating activities was \$159.0 million, representing an increase of \$150.6 million compared to net cash provided by operating activities of \$8.4 million for the first six months of the prior year. This improvement was primarily attributable to higher earnings from continuing operations, coupled with the decline in propane and fuel oil commodity prices that resulted in a smaller investment in working capital in the first six months of fiscal 2009 compared to the first six months of the prior year. We continued to fund working capital through operating cash flow without the need to access the working capital facility under our Revolving Credit Agreement.

*Investing Activities.* Net cash used in investing activities of \$6.2 million for the six months ended March 28, 2009 consisted of capital expenditures of \$8.3 million (including \$3.6 million for maintenance expenditures and \$4.7 million to support the growth of operations), partially offset by \$2.1 million in net proceeds from the sale of property, plant and equipment. Net cash provided by investing activities of \$45.3 million for the six months ended March 29, 2008 consisted of the net proceeds from the sale of discontinued operations of \$53.7 million and the net proceeds from the sale of property, plant and equipment of \$2.7 million, partially offset by capital expenditures of \$11.1 million (including \$5.1 million for maintenance expenditures and \$6.0 million to support the growth of operations).



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*Financing Activities.* Net cash used in financing activities for the six months ended March 28, 2009 of \$55.0 million reflects quarterly distributions to Common Unitholders at a rate of \$0.81 per Common Unit paid in respect of the first quarter of fiscal 2009 and \$0.805 per Common Unit paid in respect of the fourth quarter of fiscal 2008, as well as a prepayment of \$2.0 million under our term loan. Net cash used in financing activities for the six months ended March 29, 2008 of \$49.5 million reflects quarterly distributions to Common Unitholders at a rate of \$0.7625 per Common Unit paid in respect of the first quarter of fiscal 2008 and \$0.75 per Common Unit paid in respect of the fourth quarter of fiscal 2007.

***Summary of Long-Term Debt Obligations and Revolving Credit Lines***

Our long-term borrowings and revolving credit lines consist of \$425.0 million in 6.875% senior notes due December 2013 (the 2003 Senior Notes ) and a Revolving Credit Agreement at the Operating Partnership level which provides a five-year \$125.0 million term loan due March 31, 2010 (the Term Loan ) and a separate working capital facility which provides available credit up to \$175.0 million. On September 26, 2008 and November 10, 2008 we made a prepayment of \$15.0 million and \$2.0 million, respectively, on the Term Loan thereby reducing the amount outstanding to \$108.0 million. There were no outstanding borrowings under the working capital facility as of March 28, 2009 and there have been no borrowings under our working capital facility since April 2006. We have standby letters of credit issued under the working capital facility of the Revolving Credit Agreement in the aggregate amount of \$57.1 million primarily in support of retention levels under our self-insurance programs, which expire periodically through April 15, 2010. Therefore, as of March 28, 2009 we had available borrowing capacity of \$117.9 million under the working capital facility of the Revolving Credit Agreement.

The 2003 Senior Notes mature on December 15, 2013 and require semi-annual interest payments. We are permitted to redeem some or all of the 2003 Senior Notes any time on or after December 15, 2008 at redemption prices specified in the indenture governing the 2003 Senior Notes. In addition, the 2003 Senior Notes have a change of control provision that would require us to offer to repurchase the notes at 101% of the principal amount repurchased, if the holders of the notes elected to exercise the right of repurchase. Borrowings under the Revolving Credit Agreement, including the Term Loan, bear interest at a rate based upon LIBOR or the Base Rate, as defined, plus an applicable margin. An annual facility fee ranging from 0.375% to 0.50%, based upon certain financial tests, is payable quarterly whether or not borrowings occur.

In connection with the Term Loan, our Operating Partnership also entered into an interest rate swap contract with an initial notional amount of \$125.0 million with the issuing lender. In connection with the prepayments of the Term Loan discussed above, the Operating Partnership also amended the interest rate swap contract to reduce the notional amount to \$108.0 million, the net amount due after the prepayments. From an original borrowing date of March 31, 2005 through March 31, 2010, our Operating Partnership will pay a fixed interest rate of 4.66% to the issuing lender on the notional principal amount, effectively fixing the LIBOR portion of the interest rate at 4.66%. In return, the issuing lender will pay to our Operating Partnership a floating rate, namely LIBOR, on the same notional principal amount. The applicable margin above LIBOR, as defined in the Revolving Credit Agreement, will be paid in addition to this fixed interest rate of 4.66%.

Under the Revolving Credit Agreement, our Operating Partnership must maintain a leverage ratio (the ratio of total debt to EBITDA) of less than 4.0 to 1 and an interest coverage ratio (the ratio of EBITDA to interest expense) of greater than 2.5 to 1 at the Partnership level. Under the 2003 Senior Note indenture, the Partnership is generally permitted to make cash distributions equal to available cash, as defined, as of the end of the immediately preceding quarter, if no event of default exists or would exist upon making such distributions, and the Partnership's consolidated fixed charge coverage ratio, as defined, is greater than 1.75 to 1. Under the Revolving Credit Agreement, as long as no default exists or would result, the Operating Partnership is permitted to make cash distributions not more frequently than quarterly in an amount not to exceed available cash, as defined, for the immediately preceding fiscal quarter. The Revolving Credit Agreement and the 2003 Senior Notes both contain various restrictive and affirmative covenants applicable to our Operating Partnership and us, respectively. These covenants include (i) restrictions on the incurrence of additional indebtedness and (ii) restrictions on certain liens, investments, guarantees, loans, advances, payments, mergers, consolidations, distributions, sales of assets and other transactions. We were in compliance with all covenants and terms of all of our debt agreements as of March 28, 2009 and September 27, 2008.





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Under the Revolving Credit Agreement, proceeds from the sale, transfer or other disposition of any asset of the Operating Partnership, other than the sale of inventory in the ordinary course of business, in excess of \$15 million must be used to acquire productive assets within twelve months of receipt of the proceeds. Any proceeds not used within twelve months of receipt to acquire productive assets must be used to prepay the outstanding principal of the Term Loan.

Our Revolving Credit Agreement is supported by a diverse group of thirteen financial institutions. Management believes that we maintain strong relationships with the financial institutions within our current bank group and, to the extent necessary, will have sufficient access to the unused portion of the working capital facility. Our Revolving Credit Agreement matures in March 2010 and we have recently begun the process of renewing the agreement.

***Partnership Distributions***

We are required to make distributions in an amount equal to all of our Available Cash, as defined in the Third Amended and Restated Partnership Agreement (the Partnership Agreement), as amended, no more than 45 days after the end of each fiscal quarter to holders of record on the applicable record dates. Available Cash, as defined in the Partnership Agreement, generally means all cash on hand at the end of the respective fiscal quarter less the amount of cash reserves established by the Board of Supervisors in its reasonable discretion for future cash requirements. These reserves are retained for the proper conduct of our business, the payment of debt principal and interest and for distributions during the next four quarters. The Board of Supervisors reviews the level of Available Cash on a quarterly basis based upon information provided by management.

On April 23, 2009, we announced a quarterly distribution of \$0.815 per Common Unit, or \$3.26 on an annualized basis, in respect of the second quarter of fiscal 2009 payable on May 12, 2009 to holders of record on May 5, 2009. The annualized distribution represents an increase of \$0.02 per Common Unit from the previous distribution rate, representing the twenty-first increase since our recapitalization in 1999 and a growth rate of 5.2% in the quarterly distribution rate compared to the second quarter of fiscal 2008.

***Other Commitments***

We have a noncontributory, cash balance format, defined benefit pension plan which was frozen to new participants effective January 1, 2000. Effective January 1, 2003, the defined benefit pension plan was amended such that future service credits ceased and eligible employees would receive interest credits only toward their ultimate retirement benefit. At March 28, 2009, the fair value of the plan assets approximated the accumulated benefit obligation of the plan. We also provide postretirement health care and life insurance benefits for certain retired employees under a plan that was also frozen to new participants effective January 1, 2000. At March 28, 2009, we had a liability for accrued retiree health and life benefits of \$18.8 million.

We are self-insured for general and product, workers compensation and automobile liabilities up to predetermined thresholds above which third party insurance applies. At March 28, 2009, we had accrued insurance liabilities of \$49.4 million, and an insurance recovery asset of \$16.1 million related to the amount of the liability expected to be covered by insurance carriers.

***Off-Balance Sheet Arrangements******Guarantees***

We have residual value guarantees associated with certain of our operating leases, related primarily to transportation equipment, with remaining lease periods scheduled to expire periodically through fiscal 2016. Upon completion of the lease period, we guarantee that the fair value of the equipment will equal or exceed the guaranteed amount, or we will pay the lessor the difference. Although the fair value of equipment at the end of its lease term has historically exceeded the guaranteed amounts, the maximum potential amount of aggregate future payments we could be required to make under these leasing arrangements, assuming the equipment is deemed worthless at the end of the lease term, is approximately \$18.0 million as of March 28, 2009. The fair value of residual value guarantees for outstanding operating leases was de minimis as of March 28, 2009 and September 27, 2008.

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**Recently Issued Accounting Standards**

In December 2008, the FASB issued an FSP on Statement 132(R)-1, Employers' Disclosure about Postretirement Benefit Plan Assets ( FSP 132(R)-1 ), which amends SFAS No. 132(R) to require more detailed disclosures about employers' pension plan assets. These new disclosures will include more information on investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009, which will be our 2010 fiscal year ending September 25, 2010. Since FSP 132(R)-1 only addresses disclosure requirements, the adoption of FSP 132(R)-1 will have no impact on our consolidated financial position, results of operations and cash flows.

Also in December 2007, the FASB issued a revised SFAS No. 141 Business Combinations ( SFAS 141R ). Among other things, SFAS 141R requires an entity to recognize acquired assets, liabilities assumed and any noncontrolling interest at their respective fair values as of the acquisition date, clarifies how goodwill involved in a business combination is to be recognized and measured, as well as requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations entered into in fiscal years beginning on or after December 15, 2008, which will be our 2010 fiscal year beginning September 27, 2009, with early adoption prohibited.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Commodity Price Risk**

We enter into product supply contracts that are generally one-year agreements subject to annual renewal, and also purchase product on the open market. Our propane supply contracts typically provide for pricing based upon index formulas using the posted prices established at major supply points such as Mont Belvieu, Texas, or Conway, Kansas (plus transportation costs) at the time of delivery. In addition, to supplement our annual purchase requirements, we may utilize forward fixed price purchase contracts to acquire a portion of the propane that we resell to our customers, which allows us to manage our exposure to unfavorable changes in commodity prices and to ensure adequate physical supply. The percentage of contract purchases, and the amount of supply contracted for under forward contracts at fixed prices, will vary from year to year based on market conditions. In certain instances, and when market conditions are favorable, we are able to purchase product under our supply arrangements at a discount to the market.

Product cost changes can occur rapidly over a short period of time and can impact profitability. We attempt to reduce commodity price risk by pricing product on a short-term basis. The level of priced, physical product maintained in storage facilities and at our customer service centers for immediate sale to our customers will vary depending on several factors, including, but not limited to, price, availability of supply, and demand for a given time of the year. Typically, our on hand priced position does not exceed more than four to eight weeks of our supply needs depending on the time of the year. In the course of normal operations, we routinely enter into contracts such as forward priced physical contracts for the purchase or sale of propane and fuel oil that, under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ( SFAS 133 ), qualify for and are designated as a 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.

Under our hedging and risk management strategies, we enter 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 priced, physical product and with future purchases of the commodities used in our operations, principally propane and fuel oil, as well as to ensure the availability of product during periods of high demand. We do not use derivative instruments for speculative or trading purposes. Futures and forward contracts require that we sell or acquire propane or fuel oil at a fixed price for delivery at fixed future dates. An option contract allows, but does not require, its holder to buy or sell propane or fuel oil at a specified price during a specified time period. However, the writer of an option contract must fulfill the obligation of the option contract, should the holder choose to exercise the option. At expiration, the contracts are settled by the delivery of the product to the respective party or are settled by the payment of a net amount equal to the difference between the then current price and the fixed contract price or options exercise price. To the extent that we utilize derivative instruments to manage exposure to commodity price risk and commodity prices move adversely in relation to the contracts, we could suffer losses on those derivative instruments when settled. Conversely, if prices move favorably, we could realize gains. Under our hedging and risk management strategy, realized gains or losses on futures contracts will typically offset losses or gains on the physical inventory once the product is sold to customers at market prices.

**Market Risk**

We are subject to commodity price risk to the extent that propane or fuel oil market prices deviate from fixed contract settlement amounts. Futures traded with brokers of the NYMEX require daily cash settlements in margin accounts. Forward and option contracts are generally settled at the expiration of the contract term either by physical delivery or through a net settlement mechanism. Market risks associated with futures, options and forward contracts are monitored daily for compliance with our Hedging and Risk Management Policy which includes volume limits for open positions. Open inventory positions are reviewed and managed daily as to exposures to changing market prices.

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**Credit Risk**

Futures and fuel oil options are guaranteed by the NYMEX and, as a result, have minimal credit risk. We are subject to credit risk with over-the-counter, forward and propane option contracts to the extent the counterparties do not perform. We evaluate the financial condition of each counterparty with which we conduct business and establish credit limits to reduce exposure to the risk of non-performance by our counterparties.

**Interest Rate Risk**

A portion of our 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 our total leverage. Therefore, we are subject to interest rate risk on the variable component of the interest rate. We manage our interest rate risk by entering into interest rate swap agreements. On March 31, 2005, we entered into a \$125.0 million interest rate swap contract in conjunction with the Term Loan facility under the Revolving Credit Agreement. On September 26, 2008 and November 10, 2008, we amended the interest rate swap contract to reduce the notional amount by \$15.0 million and \$2.0 million, respectively, representing the amount of the Term Loan prepaid on those dates. The interest rate swap is being accounted for under SFAS 133 and has been designated as a cash flow hedge. Changes in the fair value of the interest rate swap are recognized in other comprehensive income until the hedged item is recognized in earnings. At March 28, 2009, the fair value of the interest rate swap was \$3.8 million representing an unrealized loss and is included within other liabilities with a corresponding debit in other comprehensive income ( OCI ).

**Derivative Instruments and Hedging Activities**

Pursuant to SFAS 133, all of our derivative instruments are reported on the balance sheet at their fair values. On the date that futures, forward and option contracts are entered into, we make 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 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, we formally assess, 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 immediately recognized in cost of products sold. 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.

At March 28, 2009, the fair value of derivative instruments described above resulted in current derivative assets (unrealized gains) of \$11.9 million included within other current assets and \$4.0 million of derivative liabilities (unrealized losses) included within other current liabilities. Cost of products sold included unrealized (non-cash) losses (gains) of \$9.7 million and (\$5.3) million for the three and six months ended March 28, 2009, respectively and unrealized (non-cash) losses of \$2.3 million and \$5.0 million for the three and six months ended March 29, 2008, attributable to the change in fair value of derivative instruments not designated as cash flow hedges.

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**Sensitivity Analysis**

In an effort to estimate our exposure to unfavorable market price changes in commodities related to our open positions under derivative instruments, we developed a model that incorporates the following data and assumptions:

- A. The fair value of open positions as of March 28, 2009 for each of the future periods.
- B. The estimated forward market prices as of March 28, 2009 as derived from the NYMEX for traded commodities for each of the future periods.
- C. The market prices determined in B. above were adjusted adversely by a hypothetical 10% change in the forward prices and compared to the fair value amounts in A. above to project the potential negative impact on earnings that would be recognized for the respective scenario.

Based on the sensitivity analysis described above, a hypothetical 10% adverse change in market prices for which a futures, forward and/or option contract exists indicates a net reduction in potential future gains in future earnings of \$3.0 million as of March 28, 2009. See also Item 7A of our Annual Report on Form 10-K for the fiscal year ended September 27, 2008. The above hypothetical change does not reflect the worst case scenario. Actual results may be significantly different depending on market conditions and the composition of the open position portfolio.

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**ITEM 4. CONTROLS AND PROCEDURES**

(a) The Partnership maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in the Partnership's filings and submissions under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to the Partnership's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The Partnership completed an evaluation under the supervision and with participation of the Partnership's management, including the Partnership's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures as of March 28, 2009. Based on this evaluation, the Partnership's principal executive officer and principal financial officer have concluded that as of March 28, 2009, such disclosure controls and procedures were effective to provide the reasonable assurance described above.

(b) There have not been any changes in the Partnership's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) during the quarter ended March 28, 2009 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

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**PART II**

**ITEM 6. EXHIBITS**

(a) Exhibits

- 10.1 Amended and Restated Employment Agreement dated as of February 25, 2009 between the Operating Partnership and Mr. Alexander.
- 10.2 Amended and Restated Employment Agreement dated as of January 20, 2009 between the Operating Partnership and Mr. Dunn.
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 202 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer and Chief Accounting Officer Pursuant to Section 202 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUBURBAN PROPANE PARTNERS, L.P.

Date: May 7, 2009

By: /s/ MICHAEL A. STIVALA

Michael A. Stivala  
Chief Financial Officer and Chief  
Accounting Officer

Date: May 7, 2009

By: /s/ MICHAEL A. KUGLIN

Michael A. Kuglin  
Controller

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