SUBURBAN PROPANE PARTNERS LP
Form 10-Q
May 10, 2007

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 31, 2007

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 1-14222

SUBURBAN PROPANE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

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

240 Route 10 West
Whippany, NJ 07981
(973) 887-5300

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

- The impact of weather conditions on the demand for propane, fuel oil and other refined fuels, natural gas and electricity;

- Fluctuations in the unit cost of propane, fuel oil and other refined fuels and natural gas, and the impact of price increases on customer conservation;
- The ability of the Partnership to compete with other suppliers of propane, fuel oil and other energy sources;
- The impact on the price and supply of propane, fuel oil and other refined fuels from the political, military or economic instability of the oil producing nations, global terrorism and other general economic conditions;
- The ability of the Partnership to acquire and maintain reliable transportation for its propane, fuel oil and other refined fuels;
- The ability of the Partnership to retain customers;
- The impact of energy efficiency and technology advances on the demand for propane and fuel oil;
- The ability of management to continue to control expenses including the results of our field and HVAC realignment initiative;
- The impact of changes in applicable statutes and government regulations, or their interpretations, including those relating to the environment and global warming and other regulatory developments on the Partnership's business;
- The impact of legal proceedings on the Partnership's business;
- The impact of operating hazards that could adversely affect the Partnership's operating results to the extent not covered by insurance; and
- The Partnership's ability to integrate acquired businesses successfully.

Some of these Forward-Looking Statements are discussed in more detail in ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' in this Quarterly Report. 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 30, 2006. On different occasions, the Partnership or its representatives have made or may make Forward-Looking Statements in other filings with the Securities and Exchange Commission (''SEC''), press releases or oral statements made by or with the approval of one of the Partnership's authorized executive officers. Readers are cautioned not to place undue reliance on Forward-Looking Statements, which reflect management's view only as of the date made. The Partnership undertakes no obligation to update any Forward-Looking Statement or Cautionary Statement. All subsequent written and oral Forward-Looking Statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements in this Quarterly Report and in future SEC reports.

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	March 31, 2007	September 30, 2006
ASSETS		
Current assets:		

Cash and cash equivalents	$ 88,986	$ 60,571
Accounts receivable, less allowance for doubtful accounts of $6,134 and $5,530, respectively	157,686	78,547
Inventories	65,488	79,418
Prepaid expenses and other current assets	28,379	16,815
Total current assets	340,539	235,351
Property, plant and equipment, net	386,314	390,383
Goodwill	281,359	281,359
Other intangible assets, net	19,405	18,098
Other assets	28,418	28,695
Total assets	$ 1,056,035	$ 953,886
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 71,794	$ 57,372
Accrued employment and benefit costs	37,372	35,510
Accrued insurance	16,960	7,360
Customer deposits and advances	26,417	62,630
Accrued interest	8,368	8,371
Other current liabilities	15,000	21,373
Total current liabilities	175,911	192,616
Long-term borrowings	548,421	548,304
Postretirement benefits obligation	26,947	27,759
Accrued insurance	35,912	38,053
Accrued pension liability	33,038	31,086
Other liabilities	16,169	15,367
Total liabilities	836,398	853,185
Commitments and contingencies		
Partners' capital:		
Common Unitholders (32,674 and 30,314 units issued and outstanding at March 31, 2007 and September 30, 2006, respectively)	285,755	170,151
General Partner	—	(1,969)
Deferred compensation	(5,660)	(5,704)
Common Units held in trust, at cost	5,660	5,704
Accumulated other comprehensive loss	(66,118)	(67,481)
Total partners' capital	219,637	100,701
Total liabilities and partners' capital	$ 1,056,035	$ 953,886

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

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SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

	Three Months Ended	
	March 31, 2007	March 25, 2006
Revenues		
Propane	$ 392,243	$ 386,610
Fuel oil and refined fuels	111,215	133,567
Natural gas and electricity	36,455	46,111
HVAC	14,671	22,416
All other	1,534	2,239
	556,118	590,943
Costs and expenses		
Cost of products sold	327,347	368,856
Operating	88,848	99,527
General and administrative	15,693	17,114
Restructuring and other costs	1,100	1,497
Depreciation and amortization	7,570	8,898
	440,558	495,892
Income before interest expense and provision for income taxes	115,560	95,051
Interest expense, net	9,322	10,939
Income before provision for income taxes	106,238	84,112
Provision for income taxes	378	83
Net income	$ 105,860	$ 84,029
General Partner's interest in net income	—	2,715
Limited Partners' interest in net income	$ 105,860	$ 81,314
Net income per Common Unit – basic	$ 3.24	$ 2.44
Weighted average number of Common Units outstanding – basic	32,673	30,313
Net income per Common Unit – diluted	$ 3.22	$ 2.43
Weighted average number of Common Units outstanding – diluted	32,844	30,438

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)

	Six Months Ended	
	March 31, 2007	March 25, 2006

Revenues		
Propane	$ 679,122	$ 696,902
Fuel oil and refined fuels	180,085	238,872
Natural gas and electricity	59,200	84,054
HVAC	33,130	53,643
All other	3,568	4,935
	955,105	1,078,406
Costs and expenses		
Cost of products sold	558,221	684,699
Operating	172,908	199,788
General and administrative	28,595	31,330
Restructuring and other costs	1,485	1,497
Depreciation and amortization	14,706	17,109
	775,915	934,423
Income before interest expense and provision for income taxes	179,190	143,983
Interest expense, net	18,538	21,506
Income before provision for income taxes	160,652	122,477
Provision for income taxes	1,140	233
Income from continuing operations	159,512	122,244
Discontinued operations:		
Gain on exchange of customer service centers (Note 6)	1,002	—
Net income	$ 160,514	$ 122,244
General Partner’s interest in net income	—	3,902
Limited Partners’ interest in net income	$ 160,514	$ 118,342
Income per Common Unit – basic		
Income from continuing operations	$ 4.92	$ 3.59
Discontinued operations	0.03	—
Net income	$ 4.95	$ 3.59
Weighted average number of Common Units outstanding – basic	32,433	30,306
Income per Common Unit – diluted		
Income from continuing operations	$ 4.90	$ 3.58
Discontinued operations	0.03	—
Net income	$ 4.93	$ 3.58
Weighted average number of Common Units outstanding – diluted	32,585	30,416

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)

	Six Months Ended March 31, 2007	Six Months Ended March 25, 2006
Cash flows from operating activities:		
Net income	$ 160,514	$ 122,244
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation expense	13,626	15,595
Amortization of intangible assets	1,080	1,514
Amortization of debt origination costs	664	660
Compensation cost recognized under Restricted Unit Plan	1,160	1,176
Amortization of discount on long-term borrowings	117	117
Gain on exchange of customer service centers	(1,002)	—
Gain on disposal of property, plant and equipment, net	(2,062)	(621)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(79,259)	(77,068)
Decrease in inventories	13,939	4,037
(Increase)/decrease in prepaid expenses and other current assets	(12,216)	11,419
Increase in accounts payable	14,348	6,355
Increase in accrued employment and benefit costs	1,862	5,816
(Decrease)/increase in accrued interest	(3)	777
(Decrease) in other accrued liabilities	(30,434)	(42,581)
(Increase) in other noncurrent assets	(908)	(2,786)
(Decrease)/increase in other noncurrent liabilities	(199)	8,182
Net cash provided by operating activities	81,227	54,836
Cash flows from investing activities:		
Capital expenditures	(13,199)	(10,866)
Proceeds from sale of property, plant and equipment	4,488	1,625
Net cash (used in) investing activities	(8,711)	(9,241)
Cash flows from financing activities:		
Repayment of short-term borrowings, net	—	(5,000)
Partnership distributions	(44,101)	(38,323)
Net cash (used in) financing activities	(44,101)	(43,323)
Net increase in cash and cash equivalents	28,415	2,272
Cash and cash equivalents at beginning of period	60,571	14,411
Cash and cash equivalents at end of period	$ 88,986	$ 16,683

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	General Partner	Deferred Compensation	Common Units Held in Trust	Accumulated Other Comprehensive (Loss)	Total Partners' Capital	Comprehensive Income
Balance at September 30, 2006	30,314	$170,151	$(1,969)	$(5,704)	$5,704	$(67,481)	$100,701	
Net income		160,514					160,514	$160,514
Other comprehensive income:								
Net unrealized losses on cash flow hedges						(604)	(604)	(604)
Reclassification of realized losses on cash flow hedges into earnings						1,967	1,967	1,967
Comprehensive income								$161,877
Partnership distributions		(44,101)					(44,101)	
Common Units issued under Restricted Unit Plan	60						—	
Common Units issued in exchange of General Partner interest	2,300	80,443					80,443	
Exchange and cancellation of General Partner interest		(82,412)	1,969				(80,443)	
Common Units distributed from trust				44	(44)		—	
Compensation cost recognized under Restricted Unit Plan, net of forfeitures		1,160					1,160	
Balance at March 31, 2007	32,674	$285,755	$ —	$(5,660)	$5,660	$(66,118)	$219,637	

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 and Formation

Suburban Propane Partners, L.P. (the ''Partnership'') is a publicly traded Delaware limited partnership principally engaged, through its operating partnership and subsidiaries, in the retail marketing and distribution of propane, fuel oil and refined fuels, as well as the marketing of natural gas and electricity in deregulated markets. In addition, to complement its core marketing and distribution businesses, the Partnership services a wide variety of home comfort equipment, particularly for heating, ventilation and air conditioning (''HVAC''). The limited partner interests in the Partnership are evidenced by common units traded on the New York Stock Exchange (''Common Units'') with 32,674,255 Common Units outstanding at March 31, 2007. 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. 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. On October 19, 2006, the Partnership consummated an agreement with its General Partner to exchange 2,300,000 newly issued Common Units for the General Partner's incentive distribution rights (''IDRs'') and the economic interest in the Partnership and the Operating Partnership included in the general partner interests therein (the ''GP Exchange Transaction''). Prior to the GP Exchange Transaction, the General Partner was majority-owned by senior management of the Partnership and owned 224,625 general partner units (an approximate 0.74% ownership interest) in the Partnership and a 1.0101% general partner interest in the Operating Partnership. The General Partner also held all outstanding IDRs of the Partnership and appointed two of the five members of the Board of Supervisors. As a result of the GP Exchange Transaction, 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, there are no IDRs outstanding or provided for under the Partnership Agreement and the General Partner does not have the right to appoint any members of the Board of Supervisors. The Chief Executive Officer of the Partnership serves as the sole member of the General Partner.

On January 5, 2001, Suburban Holdings, Inc., a subsidiary of the Operating Partnership, was formed to hold the stock of Gas Connection, Inc. (d/b/a HomeTown Hearth & Grill), Suburban @ Home, Inc. (''Suburban @ Home'') and

Suburban Franchising, Inc. (‘‘Suburban Franchising’’). On December 31, 2006, Suburban Holdings, Inc. and Suburban @ Home merged into the Service Company. On January 1, 2007, HomeTown Hearth & Grill and Suburban Franchising converted into single-member LLCs owned by the Service Company. HomeTown Hearth & Grill sells and installs natural gas and propane gas grills, fireplaces and related accessories and supplies. Suburban Franchising creates and develops propane related franchising business opportunities.

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On November 21, 2003, Suburban Heating Oil Partners, LLC, a subsidiary of HomeTown Hearth & Grill, was formed to acquire and operate the fuel oil and refined fuels and HVAC assets and businesses of Agway Energy acquired on December 23, 2003. In addition, Agway Energy Services, LLC, also a subsidiary of HomeTown Hearth & Grill, was formed to acquire and operate the natural gas and electricity marketing business of Agway Energy.

Suburban Energy Finance Corporation, a direct wholly-owned subsidiary of the Partnership, was formed on November 26, 2003 to serve as co-issuer, jointly and severally, with the Partnership of the Partnership’s 6.875% senior notes due in 2013 (see Note 8).

2. Basis of Presentation

Principles of Consolidation. The consolidated financial statements include the accounts of the Partnership, the Operating Partnership and all of its direct and indirect subsidiaries. All significant intercompany transactions and account balances have been eliminated. As a result of the GP Exchange Transaction, the General Partner no longer has any economic interest in the Partnership or the Operating Partnership apart from 784 Common Units held by it. 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.

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 30, 2006, including management’s discussion and analysis of financial condition and results of operations contained therein. Due to the seasonal nature of the Partnership’s operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

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

Derivative Instruments and Hedging Activities. The Partnership enters into a combination of exchange-traded futures and option contracts, forward contracts and, in certain instances, over-the-counter options (collectively, ‘‘derivative instruments’’) to manage the price risk associated with future purchases of the commodities used in its operations, principally propane and fuel oil, as well as to ensure supply during periods of high demand. All derivative instruments are reported on the balance sheet, within other current assets or other current liabilities, at their fair values pursuant to Statement of Financial Accounting Standards (‘‘SFAS’’) No. 133, ‘‘Accounting for Derivative Instruments and Hedging Activities,’’ as amended by SFAS Nos. 137, 138, 149 and 155 (‘‘SFAS 133’’). On the date that futures, forward and option contracts are entered into, the Partnership makes a determination as to whether the derivative instrument qualifies for designation as a hedge. Changes in the fair value of derivative instruments are recorded each period in current period earnings or other comprehensive income (loss) (‘‘OCI’’), depending on whether a derivative instrument is designated as a hedge and, if so, the type of hedge. For derivative instruments designated as cash flow hedges, the Partnership formally assesses, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in cash flows of hedged items. Changes in the fair value of derivative instruments designated as cash flow hedges are reported in OCI to the extent effective and reclassified into cost of products sold during the same period in which the hedged item affects earnings. The mark-to-market gains or losses on ineffective portions of cash flow hedges used to hedge future purchases are recognized in cost of products sold immediately. Changes in the fair value of derivative instruments that are not designated as hedges are recorded in current period earnings within cost of products sold.

A portion of the Partnership's option contracts are not classified as hedges and, as such, changes in the fair value of these derivative instruments are recognized within cost of products sold as they occur. The value of certain option contracts that do qualify as hedges and are designated as cash flow hedges under SFAS 133 have two components of value: time value and intrinsic value. The intrinsic

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value is the value by which the option is in the money (i.e., the amount by which the value of the commodity exceeds the exercise or ‘‘strike’’ price of the option). The remaining amount of option value is attributable to time value. The Partnership does not include the time value of option contracts in its assessment of hedge effectiveness and, therefore, records changes in the time value component of the options currently in earnings.

Market risks associated with the trading of futures, options and forward contracts are monitored daily for compliance with the Partnership's Hedging and Risk Management Policy which includes volume limits for open positions. Open inventory positions are also reviewed and managed daily as to exposures to changing market prices.

At March 31, 2007, the fair value of derivative instruments described above resulted in derivative assets of $1 included within prepaid expenses and other current assets and derivative liabilities of $433 included within other current liabilities. Cost of products sold included unrealized (non-cash) losses of $6,584 and $7,572 for the three and six months ended March 31, 2007, respectively, unrealized (non-cash) losses of $557 for the three months ended March 25, 2006 and unrealized (non-cash) gains of $6,485 for the six months ended March 25, 2006, attributable to the change in fair value of derivative instruments not designated as cash flow hedges.

A portion of the Partnership's long-term borrowings bear interest at a variable rate based upon either LIBOR or Wachovia National Bank's prime rate, plus an applicable margin depending on the level of the Partnership's total leverage. Therefore, the Partnership is subject to interest rate risk on the variable component of the interest rate. The Partnership manages part of its variable interest rate risk by entering into interest rate swap agreements. On March 31, 2005, the Partnership entered into a $125,000 interest rate swap contract in conjunction with the Term Loan facility under the Revolving Credit Agreement (see Note 8). The interest rate swap is being accounted for under SFAS 133 and the Partnership has designated the interest rate swap as a cash flow hedge. Changes in the fair value of the interest rate swap are recognized in OCI until the hedged item is recognized in earnings. At March 31, 2007, the fair value of the interest rate swap amounted to $661 and is included within other assets.

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

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

3. Exchange of General Partner’s Interests and Incentive Distribution Rights

On October 19, 2006, following approval by the requisite vote of the Common Unitholders of the Partnership at its 2006 Tri-Annual Meeting held on October 17, 2006, the Partnership consummated the GP Exchange Transaction with its General Partner for the acquisition of the General Partner’s IDRs, as well as the economic interest contained in its general partnership interests in both the Partnership and the Operating Partnership, in exchange for 2,300,000 newly issued Common Units having a fair value of approximately $80,443. As a result of the GP Exchange Transaction, the excess of the fair value of the Common Units issued over the $1,969 carrying value of the General Partner interest was recorded as a reduction to the Common Unitholders interest within the condensed consolidated statement of partners’ capital.

Pursuant to a Distribution, Release and Lockup Agreement by and among the Partnership, the Operating Partnership, the General Partner and the members of the General Partner, the Common

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Units were distributed to the members of the General Partner in exchange for their membership interests in the General Partner (other than 784 Common Units that will remain in the General Partner). The Common Units issued in the GP Exchange Transaction represented approximately 7% of the total number of Common Units outstanding after consummation of the GP Exchange Transaction.

4. Restructuring and Other Costs

During the fourth quarter of fiscal 2005 and throughout fiscal 2006, the Partnership approved and initiated plans of reorganization to realign the field operations in an effort to streamline the operating footprint and to leverage the system infrastructure to achieve additional operational efficiencies and reduce costs, as well as to restructure its HVAC business (collectively, the ‘‘Restructuring’’). As a result of the Restructuring, the Partnership recorded a restructuring charge of $2,150 during the fourth quarter of fiscal 2005 associated with severance and other employee benefits for approximately 85 positions eliminated and in fiscal 2006 recorded additional charges of $5,276 related to severance and other employee benefits for approximately 325 positions eliminated and $800 related to exit costs, primarily lease termination costs, associated with a plan to exit certain activities of the HomeTown Hearth & Grill business included within the all other business segment. As of March 31, 2007, the majority of severance and other benefit related payments associated with the Partnership’s field and HVAC reorganization were incurred and charged against the restructuring reserve. During the three and six months ended March 31, 2007, the Partnership recorded severance charges of $1,100 and $1,485 respectively, associated with positions eliminated during fiscal 2007.

The components of the remaining restructuring charges are as follows:

	Reserve at September 30, 2006	Charges Through March 31, 2007	Utilization Through March 31, 2007	Reserve at March 31, 2007
Charges expensed:				
Severance and other employee costs	$ 1,621	$ 1,485	$ (1,886)	$ 1,220
Other exit costs	854	—	(271)	583
Total	$ 2,475	$ 1,485	$ (2,157)	$ 1,803

The remaining reserve of $1,803 as of March 31, 2007 is expected to be paid out or utilized over the next twelve months.

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:

	March 31, 2007	September 30, 2006
Propane, fuel oil and refined fuels	$ 61,024	$ 72,143
Natural gas	—	1,148
Appliances and related parts	4,464	6,127
	$ 65,488	$ 79,418

6. Goodwill and Other Intangible Assets

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

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indicate potential impairment. The Partnership assesses the carrying value of goodwill at a reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit is estimated using discounted cash flow analyses taking into consideration estimated cash flows in a ten-year projection period and a terminal value calculation at the end of the projection period.

Other intangible assets consist of the following:

	March 31, 2007	September 30, 2006
Customer lists	$ 22,316	$ 19,866
Trade names	1,499	1,499
Non-compete agreements	526	986
Other	1,967	1,967
	26,308	24,318
Less: accumulated amortization	6,903	6,220
	$ 19,405	$ 18,098

During the first quarter of fiscal 2007, in a non-cash transaction, the Partnership completed a transaction in which it disposed of nine customer service centers considered to be non-strategic in exchange for three customer service centers of another company located in Alaska. The Partnership relinquished assets with a fair value of approximately $4,000 and allocated this fair value among the assets received, including $2,450 to the customer list acquired and $1,550 to the property, plant and equipment acquired (primarily tanks and cylinders). This customer list will be amortized over a ten-year period. The Partnership reported a $1,002 gain within discontinued operations in the first quarter of fiscal 2007 for the amount by which the fair value of assets relinquished exceeded the carrying value of the assets relinquished.

Aggregate amortization expense related to other intangible assets for the three and six months ended March 31, 2007 was $544 and $1,080, respectively, and $547 and $1,514 for the three and six months ended March 25, 2006, respectively.

Aggregate amortization expense related to other intangible assets for the remainder of fiscal 2007 and for each of the five succeeding fiscal years as of March 31, 2007 is as follows: 2007 – $1,163; 2008 – $2,224; 2009 – $2,220; 2010 – $2,205; 2011 – $2,205 and 2012 – $1,730.

7. Income Per Unit

Subsequent to the GP Exchange Transaction, computations of earnings per Common Unit are performed in accordance with SFAS No. 128 ‘‘Earnings per Share’’ (‘‘SFAS 128’’). Prior to the GP Exchange Transaction, when the General Partner owned IDRs in the Partnership, computations of earnings per Common Unit were performed in accordance with Emerging Issues Task Force (‘‘EITF’’) consensus 03-6 ‘‘Participating Securities and the Two-Class Method Under FAS 128’’ (‘‘EITF 03-6’’), when applicable. EITF 03-6 requires, among other things, the use of the two-class method of computing earnings per unit when participating securities exist. The two-class method is an earnings allocation formula that computes earnings per unit for each class of Common Unit and participating security according to distributions declared and the participating rights in undistributed earnings, as if all of the earnings were distributed to the limited partners and the general partner (inclusive of the IDRs of the General Partner which were considered participating securities for purposes of the two-class method). Net income was allocated to the Common Unitholders and the General Partner in accordance with their respective Partnership ownership interests, after giving effect to any priority income allocations for incentive distributions allocated to the General Partner. For purposes of the computation of income per Common Unit for the six months ended March 31, 2007, earnings that would have been allocated to the General Partner for the period prior to the GP Exchange Transaction were not significant.

Basic income per Common Unit for the three and six months ended March 31, 2007 is computed by dividing net income by the weighted average number of outstanding Common Units. Diluted

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income per Common Unit for the three and six months ended March 31, 2007 is computed by dividing net income by the weighted average number of outstanding Common Units and time vested Restricted Units granted under the 2000 Restricted Unit Plan.

Basic income per Common Unit for the three and six months ended March 25, 2006 was computed by dividing the limited partners' share of income, calculated under the two-class method of computing earnings under EITF 03-6, by the weighted average number of outstanding Common Units. Diluted income per Common Unit for the three and six months ended March 25, 2006 was computed by dividing the limited partners' share of income, calculated under the two-class method of computing earnings under EITF 03-6, by the weighted average number of outstanding Common Units and time vested Restricted Units granted under the Partnership's 2000 Restricted Unit Plan. For the three and six months ended March 25, 2006, the computation of net income per Common Unit under EITF 03-6 resulted in a negative impact of $0.24 and $0.31 per Common Unit, respectively, compared to the computation under SFAS 128.

In computing diluted income per Common Unit, weighted average units outstanding used to compute basic income per unit were increased by 171,043 and 151,504 units for the three and six months ended March 31, 2007, respectively, and 124,448 and 109,505 for the three and six months ended March 25, 2006 respectively, to reflect the potential dilutive effect of the unvested Restricted Units outstanding using the treasury stock method.

8. Short-Term and Long-Term Borrowings

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

	March 31, 2007	September 30, 2006
Senior Notes, 6.875%, due December 15, 2013, net of unamortized discount of $1,579 and $1,696, respectively	$ 423,421	$ 423,304
Term Loan, 6.29% to 7.16%, due March 31, 2010	125,000	125,000
	548,421	548,304
Less: current portion	—	—
	$ 548,421	$ 548,304

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 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. In addition, under the third amendment to the Revolving Credit Agreement the Operating Partnership is authorized to incur additional indebtedness of up to $10,000 in connection with capital leases and up to $20,000 in short-term borrowings during the period from December 1 to April 1 in each fiscal year to provide additional working capital during periods of peak demand, if necessary.

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Borrowings under the Revolving Credit Agreement, including the Term Loan, bear interest at a rate based upon either LIBOR or Wachovia National Bank’s prime rate, plus, in each case, the applicable margin or the Federal Funds rate plus 1/2 of 1%. 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 31, 2007 and September 30, 2006, there were no borrowings outstanding under the working capital facility of the Revolving Credit Agreement and there were no borrowings during the first two quarters of fiscal 2007.

In connection with the Term Loan, the Operating Partnership also entered into an interest rate swap contract with a notional amount of $125,000. Effective 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 of $125,000, 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 fair value of the interest rate swap amounted to $661 and $1,182 at March 31, 2007 and September 30, 2006, respectively, and is included in other assets with a corresponding amount included within OCI.

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. 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 31, 2007.

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 31, 2007 and September 30, 2006 include debt origination costs with a net carrying amount of $6,894 and $7,557, respectively. Aggregate amortization expense related to deferred debt origination costs included within interest expense for the three and six months ended March 31, 2007 was $332 and $664, respectively, and $329 and $660 for the three and six months ended March 25, 2006, respectively.

The aggregate amounts of long-term debt maturities subsequent to March 31, 2007 are as follows: 2007 – $0; 2008 – $0; 2009 – $0; 2010 – $125,000; and, thereafter – $423,421.

9. Distributions of Available Cash

The Partnership makes distributions to its partners approximately 45 days after the end of each fiscal quarter of the Partnership in an aggregate amount equal to its available cash (''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.

Prior to October 19, 2006, the General Partner had IDRs which represented an incentive for the General Partner to increase distributions to Common Unitholders in excess of the target quarterly distribution of $0.55 per Common Unit. With regard to the first $0.55 of quarterly distributions paid in any given quarter, 98.26% of the Available Cash was distributed to the Common Unitholders and 1.74% was distributed to the General Partner. With regard to the balance of quarterly distributions in excess of the $0.55 per Common Unit target distribution, 85% of the Available Cash was distributed to the Common Unitholders and 15% was distributed to the General Partner. As a result of the GP

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Exchange Transaction, the IDRs were cancelled and the General Partner is no longer entitled to receive any cash distributions in respect of its general partner interests. Accordingly, beginning with the quarterly distribution paid on November 14, 2006 in respect of the fourth quarter of fiscal 2006, 100% of all cash distributions are paid to holders of Common Units.

On April 26, 2007, the Partnership announced a quarterly distribution of $0.70 per Common Unit, or $2.80 on an annualized basis, in respect of the second quarter of fiscal 2007 payable on May 15, 2007 to holders of record on May 8, 2007. This quarterly distribution included an increase of $0.0125 per Common Unit, or $0.05 per Common Unit on an annualized basis.

10. 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 31, 2007 and September 30, 2006, the Partnership had accrued insurance liabilities of $52,872 and $45,413, respectively, representing the total estimated losses under these self-insurance programs. For the portion of the estimated self-insurance liability that exceeds insurance deductibles, the Partnership records an asset within prepaid expense and other current assets or other assets related to the amount of the liability expected to be covered by insurance which amounted to $16,665 ($8,000 of which is reflected in prepaid expenses and other current assets) and $8,665 as of March 31, 2007 and September 30, 2006, respectively. 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-insurance claims.

Environmental. The Partnership is subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act (''CERCLA''), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water

Act and comparable state statutes. CERCLA, also known as the ‘‘Superfund’’ law, imposes joint and several liability without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a ‘‘hazardous substance’’ into the environment. Propane is not a hazardous substance within the meaning of CERCLA. However, the Partnership owns real property where such hazardous substances may exist.

The Partnership is also subject to various laws and governmental regulations concerning environmental matters and expects that it will be required to expend funds to participate in the remediation of certain sites, including sites where it has been designated by the Environmental Protection Agency as a potentially responsible party under CERCLA and at sites with aboveground and underground fuel storage tanks.

With the acquisition of the assets of Agway Energy during the first quarter of fiscal 2004, the Partnership acquired certain surplus properties with either known or probable environmental exposure, some of which are currently in varying stages of investigation, remediation or monitoring. Additionally, the Partnership identified that certain active sites acquired contained environmental conditions which may require further investigation, future remediation or ongoing monitoring activities. The environmental exposures include instances of soil and/or groundwater contamination associated with the handling and storage of fuel oil, gasoline and diesel fuel.

As of March 31, 2007 and September 30, 2006, the Partnership had accrued environmental liabilities of $4,151 and $4,786, respectively, representing the total estimated future liability for remediation and monitoring. For the portion of the estimated environmental liability that is expected to be recoverable under state environmental reimbursement funds, the Partnership records an asset within other assets related to the amount of the liability expected to be reimbursed by state agencies, which amounted to $1,011 and $1,294 as of March 31, 2007 and September 30, 2006, respectively.

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Estimating the extent of the Partnership’s responsibility at a particular site, and the method and ultimate cost of remediation of that site, requires making numerous assumptions. As a result, the ultimate cost to remediate any site may differ from current estimates, and will depend, in part, on whether there is additional contamination, not currently known to the Partnership, at that site. However, management believes that the Partnership’s past experience provides a reasonable basis for estimating these liabilities. As additional information becomes available, estimates are adjusted as necessary. While management does not anticipate that any such adjustment would be material to the Partnership’s financial statements, the result of ongoing or future environmental studies or other factors could alter this expectation and require recording additional liabilities. Management currently cannot determine whether the Partnership will incur additional liabilities or the extent or amount of any such liabilities.

Future developments, such as stricter environmental, health or safety laws and regulations thereunder, could affect the Partnership’s operations. Management does not anticipate that the cost of the Partnership’s compliance with environmental, health and safety laws and regulations, including CERCLA, as currently in effect and applicable to known sites will have a material adverse effect on the Partnership’s financial condition or results of operations. To the extent there are any environmental liabilities presently unknown to the Partnership or environmental, health or safety laws or regulations are made more stringent, however, there can be no assurance that the Partnership’s financial condition or results of operations will not be materially and adversely affected.

Legal Matters. Following the Operating Partnership's 1999 acquisition of the propane assets of SCANA Corporation (''SCANA''), Heritage Propane Partners, L.P. had brought an action against SCANA for breach of contract and fraud and against the Operating Partnership for tortious interference with contract and tortious interference with prospective contract. On October 21, 2004, the jury returned a unanimous verdict in favor of the Operating Partnership on all claims, but against SCANA. After the jury returned the verdict against SCANA, the Operating Partnership filed a cross-claim against SCANA for indemnification, seeking to recover defense costs. On November 2, 2006, SCANA and the Operating Partnership reached a settlement agreement wherein the Operating Partnership received $2,000 as a reimbursement of defense costs incurred as a result of the lawsuit. The $2,000 was recorded as a reduction to general and administrative expenses during the first quarter of fiscal 2007.

11. 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 2014. 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 equipment's fair value at the end of their lease terms 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, is approximately $14,521. Of this amount, the fair value of residual value guarantees for operating leases entered into after December 31, 2002 was $9,445 and $8,320 as of March 31, 2007 and September 30, 2006, respectively, which is reflected in other liabilities, with a corresponding amount included within other assets, in the accompanying condensed consolidated balance sheets.

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12. Pension Plans and Other Postretirement Benefits

The following table provides the components of net periodic benefit costs for the three and six months ended March 31, 2007 and March 25, 2006:

	Pension Benefits Three Months Ended		Postretirement Benefits Three Months Ended	
	March 31, 2007	March 25, 2006	March 31, 2007	March 25, 2006
Service cost	$ —	$ —	$ 3	$ 4
Interest cost	2,226	2,287	329	422
Expected return on plan assets	(2,579)	(2,565)	—	—
Amortization of prior service costs	—	—	(149)	(180)
Recognized net actuarial loss	1,329	1,617	—	—
Net periodic benefit cost	$ 976	$ 1,339	$ 183	$ 246

	Pension Benefits Six Months Ended		Postretirement Benefits Six Months Ended	
	March 31, 2007	March 25, 2006	March 31, 2007	March 25, 2006
Service cost	$ —	$ —	$ 6	$ 8

Interest cost	4,453	4,574	658	844
Expected return on plan assets	(5,159)	(5,130)	—	—
Amortization of prior service costs	—	—	(298)	(360)
Recognized net actuarial loss	2,658	3,234	—	—
Net periodic benefit cost	$ 1,952	$ 2,678	$ 366	$ 492

There are no projected minimum employer contribution requirements under Internal Revenue Service Regulations for fiscal 2007 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 2007 is $2,200, of which $1,178 has been contributed during the six months ended March 31, 2007. On April 26, 2007, the Partnership announced that its Board of Supervisors authorized a voluntary contribution of approximately $25,000 to its defined benefit pension plan. This voluntary contribution is intended to fully fund the Partnership's accumulated benefit obligation and is expected to substantially reduce, if not eliminate, future funding requirements under the defined benefit pension plan. The Partnership expects to make this voluntary contribution during the third quarter of fiscal 2007 from cash on hand.

13. Segment Information

The Partnership manages and evaluates its operations in five reportable segments: Propane, Fuel Oil and Refined Fuels, Natural Gas and Electricity, HVAC and All Other. The chief operating decision maker evaluates performance of the operating segments using a number of performance measures, including gross margins and operating profit. Costs excluded from these profit measures are captured in Corporate and 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 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 30, 2006.

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

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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 HVAC 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, ventilation and air conditioning. In furtherance of the Partnership's efforts to restructure its field operations and to focus on its core operating segments, during fiscal 2006 the Partnership initiated plans to streamline the HVAC service offerings by significantly reducing installation activities and focusing on service offerings that support the Partnership's existing customer base within its propane, refined fuels and natural gas and electricity segments.

The all other business segment includes activities from the HomeTown Hearth & Grill and Suburban Franchising subsidiaries.

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:

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 25, 2006	March 31, 2007	March 25, 2006
Revenues:				
Propane	$ 392,243	$ 386,610	$ 679,122	$ 696,902
Fuel oil and refined fuels	111,215	133,567	180,085	238,872
Natural gas and electricity	36,455	46,111	59,200	84,054
HVAC	14,671	22,416	33,130	53,643
All other	1,534	2,239	3,568	4,935
Total revenues	$ 556,118	$ 590,943	$ 955,105	$ 1,078,406
Income before interest expense and income taxes:				
Propane	$ 112,658	$ 95,270	$ 175,466	$ 143,067
Fuel oil and refined fuels	21,579	20,549	32,385	35,921
Natural gas and electricity	5,027	5,569	8,306	8,161
HVAC	(805)	(3,819)	239	(2,785)
All other	(428)	(2,123)	(514)	(2,692)
Corporate	(22,471)	(20,395)	(36,692)	(37,689)
Total income before interest expense and income taxes	115,560	95,051	179,190	143,983
Reconciliation to income from continuing operations:				
Interest expense, net	9,322	10,939	18,538	21,506
Provision for income taxes	378	83	1,140	233
Income from continuing operations	$ 105,860	$ 84,029	$ 159,512	$ 122,244
Depreciation and amortization:				
Propane	$ 4,009	$ 5,344	$ 8,400	$ 10,572
Fuel oil and refined fuels	877	1,051	1,758	2,216

Natural gas and electricity	222	221	444	404
HVAC	81	141	186	282
All other	42	956	74	1,019
Corporate	2,339	1,185	3,844	2,616
Total depreciation and amortization	$ 7,570	$ 8,898	$ 14,706	$ 17,109

		As of September 30,
	March 31, 2007	2006
Assets:		
Propane	$ 787,445	$ 732,784
Fuel oil and refined fuels	92,019	92,173
Natural gas and electricity	31,695	22,644
HVAC	6,279	8,353
All other	2,370	2,719
Corporate	224,208	183,194
Eliminations	(87,981)	(87,981)
Total assets	$ 1,056,035	$ 953,886

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14. Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (‘‘FASB’’) issued SFAS No. 159, ‘‘The Fair Value Option for Financial Assets and Financial Liabilities’’ (‘‘SFAS 159’’). Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007, which is the beginning of the Partnership’s 2009 fiscal year. The Partnership is currently in the process of evaluating the impact that SFAS 159 may have on its consolidated financial position, results of operations and cash flows

In September 2006, the FASB issued SFAS No. 158, ‘‘Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 103 and 132R’’ (‘‘SFAS 158’’). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers’ balance sheets and to recognize changes in the funded status in the year the changes occur. It also requires the measurement date of plan assets and obligations to occur at the end of the employers’ fiscal year. SFAS 158 is effective as of the end of the Partnership’s fiscal 2007. Based on the Partnership’s funded status and the consolidated balance sheet recognition as of September 30, 2006 (as disclosed in Note 12 to the Consolidated Financial Statements included in the Partnership’s Annual Report on Form 10-K for the fiscal year ended September 30, 2006), adoption of SFAS 158 is not expected to have a significant impact on the Partnership’s consolidated financial position since the accrued pension liability already reflects the funded status of the defined benefit pension plan. The actual impact from the adoption of SFAS 158 on the consolidated financial statements for the year ending September 29, 2007 will differ due to changes in economic assumptions such as discount rates, measurement of fair values of plan assets, other possible changes in actuarial assumptions that may occur in connection with the upcoming fiscal 2007 measurement date, as well as from the voluntary contribution to be made during the third quarter of fiscal 2007 (see Note 12).

Also in September 2006, the FASB issued SFAS No. 157, ‘‘Fair Value Measurements’’ (‘‘SFAS 157’’). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. Like SFAS 159 above, SFAS 157 will be effective for fiscal years beginning after November 15, 2007, which is the beginning of the Partnership's 2009 fiscal year. The Partnership is currently in the process of evaluating the impact that SFAS 157 may have on its consolidated financial position, results of operations and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, ‘‘Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109’’ (‘‘FIN 48’’). FIN 48 requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006, which will be the Partnership's 2008 fiscal year beginning September 30, 2007. The Partnership is currently in the process of assessing the impact that FIN 48 will have on its consolidated financial statements and currently does not expect that adoption of FIN 48 will have a material impact on its financial position, results of operation or cash flows.

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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 31, 2007. 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 30, 2006.

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 30, 2006.

Product Costs

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. 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 was experienced over the past two fiscal years, retail sales volumes may be 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 of the primary use 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 first and fourth fiscal quarters.

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 use.

Risk Management

Product supply contracts are generally one-year agreements subject to annual renewal and generally permit suppliers to charge posted market prices (plus transportation costs) at the time of delivery or the current prices established at major delivery points. Since rapid increases in the cost of

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propane or fuel oil may not be immediately passed on to retail customers, such increases could reduce profitability. We engage in 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 are currently a party to propane and fuel oil futures contracts traded on the New York Mercantile Exchange (‘‘NYMEX’’) and enter into forward and option agreements with third parties to purchase and sell propane at fixed prices in the future. Risk management activities are monitored by an internal Commodity Risk Management Committee, made up of five members of management, through enforcement of our Hedging and Risk Management Policy and reported to our Audit Committee. As a result of various market factors during the first half of fiscal 2007, particularly commodity price volatility during the first four months of the fiscal year, we experienced additional margin opportunities under certain supply arrangements and from our hedging and risk management activities. These market conditions generated additional operating profit of approximately $19.5 million during the six months ended March 31, 2007 compared to the comparable prior year period. However, supply and risk management transactions may not always result in increased product margins and there can be no assurance that these favorable market conditions will be present in the future in order to provide the additional margin opportunities realized during the first half of fiscal 2007. See Item 3 of this Quarterly Report.

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 30, 2006.

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 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. 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. We believe that the following are our critical accounting estimates:

Allowances for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We estimate our allowances for doubtful accounts using a specific reserve for known or anticipated uncollectible accounts, as well as an estimated reserve for potential future uncollectible accounts taking into consideration our historical write-offs. If the financial condition of one or more of our customers were to deteriorate resulting in an impairment in their ability to make payments, additional allowances could be required.

Pension and Other Postretirement Benefits. We estimate the rate of return on plan assets, the discount rate to estimate the present value of future benefit obligations and the cost of future health care benefits in determining our annual pension and other postretirement benefit costs. In accordance with GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and therefore, generally affect our recognized expense and recorded obligation in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in market conditions may materially affect our pension and other postretirement benefit obligations and our future expense.

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Self-Insurance Reserves. Our accrued insurance reserves represent the estimated costs of known and anticipated or unasserted claims under our general and product, workers' compensation and automobile insurance policies. Accrued insurance provisions for unasserted claims arising from unreported incidents are based on an analysis of historical claims data. For each claim, we record a self-insurance provision up to the estimated amount of the probable claim utilizing actuarially determined loss development factors applied to actual claims data. Our self-insurance provisions are susceptible to change to the extent that actual claims development differs from historical claims development. We maintain insurance coverage wherein our net exposure for insured claims is limited to the insurance deductible, claims above which are paid by our insurance carriers. For the portion of our estimated self-insurance liability that exceeds our deductibles, we record an asset related to the amount of the liability expected to be paid by the insurance companies.

Environmental Reserves. We establish reserves for environmental exposures when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based upon our evaluation of costs associated with environmental remediation and ongoing monitoring activities. Inherent uncertainties exist in such evaluations due to unknown conditions and changing laws and regulations. These liabilities are adjusted periodically as remediation efforts progress, or as additional technical or legal information becomes available. Accrued environmental reserves are exclusive of claims against third parties, and an asset is established where contribution or reimbursement from such third parties, such as governmental agencies, has been agreed and we are reasonably assured of receiving such contribution or reimbursement. Environmental reserves are not discounted.

Goodwill Impairment Assessment. We assess the carrying value of goodwill at a reporting unit level, at least annually, based on an estimate of the fair value of each 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.

Derivative Instruments and Hedging Activities. See Item 3 of this Quarterly Report for information about accounting for derivative instruments and hedging activities.

Executive Overview of Results of Operations and Financial Condition

With the continued benefits of our field and HVAC reorganization, improved customer mix and a return to a more normal weather pattern during the second quarter of fiscal 2007, we reported a 26.1% increase in net income and an 18.5% improvement in EBITDA compared to the prior year second quarter. Net income of $105.9 million, or $3.24 per Common Unit, increased $21.9 million compared to $84.0 million, or $2.44 per Common Unit, in the prior year quarter. EBITDA (as defined and reconciled below) amounted to $123.1 million for the three months ended March 31, 2007, an increase of $19.2 million compared to EBITDA of $103.9 million for the three months ended March 25, 2006.

As reported in previous quarters, we expect the favorable impact of operating efficiencies and cost savings from our field and HVAC reorganization to continue throughout much of fiscal 2007 as the full-year effect on our cost structure is realized. For the second quarter of fiscal 2007, combined operating and general and administrative expenses of $104.5 million were $12.1 million, or 10.4%, lower than the prior year second quarter, despite a $5.0 million increase in variable compensation costs in line with higher earnings. Therefore, through the first half of fiscal 2007, our operating and general and administrative expenses (excluding a favorable settlement of $2.0 million which reduced general and administrative expenses during the first quarter of fiscal 2007) were $27.6 million, or 12.0%, lower than the prior year comparable period.

Average heating degree days in our service territories were 98% of normal for the three months ended March 31, 2007 compared to 88% of normal temperatures in the prior year quarter. In the commodities markets, while average posted prices of both propane and fuel oil began the quarter on the downward trend that started in the first quarter of fiscal 2007, prices steadily increased from the middle of February through the end of the quarter. For the quarter, average posted prices of propane increased 2.4% compared to the prior year second quarter and fuel oil prices declined 5.1% compared to the prior year second quarter.

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Retail propane gallons sold in the second quarter of fiscal 2007 decreased 2.0 million gallons, or 1.2%, to 166.8 million gallons compared to 168.8 million gallons in the prior year quarter. Sales of fuel oil and refined fuels decreased 10.7 million gallons, or 19.6%, to 44.0 million gallons during the second quarter of fiscal 2007 compared to 54.7 million gallons in the prior year quarter. Lower volumes, despite the colder average temperatures, were attributable to our efforts to improve our customer mix, particularly in the refined fuels segment and in the commercial and industrial propane customer base, coupled with customer conservation from continued high energy prices. In the refined fuels segment, the decision to exit the lower margin gasoline and low sulfur diesel businesses resulted in a reduction in volumes of approximately 4.7 million gallons, or 43.9% of the total volume decline compared to the prior year quarter.

The impact of lower volumes was offset to an extent by higher average margins from an improved customer mix, as well as from additional margin opportunities under our supply and risk management activities during the first half of fiscal 2007, particularly during the first quarter from volatility in the commodity markets. On a year-to-date basis, our margin improvement from the various market factors impacting our supply and risk management activities has contributed approximately $19.5 million to the year-over-year EBITDA improvement. However, supply and risk management transactions may not always result in increased product margins and there can be no assurance that these favorable market conditions will be present in the future in order to provide the additional margin opportunities realized during the first half of fiscal 2007.

Looking ahead to the remainder of fiscal 2007, our efforts to focus on the areas within our control are ongoing as we continue to position our core operating segments for future growth opportunities. From a cash flow perspective, the improvement in earnings during the first half of fiscal 2007 compared to the prior year comparable period, combined with our cash on hand at the end of fiscal 2006, have funded our working capital requirements during the peak heating season. As a result, there have been no borrowings under the working capital facility of our Revolving Credit Agreement during the first half of fiscal 2007 and we ended the second quarter with more than $88.0 million in cash on hand. Therefore, we do not expect to utilize our working capital facility during fiscal 2007.

On the strength of our cash flow and in furtherance of our efforts to continue to strengthen our financial position, on April 26, 2007 we announced our intention to make a voluntary contribution of approximately $25.0 million to our defined benefit pension plan in order to fully fund the accumulated benefit obligation. We believe that this contribution will substantially reduce, if not eliminate, future funding requirements and the future financial burdens of the defined benefit plan. Funding is scheduled to occur during the third quarter of fiscal 2007 from cash on hand. Additionally, our Board of Supervisors declared the thirteenth increase (since 1999) in our quarterly distribution from $0.6875 to $0.70 per Common Unit. This increase equates to $0.05 per Common Unit annualized to $2.80 per Common Unit, an increase of 14% since the second quarter of fiscal 2006.

Our anticipated cash requirements for the remainder of fiscal 2007 include: (i) maintenance and growth capital expenditures of approximately $11.8 million; (ii) interest payments of approximately $17.0 million; and (iii) cash distributions of approximately $45.7 million to our Common Unitholders based on the most recently increased quarterly distribution rate of $0.70 per Common Unit. Based on our current estimates of cash flow from operations, our cash position at the end of the second quarter of fiscal 2007 and availability under the Revolving Credit Agreement (unused borrowing capacity under the working capital facility of $124.0 million after considering outstanding letters of credit of $51.0 million as of March 31, 2007), we expect to have sufficient funds to meet our current and future obligations.

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Results of Operations

Three Months Ended March 31, 2007 Compared to Three Months Ended March 25, 2006

Revenues

(Dollars in thousands)	Three Months Ended	Increase / (Decrease)	Percent Increase / (Decrease)