

TERCICA INC  
Form SC 13E3/A  
October 17, 2008

As filed with the Securities and Exchange Commission on October 17, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**AMENDMENT NO. 4**

**TO**

**SCHEDULE 13E-3**

**(§240.13e-100)**

**RULE 13e-3 TRANSACTION STATEMENT**

**UNDER SECTION 13(e) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**TERCICA, INC.**

(Name of the Issuer)

**TERCICA, INC.**

**IPSEN, S.A.**

**SURAYPHARM, S.A.S.**

**BEAUFOR IPSEN PHARMA, S.A.S.**

(Name of Person(s) Filing Statement)

**COMMON STOCK, PAR VALUE \$0.001 PER SHARE**

(Title of Class of Securities)

**88078L 10 5**

(CUSIP Number of Class of Securities)

**Willy Mathot**

**Richard A. King**

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**General Counsel**

**Ipsen, S.A.**

**42, rue du Docteur Blanche**

**75016 Paris,**

**France**

**+33 1 4496 1010**

(Name, Address, and Telephone Numbers of Person Authorized to Receive

Notices and Communications on Behalf of the Person(s) Filing Statement)

**President**

**Tercica, Inc.**

**2000 Sierra Point Parkway**

**Suite 400**

**Brisbane, CA 94005**

**(650) 624-4900**

**COPIES TO:**

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**3000 El Camino Real**

**Palo Alto, CA 94306**

**(650) 843-5000**

This statement is filed in connection with (check the appropriate box):

- a.  The filing of solicitation materials or an information statement subject to Regulation 14A (17 CFR 240.14a-1 to 240.14b-2), Regulation 14C (17 CFR 240.14c-1 to 240.14c-101) or Rule 13e-3(c) (§240.13e-3(c)) under the Securities Exchange Act of 1934.
- b.  The filing of a registration statement under the Securities Act of 1933.
- c.  A tender offer.
- d.  None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies:

Check the following box if the filing is a final amendment reporting the results of the transaction:

**Calculation of Filing Fee**

**Transaction valuation\***  
\$366,441,862

**Amount of filing fee\***  
\$14,402

\* For purposes of calculation of this fee only, the transaction valuation is based on the aggregate number of securities to which the transaction applies multiplied by the per unit price or other underlying value of the transaction. For purposes of calculating the aggregate number of securities only, this number is based on 38,642,729 shares of Tercica common stock outstanding and owned by stockholders other than shares held in treasury by Tercica and other than shares owned by members of the Purchaser Group (as defined in the merger agreement described in the Proxy Statement); 6,052,352 shares of Tercica common stock underlying options to purchase shares of Tercica common stock with exercise prices below \$9.00; and 250,603 shares of Tercica common stock represented by outstanding Restricted Stock Units (as defined in the merger agreement described in the Proxy Statement). The filing fee was determined based upon the sum of (a) the product of 38,642,729 shares of Tercica common stock and the merger consideration of \$9.00 per share of Tercica common stock, (b) the product of options to purchase 6,052,352 shares of Tercica common stock and \$2.71 (which is the difference between \$9.00 and \$6.29, the weighted-average exercise price per share of the options to purchase Tercica common stock with an exercise price below \$9.00), and (c) the product of 250,603 shares of Tercica common stock, represented by outstanding Restricted Stock Units, and the merger consideration of \$9.00 per share of Tercica common stock represented by such securities. In accordance with Section 14(g) of the Exchange Act, the filing fee was determined by calculating a fee of \$39.30 per \$1,000,000 of the aggregate value of the transaction.

Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.  
Amount Previously Paid: \$14,402

Form or Registration No.: Schedule 14A

Filing Party: Tercica, Inc.

Date Filed: July 3, 2008



**Introduction**

This Amendment No. 4 (this Final Amendment ) amends and supplements the Schedule 13E-3 initially filed with the Securities and Exchange Commission on July 3, 2008 as amended on August 12, 2008, September 11, 2008 and September 15, 2008 (the Schedule 13E-3 ) and is being filed by (i) Tercica, Inc., a Delaware corporation and the issuer of the equity securities which are the subject of the Rule 13e-3 transaction ( Tercica ), (ii) Ipsen, S.A., a *société anonyme* organized under the laws of France ( Ipsen ), (iii) Suraypharm, S.A.S. ( Suraypharm ), a *société par actions simplifiée* organized under the laws of France and a wholly owned subsidiary of Ipsen and its subsidiaries, and (iv) Beaufour Ipsen Pharma, a *société par actions simplifiée* organized under the laws of France and a subsidiary of Ipsen (the Purchaser ).

This Final Amendment and the Schedule 13E-3 relate to the Agreement and Plan of Merger, dated as of June 4, 2008, by and among Tercica, the Purchaser and Tribeca Acquisition Corporation, a Delaware corporation and wholly owned subsidiary of the Purchaser ( Merger Sub ) (the Merger Agreement ). Pursuant to the Merger Agreement, Merger Sub merged with and into Tercica, the corporation surviving the merger (the Merger ).

Tercica previously filed with the Securities and Exchange Commission (the Commission ) a definitive proxy statement (the Proxy Statement ) under Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act ), relating to the special meeting of stockholders held on October 16, 2008 (the Special Meeting ) at which the stockholders of Tercica considered and voted upon a proposal to adopt the Merger Agreement and a proposal to adjourn, if necessary, the Special Meeting for the purpose of soliciting additional proxies to vote in favor of the adoption of the Merger Agreement. A copy of the Proxy Statement is attached to the Schedule 13E-3 as Exhibit (a)(3) and a copy of the Merger Agreement is attached as Annex A to the Proxy Statement. All references in this Final Amendment and the Schedule 13E-3 to Items numbered 1001 to 1016 are references to Items contained in Regulation M-A under the Exchange Act.

The information contained in the Proxy Statement, including all appendices thereto, is hereby expressly incorporated herein by reference pursuant to General Instruction G to Schedule 13E-3. Capitalized terms used but not defined in this Final Amendment shall have the meanings given to them in the Proxy Statement.

The information contained in this Final Amendment, the Schedule 13E-3 and/or the Proxy Statement concerning (i) Tercica was supplied by Tercica and no other filing person takes responsibility for the accuracy of such information and (ii) each other filing person was supplied by such filing person and Tercica takes no responsibility for the accuracy of such information.

This Final Amendment is being filed pursuant to Rule 13e-3(d)(3) as a final amendment to report the results of Rule 13e-3 transaction, to amend and restate certain items as specified below and to amend and restate the exhibit index.

Item 15(b) is amended and restated to read in its entirety as follows:

**Item 15. Additional Information.**

- (b) *Other material information.* On October 16, 2008, Tercica filed a Certificate of Merger with the Secretary of State of the State of Delaware, pursuant to which the Merger was effected, after having received at the Special Meeting the requisite vote of the Tercica stockholders for the approval of the adoption of the Merger Agreement. The Merger became effective as of 4:01 P.M. Eastern Daylight Time on the date of the filing, at which time (such time, the Effective Time ) (i) each share of Tercica common stock issued and outstanding immediately prior to the Effective Time (other than shares held by the Purchaser and its affiliates, shares held in treasury by Tercica and shares held by holders (if any) who have validly exercised appraisal rights) was converted into the right to receive \$9.00 per share in cash, without interest; (ii) each Tercica stock option outstanding at the Effective Time, whether or not then vested or exercisable, became fully vested and was cancelled if not exercised prior to the Effective Time and was converted into the right to receive, at the Effective Time, an amount in cash equal to, for each share of Tercica common stock underlying such option, the excess (if any) of \$9.00 over the exercise price per share of such option, without interest; (iii) Tercica restricted stock units outstanding and not then vested as of immediately prior to the Effective Time became fully vested and free of restrictions, and at the Effective Time, each holder became entitled to receive, for each restricted stock unit, \$9.00 in cash, without interest; (iv) shares of restricted Tercica common stock (including shares of common stock issued as a result of the early exercise of stock options) outstanding and not then vested as of immediately prior to the Effective Time became fully vested and free of restrictions, and at the Effective Time, each holder became entitled to receive, for each share of such common stock, \$9.00 in cash, without interest; (v) the separate corporate existence of Merger Sub ceased; and (vi) Tercica became a wholly-owned subsidiary of the Purchaser and its affiliates. Upon completion of the Merger, the process to delist Tercica common stock from the NASDAQ Global Market commenced, and Tercica began the process of deregistering its common stock under the Exchange Act, after which time Tercica will no longer file periodic reports with the Commission.

Item 16 is amended and restated to read in its entirety as follows:

**Item 16. Exhibits.**

- (a)(1) Not applicable.
- (a)(2)(i) Copy of Letter to Stockholders from the Secretary of Tercica (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(2)(ii) Copy of Notice of Special Meeting of Stockholders (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(2)(iii) Form of Proxy Card (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(3) Definitive Proxy Statement (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(4) Not applicable.
- (a)(5)(i) Press Release issued by Tercica, dated June 4, 2008 (incorporated by reference to Exhibit 99.1 to Form 8-K filed by Tercica on June 5, 2008).
- (a)(5)(ii) Current Report on Form 8-K filed by Tercica on June 5, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Tercica on June 5, 2008).
- (a)(5)(iii) Transcript of conference call held by Tercica on June 5, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Tercica on June 6, 2008).
- (a)(5)(iv) Press Release issued by Ipsen, dated June 5, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Ipsen on June 6, 2008).
- (a)(5)(v) Business plan of Tercica delivered to the Purchaser on June 4, 2008.\*
- (a)(5)(vi) Press Release issued by Tercica, dated July 30, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Tercica on July 31, 2008).
- (a)(5)(vii) Notice to Holders of Tercica Stock Options, dated October 1, 2008 (incorporated by reference to additional soliciting material filed on Schedule 14A by Tercica on October 1, 2008).
- (b)(1) Multicurrency Revolving Credit Facility Agreement for Ipsen, S.A. and certain of its subsidiaries arranged by Société Générale Corporation & Investment Banking with Société Générale acting as Agent dated 4 June 2008.\*
- (c)(1) Presentation of Lehman Brothers Inc. to the Board of Directors of Tercica, dated April 21, 2008.\*
- (c)(2) Presentation of Lehman Brothers Inc. to the Special Committee of the Board of Directors of Tercica, dated April 24, 2008.\*
- (c)(3) Presentation of Lehman Brothers Inc. to the Special Committee of the Board of Directors of Tercica, dated May 1, 2008.\*
- (c)(4) Presentation of Lehman Brothers Inc. to the Special Committee of the Board of Directors of Tercica, dated June 3, 2008.\*
- (c)(5) Opinion of Lehman Brothers Inc., dated June 4, 2008 (incorporated by reference to Annex B of the Proxy Statement).
- (c)(6) Presentation of Goldman Sachs Inc. et Cie to the Board of Directors of Ipsen, S.A., dated February 26, 2008.\*
- (c)(7) Presentation of Goldman Sachs Inc. et Cie to the Board of Directors of Ipsen, S.A., dated June 4, 2008.\*
- (c)(8) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated February 14, 2008.\*
- (c)(9) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated March 18, 2008.\*
- (c)(10) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated March 26, 2008.\*
- (c)(11) Presentation of Goldman Sachs Inc. et Cie to the Board of Directors of Ipsen, S.A., dated March 31, 2008.\*
- (c)(12) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated March 31, 2008.\*
- (c)(13) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated April 30, 2008.\*
- (c)(14) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 13, 2008.\*

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- (c)(15) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 16, 2008.\*
- (c)(16) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 21, 2008.\*
- (c)(17) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 25, 2008.\*
- (d)(1) Agreement and Plan of Merger dated as of June 4, 2008 by and among Tercica, Inc., Beaufour Ipsen Pharma, and Tribeca Acquisition Corporation (incorporated by reference to Annex A of the Proxy Statement).
- (d)(2) Form of Voting Agreement dated as of June 4, 2008 (incorporated by reference to Exhibit 10.2 of Amendment No. 4 to Schedule 13D filed by Ipsen, Suraypharm S.A.S., the Purchaser and Merger Sub on June 9, 2008).
- (d)(3) Form of Voting Agreement, dated as of July 18, 2006 by and between certain stockholders of Tercica, Ipsen and Suraypharm.\*
- (d)(4) Stock Purchase and Master Transaction Agreement, by and between Tercica and Ipsen, dated July 18, 2006 (incorporated by reference to Exhibit 10.14A to Tercica's Current Report on Form 8-K filed July 24, 2006).
- (d)(5) Warrant issued to Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 4.4 to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(6) First Senior Convertible Promissory Note issued to Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 4.5A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(7) Second Senior Convertible Promissory Note issued to Ipsen, dated September 17, 2007 (incorporated by reference to Exhibit 4.5B to Tercica's Current Report on Form 8-K filed September 18, 2007).



- (d)(8) Third Senior Convertible Promissory Note issued to Ipsen, dated September 17, 2007 (incorporated by reference to Exhibit 4.5C to Tercica's Current Report on Form 8-K filed September 18, 2007).
- (d)(9) Affiliation Agreement, by and between Tercica, Suraypharm and Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 10.14B to Tercica's Annual Report on Form 10-K filed February 28, 2008).
- (d)(10) Registration Rights Agreement, by and between Tercica, Suraypharm and Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 10.14G to Tercica's Annual Report on Form 10-K filed February 28, 2008).
- (d)(11) Amendment No. 1 to Registration Rights Agreement, dated as of July 30, 2007, between Tercica, Suraypharm and Ipsen (incorporated by reference to Exhibit 10.14F to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(12) Second Amended and Restated Investors' Rights Agreement dated July 30, 2007 (incorporated by reference to Exhibit 10.10 to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(13) Rights Agreement, dated as of October 13, 2006, between Tercica and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.6A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(14) Amendment No. 1 to Rights Agreement, dated June 4, 2008, between Tercica and Computershare Trust Company, N.A. as Rights Agent (incorporated by reference to Exhibit 4.1 to Tercica's Current Report on Form 8-K filed June 5, 2008).
- (d)(15) Common Stock Purchase Agreement, dated as of July 9, 2007, between Tercica, Suraypharm and Ipsen (incorporated by reference to Exhibit 10.14E to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(16) Common Stock Purchase Agreement, dated as of July 6, 2007, between Genentech, Inc. and Tercica (incorporated by reference to Exhibit 10.7G to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(17) Registration Rights Agreement, by and between Kingsbridge Capital Limited and Tercica, dated October 14, 2005 (incorporated by reference to Exhibit 10.13B to Tercica's Quarterly Report on Form 10-Q filed November 4, 2005).
- (d)(18) Common Stock Purchase Agreement, by and between Kingsbridge Capital Limited and Tercica, dated October 14, 2005 (incorporated by reference to Exhibit 10.13A to Tercica's Quarterly Report on Form 10-Q filed November 4, 2005).
- (d)(19) Warrant issued to Kingsbridge Capital Limited, dated October 14, 2005 (incorporated by reference to Exhibit 4.3 to Tercica's Quarterly Report on Form 10-Q filed November 4, 2005).
- (d)(20) 2002 Stock Plan, as amended (incorporated by reference to Exhibit 10.1A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(21) 2002 Executive Stock Plan, as amended (incorporated by reference to Exhibit 10.2A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(22) Amended and Restated 2004 Stock Plan (incorporated by reference to Exhibit 10.3A to Tercica's Current Report on Form 8-K filed May 21, 2008).
- (d)(23) 2004 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(24) Letter delivered by Ipsen to Tercica, dated June 4, 2008.\*
- (d)(25) Letter of consent to the merger delivered by Suraypharm S.A.S. to Tercica, dated June 4, 2008.\*
- (d)(26) Letter of consent to the merger delivered by Ipsen, S.A. to Tercica, dated June 4, 2008.\*
- (d)(27) Letter of consent to amendment of the Rights Agreement delivered by Ipsen, S.A. to Tercica, dated June 4, 2008.\*
- (d)(28) Letter of consent to amendment of the Rights Agreement delivered by Suraypharm S.A.S. to Tercica, dated June 4, 2008.\*
- (d)(29) Letter of confirmation of financing delivered by Ipsen, S.A. to Beaufour Ipsen Pharma, S.A.S., dated June 4, 2008.\*
- (d)(30) Letter of undertaking to vote their shares delivered by Ipsen, S.A. and Suraypharm S.A.S. to Beaufour Ipsen Pharma, S.A.S., dated June 4, 2008.\*
- (d)(31) Common Stock Purchase Agreement, dated as of July 22, 2008, between Tercica, Ipsen and Suraypharm (incorporated by reference to Exhibit 10.14H to Tercica's Current Report on Form 8-K filed on July 24, 2008).
- (d)(32) Conversion Notice for the First Senior Convertible Promissory Note, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.1 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (d)(33)

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Conversion Notice for the Second Senior Convertible Promissory Note, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.2 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).

- (d)(34) Conversion Notice for the Third Senior Convertible Promissory Note, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.3 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (d)(35) Warrant Exercise Form, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.4 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (d)(36) Letter, dated July 18, 2008 confirming Ipsen's intent to subscribe for the shares on July 22, 2008, delivered to the Issuer by Suraypharm (incorporated by reference to Exhibit 99.5 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (f)(1) Section 262 of the Delaware General Corporation Law (incorporated by reference to Annex C of the Proxy Statement).
- (f)(2) For a description of appraisal rights, reference is made to Exhibit (a)(3).
- (g) Not applicable.
- (h) Not applicable.

\* Previously filed.

**SIGNATURES**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

TERCICA, INC.

By: /s/ Stephen N. Rosenfield

Name: Stephen N. Rosenfield

Title: Corporate Secretary

IPSEN, S.A.

By: /s/ Jean-Luc Bélingard

Name: Jean-Luc Bélingard

Title: Authorized Signatory

SURAYPHARM, S.A.S.

By: /s/ Jean-Luc Bélingard

Name: Jean-Luc Bélingard

Title: Authorized Signatory

BEAUFOR IPSEN PHARMA, S.A.S.

By: /s/ Christophe Jean

Name: Christophe Jean

Title: Authorized Signatory

**EXHIBIT INDEX**

- (a)(1) Not applicable.
- (a)(2)(i) Copy of Letter to Stockholders from the Secretary of Tercica (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(2)(ii) Copy of Notice of Special Meeting of Stockholders (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(2)(iii) Form of Proxy Card (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(3) Definitive Proxy Statement (incorporated by reference to Schedule 14A filed by Tercica on September 15, 2008).
- (a)(4) Not applicable.
- (a)(5)(i) Press Release issued by Tercica, dated June 4, 2008 (incorporated by reference to Exhibit 99.1 to Form 8-K filed by Tercica on June 5, 2008).
- (a)(5)(ii) Current Report on Form 8-K filed by Tercica on June 5, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Tercica on June 5, 2008).
- (a)(5)(iii) Transcript of conference call held by Tercica on June 5, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Tercica on June 6, 2008).
- (a)(5)(iv) Press Release issued by Ipsen, dated June 5, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Ipsen on June 6, 2008).
- (a)(5)(v) Business plan of Tercica delivered to the Purchaser on June 4, 2008.\*
- (a)(5)(vi) Press Release issued by Tercica, dated July 30, 2008 (incorporated by reference to soliciting material filed on Schedule 14A filed pursuant to Rule 14a-12 of the Exchange Act by Tercica on July 31, 2008).
- (a)(5)(vii) Notice to Holders of Tercica Stock Options, dated October 1, 2008 (incorporated by reference to additional soliciting material filed on Schedule 14A by Tercica on October 1, 2008).
- (b)(1) Multicurrency Revolving Credit Facility Agreement for Ipsen, S.A. and certain of its subsidiaries arranged by Société Générale Corporation & Investment Banking with Société Générale acting as Agent dated 4 June 2008.\*
- (c)(1) Presentation of Lehman Brothers Inc. to the Board of Directors of Tercica, dated April 21, 2008.\*
- (c)(2) Presentation of Lehman Brothers Inc. to the Special Committee of the Board of Directors of Tercica, dated April 24, 2008.\*
- (c)(3) Presentation of Lehman Brothers Inc. to the Special Committee of the Board of Directors of Tercica, dated May 1, 2008.\*
- (c)(4) Presentation of Lehman Brothers Inc. to the Special Committee of the Board of Directors of Tercica, dated June 3, 2008.\*
- (c)(5) Opinion of Lehman Brothers Inc., dated June 4, 2008 (incorporated by reference to Annex B of the Proxy Statement).
- (c)(6) Presentation of Goldman Sachs Inc. et Cie to the Board of Directors of Ipsen, S.A., dated February 26, 2008.\*
- (c)(7) Presentation of Goldman Sachs Inc. et Cie to the Board of Directors of Ipsen, S.A., dated June 4, 2008.\*
- (c)(8) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated February 14, 2008.\*
- (c)(9) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated March 18, 2008.\*
- (c)(10) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated March 26, 2008.\*
- (c)(11) Presentation of Goldman Sachs Inc. et Cie to the Board of Directors of Ipsen, S.A., dated March 31, 2008.\*
- (c)(12) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated March 31, 2008.\*
- (c)(13) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated April 30, 2008.\*
- (c)(14) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 13, 2008.\*
- (c)(15) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 16, 2008.\*
- (c)(16) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 21, 2008.\*

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- (c)(17) Presentation of Goldman Sachs Inc. et Cie to members of management of Ipsen, S.A., dated May 25, 2008.\*
- (d)(1) Agreement and Plan of Merger dated as of June 4, 2008 by and among Tercica, Inc., Beaufour Ipsen Pharma, and Tribeca Acquisition Corporation (incorporated by reference to Annex A of the Proxy Statement).
- (d)(2) Form of Voting Agreement dated as of June 4, 2008 (incorporated by reference to Exhibit 10.2 of Amendment No. 4 to Schedule 13D filed by Ipsen, Suraypharm S.A.S., the Purchaser and Merger Sub on June 9, 2008).
- (d)(3) Form of Voting Agreement, dated as of July 18, 2006 by and between certain stockholders of Tercica, Ipsen and Suraypharm.\*
- (d)(4) Stock Purchase and Master Transaction Agreement, by and between Tercica and Ipsen, dated July 18, 2006 (incorporated by reference to Exhibit 10.14A to Tercica's Current Report on Form 8-K filed July 24, 2006).
- (d)(5) Warrant issued to Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 4.4 to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(6) First Senior Convertible Promissory Note issued to Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 4.5A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).

- (d)(7) Second Senior Convertible Promissory Note issued to Ipsen, dated September 17, 2007 (incorporated by reference to Exhibit 4.5B to Tercica's Current Report on Form 8-K filed September 18, 2007).
- (d)(8) Third Senior Convertible Promissory Note issued to Ipsen, dated September 17, 2007 (incorporated by reference to Exhibit 4.5C to Tercica's Current Report on Form 8-K filed September 18, 2007).
- (d)(9) Affiliation Agreement, by and between Tercica, Suraypharm and Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 10.14B to Tercica's Annual Report on Form 10-K filed February 28, 2008).
- (d)(10) Registration Rights Agreement, by and between Tercica, Suraypharm and Ipsen, dated October 13, 2006 (incorporated by reference to Exhibit 10.14G to Tercica's Annual Report on Form 10-K filed February 28, 2008).
- (d)(11) Amendment No. 1 to Registration Rights Agreement, dated as of July 30, 2007, between Tercica, Suraypharm and Ipsen (incorporated by reference to Exhibit 10.14F to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(12) Second Amended and Restated Investors' Rights Agreement dated July 30, 2007 (incorporated by reference to Exhibit 10.10 to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(13) Rights Agreement, dated as of October 13, 2006, between Tercica and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.6A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(14) Amendment No. 1 to Rights Agreement, dated June 4, 2008, between Tercica and Computershare Trust Company, N.A. as Rights Agent (incorporated by reference to Exhibit 4.1 to Tercica's Current Report on Form 8-K filed June 5, 2008).
- (d)(15) Common Stock Purchase Agreement, dated as of July 9, 2007, between Tercica, Suraypharm and Ipsen (incorporated by reference to Exhibit 10.14E to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(16) Common Stock Purchase Agreement, dated as of July 6, 2007, between Genentech, Inc. and Tercica (incorporated by reference to Exhibit 10.7G to Tercica's Quarterly Report on Form 10-Q filed August 2, 2007).
- (d)(17) Registration Rights Agreement, by and between Kingsbridge Capital Limited and Tercica, dated October 14, 2005 (incorporated by reference to Exhibit 10.13B to Tercica's Quarterly Report on Form 10-Q filed November 4, 2005).
- (d)(18) Common Stock Purchase Agreement, by and between Kingsbridge Capital Limited and Tercica, dated October 14, 2005 (incorporated by reference to Exhibit 10.13A to Tercica's Quarterly Report on Form 10-Q filed November 4, 2005).
- (d)(19) Warrant issued to Kingsbridge Capital Limited, dated October 14, 2005 (incorporated by reference to Exhibit 4.3 to Tercica's Quarterly Report on Form 10-Q filed November 4, 2005).
- (d)(20) 2002 Stock Plan, as amended (incorporated by reference to Exhibit 10.1A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(21) 2002 Executive Stock Plan, as amended (incorporated by reference to Exhibit 10.2A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(22) Amended and Restated 2004 Stock Plan (incorporated by reference to Exhibit 10.3A to Tercica's Current Report on Form 8-K filed May 21, 2008).
- (d)(23) 2004 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4A to Tercica's Quarterly Report on Form 10-Q filed November 3, 2006).
- (d)(24) Letter delivered by Ipsen to Tercica, dated June 4, 2008.\*
- (d)(25) Letter of consent to the merger delivered by Suraypharm S.A.S. to Tercica, dated June 4, 2008.\*
- (d)(26) Letter of consent to the merger delivered by Ipsen, S.A. to Tercica, dated June 4, 2008.\*
- (d)(27) Letter of consent to amendment of the Rights Agreement delivered by Ipsen, S.A. to Tercica, dated June 4, 2008.\*
- (d)(28) Letter of consent to amendment of the Rights Agreement delivered by Suraypharm S.A.S. to Tercica, dated June 4, 2008.\*
- (d)(29) Letter of confirmation of financing delivered by Ipsen, S.A. to Beaufour Ipsen Pharma, S.A.S., dated June 4, 2008.\*
- (d)(30) Letter of undertaking to vote their shares delivered by Ipsen, S.A. and Suraypharm S.A.S. to Beaufour Ipsen Pharma, S.A.S., dated June 4, 2008.\*
- (d)(31) Common Stock Purchase Agreement, dated as of July 22, 2008, between Tercica, Ipsen and Suraypharm (incorporated by reference to Exhibit 10.14H to Tercica's Current Report on Form 8-K filed on July 24, 2008).
- (d)(32) Conversion Notice for the First Senior Convertible Promissory Note, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.1 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24,

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2008).

- (d)(33) Conversion Notice for the Second Senior Convertible Promissory Note, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.2 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (d)(34) Conversion Notice for the Third Senior Convertible Promissory Note, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.3 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (d)(35) Warrant Exercise Form, dated as of July 22, 2008 (incorporated by reference to Exhibit 99.4 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (d)(36) Letter, dated July 18, 2008 confirming Ipsen's intent to subscribe for the shares on July 22, 2008, delivered to the Issuer by Suraypharm (incorporated by reference to Exhibit 99.5 to Amendment No. 5 to Schedule 13D filed by Ipsen, Suraypharm, the Purchaser and Merger Sub on July 24, 2008).
- (f)(1) Section 262 of the Delaware General Corporation Law (incorporated by reference to Annex C of the Proxy Statement).
- (f)(2) For a description of appraisal rights, reference is made to Exhibit (a)(3).
- (g) Not applicable.
- (h) Not applicable.

\* Previously filed.

: normal;" align="right" valign="bottom">\$953,886

LIABILITIES AND PARTNERS' CAPITAL

Current liabilities:

Accounts payable \$80,649  
\$57,372

Accrued employment and benefit costs 24,779  
35,510

Accrued insurance 15,630  
7,360

Customer deposits and advances 57,518  
62,630

Accrued interest 1,065  
8,371

Other current liabilities 18,797  
21,373

Total current liabilities 198,438  
192,616

Long-term borrowings 548,362  
548,304

Postretirement benefits obligation 27,531  
27,759

Accrued insurance 39,316  
38,053

Accrued pension liability 32,062  
31,086

Other liabilities 16,443  
15,367

Total liabilities 862,152  
853,185

Commitments and contingencies

Partners' capital:

Common Unitholders (32,672 and 30,314 units issued and outstanding at December 30, 2006 and September 30, 2006, respectively)	202,496
	170,151
General Partner —	(1,969)
	)
Deferred compensation (5,692)	(5,704)
	)
Common Units held in trust, at cost 5,692	5,704
Accumulated other comprehensive loss (67,484)	(67,481)
	)
Total partners' capital	135,012
	100,701
Total liabilities and partners' capital	\$997,164
	\$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	
	December	December
	30,	24,
	2006	2005
Revenues		
Propane	\$ 286,879	\$ 310,292
Fuel oil and refined fuels	68,870	105,305
Natural gas and electricity	22,745	37,943



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HVAC	18,459	31,227
All other	2,034	2,696
	398,987	487,463
Costs and expenses		
Cost of products sold	230,874	315,843
Operating	84,060	100,261
General and administrative	12,902	14,216
Restructuring costs	385	—
Depreciation and amortization	7,136	8,211
	335,357	438,531
Income before interest expense and provision for income taxes	63,630	48,932
Interest expense, net	9,216	10,567
Income before provision for income taxes	54,414	38,365
Provision for income taxes	762	150
Income from continuing operations	53,652	38,215
Discontinued operations:		
Gain on exchange of customer service centers (Note 6)	1,002	—
Net income	\$ 54,654	\$ 38,215
General Partner's interest in net income	—	1,187
Limited Partners' interest in net income	\$ 54,654	\$ 37,028
Income per Common Unit – basic		
Income from continuing operations	\$ 1.67	\$ 1.15
Discontinued operations	0.03	—
Net income	\$ 1.70	\$ 1.15
Weighted average number of Common Units outstanding – basic	32,193	30,299
Income per Common Unit – diluted		
Income from continuing operations	\$ 1.66	\$ 1.14
Discontinued operations	0.03	—
Net income	\$ 1.69	\$ 1.14
Weighted average number of Common Units outstanding – diluted	32,376	30,391

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)

Three Months Ended  
December      December  
30,              24,

	2006	2005
Cash flows from operating activities:		
Net income	\$ 54,654	\$ 38,215
Adjustments to reconcile net income to net cash used in operations:		
Depreciation expense	6,600	7,244
Amortization of intangible assets	536	967
Amortization of debt origination costs	332	331
Compensation cost recognized under Restricted Unit Plan	1,297	615
Amortization of discount on long-term borrowings	58	58
Gain on exchange of customer service centers	(1,002)	—
Gain on disposal of property, plant and equipment, net	(247)	(44)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(49,361)	(74,806)
(Increase) in inventories	(9,962)	(14,833)
(Increase)/decrease in prepaid expenses and other current assets	(16,095)	5,053
Increase in accounts payable	23,203	39,992
(Decrease)/increase in accrued employment and benefit costs	(10,731)	1,865
(Decrease) in accrued interest	(7,306)	(6,918)
Increase/(decrease) in other accrued liabilities	173	(10,681)
(Increase)/decrease in other noncurrent assets	(1,129)	537
Increase in other noncurrent liabilities	3,087	3,473
Net cash (used in) operating activities	(5,893)	(8,932)
Cash flows from investing activities:		
Capital expenditures	(8,152)	(6,190)
Proceeds from sale of property, plant and equipment	1,489	252
Net cash (used in) investing activities	(6,663)	(5,938)
Cash flows from financing activities:		
Short-term borrowings	—	36,250
Partnership distributions	(21,637)	(19,162)
Net cash (used in)/provided by financing activities	(21,637)	17,088
Net (decrease)/increase in cash and cash equivalents	(34,193)	2,218
Cash and cash equivalents at beginning of period	60,571	14,411
Cash and cash equivalents at end of period	\$ 26,378	\$ 16,629

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)
Balance at September 30, 2006	30,314	\$ 170,151	\$(1,969)	\$(5,704)	\$5,704	\$(67,481)
Net income		54,654				
Other comprehensive income:						
Net unrealized losses on cash flow hedges						(197)
Reclassification of realized losses on cash flow hedges into earnings						194
Comprehensive income						
Partnership distributions		(21,637)				
Common Units issued under Restricted Unit Plan	58					
Common Units issued in exchange of General Partner interest	2,300	80,443				
Exchange and cancellation of General Partner interest		(82,412)	1,969			
Common Units distributed from trust					12	(12)
Compensation cost recognized under Restricted Unit Plan, net of forfeitures		1,297				
Balance at December 30, 2006	32,672	\$ 202,496	\$ —	\$(5,692)	\$5,692	\$(67,484)

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 32,672,193 Common Units outstanding at December 30, 2006. 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 and there are no IDRs outstanding or provided for under the Partnership Agreement. As an accommodation to the Partnership, its Chief Executive Officer 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 from C-Corporations to 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

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 December 30, 2006, the fair value of derivative instruments described above resulted in derivative assets of \$8,988 included within prepaid expenses and other current assets and derivative liabilities of \$3,061 included within other current liabilities. Cost of products sold included unrealized (non-cash) losses of \$987 for the three months ended December 30, 2006 and unrealized (non-cash) gains of \$7,042 for the three months ended December 24, 2005 attributable to the change in fair value of derivative instruments not designated as cash flow hedges. At December 30, 2006, unrealized losses on derivative instruments designated as cash flow hedges in the amount of \$1,967 were included in OCI and are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities market, the corresponding value in OCI is subject to change prior to its impact on earnings.

A portion of the Partnership’s long-term borrowings bear interest at a variable rate based upon either LIBOR or Wachovia National Bank’s prime rate, plus an applicable margin depending on the level of the Partnership’s total leverage. Therefore, the Partnership is subject to interest rate risk on the variable component of the interest rate. The Partnership manages part of its variable interest rate risk by entering into interest rate swap agreements. On March 31, 2005, the Partnership entered into a \$125,000 interest rate swap contract in conjunction with the 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 December 30, 2006, the fair value of the interest rate swap amounted to \$1,262 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.

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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 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 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 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. During the three months ended December 30, 2006, the Partnership recorded additional severance charges of \$385 associated with additional positions eliminated under the HVAC reorganization.

The components of the remaining restructuring charges are as follows:

	Reserve at September 30, 2006	Charges Through December 30, 2006	Utilization Through December 30, 2006	Reserve at December 30, 2006
Charges expensed:				
Severance and other employee costs	\$ 1,621	\$ 385	\$ (1,102)	\$ 904
Other exit costs	854	—	(97)	757
Total	\$ 2,475	\$ 385	\$ (1,199)	\$ 1,661

The remaining reserve of \$1,661 as of December 30, 2006 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:

	December 30, 2006	September 30, 2006
Propane, fuel oil and refined fuels	\$ 80,435	\$ 72,143
Natural gas	3,061	1,148
Appliances and related parts	5,893	6,127
	\$ 89,389	\$ 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:

	December 30, 2006	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	6,359	6,220
	\$ 19,949	\$ 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 for the three months ended December 30, 2006 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 months ended December 30, 2006 and December 24, 2005 was \$536 and \$967, 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 December 30, 2006 is as follows: 2007 – \$1,693; 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 Transactions, 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 three months ended December 30, 2006, 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 unit for the three months ended December 30, 2006 is computed by dividing net income by the weighted average number of outstanding Common Units. Diluted income per unit for

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the three months ended December 30, 2006 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 (see Note 10).

Basic net income per Common Unit for the three months ended December 24, 2005 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 net income per Common Unit for the three months ended December 24, 2005 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 (see Note 10). For the three months ended December 24, 2005, the computation of net income per Common Unit under EITF 03-6 resulted in a negative impact of \$0.07 per Common Unit compared to the computation under FAS 128.

In computing diluted income per unit, weighted average units outstanding used to compute basic income per unit were increased by 182,637 and 92,324 units for the three months ended December 30, 2006 and December 24, 2005, 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:

	December 30, 2006	September 30, 2006
Senior Notes, 6.875%, due December 15, 2013, net of unamortized discount of \$1,638 and \$1,696, respectively	\$ 423,362	\$ 423,304
Term Loan, 6.29% to 7.16%, due March 31, 2010	125,000	125,000
	548,362	548,304
Less: current portion	—	—
	\$ 548,362	\$ 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.

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

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applicable margin or the Federal Funds rate plus ½ 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 December 30, 2006 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 quarter 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 \$1,262 and \$1,182 at December 30, 2006 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 December 30, 2006.

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 December 30, 2006 and September 30, 2006 include debt origination costs with a net carrying amount of \$7,225 and \$7,557, respectively. Aggregate amortization expense related to deferred debt origination costs included within interest expense for the three months ended December 30, 2006 and December 24, 2005 was \$332 and \$331, respectively.

The aggregate amounts of long-term debt maturities subsequent to December 30, 2006 are as follows: 2007 – \$0; 2008 – \$0; 2009 – \$0; 2010 – \$125,000; and, thereafter – \$423,362.

#### 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 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.

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On January 25, 2007, the Partnership announced a quarterly distribution of \$0.6875 per Common Unit, or \$2.75 on an annualized basis, in respect of the first quarter of fiscal 2007 payable on February 13, 2007 to holders of record on February 6, 2007. This quarterly distribution included an increase of \$0.025 per Common Unit, or \$0.10 per Common Unit on an annualized basis, announced on January 25, 2007.

#### 10. Share-Based Compensation Arrangements

The Partnership accounts for its share-based compensation arrangements under the revised SFAS No. 123, "Share Based Payments" ("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. SFAS 123R also requires the measurement of liability awards under a share-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 (the "2000 Restricted Unit Plan") which authorizes the issuance of Common Units to members of the Board of Supervisors, executives, managers and other employees of the Partnership. On October 19, 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 limit 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 and is net of estimated forfeitures.

During the first quarter of fiscal 2007, the Partnership awarded 34,759 Restricted Units under the 2000 Restricted Unit Plan at an aggregate grant date fair value of \$1,263. Following is a summary of activity in the 2000 Restricted Unit Plan during fiscal 2007:

	Units	Weighted Average Grant Date Fair Value Per Unit
Outstanding September 30, 2006	340,786	\$ 28.84
Awarded	34,759	36.33
Forfeited	(1,506)	33.20
Issued	(58,531)	28.45
Outstanding December 30, 2006	315,508	\$ 30.20

As of December 30, 2006, there was \$4,694 of total unrecognized compensation cost related to unvested Common Units awarded under the 2000 Restricted Unit Plan. Compensation cost associated with the unvested awards is expected to be recognized over a weighted-average period of 1.4 years. Compensation expense for the 2000 Restricted Unit Plan for the three months ended December 30, 2006 and December 24, 2005 was \$1,297 and \$615, 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

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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 composed primarily 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 months ended December 30, 2006 was \$1,490. As a result of the performance at the end of the first quarter of fiscal 2006, the Partnership recorded a reversal of compensation expense in the amount of (\$771) for the three months ended December 24, 2005. As of December 30, 2006 and September 30, 2006, the Partnership had a liability included within other current liabilities of \$2,296 and \$2,021, 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 December 30, 2006 and September 30, 2006, the Partnership had accrued insurance liabilities of \$54,946 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 other assets related to the amount of the liability expected to be covered by insurance which amounted to \$16,665 and \$8,665 as of December 30, 2006 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 December 30, 2006 and September 30, 2006, the Partnership had accrued environmental liabilities of \$4,433 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

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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 \$1,294 as of December 30, 2006 and September 30, 2006.

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. For the three months ended December 30, 2006, the \$2,000 was recorded as a reduction to general and administrative expenses.

## 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 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 \$16,055. 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 December 30, 2006 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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### 13. Pension Plans and Other Postretirement Benefits

The following table provides the components of net periodic benefit costs for the three months ended December 30, 2006 and December 24, 2005:

	Pension Benefits		Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	December	December	December	December
	30,	24,	30,	24,
	2006	2005	2006	2005
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

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 \$411 has been contributed during the three months ended December 30, 2006.

### 14. 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 consolidated statements of operations. In addition, certain costs associated with field operations support that are reported in operating expenses in the 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 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

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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	
December	December
30,	24,
2006	2005

Revenues:



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Propane	\$ 286,879	\$ 310,292
Fuel oil and refined fuels	68,870	105,305
Natural gas and electricity	22,745	37,943
HVAC	18,459	31,227
All other	2,034	2,696
Total revenues	\$ 398,987	\$ 487,463
Income before interest expense and income taxes:		
Propane	\$ 62,808	\$ 47,797
Fuel oil and refined fuels	10,806	15,372
Natural gas and electricity	3,279	2,592
HVAC	1,044	1,034
All other	(86)	(569)
Corporate	(14,221)	(17,294)
Total income before interest expense and income taxes	63,630	48,932
Reconciliation to income from continuing operations:		
Interest expense, net	9,216	10,567
Provision for income taxes	762	150
Income from continuing operations	\$ 53,652	\$ 38,215
Depreciation and amortization:		
Propane	\$ 4,391	\$ 5,228
Fuel oil and refined fuels	881	1,165
Natural gas and electricity	222	183
HVAC	105	141
All other	32	63
Corporate	1,505	1,431
Total depreciation and amortization	\$ 7,136	\$ 8,211

	As of	
	December 30, 2006	September 30, 2006
Assets:		
Propane	\$ 774,341	\$ 732,784
Fuel oil and refined fuels	105,904	92,173
Natural gas and electricity	33,714	22,644
HVAC	7,779	8,353
All other	2,654	2,719
Corporate	160,753	183,194
Eliminations	(87,981)	(87,981)
Total assets	\$ 997,164	\$ 953,886

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15. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“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. SFAS 157 will be effective September 28, 2008, the beginning of the Partnership's fiscal 2009. 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.

Also 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 our 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 and other possible changes in actuarial assumptions that may occur in connection with the upcoming fiscal 2007 measurement date.

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 is the beginning of the Partnership's fiscal 2008. 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 months ended December 30, 2006. 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. We experienced additional margin opportunities from our hedging and risk management activities during the first quarter of fiscal 2007 arising from the declining commodities markets. However, risk management transactions may not always result in increased product margins. 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.

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

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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

Despite significantly warmer than normal temperatures experienced during the first quarter of fiscal 2007, particularly during December 2006 (the most critical heating month for the quarter), we reported an improvement in net income and EBITDA compared to the prior year first quarter. Net income of \$54.7 million, or \$1.70 per Common Unit, increased \$16.5 million (43.2%) compared to \$38.2 million, or \$1.15 per Common Unit, in the prior year quarter. EBITDA (as defined and reconciled below) amounted to \$71.8 million for the three months ended December 30, 2006, an increase of \$14.7 million (25.7%) compared to EBITDA of \$57.1 million for the three months ended December 24, 2005.

The improvement in year-over-year quarterly earnings continues to reflect the benefits of our field realignment efforts which began during the fourth quarter of fiscal 2005 and continued throughout fiscal 2006, as well as from the steps taken in the second half of fiscal 2006 to restructure our HVAC segment. The benefits of these restructuring efforts continue to favorably impact our cost structure as the full-year effect of the operating efficiencies, lower headcount and lower vehicle expenditures are expected to continue throughout much of fiscal 2007. As a result, operating expenses of \$84.1 million for the three months ended December 30, 2006 were \$16.2 million, or 16.2%, lower than the first quarter of fiscal 2006, more than offsetting the impact of the warmer weather.

Average degree days in our service territories were 87% of normal for the three months ended December 30, 2006 compared to 95% of normal in the prior year quarter, and average temperatures in the month of December 2006 were 81% of normal compared to 106% of normal during December of the prior year. In the commodities markets, with the recent decline in crude oil prices from their peak levels in the summer of 2006 and lower demand due to the warmer temperatures, propane and fuel oil prices began a steady decline in September 2006 which continued throughout the first quarter of fiscal 2007. Average posted prices of propane and fuel oil during the first quarter of fiscal 2007 declined 10% and 5%, respectively, compared to the average posted prices in the prior year first quarter, and declined 14% and 12%, respectively, from the peak levels during the fiscal 2006 fourth quarter.

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Propane volumes decreased 9.0% during the first quarter of fiscal 2007 compared to the prior year quarter primarily as a result of the warmer average temperatures, while fuel oil and refined fuels volumes declined 34.9% from a combination of warmer temperatures and, to a large extent, our decision to exit the majority of the gasoline and diesel businesses. 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 hedging and risk management strategy during the first quarter of fiscal 2007 from the declining commodities markets.

Looking ahead to the remainder of fiscal 2007, we expect that our operating results will continue to be impacted favorably by the full-year effect of cost savings and efficiencies from our field and HVAC reorganization efforts, regardless of the weather. The unseasonably warm weather experienced during much of the first quarter persisted into the first two weeks of January 2007, particularly in our operations on the east coast, yet shifted to more seasonable temperatures in the second half of the month. A return to a more seasonable weather pattern during the second quarter of fiscal 2007 would be expected to mitigate a portion of the negative effects on volumes sold from the significantly warmer than normal temperatures during the first quarter 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 quarter of fiscal 2007 compared to the prior year quarter, 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 quarter of fiscal 2007 and we ended the quarter with more than \$26.0 million in cash on hand. On the strength of these fiscal 2007 first quarter earnings, among other factors, our Board of Supervisors declared the twelfth increase (since 1999) in our quarterly distribution from \$0.6625 to \$0.6875 per Common Unit. This increase equates to \$0.10 per Common Unit annualized to \$2.75 per Common Unit, an increase of 12% since the first quarter of the prior year.

Our anticipated cash requirements for the remainder of fiscal 2007 include: (i) maintenance and growth capital expenditures of approximately \$16.8 million; (ii) interest payments of approximately \$19.3 million; and (iii) cash distributions of approximately \$67.4 million to our Common Unitholders based on the most recently increased quarterly distribution rate of \$0.6875 per Common Unit. Based on our current estimates of cash flow from operations, our cash position at the end of the first quarter of fiscal 2007 and availability under the Revolving Credit Agreement (unused borrowing capacity under the working capital facility of \$125.9 million after considering outstanding letters of credit of \$49.1 million as of December 30, 2006), we expect to have sufficient funds to meet our current and future obligations.

## Results of Operations

Three Months Ended December 30, 2006 Compared to Three Months Ended December 24, 2005

## Revenues

	Three Months Ended		Percent Decrease
	December 30, 2006	December 24, 2005	
(Dollars in thousands)			

Revenues				
Propane	\$ 286,879	\$ 310,292	\$ (23,413)	(7.5%)
Fuel oil and refined fuels	68,870	105,305	(36,435)	(34.6%)
Natural gas and electricity	22,745	37,943	(15,198)	(40.1%)
HVAC	18,459	31,227	(12,768)	(40.9%)
All other	2,034	2,696	(662)	(24.6%)
Total revenues	\$ 398,987	\$ 487,463	\$ (88,476)	(18.2%)

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Total revenues decreased \$88.5 million, or 18.2%, to \$399.0 million for the three months ended December 30, 2006 compared to \$487.5 million for the three months ended December 24, 2005, as a result of lower volumes across all business segments, offset to an extent by higher average selling prices. Volumes in our propane, fuel oil and refined fuels and natural gas and electricity segments were negatively affected during the first quarter of fiscal 2007 by unseasonably warm weather. Average temperatures in our service territories were 13% warmer than normal for the three months ended December 30, 2006 compared to 5% warmer than normal temperatures in the prior year quarter, and average temperatures in the month of December 2006 were 19% warmer than normal compared to 6% colder than normal during December of the prior year.

Revenues from the distribution of propane and related activities of \$286.9 million in the first quarter of fiscal 2007 decreased \$23.4 million, or 7.5%, compared to \$310.3 million in the prior year quarter, primarily due to lower volumes attributable primarily to warm weather in the first quarter of fiscal 2007, offset to an extent by slightly higher average selling prices. Retail propane gallons sold in the first quarter of fiscal 2007 decreased 12.0 million gallons, or 9.0%, to 121.8 million gallons from 133.8 million gallons in the prior year quarter. Propane volumes sold were negatively affected by the warmer than normal temperatures, particularly during the month of December 2006. The average posted price of propane during the first quarter of fiscal 2007 decreased approximately 10% compared to the average posted prices in the prior year quarter. However, average propane selling prices in the first quarter of fiscal 2007 increased 3.5% compared to the prior year quarter. Additionally, included within the propane segment are revenues from wholesale and risk management activities of \$19.4 million for the three months ended December 30, 2006 which decreased \$5.0 million compared to the prior year quarter.

Revenues from the distribution of fuel oil and refined fuels of \$68.9 million in the first quarter of fiscal 2007 decreased \$36.4 million, or 34.6%, from \$105.3 million in the prior year quarter. Sales of fuel oil and refined fuels amounted to 28.5 million gallons during the first quarter of fiscal 2007 compared to 43.8 million gallons in the prior year quarter, a decrease of 15.3 million gallons, or 34.9%. Lower volumes in our fuel oil and refined fuels segment were attributable primarily to our decision to exit certain lower margin diesel and gasoline businesses combined with the impact of the significantly warmer than normal temperatures. 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 7.1 million gallons, or 46.4% of the total volume decline, in the first quarter of fiscal 2007 compared to the prior year first quarter. Average selling prices in our fuel oil and refined fuels segment were relatively flat in the first quarter of fiscal 2007 compared to the prior year first quarter primarily as a result of an improved customer mix from our decreased emphasis on lower priced diesel and gasoline businesses, offset by lower commodity prices. The average posted price of fuel oil during the first quarter of fiscal 2007 decreased approximately 5% compared to the average posted prices in the prior year quarter.

Revenues in our natural gas and electricity segment decreased \$15.2 million, or 40.1%, to \$22.7 million for the three months ended December 30, 2006 compared to \$37.9 million in the prior year quarter as a result of lower electricity and natural gas volumes attributable to warmer temperatures coupled with lower average selling prices in line with declining commodity prices. Revenues in our HVAC segment decreased 40.9% to \$18.5 million in the first quarter of fiscal 2007 from \$31.2 million in the prior year quarter as a result of the decision during the third quarter of fiscal 2006 to reorganize the HVAC segment and to reduce the level of HVAC installation activities. The focus of our ongoing service offerings will be in support of our existing core commodity segments, thus reducing overall HVAC segment revenues.

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### Cost of Products Sold

(Dollars in thousands)	Three Months Ended		Decrease	Percent Decrease
	December 30, 2006	December 24, 2005		
Cost of products sold				
Propane	\$ 158,473	\$ 190,011	\$ (31,538)	(16.6%)
Fuel oil and refined fuels	47,457	78,670	(31,213)	(39.7%)
Natural gas and electricity	18,304	33,968	(15,664)	(46.1%)
HVAC	5,677	11,836	(6,159)	(52.0%)
All other	963	1,358	(395)	(29.1%)
Total cost of products sold	\$ 230,874	\$ 315,843	\$ (84,969)	(26.9%)
As a percent of total revenues	57.9%	64.8%		

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, as well as the cost of natural gas and electricity, 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 appliances and related parts sold or installed by our customer service centers computed on a basis that approximates the average cost of the products. 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. 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 \$85.0 million, or 26.9%, to \$230.9 million for the three months ended December 30, 2006 compared to \$315.8 million in the prior year quarter. The decrease results primarily from the lower sales volumes described above, combined with lower commodity prices for all products. Cost of products sold in the fiscal 2007 first quarter included a \$1.0 million unrealized (non-cash) loss representing the net change in the fair value of derivative instruments during the period, compared to a \$7.0 million unrealized (non-cash) gain in the prior year quarter resulting in an \$8.0 million increase in cost of products sold for the three months ended December 30, 2006 compared to the prior year quarter (see Item 3 in this Quarterly Report for information on our policies regarding the accounting for derivative instruments).



Cost of products sold associated with the distribution of propane and related activities of \$158.5 million decreased \$31.5 million, or 16.6%, compared to the prior year quarter. Lower propane volumes resulted in a \$14.9 million decrease in cost of products sold during the first quarter of fiscal 2007 compared to the prior year quarter, along with decreased propane product costs which had an impact of \$7.9 million. Lower wholesale and risk management activities, noted above, decreased cost of products sold by \$8.8 million compared to the prior year quarter.

Cost of products sold associated with our fuel oil and refined fuels segment of \$47.5 million decreased \$31.2 million, or 39.7%, compared to the prior year quarter. Lower sales volumes resulted in a \$30.0 million decrease in cost of products sold during the first quarter of fiscal 2007 compared to the prior year quarter, along with lower commodity prices which had an impact of \$2.0 million compared to the prior year quarter. Cost of products sold as a percentage of revenues in our fuel oil and refined fuels segment decreased from 74.7% during the first quarter of fiscal 2006 to 68.9% in the first quarter of fiscal 2007 primarily as a result of the aforementioned improvement in product mix resulting from our exit from certain lower margin diesel and gasoline businesses.

The decrease in revenues attributable to our natural gas and electricity segment had a \$15.7 million impact on cost of products sold for the three months ended December 30, 2006 compared to the prior year quarter. Cost of products sold in our HVAC segment declined \$6.2 million, or 52.0%, as a result of lower revenues.

For the quarter ended December 30, 2006, total cost of products sold represented 57.9% of revenues compared to 64.8% in the prior year quarter. This decrease results primarily from the efforts

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we have taken to eliminate lower margin business in the propane and refined fuels segments, as well as from additional margin opportunities from our wholesale and risk management activities during the first quarter of fiscal 2007 arising from the declining commodities markets.

### Operating Expenses

	Three Months Ended		Decrease	Percent Decrease
	December 30, 2006	December 24, 2005		
(Dollars in thousands)				
Operating expenses	\$ 84,060	\$ 100,261	\$ (16,201)	(16.2%)
As a percent of total revenues	21.1%	20.6%		

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 our customer service centers.

Operating expenses of \$84.1 million for the three months ended December 30, 2006 decreased \$16.2 million, or 16.2%, compared to \$100.3 million in the prior year quarter, primarily from the benefits of our field realignment

efforts which began during the fourth quarter of fiscal 2005 and continued throughout fiscal 2006, as well as from the steps taken in the second half of fiscal 2006 to restructure our HVAC segment. These efforts have significantly restructured our operating footprint and reduced our cost structure through the elimination of more than 400 positions, as well as through the creation of routing efficiencies which has allowed us to reduce our fleet by nearly 750 vehicles. As a result, payroll and benefit related expenses declined \$10.2 million and savings in other operating expenses were \$5.4 million. In addition, bad debt expense decreased \$0.6 million.

#### General and Administrative Expenses

(Dollars in thousands)	Three Months Ended		Decrease	Percent Decrease
	December 30, 2006	December 24, 2005		
General and administrative expenses	\$ 12,902	\$ 14,216	\$ (1,314)	(9.2%)
As a percent of total revenues	3.2%	2.9%		

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 \$12.9 million for the three months ended December 30, 2006 decreased \$1.3 million, or 9.2%, compared to \$14.2 million during the prior year quarter. The decrease was primarily attributable to \$2.8 million lower professional services fees, offset by higher variable compensation in line with improved earnings. In addition, general and administrative expenses for the three months ended December 30, 2006 included a \$2.0 million gain from our recovery of a substantial portion of legal fees previously incurred in connection with our successful defense of a matter following the 1999 acquisition of certain propane assets from SCANA in North and South Carolina (see Note 11).

**Restructuring Costs.** For the three months ended December 30, 2006, we recorded a restructuring charge of \$0.4 million related primarily to employee termination costs incurred as a result of further refinements to our plan to restructure our HVAC business segment.

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#### Depreciation and Amortization

(Dollars in thousands)	Three Months Ended		Decrease	Percent Decrease
	December 30, 2006	December 24, 2005		
Depreciation and amortization	\$ 7,136	\$ 8,211	\$ (1,075)	(13.1%)

As a percent of total revenues 1.8% 1.7%

Depreciation and amortization expense decreased \$1.1 million, or 13.1%, to \$7.1 million for the three months ended December 30, 2006, compared to \$8.2 million in the prior year quarter as a result of lower depreciation attributable to asset retirements.

Interest Expense, net

	Three Months Ended		Decrease	Percent Decrease
	December 30, 2006	December 24, 2005		
(Dollars in thousands)				
Interest expense, net	\$ 9,216	\$ 10,567	\$ (1,351)	(12.8%)
As a percent of total revenues	2.3%	2.2%		

Net interest expense decreased \$1.4 million, or 12.8%, to \$9.2 million for the three months ended December 30, 2006, compared to \$10.6 million in the prior year quarter. The decrease results primarily from lower average amounts outstanding under our working capital facility during the first quarter of fiscal 2007. During the first quarter of fiscal 2007, there were no borrowings under our working capital facility as seasonal working capital needs have been funded through improved cash flow and cash on hand at the end of fiscal 2006, resulting in lower interest expense. In the prior year first quarter, we ended the quarter with \$63.0 million outstanding under our working capital facility.

**Net Income and EBITDA.** Net income for the three months ended December 30, 2006 amounted to \$54.7 million, an improvement of \$16.5 million, or 43.2%, compared to the prior year quarter net income of \$38.2 million. EBITDA also improved to \$71.8 million for the three months ended December 30, 2006 compared to an EBITDA (as defined below) in the prior year quarter of \$57.1 million. Our net income and EBITDA improved, despite lower sales volumes in all operating segments, primarily as a result of our efforts to streamline the operating footprint, implement operating efficiencies and identify cost savings opportunities from our internal focus on our field realignment.

EBITDA represents net income before deducting interest expense, income taxes, depreciation and amortization. Our management uses EBITDA as a measure of liquidity and we are including 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 used in 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 used in operating activities:

	Three Months Ended	
	December 30, 2006	December 24, 2005
(Dollars in thousands)		
Net income	\$ 54,654	\$ 38,215
Add:		
Provision for income taxes	762	150
Interest expense, net	9,216	10,567
Depreciation and amortization	7,136	8,211
EBITDA	71,768	57,143
Add/(subtract):		
Provision for income taxes	(762)	(150)
Interest expense, net	(9,216)	(10,567)
Compensation cost recognized under Restricted Unit Plan	1,297	615
Gain on disposal of property, plant and equipment, net	(247)	(44)
Gain on exchange of customer service centers	(1,002)	—
Changes in working capital and other assets and liabilities	(67,731)	(55,929)
Net cash (used in)/provided by		
Operating activities	\$ (5,893)	\$ (8,932)
Investing activities	\$ (6,663)	\$ (5,938)
Financing activities	\$ (21,637)	\$ 17,088

#### Liquidity and Capital Resources

##### Analysis of Cash Flows

**Operating Activities.** Due to the seasonal nature of the propane and fuel oil businesses, cash flows from operating activities are 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 three months ended December 30, 2006, net cash used by operating activities was \$5.9 million improved \$3.0 million compared to net cash used in operating activities of \$8.9 million for the first three months of the prior year. The \$3.0 million improvement in operating cash flows was attributable to a \$14.8 million increase in earnings, after adjusting for non-cash items in both periods (depreciation, amortization and gains on disposal of assets), partially offset by an \$11.8 million increased investment in working capital in comparison to the first quarter of the prior year. The increased investment in working capital was primarily attributable to the payment of variable compensation during the first quarter of fiscal 2007 following the fiscal 2006 earnings compared to lower variable compensation paid during the first quarter of the prior fiscal year in respect of fiscal 2005.

**Investing Activities.** Net cash used in investing activities of \$6.7 million for the three months ended December 30, 2006 consists of capital expenditures of \$8.2 million (including \$2.2 million for maintenance expenditures and \$6.0 million to support the growth of operations), partially offset by the net proceeds from the sale of property, plant and equipment of \$1.5 million. Net cash used in investing activities of \$5.9 million for the three months ended December 24, 2005 consisted of capital expenditures of \$6.2 million (including \$1.8 million for maintenance expenditures and \$4.4 million to support growth of operations), partially offset by the net proceeds from the sale of property, plant and equipment of \$0.3 million.

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Financing Activities. Net cash used in financing activities for the three months ended December 30, 2006 of \$21.6 million reflects quarterly distributions to Common Unitholders at a rate of \$0.6625 per Common Unit paid in respect of the fourth quarter of fiscal 2006. Net cash provided by financing activities for the three months ended December 24, 2005 of \$17.1 million reflected borrowings of \$36.3 million under our Revolving Credit Agreement in order to fund increased working capital needs during the fiscal 2006 heating season, offset by quarterly distributions of Common Unitholders and the General Partner at a rate of \$0.6125 per Common Unit in respect of the fourth quarter of fiscal 2005 of \$19.2 million.

Summary of Long-Term Debt Obligations and Revolving Credit Lines

Our long-term borrowings and revolving credit lines consist of \$423.4 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. There were no outstanding borrowings under the working capital facility as of December 30, 2006. We have standby letters of credit issued under the working capital facility of the Revolving Credit Agreement in the aggregate amount of \$49.1 million in support of retention levels under our self-insurance programs and certain lease obligations. Therefore, as of December 30, 2006 we had available borrowing capacity of \$125.9 million under the working capital facility of the Revolving Credit Agreement. Additionally, under the third amendment to the Revolving Credit Agreement our Operating Partnership is authorized to incur additional indebtedness of up to \$10.0 million in connection with capital leases and up to \$20.0 million in short-term borrowings during the period from December 1 to April 1 in each fiscal year in order to meet working capital needs during periods of peak demand, if necessary.

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 either LIBOR or Wachovia National Bank's prime rate plus, in each case, the 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 a notional amount of \$125.0 million with the issuing lender. Effective 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 of \$125.0 million, 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. 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 December 30,

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## Partnership Distributions

We will make distributions in an amount equal to all of our Available Cash, as defined in the Third Amended and Restated Partnership Agreement, approximately 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. As a result of the GP Exchange Transaction, all IDRs held by the General Partner have been cancelled and the General Partner is not entitled to receive any cash distributions in respect of its general partner interest. 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 the holders of Common Units.

On January 25, 2007, we announced a quarterly distribution of \$0.6875 per Common Unit, or \$2.75 on an annualized basis, in respect of the first quarter of fiscal 2007 payable on February 13, 2007 to holders of record on February 6, 2007. This quarterly distribution included an increase of \$0.025 per Common Unit, or \$0.10 per Common Unit on an annualized basis, representing the twelfth increase since our recapitalization in 1999 and a 12% increase in the quarterly distribution rate since the first quarter of the prior year.

## Debt Obligations and Other Commitments

The following table presents short-term and long-term debt obligations, cash interest and future minimum rental commitments due under noncancelable operating lease agreements as of December 30, 2006. For purposes of determining cash interest due under the Term Loan, a variable interest debt instrument, we have used the interest rate in effect as of December 30, 2006, taking into consideration the impact of the interest rate swap described above.

	Payments due by period					Total
	Remainder of Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011 and thereafter	
(Dollars in thousands)						
Short-term and long-term debt	\$ —	\$ —	\$ —	\$ 125,000	\$ 423,362	\$ 548,362
Future interest payments	19,309	38,619	38,619	36,269	102,266	235,082
Operating leases	13,496	12,496	8,814	6,128	6,672	47,606
Total debt obligations, cash interest and lease commitments	\$ 32,805	\$ 51,115	\$ 47,433	\$ 167,397	\$ 532,300	\$ 831,050

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 only receive interest credits toward their ultimate retirement

benefit. At December 30, 2006, we had accrued pension obligations of \$32.1 million. 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 December 30, 2006, we had accrued retiree health and life benefits of \$30.4 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 December 30, 2006, we had accrued insurance liabilities of \$38.3 million, net of a \$16.7 million asset related to the amount of the liability expected to be covered by insurance carriers. Additionally, we have standby letters of credit in the aggregate amount of \$49.1 million, in support of our casualty insurance coverage and certain lease obligations, which expire periodically through October 25, 2007.

Additionally, we have residual value guarantees associated with certain of our operating leases, related primarily to transportation equipment, with remaining lease periods scheduled to expire

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periodically through fiscal 2014. 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 difference. Although the equipment's fair value 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 \$16.1 million. Of this amount, the fair value of residual value guarantees for operating leases entered into after December 31, 2002 were \$9.4 million and \$8.3 million as of December 30, 2006 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.

## Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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. SFAS 157 will be effective September 28, 2008, the beginning of our fiscal 2009. We are currently in the process of evaluating the impact that SFAS 157 may have on our consolidated financial position, results of operations and cash flows.

Also 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 our fiscal 2007. Based on our 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 our 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 our 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 and other possible changes in actuarial assumptions that may occur in connection with the upcoming fiscal 2007 measurement date.

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 is the beginning of our fiscal 2008. We are currently in the process of assessing the impact that FIN 48 will have on our consolidated financial statements and currently do not expect that adoption of FIN 48 will have a material impact on our financial position, results of operation or cash flows.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 30, 2006, we were a party to 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 our operations, principally propane and fuel oil. Futures and forward contracts require that we sell or acquire propane or fuel oil at a fixed price 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. The contracts are entered into in anticipation of market movements and to manage and hedge exposure to fluctuating prices of propane and fuel oil, as well as to ensure the availability of product during periods of high demand.

#### 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 the trading of 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.

#### 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 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 credit risk of non-performance.

#### Interest Rate Risk

A portion of our 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 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. 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 December 30, 2006, the fair value of the interest rate swap was \$1.3 million representing an unrealized gain and is included within other assets.

#### Derivative Instruments and Hedging Activities

We account for derivative instruments in accordance with the provisions of SFAS 133. All derivative instruments are reported on the balance sheet, within other current assets or other current liabilities, at their fair values. Fair values for forward contracts and futures are derived from quoted market prices for similar instruments traded on the NYMEX. Fair values for option contracts are derived using generally accepted published option pricing models. 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

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

At December 30, 2006, the fair value of derivative instruments described above resulted in derivative assets (unrealized gains) of \$9.0 million included within prepaid expenses and other current assets and derivative liabilities (unrealized losses) of \$3.1 million included within other current liabilities. Cost of products sold included unrealized (non-cash) losses in the amount of \$1.0 million for the three months ended December 30, 2006 compared to unrealized (non-cash) gains of \$7.0 million for the three months ended December 24, 2005, attributable to the change in fair value of derivative instruments not designated as cash flow hedges. As of December 30, 2006, unrealized losses on derivative instruments designated as cash flow hedges in the amount of \$2.0 million were included in OCI and are expected to be recognized in earnings during the next 12 months as the hedged transactions occur.

#### Sensitivity Analysis

In an effort to estimate our exposure to unfavorable market price changes in propane or fuel oil, a sensitivity analysis of open positions as of December 30, 2006 was performed. Based on this analysis, a hypothetical 10% adverse change

in market prices for each of the future months for which a futures, forward and/or option contract exists indicates either a reduction in potential future gains or potential losses in future earnings of \$5.5 million as of December 30, 2006. See also Item 7A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

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 at any given point in time.

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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 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 December 30, 2006. Based on this evaluation, the Partnership's principal executive officer and principal financial officer have concluded that as of December 30, 2006, 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 December 30, 2006 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 Release and Waiver of All Claims, dated January 31, 2007, between Suburban Propane, L.P. and Jeffrey S. Jolly.
- 10.2 Employment Agreement, dated as of February 1, 2007, by and between Suburban Propane, L.P. and Michael J. Dunn, Jr.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Vice President and Chief Financial Officer.

- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of the Vice President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

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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.

February 8, 2007	SUBURBAN PROPANE PARTNERS, L.P.
Date	By: /s/ ROBERT M. PLANTE
	Robert M. Plante
	Vice President and Chief Financial Officer
February 8, 2007	By: /s/ MICHAEL A. STIVALA
Date	Michael A. Stivala
	Controller and Chief Accounting Officer

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