

AMERIGAS PARTNERS LP

Form 10-Q

February 08, 2007

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**For the quarterly period ended December 31, 2006
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-13692

AMERIGAS PARTNERS, L.P.

(Exact name of registrant as specified in its charters)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-2787918
(I.R.S. Employer
Identification No.)

460 North Gulph Road, King of Prussia, PA 19406
(Address of principal executive offices) (Zip Code)
(610) 337-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At January 31, 2007, there were 56,822,497 Common Units of AmeriGas Partners, L.P. outstanding.

AMERIGAS PARTNERS, L.P.
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AMERIGAS PARTNERS, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(Thousands of dollars)

	December 31, 2006	September 30, 2006	December 31, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 27,166	\$ 84,775	\$ 33,070
Accounts receivable (less allowances for doubtful accounts of \$15,169, \$14,460 and \$14,658, respectively)	237,486	171,091	278,920
Accounts receivable related parties	4,107	3,104	2,943
Inventories	111,994	99,836	112,907
Derivative financial instruments	5	12	15,543
Prepaid expenses and other current assets	9,530	9,391	13,403
Total current assets	390,288	368,209	456,786
Property, plant and equipment (less accumulated depreciation and amortization of \$637,920, \$622,684 and \$584,516, respectively)	582,670	580,592	584,810
Goodwill	619,938	619,938	619,052
Intangible assets (less accumulated amortization of \$26,172, \$25,216 and \$21,871, respectively)	24,728	25,608	28,332
Other assets	16,872	17,420	13,819
Total assets	\$ 1,634,496	\$ 1,611,767	\$ 1,702,799
LIABILITIES AND PARTNERS CAPITAL			
Current liabilities:			
Current maturities of long-term debt	\$ 1,635	\$ 1,825	\$ 152,838
Accounts payable trade	192,544	143,528	221,321
Accounts payable related parties	4,193	3,530	7,822
Customer deposits and advances	77,039	103,329	72,067
Employee compensation and benefits accrued	17,657	28,279	22,153
Interest accrued	12,233	23,373	15,922
Derivative financial instruments	25,086	25,778	7,974
Other current liabilities	49,100	50,514	47,873
Total current liabilities	379,487	380,156	547,970
Long-term debt	931,644	931,921	759,791
Other noncurrent liabilities	69,908	67,739	63,717
Commitments and contingencies (note 3) Minority interests	10,545	10,448	8,404
Partners capital	242,912	221,503	322,917
Total liabilities and partners capital	\$ 1,634,496	\$ 1,611,767	\$ 1,702,799

See accompanying notes to condensed consolidated financial statements.

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AMERIGAS PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(Thousands of dollars, except per unit)

	Three Months Ended December 31,	
	2006	2005
Revenues:		
Propane	\$ 569,924	\$ 588,357
Other	46,667	41,867
	616,591	630,224
Costs and expenses:		
Cost of sales propane	370,995	391,974
Cost of sales other	17,711	15,815
Operating and administrative expenses	138,450	133,438
Depreciation and amortization	18,567	18,253
Other income, net	(4,392)	(3,921)
	541,331	555,559
Operating income	75,260	74,665
Interest expense	(17,973)	(18,919)
Income before income taxes and minority interests	57,287	55,746
Income tax expense	(911)	(51)
Minority interests	(736)	(682)
Net income	\$ 55,640	\$ 55,013
General partner's interest in net income	\$ 5,842	\$ 5,536
Limited partners' interest in net income	\$ 49,798	\$ 49,477
Net income per limited partner unit basic and diluted	\$ 0.88	\$ 0.87
Average limited partner units outstanding (thousands):		
Basic	56,806	56,797
Diluted	56,846	56,840

See accompanying notes to condensed consolidated financial statements.

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AMERIGAS PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(Thousands of dollars)

	Three Months Ended December 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 55,640	\$ 55,013
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	18,567	18,253
Other, net	1,634	2,536
Net change in:		
Accounts receivable	(69,444)	(121,381)
Inventories	(12,149)	(22,159)
Accounts payable	48,675	89,723
Other current assets and liabilities	(47,071)	(38,605)
Net cash used by operating activities	(4,148)	(16,620)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(21,536)	(18,084)
Proceeds from disposals of assets	2,208	2,217
Acquisitions of businesses, net of cash acquired	(146)	(551)
Net cash used by investing activities	(19,474)	(16,418)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions	(33,280)	(32,128)
Minority interest activity	(624)	(502)
Issuance of long-term debt	70	
Repayment of long-term debt	(417)	(571)
Proceeds from issuance of Common Units	261	146
Capital contribution from the General Partner	3	1
Net cash used by financing activities	(33,987)	(33,054)
Cash and cash equivalents decrease	\$ (57,609)	\$ (66,092)
CASH AND CASH EQUIVALENTS:		
End of period	\$ 27,166	\$ 33,070
Beginning of period	84,775	99,162
Decrease	\$ (57,609)	\$ (66,092)

See accompanying notes to condensed consolidated financial statements.

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AMERIGAS PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL
(unaudited)
(Thousands, except unit data)

	Number of Common Units	Common	General partner	Accumulated other comprehensive loss	Total partners capital
Balance September 30, 2006	56,797,105	\$ 250,493	\$ 2,525	\$ (31,515)	\$ 221,503
Net income		49,798	5,842		55,640
Net losses on derivative instruments				(12,125)	(12,125)
Reclassification of net losses on derivative instruments				10,851	10,851
Comprehensive income		49,798	5,842	(1,274)	54,366
Distributions		(32,947)	(333)		(33,280)
Unit based compensation expense		59			59
Common Units issued in connection with incentive compensation plan	8,500	261	3		264
Balance December 31, 2006	56,805,605	\$ 267,664	\$ 8,037	\$ (32,789)	\$ 242,912

See accompanying notes to condensed consolidated financial statements.

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AMERIGAS PARTNERS, L.P.

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars, except per unit)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of AmeriGas Partners, L.P. (AmeriGas Partners) and its principal operating subsidiaries AmeriGas Propane, L.P. (AmeriGas OLP) and AmeriGas OLP's subsidiary, AmeriGas Eagle Propane, L.P. (Eagle OLP). AmeriGas Partners, AmeriGas OLP and Eagle OLP are Delaware limited partnerships. AmeriGas OLP and Eagle OLP are collectively referred to herein as the Operating Partnerships, and AmeriGas Partners, the Operating Partnerships and all of their subsidiaries are collectively referred to herein as the Partnership or we. We eliminate all significant intercompany accounts and transactions when we consolidate. We account for AmeriGas Propane, Inc.'s (the General Partner's) 1.01% interest in AmeriGas OLP and an unrelated third party's approximate 0.1% limited partner interest in Eagle OLP as minority interests in the condensed consolidated financial statements.

AmeriGas Finance Corp., AmeriGas Eagle Finance Corp. and AP Eagle Finance Corp. are wholly-owned finance subsidiaries of AmeriGas Partners. Their sole purpose is to serve as co-obligors for debt securities issued by AmeriGas Partners, L.P.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). They include all adjustments which we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2006 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the year ended September 30, 2006 (2006 Annual Report). Weather significantly impacts demand for propane and profitability because many customers use propane for heating purposes. Due to the seasonal nature of the Partnership's propane business, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Net Income Per Unit. Net income per unit is computed by dividing net income, after deducting the General Partner's interest in AmeriGas Partners, by the weighted average number of limited partner units outstanding. This interest is calculated in accordance with the provisions in the Partnership Agreement governing cash distributions. The percentage of cash distributions to the General Partner increases after certain target distributions have been made to the limited partners.

The Partnership follows the provisions in Emerging Issues Task Force Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128 (EITF 03-6), which results in the calculation of net income per limited partner unit for each period according to distributions declared and participation rights in undistributed earnings, as if all of the earnings

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AMERIGAS PARTNERS, L.P.
Notes to Condensed Consolidated Financial Statements
(unaudited)

(Thousands of dollars, except per unit)

for the period had been distributed. In periods with undistributed earnings above certain levels, the calculation according to the two-class method results in an increased allocation of undistributed earnings to the General Partner and a dilution of the earnings to the limited partners. Due to the seasonality of the propane business, the dilutive effect of EITF 03-6 on net income per limited partner unit will typically, but not necessarily, impact our first three fiscal quarters. The dilutive effect of EITF 03-6 on net income per diluted limited partner unit was \$(0.09) for both the three months ended December 31, 2006 and 2005. Because EITF 03-6 can impact the calculation of net income per limited partner unit on a quarterly basis but normally does not affect the calculation on an annual basis, annual net income per limited partner unit will generally not equal the sum of net income per limited partner unit for each of the Partnership's quarterly periods.

Potentially dilutive Common Units included in the diluted limited partner units outstanding computation reflect the effects of restricted Common Unit awards granted under the General Partner's incentive compensation plans.

Comprehensive Income. The following table presents the components of comprehensive income for the three months ended December 31, 2006 and 2005:

	Three Months Ended December 31,	
	2006	2005
Net income	\$ 55,640	\$ 55,013
Other comprehensive loss	(1,274)	(37,532)
Comprehensive income	\$ 54,366	\$ 17,481

Other comprehensive loss is principally the result of changes in the fair value of propane commodity derivative instruments and interest rate protection agreements, net of reclassifications of net gains and losses to net income.

Reclassifications. We have reclassified certain prior-year balances to conform to the current period presentation.

Use of Estimates. We make estimates and assumptions when preparing financial statements in conformity with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

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AMERIGAS PARTNERS, L.P.
Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars, except per unit)

2. Related Party Transactions

Pursuant to the Partnership Agreement and a Management Services Agreement among AmeriGas Eagle Holdings, Inc., the general partner of Eagle OLP, and the General Partner, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of the Partnership. These costs, which totaled \$83,067 and \$78,652 during the three months ended December 31, 2006 and 2005, respectively, include employee compensation and benefit expenses of employees of the General Partner and general and administrative expenses.

UGI provides certain financial and administrative services to the General Partner. UGI bills the General Partner for all direct and indirect corporate expenses incurred in connection with providing these services and the General Partner is reimbursed by the Partnership for these expenses. Such corporate expenses totaled \$2,322 and \$787 during the three months ended December 31, 2006 and 2005, respectively. In addition, UGI and certain of its subsidiaries (excluding Atlantic Energy which is discussed separately) provide office space and automobile liability insurance and sell propane to the Partnership. These costs totaled \$668 and \$864 during the three months ended December 31, 2006 and 2005, respectively.

AmeriGas OLP purchases propane from Atlantic Energy, which is owned by an affiliate of UGI. Purchases of propane by AmeriGas OLP from Atlantic Energy during the three months ended December 31, 2006 and 2005 totaled \$8,587 and \$12,256, respectively. Amounts due to Atlantic Energy totaled \$4,134, \$3,115 and \$7,822 at December 31, 2006, September 30, 2006 and December 31, 2005, respectively, and are reflected in accounts payable related parties in the Condensed Consolidated Balance Sheets.

3. Commitments and Contingencies

On August 21, 2001, AmeriGas Partners, through AmeriGas OLP, acquired the propane distribution businesses of Columbia Energy Group (the 2001 Acquisition) pursuant to the terms of a purchase agreement (the 2001 Acquisition Agreement) by and among Columbia Energy Group (CEG), Columbia Propane Corporation (Columbia Propane), Columbia Propane, L.P. (CPLP), CP Holdings, Inc. (CPH, and together with Columbia Propane and CPLP, the Company Parties), AmeriGas Partners, AmeriGas OLP and the General Partner (together with AmeriGas Partners and AmeriGas OLP, the Buyer Parties). As a result of the 2001 Acquisition, AmeriGas OLP acquired all of the stock of Columbia Propane and CPH and substantially all of the partnership interests of CPLP. Under the terms of an earlier acquisition agreement (the 1999 Acquisition Agreement), the Company Parties agreed to indemnify the former general partners of National Propane Partners, L.P. (a predecessor company of the Columbia Propane businesses) and an affiliate (collectively, National General Partners) against certain income tax and other losses that they may sustain as a result of the 1999 acquisition by CPLP of National Propane Partners, L.P. (the 1999 Acquisition) or the operation of the business after the 1999 Acquisition (National Claims). At December 31, 2006, the potential amount payable under this indemnity by the Company Parties was approximately \$58,000. These indemnity obligations will expire on the date that CPH acquires the remaining outstanding partnership interest of CPLP, which is expected to occur on or after July 19, 2009.

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Notes to Condensed Consolidated Financial Statements

(unaudited)

(Thousands of dollars, except per unit)

Under the terms of the 2001 Acquisition Agreement, CEG agreed to indemnify the Buyer Parties and the Company Parties against any losses that they sustain under the 1999 Acquisition Agreement and related agreements (Losses), including National Claims, to the extent such claims are based on acts or omissions of CEG or the Company Parties prior to the 2001 Acquisition. The Buyer Parties agreed to indemnify CEG against Losses, including National Claims, to the extent such claims are based on acts or omissions of the Buyer Parties or the Company Parties after the 2001 Acquisition. CEG and the Buyer Parties have agreed to apportion certain losses resulting from National Claims to the extent such losses result from the 2001 Acquisition itself.

Samuel and Brenda Swiger and their son (the Swigers) sustained personal injuries and property damage as a result of a fire that occurred when propane that leaked from an underground line ignited. In July 1998, the Swigers filed a class action lawsuit against AmeriGas Propane, L.P. (named incorrectly as UGI/AmeriGas, Inc.), in the Circuit Court of Monongalia County, West Virginia, in which they sought to recover an unspecified amount of compensatory and punitive damages and attorney s fees, for themselves and on behalf of persons in West Virginia for whom the defendants had installed propane gas lines, allegedly resulting from the defendants failure to install underground propane lines at depths required by applicable safety standards. In 2003, we settled the individual personal injury and property damage claims of the Swigers. In 2004, the court granted the plaintiffs motion to include customers acquired from Columbia Propane in August 2001 as additional potential class members and the plaintiffs amended their complaint to name additional parties pursuant to such ruling. Subsequently, in March 2005, we filed a cross-claim against CEG, former owner of Columbia Propane, seeking indemnification for conduct undertaken by Columbia Propane prior to our acquisition. Class counsel has indicated that the class is seeking compensatory damages in excess of \$12,000 plus punitive damages, civil penalties and attorneys fees. We believe we have good defenses to the claims of the class members and intend to defend against the remaining claims in this lawsuit.

We also have other contingent liabilities, pending claims and legal actions arising in the normal course of our business. We cannot predict with certainty the final results of these and the aforementioned matters. However, it is reasonably possible that some of them could be resolved unfavorably to us and result in losses in excess of recorded amounts. We are unable to estimate any such possible excess losses. Although management currently believes, after consultation with counsel, that damages or settlements, if any, recovered by the plaintiffs in such claims or actions will not have a material adverse effect on our financial position, damages or settlements could be material to our operating results or cash flows in future periods depending on the nature and timing of future developments with respect to these matters and the amounts of future operating results and cash flows.

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

FORWARD-LOOKING STATEMENTS

Information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report may contain forward-looking statements. Such statements use forward-looking words such as believe, plan, anticipate, continue, estimate, expect, may, will, or other similar words. They discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors which could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) cost volatility and availability of propane, and the capacity to transport propane to our market areas; (3) changes in laws and regulations, including safety, tax and accounting matters; (4) competitive pressures from the same and alternative energy sources; (5) failure to acquire new customers thereby reducing or limiting any increase in revenues; (6) liability for environmental claims; (7) increased customer conservation measures due to high energy prices and improvements in energy efficiency and technology resulting in reduced demand; (8) adverse labor relations; (9) large customer, counterparty or supplier defaults; (10) liability in excess of insurance coverage for personal injury and property damage arising from explosions and other catastrophic events, including acts of terrorism, resulting from operating hazards and risks incidental to transporting, storing and distributing propane, butane and ammonia; (11) political, regulatory and economic conditions in the United States and foreign countries; and (12) reduced access to capital markets and interest rate fluctuations.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events except as required by the federal securities laws.

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ANALYSIS OF RESULTS OF OPERATIONS

The following analysis compares the Partnership's results of operations for the three months ended December 31, 2006 (2006 three-month period) with the three months ended December 31, 2005 (2005 three-month period).

Executive Overview

The Partnership's results are largely seasonal and dependent upon weather conditions, particularly during the peak-heating season, which occurs in the first half of our fiscal year. As a result, our net income is generally higher in our first and second fiscal quarters whereas lower net income or net losses occur in our third and fourth fiscal quarters. Temperatures during the 2006 three-month period were 8.6% warmer than normal and 4.6% warmer than the prior-year period.

The Partnership reported net income of \$55.6 million during the 2006 three-month period, an increase of \$0.6 million compared to the prior-year period. The 2006 three-month results include the effect of a \$5.0 million increase in operating and administrative expenses principally resulting from higher employee compensation and benefits expenses and repair and maintenance expenses. Although the Partnership experienced reduced volumes due to the warmer than normal weather, we were able to offset the related effects by managing customer pricing and product costs effectively.

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Three Months Ended December 31, (millions of dollars)	2006	2005	Increase (Decrease)	
Gallons sold (millions):				
Retail	282.9	291.9	(9.0)	(3.1)%
Wholesale	34.6	38.2	(3.6)	(9.4)%
	317.5	330.1	(12.6)	(3.8)%
Revenues:				
Retail propane	\$ 531.5	\$ 543.2	\$ (11.7)	(2.2)%
Wholesale propane	38.5	45.2	(6.7)	(14.8)%
Other	46.6	41.8	4.8	11.5%
	\$ 616.6	\$ 630.2	\$ (13.6)	(2.2)%
Total margin (a)	\$ 227.9	\$ 222.4	\$ 5.5	2.5%
EBITDA (b)	\$ 93.1	\$ 92.2	\$ 0.9	1.0%
Operating income	\$ 75.3	\$ 74.7	\$ 0.6	0.8%
Net income	\$ 55.6	\$ 55.0	\$ 0.6	1.1%
Heating degree days % warmer than normal (c)	8.6	4.1		

(a) Total margin represents total revenues less cost of sales propane and cost of sales other.

(b) EBITDA (earnings before interest expense, income taxes, depreciation and amortization) should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under accounting principles generally accepted in the United States of America (GAAP). Management believes EBITDA is a meaningful non-GAAP financial measure used by investors to compare the Partnership s operating performance with that of other companies within the propane industry and to evaluate the Partnership s ability to meet loan covenants. The Partnership s definition of EBITDA may be different from that used by other companies. Weather significantly impacts demand for propane and profitability because many customers use propane for heating purposes. Due to the seasonal nature of the Partnership s propane business, EBITDA for interim periods is not necessarily indicative of amounts to be expected for a full year.

The following table includes reconciliations of net income to EBITDA for the periods presented:

	Three Months Ended December 31,	
	2006	2005
Net income	\$ 55.6	\$ 55.0
Income tax expense	0.9	0.1
Interest expense	18.0	18.9
Depreciation	17.6	16.9
Amortization	1.0	1.3
EBITDA	\$ 93.1	\$ 92.2

- (c) Deviation from average heating degree days based upon national weather statistics provided by the National Oceanic and Atmospheric Administration (NOAA) for 335 airports in the United States, excluding Alaska.

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AMERIGAS PARTNERS, L.P.

Based upon heating degree-day data, temperatures were 8.6% warmer than normal and 4.6% warmer than the prior-year period. Retail propane volumes sold decreased approximately 3% principally due to the warmer weather.

Retail propane revenues decreased \$11.7 million reflecting a \$16.7 million decrease due to the lower retail volumes sold partially offset by a \$5.0 million increase due to higher average selling prices. Wholesale propane revenues decreased \$6.7 million reflecting a \$4.3 million decrease due to lower wholesale volumes sold and a \$2.4 million decrease resulting from lower average selling prices. Total cost of sales decreased to \$388.7 million in the 2006 three-month period from \$407.8 million in the 2005 three-month period, primarily reflecting the decreased volumes sold and a slight decrease in propane product costs. Total margin increased \$5.5 million compared to the 2005 three-month period principally due to higher average propane margins per gallon and higher fees in response to increases in operating and administrative expenses.

EBITDA during the 2006 three-month period was \$93.1 million compared to \$92.2 million during the 2005 three-month period. The \$0.9 million increase in EBITDA mainly reflects the increase in total margin partially offset by a \$5.0 million increase in operating and administrative expenses. Operating and administrative expenses increased principally due to higher employee compensation and benefits expenses and higher repair and maintenance expenses. Operating income increased \$0.6 million reflecting the previously mentioned increase in EBITDA partially offset by an increase in depreciation expense. Net income in the 2006 three-month period increased \$0.6 million reflecting the increase in operating income and a decrease in interest expense, partially offset by higher income tax expense related to certain corporate subsidiaries.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

The Partnership's long-term debt outstanding at December 31, 2006 totaled \$933.3 million (including current maturities of \$1.6 million) compared to \$933.7 million (including current maturities of \$1.8 million) at September 30, 2006.

AmeriGas OLP's Credit Agreement expires on October 15, 2011 and consists of (1) a \$125 million Revolving Credit Facility and (2) a \$75 million Acquisition Facility. The Revolving Credit Facility may be used for working capital and general purposes of AmeriGas OLP. The Acquisition Facility provides AmeriGas OLP with the ability to borrow up to \$75 million to finance the purchase of propane businesses or propane business assets or, to the extent it is not so used, for working capital and general purposes, subject to restrictions in the AmeriGas Partners Senior Notes indentures. AmeriGas OLP's short-term borrowing needs are seasonal and are typically greatest during the fall and winter heating-season months due to the need to fund higher levels of working capital. At December 31, 2006, there were no borrowings outstanding under the Credit Agreement. Issued and outstanding letters of credit under the Revolving Credit Facility, which reduce the amount of available borrowing capacity, totaled \$58.0 million and \$58.9 million at December 31, 2006 and 2005, respectively. The average daily and peak bank loan borrowings outstanding under the Credit Agreement during the 2006 three-month period were \$4.0 million and \$92.0 million, respectively. There were no significant borrowings under the Credit Agreement during the 2005 three-month period.

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AMERIGAS PARTNERS, L.P.

AmeriGas Partners periodically issues equity securities and may continue to do so. Proceeds from the Partnership's equity offerings have generally been used by the Partnership to reduce indebtedness and for general Partnership purposes, including funding acquisitions. The Partnership has an effective unallocated debt and equity shelf registration statement with the U.S. Securities and Exchange Commission (SEC) under which it may issue Common Units or Senior Notes due 2016 in underwritten public offerings.

The quarterly distribution of \$0.58 for the quarter ended December 31, 2006 will be paid on February 18, 2007 to holders of record on February 9, 2007. During the three months ended December 31, 2006, the Partnership declared and paid quarterly distributions on all limited partner units for the quarter ended September 30, 2006. The ability of the Partnership to declare and pay the quarterly distribution on its Common Units in the future depends upon a number of factors. These factors include (1) the level of Partnership earnings; (2) the cash needs of the Partnership's operations (including cash needed for maintaining and increasing operating capacity); (3) changes in operating working capital; and (4) the Partnership's ability to borrow under its Credit Agreement, to refinance maturing debt, and to increase its long-term debt. Some of these factors are affected by conditions beyond our control including weather, competition in markets we serve, the cost of propane and changes in capital market conditions.

Cash Flows

Operating activities. The Partnership had cash and cash equivalents totaling \$27.2 million at December 31, 2006 compared to \$84.8 million at September 30, 2006. Due to the seasonal nature of the propane business, cash flows from operating activities are generally strongest during the second and third fiscal quarters when customers pay for propane purchased during the heating season months. Conversely, operating cash flows are generally at their lowest levels during the first and fourth fiscal quarters when the Partnership's investment in working capital, principally accounts receivable and inventories, is generally greatest. Accordingly, cash flows from operating activities during the three months ended December 31, 2006 are not necessarily indicative of cash flows to be expected for a full year. The Partnership generally uses its Credit Agreement to satisfy its seasonal cash flow needs.

Cash flow used by operating activities was \$4.1 million during the 2006 three-month period compared to \$16.6 million during the 2005 three-month period. Cash flow from operating activities before changes in working capital was \$75.8 million in both the 2006 and 2005 three-month periods. Cash required to fund changes in operating working capital during the 2006 three-month period totaled \$80.0 million compared to the \$92.4 million required in the prior-year three-month period largely reflecting the effects of the warmer than normal weather.

Investing activities. We spent \$21.5 million for property, plant and equipment (including maintenance capital expenditures of \$7.3 million and growth capital expenditures of \$14.2 million) during the three months ended December 31, 2006 compared to \$18.1 million (including maintenance capital expenditures of \$5.4 million and growth capital expenditures of \$12.7 million) during the prior-year three-month period. This increase is due to greater expenditures relating to higher maintenance costs and growth initiatives. We received proceeds of \$2.2 million for the sale of assets during both the three months ended December 31, 2006 and 2005. Cash flow used for business acquisitions was not material for either the 2006 or 2005 three-month periods.

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AMERIGAS PARTNERS, L.P.

Financing activities. Cash flow used by financing activities was \$34.0 million in the 2006 three-month period compared to \$33.1 million in the prior-year period. The Partnership's financing activities are typically the result of repayments and issuances of long-term debt, borrowings under our Credit Agreement, issuances of Common Units and distributions on partnership interests.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary financial market risks are commodity prices for propane and interest rates on borrowings.

The risk associated with fluctuations in the prices the Partnership pays for propane is principally a result of market forces reflecting changes in supply and demand for propane and other energy commodities. The Partnership's profitability is sensitive to changes in propane supply costs, and the Partnership generally attempts to pass on increases in such costs to customers. The Partnership may not, however, always be able to pass through product cost increases fully, particularly when product costs rise rapidly. In order to reduce volatility of the Partnership's propane market price risk, we use contracts for the forward purchase or sale of propane, propane fixed-price supply agreements, and over-the-counter derivative commodity instruments including price swap and option contracts. Over-the-counter derivative commodity instruments utilized by the Partnership are generally settled at expiration of the contract. In order to minimize credit risk associated with derivative commodity contracts, we monitor established credit limits with the contract counterparties. Although we use derivative financial and commodity instruments to reduce market price risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes.

The Partnership has both fixed-rate and variable-rate debt. Changes in interest rates impact the cash flows of variable-rate debt but generally do not impact its fair value. Conversely, changes in interest rates impact the fair value of fixed-rate debt but do not impact its cash flows.

Our variable rate debt includes borrowings under AmeriGas OLP's Credit Agreement. This agreement has interest rates that are generally indexed to short-term market interest rates. Our long-term debt is typically issued at fixed rates of interest based upon market rates for debt having similar terms and credit ratings. As these long-term debt issues mature, we may refinance such debt with new debt having interest rates reflecting then-current market conditions. This debt may have an interest rate that is more or less than the refinanced debt. In order to reduce interest rate risk associated with near-term forecasted issuances of fixed-rate debt, from time to time we enter into interest rate protection agreements.

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The following table summarizes the fair values of unsettled market risk sensitive derivative instruments held at December 31, 2006. Fair values reflect the estimated amounts that we would receive or (pay) to terminate the contracts at the reporting date based upon quoted market prices of comparable contracts at December 31, 2006. The table also includes the changes in fair value that would result if there were an adverse change of ten percent in (1) the market price of propane and (2) interest rates on ten-year U.S. treasury notes:

	Fair Value (Millions of dollars)	Change in Fair Value
December 31, 2006:		
Propane commodity price risk	\$ (25.6)	\$ (14.4)
Interest rate risk	(0.6)	(4.3)

Because the Partnership's derivative instruments generally qualify as hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, we expect that changes in the fair value of derivative instruments used to manage propane price or interest rate risk would be substantially offset by gains or losses on the associated underlying transactions.

ITEM 4. CONTROLS AND PROCEDURES**(a) Evaluation of Disclosure Controls and Procedures**

The Partnership's management, with the participation of the Partnership's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Partnership's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Partnership's disclosure controls and procedures as of the end of the period covered by this report were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by the Partnership in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Change in Internal Control over Financial Reporting

No change in the Partnership's internal control over financial reporting occurred during the Partnership's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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AMERIGAS PARTNERS, L.P.
PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Partnership. Other unknown or unpredictable factors could also have material adverse effects on future results.

ITEM 6. EXHIBITS

The exhibits filed as part of this report are as follows (exhibits incorporated by reference are set forth with the name of the registrant, the type of report and registration number or last date of the period for which it was filed, and the exhibit number in such filing):

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.1	Credit Agreement dated as of November 6, 2006 among AmeriGas Propane, L.P., as Borrower, AmeriGas Propane, Inc., as Guarantor, Petrolane Incorporated, as Guarantor, Citigroup Global Markets Inc., as Syndication Agent, J.P. Morgan Securities, Inc. and Credit Suisse First Securities (USA) LLC, as Co-Documentation Agents, Wachovia Bank, National Association, as Agent, Issuing Bank and Swing Line Bank, and the other financial institutions party thereto	AmeriGas Partners, L.P.	Form 8-K (11/6/06)	10.1
10.2	Restricted Subsidiary Guarantee by the Restricted Subsidiaries of AmeriGas Propane, L.P., as Guarantors, for the benefit of Wachovia Bank, National Association and the Banks dated as of November 6, 2006	AmeriGas Partners, L.P.	Form 10-K (9/30/06)	10.2

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Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.3	Release of Liens and Termination of Security Documents dated November 6, 2006 by and among AmeriGas Propane, Inc., Petrolane Incorporated, AmeriGas Propane, L.P., AmeriGas Propane Parts & Service, Inc. and Wachovia Bank, National Association, as Collateral Agent for the Secured Creditors, pursuant to the Intercreditor and Agency Agreement dated as of April 19, 1995	AmeriGas Partners, L.P.	Form 10-K (9/30/06)	10.3
31.1	Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2006, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2	Certification by the Chief Financial Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2006, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
32	Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2006, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			

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AMERIGAS PARTNERS, L.P.

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.

AmeriGas Partners, L.P.
(Registrant)

By: AmeriGas Propane, Inc.,
as General Partner

Date: February 8, 2007

By: /s/ Jerry E. Sheridan
Jerry E. Sheridan
Vice President Finance
and Chief Financial Officer

Date: February 8, 2007

By: /s/ William J. Stanczak
William J. Stanczak
Controller and Chief Accounting
Officer

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EXHIBIT INDEX

- 31.1 Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2006, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2006, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2006, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.