CEDAR FAIR L P
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 28, 2014
OR

o 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 1-9444
CEDAR FAIR, L.P.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 34-1560655 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

One Cedar Point Drive, Sandusky, Ohio 44870-5259
(Address of principal executive offices) (Zip Code)
(419) 626-0830
(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | Smaller reporting company | o |

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

| Title of Class | Units Outstanding As Of November 1, 2014 |
|---|---|
| Units Representing Limited Partner Interests | 55,862,834 |

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CEDAR FAIR, L.P.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

| | 9/28/2014 | 12/31/2013 | 9/29/2013 |
|---|---|---|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $189,374 | $118,056 | $183,482 |
| Receivables | 41,262 | 21,333 | 42,534 |
| Inventories | 30,461 | 26,080 | 29,316 |
| Current deferred tax asset | 9,675 | 9,675 | 8,185 |
| Other current assets | 13,985 | 11,353 | 9,626 |
| | 284,757 | 186,497 | 273,143 |
| Property and Equipment: | | | |
| Land | 279,350 | 283,313 | 298,589 |
| Land improvements | 372,145 | 350,869 | 351,731 |
| Buildings | 607,065 | 584,659 | 584,066 |
| Rides and equipment | 1,562,070 | 1,494,112 | 1,506,895 |
| Construction in progress | 39,058 | 44,550 | 18,990 |
| | 2,859,688 | 2,757,503 | 2,760,271 |
| Less accumulated depreciation | (1,341,557) | (1,251,740) | (1,245,597) |
| | 1,518,131 | 1,505,763 | 1,514,674 |
| Goodwill | 232,513 | 238,089 | 241,936 |
| Other Intangibles, net | 38,766 | 39,471 | 40,025 |
| Other Assets | 42,909 | 44,807 | 31,269 |
| | $2,117,076 | $2,014,627 | $2,101,047 |
| LIABILITIES AND PARTNERS’ EQUITY | | | |
| Current Liabilities: | | | |
| Current maturities of long-term debt | $4,600 | $— | $6,300 |
| Accounts payable | 21,866 | 13,222 | 21,877 |
| Deferred revenue | 48,141 | 44,521 | 37,627 |
| Accrued interest | 12,008 | 23,201 | 10,253 |
| Accrued taxes | 38,407 | 19,481 | 39,393 |
| Accrued salaries, wages and benefits | 42,139 | 29,200 | 39,621 |
| Self-insurance reserves | 23,931 | 23,653 | 24,088 |
| Other accrued liabilities | 8,392 | 5,521 | 7,618 |
| | 199,484 | 158,799 | 186,777 |
| Deferred Tax Liability | 157,389 | 158,113 | 157,603 |
| Derivative Liability | 25,802 | 26,662 | 31,646 |
| Other Liabilities | 16,595 | 11,290 | 9,073 |
| Long-Term Debt: | | | |
| Term debt | 614,250 | 618,850 | 622,125 |
| Notes | 950,000 | 901,782 | 901,606 |
| | 1,564,250 | 1,520,632 | 1,523,731 |
| Commitments and Contingencies (Note 10) | | | |
| Partners’ Equity: | | | |

| | | | |
|---|---|---|---|
| Special L.P. interests | 5,290 | 5,290 | 5,290 |
| General partner | 3 | 2 | 2 |
| Limited partners, 55,863, 55,716 and 55,714 units outstanding at September 28, 2014, December 31, 2013 and September 29, 2013, respectively | 161,157 | 148,847 | 206,428 |
| Accumulated other comprehensive loss | (12,894 ) | (15,008 ) | (19,503 ) |
| | 153,556 | 139,131 | 192,217 |
| | $2,117,076 | $2,014,627 | $2,101,047 |

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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CEDAR FAIR, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per unit amounts)

| | Three months ended | | Nine months ended | | Twelve months ended | |
|---|---|---|---|---|---|---|
| | 9/28/2014 | 9/29/2013 | 9/28/2014 | 9/29/2013 | 9/28/2014 | 9/29/2013 |
| Net revenues: | | | | | | |
| Admissions | $340,101 | $339,655 | $566,126 | $562,214 | $650,919 | $641,140 |
| Food, merchandise and games | 184,038 | 180,408 | 322,025 | 316,940 | 361,190 | 353,951 |
| Accommodations and other | 71,179 | 72,013 | 110,647 | 116,341 | 125,766 | 129,609 |
| | 595,318 | 592,076 | 998,798 | 995,495 | 1,137,875 | 1,124,700 |
| Costs and expenses: | | | | | | |
| Cost of food, merchandise, and games revenues | 46,812 | 45,843 | 82,887 | 81,933 | 92,726 | 93,055 |
| Operating expenses | 178,649 | 170,394 | 406,191 | 388,335 | 490,200 | 458,906 |
| Selling, general and administrative | 57,205 | 58,727 | 125,226 | 125,533 | 152,105 | 148,356 |
| Depreciation and amortization | 58,244 | 57,495 | 109,525 | 108,313 | 123,699 | 122,408 |
| Gain on sale of other assets | — | (8,743) | (921) | (8,743) | (921) | (15,368) |
| Loss on impairment / retirement of fixed assets, net | 1,475 | 1,637 | 2,687 | 2,266 | 2,960 | 8,372 |
| | 342,385 | 325,353 | 725,595 | 697,637 | 860,769 | 815,729 |
| Operating income | 252,933 | 266,723 | 273,203 | 297,858 | 277,106 | 308,971 |
| Interest expense | 21,462 | 25,529 | 74,101 | 77,153 | 100,019 | 103,870 |
| Net effect of swaps | (1,087) | 1,377 | (1,031) | 8,315 | (2,463) | 8,141 |
| Loss (gain) on early debt extinguishment | (246) | — | 29,027 | 34,573 | 29,027 | 34,573 |
| Unrealized/realized foreign currency (gain) loss | 21,515 | (8,615) | 22,597 | 15,229 | 36,309 | 20,157 |
| Other income | (16) | (17) | (95) | (126) | (123) | (163) |
| Income before taxes | 211,305 | 248,449 | 148,604 | 162,714 | 114,337 | 142,393 |
| Provision for taxes | 49,403 | 58,025 | 26,340 | 34,026 | 12,557 | 24,030 |
| Net income | 161,902 | 190,424 | 122,264 | 128,688 | 101,780 | 118,363 |
| Net income allocated to general partner | 2 | 2 | 1 | 1 | 1 | 1 |
| Net income allocated to limited partners | $161,900 | $190,422 | $122,263 | $128,687 | $101,779 | $118,362 |
| | | | | | | |
| Net income | $161,902 | $190,424 | $122,264 | $128,688 | $101,780 | $118,363 |
| Other comprehensive income (loss), (net of tax): | | | | | | |
| Cumulative foreign currency translation adjustment | 2,975 | (699) | 2,279 | 1,194 | 3,841 | 2,814 |
| Unrealized income (loss) on cash flow hedging derivatives | 2,726 | (2,761) | (165) | 7,803 | 2,768 | 9,740 |
| Other comprehensive income (loss), (net of tax) | 5,701 | (3,460) | 2,114 | 8,997 | 6,609 | 12,554 |
| Total comprehensive income | $167,603 | $186,964 | $124,378 | $137,685 | $108,389 | $130,917 |
| Basic earnings per limited partner unit: | | | | | | |
| | 55,439 | 55,485 | 55,448 | 55,472 | 55,458 | 55,460 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Weighted average limited partner units outstanding | | | | | | |
| Net income per limited partner unit | $2.92 | $3.43 | $2.21 | $2.32 | $1.84 | $2.13 |
| Diluted earnings per limited partner unit: | | | | | | |
| Weighted average limited partner units outstanding | 55,855 | 55,863 | 55,855 | 55,803 | 55,864 | 55,804 |
| Net income per limited partner unit | $2.90 | $3.41 | $2.19 | $2.31 | $1.82 | $2.12 |

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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CEDAR FAIR, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 28, 2014
(In thousands)

| | Nine months ended 9/28/14 |
|---|---|
| Limited Partnership Units Outstanding | |
| Beginning balance | 55,716 |
| Limited partnership unit options exercised | 19 |
| Issuance of limited partnership units as compensation | 128 |
| | 55,863 |
| Limited Partners' Equity | |
| Beginning balance | $ 148,847 |
| Net income | 122,263 |
| Partnership distribution declared ($2.10 per limited partnership unit) | (117,468 ) |
| Expense recognized for limited partnership unit options | 668 |
| Tax effect of units involved in option exercises and treasury unit transactions | (785 ) |
| Issuance of limited partnership units as compensation | 7,632 |
| | 161,157 |
| General Partner's Equity | |
| Beginning balance | 2 |
| Net income | 1 |
| | 3 |
| Special L.P. Interests | 5,290 |
| Accumulated Other Comprehensive Income (Loss) | |
| Cumulative foreign currency translation adjustment: | |
| Beginning balance | 5 |
| Current period activity, net of tax ($1,310) | 2,279 |
| | 2,284 |
| Unrealized loss on cash flow hedging derivatives: | |
| Beginning balance | (15,013 ) |
| Current period activity, net of tax $6 | (165 ) |
| | (15,178 ) |
| | (12,894 ) |
| Total Partners' Equity | $ 153,556 |

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of this statement.

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CEDAR FAIR, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Nine months ended | | Twelve months ended | |
|---|---|---|---|---|
| | 9/28/2014 | 9/29/2013 | 9/28/2014 | 9/29/2013 |
| CASH FLOWS FROM (FOR) OPERATING ACTIVITIES | | | | |
| Net income | $122,264 | 128,688 | $101,780 | 118,363 |
| Adjustments to reconcile net income to net cash from operating activities: | | | | |
| Depreciation and amortization | 109,525 | 108,313 | 123,699 | 122,408 |
| Loss on early debt extinguishment | 29,027 | 34,573 | 29,027 | 34,573 |
| Loss on impairment / retirement of fixed assets, net | 2,687 | 2,266 | 2,960 | 8,372 |
| Gain on sale of other assets | (921) | (8,743) | (921) | (15,368) |
| Net effect of swaps | (1,031) | 8,315 | (2,463) | 8,141 |
| Non-cash expense | 33,167 | 23,875 | 52,093 | 32,245 |
| Net change in working capital | 10,546 | 16,031 | 8,510 | (6,769) |
| Net change in other assets/liabilities | 6,455 | 3,637 | 3,312 | 22,883 |
| Net cash from operating activities | 311,719 | 316,955 | 317,997 | 324,848 |
| CASH FLOWS FROM (FOR) INVESTING ACTIVITIES | | | | |
| Sale of other assets | 1,377 | 15,297 | 1,377 | 30,182 |
| Capital expenditures | (137,013) | (97,534) | (160,072) | (116,761) |
| Net cash for investing activities | (135,636) | (82,237) | (158,695) | (86,579) |
| CASH FLOWS FROM (FOR) FINANCING ACTIVITIES | | | | |
| Term debt borrowings | — | 630,000 | — | 630,000 |
| Note borrowings | 450,000 | 500,000 | 450,000 | 500,000 |
| Term debt payments, including amounts paid for early termination | — | (1,132,675) | (9,575) | (1,132,675) |
| Note payments, including amounts paid for early termination | (426,148) | — | (426,148) | — |
| Distributions paid to partners | (117,468) | (104,458) | (156,467) | (126,706) |
| Exercise of limited partnership unit options | — | 43 | 10 | 43 |
| Payment of debt issuance costs | (9,795) | (22,812) | (10,232) | (22,812) |
| Excess tax benefit from unit-based compensation expense | (785) | (148) | 218 | 1,515 |
| Net cash for financing activities | (104,196) | (130,050) | (152,194) | (150,635) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (569) | (16) | (1,216) | (254) |
| CASH AND CASH EQUIVALENTS | | | | |
| Net increase for the period | 71,318 | 104,652 | 5,892 | 87,380 |
| Balance, beginning of period | 118,056 | 78,830 | 183,482 | 96,102 |
| Balance, end of period | $189,374 | $183,482 | $189,374 | $183,482 |
| SUPPLEMENTAL INFORMATION | | | | |
| Cash payments for interest expense | $80,203 | $78,852 | $92,185 | $94,717 |
| Interest capitalized | 1,167 | 1,175 | 2,008 | 1,406 |
| Cash payments for income taxes, net of refunds | 10,283 | 11,746 | 13,359 | 4,768 |

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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CEDAR FAIR, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 28, 2014 AND SEPTEMBER 29, 2013

The accompanying unaudited condensed consolidated financial statements have been prepared from the financial records of Cedar Fair, L.P. (the Partnership) without audit and reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary to fairly present the results of the interim periods covered in this report.

Due to the highly seasonal nature of the Partnership's amusement and water park operations, the results for any interim period are not indicative of the results to be expected for the full fiscal year. Accordingly, the Partnership has elected to present financial information regarding operations and cash flows for the preceding fiscal twelve-month periods ended September 28, 2014 and September 29, 2013 to accompany the quarterly results. Since amounts for the fiscal twelve months ended September 28, 2014 include actual 2013 season operating results, they may not be indicative of 2014 full calendar year operations.

(1) Significant Accounting and Reporting Policies:

The Partnership's unaudited condensed consolidated financial statements for the periods ended September 28, 2014 and September 29, 2013 included in this Form 10-Q report have been prepared in accordance with the accounting policies described in the Notes to Consolidated Financial Statements for the year ended December 31, 2013, which were included in the Form 10-K filed on February 26, 2014. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Form 10-K referred to above.

New Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date," which requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following:

- The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors.
- Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

The guidance also requires an entity to disclose the nature and amount of the obligation as other information about those obligations. The amendments in the guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, however early adoption is permitted. The Partnership adopted this guidance in the first quarter of 2014 and the December 31, 2013 and September 29, 2013 Unaudited Condensed Consolidating Balance Sheets in Note 12 reflect the effect of the adoption of this guidance.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The amendments in ASU 2014-09 provide for a single, principles-based model for revenue recognition that replaces the existing revenue recognition guidance. ASU 2014-09 is effective for annual and interim periods beginning on or after December 15, 2016 and will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. It permits the use of either a retrospective or cumulative effect transition method and early adoption is not permitted. The Partnership has not yet selected a transition method and is in the process of evaluating the effect this standard will have on the consolidated financial statements and related disclosures.

(2) Interim Reporting:

The Partnership owns and operates eleven amusement parks, three separately gated outdoor water parks, one indoor water park and five hotels. Virtually all of the Partnership's revenues from its seasonal amusement parks, as well as its outdoor water parks and other seasonal resort facilities, are realized during a 130- to 140-day operating period beginning in early May, with the major portion concentrated in the third quarter during the peak vacation months of July and August. Knott's Berry Farm is open daily on a year-round basis. Castaway Bay is generally open daily from Memorial Day to Labor Day, plus a limited daily schedule for the balance of the year.

To assure that these highly seasonal operations will not result in misleading comparisons of current and subsequent interim periods, the Partnership has adopted the following accounting and reporting procedures for its seasonal parks: (a) revenues on multi-day admission tickets are recognized over the estimated number of visits expected for each type of ticket and are adjusted periodically



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during the season, (b) depreciation, advertising and certain seasonal operating costs are expensed during each park's operating season, including certain costs incurred prior to the season which are amortized over the season, and (c) all other costs are expensed as incurred or ratably over the entire year.

(3) Long-Lived Assets:
Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances that would indicate that the carrying value of the assets may not be recoverable. In order to determine if an asset has been impaired, assets are grouped and tested at the lowest level for which identifiable, independent cash flows are available. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in equity price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements.

The long-lived operating asset impairment test involves a two-step process. The first step is a comparison of each asset group's carrying value to its estimated undiscounted future cash flows expected to result from the use of the assets, including disposition. Projected future cash flows reflect management's best estimates of economic and market conditions over the projected period, including growth rates in revenues and costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates and future estimates of capital expenditures. If the carrying value of the asset group is higher than its undiscounted future cash flows, there is an indication that impairment exists and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of the asset group to its carrying value in a manner consistent with the highest and best use of those assets.

The Partnership estimates fair value of operating assets using an income, market, and/or cost approach. The income approach uses an asset group's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital reflective of current market conditions. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach is based on the amount currently required to replace the service capacity of an asset adjusted for obsolescence. If the implied fair value of the assets is less than their carrying value, an impairment charge is recorded for the difference.

Non-operating assets are evaluated for impairment based on changes in market conditions. When changes in market conditions are observed, impairment is estimated using a market-based approach. If the estimated fair value of the non-operating assets is less than their carrying value, an impairment charge is recorded for the difference.

(4) Goodwill and Other Intangible Assets:
In accordance with the applicable accounting rules, goodwill is not amortized, but, along with indefinite-lived trade-names, is evaluated for impairment on an annual basis or more frequently if indicators of impairment exist. As of September 28, 2014, there were no indicators of impairment. The Partnership's annual testing date is December 31. The Partnership tested goodwill and other indefinite-lived intangibles for impairment on December 31, 2013 and no impairment was indicated.
A summary of changes in the Partnership's carrying value of goodwill for the nine months ended September 28, 2014 and September 29, 2013 is as follows:

| (In thousands) | Goodwill (gross) | Accumulated Impairment Losses | Goodwill (net) |
| --- | --- | --- | --- |
| Balance at December 31, 2012 | $326,089 | $(79,868) | $246,221 |

| | | | |
|---|---|---|---|
| Foreign currency translation | (4,285) | — | (4,285) |
| Balance at September 29, 2013 | $321,804 | $(79,868) | $241,936 |
| | | | |
| Balance at December 31, 2013 | $317,957 | $(79,868) | $238,089 |
| Foreign currency translation | (5,576) | — | (5,576) |
| Balance at September 28, 2014 | $312,381 | $(79,868) | $232,513 |

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At September 28, 2014, December 31, 2013, and September 29, 2013 the Partnership’s other intangible assets consisted of the following:

| September 28, 2014 | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
|---|---|---|---|
| (In thousands) | | | |
| Other intangible assets: | | | |
| Trade names | $38,280 | $— | $38,280 |
| License / franchise agreements | 899 | 413 | 486 |
| Total other intangible assets | $39,179 | $413 | $38,766 |

| December 31, 2013 | | | |
|---|---|---|---|
| (In thousands) | | | |
| Other intangible assets: | | | |
| Trade names | $39,070 | $— | $39,070 |
| License / franchise agreements | 800 | 399 | 401 |
| Total other intangible assets | $39,870 | $399 | $39,471 |

| September 29, 2013 | | | |
|---|---|---|---|
| (In thousands) | | | |
| Other intangible assets: | | | |
| Trade names | $39,615 | $— | $39,615 |
| License / franchise agreements | 799 | 389 | 410 |
| Total other intangible assets | $40,414 | $389 | $40,025 |

Estimated amortization expense is expected to total less than $75,000 in each year from 2014 through 2018.

(5) Long-Term Debt:

In June of 2014, the Partnership issued $450 million of 5.375% senior unsecured notes ("June 2014 notes"), maturing in 2024, in a private placement. The net proceeds from the offering of the June 2014 notes were used to redeem in full all of the Partnership’s $405 million of 9.125% senior unsecured notes that were scheduled to mature in 2018 (and which included $5.6 million of Original Issue Discount ("OID") to yield 9.375%), to satisfy and discharge the indenture governing the notes that were redeemed and for general corporate purposes.

The Partnership's June 2014 notes pay interest semi-annually in June and December, with the principal due in full on June 1, 2024. The notes may be redeemed, in whole or in part, at any time prior to June 1, 2019 at a price equal to 100% of the principal amount of the notes redeemed plus a “make-whole” premium together with accrued and unpaid interest, if any, to the redemption date. Thereafter, the notes may be redeemed, in whole or in part, at various prices depending on the date redeemed. Prior to June 1, 2017, up to 35% of the notes may be redeemed with the net cash proceeds of certain equity offerings at a price equal to 105.375% together with accrued and unpaid interest.

In March 2013, the Partnership issued $500 million of 5.25% senior unsecured notes ("March 2013 notes"), maturing in 2021, in a private placement. Concurrently with this offering, the Partnership entered into a new $885 million credit agreement (the "2013 Credit Agreement"), which included a $630 million senior secured term loan facility and a $255 million senior secured revolving credit facility. The terms of the senior secured term loan facility include a maturity date of March 6, 2020 and bear interest at a rate of LIBOR ("London InterBank Offering Rate") plus 250 bps with a LIBOR floor of 75 bps. The term loan amortizes at $6.3 million annually and allows interest to be paid on a 30-, 60-, or 90-day basis. The Partnership is currently paying interest on a 30-day basis. The net proceeds from the notes and borrowings under the 2013 Credit Agreement were used to repay in full all amounts outstanding under the previous credit facilities. The facilities provided under the 2013 Credit Agreement are collateralized by substantially all of the assets of the Partnership.

Terms of the 2013 Credit Agreement include a revolving credit facility of a combined $255 million. Under the 2013 Credit Agreement, the Canadian portion of the revolving credit facility has a sub-limit of $15 million. U.S. denominated and Canadian denominated loans made under the revolving credit facility bear interest at a rate of LIBOR plus 225 bps (with no LIBOR floor).



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The revolving credit facility is scheduled to mature in March 2018 and also provides for the issuance of documentary and standby letters of credit. The 2013 Credit Agreement requires the Partnership to pay a commitment fee of 38 bps per annum on the unused portion of the credit facilities.

The 2013 Credit Agreement requires the Partnership to maintain specified financial ratios, which if breached for any reason, including a decline in operating results, could result in an event of default under the agreement. The most restrictive of these ratios is the Consolidated Leverage Ratio which is measured quarterly on a trailing-twelve month basis. The Consolidated Leverage Ratio decreased to 6.00x consolidated total debt (excluding the revolving debt)-to-Consolidated EBITDA at the end of the second quarter in 2014, and the ratio will decrease by 0.25x each second quarter until it reaches 5.25x. As of September 28, 2014, the Partnership’s Consolidated Leverage Ratio was 3.78x. The Partnership was in compliance with all other covenants under the 2013 Credit Agreement as of September 28, 2014.

The Partnership is allowed to make Restricted Payments, as defined in the 2013 Credit Agreement, of up to $60 million annually, so long as no default or event of default has occurred and is continuing. These Restricted Payments are not subject to any specific covenants. Additional Restricted Payments are allowed to be made based on an Excess-Cash-Flow formula, should the Partnership’s pro-forma Consolidated Leverage Ratio be less than or equal to 5.00x. Per the terms of the indentures governing the Partnership's June 2014 and March 2013 notes, we can make Restricted Payments of $60 million annually so long as no default or event of default has occurred and is continuing, and our ability to make additional Restricted Payments in 2014 and beyond is permitted should the Partnership's pro forma trailing-twelve-month Total-Indebtedness-to-Consolidated-Cash-Flow Ratio be less than or equal to 5.00x.

The Partnership's March 2013 notes pay interest semi-annually in March and September, with the principal due in full on March 15, 2021. The notes may be redeemed, in whole or in part, at any time prior to March 15, 2016 at a price equal to 100% of the principal amount of the notes redeemed plus a “make-whole” premium together with accrued and unpaid interest, if any, to the redemption date. Thereafter, the notes may be redeemed, in whole or in part, at various prices depending on the date redeemed. Prior to March 15, 2016, up to 35% of the notes may be redeemed with the net cash proceeds of certain equity offerings at a price equal to 105.25% together with accrued and unpaid interest.

As market conditions warrant, the Partnership may from time to time repurchase debt securities issued by the Partnership, in privately negotiated or open market transactions, by tender offer, exchange offer or otherwise.

(6) Derivative Financial Instruments:
Derivative financial instruments are used within the Partnership’s overall risk management program to manage certain interest rate and foreign currency risks. By utilizing a derivative instrument to hedge our exposure to LIBOR rate changes, the Partnership is exposed to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, hedging instruments are placed with a counterparty that the Partnership believes poses minimal credit risk.
The Partnership does not use derivative financial instruments for trading purposes.
We have entered into several interest rate swaps that fix all of our variable rate term-debt payments. As of September 28, 2014, we have $800 million of variable-rate debt to fixed rates swaps that mature in December 2015 and fix LIBOR at a weighted average rate of 2.38%. These swaps have been de-designated as cash flow hedges.
During the third quarter and fourth quarter of 2013, we entered into four forward-starting interest rate swap agreements that will effectively convert $500 million of variable-rate debt to fixed rates beginning in December of 2015. These swaps, which were designated as cash flow hedges, mature on December 31, 2018 and fix LIBOR at a weighted average rate of 2.94%.

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Fair Value of Derivative Instruments and the Classification in Condensed Consolidated Balance Sheet:

| (In thousands) | Condensed Consolidated Balance Sheet Location | Fair Value as of September 28, 2014 | Fair Value as of December 31, 2013 | Fair Value as of September 29, 2013 |
|---|---|---|---|---|
| Derivatives designated as hedging instruments: | | | | |
| Interest rate swaps | Derivative Liability | $(10,044) | $(3,916) | $(5,483) |
| Total derivatives designated as hedging instruments | | $(10,044) | $(3,916) | $(5,483) |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swaps | Derivative Liability | $(15,758) | $(22,746) | $(26,163) |
| Total derivatives not designated as hedging instruments | | $(15,758) | $(22,746) | $(26,163) |
| Net derivative liability | | $(25,802) | $(26,662) | $(31,646) |

Derivatives Designated as Hedging Instruments

Changes in fair value of highly effective hedges are recorded as a component of accumulated other comprehensive loss in the unaudited condensed consolidated balance sheets. Any ineffectiveness is recognized immediately in income. Amounts recorded as a component of accumulated other comprehensive loss are reclassified into earnings in the same period the forecasted transactions affect earnings. As of September 28, 2014 we have no amounts that are forecasted to be reclassified into earnings in the next twelve months.

Derivatives Not Designated as Hedging Instruments

Certain interest rate swap contracts were deemed ineffective in prior years and no longer qualified for hedge accounting. As a result of discontinued hedge accounting, the instruments are prospectively adjusted to fair value each reporting period through "Net effect of swaps" on the unaudited condensed consolidated statements of operations and comprehensive income. The amounts that were previously recorded as a component of accumulated other comprehensive loss prior to the de-designation are reclassified to earnings and a corresponding realized gain or loss will be recognized when the forecasted cash flow occurs. As of September 28, 2014, approximately $7.8 million of losses remain in accumulated comprehensive loss related to the effective cash flow hedge contracts prior to de-designation. We estimate that losses of $7.8 million will be reclassified to earnings within the next 12 months.

The following table presents our derivative portfolio along with their notional amounts and their fixed interest rates as of September 28, 2014.

| ($'s in thousands) | Interest Rate Swaps | | | |
|---|---|---|---|---|
| | Derivatives designated as hedging instruments | | Derivatives not designated as hedging instruments | |
| | Notional Amounts | LIBOR Rate | Notional Amounts | LIBOR Rate |
| | $200,000 | 3.00% | $200,000 | 2.27% |
| | 100,000 | 3.00% | 150,000 | 2.43% |
| | 100,000 | 3.00% | 75,000 | 2.30% |
| | 100,000 | 2.70% | 70,000 | 2.54% |
| | | | 50,000 | 2.54% |
| | | | 50,000 | 2.54% |
| | | | 50,000 | 2.43% |
| | | | 50,000 | 2.29% |
| | | | 50,000 | 2.29% |
| | | | 30,000 | 2.54% |
| | | | 25,000 | 2.30% |
| | $500,000 | 2.94% | $800,000 | 2.38% |

Total $'s / Average
Rate

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Effects of Derivative Instruments on Income (Loss) and Other Comprehensive Income (Loss) for the three-month periods ended September 28, 2014 and September 29, 2013:

| (In thousands) | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion) | | Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | | Amount and Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | | |
|---|---|---|---|---|---|---|---|---|
| Derivatives designated as Cash Flow Hedging Relationships | Three months ended 9/28/14 | Three months ended 9/29/13 | | Three months ended 9/28/14 | Three months ended 9/29/13 | | Three months ended 9/28/14 | Three months ended 9/29/13 |
| Interest rate swaps | $1,235 | $(5,483 ) | Interest Expense | $— | $— | Net effect of swaps | $— | $— |

| (In thousands) | Amount and Location of Gain (Loss) Recognized in Income on Derivative | | |
|---|---|---|---|
| Derivatives not designated as Cash Flow Hedging Relationships | | Three months ended 9/28/14 | Three months ended 9/29/13 |
| Interest rate swaps | Net effect of swaps | $3,073 | $609 |
| | | $3,073 | $609 |

During the quarter ended September 28, 2014, in addition to gains of $3.1 million recognized in income on the derivatives not designated as cash flow hedges (as noted in the tables above), $2.0 million of expense representing the regular amortization of amounts in AOCI was recorded in the condensed consolidated statements of operations for the quarter. The effect of these amounts resulted in a benefit to earnings of $1.1 million recorded in “Net effect of swaps.”

For the three-month period ended September 29, 2013, in addition to the $0.6 million recognized in income on the derivatives not designated as cash flow hedges (as noted in the tables above), $2.0 million of expense representing the amortization of amounts in AOCI was recorded in the condensed consolidated statements of operations. The effect of these amounts resulted in a charge to earnings of $1.4 million recorded in “Net effect of swaps.”

Effects of Derivative Instruments on Income (Loss) and Other Comprehensive Income (Loss) for the nine-month periods ended September 28, 2014 and September 29, 2013:

| (In thousands) | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion) | | Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | | Amount and Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | | |
|---|---|---|---|---|---|---|---|---|
| Derivatives designated as Cash Flow Hedging Relationships | Nine months ended 9/28/14 | Nine months ended 9/29/13 | | Nine months ended 9/28/14 | Nine months ended 9/29/13 | | Nine months ended 9/28/14 | Nine months ended 9/29/13 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest rate swaps | $(6,129 ) | $(3,217 ) | Interest Expense | $— | $(2,797 ) | Net effect of swaps | $— | $3,703 |

| (In thousands) | Amount and Location of Gain (Loss) Recognized in Income on Derivative | | |
|---|---|---|---|
| Derivatives not designated as Cash Flow Hedging Relationships | | Nine months ended 9/28/14 | Nine months ended 9/29/13 |
| Interest rate swaps | Net effect of swaps | $6,991 | $130 |
| | | $6,991 | $130 |

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During the nine-month period ended ended September 28, 2014, in addition to gains of $7.0 million recognized in income on the derivatives not designated as cash flow hedges (as noted in the tables above), $6.0 million of expense representing the regular amortization of amounts in AOCI was recorded in the condensed consolidated statements of operations for the quarter. The effect of these amounts resulted in a benefit to earnings of $1.0 million recorded in “Net effect of swaps.”

For the nine-month period ended September 29, 2013, in addition to the $3.7 million gain recognized in income on the ineffective portion of derivatives and $0.1 million gain on the derivatives not designated as cash flow hedges (as noted in the tables above), $7.8 million of expense related to the write off of OCI balances on our May 2011 swaps and $4.3 million of expense representing the amortization of amounts in AOCI was recorded in the condensed consolidated statements of operations. The effect of these amounts resulted in a charge to earnings of $8.3 million recorded in “Net effect of swaps.”

Effects of Derivative Instruments on Income (Loss) and Other Comprehensive Income (Loss) for the twelve-month periods ended September 28, 2014 and September 29, 2013:

| (In thousands) | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion) | | Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | | Amount and Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | | |
|---|---|---|---|---|---|---|---|---|
| Derivatives designated as Cash Flow Hedging Relationships | Twelve months ended 9/28/14 | Twelve months ended 9/29/13 | | Twelve months ended 9/28/14 | Twelve months ended 9/29/13 | | Twelve months ended 9/28/14 | Twelve months ended 9/29/13 |
| Interest rate swaps | $ (4,562 ) | $ (769 ) | Interest Expense | $ — | $ (5,820 ) | Net effect of swaps | $ — | $ 3,703 |

| (In thousands) | Amount and Location of Gain (Loss) Recognized in Income on Derivative | | |
|---|---|---|---|
| Derivatives not designated as Cash Flow Hedging Relationships | | Twelve months ended 9/28/14 | Twelve months ended 9/29/13 |
| Interest rate swaps | Net effect of swaps | $ 10,408 | $ 130 |
| | | $ 10,408 | $ 130 |

During the twelve-month period ending September 28, 2014, in addition to the $10.4 million gain recognized in income on derivatives not designated as cash flow hedges (as noted in the tables above), $7.9 million of expense representing the amortization of amounts in AOCI for the swaps was recorded during the trailing twelve months ended September 28, 2014 in the condensed consolidated statements of operations. The effect of these amounts resulted in a benefit to earnings of $2.5 million recorded in “Net effect of swaps.”

For the twelve-month period ending September 29, 2013, in addition to the $3.7 million gain recognized in income on the ineffective portion of designated derivatives and $0.1 million of gain recognized in income on the derivatives not designated as cash flow hedges as noted in the tables above, $7.8 million of expense related to the write off of OCI balances on our May 2011 swaps and $4.1 million of expense representing the amortization of amounts in AOCI for the swaps was recorded during the trailing twelve months ended September 29, 2013 in the condensed consolidated statements of operations. The net effect of these amounts resulted in a charge to earnings for the trailing twelve month period of $8.1 million recorded in “Net effect of swaps.”

(7) Fair Value Measurements:

The FASB Accounting Standards Codification (ASC) relating to fair value measurements emphasizes that fair value is a market-based measurement that should be determined based on assumptions (inputs) that market participants would use in pricing an asset or liability. Inputs may be observable or unobservable, and valuation techniques used to measure fair value should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Accordingly, the FASB's ASC establishes a hierarchal disclosure framework that ranks the quality and reliability of information used to determine fair values. The hierarchy is associated with the level of pricing observability utilized in measuring fair value and defines three levels of inputs to the fair value measurement process—quoted prices are the most reliable valuation inputs, whereas model values that include inputs based on unobservable data are the least reliable. Each fair value measurement must be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety.

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The three broad levels of inputs defined by the fair value hierarchy are as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The table below presents the balances of assets and liabilities measured at fair value as of September 28, 2014, December 31, 2013, and September 29, 2013 on a recurring basis:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| September 28, 2014 | | | | |
| (In thousands) | | | | |
| Interest rate swap agreements [1] | $(10,044) | $— | $(10,044) | $— |
| Interest rate swap agreements [2] | (15,758) | — | (15,758) | — |
| Net derivative liability | $(25,802) | $— | $(25,802) | $— |
| | | | | |
| December 31, 2013 | | | | |
| Interest rate swap agreements [1] | $(3,916) | $— | $(3,916) | $— |
| Interest rate swap agreements [2] | $(22,746) | $— | $(22,746) | $— |
| Net derivative liability | $(26,662) | $— | $(26,662) | $— |
| | | | | |
| September 29, 2013 | | | | |
| Interest rate swap agreements [1] | $(5,483) | $— | $(5,483) | $— |
| Interest rate swap agreements [2] | | | | |