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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 June 27, 2020**

|  |  |  |
| --- | --- | --- |
| **☐** |  | **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** |

**Commission File Number:  1-14222**

**SUBURBAN PROPANE PARTNERS, L.P.**

**(Exact name of registrant as specified in its charter)**

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

**240 Route 10 West**

**Whippany, NJ 07981**

**(973)  887-5300**

**(Address, including zip code, and telephone number,**

**including area code, of registrant’s principal executive offices)**

Securities registered pursuant to Section 12(b) of the Act:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Title of each class |  | Trading Symbol |  | Name of exchange on which registered |
| Common Units |  | SPH |  | New York Stock Exchange |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).    Yes  ☒    No  ☐

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Large accelerated filer | ☒ |  | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ |  | Smaller reporting company | ☐ |
|  |  |  | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  ☐

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

At August 3, 2020, there were 62,146,403 Common Units of Suburban Propane Partners, L.P. outstanding.

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**SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES**

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**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements (“Forward-Looking Statements”) as defined in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to future business expectations and predictions and financial condition and results of operations of Suburban Propane Partners, L.P. (the “Partnership”).  Some of these statements can be identified by the use of forward-looking terminology such as “prospects,” “outlook,” “believes,” “estimates,” “intends,” “may,” “will,” “should,” “could,” “anticipates,” “expects” or “plans” or the negative or other variation of these or similar words, or by discussion of trends and conditions, strategies or risks and uncertainties.  These Forward-Looking Statements involve certain risks and uncertainties that could cause actual results to differ materially from those discussed or implied in such Forward-Looking Statements (statements contained in this Quarterly Report identifying such risks and uncertainties are referred to as “Cautionary Statements”).  The risks and uncertainties and their impact on the Partnership’s results include, but are not limited to, the following risks:

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

|  |  |
| --- | --- |
| • | The impact of the COVID-19 pandemic and the corresponding government response, including the impact across the Partnership’s businesses on demand and operations, as well as on the operations of the Partnership’s suppliers, customers and other business partners, and the effectiveness of the Partnership’s actions taken in response to these risks; |

|  |  |
| --- | --- |
| • | Volatility in the unit cost of propane, fuel oil and other refined fuels, natural gas and electricity, the impact of the Partnership’s hedging and risk management activities, and the adverse impact of price increases on volumes sold as a result of customer conservation; |

|  |  |
| --- | --- |
| • | The ability of the Partnership to compete with other suppliers of propane, fuel oil and other energy sources; |

|  |  |
| --- | --- |
| • | The impact on the price and supply of propane, fuel oil and other refined fuels from the political, military or economic instability of the oil producing nations, global terrorism and other general economic conditions, including the economic instability resulting from natural disasters such as pandemics, including the COVID-19 pandemic; |

|  |  |
| --- | --- |
| • | The ability of the Partnership to acquire sufficient volumes of, and the costs to the Partnership of acquiring, transporting and storing, propane, fuel oil and other refined fuels; |

|  |  |
| --- | --- |
| • | The ability of the Partnership to acquire and maintain reliable transportation for its propane, fuel oil and other refined fuels; |

|  |  |
| --- | --- |
| • | The ability of the Partnership to retain customers or acquire new customers; |

|  |  |
| --- | --- |
| • | The impact of customer conservation, energy efficiency and technology advances on the demand for propane, fuel oil and other refined fuels, natural gas and electricity; |

|  |  |
| --- | --- |
| • | The ability of management to continue to control expenses; |

|  |  |
| --- | --- |
| • | The impact of changes in applicable statutes and government regulations, or their interpretations, including those relating to the environment and climate change, derivative instruments and other regulatory developments on the Partnership’s business; |

|  |  |
| --- | --- |
| • | The impact of changes in tax laws that could adversely affect the tax treatment of the Partnership for income tax purposes; |

|  |  |
| --- | --- |
| • | The impact of legal proceedings on the Partnership’s business; |

|  |  |
| --- | --- |
| • | The impact of operating hazards that could adversely affect the Partnership’s operating results to the extent not covered by insurance; |

|  |  |
| --- | --- |
| • | The Partnership’s ability to make strategic acquisitions and successfully integrate them; |

|  |  |
| --- | --- |
| • | The ability of the Partnership to continue to combat cybersecurity threats to our networks and information technology; |

|  |  |
| --- | --- |
| • | The impact of current conditions in the global capital and credit markets, and general economic pressures; |

|  |  |
| --- | --- |
| • | The operating, legal and regulatory risks the Partnership may face; and |

|  |  |
| --- | --- |
| • | Other risks referenced from time to time in filings with the Securities and Exchange Commission (“SEC”) and those factors listed or incorporated by reference into the Partnership’s most recent Annual Report under “Risk Factors.” |

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Some of these Forward-Looking Statements are discussed in more detail in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report.  Reference is also made to the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 28, 2019, and Item 1A of Part II of this Quarterly Report.  On different occasions, the Partnership or its representatives have made or may make Forward-Looking Statements in other filings with the SEC, press releases or oral statements made by or with the approval of one of the Partnership’s authorized executive officers.  Readers are cautioned not to place undue reliance on Forward-Looking Statements, which reflect management’s view only as of the date made.  The Partnership undertakes no obligation to update any Forward-Looking Statement or Cautionary Statement, except as required by law.  All subsequent written and oral Forward-Looking Statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements in this Quarterly Report and in future SEC reports.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 27,** | |  |  | **September 28,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| **ASSETS** |  |  |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |  |  |
| Cash and cash equivalents |  | $ | 4,186 |  |  | $ | 2,441 |  |
| Accounts receivable, less allowance for doubtful accounts of $5,673 and     $2,573, respectively |  |  | 65,425 |  |  |  | 59,340 |  |
| Inventories |  |  | 42,001 |  |  |  | 45,036 |  |
| Other current assets |  |  | 15,617 |  |  |  | 16,623 |  |
| Total current assets |  |  | 127,229 |  |  |  | 123,440 |  |
| Property, plant and equipment, net |  |  | 607,628 |  |  |  | 627,207 |  |
| Operating lease right-of-use assets  (See Notes 2 and 8) |  |  | 115,945 |  |  |  | — |  |
| Goodwill |  |  | 1,103,781 |  |  |  | 1,098,085 |  |
| Other intangible assets, net |  |  | 98,343 |  |  |  | 128,437 |  |
| Other assets |  |  | 22,042 |  |  |  | 21,179 |  |
| Total assets |  | $ | 2,074,968 |  |  | $ | 1,998,348 |  |
| **LIABILITIES AND PARTNERS’ CAPITAL** |  |  |  |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |  |  |  |
| Accounts payable |  | $ | 29,422 |  |  | $ | 34,085 |  |
| Accrued employment and benefit costs |  |  | 26,957 |  |  |  | 34,688 |  |
| Customer deposits and advances |  |  | 74,015 |  |  |  | 97,854 |  |
| Operating lease liabilities  (See Notes 2 and 8) |  |  | 24,935 |  |  |  | — |  |
| Other current liabilities |  |  | 51,909 |  |  |  | 49,503 |  |
| Total current liabilities |  |  | 207,238 |  |  |  | 216,130 |  |
| Long-term borrowings |  |  | 1,224,771 |  |  |  | 1,227,057 |  |
| Accrued insurance |  |  | 53,862 |  |  |  | 51,514 |  |
| Operating lease liabilities  (See Notes 2 and 8) |  |  | 90,552 |  |  |  | — |  |
| Other liabilities |  |  | 76,377 |  |  |  | 79,817 |  |
| Total liabilities |  |  | 1,652,800 |  |  |  | 1,574,518 |  |
| Commitments and contingencies |  |  |  |  |  |  |  |  |
| Partners’ capital: |  |  |  |  |  |  |  |  |
| Common Unitholders (62,133 and 61,735 units issued and outstanding at     June 27, 2020 and September 28, 2019, respectively) |  |  | 445,831 |  |  |  | 450,016 |  |
| Accumulated other comprehensive loss |  |  | (23,663 | ) |  |  | (26,186 | ) |
| Total partners’ capital |  |  | 422,168 |  |  |  | 423,830 |  |
| Total liabilities and partners’ capital |  | $ | 2,074,968 |  |  | $ | 1,998,348 |  |

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** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Revenues |  |  |  |  |  |  |  |  |
| Propane |  | $ | 179,049 |  |  | $ | 183,052 |  |
| Fuel oil and refined fuels |  |  | 11,702 |  |  |  | 12,921 |  |
| Natural gas and electricity |  |  | 6,099 |  |  |  | 7,527 |  |
| All other |  |  | 10,056 |  |  |  | 10,712 |  |
|  |  |  | 206,906 |  |  |  | 214,212 |  |
| Costs and expenses |  |  |  |  |  |  |  |  |
| Cost of products sold |  |  | 59,689 |  |  |  | 78,596 |  |
| Operating |  |  | 96,086 |  |  |  | 97,804 |  |
| General and administrative |  |  | 17,098 |  |  |  | 16,445 |  |
| Depreciation and amortization |  |  | 29,153 |  |  |  | 30,151 |  |
|  |  |  | 202,026 |  |  |  | 222,996 |  |
| Operating income (loss) |  |  | 4,880 |  |  |  | (8,784 | ) |
| Interest expense, net |  |  | 18,474 |  |  |  | 18,906 |  |
| Other, net |  |  | 1,878 |  |  |  | 1,176 |  |
| (Loss) before provision for income taxes |  |  | (15,472 | ) |  |  | (28,866 | ) |
| Provision for income taxes |  |  | 106 |  |  |  | 175 |  |
| Net (loss) |  | $ | (15,578 | ) |  | $ | (29,041 | ) |
| Net (loss) per Common Unit - basic |  | $ | (0.25 | ) |  | $ | (0.47 | ) |
| Weighted average number of Common Units outstanding - basic |  |  | 62,345 |  |  |  | 62,009 |  |
| Net (loss) per Common Unit - diluted |  | $ | (0.25 | ) |  | $ | (0.47 | ) |
| Weighted average number of Common Units outstanding - diluted |  |  | 62,345 |  |  |  | 62,009 |  |

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)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Revenues |  |  |  |  |  |  |  |  |
| Propane |  | $ | 812,160 |  |  | $ | 937,468 |  |
| Fuel oil and refined fuels |  |  | 69,095 |  |  |  | 83,428 |  |
| Natural gas and electricity |  |  | 25,018 |  |  |  | 38,527 |  |
| All other |  |  | 35,566 |  |  |  | 36,270 |  |
|  |  |  | 941,839 |  |  |  | 1,095,693 |  |
| Costs and expenses |  |  |  |  |  |  |  |  |
| Cost of products sold |  |  | 328,407 |  |  |  | 462,703 |  |
| Operating |  |  | 313,550 |  |  |  | 305,367 |  |
| General and administrative |  |  | 49,808 |  |  |  | 54,938 |  |
| Depreciation and amortization |  |  | 87,715 |  |  |  | 90,845 |  |
|  |  |  | 779,480 |  |  |  | 913,853 |  |
| Operating income |  |  | 162,359 |  |  |  | 181,840 |  |
| Loss on debt extinguishment |  |  | 109 |  |  |  | — |  |
| Interest expense, net |  |  | 56,722 |  |  |  | 58,041 |  |
| Other, net |  |  | 3,835 |  |  |  | 3,527 |  |
| Income before (benefit from) provision for income taxes |  |  | 101,693 |  |  |  | 120,272 |  |
| (Benefit from) provision for income taxes |  |  | (253 | ) |  |  | 578 |  |
| Net income |  | $ | 101,946 |  |  | $ | 119,694 |  |
| Net income per Common Unit - basic |  | $ | 1.64 |  |  | $ | 1.93 |  |
| Weighted average number of Common Units outstanding - basic |  |  | 62,248 |  |  |  | 61,963 |  |
| Net income per Common Unit - diluted |  | $ | 1.63 |  |  | $ | 1.92 |  |
| Weighted average number of Common Units outstanding - diluted |  |  | 62,628 |  |  |  | 62,262 |  |

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 COMPREHENSIVE INCOME**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  | **2020** | |  |  | **2019** | |  |
| Net (loss) income |  | $ | (15,578 | ) |  | $ | (29,041 | ) | $ | 101,946 |  |  | $ | 119,694 |  |
| Other comprehensive income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of net actuarial losses and prior service     credits into earnings |  |  | 541 |  |  |  | 552 |  |  | 1,623 |  |  |  | 1,656 |  |
| Recognition in earnings of net actuarial loss for pension settlement |  |  | 900 |  |  |  | — |  |  | 900 |  |  |  | — |  |
| Other comprehensive income |  |  | 1,441 |  |  |  | 552 |  |  | 2,523 |  |  |  | 1,656 |  |
| Total comprehensive (loss) income |  | $ | (14,137 | ) |  | $ | (28,489 | ) | $ | 104,469 |  |  | $ | 121,350 |  |

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)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Cash flows from operating activities: |  |  |  |  |  |  |  |  |
| Net income |  | $ | 101,946 |  |  | $ | 119,694 |  |
| Adjustments to reconcile net income to net cash provided by operations: |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  |  | 87,715 |  |  |  | 90,845 |  |
| Pension settlement charge |  |  | 900 |  |  |  | — |  |
| Loss on debt extinguishment |  |  | 109 |  |  |  | — |  |
| Compensation costs recognized under Restricted Unit Plans |  |  | 7,084 |  |  |  | 8,855 |  |
| Other, net |  |  | 1,012 |  |  |  | 647 |  |
| Changes in assets and liabilities: |  |  |  |  |  |  |  |  |
| Accounts receivable |  |  | (5,518 | ) |  |  | (6,594 | ) |
| Inventories |  |  | 3,285 |  |  |  | 18,691 |  |
| Other current and noncurrent assets |  |  | (10,362 | ) |  |  | 3,318 |  |
| Accounts payable |  |  | (1,186 | ) |  |  | (11,122 | ) |
| Accrued employment and benefit costs |  |  | (7,731 | ) |  |  | (4,234 | ) |
| Customer deposits and advances |  |  | (23,839 | ) |  |  | (48,537 | ) |
| Contributions to defined benefit pension plan |  |  | (2,030 | ) |  |  | (4,335 | ) |
| Other current and noncurrent liabilities |  |  | 17,599 |  |  |  | (1,125 | ) |
| Net cash provided by operating activities |  |  | 168,984 |  |  |  | 166,103 |  |
| Cash flows from investing activities: |  |  |  |  |  |  |  |  |
| Capital expenditures |  |  | (26,115 | ) |  |  | (24,283 | ) |
| Acquisitions of businesses |  |  | (21,971 | ) |  |  | (18,865 | ) |
| Proceeds from sale of property, plant and equipment |  |  | 2,515 |  |  |  | 4,627 |  |
| Net cash (used in) investing activities |  |  | (45,571 | ) |  |  | (38,521 | ) |
| Cash flows from financing activities: |  |  |  |  |  |  |  |  |
| Proceeds from borrowings under revolving credit facility |  |  | 447,300 |  |  |  | 322,700 |  |
| Repayments of borrowings under revolving credit facility |  |  | (451,100 | ) |  |  | (339,100 | ) |
| Issuance costs associated with long-term borrowings |  |  | (2,665 | ) |  |  | — |  |
| Partnership distributions |  |  | (111,562 | ) |  |  | (110,841 | ) |
| Other, net |  |  | (3,641 | ) |  |  | (3,007 | ) |
| Net cash (used in) financing activities |  |  | (121,668 | ) |  |  | (130,248 | ) |
| Net increase (decrease) in cash and cash equivalents |  |  | 1,745 |  |  |  | (2,666 | ) |
| Cash and cash equivalents at beginning of period |  |  | 2,441 |  |  |  | 5,164 |  |
| Cash and cash equivalents at end of period |  | $ | 4,186 |  |  | $ | 2,498 |  |

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 PARTNERS’ CAPITAL**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 27, 2020** | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 62,073 |  |  | $ | 496,426 |  |  | $ | (25,104 | ) |  | $ | 471,322 |  |
| Net loss |  |  |  |  |  |  | (15,578 | ) |  |  |  |  |  |  | (15,578 | ) |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  | 541 |  |  |  | 541 |  |
| Partnership distributions |  |  |  |  |  |  | (37,279 | ) |  |  |  |  |  |  | (37,279 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 60 |  |  |  | — |  |  |  |  |  |  |  | — |  |
| Recognition in earnings of net actuarial loss for pension settlement |  |  |  |  |  |  |  |  |  |  | 900 |  |  |  | 900 |  |
| Compensation costs recognized under Restricted Unit Plans |  |  |  |  |  |  | 2,262 |  |  |  |  |  |  |  | 2,262 |  |
| Balance, end of period |  |  | 62,133 |  |  | $ | 445,831 |  |  | $ | (23,663 | ) |  | $ | 422,168 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 29, 2019** | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 61,664 |  |  | $ | 598,614 |  |  | $ | (23,566 | ) |  | $ | 575,048 |  |
| Net loss |  |  |  |  |  |  | (29,041 | ) |  |  |  |  |  |  | (29,041 | ) |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  | 552 |  |  |  | 552 |  |
| Partnership distributions |  |  |  |  |  |  | (37,000 | ) |  |  |  |  |  |  | (37,000 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 2 |  |  |  | — |  |  |  |  |  |  |  | — |  |
| Common Units issued for acquisition of business |  |  | 69 |  |  |  | 1,600 |  |  |  |  |  |  |  | 1,600 |  |
| Compensation costs recognized under Restricted Unit Plans |  |  |  |  |  |  | 2,280 |  |  |  |  |  |  |  | 2,280 |  |
| Balance, end of period |  |  | 61,735 |  |  | $ | 536,453 |  |  | $ | (23,014 | ) |  | $ | 513,439 |  |

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 PARTNERS’ CAPITAL**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended June 27, 2020** | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 61,735 |  |  | $ | 450,124 |  |  | $ | (26,186 | ) |  | $ | 423,938 |  |
| Net income |  |  |  |  |  |  | 101,946 |  |  |  |  |  |  |  | 101,946 |  |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  | 1,623 |  |  |  | 1,623 |  |
| Partnership distributions |  |  |  |  |  |  | (111,562 | ) |  |  |  |  |  |  | (111,562 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 398 |  |  |  | (1,761 | ) |  |  |  |  |  |  | (1,761 | ) |
| Recognition in earnings of net actuarial loss for pension settlement |  |  |  |  |  |  |  |  |  |  | 900 |  |  |  | 900 |  |
| Compensation costs recognized under Restricted Unit Plans |  |  |  |  |  |  | 7,084 |  |  |  |  |  |  |  | 7,084 |  |
| Balance, end of period |  |  | 62,133 |  |  | $ | 445,831 |  |  | $ | (23,663 | ) |  | $ | 422,168 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended June 29, 2019** | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 61,405 |  |  | $ | 518,494 |  |  | $ | (24,670 | ) |  | $ | 493,824 |  |
| Net income |  |  |  |  |  |  | 119,694 |  |  |  |  |  |  |  | 119,694 |  |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  | 1,656 |  |  |  | 1,656 |  |
| Partnership distributions |  |  |  |  |  |  | (110,841 | ) |  |  |  |  |  |  | (110,841 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 261 |  |  |  | (1,349 | ) |  |  |  |  |  |  | (1,349 | ) |
| Common Units issued for acquisition of business |  |  | 69 |  |  |  | 1,600 |  |  |  |  |  |  |  | 1,600 |  |
| Compensation costs recognized under Restricted Unit Plans |  |  |  |  |  |  | 8,855 |  |  |  |  |  |  |  | 8,855 |  |
| Balance, end of period |  |  | 61,735 |  |  | $ | 536,453 |  |  | $ | (23,014 | ) |  | $ | 513,439 |  |

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 unit and 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 and ventilation.  The publicly traded limited partner interests in the Partnership are evidenced by common units traded on the New York Stock Exchange (“Common Units”), with 62,133,439 Common Units outstanding at June 27, 2020.  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”), as amended.  Rights and privileges under the Partnership Agreement include, among other things, the election of all members of the Board of Supervisors and voting on the removal of the general partner.

Suburban Propane, L.P. (the “Operating Partnership”), a Delaware limited partnership, is the Partnership’s operating subsidiary formed to operate the propane business and assets.  In addition, Suburban Sales & Service, Inc. (the “Service Company”), a subsidiary of the Operating Partnership, was formed to operate the service work and appliance and parts businesses of the Partnership.  The Operating Partnership, together with its direct and indirect subsidiaries, accounts for substantially all of the Partnership’s assets, revenues and earnings.  The Partnership, the Operating Partnership and the Service Company commenced operations in March 1996 in connection with the Partnership’s initial public offering.

The general partner of both the Partnership and the Operating Partnership is Suburban Energy Services Group LLC (the “General Partner”), a Delaware limited liability company, the sole member of which is the Partnership’s Chief Executive Officer.  Other than as a holder of 784 Common Units that will remain in the General Partner, the General Partner does not have any economic interest in the Partnership or the Operating Partnership.

The Partnership’s fuel oil and refined fuels, natural gas and electricity and services businesses are structured as either limited liability companies that are treated as corporations or corporate entities (collectively referred to as the “Corporate Entities”) and, as such, are subject to corporate level U.S. income tax.

Suburban Energy Finance Corp., a direct 100%-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 senior notes.

|  |  |
| --- | --- |
| **2.** | **Basis of Presentation** |

**Principles of Consolidation.**  The condensed consolidated financial statements include the accounts of the Partnership, the Operating Partnership and all of its direct and indirect subsidiaries.  All significant intercompany transactions and account balances have been eliminated.  The Partnership consolidates the results of operations, financial condition and cash flows of the Operating Partnership as a result of the Partnership’s 100% limited partner interest in the Operating Partnership.

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 of operations, financial position and cash flows 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 financial statements included in the Partnership’s Annual Report on Form 10-K for the fiscal year ended September 28, 2019.  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 uses a 52/53 week fiscal year which ends on the last Saturday in September.  The Partnership’s fiscal quarters are generally thirteen weeks in duration.  When the Partnership’s fiscal year is 53 weeks long, the corresponding fourth quarter is fourteen weeks in duration.

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**Revenue Recognition.**  On the first day of fiscal 2019, the Partnership adopted the new accounting guidance regarding revenue recognition under the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers” (“Topic 606”) and all related amendments using the full retrospective method.  ASU 2014-09 provides a five-step model to be applied to all contracts with customers.  The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when each performance obligation is satisfied.  The adoption of this standard had no impact on the Partnership’s condensed consolidated statements of financial position, operations or cash flows.

Revenue is recognized by the Partnership when goods or services promised in a contract with a customer have been transferred, and no further performance obligation on that transfer is required, in an amount that reflects the consideration expected to be received.  Performance obligations are determined and evaluated based on the specific terms of the arrangements and the distinct products and services offered.  Due to the nature of the retail business of the Partnership, there are no remaining or unsatisfied performance obligations as of the end of the reporting period, except for tank rental agreements, maintenance service contracts, fixed price contracts and budgetary programs, as described below.  The performance obligation associated with sales of propane, fuel oil and refined fuels is met at the time product is delivered to the customer.  Revenue from the sale of appliances and equipment is recognized at the time of sale or when installation is complete, as defined by the performance obligations included within the related customer contract.  Revenue from repairs, maintenance and other service activities is recognized upon completion of the service.  Revenue from the sale of natural gas and electricity is recognized based on customer usage as determined by meter readings for amounts delivered, an immaterial amount of which may be unbilled at the end of each accounting period.

The Partnership defers the recognition of revenue for annually billed tank rent, maintenance service contracts, fixed price contracts and budgetary programs where customer consideration is received at the start of the contract period, establishing contract liabilities which are disclosed as customer deposits and advances on the condensed consolidated balance sheets.  Deliveries to customers enrolled in budgetary programs that exceed billings to those customers establish contract assets which are included in accounts receivable on the condensed consolidated balance sheets.  The Partnership ratably recognizes revenue over the applicable term for tank rent and maintenance service agreements, which is generally one year, and at the time of delivery for fixed price contracts and budgetary programs.

The Partnership incurs incremental direct costs, such as commissions to its salesforce, to obtain certain contracts.  These costs are expensed as incurred, consistent with the practical expedients issued by the FASB, since the expected amortization period is one year or less.  The Partnership generally determines selling prices based on, among other things, the current weighted average cost and the current replacement cost of the product at the time of delivery, plus an applicable margin.  Except for tank rental agreements, maintenance service contracts, fixed price contracts and budgetary programs, customer payments for the satisfaction of a performance obligation are due upon receipt.

**Fair Value Measurements.**  The Partnership measures certain of its assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants – in either the principal market or the most advantageous market.  The principal market is the market with the greatest level of activity and volume for the asset or liability.

The common framework for measuring fair value utilizes a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values.  The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

|  |  |
| --- | --- |
| • | Level 1: Quoted prices in active markets for identical assets or liabilities. |

|  |  |
| --- | --- |
| • | Level 2: Quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets. |

|  |  |
| --- | --- |
| • | Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable. |

**Business Combinations.**  The Partnership accounts for business combinations using the acquisition method and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date.  Goodwill represents the excess of the purchase price over the fair value of the net assets acquired, including the amount assigned to identifiable intangible assets.  The primary drivers that generate goodwill are the value of synergies between the acquired entities and the Partnership, and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset.  Identifiable intangible assets with finite lives are amortized over their useful lives.  The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.  The Partnership expenses all acquisition-related costs as incurred.

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**Use of Estimates.**  The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US 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 self-insurance and litigation reserves, pension and other postretirement benefit liabilities and costs, valuation of derivative instruments, depreciation and amortization of long-lived assets, asset impairment assessments, tax valuation allowances, allowances for doubtful accounts, and purchase price allocation for acquired businesses.  The Partnership uses Society of Actuaries life expectancy information when developing the annual mortality assumptions for the pension and postretirement benefit plans, which are used to measure net periodic benefit costs and the obligation under these plans.  Actual results could differ from those estimates, making it reasonably possible that a material change in these estimates could occur in the near term.

**Reclassifications.**  Certain prior period amounts have been reclassified to conform to the current period presentation.  See Recently Adopted Accounting Pronouncements, below.

**Recently Issued Accounting Pronouncements.**  In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment” (“Topic 350”).  This update eliminates the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment.  In testing goodwill for impairment, an entity may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.  If the qualitative assessment indicates that goodwill impairment is more likely than not, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit.  Topic 350 is effective for the first interim period within annual reporting periods beginning after December 15, 2019, which will be the Partnership’s first quarter of fiscal 2021.  Early adoption of Topic 350 is permitted.  The Partnership does not expect that the adoption of Topic 350 will have a material impact on the Partnership’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016‑13, “Financial Instruments - Credit Losses” (“Topic 326”).  This amendment introduces an expected credit loss impairment model which requires an initial recognition of anticipated losses over the full lifetime of certain financial assets, rather than upon the incurrence of an actual loss.  Topic 326 is effective for the first interim period within annual reporting periods beginning after December 15, 2019, which will be the Partnership’s first quarter of fiscal 2021.  The Partnership does not expect that the adoption of Topic 326 will have a material impact on the Partnership’s consolidated financial statements.

**Recently Adopted Accounting Pronouncements.** On September 29, 2019, the first day of fiscal 2020, the Partnership adopted the new leases accounting guidance under ASU 2016-02 “Leases” (“Topic 842”), including the related amendments thereto.  Topic 842 amended the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets.  The Partnership adopted the guidance under Topic 842 using a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application.  The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets and corresponding lease liabilities on the Partnership’s condensed consolidated balance sheet as of September 29, 2019 of approximately $103,100, but did not have an impact on the Partnership’s other condensed consolidated financial statements or on its financial metrics used for debt covenant compliance. See Note 8, “Leases” for more information.

|  |  |
| --- | --- |
| **3.** | **Disaggregation of Revenue** |

The following table disaggregates revenue for each customer type.  See Note 18, “Segment Information” for more information on segment reporting wherein it is disclosed that the Partnership’s Propane, Fuel Oil and Refined Fuels and Natural Gas and Electricity reportable segments generated approximately 85%, 8% and 3%, respectively, of the Partnership’s revenue for all periods presented.  The propane segment contributes the majority of the Partnership’s revenue and the concentration of revenue by customer type for the propane segment is not materially different from the consolidated revenue.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | |  |
|  | **June 27,** | |  |  | **June 29,** | |  |
|  | **2020** | |  |  | **2019** | |  |
| Retail |  |  |  |  |  |  |  |
| Residential | $ | 123,157 |  |  | $ | 110,875 |  |
| Commercial |  | 53,502 |  |  |  | 65,454 |  |
| Industrial |  | 18,254 |  |  |  | 22,853 |  |
| Agricultural |  | 5,317 |  |  |  | 5,761 |  |
| Government |  | 6,659 |  |  |  | 8,546 |  |
| Wholesale |  | 17 |  |  |  | 723 |  |
| Total revenues | $ | 206,906 |  |  | $ | 214,212 |  |

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|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Nine Months Ended** | | | | | |  |
|  | **June 27,** | |  |  | **June 29,** | |  |
|  | **2020** | |  |  | **2019** | |  |
| Retail |  |  |  |  |  |  |  |
| Residential | $ | 568,644 |  |  | $ | 644,699 |  |
| Commercial |  | 232,165 |  |  |  | 280,113 |  |
| Industrial |  | 73,508 |  |  |  | 85,284 |  |
| Agricultural |  | 28,885 |  |  |  | 33,529 |  |
| Government |  | 38,594 |  |  |  | 47,819 |  |
| Wholesale |  | 43 |  |  |  | 4,249 |  |
| Total revenues | $ | 941,839 |  |  | $ | 1,095,693 |  |

The Partnership recognized $8,725 and $66,321 of revenue during the three and nine months ended June 27, 2020, respectively, and $6,735 and $65,881 during the three and nine months ended June 29, 2019, respectively, for annually billed tank rent, maintenance service contracts, fixed price contracts and budgetary programs where customer consideration was received at the start of the contract period, and which was included in contract liabilities as of the beginning of each respective period. Contract assets of $11,169 and $7,051 relating to deliveries to customers enrolled in budgetary programs that exceeded billings to those customers were included in accounts receivable as of June 27, 2020 and September 28, 2019, respectively.

|  |  |
| --- | --- |
| **4.** | **Acquisitions of Businesses** |

On December 5, 2019, the Operating Partnership acquired the propane assets and operations of a propane retailer headquartered in Georgia for $10,400, including $1,250 for non-compete consideration, plus working capital acquired.  As of June 27, 2020, $9,572 was paid and the remainder of the purchase price will be funded in accordance with the terms of the asset purchase and non-compete agreements.

On October 30, 2019, the Operating Partnership acquired the propane assets and operations of a propane retailer headquartered in California for $13,000, including $1,000 for non-compete consideration, plus working capital acquired. As of June 27, 2020, $11,899 was paid and the remainder of the purchase price will be funded in accordance with the terms of the asset purchase and non-compete agreements.

These acquisitions were consummated pursuant to the Partnership’s strategic growth initiatives.  The purchase price allocations and results of operations of the acquired businesses were not material to the Partnership’s condensed consolidated financial position and statement of operations.

|  |  |
| --- | --- |
| **5.** | **Financial Instruments and Risk Management** |

**Cash and Cash Equivalents.**  The Partnership considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.  The carrying amount approximates fair value because of the short-term maturity of these instruments.

**Derivative Instruments and Hedging Activities**

*Commodity Price Risk*.  Given the retail nature of its operations, the Partnership maintains a certain level of priced physical inventory to help ensure its field operations have adequate supply commensurate with the time of year.  The Partnership’s strategy is to keep its physical inventory priced relatively close to market for its field operations.  The Partnership enters into a combination of exchange-traded futures and option contracts and, in certain instances, over-the-counter options and swap contracts (collectively, “derivative instruments”) to hedge price risk associated with propane and fuel oil physical inventories, as well as future purchases of propane or fuel oil used in its operations and to help ensure adequate supply during periods of high demand.  In addition, the Partnership sells propane and fuel oil to customers at fixed prices, and enters into derivative instruments to hedge a portion of its exposure to fluctuations in commodity prices as a result of selling the fixed price contracts.  Under this risk management strategy, realized gains or losses on derivative instruments will typically offset losses or gains on the physical inventory once the product is sold or delivered as it pertains to fixed price contracts.  All of the Partnership’s derivative instruments are reported on the condensed consolidated balance sheet at their fair values.  In addition, in the course of normal operations, the Partnership routinely enters into contracts such as forward priced physical contracts for the purchase or sale of propane and fuel oil that qualify for and are designated as normal purchase or normal sale contracts.  Such contracts are exempted from the fair value accounting requirements and are accounted for at the time product is purchased or sold under the related contract.  The Partnership does not use derivative instruments for speculative trading purposes.  Market risks associated with derivative instruments are monitored daily for compliance with the Partnership’s Hedging and Risk Management Policy which includes volume limits for open positions.  Priced on-hand inventory is also reviewed and managed daily as to exposures to changing market prices.

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On the date that derivative instruments are entered into, other than those designated as normal purchases or normal sales, the Partnership makes a determination as to whether the derivative instrument qualifies for designation as a hedge.  Changes in the fair value of derivative instruments are recorded each period in current period earnings or other comprehensive income (“OCI”), depending on whether the derivative instrument is designated as a hedge and, if so, the type of hedge.  For derivative instruments designated as cash flow hedges, the Partnership formally assesses, both at the hedge contract’s inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in cash flows of hedged items.  Changes in the fair value of derivative instruments designated as cash flow hedges are reported in OCI to the extent effective and reclassified into earnings during the same period in which the hedged item affects earnings.  The mark-to-market gains or losses on ineffective portions of cash flow hedges are recognized in earnings immediately.  Changes in the fair value of derivative instruments that are not designated as cash flow hedges, and that do not meet the normal purchase and normal sale exemption, are recorded within earnings as they occur.  Cash flows associated with derivative instruments are reported as operating activities within the condensed consolidated statement of cash flows.

*Interest Rate Risk*.  A portion of the Partnership’s borrowings bear interest at prevailing interest rates based upon, at the Operating Partnership’s option, LIBOR plus an applicable margin or the base rate, defined as the higher of the Federal Funds Rate plus ½ of 1% or the agent bank’s prime rate, or LIBOR plus 1%, plus the applicable margin.  The applicable margin is dependent on the level of the Partnership’s total leverage (the ratio of total debt to income before deducting interest expense, income taxes, depreciation and amortization (“EBITDA”)).  Therefore, the Partnership is subject to interest rate risk on the variable component of the interest rate.  From time to time, the Partnership manages part of its variable interest rate risk by entering into interest rate swap agreements.  The Partnership did not enter into any interest rate swap agreements during the first nine months of fiscal 2020 or in fiscal 2019.

*Valuation of Derivative Instruments*.  The Partnership measures the fair value of its exchange-traded options and futures contracts using quoted market prices found on the New York Mercantile Exchange (the “NYMEX”) (Level 1 inputs); the fair value of its swap contracts using quoted forward prices, and the fair value of its interest rate swaps using model-derived valuations driven by observable projected movements of the 3-month LIBOR (Level 2 inputs); and the fair value of its over-the-counter options contracts using Level 3 inputs.  The Partnership’s over-the-counter options contracts are valued based on an internal option model.  The inputs utilized in the model are based on publicly available information as well as broker quotes.  The significant unobservable inputs used in the fair value measurements of the Partnership’s over-the-counter options contracts are interest rate and market volatility.

The following summarizes the fair value of the Partnership’s derivative instruments and their location in the condensed consolidated balance sheets as of June 27, 2020 and September 28, 2019, respectively:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of June 27, 2020** | | | |  |  | **As of September 28, 2019** | | | |  |
| **Asset Derivatives** |  | **Location** |  | **Fair Value** | |  |  | **Location** |  | **Fair Value** | |  |
| Derivatives not designated as     hedging instruments: |  |  |  |  |  |  |  |  |  |  |  |  |
| Commodity-related derivatives |  | Other current assets |  | $ | 1,093 |  |  | Other current assets |  | $ | 4,082 |  |
|  |  | Other assets |  |  | 122 |  |  | Other assets |  |  | 167 |  |
|  |  |  |  | $ | 1,215 |  |  |  |  | $ | 4,249 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liability Derivatives** |  | **Location** |  | **Fair Value** | |  |  | **Location** |  | **Fair Value** | |  |
| Derivatives not designated as     hedging instruments: |  |  |  |  |  |  |  |  |  |  |  |  |
| Commodity-related derivatives |  | Other current liabilities |  | $ | 3,214 |  |  | Other current liabilities |  | $ | 3,360 |  |
|  |  | Other liabilities |  |  | — |  |  | Other liabilities |  |  | — |  |
|  |  |  |  | $ | 3,214 |  |  |  |  | $ | 3,360 |  |

The following summarizes the reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Fair Value Measurement Using Significant**  **Unobservable Inputs (Level 3)** | | | | | | | | | | | | | |  |
|  |  | **Nine Months Ended**  **June 27, 2020** | | | | | |  |  | **Nine Months Ended**  **June 29, 2019** | | | | | |  |
|  |  | **Assets** | |  |  | **Liabilities** | |  |  | **Assets** | |  |  | **Liabilities** | |  |
| Beginning balance of over-the-counter options |  | $ | 419 |  |  | $ | — |  |  | $ | 1,546 |  |  | $ | 361 |  |
| Beginning balance realized during the period |  |  | (419 | ) |  |  | — |  |  |  | (1,488 | ) |  |  | (361 | ) |
| Contracts purchased during the period |  |  | — |  |  |  | — |  |  |  | 434 |  |  |  | — |  |
| Change in the fair value of outstanding contracts |  |  | — |  |  |  | — |  |  |  | 997 |  |  |  | — |  |
| Ending balance of over-the-counter options |  | $ | — |  |  | $ | — |  |  | $ | 1,489 |  |  | $ | — |  |

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As of June 27, 2020 and September 28, 2019, the Partnership’s outstanding commodity-related derivatives had a weighted average maturity of approximately seven and three months, respectively.

The effect of the Partnership’s derivative instruments on the condensed consolidated statements of operations for the three and nine months ended June 27, 2020 and June 29, 2019 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 27, 2020** | | | |  |  | **Three Months Ended June 29, 2019** | | | |  |
| **Derivatives Not Designated**  **as Hedging Instruments** |  | **Unrealized Gains (Losses)**  **Recognized in Income** | | | |  |  | **Unrealized Gains (Losses)**  **Recognized in Income** | | | |  |
|  |  | **Location** |  | **Amount** | |  |  | **Location** |  | **Amount** | |  |
| Commodity-related derivatives |  | Cost of products sold |  | $ | 861 |  |  | Cost of products sold |  | $ | 138 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended June 27, 2020** | | | |  |  | **Nine Months Ended June 29, 2019** | | | |  |
| **Derivatives Not Designated**  **as Hedging Instruments** |  | **Unrealized Gains (Losses)**  **Recognized in Income** | | | |  |  | **Unrealized Gains (Losses)**  **Recognized in Income** | | | |  |
|  |  | **Location** |  | **Amount** | |  |  | **Location** |  | **Amount** | |  |
| Commodity-related derivatives |  | Cost of products sold |  | $ | (1,077 | ) |  | Cost of products sold |  | $ | (7,252 | ) |

The following table presents the fair value of the Partnership’s recognized derivative assets and liabilities on a gross basis and amounts offset on the condensed consolidated balance sheets subject to enforceable master netting arrangements or similar agreements:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of June 27, 2020** | | | | | | | | | |  |  | **As of September 28, 2019** | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  | **Net amounts** | |  |  |  |  |  |  |  |  |  |  | **Net amounts** | |  |
|  |  |  |  |  |  |  |  |  |  | **presented in the** | |  |  |  |  |  |  |  |  |  |  | **presented in the** | |  |
|  |  | **Gross amounts** | |  |  | **Effects of netting** | |  |  | **balance sheet** | |  |  | **Gross amounts** | |  |  | **Effects of netting** | |  |  | **balance sheet** | |  |
| **Asset Derivatives** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Commodity-related derivatives |  | $ | 13,684 |  |  | $ | (12,469 | ) |  | $ | 1,215 |  |  | $ | 10,464 |  |  | $ | (6,215 | ) |  | $ | 4,249 |  |
| **Liability Derivatives** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Commodity-related derivatives |  | $ | 15,683 |  |  | $ | (12,469 | ) |  | $ | 3,214 |  |  | $ | 9,575 |  |  | $ | (6,215 | ) |  | $ | 3,360 |  |

The Partnership had $5,563 and $5,392 posted cash collateral as of June 27, 2020 and September 28, 2019, respectively, with its brokers for outstanding commodity-related derivatives.

**Bank Debt and Senior Notes.**  The fair value of the borrowings under the Revolving Credit Facility (defined below in Note 10) approximates the carrying value since the interest rates are adjusted quarterly to reflect market conditions.  Based upon quoted market prices (a Level 1 input), the fair value of the Senior Notes (also defined below in Note 10) of the Partnership are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **June 27,** | |  |  | **September 28,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| 5.5% senior notes due June 1, 2024 |  | $ | 537,626 |  |  | $ | 540,094 |  |
| 5.75% senior notes due March 1, 2025 |  |  | 253,125 |  |  |  | 253,178 |  |
| 5.875% senior notes due March 1, 2027 |  |  | 351,750 |  |  |  | 354,375 |  |
|  |  | $ | 1,142,501 |  |  | $ | 1,147,647 |  |

|  |  |
| --- | --- |
| **6.** | **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:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **June 27,** | |  |  | **September 28,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Propane, fuel oil and refined fuels and natural gas |  | $ | 39,615 |  |  | $ | 43,217 |  |
| Appliances |  |  | 2,386 |  |  |  | 1,819 |  |
|  |  | $ | 42,001 |  |  | $ | 45,036 |  |

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| --- | --- |
| **7.** | **Goodwill and Other Intangible Assets** |

Goodwill represents the excess of the purchase price over the fair value of net assets acquired.  Goodwill is subject to an impairment review at a reporting unit level, on an annual basis as of the end of fiscal July of each year, or when an event occurs or circumstances change that would indicate potential impairment.  During the second and third quarters of fiscal 2020, the Partnership assessed if the current and potential future impact of COVID-19 represented an event which necessitated an impairment review.  These assessments included updates of the qualitative factors and quantitative estimates utilized within the annual assessment after which the Partnership concluded such an event had not occurred and an impairment review was not warranted at this time.  The Partnership will continue to monitor the impact of COVID-19 and assess if an impairment review is required.

The Partnership has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.  If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary.  However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test.

Under the two-step impairment test, 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.  If the fair value of the reporting unit exceeds its carrying value, the goodwill associated with the reporting unit is not considered to be impaired.  If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the associated goodwill, if any, exceeds the implied fair value of the goodwill.

The carrying values of goodwill assigned to the Partnership’s operating segments are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Fuel oil and** | |  |  | **Natural gas** | |  |  |  |  |  |
|  |  | **Propane** | |  |  | **refined fuels** | |  |  | **and electricity** | |  |  | **Total** | |  |
| Balance as of September 28, 2019 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill |  | $ | 1,085,747 |  |  | $ | 10,900 |  |  | $ | 7,900 |  |  | $ | 1,104,547 |  |
| Accumulated adjustments |  |  | — |  |  |  | (6,462 | ) |  |  | — |  |  |  | (6,462 | ) |
|  |  | $ | 1,085,747 |  |  | $ | 4,438 |  |  | $ | 7,900 |  |  | $ | 1,098,085 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Fiscal 2020 Activity** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill acquired (1) |  | $ | 5,696 |  |  | $ | — |  |  | $ | — |  |  | $ | 5,696 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance as of June 27, 2020 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill |  | $ | 1,091,443 |  |  | $ | 10,900 |  |  | $ | 7,900 |  |  | $ | 1,110,243 |  |
| Accumulated adjustments |  |  | — |  |  |  | (6,462 | ) |  |  | — |  |  |  | (6,462 | ) |
|  |  | $ | 1,091,443 |  |  | $ | 4,438 |  |  | $ | 7,900 |  |  | $ | 1,103,781 |  |

Other intangible assets consist of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **June 27,** | |  |  | **September 28,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Customer relationships (1) |  | $ | 517,676 |  |  | $ | 507,159 |  |
| Non-compete agreements (1) |  |  | 37,690 |  |  |  | 35,440 |  |
| Other |  |  | 1,967 |  |  |  | 1,967 |  |
|  |  |  | 557,333 |  |  |  | 544,566 |  |
| Less: accumulated amortization |  |  |  |  |  |  |  |  |
| Customer relationships |  |  | (425,775 | ) |  |  | (384,507 | ) |
| Non-compete agreements |  |  | (31,706 | ) |  |  | (30,181 | ) |
| Other |  |  | (1,509 | ) |  |  | (1,441 | ) |
|  |  |  | (458,990 | ) |  |  | (416,129 | ) |
|  |  | $ | 98,343 |  |  | $ | 128,437 |  |

|  |  |
| --- | --- |
| (1) | Reflects the impact from acquisitions (See Note 4, “Acquisitions of Businesses”). |

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|  |  |
| --- | --- |
| **8.** | **Leases** |

The Partnership leases certain property, plant and equipment, including portions of its vehicle fleet, for various periods under noncancelable leases all of which were determined to be operating leases.  The Partnership determines if an agreement contains a lease at inception based on the Partnership’s right to the economic benefits of the leased assets and its right to direct the use of the leased asset.  Right-of-use assets represent the Partnership’s right to use an underlying asset, and right-of-use liabilities represent the Partnership’s obligation to make lease payments arising from the lease.  Right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term.  As most of the Partnership’s leases do not provide an implicit rate, the Partnership uses its estimated incremental borrowing rate based on the information available at the commencement date, adjusted for the lease term, to determine the present value of the lease payments.  This rate is calculated based on a collateralized rate for the specific leasing activities of the Partnership.

Some leases include one or more options to renew at the Partnership’s discretion, with renewal terms that can extend the lease from one to fifteen additional years.  The renewal options are included in the measurement of the right-of-use assets and lease liabilities if the Partnership is reasonably certain to exercise the renewal options.  Short-term leases are leases having an initial term of twelve months or less.  The Partnership recognizes expenses for short-term leases on a straight-line basis and does not record a lease asset or lease liability for such leases.

When implementing Topic 842, the Partnership elected the following practical expedients: (1) a package of practical expedients that allows the Partnership to not reassess: (a) whether expired or existing contracts contained leases; (b) the lease classification for expired or existing leases; and (c) the initial direct costs for existing leases; (2) for all underlying asset classes, an expedient that allows the Partnership to not apply the recognition requirements to short-term leases and account for lease and associated non-lease components as a single lease component; (3) an expedient that allows the use of hindsight to determine lease term; and (4) an expedient that allows the Partnership to not evaluate under Topic 842 land easements that existed or expired before the Partnership’s adoption of Topic 842, and that were not previously accounted for as leases.

The Partnership has residual value guarantees associated with certain of its operating leases, related primarily to transportation equipment. See Note 14, “Guarantees” for more information.

The Partnership does not have any material lease obligations that were signed, but not yet commenced as of June 27, 2020.

Quantitative information on the Partnership’s lease population for the three and nine months ended June 27, 2020 is as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months**  **Ended** | |  |  | **Nine Months**  **Ended** | |  |
|  |  | **June 27, 2020** | |  |  | **June 27, 2020** | |  |
| Lease expense |  | $ | 8,314 |  |  | $ | 23,249 |  |
|  |  |  |  |  |  |  |  |  |
| **Other information:** |  |  |  |  |  |  |  |  |
| Cash payments for operating leases |  |  | 8,375 |  |  |  | 23,628 |  |
| Right-of-use assets obtained in exchange for new operating     lease liabilities |  |  | 6,616 |  |  |  | 28,061 |  |

Other information related to leases as of June 27, 2020 was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Weighted-average remaining lease term |  | 6.5 years | |  |
| Weighted-average discount rate |  |  | 5.3 | % |

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The following table summarizes future minimum lease payments under non-cancelable operating leases as of June 27, 2020:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal Year** |  | **Operating Leases** | |  |
| 2020 (remaining) |  | $ | 7,802 |  |
| 2021 |  |  | 29,568 |  |
| 2022 |  |  | 26,917 |  |
| 2023 |  |  | 21,808 |  |
| 2024 |  |  | 16,393 |  |
| 2025 and thereafter |  |  | 34,671 |  |
| Total future minimum lease payments |  | $ | 137,159 |  |
| Less: interest |  |  | (21,672 | ) |
| Total lease obligations |  | $ | 115,487 |  |

As previously disclosed in the Partnership’s 2019 Annual Report on Form 10-K under the previous lease standard (Topic 840), at September 28, 2019, future minimum lease payments under non-cancelable operating leases were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal Year** |  | **Operating Leases** | |  |
| 2020 |  | $ | 27,110 |  |
| 2021 |  |  | 23,875 |  |
| 2022 |  |  | 21,068 |  |
| 2023 |  |  | 16,267 |  |
| 2024 |  |  | 10,980 |  |
| 2025 and thereafter |  |  | 25,128 |  |
| Total future minimum lease payments |  | $ | 124,428 |  |

|  |  |
| --- | --- |
| **9.** | **Net Income Per Common Unit** |

Computations of basic income per Common Unit are performed by dividing net income by the weighted average number of outstanding Common Units, and vested (and unissued) restricted units granted under the Partnership’s Restricted Unit Plans, as defined below, to retirement-eligible grantees.  Computations of diluted income per Common Unit are performed by dividing net income by the weighted average number of outstanding Common Units and unissued restricted units granted under the Restricted Unit Plans.  In computing diluted net income per Common Unit, weighted average units outstanding used to compute basic net income per Common Unit were increased by 379,808 and 297,662 units for the nine months ended June 27, 2020 and June 29, 2019, respectively, to reflect the potential dilutive effect of the unvested restricted units outstanding using the treasury stock method.  Diluted loss per unit for the three months ended June 27, 2020 and June 29, 2019 does not include unvested Restricted Units (See Note 12) as their effect would be anti-dilutive.

|  |  |
| --- | --- |
| **10.** | **Long-Term Borrowings** |

Long-term borrowings consist of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **June 27,** | |  |  | **September 28,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| 5.5% senior notes, due June 1, 2024 |  | $ | 525,000 |  |  | $ | 525,000 |  |
| 5.75% senior notes, due March 1, 2025 |  |  | 250,000 |  |  |  | 250,000 |  |
| 5.875% senior notes due March 1, 2027 |  |  | 350,000 |  |  |  | 350,000 |  |
| Revolving Credit Facility, due March 5, 2025 |  |  | 109,700 |  |  |  | 113,500 |  |
| Subtotal |  |  | 1,234,700 |  |  |  | 1,238,500 |  |
|  |  |  |  |  |  |  |  |  |
| Less: unamortized debt issuance costs |  |  | (9,929 | ) |  |  | (11,443 | ) |
|  |  | $ | 1,224,771 |  |  | $ | 1,227,057 |  |

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**Senior Notes**

*2024 Senior Notes.*  On May 27, 2014, the Partnership and its 100%-owned subsidiary, Suburban Energy Finance Corp., completed a public offering of $525,000 in aggregate principal amount of 5.5% senior notes due June 1, 2024 (the “2024 Senior Notes”).  The 2024 Senior Notes were issued at 100% of the principal amount and require semi-annual interest payments in June and December.  The net proceeds from the issuance of the 2024 Senior Notes, along with cash on hand, were used to repurchase, satisfy and discharge all of the Partnership’s then-outstanding 7.5% senior notes due in 2018.

*2025 Senior Notes.*On February 25, 2015, the Partnership and its 100%-owned subsidiary, Suburban Energy Finance Corp., completed a public offering of $250,000 in aggregate principal amount of 5.75% senior notes due March 1, 2025 (the “2025 Senior Notes”).  The 2025 Senior Notes were issued at 100% of the principal amount and require semi-annual interest payments in March and September.  The net proceeds from the issuance of the 2025 Senior Notes, along with cash on hand, were used to repurchase, satisfy and discharge all of the Partnership’s then-outstanding 7.375% senior notes due in 2020.

*2027 Senior Notes.*On February 14, 2017, the Partnership and its 100%-owned subsidiary, Suburban Energy Finance Corp., completed a public offering of $350,000 in aggregate principal amount of 5.875% senior notes due March 1, 2027 (the “2027 Senior Notes”).  The 2027 Senior Notes were issued at 100% of the principal amount and require semi-annual interest payments in March and September.  The net proceeds from the issuance of the 2027 Senior Notes, along with borrowings under the Revolving Credit Facility, were used to repurchase, satisfy and discharge all of the Partnership’s then-outstanding 7.375% senior notes due in 2021.

The Partnership’s obligations under the 2024 Senior Notes, 2025 Senior Notes and 2027 Senior Notes (collectively, the “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 Senior Notes are structurally subordinated to, which means they rank effectively behind, any debt and other liabilities of the Operating Partnership.  The Partnership is permitted to redeem some or all of the Senior Notes at redemption prices and times as specified in the indentures governing the Senior Notes.  The Senior Notes each have a change of control provision that would require the Partnership to offer to repurchase the notes at 101% of the principal amount repurchased, if a change of control, as defined in the indenture, occurs and is followed by a rating decline (a decrease in the rating of the notes by either Moody’s Investors Service or Standard and Poor’s Rating Group by one or more gradations) within 90 days of the consummation of the change of control.

**Credit Agreement.**On March 5, 2020the Partnership and the Operating Partnership entered into a Third Amended and Restated Credit Agreement (the “Credit Agreement”) that provides for a $500,000 revolving credit facility (the “Revolving Credit Facility”), of which $109,700 was outstanding as of June 27, 2020.  The Revolving Credit Facility matures on the earlier of (a) the date that is ninety-one (91) days prior to maturity of the 2024 Senior Notes (unless the notes have been refinanced prior to such date) and (b) March 5, 2025.  At the time of the execution of the Credit Agreement, $183,900 was outstanding under the Operating Partnership’s revolving credit facility of the previous credit agreement, which was rolled into the Revolving Credit Facility under the Credit Agreement.  The Credit Agreement amends and restates the previous credit agreement to, among other things, extend the maturity, lower borrowing costs, and amend certain affirmative and negative covenants, including an increase to the maximum permitted Total Consolidated Leverage Ratio from 5.50x to 5.75x.  Borrowings under the Revolving Credit Facility may be used for general corporate purposes, including working capital, capital expenditures and acquisitions.  The Operating Partnership has the right to prepay any borrowings under the Revolving Credit Facility, in whole or in part, without penalty at any time prior to maturity.  In connection with the execution of the Credit Agreement, the Partnership recognized a non-cash charge of $109 to write-off a portion of unamortized debt origination costs of the previous credit agreement.

The Credit Agreement contains certain restrictive and affirmative covenants applicable to the Operating Partnership, its subsidiaries and the Partnership, as well as certain financial covenants, including (a) requiring the Partnership’s Consolidated Interest Coverage Ratio, as defined in the Credit Agreement, to be not less than 2.5 to 1.0 as of the end of any fiscal quarter, (b) prohibiting the Total Consolidated Leverage Ratio, as defined in the Credit Agreement, of the Partnership from being greater than 5.75 to 1.0, and (c) prohibiting the Senior Secured Consolidated Leverage Ratio, as defined in the Credit Agreement, of the Operating Partnership from being greater than 3.25 to 1.0 as of the end of any fiscal quarter.

The Partnership and certain subsidiaries of the Operating Partnership act as guarantors with respect to the obligations of the Operating Partnership under the Credit Agreement pursuant to the terms and conditions set forth therein.  The obligations under the Credit Agreement are secured by liens on substantially all of the personal property of the Partnership, the Operating Partnership and their subsidiaries, as well as mortgages on certain real property.

Borrowings under the Revolving Credit Facility bear interest at prevailing interest rates based upon, at the Operating Partnership’s option, LIBOR plus the Applicable Rate, or the base rate, defined as the higher of the Federal Funds Rate plus ½ of 1%, the administrative agent bank’s prime rate, or LIBOR plus 1%, plus in each case the Applicable Rate.  The Applicable Rate is dependent upon the Partnership’s Total Consolidated Leverage Ratio.  As of June 27, 2020, the interest rate for borrowings under the Revolving

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Credit Facility was approximately 3.3%.  The interest rate and the Applicable Rate will be reset following the end of each calendar quarter.

As of June 27, 2020, the Partnership had standby letters of credit issued under the Revolving Credit Facility of $63,088 which expire periodically through April 30, 2021.

The Credit Agreement and the Senior Notes both contain various restrictive and affirmative covenants applicable to the Operating Partnership, its subsidiaries 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 Credit Agreement and the indentures governing the Senior Notes, the Operating Partnership and the Partnership are generally permitted to make cash distributions equal to available cash, as defined, as of the end of the immediately preceding quarter, if no event of default exists or would exist upon making such distributions, and with respect to the indentures governing the Senior Notes, the Partnership’s Consolidated Fixed Charge Coverage Ratio, as defined, is greater than 1.75 to 1.  The Partnership and the Operating Partnership were in compliance with all covenants and terms of the Senior Notes and the Credit Agreement as of June 27, 2020.

The aggregate amounts of long-term debt maturities subsequent to June 27, 2020 are as follows: fiscal 2020: $-0-; fiscal 2021: $-0-; fiscal 2022: $-0-; fiscal 2023: $-0-; fiscal 2024: $634,700; and thereafter: $600,000.

|  |  |
| --- | --- |
| **11.** | **Distributions of Available Cash** |

The Partnership makes distributions to its partners no later than 45 days after the end of each fiscal quarter in an aggregate amount equal to its Available Cash for such quarter.  Available Cash, as defined in the Partnership Agreement, generally means all cash on hand at the end of the respective fiscal quarter less the amount of cash reserves established by the Board of Supervisors in its reasonable discretion for future cash requirements.  These reserves are retained for the proper conduct of the Partnership’s business, the payment of debt principal and interest and for distributions during the next four quarters.

On July 23, 2020, the Partnership announced a quarterly distribution of $0.30 per Common Unit, or $1.20 per Common Unit on an annualized basis, in respect of the third quarter of fiscal 2020, payable on August 11, 2020 to holders of record on August 4, 2020.

|  |  |
| --- | --- |
| **12.** | **Unit-Based Compensation Arrangements** |

The Partnership recognizes 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.  The Partnership measures liability awards under an equity-based payment arrangement based on remeasurement of the award’s fair value at the conclusion of each interim and annual reporting period until the date of settlement, taking into consideration the probability that the performance conditions will be satisfied.

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**Restricted Unit Plans.**  On July 22, 2009, the Partnership adopted the Suburban Propane Partners, L.P. 2009 Restricted Unit Plan, as amended (the “2009 Restricted Unit Plan”), which authorizes the issuance of Common Units to executives, managers and other employees and members of the Board of Supervisors of the Partnership.  The total number of Common Units authorized for issuance under the 2009 Restricted Unit Plan was 2,400,000 as of July 31, 2019, the date on which this plan expired.  At the Partnership’s Tri-Annual Meeting held on May 15, 2018, the Unitholders approved the Partnership’s 2018 Restricted Unit Plan authorizing the issuance of up to 1,800,000 Common Units (the “2018 Restricted Unit Plan” and together with the 2009 Restricted Unit Plan, from which there are still unvested awards outstanding, the “Restricted Unit Plans”).  Unless otherwise stipulated by the Compensation Committee of the Partnership’s Board of Supervisors on or before the grant date, 33.33% of all outstanding awards under the Restricted Unit Plans will vest on each of the first three anniversaries of the award grant date.  Participants in the Restricted Unit Plans are not eligible to receive quarterly distributions on, or vote, their respective restricted units until vested.  Restricted units cannot be sold or transferred prior to vesting. The value of each restricted unit is established by the market price of the Common Unit on the date of grant, net of estimated future distributions during the vesting period.  Restricted units are subject to forfeiture in certain circumstances as defined in the Restricted Unit Plans. Compensation expense for the unvested awards is recognized ratably over the vesting periods and is net of estimated forfeitures.

During the nine months ended June 27, 2020, the Partnership awarded 471,111 restricted units under the Restricted Unit Plans at an aggregate grant date fair value of $8,567.  The following is a summary of activity for the Restricted Unit Plans for the nine months ended June 27, 2020:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Weighted Average** | |  |
|  |  | **Restricted** | |  |  | **Grant Date Fair** | |  |
|  |  | **Units** | |  |  | **Value Per Unit** | |  |
| **Outstanding September 28, 2019** |  |  | 988,339 |  |  | $ | 18.12 |  |
| Awarded |  |  | 471,111 |  |  |  | 18.19 |  |
| Forfeited |  |  | (8,924 | ) |  |  | (17.99 | ) |
| Vested (1) |  |  | (474,695 | ) |  |  | (19.28 | ) |
| **Outstanding June 27, 2020** |  |  | 975,831 |  |  | $ | 17.59 |  |

|  |  |
| --- | --- |
| (1) | During fiscal 2020, the Partnership withheld 76,453 Common Units from participants for income tax withholding purposes for those executive officers of the Partnership whose shares of restricted units vested during the period. |

As of June 27, 2020, unrecognized compensation cost related to unvested restricted units awarded under the Restricted Unit Plans amounted to $5,263.  Compensation cost associated with unvested awards is expected to be recognized over a weighted-average period of 0.9 years.  Compensation expense for the Restricted Unit Plans, net of forfeitures, for the three and nine months ended June 27, 2020 was $2,262 and $7,084, respectively, and $2,280 and $8,855, for the three and nine months ended June 29, 2019, respectively.

**Distribution Equivalent Rights Plan.**  On January 17, 2017, the Partnership adopted the Distribution Equivalent Rights Plan (the “DER Plan”), which gives the Compensation Committee of the Partnership’s Board of Supervisors discretion to award distribution equivalent rights (“DERs”) to executive officers of the Partnership.  Once awarded, DERs entitle the grantee to a cash payment each time the Board of Supervisors declares a cash distribution on the Partnership’s Common Units, which cash payment will be equal to an amount calculated by multiplying the number of unvested restricted units which are held by the grantee on the record date of the distribution, by the amount of the declared distribution per Common Unit.  Compensation expense recognized under the DER Plan for the three and nine months ended June 27, 2020 was $237 and $842, respectively, and $264 and $784, for the three and nine months ended June 29, 2019, respectively.

**Long-Term Incentive Plan.**  On August 6, 2013, the Partnership adopted the 2014 Long-Term Incentive Plan (the “LTIP”).  The LTIP is a non-qualified, unfunded, long-term incentive plan for executive officers and key employees that provides for payment, in the form of cash, of an award of equity-based compensation at the end of a three-year performance period.  The level of compensation earned under the LTIP is based on the Partnership’s average distribution coverage ratio over the three-year measurement period.  The Partnership’s average distribution coverage ratio is calculated as the Partnership’s average distributable cash flow, as defined by the LTIP, for each of the three years in the measurement period, subject to certain adjustments as set forth in the LTIP, divided by the amount of annualized cash distributions to be paid by the Partnership.

As a result of the quarterly remeasurement of the liability for awards under the LTIP, compensation expense recognized for the three and nine months ended June 27, 2020 was $1,304 and $18, respectively, and $1,271 and $4,470, for the three and nine months ended June 29, 2019, respectively.  As of June 27, 2020 and September 28, 2019, the Partnership had a liability included within accrued employment and benefit costs (or other liabilities, as applicable) of $7,256 and $10,201, respectively, related to estimated future payments under the LTIP.  In the first quarter of fiscal 2020, cash payouts totaling $2,963 were made relating to the fiscal 2017 award.

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| **13.** | **Commitments and Contingencies** |

**Accrued Insurance.**  The Partnership is self-insured for general and product, workers’ compensation and automobile liabilities up to predetermined amounts above which third party insurance applies.  As of June 27, 2020 and September 28, 2019, the Partnership had accrued liabilities of $72,652 and $67,279, respectively, representing the total estimated losses for known and anticipated or unasserted general and product, workers’ compensation and automobile claims.  For the portion of the estimated liability that exceeds insurance deductibles, the Partnership records an asset within other assets (or prepaid expenses and other current assets, as applicable) related to the amount of the liability expected to be covered by insurance which amounted to $17,283 and $18,110 as of June 27, 2020 and September 28, 2019, respectively.

**Legal Matters.**  The Partnership’s operations are subject to operating hazards and risks normally incidental to handling, storing and delivering combustible liquids such as propane. The Partnership has been, and will continue to be, a defendant in various legal proceedings and litigation as a result of these operating hazards and risks, and as a result of other aspects of its business.  In this regard, the Partnership’s natural gas and electricity business is currently a defendant in two putative class action suits in the federal district courts of New York and Pennsylvania.  The complaints allege a number of claims under various consumer statutes and common law in New York and Pennsylvania regarding pricing offered to electricity customers in those states.  The complaint in the Pennsylvania action was dismissed in its entirety by the district court, which dismissal is being appealed by the plaintiff.  The complaint in the New York action was dismissed in part by the district court, but causes of action based on the New York consumer statute and breach of contract were allowed to proceed.  Based on the nature of the allegations under these suits, the Partnership believes that the suits are without merit and is defending each of these suits vigorously.  With respect to these pending suits, the Partnership has determined, based on the allegations and discovery to date, that no reserve for a loss contingency is required.  The Partnership is unable to reasonably estimate the possible loss or range of loss, if any, arising from either of these two actions.  Although any litigation is inherently uncertain, based on past experience, the information currently available to the Partnership, and the amount of its accrued insurance liabilities, the Partnership does not believe that currently pending or threatened litigation matters, or known claims or known contingent claims, will have a material adverse effect on its results of operations, financial condition or cash flow**.**

During the first quarter of fiscal 2020, the Partnership recorded a charge of $5,000 for the settlement of certain product liability and other legal matters.  The settled claims were paid in the second quarter of fiscal 2020.

**COVID-19 Pandemic.**  The impact of the COVID-19 pandemic continues to evolve subsequent to the quarter ended June 27, 2020.  Although the Partnership believes the quarterly and year-to-date financial information included herein properly reflects all facts known at this time, the Partnership is not able to estimate the full financial impact of this pandemic.  The Partnership’s supply chain, including its suppliers and business partners, has not been materially impacted and the Partnership has been able to acquire sufficient supplies of the products it sells.  Additionally, the Partnership continues to obtain the necessary liquidity to sustain its operations through collections of accounts receivable as well as access to its Revolving Credit Facility available under the Credit Agreement.  The Partnership will continue to actively monitor and manage the economic impact of the COVID-19 pandemic and ensure new information is reflected within future financial information.

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| **14.** | **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 2028.  Upon completion of the lease period, the Partnership guarantees that the fair value of the equipment will equal or exceed the guaranteed amount, or the Partnership will pay the lessor the difference.  Although the fair value of equipment at the end of its lease term has historically exceeded the guaranteed amounts, the maximum potential amount of aggregate future payments the Partnership could be required to make under these leasing arrangements, assuming the equipment is deemed worthless at the end of the lease term, was $24,033 as of June 27, 2020.  The fair value of residual value guarantees for outstanding operating leases was de minimis as of June 27, 2020 and September 28, 2019.

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| **15.** | **Pension Plans and Other Postretirement Benefits** |

The following table provides the components of net periodic benefit costs:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Pension Benefits** | | | | | | | | | | | | | |  |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Interest cost |  | $ | 720 |  |  | $ | 987 |  |  | $ | 2,160 |  |  | $ | 2,958 |  |
| Expected return on plan assets |  |  | (321 | ) |  |  | (432 | ) |  |  | (961 | ) |  |  | (1,293 | ) |
| Amortization of net loss |  |  | 862 |  |  |  | 867 |  |  |  | 2,586 |  |  |  | 2,600 |  |
| Pension settlement charge |  |  | 900 |  |  |  | — |  |  |  | 900 |  |  |  | — |  |
| Net periodic benefit cost |  | $ | 2,161 |  |  | $ | 1,422 |  |  | $ | 4,685 |  |  | $ | 4,265 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Postretirement Benefits** | | | | | | | | | | | | | |  |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Interest cost |  | $ | 38 |  |  | $ | 69 |  |  | $ | 113 |  |  | $ | 206 |  |
| Amortization of prior service credits |  |  | (125 | ) |  |  | (125 | ) |  |  | (373 | ) |  |  | (374 | ) |
| Amortization of net (gain) |  |  | (196 | ) |  |  | (190 | ) |  |  | (590 | ) |  |  | (570 | ) |
| Net periodic benefit cost |  | $ | (283 | ) |  | $ | (246 | ) |  | $ | (850 | ) |  | $ | (738 | ) |

The Partnership expects to contribute approximately $3,800 to the defined benefit pension plan during fiscal 2020, of which $2,030 was contributed during the nine months ended June 27, 2020.  The projected annual contribution requirements related to the Partnership’s postretirement health care and life insurance benefit plan for fiscal 2020 is $970, of which $644 was contributed during the nine months ended June 27, 2020.  During the third quarter of fiscal 2020, lump sum pension settlement payments exceeded the settlement threshold (combined service and interest costs of net periodic pension cost) of $2,880, which required the Partnership to recognize a non-cash settlement charge of $900.  This non-cash charge was required to accelerate recognition of a portion of cumulative unamortized losses in the defined benefit pension plans.  The components of net periodic benefit cost are included in the line item Other, net in the condensed consolidated statements of operations.

The Partnership contributes to multi-employer pension plans (“MEPPs”) in accordance with various collective bargaining agreements covering union employees.  As one of the many participating employers in these MEPPs, the Partnership is responsible with the other participating employers for any plan underfunding.  As of June 27, 2020 and September 28, 2019, the Partnership’s estimated obligation to these MEPPs was $20,654 and $21,441, respectively, as a result of its voluntary full withdrawal from certain MEPPs.

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| --- | --- |
| **16.** | **Amounts Reclassified Out of Accumulated Other Comprehensive Income** |

The following table summarizes amounts reclassified out of accumulated other comprehensive income (loss) for the three and nine months ended June 27, 2020 and June 29, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Pension Benefits** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, beginning of period |  | $ | (32,009 | ) |  | $ | (31,447 | ) |  | $ | (33,733 | ) |  | $ | (33,180 | ) |
| Reclassifications to earnings: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Recognition of net actuarial loss for pension settlement (1) |  |  | 900 |  |  |  | — |  |  |  | 900 |  |  |  | — |  |
| Amortization of net loss (1) |  |  | 862 |  |  |  | 867 |  |  |  | 2,586 |  |  |  | 2,600 |  |
| Other comprehensive income |  |  | 1,762 |  |  |  | 867 |  |  |  | 3,486 |  |  |  | 2,600 |  |
| Balance, end of period |  | $ | (30,247 | ) |  | $ | (30,580 | ) |  | $ | (30,247 | ) |  | $ | (30,580 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Postretirement Benefits** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, beginning of period |  | $ | 6,905 |  |  | $ | 7,881 |  |  | $ | 7,547 |  |  | $ | 8,510 |  |
| Reclassifications to earnings: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of net gain and prior service credits (1) |  |  | (321 | ) |  |  | (315 | ) |  |  | (963 | ) |  |  | (944 | ) |
| Other comprehensive loss |  |  | (321 | ) |  |  | (315 | ) |  |  | (963 | ) |  |  | (944 | ) |
| Balance, end of period |  | $ | 6,584 |  |  | $ | 7,566 |  |  | $ | 6,584 |  |  | $ | 7,566 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Accumulated Other Comprehensive Income (Loss)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, beginning of period |  | $ | (25,104 | ) |  | $ | (23,566 | ) |  | $ | (26,186 | ) |  | $ | (24,670 | ) |
| Reclassifications to earnings |  |  | 541 |  |  |  | 552 |  |  |  | 1,623 |  |  |  | 1,656 |  |
| Recognition of net actuarial loss for pension settlement |  |  | 900 |  |  |  | — |  |  |  | 900 |  |  |  | — |  |
| Other comprehensive income |  |  | 1,441 |  |  |  | 552 |  |  |  | 2,523 |  |  |  | 1,656 |  |
| Balance, end of period |  | $ | (23,663 | ) |  | $ | (23,014 | ) |  | $ | (23,663 | ) |  | $ | (23,014 | ) |

|  |  |
| --- | --- |
| (1) | These amounts are included in the computation of net periodic benefit cost.  See Note 15, “Pension Plans and Other Postretirement Benefits.” |

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| --- | --- |
| **17.** | **Income Taxes** |

For federal income tax purposes, as well as for state income tax purposes in the majority of the states in which the Partnership operates, the earnings attributable to the Partnership and the Operating Partnership are not subject to income tax at the partnership level.  With the exception of those states that impose an entity-level income tax on partnerships, the taxable income or loss attributable to the Partnership and to the Operating Partnership, which may vary substantially from the income (loss) before income taxes reported by the Partnership in the condensed consolidated statement of operations, are includable in the federal and state income tax returns of the Common Unitholders.  The aggregate difference in the basis of the Partnership’s net assets for financial and tax reporting purposes cannot be readily determined as the Partnership does not have access to each Common Unitholder’s basis in the Partnership.

As described in Note 1 “Partnership Organization and Formation”, the earnings of the Corporate Entities are subject to U.S. corporate level income tax.  However, based upon past performance, the Corporate Entities are currently reporting an income tax provision composed primarily of minimum state income taxes.  A full valuation allowance has been provided against the deferred tax assets (with the exception of certain NOLs, which is defined and explained below, that arose after the enactment of the Tax Cuts and Jobs Act (“2017 Act”)) based upon an analysis of all available evidence, both negative and positive at the balance sheet date, which, taken as a whole, indicates that it is more likely than not that sufficient future taxable income will not be available to utilize the assets.  Management’s periodic reviews include, among other things, the nature and amount of the taxable income and expense items, the expected timing of when assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings.  Furthermore, management considered tax-planning strategies it could use to increase the likelihood that the deferred tax assets will be realized.

On December 22, 2017, the 2017 Act was signed into law, which enacted significant changes to U.S. tax and related laws.  Some of the provisions of the 2017 Act that could affect the Partnership, the Operating Partnership and their subsidiaries include, but are not limited to, a reduction of the federal corporate income tax rate from 35% to 21%, limitations on the deductibility of net business interest expense, restrictions on the use of net operating loss carryforwards (“NOLs”) arising in taxable years beginning after

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December 31, 2017 and full expensing for certain qualified property, certain of which have been suspended or modified by the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”).

In the case of a corporation, the 2017 Act made Alternative Minimum Tax (“AMT”) credit carryforwards fully refundable without regard to future taxable income. Accordingly, the Partnership concluded that the existing valuation allowance on the AMT credit carryforwards of the Corporate Entities should be released as part of accounting for tax reform.  The reversal of the valuation allowance resulted in a $1,086 discrete deferred tax benefit being recorded during the first quarter of fiscal 2018.  As of June 27, 2020, all of the AMT credit carryforwards have been refunded.  In addition, also as a result of the 2017 Act, NOLs generated beginning in 2018 have an indefinite life.  As a result, the Partnership reversed the valuation allowance on certain of these NOLs generated after the 2017 Act which resulted in a $496 discrete deferred tax benefit recorded during the first quarter of fiscal 2020.

|  |  |
| --- | --- |
| **18.** | **Segment Information** |

The Partnership manages and evaluates its operations in four operating segments, three of which are reportable segments: Propane, Fuel Oil and Refined Fuels, and Natural Gas and Electricity. The chief operating decision maker evaluates performance of the operating segments using a number of performance measures, including gross margins and income before interest expense and provision for income taxes (operating profit). Costs excluded from these profit measures 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 within the condensed consolidated statements of operations.  In addition, certain costs associated with field operations support that are reported in operating expenses within the condensed consolidated statements of operations, including purchasing, training and safety, are not allocated to the individual operating segments.  Thus, operating profit for each operating segment includes only the costs that are directly attributable to the operations of the individual segment.  The accounting policies of the operating segments are otherwise the same as those described in Note 2, “Summary of Significant Accounting Policies,” in the Partnership’s Annual Report on Form 10-K for the fiscal year ended September 28, 2019.

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.

Activities in the “all other” category include the Partnership’s service business, which is primarily engaged in the sale, installation and servicing of a wide variety of home comfort equipment, particularly in the areas of heating and ventilation.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 179,049 |  |  | $ | 183,052 |  |  | $ | 812,160 |  |  | $ | 937,468 |  |
| Fuel oil and refined fuels |  |  | 11,702 |  |  |  | 12,921 |  |  |  | 69,095 |  |  |  | 83,428 |  |
| Natural gas and electricity |  |  | 6,099 |  |  |  | 7,527 |  |  |  | 25,018 |  |  |  | 38,527 |  |
| All other |  |  | 10,056 |  |  |  | 10,712 |  |  |  | 35,566 |  |  |  | 36,270 |  |
| Total revenues |  | $ | 206,906 |  |  | $ | 214,212 |  |  | $ | 941,839 |  |  | $ | 1,095,693 |  |
| **Operating income (loss):** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 32,074 |  |  | $ | 21,038 |  |  | $ | 233,339 |  |  | $ | 254,159 |  |
| Fuel oil and refined fuels |  |  | 1,078 |  |  |  | (1,084 | ) |  |  | 10,197 |  |  |  | 10,457 |  |
| Natural gas and electricity |  |  | 1,742 |  |  |  | 1,059 |  |  |  | 6,749 |  |  |  | 8,772 |  |
| All other |  |  | (5,053 | ) |  |  | (5,018 | ) |  |  | (15,286 | ) |  |  | (13,814 | ) |
| Corporate |  |  | (24,961 | ) |  |  | (24,779 | ) |  |  | (72,640 | ) |  |  | (77,734 | ) |
| Total operating income (loss) |  |  | 4,880 |  |  |  | (8,784 | ) |  |  | 162,359 |  |  |  | 181,840 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Reconciliation to net (loss) income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loss on debt extinguishment |  |  | — |  |  |  | — |  |  |  | 109 |  |  |  | — |  |
| Interest expense, net |  |  | 18,474 |  |  |  | 18,906 |  |  |  | 56,722 |  |  |  | 58,041 |  |
| Other, net |  |  | 1,878 |  |  |  | 1,176 |  |  |  | 3,835 |  |  |  | 3,527 |  |
| Provision for (benefit from) income taxes |  |  | 106 |  |  |  | 175 |  |  |  | (253 | ) |  |  | 578 |  |
| Net (loss) income |  | $ | (15,578 | ) |  | $ | (29,041 | ) |  | $ | 101,946 |  |  | $ | 119,694 |  |
| **Depreciation and amortization:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 26,724 |  |  | $ | 26,828 |  |  | $ | 80,575 |  |  | $ | 81,722 |  |
| Fuel oil and refined fuels |  |  | 451 |  |  |  | 594 |  |  |  | 1,426 |  |  |  | 1,619 |  |
| Natural gas and electricity |  |  | 6 |  |  |  | — |  |  |  | 12 |  |  |  | — |  |
| All other |  |  | 47 |  |  |  | 49 |  |  |  | 142 |  |  |  | 149 |  |
| Corporate |  |  | 1,925 |  |  |  | 2,680 |  |  |  | 5,560 |  |  |  | 7,355 |  |
| Total depreciation and amortization |  | $ | 29,153 |  |  | $ | 30,151 |  |  | $ | 87,715 |  |  | $ | 90,845 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **June 27,** | |  |  | **September 28,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| **Assets:** |  |  |  |  |  |  |  |  |
| Propane |  | $ | 1,957,320 |  |  | $ | 1,904,344 |  |
| Fuel oil and refined fuels |  |  | 49,079 |  |  |  | 44,279 |  |
| Natural gas and electricity |  |  | 10,656 |  |  |  | 11,907 |  |
| All other |  |  | 16,402 |  |  |  | 2,950 |  |
| Corporate |  |  | 41,511 |  |  |  | 34,868 |  |
| Total assets |  | $ | 2,074,968 |  |  | $ | 1,998,348 |  |

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

The following is a discussion of the financial condition and results of operations of the Partnership as of and for the three and nine months ended June 27, 2020.  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 28, 2019.

**Executive Overview**

The following are factors that regularly affect our operating results and financial condition.  In addition, the COVID-19 pandemic has impacted our operating results and financial condition, which we are managing.  As with most businesses in the current pandemic environment, our performance can be expected to remain impacted as, and to the extent, the pandemic continues and there are ongoing restrictions on business activity. Our business is furthermore 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 28, 2019 and in this Quarterly Report.

***COVID-19 Pandemic***

The COVID-19 pandemic has resulted in increased unemployment, commodity and stock market volatility, and uncertainty about conditions that will prevail in the months ahead. Certain of our commercial and industrial customers have temporarily curtailed or suspended operations in light of the pandemic, many in response to temporary governmental measures seeking to manage the progress of the COVID-19 virus.  We have seen a slowing in cash collections on outstanding accounts receivable as well, which we believe is in response to general economic conditions and uncertainty.  As a result, we are experiencing lower revenues in certain customer sectors, and we are closely monitoring credit and collections activities.  We have also seen restrictions on our ability to decline business or to enforce our collection rights with respect to certain customers who refuse to pay for or negotiate a payment plan for products or services rendered in certain states in which we operate.  While we expect that many of these effects will not be permanent, it is impossible to predict their duration. We have developed, implemented and continue to refine alternative operational plans, inclusive of manpower levels, to address different customer demand scenarios, and we continue to evaluate the potential impact of the COVID-19 pandemic on future cash flows and access to adequate liquidity as we progress through the remainder of fiscal 2020 and plan for a new heating season in fiscal 2021.

***Product Costs and Supply***

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

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

Changes in our costs to acquire and transport products 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 acquisition and transportation cost increases fully or immediately, particularly when such costs increase rapidly.  Therefore, average retail sales prices can vary significantly from year to year as our costs fluctuate with the propane, fuel oil, crude oil and natural gas commodity markets and infrastructure conditions.  In addition, periods of sustained higher commodity and/or transportation prices can lead to customer conservation, resulting in reduced demand for our product.

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***Seasonality***

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

***CARES Act***

On March 27, 2020, Congress passed and the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to provide emergency economic assistance to those affected by the novel coronavirus.  We are taking advantage of certain of the benefits offered under the CARES Act, including but not necessarily limited to:

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|  | • | deferral of our contribution of the employer portion of the social security payroll tax that is otherwise due with respect to wages accrued between March 27, 2020 and December 31, 2020; |

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| --- | --- | --- |
|  | • | acceleration of our ability to recover full refunds for alternative minimum tax credit carryforwards; and |

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| --- | --- | --- |
|  | • | deferral until January 1, 2021, of any, or a portion of, minimum required contributions to our defined benefit pension plan that would otherwise be due during calendar year 2020. |

***Weather***

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

***Hedging and Risk Management Activities***

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

***Critical Accounting Policies and Estimates***

Our significant accounting policies are summarized in Note 2, “Summary of Significant Accounting Policies,” included within the Notes to Consolidated Financial Statements section of our Annual Report on Form 10-K for the fiscal year ended September 28, 2019.

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 accounting principles generally accepted in the United States of America (“US 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

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

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

Consistent with the seasonal nature of our businesses, we typically experience a net loss in the third quarter of our fiscal year.  Net loss for the third quarter of fiscal 2020 was $15.6 million, or $0.25 per Common Unit, compared to a net loss of $29.0 million, or $0.47 per Common Unit, in the 2019 third quarter.  Excluding the effects of unrealized non-cash mark-to-market adjustments on derivative instruments in both years, as well as the $0.9 million pension settlement charge in the third quarter of fiscal 2020, adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA, as defined and reconciled below) increased $12.1 million, or 60.5%, to $32.2 million for the third quarter of fiscal 2020.

Retail propane gallons sold in the third quarter of fiscal 2020 of 75.4 million gallons increased 2.2% compared to the prior year third quarter.  Although weather during the third quarter typically has less of an impact on volumes sold than it does during the heating season, volumes in the third quarter of fiscal 2020 were positively impacted by cooler temperatures during April and May that resulted in strong residential heat-related demand.  The combination of the cooler weather and temporary stay-at-home governmental measures helped drive residential propane usage that more than offset the decline in commercial and industrial volumes due to the economic slowdown resulting from the COVID-19 pandemic.  Average temperatures (as measured by heating degree days) for April and May were 5% colder than normal and 17% colder than April and May of 2019.  Overall, average temperatures across all of our service territories for the third quarter of fiscal 2020 were comparable to normal and 12% colder than the prior year third quarter.

Revenues in the third quarter of fiscal 2020 of $206.9 million decreased $7.3 million, or 3.4%, compared to the prior year third quarter, primarily due to lower retail selling prices associated with lower wholesale product costs, partially offset by an increase in volumes sold.  Average propane prices (basis Mont Belvieu, Texas) for the third quarter of fiscal 2020 decreased 25.8% compared to the prior year third quarter.  Cost of products sold for the third quarter of fiscal 2020 of $59.7 million decreased $18.9 million, or 24.1%, compared to the prior year third quarter, primarily due to lower wholesale product costs.  Cost of products sold included a $0.9 million unrealized non-cash gain attributable to the mark-to-market adjustment for derivative instruments used in risk management activities, compared to a $0.1 million unrealized non-cash gain in the prior year third quarter.  These unrealized mark-to-market adjustments are excluded from Adjusted EBITDA for both periods in the table below.

Combined operating and general and administrative expenses of $113.2 million for the third quarter of fiscal 2020 decreased $1.1 million, or 0.9%, compared to the prior year third quarter, primarily due to savings from various cost containment efforts including lower payroll and benefit-related costs, partially offset by higher variable operating costs to support higher residential demand.

On March 5, 2020 our Operating Partnership entered into a Third Amended and Restated Credit Agreement (the “Credit Agreement”) that provides for a $500.0 million revolving credit facility (the “Revolving Credit Facility”), of which $109.7 million was outstanding as of June 27, 2020.  The Revolving Credit Facility matures on the earlier of (a) the date that is ninety-one (91) days prior to maturity of the 2024 Senior Notes, as defined in Item 1, Note 10 of this Quarterly Report, (unless the notes have been refinanced prior to such date) and (b) March 5, 2025.  The Credit Agreement amends and restates the previous credit agreement to, among other things, extend the maturity, lower borrowing costs, and amend certain affirmative and negative covenants, including an increase to the maximum permitted Total Consolidated Leverage Ratio from 5.50x to 5.75x.

During the third quarter of fiscal 2020, we repaid $35.4 million under our Revolving Credit Facility from operating cash flows, which reduced outstanding borrowings under that facility to $109.7 million at the end of the third quarter.  The increase in Adjusted EBITDA, combined with the debt repayment during the third quarter resulted in our Consolidated Leverage Ratio improving to 4.83x at the end of June 2020.

As previously announced on July 23, 2020, our quarterly distribution was reduced to $0.30 per Common Unit effective for the distribution payable in respect of the third quarter of fiscal 2020.  This proactive step will reduce our annual cash requirements by approximately $75 million, and contribute to our efforts to accelerate debt reduction, further strengthen our balance sheet and enhance our financial flexibility to support our strategic growth initiatives.

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Our anticipated cash requirements for the remainder of fiscal 2020 include: (i) maintenance and growth capital expenditures of approximately $8.9 million; (ii) interest and income tax payments of approximately $19.0 million; and (iii) cash distributions of approximately $18.6 million to our Common Unitholders based on the reduced quarterly distribution rate of $0.30 per Common Unit.  Based on our liquidity position, which includes cash on hand, availability of funds under our Revolving Credit Facility and expected cash flow from operating activities, we expect to have sufficient funds to meet our current and future obligations.

The unprecedented health crisis from COVID-19 continues to represent a complex uncertainty, which has had a profound negative overall impact on employment and the economy.  While our business is considered an essential critical service, our business is not immune to the challenges presented by the dramatic economic slowdown instituted to mitigate the spread of the virus.  The areas of our business that have been impacted by the economic slowdown are:

|  |  |  |
| --- | --- | --- |
|  | • | The temporary suspension of business operations by certain of our commercial and industrial customers has resulted in lower demand from these customer markets; |

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|  | • | Depending on the length and depth of the economic slowdown, or the possibility of an economic recession, we could see demand destruction from businesses that are unable to recover, or from conservation efforts by all customer types; |

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| --- | --- | --- |
|  | • | We are experiencing a slowdown in the rate of cash collections, and a higher amount of bad debts, from all customer types as they deal with their own economic uncertainties; |

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| --- | --- | --- |
|  | • | In certain states, restrictions were placed on our business that would otherwise allow us to decline or refuse to service certain customers who have not or are unwilling to pay for product delivered or services rendered; |

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| --- | --- | --- |
|  | • | There may be potential disruptions in the propane supply chain resulting from the combination of lower commodity prices and a lower demand outlook for crude oil, and the resultant impact on propane and fuel oil production and logistics; and |

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| --- | --- | --- |
|  | • | The potential for increasing costs to implement additional measures to help protect our employees, customers and local communities as state and federal governments provide and update guidance on workplace safety protocols. |

Although there is uncertainty related to the anticipated impact of the COVID-19 pandemic on our future results, we believe our efficient and flexible business model, as well as the recent steps taken to strengthen our balance sheet and reduce our cash requirements, leave us well positioned to manage our business through the crisis as it continues to unfold.  Nonetheless, as we progress through the fiscal 2020 fourth quarter, there remains significant uncertainty regarding the length of the economic slowdown and the scope and duration of governmental policies that have been, or may in the future be, instituted to mitigate the spread of COVID-19, the timing of a potential economic recovery and the potential impact on the ability of our customers to recover from the effects of the slowdown.  We will continue to adapt to the changing circumstances and make decisions to help ensure the long-term sustainability of our businesses, and to be able to be opportunistic for strategic growth initiatives.

In response, we developed, implemented and continue to refine alternative operational plans, inclusive of manpower levels, to address different customer demand scenarios, and we continue to evaluate the potential impact of the COVID-19 pandemic on future cash flows and access to adequate liquidity as we progress through the remainder of fiscal 2020 and plan for a new heating season in fiscal 2021.

***Three Months Ended June 27, 2020 Compared to Three Months Ended June 29, 2019***

*Revenues*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars and gallons in thousands)** |  | **Three Months Ended** | | | | | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  | **(Decrease)** | |  |  | **(Decrease)** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 179,049 |  |  | $ | 183,052 |  |  | $ | (4,003 | ) |  |  | (2.2 | )% |
| Fuel oil and refined fuels |  |  | 11,702 |  |  |  | 12,921 |  |  |  | (1,219 | ) |  |  | (9.4 | )% |
| Natural gas and electricity |  |  | 6,099 |  |  |  | 7,527 |  |  |  | (1,428 | ) |  |  | (19.0 | )% |
| All other |  |  | 10,056 |  |  |  | 10,712 |  |  |  | (656 | ) |  |  | (6.1 | )% |
| Total revenues |  | $ | 206,906 |  |  | $ | 214,212 |  |  | $ | (7,306 | ) |  |  | (3.4 | )% |
| Retail gallons sold |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  |  | 75,383 |  |  |  | 73,785 |  |  |  | 1,598 |  |  |  | 2.2 | % |
| Fuel oil and refined fuels |  |  | 4,797 |  |  |  | 4,331 |  |  |  | 466 |  |  |  | 10.8 | % |

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As discussed above, average temperatures (as measured in heating degrees days) across all of our service territories during the third quarter of fiscal 2020 were normal and 12% cooler than the prior year third quarter.  The increase in heating degrees days compared to the prior year were concentrated in the months of April and May with temperatures that were 17% colder than the same period of the prior year and 5% colder than normal, which contributed to an increase in customer demand for heating needs.  The COVID-19 pandemic had a varying impact on customer demand during the third quarter of fiscal 2020.  While the temporary suspension of business operations resulted in lower commercial and industrial demand, our residential volumes benefitted from the voluntary and government mandated stay-at-home requirements on propane residential usage.

Revenues from the distribution of propane and related activities of $179.0 million decreased $4.0 million, or 2.2%, compared to the prior year, primarily due to lower average retail selling prices, offset to an extent by an increase in volumes sold.  Average propane selling prices decreased 4.0% compared to the prior year, reflecting lower average wholesale costs, resulting in a $7.4 million decrease in revenues.  Retail propane gallons sold increased 1.6 million gallons, or 2.2%, compared to the prior year, resulting in a $4.0 million increase in revenues.  The increase in propane volumes sold was driven by the combination of cooler weather and stay-at-home measures that resulted in residential propane usage more than offsetting the decline in commercial and industrial volumes.  Residential volumes sold increased 21.4% compared to the prior year, whereas commercial and industrial volumes decreased 9.0% compared to the prior year.  Included within the propane segment are revenues from other propane activities, which decreased $0.6 million primarily due to a lower notional amount of hedging contracts used in risk management activities that were settled physically.

Revenues from the distribution of fuel oil and refined fuels of $11.7 million were $1.2 million, or 9.4%, lower than the prior year, primarily due to lower average retail selling prices, offset to an extent by an increase in volumes sold.  Average fuel oil and refined fuels selling prices decreased 18.3% compared to the prior year, reflecting lower average wholesale costs, resulting in a $2.6 million decrease in revenues.  Fuel oil and refined fuels gallons sold increased 10.8%, primarily due to the cooler weather across our service territories in the northeast, resulting in a $1.4 million increase in revenues.

Revenues in our natural gas and electricity segment of $6.1 million were $1.4 million, or 19.0%, lower than the prior year, primarily due to a reduction to the customer base resulting from actions taken by the New York State Public Utility Commission that limited energy service companies, including our natural gas and electricity business, from servicing certain customers in the state of New York, and, to a lesser extent, lower average selling prices.

*Cost of Products Sold*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Cost of products sold |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 47,981 |  |  | $ | 61,803 |  |  | $ | (13,822 | ) |  |  | (22.4 | )% |
| Fuel oil and refined fuels |  |  | 5,903 |  |  |  | 9,245 |  |  |  | (3,342 | ) |  |  | (36.1 | )% |
| Natural gas and electricity |  |  | 3,103 |  |  |  | 4,381 |  |  |  | (1,278 | ) |  |  | (29.2 | )% |
| All other |  |  | 2,702 |  |  |  | 3,167 |  |  |  | (465 | ) |  |  | (14.7 | )% |
| Total cost of products sold |  | $ | 59,689 |  |  | $ | 78,596 |  |  | $ | (18,907 | ) |  |  | (24.1 | )% |
| As a percent of total revenues |  |  | 28.8 | % |  |  | 36.7 | % |  |  |  |  |  |  |  |  |

The cost of products sold reported in the condensed consolidated statements of operations represents the weighted average unit cost of propane, fuel oil and refined fuels, and natural gas and electricity sold, including transportation costs to deliver product from our supply points to storage or to our customer service centers.  Cost of products sold also includes the cost of appliances and related parts sold or installed by our customer service centers computed on a basis that approximates the average cost of the products.

Given the retail nature of our operations, we maintain a certain level of priced physical inventory to help ensure that our field operations have adequate supply commensurate with the time of year.  Our strategy has been, and will continue to be, to keep our physical inventory priced relatively close to market for our field operations.  Consistent with past practices, we principally utilize futures and/or options contracts traded on the NYMEX to mitigate the price risk associated with our priced physical inventory.  In addition, we sell propane and fuel oil to customers at fixed prices, and enter into derivative instruments to hedge a portion of our exposure to fluctuations in commodity prices as a result of selling the fixed price contracts.  At expiration, the derivative 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 market price and the fixed contract price or option exercise price.  Under this risk management strategy, realized gains or losses on futures or options contracts, which are reported in cost of products sold, will typically offset losses or gains on the physical inventory once the product is sold (which may or may not occur in the same accounting period).  We do not use futures or options contracts, or other derivative instruments, for speculative trading purposes.  Unrealized non-cash gains or losses from changes

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in the fair value of derivative instruments that are not designated as cash flow hedges are recorded within cost of products sold.  Cost of products sold excludes depreciation and amortization; these amounts are reported separately within the condensed consolidated statements of operations.

In the commodities markets, average posted propane prices (basis Mont Belvieu, Texas) and fuel oil prices were 25.8% and 50.9% lower than the prior year third quarter, respectively.  The net change in the fair value of derivative instruments resulted in a $0.9 million unrealized non-cash gain in the third quarter of fiscal 2020 compared to a $0.1 million unrealized non-cash gain in the prior year quarter, resulting in a decrease of $0.8 million in cost of products sold year-over-year, all of which was reported within the propane segment.  These unrealized mark-to-market adjustments are excluded from Adjusted EBITDA for both periods.

Cost of products sold associated with the distribution of propane and related activities of $48.0 million decreased $13.8 million, or 22.4%, compared to the prior year third quarter, primarily due to lower average wholesale costs, offset to an extent by higher volumes sold. Lower average wholesale costs contributed to a decrease in cost of products sold of $17.2 million, and higher volumes sold contributed to an increase in cost of products sold of $1.4 million.  Included within the propane segment are costs from other propane activities which increased $2.8 million compared to the prior year, as well as the $0.8 million impact of mark-to-market adjustments on derivative instruments discussed above.

Cost of products sold associated with our fuel oil and refined fuels segment of $5.9 million decreased $3.3 million, or 36.1%, compared to the prior year third quarter.  Lower average wholesale costs led to a decrease in costs of products sold of $4.3 million, which was partially offset by a $1.0 million impact from higher volumes sold.

Cost of products sold in our natural gas and electricity segment of $3.1 million decreased $1.3 million, or 29.2%, compared to the prior year primarily due to lower wholesale costs for electricity and natural gas, and lower usage.

Total cost of products sold as a percent of total revenues decreased 7.9 percentage points to 28.8% from 36.7% primarily due to the year-over-year decline in wholesale propane costs outpacing the year-over-year decline in average propane selling prices, and to a lesser extent, the impact of mark-to-market adjustments on derivative instruments.

*Operating Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Operating expenses |  | $ | 96,086 |  |  | $ | 97,804 |  |  | $ | (1,718 | ) |  |  | (1.8 | )% |
| As a percent of total revenues |  |  | 46.4 | % |  |  | 45.7 | % |  |  |  |  |  |  |  |  |

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

Operating expenses of $96.1 million for the third quarter of fiscal 2020 decreased $1.7 million, or 1.8%, compared to the prior year third quarter, primarily due to savings from various cost containment efforts; including lower payroll and benefit-related costs, partially offset by higher variable operating costs to support higher volume-related demand, an increase in accruals for self-insured liabilities and higher bad debt expense.

*General and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Increase** | |  |  | **Increase** | |  |
| General and administrative expenses |  | $ | 17,098 |  |  | $ | 16,445 |  |  | $ | 653 |  |  |  | 4.0 | % |
| As a percent of total revenues |  |  | 8.3 | % |  |  | 7.7 | % |  |  |  |  |  |  |  |  |

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.

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General and administrative expenses of $17.1 million for the third quarter of fiscal 2020 increased $0.7 million, or 4.0%, compared to the prior year third quarter, primarily due to higher professional fees.

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Depreciation and amortization |  | $ | 29,153 |  |  | $ | 30,151 |  |  | $ | (998 | ) |  |  | (3.3 | )% |
| As a percent of total revenues |  |  | 14.1 | % |  |  | 14.1 | % |  |  |  |  |  |  |  |  |

Depreciation and amortization expense of $29.2 million for the third quarter of fiscal 2020 decreased $1.0 million, or 3.3%, compared to the prior year quarter, primarily due to accelerated depreciation expense recorded in the prior year for assets taken out of service.

*Interest Expense, net*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Interest expense, net |  | $ | 18,474 |  |  | $ | 18,906 |  |  | $ | (432 | ) |  |  | (2.3 | )% |
| As a percent of total revenues |  |  | 8.9 | % |  |  | 8.8 | % |  |  |  |  |  |  |  |  |

Net interest expense of $18.5 million in the third quarter of fiscal 2020 decreased $0.4 million compared to the prior year quarter, primarily due to a decrease in benchmark interest rates on borrowings under our Revolving Credit Facility.  See Liquidity and Capital Resources below for additional discussion.

*EBITDA and Adjusted EBITDA*

EBITDA represents net income before deducting interest expense, income taxes, depreciation and amortization.  Adjusted EBITDA represents EBITDA excluding the unrealized net gain or loss on mark-to-market activity for derivative instruments and other items, as applicable, as provided in the table below. Our management uses EBITDA and Adjusted EBITDA as supplemental measures of operating performance and we are including them because we believe that they provide our investors and industry analysts with additional information that we determined is useful to evaluate our operating results.  EBITDA and Adjusted EBITDA are not recognized terms under US GAAP and should not be considered as an alternative to net income or net cash provided by operating activities determined in accordance with US GAAP.  Because EBITDA and Adjusted EBITDA as determined by us excludes some, but not all, items that affect net income, they may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other companies.

The following table sets forth our calculations of EBITDA and Adjusted EBITDA:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Net loss |  | $ | (15,578 | ) |  | $ | (29,041 | ) |
| Add: |  |  |  |  |  |  |  |  |
| Provision for income taxes |  |  | 106 |  |  |  | 175 |  |
| Interest expense, net |  |  | 18,474 |  |  |  | 18,906 |  |
| Depreciation and amortization |  |  | 29,153 |  |  |  | 30,151 |  |
| EBITDA |  |  | 32,155 |  |  |  | 20,191 |  |
| Unrealized non-cash (gains) on changes in fair value of derivatives |  |  | (861 | ) |  |  | (138 | ) |
| Pension settlement charge |  |  | 900 |  |  |  | — |  |
| Adjusted EBITDA |  | $ | 32,194 |  |  | $ | 20,053 |  |

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***Nine Months Ended June 27, 2020 Compared to Nine Months Ended June 29, 2019***

*Revenues*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars and gallons in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **(Decrease)** | |  |  | **(Decrease)** | |  |
| Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 812,160 |  |  | $ | 937,468 |  |  | $ | (125,308 | ) |  |  | (13.4 | )% |
| Fuel oil and refined fuels |  |  | 69,095 |  |  |  | 83,428 |  |  |  | (14,333 | ) |  |  | (17.2 | )% |
| Natural gas and electricity |  |  | 25,018 |  |  |  | 38,527 |  |  |  | (13,509 | ) |  |  | (35.1 | )% |
| All other |  |  | 35,566 |  |  |  | 36,270 |  |  |  | (704 | ) |  |  | (1.9 | )% |
| Total revenues |  | $ | 941,839 |  |  | $ | 1,095,693 |  |  | $ | (153,854 | ) |  |  | (14.0 | )% |
| Retail gallons sold |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  |  | 341,632 |  |  |  | 363,079 |  |  |  | (21,447 | ) |  |  | (5.9 | )% |
| Fuel oil and refined fuels |  |  | 23,354 |  |  |  | 26,707 |  |  |  | (3,353 | ) |  |  | (12.6 | )% |

Average temperatures (as measured in heating degree days) across all of our service territories for the first nine months of fiscal 2020 were 10% and 6% warmer than normal and the prior year period, respectively.  The warmer temperatures compared to the prior year were experienced throughout most of the fiscal 2020 heating season, with exceptionally warm temperatures occurring during December 2019 through February 2020 which are the most critical months for heat-related demand, with colder than normal temperatures only arriving for the less impactful third fiscal quarter, as discussed above.  Average temperatures during the months of December 2019 through February 2020 were 14% warmer than normal, which was comparable to the warmest temperatures on record for that period, and 7% warmer than the same period of the prior year.

Revenues from the distribution of propane and related activities of $812.2 million decreased $125.3 million, or 13.4%, compared to the corresponding prior year period, primarily due to lower average retail selling prices and lower volumes sold.  Average propane selling prices decreased 7.5% compared to the prior year period reflecting lower average wholesale costs, resulting in a $66.0 million decrease in revenues.  Retail propane gallons sold decreased 21.4 million gallons, or 5.9%, compared to the prior year, resulting in a $55.1 million decrease in revenues.  Included within the propane segment are revenues from other propane activities, which decreased $4.2 million primarily due to a lower notional amount of hedging contracts used in risk management activities that were settled physically.

Revenues from the distribution of fuel oil and refined fuels of $69.1 million decreased $14.3 million, or 17.2%, compared to the first nine months of the prior year, primarily due to lower volumes sold and lower average selling prices.  Fuel oil and refined fuels volumes sold decreased 3.4 million gallons, or 12.6%, resulting in a $10.4 million decrease in revenues.  Average selling prices for fuel oil and refined fuels decreased 5.4%, resulting in a $3.9 million decrease in revenues.

Revenues in our natural gas and electricity segment of $25.0 million were $13.5 million, or 35.1%, lower than the prior year period, resulting from actions taken by the New York State Public Utility Commission that limited energy service companies, including our natural gas and electricity business, from servicing certain customers in the state of New York, and a decrease in usage due to warmer weather in the northeast.

*Cost of Products Sold*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  | **(Decrease)** | |  |  | **(Decrease)** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Cost of products sold |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Propane |  | $ | 261,798 |  |  | $ | 372,403 |  |  | $ | (110,605 | ) |  |  | (29.7 | )% |
| Fuel oil and refined fuels |  |  | 42,780 |  |  |  | 56,779 |  |  |  | (13,999 | ) |  |  | (24.7 | )% |
| Natural gas and electricity |  |  | 13,532 |  |  |  | 23,277 |  |  |  | (9,745 | ) |  |  | (41.9 | )% |
| All other |  |  | 10,297 |  |  |  | 10,244 |  |  |  | 53 |  |  |  | 0.5 | % |
| Total cost of products sold |  | $ | 328,407 |  |  | $ | 462,703 |  |  | $ | (134,296 | ) |  |  | (29.0 | )% |
| As a percent of total revenues |  |  | 34.9 | % |  |  | 42.2 | % |  |  |  |  |  |  |  |  |

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In the commodities markets, average posted propane prices (basis Mont Belvieu, Texas) and fuel oil prices were 36.5% and 25.2% lower than the first nine months of the prior year, respectively.  The net change in the fair value of derivative instruments resulted in a $1.1 million and $7.3 million unrealized non-cash loss in the first nine months of fiscal 2020 and 2019, respectively, resulting in a decrease of $6.2 million in cost of products sold year-over-year, all of which was reported within the propane segment.  These unrealized mark-to-market adjustments are excluded from Adjusted EBITDA for both periods.

Cost of products sold associated with the distribution of propane and related activities of $261.8 million decreased $110.6 million, or 29.7%, compared to the prior year.  Lower average wholesale costs and lower volumes sold contributed to decreases in cost of products sold of $90.1 million and $21.5 million, respectively.  Included within the propane segment are costs from other propane activities which increased $7.2 million compared to the prior year, as well as the $6.2 million impact of mark-to-market adjustments on derivative instruments discussed above.

Cost of products sold associated with our fuel oil and refined fuels segment of $42.8 million decreased $14.0 million, or 24.7%, compared to the prior year period.  Lower volumes sold and lower average wholesale costs contributed to decreases in cost of products sold of $7.1 million and $6.9 million, respectively.

Cost of products sold in our natural gas and electricity segment of $13.5 million decreased $9.7 million, or 41.9%, compared to the prior year, primarily due to lower usage given the decline in customers as noted above, coupled with lower wholesale costs.

Total cost of products sold as a percent of total revenues decreased 7.3 percentage points to 34.9% from 42.2% primarily due to the year-over-year decline in wholesale propane costs outpacing the decline in average propane selling prices, coupled with the impact of mark-to-market adjustments on derivative instruments.

*Operating Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Operating expenses |  | $ | 313,550 |  |  | $ | 305,367 |  |  | $ | 8,183 |  |  |  | 2.7 | % |
| As a percent of total revenues |  |  | 33.3 | % |  |  | 27.9 | % |  |  |  |  |  |  |  |  |

Operating expenses of $313.6 million for the first nine months of fiscal 2020 increased $8.2 million, or 2.7%, compared to the corresponding prior year period.  The increase in operating expenses was primarily due to an increase in accruals for self-insured liabilities and other legal matters and higher vehicle lease costs, offset to an extent by lower variable volume-related operating costs.

*General and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| General and administrative expenses |  | $ | 49,808 |  |  | $ | 54,938 |  |  | $ | (5,130 | ) |  |  | (9.3 | )% |
| As a percent of total revenues |  |  | 5.3 | % |  |  | 5.0 | % |  |  |  |  |  |  |  |  |

General and administrative expenses of $49.8 million for the first nine months of fiscal 2020 decreased $5.1 million, or 9.3%, compared to the prior year period primarily due to lower variable compensation expenses attributable to lower earnings and lower professional services fees.

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Depreciation and amortization |  | $ | 87,715 |  |  | $ | 90,845 |  |  | $ | (3,130 | ) |  |  | (3.4 | )% |
| As a percent of total revenues |  |  | 9.3 | % |  |  | 8.3 | % |  |  |  |  |  |  |  |  |

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Depreciation and amortization expense of $87.7 million in the first nine months of fiscal 2020 decreased $3.1 million, or 3.4%, primarily as a result of accelerated depreciation recorded in the prior year for assets taken out of service.

*Interest Expense, net*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |  |  |  |  |  | **Percent** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Interest expense, net |  | $ | 56,722 |  |  | $ | 58,041 |  |  | $ | (1,319 | ) |  |  | (2.3 | )% |
| As a percent of total revenues |  |  | 6.0 | % |  |  | 5.3 | % |  |  |  |  |  |  |  |  |

Net interest expense of $56.7 million in the first nine months of fiscal 2020 decreased $1.3 million compared to the prior year, primarily due to a decrease in benchmark interest rates on outstanding borrowings under our Revolving Credit Facility, and a lower level of average outstanding borrowings under that facility.  See Liquidity and Capital Resources below for additional discussion.

*Loss on Debt Extinguishment*

In connection with the refinancing of our previous revolving credit facility during the second quarter of fiscal 2020, we recognized a non-cash charge of $0.1 million to write-off a portion of unamortized debt origination costs.

*EBITDA and Adjusted EBITDA*

The following table sets forth our calculations of EBITDA and Adjusted EBITDA:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 27,** | |  |  | **June 29,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Net income |  | $ | 101,946 |  |  | $ | 119,694 |  |
| Add: |  |  |  |  |  |  |  |  |
| (Benefit from) provision for income taxes |  |  | (253 | ) |  |  | 578 |  |
| Interest expense, net |  |  | 56,722 |  |  |  | 58,041 |  |
| Depreciation and amortization |  |  | 87,715 |  |  |  | 90,845 |  |
| EBITDA |  |  | 246,130 |  |  |  | 269,158 |  |
| Unrealized non-cash losses on changes in fair value of derivatives |  |  | 1,077 |  |  |  | 7,252 |  |
| Pension settlement charge |  |  | 900 |  |  |  | — |  |
| Loss on debt extinguishment |  |  | 109 |  |  |  | — |  |
| Adjusted EBITDA |  | $ | 248,216 |  |  | $ | 276,410 |  |

**Liquidity and Capital Resources**

***Analysis of Cash Flows***

Although there is continuing uncertainty related to the anticipated impact of the COVID-19 pandemic on our future results, we believe our efficient and flexible business model, as well as the recent steps taken to strengthen our balance sheet and reduce our cash requirements leave us well positioned to manage our business through the crisis as it continues to unfold.  Nonetheless, as we progress through the fiscal 2020 fourth quarter, there remains significant uncertainty regarding the length of the economic slowdown instituted to mitigate the spread of COVID-19, the timing of an economic recovery and the impact on the ability of our customers to recover from the effects of the slowdown.  We have developed, implemented and continue to refine alternative operational plans, inclusive of manpower levels to address different customer demand scenarios, and we continue to evaluate the potential impact of the COVID-19 pandemic on our future cash flows and access to adequate liquidity as we progress through the remainder of fiscal 2020 and plan for a new heating season in fiscal 2021.  As announced on July 23, 2020, our quarterly distribution was reduced to $0.30 per Common Unit effective for the third quarter of fiscal 2020, which equates to $1.20 per Common Unit on an annualized basis.  This proactive step will reduce our annual cash requirements by approximately $75 million, and contribute to our efforts to accelerate debt reduction, further strengthen our balance sheet and enhance our financial flexibility to support our strategic growth initiatives

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*Operating Activities.* Net cash provided by operating activities for the first nine months of fiscal 2020 and fiscal 2019 was $169.0 million and $166.1 million, respectively. The $2.9 million year-over-year increase in net cash provided by operating activities was primarily attributable to a smaller increase in working capital during the first nine months of fiscal 2020 compared to the prior year, primarily stemming from the decline in average wholesale costs for propane, offset to an extent by lower earnings (discussed above).

*Investing Activities.*  Net cash used in investing activities of $45.6 million for the first nine months of fiscal 2020 consisted of capital expenditures of $26.1 million (including approximately $15.5 million to support the growth of operations and $10.6 million for maintenance expenditures), and $22.0 million used to fund the acquisitions of two retail propane businesses (see Item 1, Note 4 of this Quarterly Report), partially offset by approximately $2.5 million in proceeds from the sale of property, plant and equipment.

Net cash used in investing activities of $38.5 million for the first nine months of fiscal 2019 consisted of capital expenditures of $24.3 million (including approximately $13.0 million to support the growth of operations and $11.3 million for maintenance expenditures), and $18.9 million used in the acquisition of three businesses, partially offset by $4.7 million in proceeds from the sale of property, plant and equipment.

*Financing Activities.* Net cash used in financing activities for the first nine months of fiscal 2020 reflected $111.6 million paid for the quarterly distributions to Common Unitholders at a rate of $0.60 per Common Unit paid in respect of the fourth quarter of fiscal 2019 and the first and second quarters of fiscal 2020, $2.7 million in issuance costs for the refinancing of our previous revolving credit facility, $3.8 million in net repayments of borrowings under the Revolving Credit Facility and other financing activities of $3.6 million.

Net cash used in financing activities for the first nine months of fiscal 2019 reflected $110.8 million paid for the quarterly distributions to Common Unitholders at a rate of $0.60 per Common Unit paid in respect of the fourth quarter of fiscal 2018 and the first and second quarters of fiscal 2019, $16.4 million of net repayments under the Revolving Credit Facility and other financing activities of $3.0 million.

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

As of June 27, 2020, our long-term debt consisted of $525.0 million in aggregate principal amount of 5.5% senior notes due June 1, 2024, $250.0 million in aggregate principal amount of 5.75% senior notes due March 1, 2025, $350.0 million in aggregate principal amount of 5.875% senior notes due March 1, 2027 and $109.7 million outstanding under our Revolving Credit Facility.  See Item 1, Note 10 of this Quarterly Report.

Based upon the Partnership’s Consolidated EBITDA, as defined in the Credit Agreement, for the trailing twelve month period ended June 27, 2020, and outstanding borrowings and letters of credits issued under the Revolving Credit Facility as of June 27, 2020, our borrowing capacity under the Revolving Credit Facility was $234.9 million.

The aggregate amounts of long-term debt maturities subsequent to June 27, 2020 are as follows: fiscal 2020: $-0-; fiscal 2021: $-0-; fiscal 2022: $-0-; fiscal 2023: $-0-; fiscal 2024: $634.7 million; and thereafter: $600.0 million.

***Partnership Distributions***

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

On July 23, 2020, we announced a quarterly distribution of $0.30 per Common Unit, or $1.20 on an annualized basis, in respect of the third quarter of fiscal 2020, payable on August 11, 2020 to holders of record on August 4, 2020.

***Other Commitments***

We have a noncontributory, cash balance format, defined benefit pension plan which was frozen to new participants effective January 1, 2000.  Effective January 1, 2003, the defined benefit pension plan was amended such that future service credits ceased and eligible employees would receive interest credits only toward their ultimate retirement benefit.  We also provide postretirement health care and life insurance benefits for certain retired employees under a plan that was frozen to new participants effective March 31,

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1998.  At June 27, 2020, we had a liability for the defined benefit pension plan and accrued retiree health and life benefits of $33.7 million and $9.2 million, respectively.

We are self-insured for general and product, workers’ compensation and automobile liabilities up to predetermined thresholds above which third party insurance applies.  At June 27, 2020, we had accrued insurance liabilities of $72.7 million, and a receivable of $17.3 million related to the amount of the liability expected to be covered by insurance.

***Legal Matters***

See Item 1, Note 13, Legal Matters subsection of this Quarterly Report.

***Off-Balance Sheet Arrangements***

*Guarantees*

See Item 1, Note 14 of this Quarterly Report.

**Recently Issued Accounting Pronouncements**

See Item 1, Note 2, Recently Issued Accounting Pronouncements subsection of this Quarterly Report.

|  |  |
| --- | --- |
| **ITEM 3.** | **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** |

**Commodity Price Risk**

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

Product cost changes can occur rapidly over a short period of time and can impact profitability. We attempt to reduce commodity price risk by pricing product on a short-term basis.  The level of priced, physical product maintained in storage facilities and at our customer service centers for immediate sale to our customers will vary depending on several factors, including, but not limited to, price, supply and demand dynamics for a given time of the year.  Typically, our on hand priced position does not exceed more than four to eight weeks of our supply needs, depending on the time of the year.  In the course of normal operations, we routinely enter into contracts such as forward priced physical contracts for the purchase or sale of propane and fuel oil that, under accounting rules for derivative instruments and hedging activities, qualify for and are designated as normal purchase or normal sale contracts.  Such contracts are exempted from fair value accounting and are accounted for at the time product is purchased or sold under the related contract.

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

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Futures are traded with brokers of the NYMEX and require daily cash settlements in margin accounts.  Forward contracts are generally settled at the expiration of the contract term by physical delivery, and swap and options contracts are generally settled at expiration through a net settlement mechanism.  Market risks associated with our derivative instruments 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**

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

**Interest Rate Risk**

A portion of our borrowings bear interest at prevailing interest rates based upon, at the Operating Partnership’s option, LIBOR, plus an applicable margin or the base rate, defined as the higher of the Federal Funds Rate plus ½ of 1% or the agent bank’s prime rate, or LIBOR plus 1%, plus the applicable margin.  The applicable margin is dependent on the level of our total consolidated leverage (the total ratio of debt to consolidated EBITDA).  Therefore, we are subject to interest rate risk on the variable component of the interest rate.  From time to time, we enter into interest rate swap agreements to manage a part of our variable interest rate risk.  The interest rate swaps are designated as cash flow hedges. Changes in the fair value of the interest rate swaps are recognized in other comprehensive income (“OCI”) until the hedged item is recognized in earnings.  At June 27, 2020, we were not party to an interest rate swap agreement.

**Derivative Instruments and Hedging Activities**

All of our derivative instruments are reported on the balance sheet at their fair values.  On the date that derivative instruments are entered into, we make a determination as to whether the derivative instrument qualifies for designation as a hedge.  Changes in the fair value of derivative instruments are recorded each period in current period earnings or OCI, depending on whether a derivative instrument is designated as a hedge and, if so, the type of hedge.  For derivative instruments designated as cash flow hedges, we formally assess, both at the hedge contract’s inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in cash flows of hedged items.  Changes in the fair value of derivative instruments designated as cash flow hedges are reported in OCI to the extent effective and reclassified into earnings during the same period in which the hedged item affects earnings.  The mark-to-market gains or losses on ineffective portions of cash flow hedges are immediately recognized in earnings.  Changes in the fair value of derivative instruments that are not designated as cash flow hedges, and that do not meet the normal purchase and normal sale exemption, are recorded in earnings as they occur.  Cash flows associated with derivative instruments are reported as operating activities within the condensed consolidated statement of cash flows.

**Sensitivity Analysis**

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

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|  | A. | The fair value of open positions as of June 27, 2020. |

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|  | B. | The market prices for the underlying commodities used to determine A. above were adjusted adversely by a hypothetical 10% change and compared to the fair value amounts in A. above to project the potential negative impact on earnings that would be recognized for the respective scenario. |

Based on the sensitivity analysis described above, the hypothetical 10% adverse change in market prices for open derivative instruments as of June 27, 2020 indicates an increase in potential future net losses of $0.8 million.  See also Item 7A of our Annual Report on Form 10-K for the fiscal year ended September 28, 2019.  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.

To date, the COVID-19 pandemic has not materially adversely affected our product supply agreements or our hedging strategies, and we currently believe that we will continue to have access to sufficient supply to meet customer demand.

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| --- | --- |
| **ITEM 4.** | **CONTROLS AND PROCEDURES** |

**Evaluation of Disclosure Controls and Procedures**

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, as amended (the “Exchange Act”)) that are designed to provide reasonable assurance that information required to be disclosed in the Partnership’s filings and submissions under the Exchange Act 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 June 27, 2020.  Based on this evaluation, the Partnership’s principal executive officer and principal financial officer have concluded that, as of June 27, 2020, such disclosure controls and procedures were effective to provide the reasonable assurance described above.

**Changes in Internal Control Over Financial Reporting**

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 Exchange Act) during the quarter ended June 27, 2020 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

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**PART II. OTHER INFORMATION**

|  |  |
| --- | --- |
| **ITEM 1.** | **LEGAL PROCEEDINGS** |

None.

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| **ITEM 1A.** | **RISK FACTORS** |

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. “Risk Factors” in the Partnership’s Annual Report on Form 10-K for the fiscal year ended September 28, 2019, which is modified by the disclosure below. These risks and uncertainties, along with those previously disclosed, could materially adversely affect our business or financial results.

***Deterioration of general economic conditions have harmed and could continue to harm our business and results of operations.***

Our business and results of operations have been, and may continue to be, adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, unemployment rates, energy availability and costs, the negative impacts caused by pandemics and public health crises (including the COVID-19 outbreak), and the effects of governmental initiatives to manage economic conditions.

Volatility in financial markets and deterioration of national and global economic conditions have impacted, and may continue to impact, our business and operations in a variety of ways, including as follows:

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|  | • | certain of our commercial and industrial customers have temporarily curtailed or suspended operations in light of the pandemic; |

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|  | • | our consumers may reduce their discretionary spending, or may forego certain purchases altogether, during economic downturns, and may reduce or delay their payments for our products as a result of significant unemployment due to COVID-19; |

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|  | • | if the deterioration of the economy continues to impact our customers, it could lead to increases in customer payment default rates and related challenges in collecting on accounts receivable; |

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|  | • | if a significant percentage of our workforce is unable to work, including because of illness or travel or government restrictions in connection with COVID-19, our operations may be negatively impacted; |

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|  | • | a shutdown of one or a multiple of our customer service centers or the production facilities of our suppliers due to government restrictions or illness in connection with COVID-19 could significantly impact our operations; |

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|  | • | decreased demand in the residential, commercial, industrial, government, agricultural or wholesale markets (including due to COVID-19) may adversely affect our propane, fuel oil and refined fuels, and natural gas and electricity businesses; |

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|  | • | volatility in commodity and other input costs could substantially impact our result of operations; |

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|  | • | if our indebtedness increases or our Consolidated EBITDA declines, it could adversely affect our liquidity and lead to increased risks of default under our Credit Agreement; and |

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|  | • | it may become more costly or difficult to obtain debt or equity financing to fund investment opportunities, or to refinance our debt in the future, in each case on terms and within a time period acceptable to us. |

***Disruption of our supply chain could have an adverse impact on our business and our operating results.***

Damage or disruption to our supply chain, including third-party production or transportation and distribution capabilities, due to weather, including any potential effects of climate change, natural disaster, fire or explosion, terrorism, pandemics (such as the COVID-19 outbreak), strikes, government action, economic and operational considerations of producers and refineries, or other reasons beyond our control or the control of our suppliers and business partners, could impair our ability to acquire sufficient supplies of the products we sell.

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In particular, we are actively monitoring the ongoing COVID-19 outbreak and its potential impact on our supply chain. Although we source our propane, fuel oil and refined fuels, and natural gas from a broad group of suppliers, due to restrictions resulting from the outbreak, global supply of these fuels may become constrained, which may cause the price to increase and/or adversely affect our ability to acquire adequate supplies to meet customer demand.

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| **ITEM 2.** | **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS** |

None.

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| **ITEM 3.** | **DEFAULTS UPON SENIOR SECURITIES** |

None.

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| **ITEM 4.** | **MINE SAFETY DISCLOSURES** |

Not applicable.

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| **ITEM 5.** | **OTHER INFORMATION** |

None.

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| **ITEM 6.** | **EXHIBITS** |

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| --- | --- |
| (a) | Exhibits |

**INDEX TO EXHIBITS**

The exhibits listed on this Exhibit Index are filed as part of this Quarterly Report.  Exhibits required to be filed by Item 601 of Regulation S-K, which are not listed below, are not applicable.

|  |  |  |
| --- | --- | --- |
| **Exhibit**  **Number** |  | **Description** |
|  |  |  |
| 10.1 |  | [Third Amended and Restated Credit Agreement among the Operating Partnership, the Partnership and Bank of America, N.A., as Administrative Agent, and the Lenders party thereto, dated March 5, 2020. (Incorporated by reference to Exhibit 10.1 to the Partnership’s Current Report on Form 8-K filed on March 5, 2020).](http://www.sec.gov/Archives/edgar/data/1005210/000119312520063103/d119736dex101.htm) |
|  |  |  |
| 31.1 |  | [Certification of the President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith).](sph-ex311_6.htm) |
|  |  |  |
| 31.2 |  | [Certification of the Chief Financial Officer and Chief Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith).](sph-ex312_8.htm) |
|  |  |  |
| 32.1 |  | [Certification of the President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith).](sph-ex321_7.htm) |
|  |  |  |
| 32.2 |  | [Certification of the Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith).](sph-ex322_9.htm) |
|  |  |  |
| 101.INS |  | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
|  |  |  |
| 101.SCH |  | Inline XBRL Taxonomy Extension Schema Document |
|  |  |  |
| 101.CAL |  | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
|  |  |  |
| 101.DEF |  | Inline XBRL Taxonomy Extension Definition Linkbase Document |
|  |  |  |
| 101.LAB |  | Inline XBRL Taxonomy Extension Label Linkbase Document |
|  |  |  |
| 101.PRE |  | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
|  |  |  |
| 104 |  | Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |

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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.

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| --- | --- | --- | --- |
|  | SUBURBAN PROPANE PARTNERS, L.P. | | |
|  |  |  |  |
| August 6, 2020 | By: |  | /s/ MICHAEL A. KUGLIN |
| Date |  |  | Michael A. Kuglin |
|  |  |  | Chief Financial Officer and Chief Accounting Officer |
|  |  |  |  |
| August 6, 2020 | By: |  | /s/ DANIEL S. BLOOMSTEIN |
| Date |  |  | Daniel S. Bloomstein |
|  |  |  | Vice President and Controller |

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