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[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 25, 2022**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **☐** |  | **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 1, 2022, there were 62,986,862 Common Units of Suburban Propane Partners, L.P. outstanding.

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**INDEX TO FORM 10-Q**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  | Page |
|  |  | [PART I. FINANCIAL INFORMATION](#part_i_financial_information) |  | 1 |
|  |  |  |  |  |
| ITEM 1. |  | [FINANCIAL STATEMENTS (UNAUDITED)](#item_1_financial_statements) |  | 1 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Balance Sheets as of June 25, 2022 and September 25, 2021](#condensed_consolidated_balance_sheets) |  | 1 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Operations for the three months ended June 25, 2022 and June 26, 2021](#condensed_consolidated_statements_opera) |  | 2 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Operations for the nine months ended June 25, 2022 and June 26, 2021](#condensed_consolidated_statement_of_ops) |  | 3 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 25, 2022 and June 26, 2021](#condensed_consolidated_statements_compr) |  | 4 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Cash Flows for the nine months ended June 25, 2022 and June 26, 2021](#condensed_consolidated_statements_cash_) |  | 5 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Partners’ Capital for the three months ended June 25, 2022 and June 26, 2021](#condensed_consolidated_statements_partn) |  | 6 |
|  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Partners’ Capital for the nine months ended June 25, 2022 and June 26, 2021](#condensed_consolidated_statements_pc_2) |  | 7 |
|  |  |  |  |  |
|  |  | [Notes to Condensed Consolidated Financial Statements](#notes_to_condensed_consolidated_financi) |  | 8 |
|  |  |  |  |  |
| ITEM 2. |  | [MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#item_2_managements_discussion_analysis_) |  | 24 |
|  |  |  |  |  |
| ITEM 3. |  | [QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK](#item_3_quantitative_qualitative_disclos) |  | 35 |
|  |  |  |  |  |
| ITEM 4. |  | [CONTROLS AND PROCEDURES](#item_4_controls_procedures) |  | 36 |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  | [PART II. OTHER INFORMATION](#part_ii_or_information) |  | 37 |
|  |  |  |  |  |
| ITEM 1. |  | [LEGAL PROCEEDINGS](#item_1_legal_proceedings) |  | 37 |
|  |  |  |  |  |
| ITEM 1A. |  | [RISK FACTORS](#item_1a_risk_factors) |  | 37 |
|  |  |  |  |  |
| ITEM 2. |  | [UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS](#item_2_unregistered_sales_equity_securi) |  | 37 |
|  |  |  |  |  |
| ITEM 3. |  | [DEFAULTS UPON SENIOR SECURITIES](#item_3_defaults_upon_senior_securities) |  | 37 |
|  |  |  |  |  |
| ITEM 4. |  | [MINE SAFETY DISCLOSURES](#item_4_mine_safety_disclosures) |  | 37 |
|  |  |  |  |  |
| ITEM 5. |  | [OTHER INFORMATION](#item_5_or_information) |  | 37 |
|  |  |  |  |  |
| ITEM 6. |  | [EXHIBITS](#item_6_exhibits) |  | 38 |
|  |  |  |  |  |
| [SignaturEs](#signatures) | | |  | 39 |

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 that could impact 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;

•

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 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;

•

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, including the Russia/Ukraine conflict, 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 attract and retain employees and key personnel to support the growth of our business;

•

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 and manage inflationary increases in fuel, labor and other operating costs;

•

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 and any third-party service providers on which it may rely for support or services to continue to combat cybersecurity threats to its 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.”

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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 25, 2021. 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.

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **June 25,** | |  |  | **September 25,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| **ASSETS** |  |  | |  |  |  | |  |
| Current assets: |  |  | |  |  |  | |  |
| Cash and cash equivalents |  | $ | 7,066 |  |  | $ | 5,808 |  |
| Accounts receivable, less allowance for doubtful accounts of $5,760 and    $3,332, respectively |  |  | 95,377 |  |  |  | 71,372 |  |
| Inventories |  |  | 66,325 |  |  |  | 61,802 |  |
| Other current assets |  |  | 46,001 |  |  |  | 41,126 |  |
| Total current assets |  |  | 214,769 |  |  |  | 180,108 |  |
| Property, plant and equipment, net |  |  | 560,464 |  |  |  | 569,130 |  |
| Operating lease right-of-use assets |  |  | 138,540 |  |  |  | 129,999 |  |
| Goodwill |  |  | 1,106,627 |  |  |  | 1,107,026 |  |
| Other intangible assets, net |  |  | 34,107 |  |  |  | 39,263 |  |
| Other assets |  |  | 60,888 |  |  |  | 26,204 |  |
| Total assets |  | $ | 2,115,395 |  |  | $ | 2,051,730 |  |
|  |  |  | |  |  |  | |  |
| **LIABILITIES AND PARTNERS’ CAPITAL** |  |  | |  |  |  | |  |
| Current liabilities: |  |  | |  |  |  | |  |
| Accounts payable |  | $ | 34,480 |  |  | $ | 39,169 |  |
| Accrued employment and benefit costs |  |  | 35,461 |  |  |  | 40,814 |  |
| Customer deposits and advances |  |  | 82,565 |  |  |  | 111,727 |  |
| Operating lease liabilities |  |  | 32,104 |  |  |  | 30,878 |  |
| Other current liabilities |  |  | 57,878 |  |  |  | 64,558 |  |
| Total current liabilities |  |  | 242,488 |  |  |  | 287,146 |  |
| Long-term borrowings |  |  | 1,078,700 |  |  |  | 1,118,014 |  |
| Accrued insurance |  |  | 55,166 |  |  |  | 49,424 |  |
| Operating lease liabilities |  |  | 105,494 |  |  |  | 98,532 |  |
| Other liabilities |  |  | 67,694 |  |  |  | 73,193 |  |
| Total liabilities |  |  | 1,549,542 |  |  |  | 1,626,309 |  |
| Commitments and contingencies |  |  | |  |  |  | |  |
| Partners’ capital: |  |  | |  |  |  | |  |
| Common Unitholders (62,975 and 62,538 units issued and outstanding at    June 25, 2022 and September 25, 2021, respectively) |  |  | 581,922 |  |  |  | 443,005 |  |
| Accumulated other comprehensive loss |  |  | (16,069 | ) |  |  | (17,584 | ) |
| Total partners’ capital |  |  | 565,853 |  |  |  | 425,421 |  |
| Total liabilities and partners’ capital |  | $ | 2,115,395 |  |  | $ | 2,051,730 |  |

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

1

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per unit amounts)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Revenues |  |  | |  |  |  | |  |
| Propane |  | $ | 260,634 |  |  | $ | 208,689 |  |
| Fuel oil and refined fuels |  |  | 19,274 |  |  |  | 11,314 |  |
| Natural gas and electricity |  |  | 7,547 |  |  |  | 5,835 |  |
| All other |  |  | 12,877 |  |  |  | 12,247 |  |
|  |  |  | 300,332 |  |  |  | 238,085 |  |
| Costs and expenses |  |  | |  |  |  | |  |
| Cost of products sold |  |  | 140,930 |  |  |  | 83,056 |  |
| Operating |  |  | 109,081 |  |  |  | 102,016 |  |
| General and administrative |  |  | 21,541 |  |  |  | 17,756 |  |
| Depreciation and amortization |  |  | 14,009 |  |  |  | 27,254 |  |
|  |  |  | 285,561 |  |  |  | 230,082 |  |
| Operating income |  |  | 14,771 |  |  |  | 8,003 |  |
| Loss on debt extinguishment |  |  | — |  |  |  | 16,029 |  |
| Interest expense, net |  |  | 15,004 |  |  |  | 16,737 |  |
| Other, net |  |  | 2,031 |  |  |  | 1,085 |  |
| (Loss) before provision for income taxes |  |  | (2,264 | ) |  |  | (25,848 | ) |
| Provision for income taxes |  |  | 271 |  |  |  | 173 |  |
| Net (loss) |  | $ | (2,535 | ) |  | $ | (26,021 | ) |
| Net (loss) per Common Unit - basic |  | $ | (0.04 | ) |  | $ | (0.41 | ) |
| Weighted average number of Common Units outstanding - basic |  |  | 63,284 |  |  |  | 62,755 |  |
| Net (loss) per Common Unit - diluted |  | $ | (0.04 | ) |  | $ | (0.41 | ) |
| Weighted average number of Common Units outstanding - diluted |  |  | 63,284 |  |  |  | 62,755 |  |

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

2

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per unit amounts)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Revenues |  |  | |  |  |  | |  |
| Propane |  | $ | 1,108,572 |  |  | $ | 958,641 |  |
| Fuel oil and refined fuels |  |  | 83,741 |  |  |  | 59,075 |  |
| Natural gas and electricity |  |  | 31,165 |  |  |  | 23,461 |  |
| All other |  |  | 40,356 |  |  |  | 39,337 |  |
|  |  |  | 1,263,834 |  |  |  | 1,080,514 |  |
| Costs and expenses |  |  | |  |  |  | |  |
| Cost of products sold |  |  | 576,299 |  |  |  | 418,002 |  |
| Operating |  |  | 334,229 |  |  |  | 309,183 |  |
| General and administrative |  |  | 64,962 |  |  |  | 57,866 |  |
| Depreciation and amortization |  |  | 44,356 |  |  |  | 82,617 |  |
|  |  |  | 1,019,846 |  |  |  | 867,668 |  |
| Operating income |  |  | 243,988 |  |  |  | 212,846 |  |
| Loss on debt extinguishment |  |  | — |  |  |  | 16,029 |  |
| Interest expense, net |  |  | 45,557 |  |  |  | 52,964 |  |
| Other, net |  |  | 4,395 |  |  |  | 3,745 |  |
| Income before provision for income taxes |  |  | 194,036 |  |  |  | 140,108 |  |
| Provision for income taxes |  |  | 171 |  |  |  | 936 |  |
| Net income |  | $ | 193,865 |  |  | $ | 139,172 |  |
| Net income per Common Unit - basic |  | $ | 3.07 |  |  | $ | 2.22 |  |
| Weighted average number of Common Units outstanding - basic |  |  | 63,200 |  |  |  | 62,685 |  |
| Net income per Common Unit - diluted |  | $ | 3.04 |  |  | $ | 2.20 |  |
| Weighted average number of Common Units outstanding - diluted |  |  | 63,833 |  |  |  | 63,150 |  |

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

3

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended** | | | | | |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  | **2022** | |  |  | **2021** | |  |
| Net (loss) income |  | $ | (2,535 | ) |  | $ | (26,021 | ) | $ | 193,865 |  |  | $ | 139,172 |  |
| Other comprehensive income: |  |  | |  |  |  | |  |  | |  |  |  | |  |
| Amortization of net actuarial losses and prior service    credits into earnings |  |  | 293 |  |  |  | 593 |  |  | 881 |  |  |  | 1,779 |  |
| Recognition in earnings of net actuarial loss for pension     settlement |  |  | 634 |  |  |  | 142 |  |  | 634 |  |  |  | 712 |  |
| Other comprehensive income |  |  | 927 |  |  |  | 735 |  |  | 1,515 |  |  |  | 2,491 |  |
| Total comprehensive (loss) income |  | $ | (1,608 | ) |  | $ | (25,286 | ) | $ | 195,380 |  |  | $ | 141,663 |  |

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

4

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Cash flows from operating activities: |  |  | |  |  |  | |  |
| Net income |  | $ | 193,865 |  |  | $ | 139,172 |  |
| Adjustments to reconcile net income to net cash provided by operations: |  |  | |  |  |  | |  |
| Depreciation and amortization |  |  | 44,356 |  |  |  | 82,617 |  |
| Pension settlement charge |  |  | 634 |  |  |  | 712 |  |
| Loss on debt extinguishment |  |  | — |  |  |  | 16,029 |  |
| Compensation costs recognized under Restricted Unit Plans |  |  | 8,422 |  |  |  | 7,524 |  |
| Other, net |  |  | 2,061 |  |  |  | 2,749 |  |
| Changes in assets and liabilities: |  |  | |  |  |  | |  |
| Accounts receivable |  |  | (24,005 | ) |  |  | (19,256 | ) |
| Inventories |  |  | (4,523 | ) |  |  | (3,966 | ) |
| Other current and noncurrent assets |  |  | (14,581 | ) |  |  | (27,483 | ) |
| Accounts payable |  |  | (4,620 | ) |  |  | 4,167 |  |
| Accrued employment and benefit costs |  |  | (5,523 | ) |  |  | (1,997 | ) |
| Customer deposits and advances |  |  | (29,162 | ) |  |  | (28,611 | ) |
| Contributions to defined benefit pension plan |  |  | (2,220 | ) |  |  | (5,255 | ) |
| Other current and noncurrent liabilities |  |  | 6,432 |  |  |  | 14,375 |  |
| Net cash provided by operating activities |  |  | 171,136 |  |  |  | 180,777 |  |
| Cash flows from investing activities: |  |  | |  |  |  | |  |
| Capital expenditures |  |  | (33,304 | ) |  |  | (21,759 | ) |
| Investment in and acquisition of businesses |  |  | (36,366 | ) |  |  | (8,316 | ) |
| Proceeds from sale of business |  |  | 850 |  |  |  | — |  |
| Proceeds from sale of property, plant and equipment |  |  | 4,492 |  |  |  | 2,267 |  |
| Net cash (used in) investing activities |  |  | (64,328 | ) |  |  | (27,808 | ) |
| Cash flows from financing activities: |  |  | |  |  |  | |  |
| Proceeds from long-term borrowings |  |  | — |  |  |  | 650,000 |  |
| Repayments of long-term borrowings |  |  | — |  |  |  | (786,333 | ) |
| Proceeds from borrowings under revolving credit facility |  |  | 270,200 |  |  |  | 385,501 |  |
| Repayments of borrowings under revolving credit facility |  |  | (310,800 | ) |  |  | (328,721 | ) |
| Issuance costs associated with long-term borrowings |  |  | — |  |  |  | (10,778 | ) |
| Partnership distributions |  |  | (61,255 | ) |  |  | (56,159 | ) |
| Other, net |  |  | (3,695 | ) |  |  | (3,614 | ) |
| Net cash (used in) financing activities |  |  | (105,550 | ) |  |  | (150,104 | ) |
| Net increase in cash and cash equivalents |  |  | 1,258 |  |  |  | 2,865 |  |
| Cash and cash equivalents at beginning of period |  |  | 5,808 |  |  |  | 3,140 |  |
| Cash and cash equivalents at end of period |  | $ | 7,066 |  |  | $ | 6,005 |  |

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

5

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS’ CAPITAL**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended June 25, 2022** | | | | | | | | | | | | | |  |
|  |  |  | |  |  |  | |  |  | **Accumulated** | |  |  |  | |  |
|  |  |  | |  |  |  | |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 62,968 |  |  | $ | 602,145 |  |  | $ | (16,996 | ) |  | $ | 585,149 |  |
| Net (loss) |  |  | |  |  |  | (2,535 | ) |  |  | — |  |  |  | (2,535 | ) |
| Other comprehensive income |  |  | |  |  |  | — |  |  |  | 927 |  |  |  | 927 |  |
| Partnership distributions |  |  | |  |  |  | (20,466 | ) |  |  | — |  |  |  | (20,466 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 7 |  |  |  | (35 | ) |  |  | — |  |  |  | (35 | ) |
| Compensation costs recognized under Restricted Unit Plans |  |  | |  |  |  | 2,813 |  |  |  | — |  |  |  | 2,813 |  |
| Balance, end of period |  |  | 62,975 |  |  | $ | 581,922 |  |  | $ | (16,069 | ) |  | $ | 565,853 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended June 26, 2021** | | | | | | | | | | | | | |  |
|  |  |  | |  |  |  | |  |  | **Accumulated** | |  |  |  | |  |
|  |  |  | |  |  |  | |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 62,529 |  |  | $ | 519,368 |  |  | $ | (24,020 | ) |  | $ | 495,348 |  |
| Net (loss) |  |  | |  |  |  | (26,021 | ) |  |  | — |  |  |  | (26,021 | ) |
| Other comprehensive income |  |  | |  |  |  | — |  |  |  | 735 |  |  |  | 735 |  |
| Partnership distributions |  |  | |  |  |  | (18,758 | ) |  |  | — |  |  |  | (18,758 | ) |
| Common Units issued under Restricted Unit Plans |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Compensation costs recognized under Restricted Unit Plans |  |  | |  |  |  | 2,571 |  |  |  | — |  |  |  | 2,571 |  |
| Balance, end of period |  |  | 62,529 |  |  | $ | 477,160 |  |  | $ | (23,285 | ) |  | $ | 453,875 |  |

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

6

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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

**CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS’ CAPITAL**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Nine Months Ended June 25, 2022** | | | | | | | | | | | | | |  |
|  |  |  | |  |  |  | |  |  | **Accumulated** | |  |  |  | |  |
|  |  |  | |  |  |  | |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 62,538 |  |  | $ | 443,005 |  |  | $ | (17,584 | ) |  | $ | 425,421 |  |
| Net income |  |  | |  |  |  | 193,865 |  |  |  | — |  |  |  | 193,865 |  |
| Other comprehensive income |  |  | |  |  |  | — |  |  |  | 1,515 |  |  |  | 1,515 |  |
| Partnership distributions |  |  | |  |  |  | (61,255 | ) |  |  | — |  |  |  | (61,255 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 437 |  |  |  | (2,115 | ) |  |  | — |  |  |  | (2,115 | ) |
| Compensation costs recognized under Restricted Unit Plans |  |  | |  |  |  | 8,422 |  |  |  | — |  |  |  | 8,422 |  |
| Balance, end of period |  |  | 62,975 |  |  | $ | 581,922 |  |  | $ | (16,069 | ) |  | $ | 565,853 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Nine Months Ended June 26, 2021** | | | | | | | | | | | | | |  |
|  |  |  | |  |  |  | |  |  | **Accumulated** | |  |  |  | |  |
|  |  |  | |  |  |  | |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Number of** | |  |  | **Common** | |  |  | **Comprehensive** | |  |  | **Partners’** | |  |
|  |  | **Common Units** | |  |  | **Unitholders** | |  |  | **(Loss)** | |  |  | **Capital** | |  |
| Balance, beginning of period |  |  | 62,146 |  |  | $ | 388,157 |  |  | $ | (25,776 | ) |  | $ | 362,381 |  |
| Net income |  |  | |  |  |  | 139,172 |  |  |  | — |  |  |  | 139,172 |  |
| Other comprehensive income |  |  | |  |  |  | — |  |  |  | 2,491 |  |  |  | 2,491 |  |
| Partnership distributions |  |  | |  |  |  | (56,159 | ) |  |  | — |  |  |  | (56,159 | ) |
| Common Units issued under Restricted Unit Plans |  |  | 383 |  |  |  | (1,534 | ) |  |  | — |  |  |  | (1,534 | ) |
| Compensation costs recognized under Restricted Unit Plans |  |  | |  |  |  | 7,524 |  |  |  | — |  |  |  | 7,524 |  |
| Balance, end of period |  |  | 62,529 |  |  | $ | 477,160 |  |  | $ | (23,285 | ) |  | $ | 453,875 |  |

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

7

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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, renewable propane, fuel oil and refined fuels, as well as the marketing of natural gas and electricity in deregulated markets and investor in low carbon fuel alternatives. 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 62,975,378 Common Units outstanding at June 25, 2022. 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.

Suburban Renewable Energy, LLC (“Suburban Renewables”) is a wholly owned subsidiary of the Operating Partnership that was formed in January 2022. Suburban Renewables serves as the platform for the Partnership’s investments in innovative, renewable energy technologies and businesses.

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, services, and renewable energy 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 25, 2021. 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.

8

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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.

**Revenue Recognition.** 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 Financial Accounting Standards Board (“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 condensed consolidated financial statements from the acquisition date. The Partnership expenses all acquisition-related costs as incurred.

**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

9

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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.

**Recently Issued Accounting Pronouncements.** In January 2021, the FASB issued Accounting Standards Update (“ASU”) 2021-01 “Reference Rate Reform” (“Topic 848”). This update provides optional expedients and exceptions for contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. Topic 848 became effective for all entities as of March 12, 2020, and will continue through December 31, 2022, which will be the Partnership’s first quarter of fiscal 2023. LIBOR rates based on US dollars will have an extended expiration date of June 30, 2023. Borrowings under the Partnership’s revolving credit facility bear interest at prevailing interest rates based partially on LIBOR (refer to Note 10, “Long-Term Borrowings” for more details). The Partnership does not expect that the adoption of Topic 848 will have a material impact on the Partnership’s condensed consolidated financial statements.

**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 88%, 7% and 2%, respectively, of the Partnership’s revenue from its reportable segments 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 25,** | |  |  | **June 26,** | |  |
|  | **2022** | |  |  | **2021** | |  |
| Retail |  | |  |  |  | |  |
| Residential | $ | 143,813 |  |  | $ | 120,186 |  |
| Commercial |  | 95,341 |  |  |  | 76,215 |  |
| Industrial |  | 31,658 |  |  |  | 25,270 |  |
| Agricultural |  | 8,353 |  |  |  | 6,181 |  |
| Government |  | 13,295 |  |  |  | 9,289 |  |
| Wholesale |  | 7,872 |  |  |  | 944 |  |
| Total revenues | $ | 300,332 |  |  | $ | 238,085 |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended** | | | | | |  |
|  | **June 25,** | |  |  | **June 26,** | |  |
|  | **2022** | |  |  | **2021** | |  |
| Retail |  | |  |  |  | |  |
| Residential | $ | 684,378 |  |  | $ | 605,827 |  |
| Commercial |  | 358,126 |  |  |  | 284,541 |  |
| Industrial |  | 107,228 |  |  |  | 86,512 |  |
| Agricultural |  | 38,072 |  |  |  | 30,890 |  |
| Government |  | 57,560 |  |  |  | 44,761 |  |
| Wholesale |  | 18,470 |  |  |  | 27,983 |  |
| Total revenues | $ | 1,263,834 |  |  | $ | 1,080,514 |  |

The Partnership recognized $5,556 and $74,332 of revenue during the three and nine months ended June 25, 2022, respectively, and $7,194 and $72,151 during the three and nine months ended June 26, 2021, 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 $17,333 and $6,004 relating to deliveries to customers enrolled in budgetary programs that exceeded billings to those customers were included in accounts receivable as of June 25, 2022 and September 25, 2021, respectively.

10

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**4.**

**Investments in and Acquisitions and Dispositions of Businesses**

On March 9, 2022, Suburban Renewables invested $30,000, plus direct transaction costs, in Independence Hydrogen, Inc. (“IH”), in exchange for a 25% equity interest. IH is a veteran-owned and operated, privately held company developing a gaseous hydrogen ecosystem to deliver locally sourced hydrogen to local markets, with a primary focus on material handling and backup power applications.

The Operating Partnership also owns a 38% equity stake in Oberon Fuels, Inc. (“Oberon”) based in San Diego, California and has also purchased certain secured convertible notes issued by Oberon. Oberon, a development-stage producer of low carbon, renewable dimethyl ether (“rDME”) transportation fuel, is focused on the research and development of practical and affordable pathways to zero-emission transportation through its proprietary production process. Oberon's rDME fuel is a cost-effective, low-carbon, zero-soot alternative to petroleum diesel, and when blended with propane can significantly reduce its carbon intensity. Additionally, rDME is a cost-effective carrier for hydrogen, making it easy to deliver this renewable fuel for the growing hydrogen fuel cell vehicle industry. Pursuant to the agreements, as amended, between the parties, the Operating Partnership also committed to provide additional funding to support continued development efforts to commercialize a Propane+rDME blended product. During the first nine months of fiscal 2022, the Operating Partnership purchased three additional secured convertible notes issued by Oberon.

The IH and Oberon investments were made in line with the Partnership’s ***Go Green with Suburban Propane*** corporate pillar, which focuses on innovative solutions to reduce greenhouse gas emissions. These investments are being accounted for under the equity method of accounting and were included in “Other assets” within the condensed consolidated balance sheets, and the Partnership’s equity in Oberon’s and IH’s earnings were included in “Other, net” within the condensed consolidated statements of operations.

On February 17, 2022, the Operating Partnership sold certain assets and operations in a non-strategic market of its propane segment for $850, resulting in a gain of $363 that was recognized during the second quarter of fiscal 2022. The corresponding net assets and results of operations were not material to the Partnership’s condensed consolidated results of operations, financial position and cash flows.

During the first quarter of fiscal 2022, the Operating Partnership acquired certain assets from a propane retailer for $500, including non-compete consideration. During the third quarter of fiscal 2022, Suburban Renewables announced an agreement to construct, own and operate a new biodigester system with Adirondack Farms in Clinton County, New York for the production of renewable natural gas (“RNG”). Construction is expected to commence in the fourth quarter of fiscal 2022.

**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.

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

11

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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 2022 or in fiscal 2021.

*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 25, 2022 and September 25, 2021, respectively:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **As of June 25, 2022** | | | |  |  | **As of September 25, 2021** | | | |  |
| **Asset Derivatives** |  | **Location** |  | **Fair Value** | |  |  | **Location** |  | **Fair Value** | |  |
| Derivatives not designated as    hedging instruments: |  |  |  |  | |  |  |  |  |  | |  |
| Commodity-related derivatives |  | Other current assets |  | $ | 49,993 |  |  | Other current assets |  | $ | 53,019 |  |
|  |  | Other assets |  |  | 3,095 |  |  | Other assets |  |  | 1,813 |  |
|  |  |  |  | $ | 53,088 |  |  |  |  | $ | 54,832 |  |
|  |  |  |  |  | |  |  |  |  |  | |  |
| **Liability Derivatives** |  | **Location** |  | **Fair Value** | |  |  | **Location** |  | **Fair Value** | |  |
| Derivatives not designated as    hedging instruments: |  |  |  |  | |  |  |  |  |  | |  |
| Commodity-related derivatives |  | Other current liabilities |  | $ | 11,163 |  |  | Other current liabilities |  | $ | 8,715 |  |
|  |  | Other liabilities |  |  | 1,487 |  |  | Other liabilities |  |  | 1,632 |  |
|  |  |  |  | $ | 12,650 |  |  |  |  | $ | 10,347 |  |

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** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25, 2022** | | | | | |  |  | **June 26, 2021** | | | | | |  |
|  |  | **Assets** | |  |  | **Liabilities** | |  |  | **Assets** | |  |  | **Liabilities** | |  |
| Beginning balance of over-the-counter options |  | $ | 4,626 |  |  | $ | 451 |  |  | $ | — |  |  | $ | — |  |
| Beginning balance realized during the period |  |  | (4,626 | ) |  |  | (78 | ) |  |  | — |  |  |  | — |  |
| Contracts purchased during the period |  |  | 654 |  |  |  | 2,378 |  |  |  | 2,675 |  |  |  | 182 |  |
| Change in the fair value of outstanding contracts |  |  | — |  |  |  | (280 | ) |  |  | — |  |  |  | — |  |
| Ending balance of over-the-counter options |  | $ | 654 |  |  | $ | 2,471 |  |  | $ | 2,675 |  |  | $ | 182 |  |

12

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

As of June 25, 2022 and September 25, 2021, the Partnership’s outstanding commodity-related derivatives had a weighted average maturity of approximately nine and four 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 25, 2022 and June 26, 2021 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended June 25, 2022** | | | |  |  | **Three Months Ended June 26, 2021** | | | |  |
| **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 |  | $ | (921 | ) |  | Cost of products sold |  | $ | 11,139 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Nine Months Ended June 25, 2022** | | | |  |  | **Nine Months Ended June 26, 2021** | | | |  |
| **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 |  | $ | (1,442 | ) |  | Cost of products sold |  | $ | 17,632 |  |

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 25, 2022** | | | | | | | | | |  |  | **As of September 25, 2021** | | | | | | | | | |  |
|  |  |  | |  |  |  | |  |  | **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 |  | $ | 88,867 |  |  | $ | (35,779 | ) |  | $ | 53,088 |  |  | $ | 76,508 |  |  | $ | (21,676 | ) |  | $ | 54,832 |  |
| **Liability Derivatives** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Commodity-related derivatives |  | $ | 48,429 |  |  | $ | (35,779 | ) |  | $ | 12,650 |  |  | $ | 32,023 |  |  | $ | (21,676 | ) |  | $ | 10,347 |  |

The Partnership had $-0- posted cash collateral as of June 25, 2022 and September 25, 2021 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 25,** | |  |  | **September 25,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| 5.875% senior notes due March 1, 2027 |  |  | 330,925 |  |  |  | 367,063 |  |
| 5.0% senior notes due June 1, 2031 |  |  | 560,625 |  |  |  | 676,000 |  |
|  |  | $ | 891,550 |  |  | $ | 1,043,063 |  |

**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 25,** | |  |  | **September 25,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Propane, fuel oil and refined fuels and natural gas |  | $ | 64,630 |  |  | $ | 59,492 |  |
| Appliances |  |  | 1,695 |  |  |  | 2,310 |  |
|  |  | $ | 66,325 |  |  | $ | 61,802 |  |

13

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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.

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 an impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform an impairment test.

Under an 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 exceeds the fair value, up to the amount of goodwill allocated to the reporting unit.

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 25, 2021 |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Goodwill |  | $ | 1,094,688 |  |  | $ | 10,900 |  |  | $ | 7,900 |  |  | $ | 1,113,488 |  |
| Accumulated adjustments |  |  | — |  |  |  | (6,462 | ) |  |  | — |  |  |  | (6,462 | ) |
|  |  | $ | 1,094,688 |  |  | $ | 4,438 |  |  | $ | 7,900 |  |  | $ | 1,107,026 |  |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| **Fiscal 2022 Activity** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Goodwill disposed (1) |  | $ | (399 | ) |  | $ | — |  |  | $ | — |  |  | $ | (399 | ) |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Balance as of June 25, 2022 |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Goodwill |  | $ | 1,094,289 |  |  | $ | 10,900 |  |  | $ | 7,900 |  |  | $ | 1,113,089 |  |
| Accumulated adjustments |  |  | — |  |  |  | (6,462 | ) |  |  | — |  |  |  | (6,462 | ) |
|  |  | $ | 1,094,289 |  |  | $ | 4,438 |  |  | $ | 7,900 |  |  | $ | 1,106,627 |  |

Other intangible assets consist of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **As of** | | | | | |  |
|  |  | **June 25,** | |  |  | **September 25,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Customer relationships (2) |  | $ | 519,777 |  |  | $ | 519,604 |  |
| Non-compete agreements (2) |  |  | 39,190 |  |  |  | 38,940 |  |
| Other |  |  | 1,967 |  |  |  | 1,967 |  |
|  |  |  | 560,934 |  |  |  | 560,511 |  |
| Less: accumulated amortization |  |  | |  |  |  | |  |
| Customer relationships |  |  | (491,237 | ) |  |  | (486,395 | ) |
| Non-compete agreements |  |  | (33,897 | ) |  |  | (33,229 | ) |
| Other |  |  | (1,693 | ) |  |  | (1,624 | ) |
|  |  |  | (526,827 | ) |  |  | (521,248 | ) |
|  |  | $ | 34,107 |  |  | $ | 39,263 |  |

14

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

(1)

Reflects the impact from the disposition of certain assets and operations in a non-strategic market of the propane segment (See Note 4),

(2)

Reflects the impact from acquisitions (See Note 4).

**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.

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 25, 2022.

Quantitative information on the Partnership’s lease population is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended** | | | | | |  |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  |  | **2022** | |  |  | **2021** | |  |
| Lease expense |  | $ | 10,462 |  |  | $ | 9,578 |  |  |  | $ | 30,848 |  |  | $ | 27,870 |  |
|  |  |  | |  |  |  | |  |  |  |  | |  |  |  | |  |
| **Other information:** |  |  | |  |  |  | |  |  |  |  | |  |  |  | |  |
| Cash payments for operating leases |  |  | 10,519 |  |  |  | 9,676 |  |  |  |  | 31,194 |  |  |  | 28,028 |  |
| Right-of-use assets obtained in exchange    for new operating lease liabilities |  |  | 6,354 |  |  |  | 12,654 |  |  |  |  | 31,143 |  |  |  | 34,418 |  |
| Weighted-average remaining lease term |  |  | |  |  |  | |  |  |  | 6.1 years | |  |  | 6.2 years | |  |
| Weighted-average discount rate |  |  | |  |  |  | |  |  |  |  | 4.9 | % |  |  | 5.2 | % |

The following table summarizes future minimum lease payments under non-cancelable operating leases as of June 25, 2022:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Fiscal Year** |  | **Operating Leases** | |  |
| 2022 (remaining) |  | $ | 9,854 |  |
| 2023 |  |  | 36,773 |  |
| 2024 |  |  | 30,918 |  |
| 2025 |  |  | 26,554 |  |
| 2026 |  |  | 21,785 |  |
| 2027 and thereafter |  |  | 34,261 |  |
| Total future minimum lease payments |  | $ | 160,145 |  |
| Less: interest |  |  | (22,548 | ) |
| Total lease obligations |  | $ | 137,597 |  |

15

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 633,125 and 464,597 units for the nine months ended June 25, 2022 and June 26, 2021, 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 25, 2022 and June 26, 2021 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 25,** | |  |  | **September 25,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| 5.875% senior notes due March 1, 2027 |  |  | 350,000 |  |  |  | 350,000 |  |
| 5.0% senior notes due June 1, 2031 |  |  | 650,000 |  |  |  | 650,000 |  |
| Revolving Credit Facility, due March 5, 2025 |  |  | 91,400 |  |  |  | 132,000 |  |
| Subtotal |  |  | 1,091,400 |  |  |  | 1,132,000 |  |
|  |  |  | |  |  |  | |  |
| Less: unamortized debt issuance costs |  |  | (12,700 | ) |  |  | (13,986 | ) |
|  |  | $ | 1,078,700 |  |  | $ | 1,118,014 |  |

**Senior Notes**

*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.

*2031 Senior Notes*. On May 24, 2021, the Partnership and its 100%-owned subsidiary, Suburban Energy Finance Corp., completed a private offering of $650,000 in aggregate principal amount of 5.0% senior notes due June 1, 2031 (the “2031 Senior Notes”) to “qualified institutional buyers,” as defined in Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and non-U.S. persons outside the United States under Regulation S under the Securities Act. The 2031 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 2031 Senior Notes, along with borrowings under the Revolving Credit Facility, were used to repurchase, satisfy and discharge all of the Partnership’s then-outstanding 5.5% senior notes due in 2024 and 5.75% senior notes due in 2025.

The Partnership’s obligations under the 2027 Senior Notes and 2031 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.** The Operating Partnership has an amended and restated credit agreement dated March 5, 2020 (the “Credit Agreement”) that provides for a $500,000 revolving credit facility (the “Revolving Credit Facility”), of which $91,400 and $132,000 was outstanding as of June 25, 2022 and September 25, 2021, respectively. The Revolving Credit Facility matures on March 5, 2025. 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.

16

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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 25, 2022, the interest rate for borrowings under the Revolving Credit Facility was approximately 4.62%. The interest rate and the Applicable Rate will be reset following the end of each calendar quarter.

As of June 25, 2022, the Partnership had standby letters of credit issued under the Revolving Credit Facility of $48,862 which expire periodically through April 30, 2023.

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 25, 2022.

The aggregate amounts of long-term debt maturities subsequent to June 25, 2022 are as follows: fiscal 2022: $-0-; fiscal 2023: $-0-; fiscal 2024: $-0-; fiscal 2025: $91,400; fiscal 2026: $-0-; and thereafter: $1,000,000.

**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 21, 2022, the Partnership announced a quarterly distribution of $0.325 per Common Unit, or $1.30 per Common Unit on an annualized basis, in respect of the third quarter of fiscal 2022, payable on August 9, 2022 to holders of record on August 2, 2022.

**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.

**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

17

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

of up to 1,800,000 Common Units, which was amended and restated to authorize the issuance of an additional 1,725,000 Common Units for a total of 3,525,000 Common Units by approval of the Unitholders at the Partnership’s Tri-Annual Meeting held on May 18, 2021 (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 25, 2022, the Partnership awarded 884,658 restricted units under the Restricted Unit Plans at an aggregate grant date fair value of $11,471. The following is a summary of activity for the Restricted Unit Plans for the nine months ended June 25, 2022:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  |  | |  |  | **Weighted Average** | |  |
|  |  | **Restricted** | |  |  | **Grant Date Fair** | |  |
|  |  | **Units** | |  |  | **Value Per Unit** | |  |
| **Outstanding September 25, 2021** |  |  | 1,231,863 |  |  | $ | 15.26 |  |
| Awarded |  |  | 884,658 |  |  |  | 12.97 |  |
| Forfeited |  |  | (12,346 | ) |  |  | (13.85 | ) |
| Vested (1) |  |  | (575,630 | ) |  |  | (16.36 | ) |
| **Outstanding June 25, 2022** |  |  | 1,528,545 |  |  | $ | 13.53 |  |

(1)

During fiscal 2022, the Partnership withheld 138,039 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 25, 2022, unrecognized compensation cost related to unvested restricted units awarded under the Restricted Unit Plans amounted to $6,400. Compensation cost associated with unvested awards is expected to be recognized over a weighted-average period of approximately one year. Compensation expense for the Restricted Unit Plans, net of forfeitures, for the three and nine months ended June 25, 2022 was $2,813 and $8,422, respectively, and $2,571 and $7,524, for the three and nine months ended June 26, 2021 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 25, 2022 was $295 and $889, respectively, and $216 and $629 for the three and nine months ended June 26, 2021, respectively.

**Long-Term Incentive Plan.** On August 6, 2013, the Partnership adopted the 2014 Long-Term Incentive Plan (“2014 LTIP”) and on November 10, 2020, the Partnership adopted the 2021 Long-Term Incentive Plan (“2021 LTIP” and together with the 2014 LTIP, “the LTIPs”). The LTIPs are non-qualified, unfunded, long-term incentive plans for executive officers and key employees that provide for payment, in the form of cash, of an award of equity-based compensation at the end of a three-year performance period. The 2014 LTIP document governs the terms and conditions of the outstanding fiscal 2020 award and the 2021 LTIP document governs the terms and conditions of the outstanding fiscal 2021 and fiscal 2022 awards and any awards granted in fiscal years thereafter. The level of compensation earned under the 2014 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 2014 LTIP document, for the three years in the measurement period, subject to certain adjustments as set forth in the 2014 LTIP document, divided by the amount of annualized cash distributions to be paid by the Partnership. The level of compensation earned under the fiscal 2021 award is evaluated using two separate measurement components: (i) 75% weight based on the level of average distributable cash flow of the Partnership over the three-year measurement period; and (ii) 25% weight based on the achievement of certain operating and strategic objectives, set by the Compensation Committee of the Board of Supervisors, over that award’s three-year measurement period. The level of compensation earned under the fiscal 2022 award, and measurement periods thereafter, is also evaluated using two separate measurement components: (i) 50% weight based on the level of average distributable cash flow of the Partnership over the three-year measurement period; and (ii) 50% weight based on the achievement of certain operating and strategic objectives, set by the Compensation Committee of the Board of Supervisors for that award’s three-year measurement period.

18

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

As a result of the quarterly remeasurement of the liability for awards under the LTIPs, compensation expense recognized for the three and nine months ended June 25, 2022 was $2,227 and $5,499, respectively, and $620 and $3,696 for the three and nine months ended June 26, 2021, respectively. As of June 25, 2022, and September 25, 2021, the Partnership had a liability included within accrued employment and benefit costs (or other liabilities, as applicable) of $10,698 and $9,184, respectively, related to estimated future payments under the LTIPs. In the first quarter of fiscal 2022 and 2021, cash payouts totaling $3,985 and $3,354 were made relating to the fiscal 2019 and 2018 awards, respectively.

**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 25, 2022 and September 25, 2021, the Partnership had accrued liabilities of $65,416 and $66,124, 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 $15,748 and $16,101 as of June 25, 2022 and September 25, 2021, 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 was a defendant in a putative class action suit in the Northern District of New York. The complaint alleged 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. During the first quarter of fiscal 2022, the complaint was dismissed in part by the district court, but causes of action based on the New York consumer statute were allowed to proceed. On April 12, 2022, the court granted summary judgment in favor of the Partnership on the remaining counts and the complaint was dismissed in full. The plaintiff in this action has appealed the court’s decision to the U.S. Court of Appeals for the Second Circuit. 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.

**COVID-19 Pandemic.** The impact of the COVID-19 pandemic continues to evolve. Although the Partnership believes the financial information included herein properly reflects all facts known at this time, the Partnership is unable to estimate the full financial impact of the pandemic at this time. 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, to the extent available, ensure new information is reflected within future financial information.

**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 2032. 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 $39,461 as of June 25, 2022. The fair value of residual value guarantees for outstanding operating leases was de minimis as of June 25, 2022 and September 25, 2021.

19

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 25,** | |  |  | **June 26,** | |  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
| Interest cost |  | $ | 559 |  |  | $ | 534 |  |  | $ | 1,678 |  |  | $ | 1,602 |  |
| Expected return on plan assets |  |  | (353 | ) |  |  | (319 | ) |  |  | (1,061 | ) |  |  | (957 | ) |
| Amortization of net loss |  |  | 598 |  |  |  | 899 |  |  |  | 1,797 |  |  |  | 2,695 |  |
| Pension settlement charge |  |  | 634 |  |  |  | 142 |  |  |  | 634 |  |  |  | 712 |  |
| Net periodic benefit cost |  | $ | 1,438 |  |  | $ | 1,256 |  |  | $ | 3,048 |  |  | $ | 4,052 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Postretirement Benefits** | | | | | | | | | | | | | |  |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
| Interest cost |  | $ | 20 |  |  | $ | 20 |  |  | $ | 60 |  |  | $ | 58 |  |
| Amortization of prior service credits |  |  | (124 | ) |  |  | (124 | ) |  |  | (373 | ) |  |  | (373 | ) |
| Amortization of net (gain) |  |  | (181 | ) |  |  | (182 | ) |  |  | (543 | ) |  |  | (543 | ) |
| Net periodic benefit cost |  | $ | (285 | ) |  | $ | (286 | ) |  | $ | (856 | ) |  | $ | (858 | ) |

The Partnership expects to contribute approximately $3,330 to the defined benefit pension plan during fiscal 2022, of which $2,220 was contributed during the nine months ended June 25, 2022. The projected annual contribution requirements related to the Partnership’s postretirement health care and life insurance benefit plan for fiscal 2022 is $710, of which $480 was contributed during the nine months ended June 25, 2022. During the third quarter of fiscal 2022, lump sum pension settlement payments exceeded the settlement threshold (combined service and interest costs of net periodic pension cost) of $2,238, which required the Partnership to recognize a non-cash settlement charge of $634. During each of the second and third quarters of fiscal 2021, lump sum pension settlement payments exceeded the settlement threshold of $2,135, which required the Partnership to recognize non-cash settlement charges of $570 and $142, respectively. These non-cash charges were 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 25, 2022 and September 25, 2021, the Partnership’s estimated obligation to these MEPPs was $22,766 and $23,567, respectively, as a result of its voluntary full withdrawal from certain MEPPs.

20

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 25, 2022 and June 26, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
| **Pension Benefits** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Balance, beginning of period |  | $ | (22,104 | ) |  | $ | (29,920 | ) |  | $ | (23,303 | ) |  | $ | (32,286 | ) |
| Reclassifications to earnings: |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Recognition of net actuarial loss for pension settlement (1) |  |  | 634 |  |  |  | 142 |  |  |  | 634 |  |  |  | 712 |  |
| Amortization of net loss (1) |  |  | 598 |  |  |  | 899 |  |  |  | 1,797 |  |  |  | 2,695 |  |
| Other comprehensive income |  |  | 1,232 |  |  |  | 1,041 |  |  |  | 2,431 |  |  |  | 3,407 |  |
| Balance, end of period |  | $ | (20,872 | ) |  | $ | (28,879 | ) |  | $ | (20,872 | ) |  | $ | (28,879 | ) |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| **Postretirement Benefits** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Balance, beginning of period |  | $ | 5,108 |  |  | $ | 5,900 |  |  | $ | 5,719 |  |  | $ | 6,510 |  |
| Reclassifications to earnings: |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Amortization of net gain and prior service credits (1) |  |  | (305 | ) |  |  | (306 | ) |  |  | (916 | ) |  |  | (916 | ) |
| Other comprehensive loss |  |  | (305 | ) |  |  | (306 | ) |  |  | (916 | ) |  |  | (916 | ) |
| Balance, end of period |  | $ | 4,803 |  |  | $ | 5,594 |  |  | $ | 4,803 |  |  | $ | 5,594 |  |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| **Accumulated Other Comprehensive Income (Loss)** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Balance, beginning of period |  | $ | (16,996 | ) |  | $ | (24,020 | ) |  | $ | (17,584 | ) |  | $ | (25,776 | ) |
| Reclassifications to earnings |  |  | 293 |  |  |  | 593 |  |  |  | 881 |  |  |  | 1,779 |  |
| Recognition of net actuarial loss for pension settlement |  |  | 634 |  |  |  | 142 |  |  |  | 634 |  |  |  | 712 |  |
| Other comprehensive income |  |  | 927 |  |  |  | 735 |  |  |  | 1,515 |  |  |  | 2,491 |  |
| Balance, end of period |  | $ | (16,069 | ) |  | $ | (23,285 | ) |  | $ | (16,069 | ) |  | $ | (23,285 | ) |

(1)

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

**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 net operating loss carryforwards (“NOLs”), that arose after 2017) 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.

As a result of the Tax Cuts and Jobs Act, NOLs generated by the Corporate Entities beginning in 2018 may be carried forward indefinitely. The Corporate Entities generated a taxable loss during the 2021 tax year, which resulted in a $638 discrete deferred tax benefit recorded during the first quarter of fiscal 2022.

21

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 25, 2021.

The propane segment is primarily engaged in the retail distribution of propane to residential, commercial, industrial, agricultural and government customers and, to a lesser extent, wholesale distribution to large industrial end users. In the residential, commercial and government 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. In addition, the Partnership’s equity investment in Oberon is included within the propane segment.

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. In addition, the Partnership’s equity investment in IH and investments in biodigester systems for the production of RNG are included within “all other”.

22

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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 25,** | |  |  | **June 26,** | |  |  | **June 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
| **Revenues:** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 260,634 |  |  | $ | 208,689 |  |  | $ | 1,108,572 |  |  | $ | 958,641 |  |
| Fuel oil and refined fuels |  |  | 19,274 |  |  |  | 11,314 |  |  |  | 83,741 |  |  |  | 59,075 |  |
| Natural gas and electricity |  |  | 7,547 |  |  |  | 5,835 |  |  |  | 31,165 |  |  |  | 23,461 |  |
| All other |  |  | 12,877 |  |  |  | 12,247 |  |  |  | 40,356 |  |  |  | 39,337 |  |
| Total revenues |  | $ | 300,332 |  |  | $ | 238,085 |  |  | $ | 1,263,834 |  |  | $ | 1,080,514 |  |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| **Operating income (loss):** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 52,178 |  |  | $ | 41,460 |  |  | $ | 340,139 |  |  | $ | 297,155 |  |
| Fuel oil and refined fuels |  |  | (308 | ) |  |  | (433 | ) |  |  | 8,571 |  |  |  | 9,800 |  |
| Natural gas and electricity |  |  | 792 |  |  |  | 1,103 |  |  |  | 5,912 |  |  |  | 6,466 |  |
| All other |  |  | (5,998 | ) |  |  | (5,117 | ) |  |  | (16,790 | ) |  |  | (14,410 | ) |
| Corporate |  |  | (31,893 | ) |  |  | (29,010 | ) |  |  | (93,844 | ) |  |  | (86,165 | ) |
| Total operating income |  |  | 14,771 |  |  |  | 8,003 |  |  |  | 243,988 |  |  |  | 212,846 |  |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Reconciliation to net (loss) income: |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Loss on debt extinguishment |  |  | — |  |  |  | 16,029 |  |  |  | — |  |  |  | 16,029 |  |
| Interest expense, net |  |  | 15,004 |  |  |  | 16,737 |  |  |  | 45,557 |  |  |  | 52,964 |  |
| Other, net |  |  | 2,031 |  |  |  | 1,085 |  |  |  | 4,395 |  |  |  | 3,745 |  |
| Provision for income taxes |  |  | 271 |  |  |  | 173 |  |  |  | 171 |  |  |  | 936 |  |
| Net (loss) income |  | $ | (2,535 | ) |  | $ | (26,021 | ) |  | $ | 193,865 |  |  | $ | 139,172 |  |
|  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| **Depreciation and amortization:** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 12,054 |  |  | $ | 25,083 |  |  | $ | 37,552 |  |  | $ | 75,762 |  |
| Fuel oil and refined fuels |  |  | 420 |  |  |  | 429 |  |  |  | 1,276 |  |  |  | 1,225 |  |
| Natural gas and electricity |  |  | 6 |  |  |  | 6 |  |  |  | 16 |  |  |  | 18 |  |
| All other |  |  | 45 |  |  |  | 47 |  |  |  | 135 |  |  |  | 141 |  |
| Corporate |  |  | 1,484 |  |  |  | 1,689 |  |  |  | 5,377 |  |  |  | 5,471 |  |
| Total depreciation and amortization |  | $ | 14,009 |  |  | $ | 27,254 |  |  | $ | 44,356 |  |  | $ | 82,617 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **As of** | | | | | |  |
|  |  | **June 25,** | |  |  | **September 25,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| **Assets:** |  |  | |  |  |  | |  |
| Propane |  | $ | 1,960,627 |  |  | $ | 1,935,399 |  |
| Fuel oil and refined fuels |  |  | 52,229 |  |  |  | 47,039 |  |
| Natural gas and electricity |  |  | 11,040 |  |  |  | 11,275 |  |
| All other |  |  | 47,818 |  |  |  | 17,767 |  |
| Corporate |  |  | 43,681 |  |  |  | 40,250 |  |
| Total assets |  | $ | 2,115,395 |  |  | $ | 2,051,730 |  |

**19. Subsequent Event**

On July 13, 2022, the Operating Partnership acquired the propane assets and operations of a propane retailer headquartered in New Mexico for $19,420, including $1,000 for non-compete consideration, plus working capital acquired. The acquisition was consummated pursuant to the Partnership’s strategic growth initiatives.

23

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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 25, 2022, as seen from our perspective. 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 25, 2021.

**Executive Overview**

The following are factors that regularly affect our operating results and financial condition. Our business is also 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 25, 2021 and in this Quarterly Report. Management currently considers the following events, trends, and uncertainties to be most important to understanding our financial condition and operating performance:

***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.

During the third quarter of fiscal 2022, the wholesale cost of propane receded nominally from the elevated levels of the prior sequential quarter, but were still significantly higher than the prior year, primarily due to lower propane inventory levels for this time of year, coupled with the macroeconomic and geopolitical factors, such as Russia’s invasion of Ukraine, impacting commodity prices globally and in the United States. According to the Energy Information Administration, U.S. propane inventory levels at the end of June 2022 were 54.0 million barrels, which was 6.1% lower than June 2021 levels and 14% lower than the 5-year average for June. Average posted propane prices (basis Mont Belvieu, Texas) were 43.8% higher than the prior year third quarter, albeit 4.1% lower than the prior sequential quarter. Consistent with our established practice, we adjusted customer pricing as market conditions allowed.

***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 first quarters for distribution to holders of our Common Units in the fourth quarter and the following fiscal year first quarter.

24

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

***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 our Audit Committee, through enforcement of our Hedging and Risk Management Policy.

***Impact of COVID-19 Pandemic on Customer Demand Patterns***

The COVID-19 pandemic has resulted in commodity and stock market volatility, significant government stimulus and uncertainty about economic conditions. As a result, we experienced a period of lower revenues in certain customer sectors, particularly during the period from March 2020 through December 2020, as well as an increase in usage in our residential and certain other customer segments that benefited from stay-at-home initiatives and the demand for temporary, portable energy solutions. As economic and business conditions continue to evolve, more people are returning to work and demand in these residential and certain other customer segments have moderated back to more historical levels. Nonetheless, as we navigate through fiscal 2022 and beyond, we continue to refine alternative operational plans, inclusive of manpower levels, to address different customer demand scenarios, and to adapt our operational model to the potential for shifting demand patterns in the future as a result of the COVID-19 pandemic on future cash flows and access to adequate liquidity.

***Inflation and Other Cost Increases***

In addition to the evolving impact of the COVID-19 pandemic, we have been impacted by other global and economic events. We are experiencing increased inflation in the costs of various goods and services we use to operate our business, including higher wholesale costs for the products we distribute. Although we have not experienced significant disruptions with securing the products we sell, inflationary factors and competition for resources across the supply chain has resulted in increased costs in a wide variety of areas, including labor, transportation costs and the cost of tanks and other equipment. These and other factors may continue to impact our product costs, expenses, and capital expenditures, and could continue to have an impact on consumer demand as consumers manage the impact of inflation on their resources.

***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 25, 2021.

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 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

25

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

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 2022 improved to $2.5 million, or $0.04 per Common Unit, compared to a net loss of $26.0 million, or $0.41 per Common Unit, in the fiscal 2021 third quarter. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA, as defined and reconciled below) increased $5.9 million, or 25.3%, to $29.2 million for the third quarter of fiscal 2022, compared to $23.3 million in the prior year third quarter.

Retail propane gallons sold in the third quarter of fiscal 2022 of 75.5 million gallons decreased 1.6% compared to the prior year, primarily due to the adverse impact of historically high commodity prices on customer buying habits and demand, partially offset by cooler spring temperatures that contributed to higher heat-related demand in certain markets. In addition, volumes in the prior year third quarter benefitted from incremental outdoor heating and cooking demand associated with continued COVID-19 related government restrictions. Average temperatures (as measured by heating degree days) across all of our service territories during the third quarter were 4% warmer than normal and 5% colder than the prior year third quarter.

Average wholesale propane prices (basis Mont Belvieu, Texas) for the third quarter of fiscal 2022 increased 43.8% compared to the prior year third quarter. Total gross margin for the third quarter of fiscal 2022 was $159.4 million, compared to $155.0 million in the prior year third quarter. Gross margin for the third quarter of fiscal 2022 included a $0.9 million unrealized loss attributable to the mark-to-market adjustment for derivative instruments used in risk management activities, compared to an $11.1 million unrealized gain in the prior year third quarter. These non-cash adjustments, which were reported in cost of products sold, were excluded from Adjusted EBITDA for both periods. Excluding the impact of these non-cash mark-to-market adjustments, total gross margin increased $16.4 million, or 11.4%, compared to the prior year third quarter, primarily due to prudent margin management during a volatile commodity price environment, as well as from the favorable impact of commodity hedges that matured during the period. Our hedging and risk management activities are intended to reduce the effect of price volatility associated with forecasted purchases of propane, and propane sold on a fixed price basis. The commodity hedges that matured during the third quarter of fiscal 2022 were principally comprised of net long positions that were favorably impacted from the significant rise in commodity prices.

Combined operating and general and administrative expenses of $130.6 million for the third quarter of fiscal 2022 increased 9.1% compared to the prior year, primarily due to higher payroll and benefit-related expenses, including higher variable compensation expense, higher vehicle lease and fuel costs, higher provisions for doubtful accounts, as well as other inflationary effects on our operating costs.

During the third quarter of fiscal 2022, we utilized cash flows from operating activities to repay $43.1 million in debt, and make additional investments in Oberon Fuels, Inc. (“Oberon”). As a result of the debt repayment and the increase in Adjusted EBITDA during the third quarter of fiscal 2022, the Consolidated Leverage Ratio, as defined in our credit agreement, for the trailing twelve-month period ending June 25, 2022 improved to 3.64x.

As previously announced on July 21, 2022, the Partnership’s Board of Supervisors declared a quarterly distribution of $0.325 per Common Unit effective for the distribution payable in respect of the third quarter of fiscal 2022. This distribution is payable on August 9, 2022 to Common Unitholders of record as of August 2, 2022.

Our anticipated cash requirements for the remainder of fiscal 2022 include: (i) maintenance and growth capital expenditures of approximately $11.7 million; (ii) interest and income tax payments of approximately $12.0 million; and (iii) cash distributions of approximately $20.5 million to our Common Unitholders based on the quarterly distribution rate of $0.325 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.

Although uncertainty remains regarding the long-term impact of the COVID-19 pandemic on the economy and businesses, we believe our efficient and flexible business model, as well as the recent steps taken to strengthen our balance sheet, leave us well positioned to manage our business through the crisis as it continues to unfold. Nonetheless, as we progress through the remainder of fiscal 2022, there remains significant uncertainty regarding the scope and duration of governmental policies that have been, or may in the future be, instituted to mitigate the spread of COVID-19. 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.

26

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

We also continue to make additional investments in Oberon in support of our ongoing collective efforts to commercialize clean-burning, renewable dimethyl ether (“rDME”) (see Item 1, Note 4 of this Quarterly Report). Specifically, Oberon continues to evaluate the expansion of production capacity, and we made investments in new equipment in one of our locations in California to handle, store and distribute Propane+rDME blended products. During the third quarter of fiscal 2022, we launched the first commercial sales of Propane+rDME, which combines clean, versatile and abundantly available propane with the lower carbon benefits of rDME, in our southern California markets. Additionally, on May 23, 2022, we announced our agreement with Iwatani Corporation of America to collaborate in advancing the adoption of low-carbon alternative energy solutions across multiple applications in the propane market, including propane blended with rDME and to further advance investments in hydrogen infrastructure and transportation services in the United States. On June 1, 2022, we announced our agreement to construct, own and operate a new biodigester system with Adirondack Farms in Clinton County, New York for the production of renewable natural gas (“RNG”). This project further expands the portfolio of clean energy investments under our wholly owned subsidiary, Suburban Renewable Energy, LLC (“Suburban Renewables”), which was formed in January 2022 to support our strategic goal of building a renewable energy platform.

During the second quarter of fiscal 2022, Suburban Renewables completed its investment of $30.0 million, plus direct transaction costs, in Independence Hydrogen, Inc. (“IH”), in exchange for a 25% equity interest (see Item 1, Note 4 of this Quarterly Report). IH is a veteran-owned and operated, privately held company developing a gaseous hydrogen ecosystem to deliver locally sourced hydrogen to local markets, with a primary focus on material handling and backup power applications. Hydrogen is a critical energy source to decarbonize the material handling, transportation and heavy industry sectors and it can also provide grid resiliency as backup power and long-duration storage to enable the deployment of intermittent renewable energy sources. IH’s mission is to make communities cleaner, safer and more energy resilient by providing a reliable supply of affordable hydrogen.

**Three Months Ended June 25, 2022 Compared to Three Months Ended June 26, 2021**

*Revenues*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars and gallons in thousands)** |  | **Three Months Ended** | | | | | |  |  |  | |  |  | **Percent** | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  | **Increase** | |  |  | **Increase** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **(Decrease)** | |  |  | **(Decrease)** | |  |
| Revenues |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 260,634 |  |  | $ | 208,689 |  |  | $ | 51,945 |  |  |  | 24.9 | % |
| Fuel oil and refined fuels |  |  | 19,274 |  |  |  | 11,314 |  |  |  | 7,960 |  |  |  | 70.4 | % |
| Natural gas and electricity |  |  | 7,547 |  |  |  | 5,835 |  |  |  | 1,712 |  |  |  | 29.3 | % |
| All other |  |  | 12,877 |  |  |  | 12,247 |  |  |  | 630 |  |  |  | 5.1 | % |
| Total revenues |  | $ | 300,332 |  |  | $ | 238,085 |  |  | $ | 62,247 |  |  |  | 26.1 | % |
| Retail gallons sold |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  |  | 75,510 |  |  |  | 76,702 |  |  |  | (1,192 | ) |  |  | (1.6 | )% |
| Fuel oil and refined fuels |  |  | 3,629 |  |  |  | 3,854 |  |  |  | (225 | ) |  |  | (5.8 | )% |

As discussed above, average temperatures (as measured by heating degree days) across all of our service territories during the third quarter of fiscal 2022 were 4% warmer than normal (as measured by the thirty-year average of heating degree days utilized by NOAA) and 5% cooler than the prior year third quarter. The increase in heating degree days compared to the prior year was primarily experienced in the northeast and midwest regions during the month of April, which was 10% colder than average temperatures in April 2021.

Revenues from the distribution of propane and related activities of $260.6 million increased $51.9 million, or 24.9%, compared to the prior year, primarily due to higher average retail selling prices associated with higher wholesale costs, offset to an extent by lower volumes sold. Average propane selling prices increased 23.6% compared to the prior year, reflecting higher average wholesale costs, resulting in a $48.2 million increase in revenues. Retail propane gallons sold decreased 1.2 million gallons, or 1.6%, compared to the prior year, primarily due to customer conservation and lower resale activities as described above, resulting in a $3.2 million decrease in revenues. Included within the propane segment are revenues from other propane activities, which increased $6.9 million primarily due to a higher 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 $19.3 million were $8.0 million, or 70.4%, higher than the prior year, primarily due to higher average retail selling prices associated with higher wholesale costs, offset to an extent by a decrease in volumes sold. Average fuel oil and refined fuels selling prices increased 81.2% compared to the prior year, reflecting higher average wholesale costs, resulting in an $8.6 million increase in revenues. Fuel oil and refined fuels gallons sold decreased 0.2 million gallons, or 5.8%, primarily due to customer conservation, resulting in a $0.6 million decrease in revenues.

27

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

Revenues in our natural gas and electricity segment of $7.5 million were $1.7 million, or 29.3%, higher than the prior year, primarily due to higher average selling prices, reflecting higher average wholesale costs, offset to an extent by lower volumes sold, primarily due to the impact of a lower customer base.

*Cost of Products Sold*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Cost of products sold |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 117,394 |  |  | $ | 68,219 |  |  | $ | 49,175 |  |  |  | 72.1 | % |
| Fuel oil and refined fuels |  |  | 14,327 |  |  |  | 7,560 |  |  |  | 6,767 |  |  |  | 89.5 | % |
| Natural gas and electricity |  |  | 5,348 |  |  |  | 3,482 |  |  |  | 1,866 |  |  |  | 53.6 | % |
| All other |  |  | 3,861 |  |  |  | 3,795 |  |  |  | 66 |  |  |  | 1.7 | % |
| Total cost of products sold |  | $ | 140,930 |  |  | $ | 83,056 |  |  | $ | 57,874 |  |  |  | 69.7 | % |
| As a percent of total revenues |  |  | 46.9 | % |  |  | 34.9 | % |  |  | |  |  |  | |  |

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, 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. At expiration, the derivative contracts are settled by the delivery of the product to the respective party or are settled by the payment to the respective party 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, that are used to hedge price risk associated with our priced physical inventory or fixed price volumes sold will typically offset losses or gains on the physical inventory once the product is sold or delivered as it pertains to fixed price contracts (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 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 43.8% and 101.5% higher 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 loss in the third quarter of fiscal 2022 compared to an $11.1 million unrealized non-cash gain in the prior year quarter, resulting in a net increase of $12.0 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 $117.4 million increased $49.2 million, or 72.1%, compared to the prior year third quarter. Higher average wholesale costs, net of realized gains on commodity hedges, contributed to an increase in cost of products sold of $33.6 million, while lower volumes sold contributed to a decrease of $1.3 million in cost of products sold. Included within the propane segment are costs from other propane activities which increased $4.9 million compared to the prior year due to a higher notional amount of hedging contracts that were settled physically, as well as the net increase in cost of products sold of $12.0 million resulting from the mark-to-market adjustments on derivative instruments in both periods discussed above.

Cost of products sold associated with our fuel oil and refined fuels segment of $14.3 million increased $6.8 million, or 89.5%, compared to the prior year third quarter. Higher average wholesale costs led to an increase in costs of products sold of $7.2 million, which was offset to an extent by a $0.4 million decrease associated with lower volumes.

Cost of products sold in our natural gas and electricity segment of $5.3 million increased $1.9 million, or 53.6%, compared to the prior year primarily due to higher natural gas and electricity wholesale costs, partially offset by lower usage.

28

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

*Operating Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Operating expenses |  | $ | 109,081 |  |  | $ | 102,016 |  |  | $ | 7,065 |  |  |  | 6.9 | % |
| As a percent of total revenues |  |  | 36.3 | % |  |  | 42.8 | % |  |  | |  |  |  | |  |

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 $109.1 million for the third quarter of fiscal 2022 increased $7.1 million, or 6.9%, compared to the prior year third quarter, primarily due to higher payroll and benefit-related costs, including higher variable compensation expense, higher vehicle lease and fuel costs, higher provisions for doubtful accounts as a result of higher selling prices, as well as other inflationary effects on our operating costs.

*General and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Increase** | |  |  | **Increase** | |  |
| General and administrative expenses |  | $ | 21,541 |  |  | $ | 17,756 |  |  | $ | 3,785 |  |  |  | 21.3 | % |
| As a percent of total revenues |  |  | 7.2 | % |  |  | 7.5 | % |  |  | |  |  |  | |  |

All costs of our back office support functions, including compensation and benefits for executives and other support functions, as well as other costs and expenses to maintain finance and accounting, treasury, legal, human resources, corporate development and the information systems functions are reported within general and administrative expenses in the condensed consolidated statements of operations.

General and administrative expenses of $21.5 million for the third quarter of fiscal 2022 increased $3.8 million, or 21.3%, compared to the prior year third quarter, primarily due to higher payroll and benefit-related costs, including higher variable compensation expense, as well as other inflationary increases.

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Depreciation and amortization |  | $ | 14,009 |  |  | $ | 27,254 |  |  | $ | (13,245 | ) |  |  | (48.6 | )% |
| As a percent of total revenues |  |  | 4.7 | % |  |  | 11.4 | % |  |  | |  |  |  | |  |

Depreciation and amortization expense of $14.0 million for the third quarter of fiscal 2022 decreased $13.2 million, or 48.6%, compared to the prior year third quarter, primarily as a result of lower amortization expense attributable to the conclusion of the amortization period for certain intangible assets from prior business acquisitions.

*Interest Expense, net*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Three Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Interest expense, net |  | $ | 15,004 |  |  | $ | 16,737 |  |  | $ | (1,733 | ) |  |  | (10.4 | )% |
| As a percent of total revenues |  |  | 5.0 | % |  |  | 7.0 | % |  |  | |  |  |  | |  |

Net interest expense of $15.0 million in the third quarter of fiscal 2022 decreased $1.7 million, or 10.4%, compared to the prior year third quarter, due to the impact of the refinancing of two tranches of senior notes at lower interest rates in the third quarter of the prior year, as well as a lower average level of outstanding debt. See Liquidity and Capital Resources below for additional discussion.

29

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

*Loss on Debt Extinguishment*

On May 24, 2021, we repurchased, satisfied and discharged all of our previously outstanding 2024 Senior Notes and 2025 Senior Notes with net proceeds from the issuance of the 2031 Senior Notes and borrowings under the Revolving Credit Facility, as described and defined below, pursuant to a tender offer and redemption. In connection with this tender offer and redemption during the third quarter of fiscal 2021, we recognized a loss on the extinguishment of debt of $16.0 million, consisting of $11.5 million for the redemption premium and related fees, as well as the write-off of $4.5 million in unamortized debt origination costs.

*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 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Net loss |  | $ | (2,535 | ) |  | $ | (26,021 | ) |
| Add: |  |  | |  |  |  | |  |
| Provision for income taxes |  |  | 271 |  |  |  | 173 |  |
| Interest expense, net |  |  | 15,004 |  |  |  | 16,737 |  |
| Depreciation and amortization |  |  | 14,009 |  |  |  | 27,254 |  |
| EBITDA |  |  | 26,749 |  |  |  | 18,143 |  |
| Unrealized non-cash losses (gains) on changes in fair value of derivatives |  |  | 921 |  |  |  | (11,139 | ) |
| Equity in earnings of unconsolidated affiliates |  |  | 877 |  |  |  | 116 |  |
| Pension settlement charge |  |  | 634 |  |  |  | 142 |  |
| Loss on debt extinguishment |  |  | — |  |  |  | 16,029 |  |
| Adjusted EBITDA |  | $ | 29,181 |  |  | $ | 23,291 |  |

We also reference gross margins, computed as revenues less cost of products sold as those amounts are reported on the condensed consolidated financial statements. Our management uses gross margin as a supplemental measure of operating performance and we are including it as we believe that it provides our investors and industry analysts with additional information that we determined is useful to evaluate our operating results. As cost of products sold does not include depreciation and amortization expense, the gross margin we reference is considered a non-GAAP financial measure.

**Nine Months Ended June 25, 2022 Compared to Nine Months Ended June 26, 2021**

*Revenues*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars and gallons in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  | |  |  | **Percent** | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  | **Increase** | |  |  | **Increase** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **(Decrease)** | |  |  | **(Decrease)** | |  |
| Revenues |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 1,108,572 |  |  | $ | 958,641 |  |  | $ | 149,931 |  |  |  | 15.6 | % |
| Fuel oil and refined fuels |  |  | 83,741 |  |  |  | 59,075 |  |  |  | 24,666 |  |  |  | 41.8 | % |
| Natural gas and electricity |  |  | 31,165 |  |  |  | 23,461 |  |  |  | 7,704 |  |  |  | 32.8 | % |
| All other |  |  | 40,356 |  |  |  | 39,337 |  |  |  | 1,019 |  |  |  | 2.6 | % |
| Total revenues |  | $ | 1,263,834 |  |  | $ | 1,080,514 |  |  | $ | 183,320 |  |  |  | 17.0 | % |
| Retail gallons sold |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  |  | 339,954 |  |  |  | 357,443 |  |  |  | (17,489 | ) |  |  | (4.9 | )% |
| Fuel oil and refined fuels |  |  | 20,478 |  |  |  | 21,301 |  |  |  | (823 | ) |  |  | (3.9 | )% |

30

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

Average temperatures (as measured in heating degree days) across all of our service territories for the first nine months of fiscal 2022 were 10% warmer than normal and 1% warmer than the prior year period. The weather during the first nine months of fiscal 2022 was characterized by widespread warm temperatures throughout most of our service territories during the critical month of December which lasted into early January. While a cooling trend arrived late in January, warmer weather returned in mid-February. The unseasonably warm and erratic weather pattern throughout the majority of fiscal 2022 led to inconsistent heat-related demand, while elevated selling prices due to significantly higher wholesale costs contributed to customer conservation. In addition, as more people continued to return to work in a post-COVID environment and outdoor heating needs moderated to more traditional pre-pandemic levels, resale volumes were negatively affected.

Revenues from the distribution of propane and related activities of $1,108.6 million increased $149.9 million, or 15.6%, compared to the prior year period, primarily due to higher average retail selling prices associated with higher wholesale costs, offset to an extent by lower volumes sold. Average propane selling prices increased 23.2% compared to the prior year period, reflecting a rise in average wholesale costs, resulting in a $205.0 million increase in revenues. Retail propane gallons sold decreased 17.5 million gallons, or 4.9%, compared to the prior year, resulting in a $45.5 million decrease in revenues. Included within the propane segment are revenues from other propane activities, which decreased $9.6 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 $83.7 million increased $24.7 million, or 41.8%, compared to the prior year period, primarily due to higher average selling prices associated with higher wholesale costs, partially offset by lower volumes sold. Average selling prices for fuel oil and refined fuels increased 47.5%, resulting in a $26.9 million increase in revenues. Fuel oil and refined fuels volumes sold decreased 0.8 million gallons, or 3.9%, resulting in a $2.2 million decrease in revenues.

Revenues in our natural gas and electricity segment of $31.2 million were $7.7 million, or 32.8%, higher than the prior year period, resulting from higher average selling prices, reflecting higher average wholesale costs, offset to an extent by lower volumes sold, primarily due to the impact of warmer temperatures on customer demand and a lower customer base.

*Cost of Products Sold*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Cost of products sold |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Propane |  | $ | 484,524 |  |  | $ | 358,292 |  |  | $ | 126,232 |  |  |  | 35.2 | % |
| Fuel oil and refined fuels |  |  | 59,196 |  |  |  | 35,203 |  |  |  | 23,993 |  |  |  | 68.2 | % |
| Natural gas and electricity |  |  | 20,818 |  |  |  | 12,858 |  |  |  | 7,960 |  |  |  | 61.9 | % |
| All other |  |  | 11,761 |  |  |  | 11,649 |  |  |  | 112 |  |  |  | 1.0 | % |
| Total cost of products sold |  | $ | 576,299 |  |  | $ | 418,002 |  |  | $ | 158,297 |  |  |  | 37.9 | % |
| As a percent of total revenues |  |  | 45.6 | % |  |  | 38.7 | % |  |  | |  |  |  | |  |

In the commodities markets, average posted propane prices (basis Mont Belvieu, Texas) and fuel oil prices in the first nine months of fiscal 2022 were 62.2% and 88.1% higher than the prior year period, respectively. The net change in the fair value of derivative instruments resulted in a $1.5 million unrealized non-cash loss and a $17.6 million unrealized non-cash gain in the first nine months of fiscal 2022 and 2021, respectively, resulting in an increase of $19.1 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 $484.5 million increased $126.2 million, or 35.2%, compared to the prior year period. Higher average wholesale costs contributed to a $135.6 million increase in cost of products sold, while lower volumes sold contributed to a $17.9 million decrease. Included within the propane segment are costs from other propane activities which decreased $10.6 million compared to the prior year due to a lower notional amount of hedging contracts used in risk management activities that were settled physically, coupled with the net increase in cost of products sold of $19.1 million resulting from the mark-to-market adjustments on derivative instruments in both periods discussed above.

Cost of products sold associated with our fuel oil and refined fuels segment of $59.2 million increased $24.0 million, or 68.2%, compared to the prior year period. Higher average wholesale costs contributed to an increase in cost of products sold of $25.4 million, which was partially offset by the $1.4 million impact from lower volumes sold.

31

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

Cost of products sold in our natural gas and electricity segment of $20.8 million increased $8.0 million, or 61.9%, compared to the prior year period, primarily due to higher natural gas and electricity wholesale costs, partially offset by lower usage.

*Operating Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Increase** | |  |  | **Increase** | |  |
| Operating expenses |  | $ | 334,229 |  |  | $ | 309,183 |  |  | $ | 25,046 |  |  |  | 8.1 | % |
| As a percent of total revenues |  |  | 26.4 | % |  |  | 28.6 | % |  |  | |  |  |  | |  |

Operating expenses of $334.2 million for the first nine months of fiscal 2022 increased $25.0 million, or 8.1%, compared to the corresponding prior year period, due primarily to higher payroll and benefit-related costs, including higher variable compensation expense, higher vehicle lease and operating costs, higher provisions for doubtful accounts, as well as other inflationary effects on our operating costs.

*General and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Increase** | |  |  | **Increase** | |  |
| General and administrative expenses |  | $ | 64,962 |  |  | $ | 57,866 |  |  | $ | 7,096 |  |  |  | 12.3 | % |
| As a percent of total revenues |  |  | 5.1 | % |  |  | 5.4 | % |  |  | |  |  |  | |  |

General and administrative expenses of $65.0 million for the first nine months of fiscal 2022 increased $7.1 million, or 12.3%, compared to the prior year period, primarily due to higher payroll and benefit-related costs, including higher variable compensation expense given the year-over-year increase in earnings.

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Depreciation and amortization |  | $ | 44,356 |  |  | $ | 82,617 |  |  | $ | (38,261 | ) |  |  | (46.3 | )% |
| As a percent of total revenues |  |  | 3.5 | % |  |  | 7.6 | % |  |  | |  |  |  | |  |

Depreciation and amortization expense of $44.4 million in the first nine months of fiscal 2022 decreased $38.3 million, or 46.3%, primarily as a result of lower amortization expense attributable to the conclusion of the amortization period for certain intangible assets from prior business acquisitions.

*Interest Expense, net*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in thousands)** |  | **Nine Months Ended** | | | | | |  |  |  | |  |  |  | |  |
|  |  | **June 25,** | |  |  | **June 26,** | |  |  |  | |  |  | **Percent** | |  |
|  |  | **2022** | |  |  | **2021** | |  |  | **Decrease** | |  |  | **Decrease** | |  |
| Interest expense, net |  | $ | 45,557 |  |  | $ | 52,964 |  |  | $ | (7,407 | ) |  |  | (14.0 | )% |
| As a percent of total revenues |  |  | 3.6 | % |  |  | 4.9 | % |  |  | |  |  |  | |  |

Net interest expense of $45.6 million in the first nine months of fiscal 2022 decreased $7.4 million, or 14.0%, compared to the prior year period, primarily due to the impact of the refinancing of two tranches of senior notes at lower interest rates in the third quarter of the prior year, as well as a lower average level of outstanding debt. See Liquidity and Capital Resources below for additional discussion.

32

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

*Loss on Debt Extinguishment*

On May 24, 2021, we repurchased, satisfied and discharged all of our previously outstanding 2024 Senior Notes and 2025 Senior Notes with net proceeds from the issuance of the 2031 Senior Notes and borrowings under the Revolving Credit Facility, as described and defined below, pursuant to a tender offer and redemption. In connection with this tender offer and redemption during the third quarter of fiscal 2021, we recognized a loss on the extinguishment of debt of $16.0 million, consisting of $11.5 million for the redemption premium and related fees, as well as the write-off of $4.5 million in 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 25,** | |  |  | **June 26,** | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| Net income |  | $ | 193,865 |  |  | $ | 139,172 |  |
| Add: |  |  | |  |  |  | |  |
| Provision for income taxes |  |  | 171 |  |  |  | 936 |  |
| Interest expense, net |  |  | 45,557 |  |  |  | 52,964 |  |
| Depreciation and amortization |  |  | 44,356 |  |  |  | 82,617 |  |
| EBITDA |  |  | 283,949 |  |  |  | 275,689 |  |
| Unrealized non-cash losses (gains) on changes in fair value of derivatives |  |  | 1,442 |  |  |  | (17,632 | ) |
| Equity in earnings of unconsolidated affiliates |  |  | 2,202 |  |  |  | 552 |  |
| Pension settlement charge |  |  | 634 |  |  |  | 712 |  |
| Loss on debt extinguishment |  |  | — |  |  |  | 16,029 |  |
| Adjusted EBITDA |  | $ | 288,227 |  |  | $ | 275,350 |  |

We also reference gross margins, computed as revenues less cost of products sold as those amounts are reported on the condensed consolidated financial statements. Our management uses gross margin as a supplemental measure of operating performance and we are including it as we believe that it provides our investors and industry analysts with additional information that we determined is useful to evaluate our operating results. As cost of products sold does not include depreciation and amortization expense, the gross margin we reference is considered a non-GAAP financial measure.

**Liquidity and Capital Resources**

***Analysis of Cash Flows***

*Operating Activities.* Net cash provided by operating activities for the first nine months of fiscal 2022 of $171.1 million decreased $9.6 million compared to the corresponding prior year period. The decrease was primarily due to a higher level of variable-based compensation payments for awards earned in the respective prior fiscal year, the payment of the employer portion of social security payroll tax that was deferred during a certain portion of fiscal 2020 under the CARES Act, and a larger increase in working capital compared to the prior year, which stemmed from the rise in average wholesale costs of propane (discussed above).

*Investing Activities.* Net cash used in investing activities of $64.3 million for the first nine months of fiscal 2022 consisted of capital expenditures of $33.3 million (including approximately $17.8 million to support the growth of operations and $15.5 million for maintenance expenditures), a $30.0 million investment in IH (plus direct transactions costs), $5.8 million used to fund the acquisition of certain assets of a retail propane business and additional investments in Oberon, partially offset by approximately $5.3 million in proceeds from the sale of property, plant and equipment, as well as the sale of certain assets and operations in a non-strategic market of the propane segment. See Item 1, Note 4 of this Quarterly Report.

Net cash used in investing activities of $27.8 million for the first nine months of fiscal 2021 consisted of capital expenditures of $21.8 million (including approximately $11.3 million to support the growth of operations and $10.5 million for maintenance expenditures), $8.3 million used to fund the acquisition of a retail propane business and other investment activities, partially offset by approximately $2.3 million in proceeds from the sale of property, plant and equipment.

*Financing Activities.* Net cash used in financing activities of $105.6 million for the first nine months of fiscal 2022 reflected $61.3 million paid for the quarterly distributions to Common Unitholders at a rate of $0.325 per Common Unit paid in respect of the fourth quarter of fiscal 2021 and first and second quarters of fiscal 2022, $40.6 million in net repayments under our revolving credit facility and other financing activities of $3.7 million.

33

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

Net cash used in financing activities for the first nine months of fiscal 2021 reflected $56.2 million paid for the quarterly distributions to Common Unitholders at a rate of $0.30 per Common Unit paid in respect of the fourth quarter of fiscal 2020 and the first and second quarters of fiscal 2021, and other financing activities of $3.6 million. Also reflected in financing activities for the first nine months of fiscal 2021 was proceeds of $650.0 million from the issuance of the 2031 Senior Notes which were used, along with borrowings of $125.0 million under our revolving credit facility, to repurchase, satisfy and discharge all of the previously outstanding 2024 Senior Notes and 2025 Senior Notes, with an aggregate par value of $775.0 million, as well as to pay tender premiums and other related fees of $11.3 million and debt issuance costs of $10.8 million, pursuant to a tender offer and redemption. For the nine months ended June 26, 2021, we utilized excess cash flows to repay $68.2 million of total debt.

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

As of June 25, 2022, our long-term debt consisted of $350.0 million in aggregate principal amount of 5.875% senior notes due March 1, 2027, $650.0 million in aggregate principal amount of 5.0% senior notes due June 1, 2031 and $91.4 million outstanding under our $500.0 million senior secured revolving credit facility (“Revolving Credit Facility”) provided by our credit agreement. Total long-term borrowings as of June 25, 2022 and June 26, 2021 was $1,091.4 million and $1,151.4 million, respectively. See Item 1, Note 10 of this Quarterly Report.

Based upon our Consolidated EBITDA, as defined in the credit agreement, for the trailing twelve-month period ended June 25, 2022, and outstanding borrowings and letters of credits issued under the Revolving Credit Facility as of June 25, 2022, our borrowing capacity under the Revolving Credit Facility was $359.7 million.

The aggregate amounts of long-term debt maturities subsequent to June 25, 2022 are as follows: fiscal 2022: $-0-; fiscal 2023: $-0-; fiscal 2024: $-0-; fiscal 2025: $91.4 million; fiscal 2026: $-0-; and thereafter: $1,000.0 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 21, 2022, we announced a quarterly distribution of $0.325 per Common Unit, or $1.30 on an annualized basis, in respect of the third quarter of fiscal 2022, payable on August 9, 2022 to holders of record on August 2, 2022.

***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, 1998. At June 25, 2022, we had a liability for the defined benefit pension plan and accrued retiree health and life benefits of $23.6 million and $7.3 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 25, 2022, we had accrued insurance liabilities of $65.4 million, and a receivable of $15.7 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.

34

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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.

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 25, 2022, we were not party to an interest rate swap agreement.

35

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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:

A.

The fair value of open positions as of June 25, 2022.

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 25, 2022 indicates a decrease in potential future net gains of $14.7 million. See also Item 7A of our Annual Report on Form 10-K for the fiscal year ended September 25, 2021. 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 and the Russia-Ukraine war have 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.

**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 25, 2022. Based on this evaluation, the Partnership’s principal executive officer and principal financial officer have concluded that, as of June 25, 2022, 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 25, 2022 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

36

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**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 25, 2021.

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

(c)

The following table provides information about deemed purchases by the Partnership during the three months ended June 25, 2022 of its Common Units:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | |  |  |  | |  |  | **Number of Shares** |  | **Approximate Dollar Value** |
|  |  | **Total Number** | |  |  | **Average** | |  |  | **Purchased as Part of** |  | **of Shares that May** |
|  |  | **of Shares** | |  |  | **Price Paid** | |  |  | **Publicly Announced** |  | **Yet be Purchased** |
| **Period** |  | **Purchased (1)** | |  |  | **per Share** | |  |  | **Program** |  | **under the Program** |
| March 27, 2022 through April 23, 2022 |  |  | 2,152 |  |  | $ | 16.32 |  |  | N/A |  | N/A |
| April 24, 2022 through May 21, 2022 |  |  | — |  |  |  | — |  |  | N/A |  | N/A |
| May 22, 2022 through June 25, 2022 |  |  | — |  |  |  | — |  |  | N/A |  | N/A |
| Total |  |  | 2,152 |  |  | $ | 16.32 |  |  | N/A |  | N/A |

(1)

This represents the number of Common Units withheld from participants for income tax withholding purposes for those executive officers of the Partnership whose shares of restricted units vested during the period. Such restricted units were issued to participants pursuant to the Suburban Propane Partners, L.P. 2009 and 2018 Restricted Unit Plans that were adopted by the Partnership on July 22, 2009 and June 1, 2018, respectively.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

37

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**ITEM 6. EXHIBITS**

(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 |  | [Suburban Propane, L.P. 2021 Long-Term Incentive Plan, effective September 27, 2020, as amended on February 2, 2022. (Incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed February 3, 2022). #](https://www.sec.gov/Archives/edgar/data/1005210/000156459022003746/sph-ex101_341.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-ex31_1.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-ex31_2.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-ex32_1.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-ex32_2.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. |

38

[Table of Contents](#suburban_propane_partners_lp_subsidiari)

**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.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | SUBURBAN PROPANE PARTNERS, L.P. | | |
|  |  |  |  |
| August 4, 2022 | By: |  | /s/ MICHAEL A. KUGLIN |
| Date |  |  | Michael A. Kuglin |
|  |  |  | Chief Financial Officer and Chief Accounting Officer |
|  |  |  |  |
| August 4, 2022 | By: |  | /s/ DANIEL S. BLOOMSTEIN |
| Date |  |  | Daniel S. Bloomstein |
|  |  |  | Vice President and Controller |

39