

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)



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

For the quarterly period ended June 30, 2020

OR



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

For the transition period from to

Commission file number 001-32593

Global Partners LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

74-3140887

(I.R.S. Employer Identification No.)

P.O. Box 9161

800 South Street

Waltham, Massachusetts 02454-9161

(Address of principal executive offices, including zip code)

(781) 894-8800

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Units representing limited partner interests	GLP	New York Stock Exchange
9.75% Series A Fixed-to-Floating Cumulative Redeemable	GLP pr A	New York Stock Exchange
Perpetual Preferred Units representing limited partner interests		

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 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 ☐

Non-accelerated filer ☐

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 ☒

The issuer had 33,995,563 common units outstanding as of August 3, 2020.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019</u>	3
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2020 and 2019</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019</u>	6
<u>Consolidated Statements of Partners' Equity for the three and six months ended June 30, 2020 and 2019</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	50
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	76
<u>Item 4. Controls and Procedures</u>	78
<u>PART II. OTHER INFORMATION</u>	79
<u>Item 1. Legal Proceedings</u>	79
<u>Item 1A. Risk Factors</u>	79
<u>Item 6. Exhibits</u>	80
<u>SIGNATURES</u>	81

Item 1. Financial Statements

GLOBAL PARTNERS LP
CONSOLIDATED BALANCE SHEETS
(In thousands, except unit data)
(Unaudited)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,358	\$ 12,042
Accounts receivable, net	232,832	413,195
Accounts receivable—affiliates	7,496	7,823
Inventories	344,026	450,482
Brokerage margin deposits	32,296	34,466
Derivative assets	48,571	4,564
Prepaid expenses and other current assets	93,397	81,940
Total current assets	768,976	1,004,512
Property and equipment, net	1,075,084	1,104,863
Right of use assets, net	282,025	296,746
Intangible assets, net	41,340	46,765
Goodwill	323,889	324,474
Other assets	30,964	31,067
Total assets	<u>\$ 2,522,278</u>	<u>\$ 2,808,427</u>
Liabilities and partners' equity		
Current liabilities:		
Accounts payable	\$ 163,351	\$ 373,386
Working capital revolving credit facility—current portion	41,700	148,900
Lease liability—current portion	70,622	68,160
Environmental liabilities—current portion	5,009	5,009
Trustee taxes payable	43,739	42,932
Accrued expenses and other current liabilities	94,586	102,802
Derivative liabilities	8,089	12,698
Total current liabilities	427,096	753,887
Working capital revolving credit facility—less current portion	175,000	175,000
Revolving credit facility	188,000	192,700
Senior notes	691,355	690,533
Long-term lease liability—less current portion	223,547	239,349
Environmental liabilities—less current portion	51,290	54,262
Financing obligations	147,400	148,127
Deferred tax liabilities	54,999	42,879
Other long—term liabilities	55,085	52,451
Total liabilities	2,013,772	2,349,188
Partners' equity		
Global Partners LP equity:		
Series A preferred limited partners (2,760,000 units issued and outstanding at June 30, 2020 and December 31, 2019, respectively)	67,226	67,226
Common limited partners (33,995,563 units issued and 33,840,822 outstanding at June 30, 2020 and 33,995,563 units issued and 33,867,393 outstanding at December 31, 2019)	443,326	398,535
General partner interest (0.67% interest with 230,303 equivalent units outstanding at June 30, 2020 and December 31, 2019)	(2,621)	(2,620)
Accumulated other comprehensive loss	(509)	(5,076)
Total Global Partners LP equity	507,422	458,065
Noncontrolling interest	1,084	1,174
Total partners' equity	508,506	459,239
Total liabilities and partners' equity	<u>\$ 2,522,278</u>	<u>\$ 2,808,427</u>

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per unit data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Sales	\$ 1,469,577	\$ 3,507,540	\$ 4,064,670	\$ 6,487,166
Cost of sales	1,229,630	3,340,397	3,678,985	6,163,179
Gross profit	239,947	167,143	385,685	323,987
Costs and operating expenses:				
Selling, general and administrative expenses	59,017	40,968	99,940	82,058
Operating expenses	76,714	86,451	159,267	169,395
Lease exit and termination gain	—	—	—	(493)
Amortization expense	2,713	2,977	5,425	5,953
Net gain on sale and disposition of assets	(811)	(1,128)	(68)	(575)
Long-lived asset impairment	1,724	—	1,724	—
Total costs and operating expenses	139,357	129,268	266,288	256,338
Operating income	100,590	37,875	119,397	67,649
Interest expense	(21,089)	(23,066)	(42,690)	(46,022)
Income before income tax (expense) benefit	79,501	14,809	76,707	21,627
Income tax (expense) benefit	(3,528)	(438)	2,341	(462)
Net income	75,973	14,371	79,048	21,165
Net loss attributable to noncontrolling interest	289	118	490	450
Net income attributable to Global Partners LP	76,262	14,489	79,538	21,615
Less: General partner's interest in net income, including incentive distribution rights	511	366	533	670
Less: Series A preferred limited partner interest in net income	1,682	1,682	3,364	3,364
Net income attributable to common limited partners	\$ 74,069	\$ 12,441	\$ 75,641	\$ 17,581
Basic net income per common limited partner unit	\$ 2.19	\$ 0.37	\$ 2.23	\$ 0.52
Diluted net income per common limited partner unit	\$ 2.17	\$ 0.36	\$ 2.21	\$ 0.51
Basic weighted average common limited partner units outstanding	33,869	33,755	33,869	33,754
Diluted weighted average common limited partner units outstanding	34,204	34,286	34,248	34,259

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 75,973	\$ 14,371	\$ 79,048	\$ 21,165
Other comprehensive income:				
Change in fair value of cash flow hedges	5,187	—	5,187	—
Change in pension liability	2,360	736	(620)	2,480
Total other comprehensive income	<u>7,547</u>	<u>736</u>	<u>4,567</u>	<u>2,480</u>
Comprehensive income	83,520	15,107	83,615	23,645
Comprehensive loss attributable to noncontrolling interest	289	118	490	450
Comprehensive income attributable to Global Partners LP	<u>\$ 83,809</u>	<u>\$ 15,225</u>	<u>\$ 84,105</u>	<u>\$ 24,095</u>

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities		
Net income	\$ 79,048	\$ 21,165
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,655	54,310
Amortization of deferred financing fees	2,567	2,554
Amortization of senior notes discount	—	773
Bad debt expense	360	339
Unit-based compensation expense	587	1,590
Write-off of financing fees	667	188
Net gain on sale and disposition of assets	(68)	(575)
Long-lived asset impairment	1,724	—
Changes in operating assets and liabilities		
Accounts receivable	180,003	(39,467)
Accounts receivable-affiliate	327	704
Inventories	106,142	(40,009)
Broker margin deposits	2,170	(5,188)
Prepaid expenses, all other current assets and other assets	(12,546)	7,460
Accounts payable	(210,035)	(25,852)
Trustee taxes payable	807	(2,407)
Change in derivatives	(48,616)	25,408
Accrued expenses, all other current liabilities and other long-term liabilities	8,211	(34,485)
Net cash provided by (used in) operating activities	162,003	(33,492)
Cash flows from investing activities		
Capital expenditures	(21,746)	(29,974)
Seller note issuances	(1,188)	(640)
Proceeds from sale of property and equipment	6,082	10,053
Net cash used in investing activities	(16,852)	(20,561)
Cash flows from financing activities		
Net (payments on) borrowings from working capital revolving credit facility	(107,200)	102,800
Net payments on revolving credit facility	(4,700)	(8,000)
Repurchase of common units	(291)	—
LTIP units withheld for tax obligations	(30)	(32)
Noncontrolling interest capital contribution	400	—
Distributions to limited partners and general partner	(35,014)	(38,390)
Net cash (used in) provided by financing activities	(146,835)	56,378
Cash and cash equivalents		
(Decrease) increase in cash and cash equivalents	(1,684)	2,325
Cash and cash equivalents at beginning of period	12,042	8,121
Cash and cash equivalents at end of period	<u>\$ 10,358</u>	<u>\$ 10,446</u>
Supplemental information		
Cash paid during the period for interest	<u>\$ 32,376</u>	<u>\$ 34,839</u>

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

GLOBAL PARTNERS LP
CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
(In thousands)
(Unaudited)

	Partners' Equity				Noncontrolling Interest	Total Partners' Equity
	Series A Preferred Limited Partners	Common Limited Partners	General Partner Interest	Accumulated Other Comprehensive Loss		
Three and six months ended June 30, 2020						
Balance at December 31, 2019	\$ 67,226	\$ 398,535	\$ (2,620)	\$ (5,076)	\$ 1,174	\$ 459,239
Net income (loss)	1,682	1,572	22	—	(201)	3,075
Noncontrolling interest capital contribution	—	—	—	—	400	400
Distributions to limited partners and general partner	(1,682)	(17,848)	(443)	—	—	(19,973)
Unit-based compensation	—	288	—	—	—	288
Other comprehensive income	—	—	—	(2,980)	—	(2,980)
LTIP units withheld for tax obligations	—	(25)	—	—	—	(25)
Dividends on repurchased units	—	68	—	—	—	68
Balance at March 31, 2020	\$ 67,226	\$ 382,590	\$ (3,041)	\$ (8,056)	\$ 1,373	\$ 440,092
Net income (loss)	1,682	74,069	511	—	(289)	75,973
Distributions to limited partners and general partner	(1,682)	(13,385)	(91)	—	—	(15,158)
Unit-based compensation	—	299	—	—	—	299
Other comprehensive income	—	—	—	7,547	—	7,547
Repurchase of common units	—	(291)	—	—	—	(291)
LTIP units withheld for tax obligations	—	(5)	—	—	—	(5)
Dividends on repurchased units	—	49	—	—	—	49
Balance at June 30, 2020	<u>\$ 67,226</u>	<u>\$ 443,326</u>	<u>\$ (2,621)</u>	<u>\$ (509)</u>	<u>\$ 1,084</u>	<u>\$ 508,506</u>

	Partners' Equity				Noncontrolling Interest	Total Partners' Equity
	Series A Preferred Limited Partners	Common Limited Partners	General Partner Interest	Accumulated Other Comprehensive Loss		
Three and six months ended June 30, 2019						
Balance at December 31, 2018	\$ 67,226	\$ 437,874	\$ (2,509)	\$ (5,260)	\$ 1,863	\$ 499,194
Net income (loss)	1,682	5,140	304	—	(332)	6,794
Distributions to limited partners and general partner	(1,682)	(16,998)	(317)	—	—	(18,997)
Unit-based compensation	—	795	—	—	—	795
Other comprehensive income	—	—	—	1,744	—	1,744
LTIP units withheld for tax obligation	—	(8)	—	—	—	(8)
Balance at March 31, 2019	\$ 67,226	\$ 426,803	\$ (2,522)	\$ (3,516)	\$ 1,531	\$ 489,522
Net income (loss)	1,682	12,441	366	—	(118)	14,371
Distributions to limited partners and general partner	(1,682)	(17,338)	(373)	—	—	(19,393)
Unit-based compensation	—	795	—	—	—	795
Other comprehensive income	—	—	—	736	—	736
LTIP units withheld for tax obligation	—	(24)	—	—	—	(24)
Balance at June 30, 2019	<u>\$ 67,226</u>	<u>\$ 422,677</u>	<u>\$ (2,529)</u>	<u>\$ (2,780)</u>	<u>\$ 1,413</u>	<u>\$ 486,007</u>

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

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

Global Partners LP (the “Partnership”) is a master limited partnership formed in March 2005. The Partnership owns, controls or has access to one of the largest terminal networks of refined petroleum products and renewable fuels in Massachusetts, Maine, Connecticut, Vermont, New Hampshire, Rhode Island, New York, New Jersey and Pennsylvania (collectively, the “Northeast”). The Partnership is one of the region’s largest independent owners, suppliers and operators of gasoline stations and convenience stores. As of June 30, 2020, the Partnership had a portfolio of 1,532 owned, leased and/or supplied gasoline stations, including 277 directly operated convenience stores, primarily in the Northeast. The Partnership is also one of the largest distributors of gasoline, distillates, residual oil and renewable fuels to wholesalers, retailers and commercial customers in the New England states and New York. The Partnership engages in the purchasing, selling, gathering, blending, storing and logistics of transporting petroleum and related products, including gasoline and gasoline blendstocks (such as ethanol), distillates (such as home heating oil, diesel and kerosene), residual oil, renewable fuels, crude oil and propane and in the transportation of petroleum products and renewable fuels by rail from the mid-continent region of the United States and Canada.

Global GP LLC, the Partnership’s general partner (the “General Partner”), manages the Partnership’s operations and activities and employs its officers and substantially all of its personnel, except for most of its gasoline station and convenience store employees who are employed by Global Montello Group Corp. (“GMG”), a wholly owned subsidiary of the Partnership.

The General Partner, which holds a 0.67% general partner interest in the Partnership, is owned by affiliates of the Slifka family. As of June 30, 2020, affiliates of the General Partner, including its directors and executive officers and their affiliates, owned 6,143,205 common units, representing a 18.1% limited partner interest.

Recent Event

Amended Credit Agreement—On May 7, 2020, the Partnership and certain of its subsidiaries entered into the fourth amendment to third amended and restated credit agreement which, among other things, provides temporary adjustments to certain covenants and reduces the total aggregate commitment by \$130.0 million. See Note 8 for additional information.

Basis of Presentation

The accompanying consolidated financial statements as of June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019 reflect the accounts of the Partnership. Upon consolidation, all intercompany balances and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition and operating results for the interim periods. The interim financial information, which has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019 and notes thereto contained in the Partnership’s Annual Report on Form 10-K. The significant accounting policies described in Note 2, “Summary of Significant Accounting Policies,” of such Annual Report on Form 10-K are the same used in preparing the accompanying consolidated financial statements, except as described in Note 19, “New Accounting Standards,” as it relates to the adoption of Accounting Standard Update (“ASU”) ASU 2016-13, “Measurement of Credit Losses on Financial

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Instruments,” including modifications to that standard thereafter, and now codified as Accounting Standards Codification 326 (“ASC 326”), which the Partnership adopted on January 1, 2020.

The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results of operations that will be realized for the entire year ending December 31, 2020. The consolidated balance sheet at December 31, 2019 has been derived from the audited consolidated financial statements included in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2019.

Noncontrolling Interest

The Partnership acquired a 60% interest in Basin Transload, LLC (“Basin Transload”) on February 1, 2013. After evaluating Accounting Standards Codification (“ASC”) Topic 810, “Consolidations,” the Partnership concluded it is appropriate to consolidate the balance sheet and statements of operations of Basin Transload based on an evaluation of the outstanding voting interests. Amounts pertaining to the noncontrolling ownership interest held by third parties in the financial position and operating results of the Partnership are reported as a noncontrolling interest in the accompanying consolidated balance sheets and statements of operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. The outbreak of COVID-19 across the United States and the responses of governmental bodies (federal, state and municipal), companies and individuals, including mandated and/or voluntary restrictions to mitigate the spread of the virus, have caused a significant economic downturn. The uncertainty surrounding the short and long-term impact of COVID-19, including the inability to project the timing of an economic recovery, may have an impact on the Partnership’s use of estimates. Among the estimates made by management are (i) estimated fair value of assets and liabilities acquired in a business combination and identification of associated goodwill and intangible assets, (ii) fair value of derivative instruments, (iii) accruals and contingent liabilities, (iv) allowance for credit losses, (v) assumptions used to evaluate goodwill, property and equipment and intangibles for impairment, (vi) environmental and asset retirement obligation provisions, (vii) cost of sales accrual, and (viii) weighted average discount rate used in lease accounting. Although the Partnership believes its estimates are reasonable, actual results could differ from these estimates.

Concentration of Risk

Due to the nature of the Partnership’s businesses and its reliance, in part, on consumer travel and spending patterns, the Partnership may experience more demand for gasoline during the late spring and summer months than during the fall and winter. Travel and recreational activities are typically higher in these months in the geographic areas in which the Partnership operates, increasing the demand for gasoline. Therefore, the Partnership’s volumes in gasoline are typically higher in the second and third quarters of the calendar year. However, the COVID-19 pandemic has had a negative impact on gasoline demand and the extent and duration of that impact is uncertain. As demand for some of the Partnership’s refined petroleum products, specifically home heating oil and residual oil for space heating purposes, is generally greater during the winter months, heating oil and residual oil volumes are generally higher during the first and fourth quarters of the calendar year. These factors may result in fluctuations in the Partnership’s quarterly operating results.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the Partnership's product sales and other revenues as a percentage of the consolidated sales for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gasoline sales: gasoline and gasoline blendstocks (such as ethanol)	69 %	81 %	67 %	74 %
Distillates (home heating oil, diesel and kerosene), residual oil and propane sales	23 %	15 %	27 %	22 %
Crude oil sales and crude oil logistics revenue	1 %	1 %	1 %	1 %
Convenience store sales, rental income and sundries	7 %	3 %	5 %	3 %
Total	100 %	100 %	100 %	100 %

The following table presents the Partnership's product margin by segment as a percentage of the consolidated product margin for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Wholesale segment	43 %	20 %	27 %	20 %
Gasoline Distribution and Station Operations segment	56 %	77 %	71 %	77 %
Commercial segment	1 %	3 %	2 %	3 %
Total	100 %	100 %	100 %	100 %

See Note 15, "Segment Reporting," for additional information on the Partnership's operating segments.

None of the Partnership's customers accounted for greater than 10% of total sales for the three and six months ended June 30, 2020 and 2019.

Note 2. Revenue from Contract Customers

Disaggregation of Revenue

The following table provides the disaggregation of revenue from contracts with customers and other sales by segment for the periods presented (in thousands):

	Three Months Ended June 30, 2020			
	Wholesale	GDSO	Commercial	Total
Revenue from contracts with customers:				
Refined petroleum products, renewable fuels, crude oil and propane	\$ 208,121	\$ 455,161	\$ 78,011	\$ 741,293
Station operations	—	86,967	—	86,967
Total revenue from contracts with customers	208,121	542,128	78,011	828,260
Other sales:				
Revenue originating as physical forward contracts and exchanges	568,700	—	54,951	623,651
Revenue from leases	538	17,128	—	17,666
Total other sales	569,238	17,128	54,951	641,317
Total sales	\$ 777,359	\$ 559,256	\$ 132,962	\$ 1,469,577

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended June 30, 2019			
	Wholesale	GDSO	Commercial	Total
Revenue from contracts with customers:				
Refined petroleum products, renewable fuels, crude oil and propane	\$ 339,562	\$ 1,025,669	\$ 211,817	\$ 1,577,048
Station operations	—	102,889	—	102,889
Total revenue from contracts with customers	339,562	1,128,558	211,817	1,679,937
Other sales:				
Revenue originating as physical forward contracts and exchanges	1,664,440	—	145,000	1,809,440
Revenue from leases	526	17,637	—	18,163
Total other sales	1,664,966	17,637	145,000	1,827,603
Total sales	\$ 2,004,528	\$ 1,146,195	\$ 356,817	\$ 3,507,540

	Six Months Ended June 30, 2020			
	Wholesale	GDSO	Commercial	Total
Revenue from contracts with customers:				
Refined petroleum products, renewable fuels, crude oil and propane	\$ 638,461	\$ 1,200,776	\$ 225,626	\$ 2,064,863
Station operations	—	167,869	—	167,869
Total revenue from contracts with customers	638,461	1,368,645	225,626	2,232,732
Other sales:				
Revenue originating as physical forward contracts and exchanges	1,625,297	—	170,710	1,796,007
Revenue from leases	1,079	34,852	—	35,931
Total other sales	1,626,376	34,852	170,710	1,831,938
Total sales	\$ 2,264,837	\$ 1,403,497	\$ 396,336	\$ 4,064,670

	Six Months Ended June 30, 2019			
	Wholesale	GDSO	Commercial	Total
Revenue from contracts with customers:				
Refined petroleum products, renewable fuels, crude oil and propane	\$ 883,479	\$ 1,855,841	\$ 390,159	\$ 3,129,479
Station operations	—	189,516	—	189,516
Total revenue from contracts with customers	883,479	2,045,357	390,159	3,318,995
Other sales:				
Revenue originating as physical forward contracts and exchanges	2,829,212	—	302,247	3,131,459
Revenue from leases	1,043	35,669	—	36,712
Total other sales	2,830,255	35,669	302,247	3,168,171
Total sales	\$ 3,713,734	\$ 2,081,026	\$ 692,406	\$ 6,487,166

Nature of Goods and Services

Revenue from Contracts with Customers (ASC 606):

- *Refined petroleum products, renewable fuels, crude oil and propane sales*—Under the Partnership’s Wholesale, Gasoline Distribution and Station Operations (“GDSO”) and Commercial segments, revenue is recognized at the point where control of the product is transferred to the customer and collectability is reasonably assured.
- *Station operations*—Revenue from convenience store sales of grocery and other merchandise and sundries (such as car wash sales and lottery and ATM commissions) is recognized at the time of the sale to the customer.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Other Revenue:

- *Revenue Originating as Physical Forward Contracts and Exchanges*—The Partnership’s commodity contracts and derivative instrument activity include physical forward commodity sale contracts. The Partnership does not take the normal purchase and sale exemption available under ASC 815, “Derivatives and Hedging,” for any of its physical forward contracts. This income is recognized under ASC 815 and is included in sales at the contract value at the point where control of the product is transferred to the customer. Income from net exchange differentials included in sales is recognized under ASC 845, “Nonmonetary Transactions,” upon delivery of product to exchange partners.
- *Revenue from Leases*—The Partnership has rental income from gasoline stations and cobranding arrangements and lease income from space leased to several unrelated third parties at several of the Partnership’s terminals.

Transaction Price Allocated to Remaining Performance Obligations

The Partnership has elected certain of the optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. Accordingly, the Partnership applies the practical expedient in paragraph ASC 606-10-50-14 to its contracts with customers where revenue is tied to a market-index and does not disclose information about variable consideration from remaining performance obligations for which the Partnership recognizes revenue.

The fixed component of estimated revenues expected to be recognized in the future related to performance obligations tied to a market index that are unsatisfied (or partially unsatisfied) at the end of the reporting period are not significant.

Contract Balances

A receivable, which is included in accounts receivable, net in the accompanying consolidated balance sheets, is recognized in the period the Partnership provides services when its right to consideration is unconditional. In contrast, a contract asset will be recognized when the Partnership has fulfilled a contract obligation but must perform other obligations before being entitled to payment.

The nature of the receivables related to revenue from contracts with customers and other revenue, as well as contract assets, are the same, given they are related to the same customers and have the same risk profile and securitization. Payment terms on invoiced amounts are typically 2 to 30 days.

A contract liability is recognized when the Partnership has an obligation to transfer goods or services to a customer for which the Partnership has received consideration (or the amount is due) from the customer. The Partnership had no significant contract liabilities at both June 30, 2020 and December 31, 2019.

Note 3. Net Income Per Common Limited Partner Unit

Under the Partnership’s partnership agreement, for any quarterly period, the incentive distribution rights (“IDRs”) participate in net income only to the extent of the amount of cash distributions actually declared, thereby excluding the IDRs from participating in the Partnership’s undistributed net income or losses. Accordingly, the Partnership’s undistributed net income or losses is assumed to be allocated to the common unitholders and to the General Partner’s general partner interest.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Common units outstanding as reported in the accompanying consolidated financial statements at June 30, 2020 and December 31, 2019 excludes 154,741 and 128,170 common units, respectively, held on behalf of the Partnership pursuant to its repurchase program (see Note 13). These units are not deemed outstanding for purposes of calculating net income per common limited partner unit (basic and diluted). For all periods presented below, the Series A Preferred Units (as defined in Note 14) are not potentially dilutive securities based on the nature of the conversion feature.

The following table provides a reconciliation of net income and the assumed allocation of net income (loss) to the common limited partners (after deducting amounts allocated to Series A preferred unitholders) for purposes of computing net income per common limited partner unit for the periods presented (in thousands, except per unit data):

	Three Months Ended June 30, 2020				Three Months Ended June 30, 2019			
	Total	Common Limited Partners	General Partner Interest	IDRs	Total	Common Limited Partners	General Partner Interest	IDRs
Numerator:								
Net income attributable to Global Partners LP	\$ 76,262	\$ 75,751	\$ 511	\$ —	\$ 14,489	\$ 14,123	\$ 366	\$ —
Declared distribution	\$ 15,701	\$ 15,595	\$ 106	\$ —	\$ 17,895	\$ 17,508	\$ 118	\$ 269
Assumed allocation of undistributed net (income) loss	60,561	60,156	405	—	(3,406)	(3,385)	(21)	—
Assumed allocation of net income	\$ 76,262	\$ 75,751	\$ 511	\$ —	\$ 14,489	\$ 14,123	\$ 97	\$ 269
Less net income attributable to Series A preferred limited partners		1,682				1,682		
Net income attributable to common limited partners		\$ 74,069				\$ 12,441		
Denominator:								
Basic weighted average common units outstanding		33,869				33,755		
Dilutive effect of phantom units		335				531		
Diluted weighted average common units outstanding		34,204				34,286		
Basic net income per common limited partner unit		\$ 2.19				\$ 0.37		
Diluted net income per common limited partner unit		\$ 2.17				\$ 0.36		

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Six Months Ended June 30, 2020				Six Months Ended June 30, 2019			
		Common Limited Partners	General Partner Interest	IDRs		Common Limited Partners	General Partner Interest	IDRs
Numerator:	Total				Total			
Net income attributable to Global Partners LP	\$ 79,538	\$ 79,005	\$ 533	\$ —	\$ 21,615	\$ 20,945	\$ 670	\$ —
Declared distribution	\$ 29,177	\$ 28,980	\$ 197	\$ —	\$ 35,606	\$ 34,846	\$ 235	\$ 525
Assumed allocation of undistributed net income (loss)	50,361	50,025	336	—	(13,991)	(13,901)	(90)	—
Assumed allocation of net income	\$ 79,538	\$ 79,005	\$ 533	\$ —	\$ 21,615	\$ 20,945	\$ 145	\$ 525
Less net income attributable to Series A preferred limited partners		3,364				3,364		
Net income attributable to common limited partners		\$ 75,641				\$ 17,581		
Denominator:								
Basic weighted average common units outstanding		33,869				33,754		
Dilutive effect of phantom units		379				505		
Diluted weighted average common units outstanding		34,248				34,259		
Basic net income per common limited partner unit		\$ 2.23				\$ 0.52		
Diluted net income per common limited partner unit		\$ 2.21				\$ 0.51		

The board of directors of the General Partner declared the following quarterly cash distributions on its common units:

Cash Distribution Declaration Date	Per Unit Cash Distribution Declared	Distribution Declared for the Quarterly Period Ended
April 27, 2020	\$ 0.39375	March 31, 2020
July 31, 2020	\$ 0.45875	June 30, 2020

The board of directors of the General Partner declared the following quarterly cash distributions on its Series A Preferred Units:

Cash Distribution Declaration Date	Per Unit Cash Distribution Declared	Distribution Declared for the Quarterly Period Covering
April 16, 2020	\$ 0.609375	February 15, 2020 - May 14, 2020
July 20, 2020	\$ 0.609375	May 15, 2020 - August 14, 2020

See Note 14, "Partners' Equity and Cash Distributions" for further information.

Note 4. Inventories

The Partnership hedges substantially all of its petroleum and ethanol inventory using a variety of instruments, primarily exchange-traded futures contracts. These futures contracts are entered into when inventory is purchased and are either designated as fair value hedges against the inventory on a specific barrel basis for inventories qualifying for fair value hedge accounting or not designated and maintained as economic hedges against certain inventory of the Partnership on a specific barrel basis. Changes in fair value of these futures contracts, as well as the offsetting change in fair value on the hedged inventory, are recognized in earnings as an increase or decrease in cost of sales. All hedged inventory designated in a fair value hedge relationship is valued using the lower of cost, as determined by specific

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

identification, or net realizable value, as determined at the product level. All petroleum and ethanol inventory not designated in a fair value hedging relationship is carried at the lower of historical cost, on a first-in, first-out basis, or net realizable value. Renewable Identification Numbers (“RINs”) inventory is carried at the lower of historical cost, on a first-in, first-out basis, or net realizable value. Convenience store inventory is carried at the lower of historical cost, based on a weighted average cost method, or net realizable value.

Inventories consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Distillates: home heating oil, diesel and kerosene	\$ 173,970	\$ 222,202
Gasoline	72,417	120,958
Gasoline blendstocks	30,490	39,702
Crude oil	22,315	16,018
Residual oil	21,786	26,521
Propane and other	45	1,356
Renewable identification numbers (RINs)	687	1,329
Convenience store inventory	22,316	22,396
Total	<u>\$ 344,026</u>	<u>\$ 450,482</u>

The decrease in inventories, with the exception of convenience store inventory and RINs, is due to lower prices at June 30, 2020 compared to December 31, 2019.

In addition to its own inventory, the Partnership has exchange agreements for petroleum products and ethanol with unrelated third-party suppliers, whereby it may draw inventory from these other suppliers and suppliers may draw inventory from the Partnership. Positive exchange balances are accounted for as accounts receivable and amounted to \$5.7 million and \$9.2 million at June 30, 2020 and December 31, 2019, respectively. Negative exchange balances are accounted for as accounts payable and amounted to \$5.4 million and \$17.6 million at June 30, 2020 and December 31, 2019, respectively. Exchange transactions are valued using current carrying costs.

Note 5. Goodwill

The following table presents changes in goodwill, all of which has been allocated to the GDSO segment (in thousands):

Balance at December 31, 2019	\$	324,474
Dispositions (1)		(585)
Balance at June 30, 2020	<u>\$</u>	<u>323,889</u>

(1) Dispositions represent derecognition of goodwill associated with the sale and disposition of certain assets. See Note 7.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 6. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Buildings and improvements	\$ 1,208,887	\$ 1,196,502
Land	450,474	452,104
Fixtures and equipment	34,208	46,848
Idle plant assets	30,500	30,500
Construction in process	29,230	27,951
Capitalized internal use software	30,275	33,502
Total property and equipment	1,783,574	1,787,407
Less accumulated depreciation	708,490	682,544
Total	<u>\$ 1,075,084</u>	<u>\$ 1,104,863</u>

Property and equipment includes assets held for sale of \$0.2 million and \$4.6 million at June 30, 2020 and December 31, 2019, respectively.

At June 30, 2020, the Partnership had a \$42.9 million remaining net book value of long-lived assets at its West Coast facility, including \$30.5 million related to the Partnership's ethanol plant acquired in 2013. The Partnership would need to take certain measures to prepare the facility for ethanol production in order to place the plant into service and commence depreciation. Therefore, the \$30.5 million related to the ethanol plant was included in property and equipment and classified as idle plant assets at June 30, 2020 and December 31, 2019.

If the Partnership is unable to generate cash flows to support the recoverability of the plant and facility assets, this may become an indicator of potential impairment of the West Coast facility. The Partnership believes these assets are recoverable but continues to monitor the market for ethanol, the continued business development of this facility for ethanol or other product transloading, and the related impact this may have on the facility's operating cash flows and whether this would constitute an impairment indicator.

Evaluation of Long-Lived Asset Impairment

The Partnership recognized an impairment charge relating to certain right of use assets allocated to the Wholesale segment in the amount of \$1.7 million for each of the three and six months ended June 30, 2020, which is included in long-lived asset impairment in the accompanying statements of operations.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7. Sales and Disposition of Assets

The following table provides the Partnership's (gain) loss on sale and dispositions of assets for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Periodic divestiture of gasoline stations	\$ (650)	\$ —	(278)	(142)
Strategic asset divestiture program - Real estate firm coordinated sale	(168)	(1,433)	(100)	(1,730)
Loss on assets held for sale	—	480	406	1,265
Other	7	(175)	(96)	32
Total	\$ (811)	\$ (1,128)	\$ (68)	\$ (575)

Periodic Divestiture of Gasoline Stations

As part of the routine course of operations in the GDSO segment, the Partnership may periodically divest certain gasoline stations. The gain or loss on the sale, representing cash proceeds less net book value of assets and recognized liabilities at disposition, net of settlement and dispositions costs, is recorded in net gain on sale and disposition of assets in the accompanying consolidated statements of operations and amounted to a gain of (\$0.6 million) and \$0 for the three months ended June 30, 2020 and 2019, respectively, and (\$0.3 million) and (\$0.1 million) for the six months ended June 30, 2020, and 2019, respectively.

Strategic Asset Divestiture Program

The Partnership identified certain non-strategic GDSO sites that are part of its Strategic Asset Divestiture Program (the "Divestiture Program"). The gain or loss on the sales of these sites, representing cash proceeds less net book value of assets and recognized liabilities at disposition, net of settlement and dispositions costs, is recorded in net gain on sale and disposition of assets in the accompanying consolidated statements of operations.

Real Estate Firm Coordinated Sales—The Partnership has retained a real estate firm to coordinate the continuing sale of non-strategic GDSO sites. The Partnership sold two sites and three sites during the three and six months ended June 30, 2020, respectively. The Partnership recognized a gain of (\$0.2 million) and (\$0.1 million) on the sales of these sites for the three and six months ended June 30, 2020, respectively, including the derecognition of \$0.5 million and \$0.6 million of GDSO goodwill for these respective periods.

The Partnership recognized a gain of (\$1.4 million) and (\$1.7 million) on the sales of sites for the three and six months ended June 30, 2019, respectively, including the derecognition of \$1.3 million and \$2.2 million of GDSO goodwill for these respective periods.

Loss on Assets Held for Sale

In conjunction with the periodic divestiture of gasoline stations and the sale of sites within the Divestiture Program, the Partnership may classify certain gasoline station assets as held for sale. Impairment charges related to assets held for sale are included in net gain on sale and disposition of assets in the accompanying consolidated statements of operations.

The Partnership classified 1 site as held for sale at June 30, 2020 associated with the periodic divestiture of gasoline station sites and the real estate firm coordinated sales discussed above. Impairment charges related to these assets held for sale were \$0 and \$0.4 million for the three and six months ended June 30, 2020, respectively.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Partnership recorded impairment charges related to assets held for sale associated with the periodic divestiture of gasoline station sites and the real estate firm coordinated sales in the amount of \$0.5 million and \$1.3 million for the three and six months ended June 30, 2019, respectively.

Assets held for sale of \$0.2 million and \$4.6 million at June 30, 2020 and December 31, 2019, respectively, are included in property and equipment in the accompanying consolidated balance sheets. Assets held for sale are expected to be sold within the next 12 months.

Other

The Partnership recognizes gains and losses on the sale and disposition of other assets, including vehicles, fixtures and equipment, and the gain or loss on such other assets are included in other in the aforementioned table.

Note 8. Debt and Financing Obligations

Credit Agreement

Certain subsidiaries of the Partnership, as borrowers, and the Partnership and certain of its subsidiaries, as guarantors, have a \$1.17 billion senior secured credit facility (the “Credit Agreement”) which was amended on May 7, 2020 to, among other things, provide temporary adjustments to certain covenants and reduce the total aggregate commitment by \$130.0 million from \$1.3 billion (see “–Fourth Amendment to the Credit Agreement” below). The Credit Agreement matures on April 29, 2022.

There are two facilities under the Credit Agreement:

- a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of the Partnership’s borrowing base and \$770.0 million; and
- a \$400.0 million revolving credit facility to be used for general corporate purposes.

Availability under the working capital revolving credit facility is subject to a borrowing base which is redetermined from time to time and based on specific advance rates on eligible current assets. Availability under the borrowing base may be affected by events beyond the Partnership’s control, such as changes in petroleum product prices, collection cycles, counterparty performance, advance rates and limits and general economic conditions.

The average interest rates for the Credit Agreement were 2.8% and 4.5% for the three months ended June 30, 2020 and 2019, respectively, and 3.1% and 4.6% for the six months ended June 30, 2020 and 2019, respectively.

The Partnership classifies a portion of its working capital revolving credit facility as a current liability and a portion as a long-term liability. The portion classified as a long-term liability represents the amounts expected to be outstanding during the entire year based on an analysis of historical daily borrowings under the working capital revolving credit facility, the seasonality of borrowings, forecasted future working capital requirements and forward product curves, and because the Partnership has a multi-year, long-term commitment from its bank group. Accordingly, at June 30, 2020 the Partnership estimated working capital revolving credit facility borrowings will equal or exceed \$175.0 million over the next twelve months and, therefore, classified \$41.7 million as the current portion at June 30, 2020, representing the amount the Partnership expects to pay down over the next twelve months. The long-term portion of the working capital revolving credit facility was \$175.0 million at both June 30, 2020 and December 31, 2019, and the current portion was \$41.7 million and \$148.9 million at June 30, 2020 and December 31, 2019, respectively. The decrease in total borrowings under the working capital revolving credit facility of \$107.2 million from December 31, 2019 was in part due to lower prices.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of June 30, 2020, the Partnership had total borrowings outstanding under the Credit Agreement of \$404.7 million, including \$188.0 million outstanding on the revolving credit facility. In addition, the Partnership had outstanding letters of credit of \$39.9 million. Subject to borrowing base limitations, the total remaining availability for borrowings and letters of credit was \$725.4 million and \$660.2 million at June 30, 2020 and December 31, 2019, respectively.

The Credit Agreement imposes financial covenants that require the Partnership to maintain certain minimum working capital amounts, a minimum combined interest coverage ratio, a maximum senior secured leverage ratio and a maximum total leverage ratio. The Partnership was in compliance with the foregoing covenants at June 30, 2020. The Credit Agreement also contains a representation whereby there can be no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect (as defined in the Credit Agreement). In addition, the Credit Agreement limits distributions by the Partnership to its unitholders to the amount of Available Cash (as defined in the Partnership's partnership agreement).

Please read Note 8 of Notes to Consolidated Financial Statements in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on the Credit Agreement.

Deferred Financing Fees

The Partnership incurs bank fees related to its Credit Agreement and other financing arrangements. These deferred financing fees are capitalized and amortized over the life of the Credit Agreement or other financing arrangements. In connection with the Fourth Amendment (as defined below) in May 2020, the Partnership capitalized additional financing fees of \$1.2 million. Also in connection with the Fourth Amendment, the Partnership incurred expenses of approximately \$0.7 million associated with the write-off of a portion of the related deferred financing fees. These expenses are included in interest expense in the accompanying consolidated statements of operations for the three and six months ended June 30, 2020. The Partnership had unamortized deferred financing fees of \$15.9 million and \$18.0 million at June 30, 2020 and December 31, 2019, respectively.

Unamortized fees related to the Credit Agreement are included in other current assets and other long-term assets and amounted to \$6.6 million and \$7.8 million at June 30, 2020 and December 31, 2019, respectively. Unamortized fees related to the senior notes are presented as a direct deduction from the carrying amount of that debt liability and amounted to \$8.6 million and \$9.5 million at June 30, 2020 and December 31, 2019, respectively. Unamortized fees related to the Sale-Leaseback Transaction (defined below) are presented as a direct deduction from the carrying amount of the financing obligation and amounted to \$0.7 million at both June 30, 2020 and December 31, 2019.

Amortization expense of approximately \$1.3 million and \$1.2 million for the three months ended June 30, 2020 and 2019, respectively, and \$2.6 million and \$2.5 million for the six months ended June 30, 2020 and 2019, respectively, is included in interest expense in the accompanying consolidated statements of operations.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Supplemental cash flow information

The following table presents supplemental cash flow information related to the Credit Agreement for the periods presented (in thousands):

	Six Months Ended June 30,	
	2020	2019
Borrowings from working capital revolving credit facility	\$ 680,100	\$ 881,700
Payments on working capital revolving credit facility	(787,300)	(778,900)
Net (payments on) borrowings from working capital revolving credit facility	<u>\$ (107,200)</u>	<u>\$ 102,800</u>
Borrowings from revolving credit facility	\$ 50,000	\$ —
Payments on revolving credit facility	(54,700)	(8,000)
Net payments on revolving credit facility	<u>\$ (4,700)</u>	<u>\$ (8,000)</u>

Fourth Amendment to the Credit Agreement

On May 7, 2020, the Partnership and certain of its subsidiaries entered into the Fourth Amendment to Third Amended and Restated Credit Agreement (the “Fourth Amendment”), which further amends the Credit Agreement. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

The Fourth Amendment amends certain terms, provisions and covenants of the Credit Agreement, including, without limitation:

- (i) increases by 0.125% the applicable rate under the working capital facility for borrowings of base rate loans, Eurocurrency rate loans and cost of funds rate loans and for issuances of letters of credit;
- (ii) adds two pricing levels under the revolving credit facility for borrowings of base rate loans, Eurocurrency rate loans and cost of funds rate loans and for issuances of letters of credit;
- (iii) adds a Eurocurrency rate floor of 0.75% and a cost of funds rate floor of 0.50%;
- (iv) for the four (4) quarters commencing with the quarter ended June 30, 2020, (a) increases to Combined Total Leverage Ratio covenant levels and (b) a reduction to the Combined Interest Coverage Ratio covenant levels; and
- (v) reduces the aggregate commitments under the facilities by 10%, with the commitments under the working capital facility reduced to \$770.0 million from \$850.0 million and the commitments under the revolving credit facility reduced to \$400.0 million from \$450.0 million.

All other material terms of the Credit Agreement remain substantially the same as disclosed in Note 8 of Notes to Consolidated Financial Statements in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2019.

Senior Notes

The Partnership had 7.00% senior notes due 2027 and 7.00% senior notes due 2023 outstanding at June 30, 2020. Please read Note 8 of Notes to Consolidated Financial Statements in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on these senior notes.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Financing Obligations

Capitol Acquisition

On June 1, 2015, the Partnership acquired retail gasoline stations and dealer supply contracts from Capitol Petroleum Group (“Capitol”). In connection with the acquisition, the Partnership assumed a financing obligation of \$89.6 million associated with two sale-leaseback transactions by Capitol for 53 leased sites that did not meet the criteria for sale accounting. During the terms of these leases, which expire in May 2028 and September 2029, in lieu of recognizing lease expense for the lease rental payments, the Partnership incurs interest expense associated with the financing obligation. Interest expense of approximately \$2.3 million was recorded for each of the three months ended June 30, 2020 and 2019, and \$4.6 million and \$4.7 million was recorded for the six months ended June 30, 2020 and 2019, respectively, which is included in interest expense in the accompanying consolidated statements of operations. The financing obligation will amortize through expiration of the leases based upon the lease rental payments which were \$2.5 million and \$2.4 million for the three months ended June 30, 2020 and 2019, respectively, and \$5.0 million and \$4.9 million for the six months ended June 30, 2020 and 2019, respectively. The financing obligation balance outstanding at June 30, 2020 was \$86.6 million associated with the Capitol acquisition.

Sale-Leaseback Transaction

On June 29, 2016, the Partnership sold to a premier institutional real estate investor (the “Buyer”) real property assets, including the buildings, improvements and appurtenances thereto, at 30 gasoline stations and convenience stores located in Connecticut, Maine, Massachusetts, New Hampshire and Rhode Island (the “Sale-Leaseback Sites”) for a purchase price of approximately \$63.5 million. In connection with the sale, the Partnership entered into a Master Unitary Lease Agreement with the Buyer to lease back the real property assets sold with respect to the Sale-Leaseback Sites (such Master Lease Agreement, together with the Sale-Leaseback Sites, the “Sale-Leaseback Transaction”).

As a result of not meeting the criteria for sale accounting for these sites, the Sale-Leaseback Transaction is accounted for as a financing arrangement. As such, the property and equipment sold and leased back by the Partnership has not been derecognized and continues to be depreciated. The Partnership recognized a corresponding financing obligation of \$62.5 million equal to the \$63.5 million cash proceeds received for the sale of these sites, net of \$1.0 million financing fees. During the term of the lease, which expires in June 2031, in lieu of recognizing lease expense for the lease rental payments, the Partnership incurs interest expense associated with the financing obligation. Lease rental payments are recognized as both interest expense and a reduction of the principal balance associated with the financing obligation. Interest expense was \$1.1 million for each of the three months ended June 30, 2020 and 2019 and \$2.2 million for each of the six months ended June 30, 2020 and 2019. Lease rental payments were \$1.1 million for each of the three months ended June 30, 2020 and 2019, and \$2.3 million and \$2.2 million for the six months ended June 30, 2020 and 2019, respectively. The financing obligation balance outstanding at June 30, 2020 was \$62.2 million associated with the Sale-Leaseback Transaction.

Note 9. Derivative Financial Instruments

The Partnership principally uses derivative instruments, which include regulated exchange-traded futures and options contracts (collectively, “exchange-traded derivatives”) and physical and financial forwards and over-the-counter (“OTC”) swaps (collectively, “OTC derivatives”), to reduce its exposure to unfavorable changes in commodity market prices. The Partnership uses these exchange-traded and OTC derivatives to hedge commodity price risk associated with its inventory, fuel purchases and undelivered forward commodity purchases and sales (“physical forward contracts”). The Partnership accounts for derivative transactions in accordance with ASC Topic 815, “Derivatives and Hedging,” and recognizes derivatives instruments as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. The changes in fair value of the derivative transactions are presented currently in earnings, unless specific hedge accounting criteria are met.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The fair value of exchange-traded derivative transactions reflects amounts that would be received from or paid to the Partnership's brokers upon liquidation of these contracts. The fair value of these exchange-traded derivative transactions is presented on a net basis, offset by the cash balances on deposit with the Partnership's brokers, presented as brokerage margin deposits in the consolidated balance sheets. The fair value of OTC derivative transactions reflects amounts that would be received from or paid to a third party upon liquidation of these contracts under current market conditions. The fair value of these OTC derivative transactions is presented on a gross basis as derivative assets or derivative liabilities in the consolidated balance sheets, unless a legal right of offset exists. The presentation of the change in fair value of the Partnership's exchange-traded derivatives and OTC derivative transactions depends on the intended use of the derivative and the resulting designation.

The following table summarizes the notional values related to the Partnership's derivative instruments outstanding at June 30, 2020:

	<u>Units (1)</u>	<u>Unit of Measure</u>
Exchange-Traded Derivatives		
Long	84,325	Thousands of barrels
Short	(87,917)	Thousands of barrels
OTC Derivatives (Petroleum/Ethanol)		
Long	11,185	Thousands of barrels
Short	(7,599)	Thousands of barrels

- (1) Number of open positions and gross notional values do not measure the Partnership's risk of loss, quantify risk or represent assets or liabilities of the Partnership, but rather indicate the relative size of the derivative instruments and are used in the calculation of the amounts to be exchanged between counterparties upon settlements.

Derivatives Accounted for as Hedges

The Partnership utilizes fair value hedges and cash flow hedges to hedge commodity price risk.

Fair Value Hedges

Derivatives designated as fair value hedges are used to hedge price risk in commodity inventories and principally include exchange-traded futures contracts that are entered into in the ordinary course of business. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting change in fair value on the hedged item of the risk being hedged. Gains and losses related to fair value hedges are recognized in the consolidated statements of operations through cost of sales. These futures contracts are settled on a daily basis by the Partnership through brokerage margin accounts.

The Partnership's fair value hedges include exchange-traded futures contracts and OTC derivative contracts that are hedges against inventory with specific futures contracts matched to specific barrels. The change in fair value of these futures contracts and the change in fair value of the underlying inventory generally provide an offset to each other in the consolidated statements of operations.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the gains and losses from the Partnership's derivative instruments involved in fair value hedging relationships recognized in the consolidated statements of operations for the periods presented (in thousands):

	Statement of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended June 30,		Six Months Ended June 30,	
		2020	2019	2020	2019
Derivatives in fair value hedging relationship					
Exchange-traded futures contracts and OTC derivative contracts for petroleum commodity products	Cost of sales	\$ (46,637)	\$ 5,899	\$ 1,698	\$ 1,238
Hedged items in fair value hedge relationship					
Physical inventory	Cost of sales	\$ 44,025	\$ (8,036)	\$ (6,157)	\$ (2,985)

Cash Flow Hedges

The Partnership's sales and cost of sales fluctuate with changes in commodity prices. In addition to the Partnership's commodity price risk associated with its inventory and undelivered forward commodity purchases and sales, the Partnership's gross profit may fluctuate in periods where commodity prices are rising or declining depending on the magnitude and duration of the commodity price change. In the Partnership's GDSO segment, the Partnership has observed trends where margins may improve in periods where wholesale gasoline prices are declining and margins may compress during periods where wholesale gasoline prices are rising. Additionally, the Partnership has certain operating costs that are indirectly impacted by fluctuations in commodity prices such that its operating costs may increase during periods where margins compress and, conversely, operating costs may decrease during periods where margins improve. To hedge the Partnership's cash flow risk as a result of this observed trend in the GDSO segment, the Partnership has entered into exchange-traded commodity swap contracts and has designated them as a cash flow hedge of its fuel purchases designed to reduce its cost of fuel if market prices rise through 2021 or increase its cost of fuel if market prices decrease through 2021. For a derivative instrument being designated as a cash flow hedge, the effective portion of the derivative gain or loss is initially reported as a component of other comprehensive income (loss) and subsequently reclassified into the consolidated statement of income through cost of goods sold in the same period that the hedged exposure affects earnings.

The amount of gain (loss) recognized in other comprehensive income for derivatives designated in cash flow hedging relationships was \$5.4 million for each of the three and six months ended June 30, 2020. The amount of gain (loss) reclassified from other comprehensive income into cost of sales for derivatives designated in cash flow hedging relationships was \$0.2 million for each of the three and six months ended June 30, 2020. The amount of gain (loss) recognized in other comprehensive income as of June 30, 2020 and expected to be reclassified into earnings within the next 12 months is \$3.4 million.

Derivatives Not Accounted for as Hedges

The Partnership utilizes petroleum and ethanol commodity contracts to hedge price and currency risk in certain commodity inventories and physical forward contracts.

Petroleum and Ethanol Commodity Contracts

The Partnership uses exchange-traded derivative contracts to hedge price risk in certain commodity inventories which do not qualify for fair value hedge accounting or are not designated by the Partnership as fair value hedges. Additionally, the Partnership uses exchange-traded derivative contracts, and occasionally financial forward and OTC swap agreements, to hedge commodity price exposure associated with its physical forward contracts which are not designated by the Partnership as cash flow hedges. These physical forward contracts, to the extent they meet the

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

definition of a derivative, are considered OTC physical forwards and are reflected as derivative assets or derivative liabilities in the consolidated balance sheet. The related exchange-traded derivative contracts (and financial forward and OTC swaps, if applicable) are also reflected as brokerage margin deposits (and derivative assets or derivative liabilities, if applicable) in the consolidated balance sheet, thereby creating an economic hedge. Changes in fair value of these derivative instruments are recognized in the consolidated statements of operations through cost of sales. These exchange-traded derivatives are settled on a daily basis by the Partnership through brokerage margin accounts.

While the Partnership seeks to maintain a position that is substantially balanced within its commodity product purchase and sale activities, it may experience net unbalanced positions for short periods of time as a result of variances in daily purchases and sales and transportation and delivery schedules as well as other logistical issues inherent in the businesses, such as weather conditions. In connection with managing these positions, the Partnership is aided by maintaining a constant presence in the marketplace. The Partnership also engages in a controlled trading program for up to an aggregate of 250,000 barrels of commodity products at any one point in time. Changes in fair value of these derivative instruments are recognized in the consolidated statements of operations through cost of sales.

The following table presents the gains and losses from the Partnership's derivative instruments not involved in a hedging relationship recognized in the consolidated statements of operations for the periods presented (in thousands):

Derivatives not designated as hedging instruments	Statement of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended June 30,		Six Months Ended June 30,	
		2020	2019	2020	2019
Commodity contracts	Cost of sales	\$ 4,516	\$ 5,922	\$ 4,066	\$ 15,125

Margin Deposits

All of the Partnership's exchange-traded derivative contracts (designated and not designated) are transacted through clearing brokers. The Partnership deposits initial margin with the clearing brokers, along with variation margin, which is paid or received on a daily basis, based upon the changes in fair value of open futures contracts and settlement of closed futures contracts. Cash balances on deposit with clearing brokers and open equity are presented on a net basis within brokerage margin deposits in the consolidated balance sheets.

Commodity Contracts and Other Derivative Activity

The Partnership's commodity contracts and other derivative activity include: (i) exchange-traded derivative contracts that are hedges against inventory and either do not qualify for hedge accounting or are not designated in a hedge accounting relationship, (ii) exchange-traded derivative contracts used to economically hedge physical forward contracts, (iii) financial forward and OTC swap agreements used to economically hedge physical forward contracts and (iv) the derivative instruments under the Partnership's controlled trading program. The Partnership does not take the normal purchase and sale exemption available under ASC 815 for any of its physical forward contracts.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the fair value of each classification of the Partnership's derivative instruments and its location in the consolidated balance sheets at June 30, 2020 and December 31, 2019 (in thousands):

		June 30, 2020		
	Balance Sheet Location	Derivatives Designated as Hedging Instruments	Derivatives Not Designated as Hedging Instruments	Total
Asset Derivatives:				
Exchange-traded derivative contracts	Broker margin deposits	\$ 5,432	\$ 73,174	\$ 78,606
Forward derivative contracts (1)	Derivative assets	—	48,571	48,571
Total asset derivatives		<u>\$ 5,432</u>	<u>\$ 121,745</u>	<u>\$ 127,177</u>
Liability Derivatives:				
Exchange-traded derivative contracts	Broker margin deposits	\$ (13,330)	\$ (71,571)	\$ (84,901)
Forward derivative contracts (1)	Derivative liabilities	—	(8,089)	(8,089)
Total liability derivatives		<u>\$ (13,330)</u>	<u>\$ (79,660)</u>	<u>\$ (92,990)</u>

		December 31, 2019		
	Balance Sheet Location	Derivatives Designated as Hedging Instruments	Derivatives Not Designated as Hedging Instruments	Total
Asset Derivatives:				
Exchange-traded derivative contracts	Broker margin deposits	\$ —	\$ 31,645	\$ 31,645
Forward derivative contracts (1)	Derivative assets	—	4,564	4,564
Total asset derivatives		<u>\$ —</u>	<u>\$ 36,209</u>	<u>\$ 36,209</u>
Liability Derivatives:				
Exchange-traded derivative contracts	Broker margin deposits	\$ (3,838)	\$ (26,354)	\$ (30,192)
Forward derivative contracts (1)	Derivative liabilities	—	(12,698)	(12,698)
Total liability derivatives		<u>\$ (3,838)</u>	<u>\$ (39,052)</u>	<u>\$ (42,890)</u>

(1) Forward derivative contracts include the Partnership's petroleum and ethanol physical and financial forwards and OTC swaps.

Credit Risk

The Partnership's derivative financial instruments do not contain credit risk related to other contingent features that could cause accelerated payments when these financial instruments are in net liability positions.

The Partnership is exposed to credit loss in the event of nonperformance by counterparties to the Partnership's exchange-traded and OTC derivative contracts, but the Partnership has no current reason to expect any material nonperformance by any of these counterparties. Exchange-traded derivative contracts, the primary derivative instrument utilized by the Partnership, are traded on regulated exchanges, greatly reducing potential credit risks. The Partnership utilizes major financial institutions as its clearing brokers for all New York Mercantile Exchange ("NYMEX"), Chicago Mercantile Exchange ("CME") and Intercontinental Exchange ("ICE") derivative transactions and the right of offset exists with these financial institutions under master netting agreements. Accordingly, the fair value of the Partnership's exchange-traded derivative instruments is presented on a net basis in the consolidated balance sheets. Exposure on OTC derivatives is limited to the amount of the recorded fair value as of the balance sheet dates.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10. Fair Value Measurements

The following tables present, by level within the fair value hierarchy, the Partnership's financial assets and liabilities that were measured at fair value on a recurring basis as of June 30, 2020 and December 31, 2019 (in thousands):

Fair Value at June 30, 2020					
	Level 1	Level 2	Level 3	Cash Collateral Netting	Total
Assets:					
Forward derivative contracts (1)	\$ —	\$ 47,852	\$ 719	\$ —	\$ 48,571
Exchange-traded/cleared derivative instruments (2)	(6,295)	—	—	38,591	32,296
Pension plans	16,668	—	—	—	16,668
Total assets	\$ 10,373	\$ 47,852	\$ 719	\$ 38,591	\$ 97,535
Liabilities:					
Forward derivative contracts (1)	\$ —	\$ (7,746)	\$ (343)	\$ —	\$ (8,089)
Fair Value at December 31, 2019					
	Level 1	Level 2	Level 3	Cash Collateral Netting	Total
Assets:					
Forward derivative contracts (1)	\$ —	\$ 4,002	\$ 562	\$ —	\$ 4,564
Exchange-traded/cleared derivative instruments (2)	1,453	—	—	33,013	34,466
Pension plans	17,099	—	—	—	17,099
Total assets	\$ 18,552	\$ 4,002	\$ 562	\$ 33,013	\$ 56,129
Liabilities:					
Forward derivative contracts (1)	\$ —	\$ (12,112)	\$ (586)	\$ —	\$ (12,698)

- (1) Forward derivative contracts include the Partnership's petroleum and ethanol physical and financial forwards and OTC swaps.
- (2) Amount includes the effect of cash balances on deposit with clearing brokers.

This table excludes cash on hand and assets and liabilities that are measured at historical cost or any basis other than fair value. The carrying amounts of certain of the Partnership's financial instruments, including cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate fair value due to their short maturities. The carrying value of the credit facility approximates fair value due to the variable rate nature of these financial instruments.

The carrying value of the inventory qualifying for fair value hedge accounting approximates fair value due to adjustments for changes in fair value of the hedged item. The fair values of the derivatives used by the Partnership are disclosed in Note 9.

The determination of the fair values above incorporates factors including not only the credit standing of the counterparties involved, but also the impact of the Partnership's nonperformance risks on its liabilities.

The Partnership estimates the fair values of its senior notes using a combination of quoted market prices for similar financing arrangements and expected future payments discounted at risk-adjusted rates, which are considered

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Level 2 inputs. The fair values of the senior notes, estimated by observing market trading prices of the respective senior notes, were as follows (in thousands):

	June 30, 2020		December 31, 2019	
	Face Value	Fair Value	Face Value	Fair Value
7.00% senior notes due 2023	\$ 300,000	\$ 285,000	\$ 300,000	\$ 309,000
7.00% senior notes due 2027	\$ 400,000	\$ 371,000	\$ 400,000	\$ 423,000

Level 3 Information

The values of the Level 3 derivative contracts were calculated using market approaches based on a combination of observable and unobservable market inputs, including published and quoted NYMEX, CME, ICE, New York Harbor and third-party pricing information for a component of the underlying instruments as well as internally developed assumptions where there is little, if any, published or quoted prices or market activity.

The unobservable inputs used in the measurement of the Level 3 derivative contracts include estimates for location basis, transportation and throughput costs net of an estimated margin for current market participants. The estimated range and weighted average for these inputs include the following:

	June 30, 2020			December 31, 2019		
Product	Low (\$ per barrel)	High (\$ per barrel)	Weighted Average	Low (\$ per barrel)	High (\$ per barrel)	Weighted Average
Crude oil	\$ (3.75)	\$ (2.00)	\$ (3.26)	\$ (4.95)	\$ (3.25)	\$ (4.88)
Propane	\$ —	\$ —	\$ —	\$ 0.84	\$ 15.54	\$ 11.04

The respective weighted averages were calculated by weighting the contractual volumes of the location basis, transportation and throughput costs net of an estimated margin for current market participants. The Partnership ceased marketing propane during the quarter ended June 30, 2020 and, therefore, inputs were not required at June 30, 2020. Gains and losses recognized in earnings (or changes in net assets) are disclosed in Note 9.

Uncertainty in changes in the significant unobservable inputs to the fair value measurement if those inputs reasonably could have been different at the reporting date is as follows:

Significant Unobservable Input	Position	Change to Input	Impact on Fair Value Measurement
Location basis	Long	Increase (decrease)	Gain (loss)
Location basis	Short	Increase (decrease)	Loss (gain)
Transportation	Long	Increase (decrease)	Gain (loss)
Transportation	Short	Increase (decrease)	Loss (gain)
Throughput costs	Long	Increase (decrease)	Gain (loss)
Throughput costs	Short	Increase (decrease)	Loss (gain)

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents a reconciliation of changes in fair value of the Partnership's derivative contracts classified as Level 3 in the fair value hierarchy at June 30, 2020 (in thousands):

Fair value at December 31, 2019	\$ (24)
Derivatives entered into during the period	(121)
Derivatives sold during the period	497
Realized gains (losses) recorded in cost of sales	24
Fair value at June 30, 2020	<u>\$ 376</u>

The Partnership's policy is to recognize transfers between levels with the fair value hierarchy as of the beginning of the reporting period. The Partnership also excludes any activity for derivative instruments that were not classified as Level 3 at either the beginning or end of the reporting period.

Non-Recurring Fair Value Measures

Certain nonfinancial assets and liabilities are measured at fair value on a non-recurring basis and are subject to fair value adjustments in certain circumstances, such as acquired assets and liabilities, losses related to firm non-cancellable purchase commitments or long-lived assets subject to impairment. For assets and liabilities measured on a non-recurring basis during the period, accounting guidance requires quantitative disclosures about the fair value measurements separately for each major category. See Note 7 for a discussion of the Partnership's assets held for sale.

Note 11. Environmental Liabilities and Renewable Identification Numbers

Environmental Liabilities

The following table presents a summary roll forward of the Partnership's environmental liabilities at June 30, 2020 (in thousands):

Environmental Liability Related to:	Balance at December 31, 2019	Payments 2020	Dispositions 2020	Other Adjustments 2020	Balance at June 30, 2020
Retail gasoline stations	\$ 55,493	\$ (1,538)	\$ (918)	\$ (437)	\$ 52,600
Terminals	3,778	(79)	—	—	3,699
Total environmental liabilities	<u>\$ 59,271</u>	<u>\$ (1,617)</u>	<u>\$ (918)</u>	<u>\$ (437)</u>	<u>\$ 56,299</u>
Current portion	\$ 5,009				\$ 5,009
Long-term portion	54,262				51,290
Total environmental liabilities	<u>\$ 59,271</u>				<u>\$ 56,299</u>

The Partnership's estimates used in these environmental liabilities are based on all known facts at the time and its assessment of the ultimate remedial action outcomes. Among the many uncertainties that impact the Partnership's estimates are the necessary regulatory approvals for, and potential modification of, its remediation plans, the amount of data available upon initial assessment of the impact of soil or water contamination, changes in costs associated with environmental remediation services and equipment, relief of obligations through divestitures of sites and the possibility of existing legal claims giving rise to additional claims. Dispositions generally represent relief of legal obligations through the sale of the related property with no retained obligation. Other adjustments generally represent changes in estimates for existing obligations or obligations associated with new sites. Therefore, although the Partnership believes that these environmental liabilities are adequate, no assurances can be made that any costs incurred in excess of these environmental liabilities or outside of indemnifications or not otherwise covered by insurance would not have a material adverse effect on the Partnership's financial condition, results of operations or cash flows.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Renewable Identification Numbers (RINs)

A RIN is a serial number assigned to a batch of renewable fuel for the purpose of tracking its production, use and trading as required by the U.S. Environmental Protection Agency's ("EPA") Renewable Fuel Standard that originated with the Energy Policy Act of 2005 and modified by the Energy Independence and Security Act of 2007. To evidence that the required volume of renewable fuel is blended with gasoline and diesel motor vehicle fuels, obligated parties must retire sufficient RINs to cover their Renewable Volume Obligation ("RVO"). The Partnership's EPA obligations relative to renewable fuel reporting are comprised of foreign gasoline and diesel that the Partnership may import and blending operations at certain facilities. As a wholesaler of transportation fuels through its terminals, the Partnership separates RINs from renewable fuel through blending with gasoline and can use those separated RINs to settle its RVO. While the annual compliance period for the RVO is a calendar year and the settlement of the RVO typically occurs by March 31 of the following year, the settlement of the RVO can occur, under certain EPA deferral actions, more than one year after the close of the compliance period.

The Partnership's Wholesale segment's operating results may be sensitive to the timing associated with its RIN position relative to its RVO at a point in time, and the Partnership may recognize a mark-to-market liability for a shortfall in RINs at the end of each reporting period. To the extent that the Partnership does not have a sufficient number of RINs to satisfy the RVO as of the balance sheet date, the Partnership charges cost of sales for such deficiency based on the market price of the RINs as of the balance sheet date and records a liability representing the Partnership's obligation to purchase RINs. The Partnership's RVO deficiency was \$0.3 million and \$0.9 million at June 30, 2020 and December 31, 2019, respectively.

The Partnership may enter into RIN forward purchase and sales commitments. Total losses from firm non-cancellable commitments were immaterial at both June 30, 2020 and December 31, 2019.

Note 12. Related Party Transactions

The Partnership is a party to a Second Amended and Restated Services Agreement with Global Petroleum Corp. ("GPC"), an affiliate of the Partnership that is 100% owned by members of the Slifka family, pursuant to which the Partnership provides GPC with certain tax, accounting, treasury, legal, information technology, human resources and financial operations support services for which GPC pays the Partnership a monthly services fee at an agreed amount subject to the approval by the Conflicts Committee of the board of directors of the General Partner. The Second Amended and Restated Services Agreement is for an indefinite term and any party may terminate some or all of the services upon ninety (90) days' advanced written notice. As of June 30, 2020, no such notice of termination was given by GPC or the Partnership.

The General Partner employs substantially all of the Partnership's employees, except for most of its gasoline station and convenience store employees, who are employed by GMG. The Partnership reimburses the General Partner for expenses incurred in connection with these employees. These expenses, including bonus, payroll and payroll taxes, were \$42.4 million and \$28.8 million for the three months ended June 30, 2020 and 2019, respectively, and \$70.2 million and \$58.0 million for the six months ended June 30, 2020 and 2019, respectively. The Partnership also reimburses the General Partner for its contributions under the General Partner's 401(k) Savings and Profit Sharing Plans and the General Partner's qualified and non-qualified pension plans.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The table below presents receivables from GPC and the General Partner (in thousands):

	June 30, 2020	December 31, 2019
Receivables from GPC	\$ 25	\$ 53
Receivables from the General Partner (1)	7,471	7,770
Total	<u>\$ 7,496</u>	<u>\$ 7,823</u>

- (1) Receivables from the General Partner reflect the Partnership's prepayment of payroll taxes and payroll accruals to the General Partner and are due to the timing of the payroll obligations.

In addition, the Partnership paid certain costs in connection with a compensation funding agreement with the General Partner. See Note 13, "Long-Term Incentive Plan–Repurchase Program."

Note 13. Long-Term Incentive Plan

The Partnership has a Long-Term Incentive Plan, as amended (the "LTIP"), whereby a total of 4,300,000 common units were authorized for delivery with respect to awards under the LTIP. The LTIP provides for awards to employees, consultants and directors of the General Partner and employees and consultants of affiliates of the Partnership who perform services for the Partnership. The LTIP allows for the award of options, unit appreciation rights, restricted units, phantom units, distribution equivalent rights, unit awards and substitute awards. Awards granted pursuant to the LTIP vest pursuant to the terms of the grant agreements. Please read Note 17 of Notes to Consolidated Financial Statements in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on the LTIP.

The following table presents a summary of the non-vested phantom units granted under the LTIP:

	Number of Non-vested Units	Weighted Average Grant Date Fair Value (\$)
Outstanding non—vested phantom units at December 31, 2019	562,906	9.74
Vested	(5,129)	25.84
Forfeited	(2,090)	9.28
Outstanding non—vested phantom units at June 30, 2020	<u>555,687</u>	9.59

The Partnership recorded total compensation expense related to the outstanding LTIP awards of \$0.3 million and \$0.8 million for the three months ended June 30, 2020 and 2019, respectively, and \$0.6 million and \$1.6 million for the six months ended June 30, 2020 and 2019, respectively which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

The total compensation cost related to the non-vested awards not yet recognized at June 30, 2020 was approximately \$2.1 million and is expected to be recognized ratably over the remaining requisite service periods.

Repurchase Program

In May 2009, the board of directors of the General Partner authorized the repurchase of the Partnership's common units (the "Repurchase Program") for the purpose of meeting the General Partner's anticipated obligations to deliver common units under the LTIP and meeting the General Partner's obligations under existing employment agreements and other employment related obligations of the General Partner (collectively, the "General Partner's Obligations"). The General Partner is authorized to acquire up to 1,242,427 of its common units in the aggregate over an extended period of

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

time, consistent with the General Partner's Obligations. Common units may be repurchased from time to time in open market transactions, including block purchases, or in privately negotiated transactions. Such authorized unit repurchases may be modified, suspended or terminated at any time and are subject to price and economic and market conditions, applicable legal requirements and available liquidity. Since the Repurchase Program was implemented, the General Partner repurchased 868,505 common units pursuant to the Repurchase Program for approximately \$25.1 million, of which approximately \$0.3 million were purchased during each of the three and six months ended June 30, 2020.

In June 2009, the Partnership and the General Partner entered into the Global GP LLC Compensation Funding Agreement (the "Agreement") whereby the Partnership and the General Partner established obligations and protocol for (i) the funding, management and administration of a compensation funding account and underlying General Partner's Obligations, and (ii) the holding and disposition by the General Partner of common units acquired in accordance with the Agreement for such purposes as otherwise set forth in the Agreement. The Agreement requires the Partnership to fund costs that the General Partner incurs in connection with performance of the Agreement. In accordance with the Agreement, the Partnership paid members of the General Partner \$0 for each of the three months ended June 30, 2020 and 2019, and \$0.3 million in the aggregate for each of the six months ended June 30, 2020 and 2019.

Note 14. Partners' Equity and Cash Distributions

Partners' Equity

Common Units and General Partner Interest

At June 30, 2020, there were 33,995,563 common units issued, including 6,143,205 common units held by affiliates of the General Partner, including directors and executive officers, collectively representing a 99.33% limited partner interest in the Partnership, and 230,303 general partner units representing a 0.67% general partner interest in the Partnership. There have been no changes to common units or the general partner interest during the three and six months ended June 30, 2020.

Series A Preferred Units

At June 30, 2020, there were 2,760,000 9.75% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units issued representing limited partner interests (the "Series A Preferred Units") for \$25.00 per Series A Preferred Unit. There have been no changes to the Series A Preferred Units during the three and six months ended June 30, 2020.

Cash Distributions

Common Units

The Partnership intends to make cash distributions to common unitholders on a quarterly basis, although there is no assurance as to the future cash distributions since they are dependent upon future earnings, capital requirements, financial condition and other factors. The Credit Agreement prohibits the Partnership from making cash distributions if any potential default or Event of Default, as defined in the Credit Agreement, occurs or would result from the cash distribution. The indentures governing the Partnership's outstanding senior notes also limit the Partnership's ability to make distributions to its common unitholders in certain circumstances.

Within 45 days after the end of each quarter, the Partnership will distribute all of its Available Cash (as defined in its partnership agreement) to common unitholders of record on the applicable record date. The amount of Available Cash is all cash on hand on the date of determination of Available Cash for the quarter; less the amount of cash reserves established by the General Partner to provide for the proper conduct of the Partnership's businesses, to comply with

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

applicable law, any of the Partnership's debt instruments or other agreements or to provide funds for distributions to unitholders and the General Partner for any one or more of the next four quarters.

The Partnership will make distributions of Available Cash from distributable cash flow for any quarter in the following manner: 99.33% to the common unitholders, pro rata, and 0.67% to the General Partner, until the Partnership distributes for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; and thereafter, cash in excess of the minimum quarterly distribution is distributed to the common unitholders and the General Partner based on the percentages as provided below.

As holder of the IDRs, the General Partner is entitled to incentive distributions if the amount that the Partnership distributes with respect to any quarter exceeds specified target levels shown below:

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
First Target Distribution	up to \$0.4625	99.33 %	0.67 %
Second Target Distribution	above \$0.4625 up to \$0.5375	86.33 %	13.67 %
Third Target Distribution	above \$0.5375 up to \$0.6625	76.33 %	23.67 %
Thereafter	above \$0.6625	51.33 %	48.67 %

The Partnership paid the following cash distributions to common unitholders during 2020 (in thousands, except per unit data):

Cash Distribution Payment Date	For the Quarter Ended	Per Unit Cash Distribution	Common Units	General Partner	Incentive Distribution	Total Cash Distribution
2/14/2020	12/31/19	\$ 0.52500	\$ 17,848	\$ 123	\$ 320	\$ 18,291
5/15/2020	03/31/20	0.39375	13,385	91	—	13,476

In addition, on July 31, 2020, the board of directors of the General Partner declared a quarterly cash distribution of \$0.45875 per unit (\$1.8350 per unit on an annualized basis) on all of its outstanding common units for the period from April 1, 2020 through June 30, 2020. On August 14, 2020, the Partnership will pay this cash distribution to its common unitholders of record as of the close of business on August 10, 2020.

Series A Preferred Units

Distributions on the Series A Preferred Units are cumulative from August 7, 2018, the original issue date of the Series A Preferred Units, and payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, commencing on November 15, 2018 (each, a "Distribution Payment Date"), to holders of record as of the opening of business on the February 1, May 1, August 1 or November 1 next preceding the Distribution Payment Date, in each case, when, as, and if declared by the General Partner out of legally available funds for such purpose. Distributions on the Series A Preferred Units will be paid out of Available Cash with respect to the quarter immediately preceding the applicable Distribution Payment Date.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Partnership paid the following cash distributions on the Series A Preferred Units during 2020 (in thousands, except per unit data):

Cash Distribution Payment Date	For the Quarterly Period Covering	Per Unit Cash Distribution	Total Cash Distribution
2/18/2020	11/15/19 - 2/14/20	\$ 0.609375	\$ 1,682
5/15/2020	2/15/20 - 5/14/20	0.609375	1,682

In addition, on July 20, 2020, the board of directors of the General Partner declared a quarterly cash distribution of \$0.609375 per unit (\$2.4375 per unit on an annualized basis) on the Series A Preferred Units for the period from May 15, 2020 through August 14, 2020. This distribution will be payable on August 17, 2020 to holders of record as of the opening of business on August 3, 2020.

Note 15. Segment Reporting

Summarized financial information for the Partnership's reportable segments is presented in the table below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Wholesale Segment:				
Sales				
Gasoline and gasoline blendstocks	\$ 516,326	\$ 1,634,618	\$ 1,414,783	\$ 2,640,323
Crude oil (1)	9,039	28,535	15,492	42,528
Other oils and related products (2)	251,994	341,375	834,562	1,030,883
Total	\$ 777,359	\$ 2,004,528	\$ 2,264,837	\$ 3,713,734
Product margin				
Gasoline and gasoline blendstocks	\$ 57,779	\$ 29,384	\$ 66,923	\$ 56,374
Crude oil (1)	9,203	(798)	4,733	(7,024)
Other oils and related products (2)	44,523	9,415	44,733	23,495
Total	\$ 111,505	\$ 38,001	\$ 116,389	\$ 72,845
Gasoline Distribution and Station Operations Segment:				
Sales				
Gasoline	\$ 455,161	\$ 1,025,669	\$ 1,200,776	\$ 1,855,841
Station operations (3)	104,095	120,526	202,721	225,185
Total	\$ 559,256	\$ 1,146,195	\$ 1,403,497	\$ 2,081,026
Product margin				
Gasoline	\$ 96,770	\$ 87,874	\$ 204,000	\$ 175,299
Station operations (3)	48,801	57,552	97,442	108,512
Total	\$ 145,571	\$ 145,426	\$ 301,442	\$ 283,811
Commercial Segment:				
Sales	\$ 132,962	\$ 356,817	\$ 396,336	\$ 692,406
Product margin	\$ 3,003	\$ 4,546	\$ 8,918	\$ 11,004
Combined sales and Product margin:				
Sales	\$ 1,469,577	\$ 3,507,540	\$ 4,064,670	\$ 6,487,166
Product margin (4)	\$ 260,079	\$ 187,973	\$ 426,749	\$ 367,660
Depreciation allocated to cost of sales	(20,132)	(20,830)	(41,064)	(43,673)
Combined gross profit	\$ 239,947	\$ 167,143	\$ 385,685	\$ 323,987

- (1) Crude oil consists of the Partnership's crude oil sales and revenue from its logistics activities.
- (2) Other oils and related products primarily consist of distillates, residual oil and propane.
- (3) Station operations consist of convenience store sales, rental income and sundries.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

- (4) Product margin is a non-GAAP financial measure used by management and external users of the Partnership's consolidated financial statements to assess its business. The table above includes a reconciliation of product margin on a combined basis to gross profit, a directly comparable GAAP measure.

Approximately 83 million gallons and 119 million gallons of the GDSO segment's sales for the three months ended June 30, 2020 and 2019, respectively, and 188 million gallons and 230 million gallons of the GDSO segment's sales for the six months ended June 30, 2020 and 2019, respectively, were supplied from petroleum products and renewable fuels sourced by the Wholesale segment. The Commercial segment's sales were predominantly sourced by the Wholesale segment. These intra-segment sales are not reflected as sales in the Wholesale segment as they are eliminated.

A reconciliation of the totals reported for the reportable segments to the applicable line items in the consolidated financial statements is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	2020	2019	2020	2019
Combined gross profit	\$ 239,947	\$ 167,143	\$ 385,685	\$ 323,987
Operating costs and expenses not allocated to operating segments:				
Selling, general and administrative expenses	59,017	40,968	99,940	82,058
Operating expenses	76,714	86,451	159,267	169,395
Lease exit and termination gain	—	—	—	(493)
Amortization expense	2,713	2,977	5,425	5,953
Net gain on sale and disposition of assets	(811)	(1,128)	(68)	(575)
Long-lived asset impairment	1,724	—	1,724	—
Total operating costs and expenses	139,357	129,268	266,288	256,338
Operating income	100,590	37,875	119,397	67,649
Interest expense	(21,089)	(23,066)	(42,690)	(46,022)
Income tax (expense) benefit	(3,528)	(438)	2,341	(462)
Net income	75,973	14,371	79,048	21,165
Net loss attributable to noncontrolling interest	289	118	490	450
Net income attributable to Global Partners LP	\$ 76,262	\$ 14,489	\$ 79,538	\$ 21,615

The Partnership's foreign assets and foreign sales were immaterial as of and for the three and six months ended June 30, 2020 and 2019.

Segment Assets

The Partnership's terminal assets are allocated to the Wholesale and Commercial segments, and its retail gasoline stations are allocated to the GDSO segment. Due to the commingled nature and uses of the remainder of the Partnership's assets, it is not reasonably possible for the Partnership to allocate these assets among its reportable segments.

The table below presents total assets by reportable segment at June 30, 2020 and December 31, 2019 (in thousands):

	Wholesale	Commercial	GDSO	Unallocated	Total
June 30, 2020	\$ 642,907	\$ —	\$ 1,537,103	\$ 342,268	\$ 2,522,278
December 31, 2019	\$ 773,696	\$ —	\$ 1,576,655	\$ 458,076	\$ 2,808,427

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 16. Income Taxes

Section 7704 of the Internal Revenue Code provides that publicly-traded partnerships are, as a general rule, taxed as corporations. However, an exception, referred to as the “Qualifying Income Exception,” exists under Section 7704(c) with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of “qualifying income.” Qualifying income includes income and gains derived from the transportation, storage and marketing of refined petroleum products, gasoline blendstocks, crude oil and ethanol to resellers and refiners. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income.

Substantially all of the Partnership’s income is “qualifying income” for federal income tax purposes and, therefore, is not subject to federal income taxes at the partnership level. Accordingly, no provision has been made for income taxes on the qualifying income in the Partnership’s financial statements. Net income for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the Partnership’s agreement of limited partnership. Individual unitholders have different investment basis depending upon the timing and price at which they acquired their common units. Further, each unitholder’s tax accounting, which is partially dependent upon the unitholder’s tax position, differs from the accounting followed in the Partnership’s consolidated financial statements. Accordingly, the aggregate difference in the basis of the Partnership’s net assets for financial and tax reporting purposes cannot be readily determined because information regarding each unitholder’s tax attributes in the Partnership is not available to the Partnership.

One of the Partnership’s wholly owned subsidiaries, GMG, is a taxable entity for federal and state income tax purposes. Current and deferred income taxes are recognized on the separate earnings of GMG. The after-tax earnings of GMG are included in the earnings of the Partnership. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes for GMG. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Partnership calculates its current and deferred tax provision based on estimates and assumptions that could differ from actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

The Partnership recognizes deferred tax assets to the extent that the recoverability of these assets satisfies the “more likely than not” criteria in accordance with the FASB’s guidance regarding income taxes. A valuation allowance must be established when it is “more likely than not” that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including a company’s performance, the market environment in which the company operates, length of carryback and carryforward periods and projections of future operating results. The Partnership concluded, based on an evaluation of future operating results and reversal of existing taxable temporary differences, that a portion of these assets will not be realized in a future period. The valuation allowance decreased by an immaterial amount for the six months ended June 30, 2020.

The Partnership computed its tax provision for the three and six months ended June 30, 2020 based upon the year-to-date effective tax rate as opposed to an estimated annual effective tax rate. Given a reliable estimate of the annual effective tax rate cannot be made, the Partnership concluded that the year-to-date effective tax rate is the most appropriate method to use for the three and six months ended June 30, 2020.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Unrecognized tax benefits represent uncertain tax positions for which reserves have been established. The Partnership had gross-tax effected unrecognized tax benefits of \$0 and \$1.0 million at June 30, 2020 and December 31, 2019, respectively. The liability for unrecognized tax benefits for uncertain tax positions changed by \$1.0 million for the six months ended June 30, 2020 as a result of closure of various statutes of limitations.

GMG files income tax returns in the United States and various state jurisdictions. As of June 30, 2020, with few exceptions, the Partnership was subject to income tax examination by tax authorities for all years dated back to 2016.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) was enacted and signed into law. The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. The CARES Act provides certain tax changes in response to the COVID-19 pandemic, including the temporary removal of certain limitations on the utilization of net operating losses, permitting the carryback of net operating losses generated in 2018, 2019 or 2020 to the five preceding taxable years, increasing the ability to deduct interest expense, deferring the employer share of social security tax payments, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. As a result, the Partnership recognized a benefit of \$6.3 million related to the CARES Act net operating loss carryback provisions which is included in income tax benefit in the accompanying statement of operations for the six months ended June 30, 2020. The Partnership expects to receive cash refunds totaling \$15.8 million associated with the carryback of losses generated in 2018 to the 2016 and 2017 tax years, and this income tax receivable is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet as of June 30, 2020.

Note 17. Changes in Accumulated Other Comprehensive Loss

The following table presents the changes in accumulated other comprehensive loss by component for the periods presented (in thousands):

	Pension Plan	Derivatives Designated as Cash Flow Hedges	Total
Three Months Ended June 30, 2020			
Balance at March 31, 2020	\$ (8,056)	\$ —	\$ (8,056)
Other comprehensive income before reclassification of (gain) loss	2,403	5,421	7,824
Amount of (gain) loss reclassified from accumulated other comprehensive income (loss)	(43)	(234)	(277)
Total comprehensive income	2,360	5,187	7,547
Balance at June 30, 2020	\$ (5,696)	\$ 5,187	\$ (509)
	Pension Plan	Derivatives Designated as Cash Flow Hedges	Total
Six Months Ended June 30, 2020			
Balance at December 31, 2019	\$ (5,076)	\$ —	\$ (5,076)
Other comprehensive income before reclassification of (gain) loss	(533)	5,421	4,888
Amount of (gain) loss reclassified from accumulated other comprehensive income (loss)	(87)	(234)	(321)
Total comprehensive income	(620)	5,187	4,567
Balance at June 30, 2020	\$ (5,696)	\$ 5,187	\$ (509)

Amounts are presented prior to the income tax effect on other comprehensive income. Given the Partnership’s partnership status for federal income tax purposes, the effective tax rate is immaterial.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 18. Legal Proceedings

General

Although the Partnership may, from time to time, be involved in litigation and claims arising out of its operations in the normal course of business, the Partnership does not believe that it is a party to any litigation that will have a material adverse impact on its financial condition or results of operations. Except as described below and in Note 11 included herein, the Partnership is not aware of any significant legal or governmental proceedings against it or contemplated to be brought against it. The Partnership maintains insurance policies with insurers in amounts and with coverage and deductibles as its general partner believes are reasonable and prudent. However, the Partnership can provide no assurance that this insurance will be adequate to protect it from all material expenses related to potential future claims or that these levels of insurance will be available in the future at economically acceptable prices.

Other

On June 1, 2020, Basin Transload filed for reorganization in the United States Bankruptcy Court for the District of Delaware under Chapter 11 of the United States Bankruptcy Code. The Partnership believes that the filing for reorganization and the resulting adjudication thereof will not have a material adverse effect on its financial condition, results of operations and cash available for distribution to its unitholders.

On January 31, 2020, the Partnership and Global Operating LLC (“Global Operating”) received a notice of arbitration filed against them by the minority members of Basin Transload alleging, among other things, mismanagement by the Partnership and Global Operating of certain business arrangements of Basin Transload. Global Operating served its notice of defense, will vigorously defend its position and believes it has meritorious defenses to the filing. The Partnership believes that it is not subject to the jurisdiction of the arbitration and filed a notice of non-jurisdiction. On February 20, 2020, the Partnership filed a breach of contract claim against the minority members of Basin Transload in the United States District Court of Massachusetts, demanding damages in excess of \$5.0 million. On April 9, 2020, the Partnership filed its claim in the Superior Court of Middlesex County, Massachusetts, and voluntarily withdrew its claim in the United States District Court of Massachusetts on April 10, 2020. The Partnership’s claim arises in connection with the Partnership’s payment in October 2017 of approximately \$13.1 million to Tesoro in accordance with the Partnership’s guaranty of a pipeline connection agreement between Basin Transload and Tesoro. In breach of a separate agreement among the Partnership and the minority members, each of the minority members of Basin Transload failed to reimburse the Partnership for 20% of any payments made by the Partnership to Tesoro in connection with the pipeline connection agreement. On April 13, 2020, the minority members of Basin Transload filed an action in the District Court of the Northwest Judicial District, Divide County, North Dakota, to, among other things, compel the Partnership to arbitration and seek a declaration that the minority members of Basin Transload are not liable to the Partnership for the breach of contract claim. The Partnership denies the allegations set forth in the North Dakota action and believes it has meritorious defenses to the filing.

During the second quarter ended June 30, 2016, the Partnership determined that gasoline loaded from certain loading bays at one of its terminals did not contain the necessary additives as a result of an IT-related configuration error. The error was corrected, and all gasoline being sold at the terminal now contains the appropriate additives. Based upon current information, the Partnership believes approximately 14 million gallons of gasoline were impacted. The Partnership has notified the EPA of this error. As a result of this error, the Partnership could be subject to fines, penalties and other related claims, including customer claims.

On August 2, 2016, the Partnership received a Notice of Violation (“NOV”) from the EPA, alleging that permits for the Partnership’s petroleum product transloading facility in Albany, New York (the “Albany Terminal”), issued by the New York State Department of Environmental Conservation (“NYSDEC”) between August 9, 2011 and November 7, 2012, violated the Clean Air Act (the “CAA”) and the federally enforceable New York State

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Implementation Plan (“SIP”) by increasing throughput of crude oil at the Albany Terminal without complying with the New Source Review (“NSR”) requirements of the SIP. The Partnership denied the allegations and the NYSDEC did not issue any such NOV. The Albany Terminal is a 63-acre licensed, permitted and operational stationary bulk petroleum storage and transfer terminal that currently consists of petroleum product storage tanks, along with truck, rail and marine loading facilities, for the storage, blending and distribution of various petroleum and related products, including gasoline, ethanol, distillates, heating and crude oils. The applicable permits issued by the NYSDEC to the Partnership in 2011 and 2012 specifically authorized the Partnership to increase the throughput of crude oil at the Albany Terminal. According to the allegations in the NOV, the NYSDEC permit actions should have been treated as a major modification under the NSR program, requiring additional emission control measures and compliance with other NSR requirements. The NYSDEC has not alleged that the Partnership’s permits were subject to the NSR program and the NYSDEC never issued an NOV in the matter. The CAA authorizes the EPA to take enforcement action if there are violations of the New York SIP seeking compliance and penalties. The Partnership has denied the NOV allegations and asserts that the permits issued by the NYSDEC comply with the CAA and applicable state air permitting requirements and that no material violation of law occurred. The Partnership disputed the claims alleged in the NOV and first responded to the EPA in September 2016. The Partnership met with the EPA and provided additional information at the agency’s request. On December 16, 2016, the EPA proposed a Settlement Agreement in a letter to the Partnership relating to the allegations in the NOV. On January 17, 2017, the Partnership responded to the EPA indicating that the EPA had failed to explain or provide support for its allegations and that the EPA needed to better explain its positions and the evidence on which it was relying. The EPA did not respond with such evidence, but instead has requested that the Partnership enter into a series of tolling agreements. The Partnership signed the tolling agreements with respect to this matter, as requested by the EPA, and such agreements currently extend through December 31, 2020. To date, the EPA has not taken any further formal action with respect to the NOV.

By letter dated January 25, 2017, the Partnership received a notice of intent to sue (the “2017 NOI”) from Earthjustice related to alleged violations of the CAA; specifically alleging that the Partnership was operating the Albany Terminal without a valid CAA Title V Permit. On February 9, 2017, the Partnership responded to Earthjustice advising that the 2017 NOI was without factual or legal merit and that the Partnership would move to dismiss any action commenced by Earthjustice. No action was taken by either the EPA or the NYSDEC with regard to the Earthjustice allegations. At this time, there has been no further action taken by Earthjustice. Neither the EPA nor the NYSDEC has followed up on the 2017 NOI. The Albany Terminal is currently operating pursuant to its Title V Permit, which has been extended in accordance with the State Administrative Procedures Act. Additionally, the Partnership has submitted a Title V Permit renewal and a request for modifications to its existing Title V Permit. The Partnership believes that it has meritorious defenses against all allegations.

On March 26, 2015, the Partnership received a Notice of Non-Compliance (“NON”) from the Massachusetts Department of Environmental Protection (“DEP”) with respect to the Revere terminal (the “Revere Terminal”) located in Boston Harbor in Revere, Massachusetts, alleging certain violations of the National Pollutant Discharge Elimination System Permit (“NPDES Permit”) related to storm water discharges. The NON required the Partnership to submit a plan to remedy the reported violations of the NPDES Permit. The Partnership has responded to the NON with a plan and has implemented modifications to the storm water management system at the Revere Terminal in accordance with the plan. The Partnership has requested that the DEP acknowledge completion of the required modifications to the storm water management system in satisfaction of the NON. While no response has yet been received, the Partnership believes that compliance with the NON has been achieved, and implementation of the plan will have no material impact on its operations.

The Partnership received letters from the EPA dated November 2, 2011 and March 29, 2012, containing requirements and testing orders (collectively, the “Requests for Information”) for information under the CAA. The Requests for Information were part of an EPA investigation to determine whether the Partnership has violated sections of the CAA at certain of its terminal locations in New England with respect to residual oil and asphalt. On June 6, 2014, a NOV was received from the EPA, alleging certain violations of its Air Emissions License issued by the Maine

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Department of Environmental Protection, based upon the test results at the South Portland, Maine terminal. The Partnership met with and provided additional information to the EPA with respect to the alleged violations. On April 7, 2015, the EPA issued a Supplemental Notice of Violation modifying the allegations of violations of the terminal's Air Emissions License. The Partnership has entered into a consent decree (the "Consent Decree") with the EPA and the United States Department of Justice (the "Department of Justice"), which was filed in the U.S. District Court for the District of Maine (the "Court") on March 25, 2019. The Consent Decree was entered by the Court on December 19, 2019. The Partnership believes that compliance with the Consent Decree and implementation of the requirements of the Consent Decree will have no material impact on its operations.

Note 19. New Accounting Standards

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Partnership's consolidated financial statements, from those disclosed in the Partnership's 2019 Annual Report on Form 10-K, except for the following:

Accounting Standards or Updates Recently Adopted

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This standard aligns the requirements for capitalizing implementation costs in a cloud computing arrangement with the requirements for capitalizing implementation costs incurred for an internal-use software license. The Partnership adopted this standard on January 1, 2020 with no material impact on the Partnership's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement," which amends existing guidance on disclosure requirements for fair value measurements. This standard requires prospective application on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. The effects of other amendments must be applied retrospectively to all periods presented. The Partnership adopted this standard on January 1, 2020 with no material impact on the Partnership's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," and has modified the standard thereafter, now codified as ASC 326. ASC 326 requires that for most financial assets, losses be based on an expected loss approach, which includes estimates of losses over the life of exposure that considers historical, current and forecasted information. The Partnership adopted this standard on January 1, 2020 using the modified retrospective transition method. The adoption of this standard did not materially impact the measurement of the Partnership's credit loss recognition and, therefore, did not have a material impact on the recognition of expected credit losses on the Partnership's consolidated financial statements.

The Partnership is exposed to credit losses primarily through its sales of refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane. Concentration of credit risk with respect to trade receivables are limited due to the Partnership's customer base being large and diverse. The Partnership assesses each counterparty's ability to pay for the products the Partnership sells by conducting a credit review. This credit review considers the Partnership's expected billing exposure and timing for payment and the counterparty's established credit rating or, in the case when a credit rating is not available, the Partnership's assessment of the counterparty's creditworthiness based on the Partnership's analysis of the counterparty's financial statements. The Partnership also considers contract terms and conditions and business strategy in its evaluation. A credit limit is established for each counterparty based on the outcome of this review. The Partnership may require collateralized asset support in the form of standby letters of credit, personal or corporate guarantees and/or a prepayment to mitigate credit risk.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Partnership monitors its ongoing credit exposure through active reviews of counterparty balances against contract terms and due dates. The Partnership's historical experience of collecting receivables, supported by the level of default, is that credit risk is low across classes of customers and locations and trade receivables are considered to be a single class of financial assets. Impairment for trade receivables are calculated for specific receivables with known or anticipated issues affecting the likelihood of collectability and for balances past due with a probability of default based on historical data as well as relevant forward-looking information. The Partnership's activities include timely account reconciliations, dispute resolutions and payment confirmations. The Partnership utilizes internal legal counsel or collection agencies and outside legal counsel to pursue recovery of defaulted receivables.

Based on an aging analysis at June 30, 2020, approximately 98% of the Partnership's accounts receivable were outstanding less than 30 days.

The following table presents changes in the credit loss allowance included in accounts receivable, net in the accompanying balance sheet (in thousands):

	Credit Loss Allowance
Balance at December 31, 2019	\$ 2,729
Current period provision	360
Write-offs charged against allowance for credit losses	(11)
Recoveries collected	165
Balance at June 30, 2020	<u>\$ 3,243</u>

Accounting Standards or Updates Not Yet Effective

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes," which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This standard is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years, with early adoption permitted. The Partnership does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

Note 20. Subsequent Events

Distribution to Common Unitholders—On July 31, 2020, the board of directors of the General Partner declared a quarterly cash distribution of \$0.45875 per unit (\$1.8350 per unit on an annualized basis) for the period from April 1, 2020 through June 30, 2020. On August 14, 2020, the Partnership will pay this cash distribution to its common unitholders of record as of the close of business on August 10, 2020.

Distribution to Preferred Unitholders—On July 20, 2020, the board of directors of the General Partner declared a quarterly cash distribution of \$0.609375 per unit (\$2.4375 per unit on an annualized basis) on the Series A Preferred Units, covering the period from May 15, 2020 through August 14, 2020. This distribution will be payable on August 17, 2020 to holders of record as of the opening of business on August 3, 2020.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 21. Supplemental Guarantor Condensed Consolidating Financial Statements

The Partnership's wholly owned subsidiaries, other than GLP Finance, are guarantors of senior notes issued by the Partnership and GLP Finance. As such, the Partnership is subject to the requirements of Rule 3-10 of Regulation S-X of the SEC regarding financial statements of guarantors and issuers of registered guaranteed securities. The Partnership presents condensed consolidating financial information for its subsidiaries within the notes to consolidated financial statements in accordance with the criteria established for parent companies in the SEC's Regulation S-X, Rule 3-10(d).

The following condensed consolidating financial information presents the Condensed Consolidating Balance Sheets as of June 30, 2020 and December 31, 2019, the Condensed Consolidating Statements of Operations for the three and six months ended June 30, 2020 and 2019 and the Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2020 and 2019 of the Partnership's 100% owned guarantor subsidiaries, the non-guarantor subsidiary and the eliminations necessary to arrive at the information for the Partnership on a consolidated basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheet
June 30, 2020
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,027	\$ 1,331	\$ —	\$ 10,358
Accounts receivable, net	232,594	171	67	232,832
Accounts receivable—affiliates	7,496	67	(67)	7,496
Inventories	344,026	—	—	344,026
Brokerage margin deposits	32,296	—	—	32,296
Derivative assets	48,571	—	—	48,571
Prepaid expenses and other current assets	93,146	251	—	93,397
Total current assets	767,156	1,820	—	768,976
Property and equipment, net	1,073,386	1,698	—	1,075,084
Right of use assets, net	281,960	65	—	282,025
Intangible assets, net	41,340	—	—	41,340
Goodwill	323,889	—	—	323,889
Other assets	30,964	—	—	30,964
Total assets	<u>\$ 2,518,695</u>	<u>\$ 3,583</u>	<u>\$ —</u>	<u>\$ 2,522,278</u>
Liabilities and partners' equity				
Current liabilities:				
Accounts payable	\$ 162,822	\$ 529	\$ —	\$ 163,351
Accounts payable—affiliates	(26)	26	—	—
Working capital revolving credit facility—current portion	41,700	—	—	41,700
Lease liability—current portion	70,604	18	—	70,622
Environmental liabilities—current portion	5,009	—	—	5,009
Trustee taxes payable	43,739	—	—	43,739
Accrued expenses and other current liabilities	94,403	183	—	94,586
Derivative liabilities	8,089	—	—	8,089
Total current liabilities	426,340	756	—	427,096
Working capital revolving credit facility—less current portion	175,000	—	—	175,000
Revolving credit facility	188,000	—	—	188,000
Senior notes	691,355	—	—	691,355
Long-term lease liability—less current portion	223,504	43	—	223,547
Environmental liabilities—less current portion	51,290	—	—	51,290
Financing obligations	147,400	—	—	147,400
Deferred tax liabilities	54,999	—	—	54,999
Other long—term liabilities	55,085	—	—	55,085
Total liabilities	2,012,973	799	—	2,013,772
Partners' equity				
Global Partners LP equity	505,722	1,700	—	507,422
Noncontrolling interest	—	1,084	—	1,084
Total partners' equity	505,722	2,784	—	508,506
Total liabilities and partners' equity	<u>\$ 2,518,695</u>	<u>\$ 3,583</u>	<u>\$ —</u>	<u>\$ 2,522,278</u>

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheet
December 31, 2019
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 11,591	\$ 451	\$ —	\$ 12,042
Accounts receivable, net	412,853	339	3	413,195
Accounts receivable—affiliates	7,823	3	(3)	7,823
Inventories	450,482	—	—	450,482
Brokerage margin deposits	34,466	—	—	34,466
Derivative assets	4,564	—	—	4,564
Prepaid expenses and other current assets	81,845	95	—	81,940
Total current assets	1,003,624	888	—	1,004,512
Property and equipment, net	1,102,644	2,219	—	1,104,863
Right of use assets, net	296,672	74	—	296,746
Intangible assets, net	46,765	—	—	46,765
Goodwill	324,474	—	—	324,474
Other assets	31,067	—	—	31,067
Total assets	<u>\$ 2,805,246</u>	<u>\$ 3,181</u>	<u>\$ —</u>	<u>\$ 2,808,427</u>
Liabilities and partners' equity				
Current liabilities:				
Accounts payable	\$ 373,355	\$ 31	\$ —	\$ 373,386
Accounts payable—affiliates	(17)	17	—	—
Working capital revolving credit facility—current portion	148,900	—	—	148,900
Lease liability—current portion	68,143	17	—	68,160
Environmental liabilities—current portion	5,009	—	—	5,009
Trustee taxes payable	42,932	—	—	42,932
Accrued expenses and other current liabilities	102,737	65	—	102,802
Derivative liabilities	12,698	—	—	12,698
Total current liabilities	753,757	130	—	753,887
Working capital revolving credit facility—less current portion	175,000	—	—	175,000
Revolving credit facility	192,700	—	—	192,700
Senior notes	690,533	—	—	690,533
Long-term lease liability—less current portion	239,308	41	—	239,349
Environmental liabilities—less current portion	54,262	—	—	54,262
Financing obligations	148,127	—	—	148,127
Deferred tax liabilities	42,879	—	—	42,879
Other long—term liabilities	52,451	—	—	52,451
Total liabilities	2,349,017	171	—	2,349,188
Partners' equity				
Global Partners LP equity	456,229	1,836	—	458,065
Noncontrolling interest	—	1,174	—	1,174
Total partners' equity	456,229	3,010	—	459,239
Total liabilities and partners' equity	<u>\$ 2,805,246</u>	<u>\$ 3,181</u>	<u>\$ —</u>	<u>\$ 2,808,427</u>

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Statement of Operations
Three Months Ended June 30, 2020
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Eliminations	Consolidated
Sales	\$ 1,469,017	\$ 780	\$ (220)	\$ 1,469,577
Cost of sales	1,229,572	278	(220)	1,229,630
Gross profit	239,445	502	—	239,947
Costs and operating expenses:				
Selling, general and administrative expenses	58,182	835	—	59,017
Operating expenses	76,323	391	—	76,714
Amortization expense	2,713	—	—	2,713
Net gain on sale and disposition of assets	(811)	—	—	(811)
Long-lived asset impairment	1,724	—	—	1,724
Total costs and operating expenses	138,131	1,226	—	139,357
Operating income (loss)	101,314	(724)	—	100,590
Interest expense	(21,089)	—	—	(21,089)
Income (loss) before income tax expense	80,225	(724)	—	79,501
Income tax expense	(3,528)	—	—	(3,528)
Net income	76,697	(724)	—	75,973
Net loss attributable to noncontrolling interest	—	289	—	289
Net income attributable to Global Partners LP	76,697	(435)	—	76,262
Less: General partners' interest in net income, including incentive distribution rights	511	—	—	511
Less: Series A preferred limited partner interest in net income	1,682	—	—	1,682
Net income attributable to common limited partners	\$ 74,504	\$ (435)	\$ —	\$ 74,069

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Statement of Operations
Three Months Ended June 30, 2019
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Eliminations	Consolidated
Sales	\$ 3,507,137	\$ 526	\$ (123)	\$ 3,507,540
Cost of sales	3,340,184	336	(123)	3,340,397
Gross profit	166,953	190	—	167,143
Costs and operating expenses:				
Selling, general and administrative expenses	40,867	101	—	40,968
Operating expenses	86,068	383	—	86,451
Amortization expense	2,977	—	—	2,977
Net gain on sale and disposition of assets	(1,128)	—	—	(1,128)
Total costs and operating expenses	128,784	484	—	129,268
Operating income	38,169	(294)	—	37,875
Interest expense	(23,066)	—	—	(23,066)
Income before income tax expense	15,103	(294)	—	14,809
Income tax expense	(438)	—	—	(438)
Net income	14,665	(294)	—	14,371
Net loss attributable to noncontrolling interest	—	118	—	118
Net income attributable to Global Partners LP	14,665	(176)	—	14,489
Less: General partners' interest in net income, including incentive distribution rights	366	—	—	366
Less: Series A preferred limited partner interest in net income	1,682	—	—	1,682
Net income attributable to common limited partners	\$ 12,617	\$ (176)	\$ —	\$ 12,441

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Statement of Operations
Six Months Ended June 30, 2020
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Eliminations	Consolidated
Sales	\$ 4,063,825	\$ 1,111	\$ (266)	\$ 4,064,670
Cost of sales	3,678,689	562	(266)	3,678,985
Gross profit	385,136	549	—	385,685
Costs and operating expenses:				
Selling, general and administrative expenses	99,006	934	—	99,940
Operating expenses	158,426	841	—	159,267
Amortization expense	5,425	—	—	5,425
Net gain on sale and disposition of assets	(68)	—	—	(68)
Long-lived asset impairment	1,724	—	—	1,724
Total costs and operating expenses	264,513	1,775	—	266,288
Operating income	120,623	(1,226)	—	119,397
Interest expense	(42,690)	—	—	(42,690)
Income before income tax benefit	77,933	(1,226)	—	76,707
Income tax benefit	2,341	—	—	2,341
Net income	80,274	(1,226)	—	79,048
Net loss attributable to noncontrolling interest	—	490	—	490
Net income attributable to Global Partners LP	80,274	(736)	—	79,538
Less: General partners' interest in net income, including incentive distribution rights	533	—	—	533
Less: Series A preferred limited partner interest in net income	3,364	—	—	3,364
Net income attributable to common limited partners	\$ 76,377	\$ (736)	\$ —	\$ 75,641

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Statement of Operations
Six Months Ended June 30, 2019
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Eliminations	Consolidated
Sales	\$ 6,486,499	\$ 885	\$ (218)	\$ 6,487,166
Cost of sales	6,162,384	1,013	(218)	6,163,179
Gross profit	324,115	(128)	—	323,987
Costs and operating expenses:				
Selling, general and administrative expenses	81,859	199	—	82,058
Operating expenses	168,597	798	—	169,395
Lease exit and termination gain	(493)	—	—	(493)
Amortization expense	5,953	—	—	5,953
Net gain on sale and disposition of assets	(575)	—	—	(575)
Total costs and operating expenses	255,341	997	—	256,338
Operating income	68,774	(1,125)	—	67,649
Interest expense	(46,022)	—	—	(46,022)
Income before income tax expense	22,752	(1,125)	—	21,627
Income tax expense	(462)	—	—	(462)
Net income	22,290	(1,125)	—	21,165
Net loss attributable to noncontrolling interest	—	450	—	450
Net income attributable to Global Partners LP	22,290	(675)	—	21,615
Less: General partners' interest in net income, including incentive distribution rights	670	—	—	670
Less: Series A preferred limited partner interest in net income	3,364	—	—	3,364
Net income attributable to common limited partners	\$ 18,256	\$ (675)	\$ —	\$ 17,581

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Statement Cash Flows
Six Months Ended June 30, 2020
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Consolidated
Cash flows from operating activities			
Net cash provided by operating activities	\$ 162,123	\$ (120)	\$ 162,003
Cash flows from investing activities			
Capital expenditures	(21,746)	—	(21,746)
Seller note issuances	(1,188)	—	(1,188)
Proceeds from sale of property and equipment	6,082	—	6,082
Net cash used in investing activities	(16,852)	—	(16,852)
Cash flows from financing activities			
Net payments on working capital revolving credit facility	(107,200)	—	(107,200)
Net payments on revolving credit facility	(4,700)	—	(4,700)
Repurchase of common units	(291)	—	(291)
LTIP units withheld for tax obligations	(30)	—	(30)
Noncontrolling interest capital contribution	(600)	1,000	400
Distributions to limited partners and general partner	(35,014)	—	(35,014)
Net cash used in financing activities	(147,835)	1,000	(146,835)
Cash and cash equivalents			
Decrease in cash and cash equivalents	(2,564)	880	(1,684)
Cash and cash equivalents at beginning of period	11,591	451	12,042
Cash and cash equivalents at end of period	<u>\$ 9,027</u>	<u>\$ 1,331</u>	<u>\$ 10,358</u>

GLOBAL PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Statement Cash Flows
Six Months Ended June 30, 2019
(In thousands)

	(Issuer) Guarantor Subsidiaries	Non- Guarantor Subsidiary	Consolidated
Cash flows from operating activities			
Net cash used in operating activities	\$ (32,879)	\$ (613)	\$ (33,492)
Cash flows from investing activities			
Capital expenditures	(29,974)	—	(29,974)
Seller note issuances	(640)	—	(640)
Proceeds from sale of property and equipment	10,053	—	10,053
Net cash used in investing activities	(20,561)	—	(20,561)
Cash flows from financing activities			
Net borrowings from working capital revolving credit facility	102,800	—	102,800
Net payments on revolving credit facility	(8,000)	—	(8,000)
LTIP units withheld for tax obligations	(32)	—	(32)
Distributions to limited partners and general partner	(38,390)	—	(38,390)
Net cash provided by financing activities	56,378	—	56,378
Cash and cash equivalents			
Increase (decrease) in cash and cash equivalents	2,938	(613)	2,325
Cash and cash equivalents at beginning of period	7,050	1,071	8,121
Cash and cash equivalents at end of period	<u>\$ 9,988</u>	<u>\$ 458</u>	<u>\$ 10,446</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations of Global Partners LP should be read in conjunction with the historical consolidated financial statements of Global Partners LP and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

Some of the information contained in this Quarterly Report on Form 10-Q may contain forward-looking statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words "may," "believe," "should," "could," "expect," "anticipate," "plan," "intend," "estimate," "continue," "will likely result," or other similar expressions. In addition, any statement made by our management concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions by us are also forward-looking statements. Forward-looking statements are not guarantees of performance. Although we believe these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks, many of which are beyond our control, which may cause future results to be materially different from the results stated or implied in this document. These risks and uncertainties include, among other things:

- We may not have sufficient cash from operations to enable us to pay distributions on our Series A Preferred Units or maintain distributions on our common units at current levels following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.
- A significant decrease in price or demand for the products we sell or a significant decrease in the pricing of and demand for our logistics activities could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.
- The outbreak of COVID-19 and certain developments in global oil markets have had, and may continue to have, material adverse consequences for general economic, financial and business conditions, and could materially and adversely affect our business, financial condition and results of operation and those of our customers, suppliers and other counterparties.
- We depend upon marine, pipeline, rail and truck transportation services for a substantial portion of our logistics activities in transporting the products we sell. Implementation of regulations and directives that adversely impact the market for transporting these products by rail or otherwise could adversely affect those activities. In addition, implementation of regulations and directives related to these aforementioned services as well as a disruption in any of these transportation services could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.
- We have contractual obligations for certain transportation assets such as railcars, barges and pipelines. A decline in demand for (i) the products we sell or (ii) our logistics activities, which has resulted and could continue to result in a decrease in the utilization of our transportation assets, could negatively impact our financial condition, results of operations and cash available for distribution to our unitholders.
- We may not be able to fully implement or capitalize upon planned growth projects. Even if we consummate acquisitions or expend capital in pursuit of growth projects that we believe will be accretive, they may in fact result in no increase or even a decrease in cash available for distribution to our unitholders.
- Erosion of the value of major gasoline brands could adversely affect our gasoline sales and customer traffic.
- Our gasoline sales could be significantly reduced by a reduction in demand due to higher prices and to new technologies and alternative fuel sources, such as electric, hybrid, battery powered, hydrogen or other alternative fuel-powered motor vehicles. Changing consumer preferences or driving habits could lead to new forms of

fueling destinations or potentially fewer customer visits to our sites, resulting in a decrease in gasoline sales and/or sales of food, sundries and other on-site services. Any of these outcomes could negatively affect our financial condition, results of operations and cash available for distribution to our unitholders.

- Physical effects from climate change and impacts to areas prone to sea level rise or other extreme weather events could have the potential to adversely affect our assets and operations.
- Changes in government usage mandates and tax credits could adversely affect the availability and pricing of ethanol and renewable fuels, which could negatively impact our sales.
- Our petroleum and related products sales, logistics activities and results of operations have been and could continue to be adversely affected by, among other things, changes in the petroleum products market structure, product differentials and volatility (or lack thereof), implementation of regulations that adversely impact the market for transporting petroleum and related products by rail and other modes of transportation, severe weather conditions, significant changes in prices and interruptions in transportation services and other necessary services and equipment, such as railcars, barges, trucks, loading equipment and qualified drivers.
- Our risk management policies cannot eliminate all commodity risk, basis risk or the impact of unfavorable market conditions, each of which can adversely affect our financial condition, results of operations and cash available for distribution to our unitholders. In addition, noncompliance with our risk management policies could result in significant financial losses.
- Our results of operations are affected by the overall forward market for the products we sell, and pricing volatility may adversely impact our results.
- Our businesses could be affected by a range of issues, such as changes in commodity prices, energy conservation, competition, the global economic climate, movement of products between foreign locales and within the United States, changes in refiner demand, weekly and monthly refinery output levels, changes in local, domestic and worldwide inventory levels, changes in health, safety and environmental regulations, including, without limitation, those related to climate change, failure to obtain renewal permits on terms favorable to us, seasonality, supply, weather and logistics disruptions and other factors and uncertainties inherent in the transportation, storage, terminalling and marketing of refined products, gasoline blendstocks, renewable fuels and crude oil.
- Increases and/or decreases in the prices of the products we sell could adversely impact the amount of availability for borrowing working capital under our credit agreement, which credit agreement has borrowing base limitations and advance rates.
- Warmer weather conditions could adversely affect our home heating oil and residual oil sales. Our sales of home heating oil and residual oil continue to be reduced by conversions to natural gas and by utilization of propane and/or natural gas (instead of heating oil) as primary fuel sources.
- We are exposed to trade credit risk and risk associated with our trade credit support in the ordinary course of our businesses.
- The condition of credit markets may adversely affect our liquidity.
- Our credit agreement and the indentures governing our senior notes contain operating and financial covenants, and our credit agreement contains borrowing base requirements. A failure to comply with the operating and financial covenants in our credit agreement, the indentures and any future financing agreements could impact our access to bank loans and other sources of financing as well as our ability to pursue our business activities.
- A significant increase in interest rates could adversely affect our results of operations and cash available for distribution to our unitholders and our ability to service our indebtedness.

[Table of Contents](#)

- Our gasoline station and convenience store business, including with the onset of the COVID-19 pandemic, could expose us to an increase in consumer litigation and result in an unfavorable outcome or settlement of one or more lawsuits where insurance proceeds are insufficient or otherwise unavailable.
- Congress has given the Food and Drug Administration (“FDA”) broad authority to regulate tobacco and nicotine products, and the FDA and states have enacted and are pursuing enactment of numerous regulations restricting the sale of such products. These governmental actions, as well as national, state and municipal campaigns to discourage smoking, tax increases, and imposition of regulations restricting the sale of e-cigarettes and vapor products, have and could result in reduced consumption levels, higher costs which we may not be able to pass on to our customers, and reduced overall customer traffic. Also, increasing regulations related to and restricting the sale of vapor products and e-cigarettes may offset some of the gains we have experienced from selling these types of products. These factors could materially affect the sale of this product mix which in turn could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.
- Our results can be adversely affected by unforeseen events, such as adverse weather, natural disasters, terrorism, pandemics, or other catastrophic events which could have an adverse effect on our financial condition, results of operations and cash available for distributions to our unitholders.
- Our businesses could expose us to litigation and result in an unfavorable outcome or settlement of one or more lawsuits where insurance proceeds are insufficient or otherwise unavailable.
- Adverse developments in the areas where we conduct our businesses could have a material adverse effect on such businesses and could reduce our ability to make distributions to our unitholders.
- A serious disruption to our information technology systems could significantly limit our ability to manage and operate our businesses efficiently.
- We are exposed to performance risk in our supply chain.
- Our businesses are subject to federal, state and municipal environmental and non-environmental regulations which could have a material adverse effect on such businesses.
- Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which could permit them to favor their own interests to the detriment of our unitholders.
- Unitholders have limited voting rights and are not entitled to elect our general partner or its directors or remove our general partner without the consent of the holders of at least 66 2/3% of the outstanding common units (including common units held by our general partner and its affiliates), which could lower the trading price of our units.
- Our tax treatment depends on our status as a partnership for federal income tax purposes.
- Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Additional information about risks and uncertainties that could cause actual results to differ materially from forward-looking statements is contained in Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A, “Risk Factors,” in this Quarterly Report on Form 10-Q.

We expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based, other than as required by federal and state securities laws. All forward-looking statements included in this Quarterly Report on Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

Overview

General

We are a master limited partnership formed in March 2005. We own, control or have access to one of the largest terminal networks of refined petroleum products and renewable fuels in Massachusetts, Maine, Connecticut, Vermont, New Hampshire, Rhode Island, New York, New Jersey and Pennsylvania (collectively, the “Northeast”). We are one of the region’s largest independent owners, suppliers and operators of gasoline stations and convenience stores. As of June 30, 2020, we had a portfolio of 1,532 owned, leased and/or supplied gasoline stations, including 277 directly operated convenience stores, primarily in the Northeast. We are also one of the largest distributors of gasoline, distillates, residual oil and renewable fuels to wholesalers, retailers and commercial customers in the New England states and New York. We engage in the purchasing, selling, gathering, blending, storing and logistics of transporting petroleum and related products, including gasoline and gasoline blendstocks (such as ethanol), distillates (such as home heating oil, diesel and kerosene), residual oil, renewable fuels, crude oil and propane and in the transportation of petroleum products and renewable fuels by rail from the mid-continent region of the United States and Canada.

Collectively, we sold approximately \$1.4 billion and \$3.9 billion of refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane for the three and six months ended June 30, 2020, respectively. In addition, we had other revenues of approximately \$0.1 billion and \$0.2 billion for the three and six months ended June 30, 2020, respectively, from convenience store sales at our directly operated stores, rental income from dealer leased and commissioned agent leased gasoline stations and from cobranding arrangements, and sundries.

We base our pricing on spot prices, fixed prices or indexed prices and routinely use the New York Mercantile Exchange (“NYMEX”), Chicago Mercantile Exchange (“CME”) and Intercontinental Exchange (“ICE”) or other counterparties to hedge the risk inherent in buying and selling commodities. Through the use of regulated exchanges or derivatives, we seek to maintain a position that is substantially balanced between purchased volumes and sales volumes or future delivery obligations.

Our Perspective on Global and the COVID-19 Pandemic

Overview

The COVID-19 pandemic has continued to make its presence felt at home, in the office workplace and at our retail sites and terminal locations. We have successfully executed our business continuity plans and at this time we continue to work remotely. We remain active in responding to the challenges posed by the COVID-19 pandemic and continue to provide essential products and services while prioritizing the safety of our employees, customers and vendors in the communities where we operate.

The COVID-19 pandemic has resulted in an economic downturn and restricted travel to, from and within the states in which we conduct our businesses. Federal, state and municipal “stay at home” or similar-like directives have resulted in decreases in the demand for gasoline and convenience store products. Social distancing guidelines and directives limiting food operations at our convenience stores have further contributed to a reduction in in-store traffic and sales. The demand for diesel fuel has similarly (but not as drastically) been impacted. We remain well positioned to pivot and address different (and, at times, conflicting) directives from federal, state and municipal authorities designed to mitigate the spread of the COVID-19 pandemic, permit the opening of businesses and promote an economic recovery. From mid-March into April, we saw reductions of more than 50% in gasoline volume and more than 20% in convenience store sales but saw gradual increases in both gasoline volume and convenience store sales during the remainder of the second quarter as businesses reopened and directives from federal, state and municipal authorities became less restrictive. That said, uncertainties surrounding the duration of the COVID-19 pandemic and demand at the pump, inside our stores and at our terminals remain.

Second Quarter 2020 Performance

During March, the COVID-19 pandemic-related demand destruction and the price war between Saudi Arabia and Russia caused a rapid decline in fuel prices. The price of crude oil (WTI) fell from \$46.75/barrel on March 2, 2020 to \$20.48/barrel on March 31, 2020. Similarly, the price of wholesale gasoline (87 RBOB) on the NYMEX fell from \$1.54/gallon to \$0.57/gallon during the same timeframe, steepening the forward product pricing curve. During the first quarter of 2020, this decline in prices had a positive impact on fuel margin in our GDSO segment, but a negative impact on the product margins in our Wholesale segment which decreased \$29.9 million year over year.

In the second quarter, margins in our Wholesale segment increased \$73.5 million year over year due to a significant recovery in the supply/demand imbalance at the end of the first quarter and resultant flattening of the forward product pricing curve. In our GDSO segment, while volumes decreased year over year, fuel margins remained strong resulting in a \$9.0 million increase in gasoline distribution product margin which offset an \$8.8 million decrease in our station operations product margin, primarily due to a decrease in store traffic.

Given the uncertainty surrounding the short-term and long-term impacts of COVID-19, including the timing of an economic recovery, early in the second quarter we took certain steps to increase liquidity and create additional financial flexibility. Such steps included a 25% decrease to our quarterly distribution on our common units for the period from January 1, 2020 to March 31, 2020. In addition, we borrowed \$50.0 million under our revolving credit facility which was included in cash on our balance sheet. We also reduced planned expenses and 2020 capital spending. We amended our credit agreement to provide temporary adjustments to certain covenants. Given the stronger-than-expected performance in the second quarter, we paid down our revolving credit facility with the \$50.0 million cash on hand and increased our planned 2020 capital spending. In addition, we increased our quarterly distribution on our common units for the period from April 1, 2020 to June 30, 2020.

Moving Forward – Our Perspective

In July, while we have seen a slight uptick in transportation fuels volume and convenience store sales, volume and sales are lower year over year. Fuel margins (cents per gallon) in our GDSO segment have declined but remain above prior year margins. We could reasonably expect volumes and sales to continue to increase assuming more of the economy “re-opens” and more people travel. However, the extent to which the COVID-19 pandemic may affect our operating results remains uncertain. The outbreak of the COVID-19 pandemic has had, and may continue to have, material adverse consequences for general economic, financial and business conditions, and could materially and adversely affect our business, financial condition and results of operations and those of our customers, suppliers and other counterparties.

Our inventory management is dependent on the use of hedging instruments which are managed based on the structure of the forward pricing curve. Daily market changes may impact periodic results due to the point-in-time valuation of these positions. Volatility in the oil markets resulting from COVID-19 and geopolitical events may impact our results.

Business operations today, as compared to how we conducted our business in early March, reflect changes which may well remain for an indefinite period of time. In these uncertain times and volatile markets, we believe that we are operationally nimble and that our portfolio of assets may continue to provide us with opportunities.

Recent Event

Amended Credit Agreement—On May 7, 2020, we and certain of our subsidiaries entered into the fourth amendment to third amended and restated credit agreement which, among other things, provides temporary adjustments to certain covenants and reduces the total aggregate commitment by \$130.0 million. See “—Liquidity and Capital Resources—Credit Agreement.”

Operating Segments

We purchase refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane primarily from domestic and foreign refiners and ethanol producers, crude oil producers, major and independent oil companies and trading companies. We operate our businesses under three segments: (i) Wholesale, (ii) Gasoline Distribution and Station Operations (“GDSO”) and (iii) Commercial.

Wholesale

In our Wholesale segment, we engage in the logistics of selling, gathering, blending, storing and transporting refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane. We transport these products by railcars, barges, trucks and/or pipelines pursuant to spot or long-term contracts. From time to time, we aggregate crude oil by truck or pipeline in the mid-continent region of the United States and Canada, transport it by rail and ship it by barge to refiners. We sell home heating oil, branded and unbranded gasoline and gasoline blendstocks, diesel, kerosene, residual oil and propane to home heating oil and propane retailers and wholesale distributors. Generally, customers use their own vehicles or contract carriers to take delivery of the gasoline, distillates and propane at bulk terminals and inland storage facilities that we own or control or at which we have throughput or exchange arrangements. Ethanol is shipped primarily by rail and by barge.

In our Wholesale segment, we obtain Renewable Identification Numbers (“RIN”) in connection with our purchase of ethanol which is used for bulk trading purposes or for blending with gasoline through our terminal system. A RIN is a renewable identification number associated with government-mandated renewable fuel standards. To evidence that the required volume of renewable fuel is blended with gasoline, obligated parties must retire sufficient RINs to cover their Renewable Volume Obligation (“RVO”). Our U.S. Environmental Protection Agency (“EPA”) obligations relative to renewable fuel reporting are comprised of foreign gasoline and diesel that we may import and blending operations at certain facilities.

Gasoline Distribution and Station Operations

In our GDSO segment, gasoline distribution includes sales of branded and unbranded gasoline to gasoline station operators and sub-jobbers. Station operations include (i) convenience stores, (ii) rental income from gasoline stations leased to dealers, from commissioned agents and from cobranding arrangements and (iii) sundries (such as car wash sales and lottery and ATM commissions).

As of June 30, 2020, we had a portfolio of owned, leased and/or supplied gasoline stations, primarily in the Northeast, that consisted of the following:

Company operated	277
Commissioned agents	257
Lessee dealers	211
Contract dealers	787
Total	<u>1,532</u>

At our company-operated stores, we operate the gasoline stations and convenience stores with our employees, and we set the retail price of gasoline at the station. At commissioned agent locations, we own the gasoline inventory, and we set the retail price of gasoline at the station and pay the commissioned agent a fee related to the gallons sold. We receive rental income from commissioned agent leased gasoline stations for the leasing of the convenience store premises, repair bays and other businesses that may be conducted by the commissioned agent. At dealer-leased locations, the dealer purchases gasoline from us, and the dealer sets the retail price of gasoline at the dealer’s station. We also receive rental income from (i) dealer-leased gasoline stations and (ii) cobranding arrangements. We also supply gasoline to locations owned and/or leased by independent contract dealers. Additionally, we have contractual relationships with distributors in certain New England states pursuant to which we source and supply these distributors’ gasoline stations with ExxonMobil-branded gasoline.

Commercial

In our Commercial segment, we include sales and deliveries to end user customers in the public sector and to large commercial and industrial end users of unbranded gasoline, home heating oil, diesel, kerosene, residual oil and bunker fuel. In the case of public sector commercial and industrial end user customers, we sell products primarily either through a competitive bidding process or through contracts of various terms. We respond to publicly issued requests for product proposals and quotes. We generally arrange for the delivery of the product to the customer's designated location. Our Commercial segment also includes sales of custom blended fuels delivered by barges or from a terminal dock to ships through bunkering activity.

Seasonality

Due to the nature of our businesses and our reliance, in part, on consumer travel and spending patterns, we may experience more demand for gasoline during the late spring and summer months than during the fall and winter. Travel and recreational activities are typically higher in these months in the geographic areas in which we operate, increasing the demand for gasoline. Therefore, our volumes in gasoline are typically higher in the second and third quarters of the calendar year. However, the COVID-19 pandemic has had a negative impact on gasoline demand and the extent and duration of that impact is uncertain. As demand for some of our refined petroleum products, specifically home heating oil and residual oil for space heating purposes, is generally greater during the winter months, heating oil and residual oil volumes are generally higher during the first and fourth quarters of the calendar year. These factors may result in fluctuations in our quarterly operating results.

Outlook

This section identifies certain risks and certain economic or industry-wide factors, in addition to those described under “—Our Perspective on Global and the COVID-19 Pandemic,” that may affect our financial performance and results of operations in the future, both in the short-term and in the long-term. Our results of operations and financial condition depend, in part, upon the following:

- *Our businesses are influenced by the overall markets for refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane and increases and/or decreases in the prices of these products may adversely impact our financial condition, results of operations and cash available for distribution to our unitholders and the amount of borrowing available for working capital under our credit agreement.* Results from our purchasing, storing, terminalling, transporting, selling and blending operations are influenced by prices for refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane, price volatility and the market for such products. Prices in the overall markets for these products may affect our financial condition, results of operations and cash available for distribution to our unitholders. Our margins can be significantly impacted by the forward product pricing curve, often referred to as the futures market. We typically hedge our exposure to petroleum product and renewable fuel price moves with futures contracts and, to a lesser extent, swaps. In markets where future prices are higher than current prices, referred to as contango, we may use our storage capacity to improve our margins by storing products we have purchased at lower prices in the current market for delivery to customers at higher prices in the future. In markets where future prices are lower than current prices, referred to as backwardation, inventories can depreciate in value and hedging costs are more expensive. For this reason, in these backward markets, we attempt to reduce our inventories in order to minimize these effects. Our inventory management is dependent on the use of hedging instruments which are managed based on the structure of the forward pricing curve. Daily market changes may impact periodic results due to the point-in-time valuation of these positions. Volatility in oil markets may impact our results. When prices for the products we sell rise, some of our customers may have insufficient credit to purchase supply from us at their historical purchase volumes, and their customers, in turn, may adopt conservation measures which reduce consumption, thereby reducing demand for product. Furthermore, when prices increase rapidly and dramatically, we may be unable to promptly pass our additional costs on to our customers, resulting in lower margins which could adversely affect our results of operations. Higher prices for the products we sell may (1) diminish our access to trade credit support and/or cause it to become more expensive and (2) decrease the amount of borrowings available for working capital under our credit agreement as a result of total available commitments,

borrowing base limitations and advance rates thereunder. When prices for the products we sell decline, our exposure to risk of loss in the event of nonperformance by our customers of our forward contracts may be increased as they and/or their customers may breach their contracts and purchase the products we sell at the then lower market price from a competitor.

- *We commit substantial resources to pursuing acquisitions and expending capital for growth projects, although there is no certainty that we will successfully complete any acquisitions or growth projects or receive the economic results we anticipate from completed acquisitions or growth projects.* We are continuously engaged in discussions with potential sellers and lessors of existing (or suitable for development) terminalling, storage, logistics and/or marketing assets, including gasoline stations, convenience stores and related businesses. Our growth largely depends on our ability to make accretive acquisitions and/or accretive development projects. We may be unable to execute such accretive transactions for a number of reasons, including the following: (1) we are unable to identify attractive transaction candidates or negotiate acceptable terms; (2) we are unable to obtain financing for such transactions on economically acceptable terms; or (3) we are outbid by competitors. In addition, we may consummate transactions that at the time of consummation we believe will be accretive but that ultimately may not be accretive. If any of these events were to occur, our future growth and ability to increase or maintain distributions on our common units could be limited. We can give no assurance that our transaction efforts will be successful or that any such efforts will be completed on terms that are favorable to us.
- *The condition of credit markets may adversely affect our liquidity.* In the past, world financial markets experienced a severe reduction in the availability of credit. Possible negative impacts in the future could include a decrease in the availability of borrowings under our credit agreement, increased counterparty credit risk on our derivatives contracts and our contractual counterparties requiring us to provide collateral. In addition, we could experience a tightening of trade credit from our suppliers.
- *We depend upon marine, pipeline, rail and truck transportation services for a substantial portion of our logistics activities in transporting the products we sell. Implementation of regulations and directives related to these aforementioned services as well as disruption in any of these transportation services could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.* Hurricanes, flooding and other severe weather conditions could cause a disruption in the transportation services we depend upon and could affect the flow of service. In addition, accidents, labor disputes between providers and their employees and labor renegotiations, including strikes, lockouts or a work stoppage, shortage of railcars, trucks and barges, mechanical difficulties or bottlenecks and disruptions in transportation logistics could also disrupt our business operations. These events could result in service disruptions and increased costs which could also adversely affect our financial condition, results of operations and cash available for distribution to our unitholders. Other disruptions, such as those due to an act of terrorism or war, could also adversely affect our businesses.
- *We have contractual obligations for certain transportation assets such as railcars, barges and pipelines.* A decline in demand for (i) the products we sell or (ii) our logistics activities, could result in a decrease in the utilization of our transportation assets, which could negatively impact our financial condition, results of operations and cash available for distribution to our unitholders.
- *Our gasoline financial results, with particular impact to our GDSO segment, are seasonal and can be lower in the first and fourth quarters of the calendar year.* Due to the nature of our businesses and our reliance, in part, on consumer travel and spending patterns, we may experience more demand for gasoline during the late spring and summer months than during the fall and winter. Travel and recreational activities are typically higher in these months in the geographic areas in which we operate, increasing the demand for gasoline that we sell. Therefore, our results of operations in gasoline can be lower in the first and fourth quarters of the calendar year. The COVID-19 pandemic has had a negative impact on gasoline demand and the extent and duration of that impact is uncertain.
- *Our heating oil and residual oil financial results are seasonal and can be lower in the second and third quarters of the calendar year.* Demand for some refined petroleum products, specifically home heating oil and residual

oil for space heating purposes, is generally higher during November through March than during April through October. We obtain a significant portion of these sales during the winter months. Therefore, our results of operations in heating oil and residual oil for the first and fourth calendar quarters can be better than for the second and third quarters.

- *Warmer weather conditions could adversely affect our results of operations and financial condition.* Weather conditions generally have an impact on the demand for both home heating oil and residual oil. Because we supply distributors whose customers depend on home heating oil and residual oil for space heating purposes during the winter, warmer-than-normal temperatures during the first and fourth calendar quarters can decrease the total volume we sell and the gross profit realized on those sales. Therefore, our results of operations in heating oil and residual oil for the first and fourth calendar quarters can be better than for the second and third quarters.
- *Energy efficiency, higher prices, new technology and alternative fuels could reduce demand for our products.* Higher prices and new technologies and alternative fuel sources, such as electric, hybrid or battery powered motor vehicles, could reduce the demand for transportation fuels and adversely impact our sales of transportation fuels. A reduction in sales of transportation fuels could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders. In addition, increased conservation and technological advances have adversely affected the demand for home heating oil and residual oil. Consumption of residual oil has steadily declined over the last three decades. We could face additional competition from alternative energy sources as a result of future government-mandated controls or regulations further promoting the use of cleaner fuels. End users who are dual-fuel users have the ability to switch between residual oil and natural gas. Other end users may elect to convert to natural gas. During a period of increasing residual oil prices relative to the prices of natural gas, dual-fuel customers may switch and other end users may convert to natural gas. During periods of increasing home heating oil prices relative to the price of natural gas, residential users of home heating oil may also convert to natural gas. As described above, such switching or conversion could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.
- *Changes in government usage mandates and tax credits could adversely affect the availability and pricing of ethanol and renewable fuels, which could negatively impact our sales.* The EPA has implemented a Renewable Fuels Standard (“RFS”) pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. The RFS program seeks to promote the incorporation of renewable fuels in the nation’s fuel supply and, to that end, sets annual quotas for the quantity of renewable fuels (such as ethanol) that must be blended into transportation fuels consumed in the United States. A RIN is assigned to each gallon of renewable fuel produced in or imported into the United States. We are exposed to volatility in the market price of RINs. We cannot predict the future prices of RINs. RIN prices are dependent upon a variety of factors, including EPA regulations related to the amount of RINs required and the total amounts that can be generated, the availability of RINs for purchase, the price at which RINs can be purchased, and levels of transportation fuels produced, all of which can vary significantly from quarter to quarter. If sufficient RINs are unavailable for purchase or if we have to pay a significantly higher price for RINs, or if we are otherwise unable to meet the EPA’s RFS mandates, our results of operations and cash flows could be adversely affected. Future demand for ethanol will be largely dependent upon the economic incentives to blend based upon the relative value of gasoline and ethanol, taking into consideration the EPA’s regulations on the RFS program and oxygenate blending requirements. A reduction or waiver of the RFS mandate or oxygenate blending requirements could adversely affect the availability and pricing of ethanol, which in turn could adversely affect our future gasoline and ethanol sales. In addition, changes in blending requirements or broadening the definition of what constitutes a renewable fuel could affect the price of RINs which could impact the magnitude of the mark-to-market liability recorded for the deficiency, if any, in our RIN position relative to our RVO at a point in time.
- *We may not be able to fully implement or capitalize upon planned growth projects.* We could have a number of organic growth projects that may require the expenditure of significant amounts of capital in the aggregate. Many of these projects involve numerous regulatory, environmental, commercial and legal uncertainties beyond our control. As these projects are undertaken, required approvals, permits and licenses may not be obtained, may be delayed or may be obtained with conditions that materially alter the expected return associated with the

underlying projects. Moreover, revenues associated with these organic growth projects may not increase immediately upon the expenditures of funds with respect to a particular project and these projects may be completed behind schedule or in excess of budgeted cost. We may pursue and complete projects in anticipation of market demand that dissipates or market growth that never materializes. As a result of these uncertainties, the anticipated benefits associated with our capital projects may not be achieved.

- *Governmental action and campaigns to discourage smoking and use of other products may have a material adverse effect on our revenues and gross profit.* Congress has given the FDA broad authority to regulate tobacco and nicotine products, and the FDA and states have enacted and are pursuing enactment of numerous regulations restricting the sale of such products. These governmental actions, as well as national, state and municipal campaigns to discourage smoking, tax increases, and imposition of regulations restricting the sale of e-cigarettes and vapor products, have and could result in reduced consumption levels, higher costs which we may not be able to pass on to our customers, and reduced overall customer traffic. Also, increasing regulations related to and restricting the sale of vapor products and e-cigarettes may offset some of the gains we have experienced from selling these types of products. These factors could materially affect the sale of this product mix which in turn could have an adverse effect on our financial condition, results of operations and cash available for distribution to our unitholders.
- *New, stricter environmental laws and other industry-related regulations or environmental litigation could significantly impact our operations and/or increase our costs, which could adversely affect our results of operations and financial condition.* Our operations are subject to federal, state and municipal laws and regulations regulating, among other matters, logistics activities, product quality specifications and other environmental matters. The trend in environmental regulation has been towards more restrictions and limitations on activities that may affect the environment over time. Our businesses may be adversely affected by increased costs and liabilities resulting from such stricter laws and regulations. We try to anticipate future regulatory requirements that might be imposed and plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance. Risks related to our environmental permits, including the risk of noncompliance, permit interpretation, permit modification, renewal of permits on less favorable terms, judicial or administrative challenges to permits by citizens groups or federal, state or municipal entities or permit revocation are inherent in the operation of our businesses, as it is with other companies engaged in similar businesses. We may not be able to renew the permits necessary for our operations, or we may be forced to accept terms in future permits that limit our operations or result in additional compliance costs. In recent years, the transport of crude oil and ethanol has become subject to additional regulation. The establishment of more stringent design or construction standards, or other requirements for railroad tank cars that are used to transport crude oil and ethanol with too short of a timeframe for compliance may lead to shortages of compliant railcars available to transport crude oil and ethanol, which could adversely affect our businesses. Likewise, in recent years, efforts have commenced to seek to use federal, state and municipal laws to contest issuance of permits, contest renewal of permits and restrict the types of railroad tanks cars that can be used to deliver products, including, without limitation, crude oil and ethanol to bulk storage terminals. Were such laws to come into effect and were they to survive appeals and judicial review, they would potentially expose our operations to duplicative and possibly inconsistent regulation. There can be no assurances as to the timing and type of such changes in existing laws or the promulgation of new laws or the amount of any required expenditures associated therewith. Climate change continues to attract considerable public and scientific attention. In recent years environmental interest groups have filed suit against companies in the energy industry related to climate change. Should such suits succeed, we could face additional compliance costs or litigation risks.

Results of Operations

Evaluating Our Results of Operations

Our management uses a variety of financial and operational measurements to analyze our performance. These measurements include: (1) product margin, (2) gross profit, (3) earnings before interest, taxes, depreciation and amortization (“EBITDA”) and Adjusted EBITDA, (4) distributable cash flow, (5) selling, general and administrative expenses (“SG&A”), (6) operating expenses and (7) degree days.

Product Margin

We view product margin as an important performance measure of the core profitability of our operations. We review product margin monthly for consistency and trend analysis. We define product margin as our product sales minus product costs. Product sales primarily include sales of unbranded and branded gasoline, distillates, residual oil, renewable fuels, crude oil and propane, as well as convenience store sales, gasoline station rental income and revenue generated from our logistics activities when we engage in the storage, transloading and shipment of products owned by others. Product costs include the cost of acquiring products and all associated costs including shipping and handling costs to bring such products to the point of sale as well as product costs related to convenience store items and costs associated with our logistics activities. We also look at product margin on a per unit basis (product margin divided by volume). Product margin is a non-GAAP financial measure used by management and external users of our consolidated financial statements to assess our business. Product margin should not be considered an alternative to net income, operating income, cash flow from operations, or any other measure of financial performance presented in accordance with GAAP. In addition, our product margin may not be comparable to product margin or a similarly titled measure of other companies.

Gross Profit

We define gross profit as our product margin minus terminal and gasoline station related depreciation expense allocated to cost of sales.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-GAAP financial measures used as supplemental financial measures by management and may be used by external users of our consolidated financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;
- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the wholesale, marketing, storing and distribution of refined petroleum products, gasoline blendstocks, renewable fuels, crude oil and propane, and in the gasoline stations and convenience stores business, without regard to financing methods and capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

Adjusted EBITDA is EBITDA further adjusted for gains or losses on the sale and disposition of assets and goodwill and long-lived asset impairment charges. EBITDA and Adjusted EBITDA should not be considered as alternatives to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Distributable Cash Flow

Distributable cash flow is an important non-GAAP financial measure for our limited partners since it serves as an indicator of our success in providing a cash return on their investment. Distributable cash flow as defined by our

partnership agreement is net income plus depreciation and amortization minus maintenance capital expenditures, as well as adjustments to eliminate items approved by the audit committee of the board of directors of our general partner that are extraordinary or non-recurring in nature and that would otherwise increase distributable cash flow.

Distributable cash flow as used in our partnership agreement also determines our ability to make cash distributions on our incentive distribution rights. The investment community also uses a distributable cash flow metric similar to the metric used in our partnership agreement with respect to publicly traded partnerships to indicate whether or not such partnerships have generated sufficient earnings on a current or historic level that can sustain distributions on preferred or common units or support an increase in quarterly cash distributions on common units. Our partnership agreement does not permit adjustments for certain non-cash items, such as net losses on the sale and disposition of assets and goodwill and long-lived asset impairment charges.

Distributable cash flow should not be considered as an alternative to net income, operating income, cash flow from operations, or any other measure of financial performance presented in accordance with GAAP. In addition, our distributable cash flow may not be comparable to distributable cash flow or similarly titled measures of other companies.

Selling, General and Administrative Expenses

Our SG&A expenses include, among other things, marketing costs, corporate overhead, employee salaries and benefits, pension and 401(k) plan expenses, discretionary bonuses, non-interest financing costs, professional fees and information technology expenses. Employee-related expenses including employee salaries, discretionary bonuses and related payroll taxes, benefits, and pension and 401(k) plan expenses are paid by our general partner which, in turn, are reimbursed for these expenses by us.

Operating Expenses

Operating expenses are costs associated with the operation of the terminals, transload facilities and gasoline stations and convenience stores used in our businesses. Lease payments, maintenance and repair, property taxes, utilities, credit card fees, taxes, labor and labor-related expenses comprise the most significant portion of our operating expenses. While the majority of these expenses remains relatively stable, independent of the volumes through our system, they can fluctuate slightly depending on the activities performed during a specific period. In addition, they can be impacted by new directives issued by federal, state and local governments.

Degree Days

A “degree day” is an industry measurement of temperature designed to evaluate energy demand and consumption. Degree days are based on how far the average temperature departs from a human comfort level of 65°F. Each degree of temperature above 65°F is counted as one cooling degree day, and each degree of temperature below 65°F is counted as one heating degree day. Degree days are accumulated each day over the course of a year and can be compared to a monthly or a long-term (multi-year) average, or normal, to see if a month or a year was warmer or cooler than usual. Degree days are officially observed by the National Weather Service and officially archived by the National Climatic Data Center. For purposes of evaluating our results of operations, we use the normal heating degree day amount as reported by the National Weather Service at its Logan International Airport station in Boston, Massachusetts.

Key Performance Indicators

The following table provides a summary of some of the key performance indicators that may be used to assess our results of operations. These comparisons are not necessarily indicative of future results (gallons and dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income attributable to Global Partners LP	\$ 76,262	\$ 14,489	\$ 79,538	\$ 21,615
EBITDA (1)	\$ 125,658	\$ 63,970	\$ 170,334	\$ 122,011
Adjusted EBITDA (1)	\$ 126,571	\$ 62,842	\$ 171,990	\$ 121,436
Distributable cash flow (2)(3)	\$ 95,816	\$ 28,116	\$ 117,801	\$ 55,876
Wholesale Segment:				
Volume (gallons)	794,350	1,054,285	1,793,662	2,062,185
Sales				
Gasoline and gasoline blendstocks	\$ 516,326	\$ 1,634,618	\$ 1,414,783	\$ 2,640,323
Crude oil (4)	9,039	28,535	15,492	42,528
Other oils and related products (5)	251,994	341,375	834,562	1,030,883
Total	\$ 777,359	\$ 2,004,528	\$ 2,264,837	\$ 3,713,734
Product margin				
Gasoline and gasoline blendstocks	\$ 57,779	\$ 29,384	\$ 66,923	\$ 56,374
Crude oil (4)	9,203	(798)	4,733	(7,024)
Other oils and related products (5)	44,523	9,415	44,733	23,495
Total	\$ 111,505	\$ 38,001	\$ 116,389	\$ 72,845
Gasoline Distribution and Station Operations Segment:				
Volume (gallons)	278,561	411,016	629,983	790,750
Sales				
Gasoline	\$ 455,161	\$ 1,025,669	\$ 1,200,776	\$ 1,855,841
Station operations (6)	104,095	120,526	202,721	225,185
Total	\$ 559,256	\$ 1,146,195	\$ 1,403,497	\$ 2,081,026
Product margin				
Gasoline	\$ 96,770	\$ 87,874	\$ 204,000	\$ 175,299
Station operations (6)	48,801	57,552	97,442	108,512
Total	\$ 145,571	\$ 145,426	\$ 301,442	\$ 283,811
Commercial Segment:				
Volume (gallons)	125,243	183,250	288,493	374,756
Sales	\$ 132,962	\$ 356,817	\$ 396,336	\$ 692,406
Product margin	\$ 3,003	\$ 4,546	\$ 8,918	\$ 11,004
Combined sales and product margin:				
Sales	\$ 1,469,577	\$ 3,507,540	\$ 4,064,670	\$ 6,487,166
Product margin (7)	\$ 260,079	\$ 187,973	\$ 426,749	\$ 367,660
Depreciation allocated to cost of sales	(20,132)	(20,830)	(41,064)	(43,673)
Combined gross profit	\$ 239,947	\$ 167,143	\$ 385,685	\$ 323,987
GDSO portfolio as of June 30, 2020 and 2019:				
	2020	2019		
Company operated	277	295		
Commissioned agents	257	252		
Lessee dealers	211	226		
Contract dealers	787	794		
Total GDSO portfolio	1,532	1,567		

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Weather conditions:				
Normal heating degree days	784	784	3,654	3,654
Actual heating degree days	927	653	3,248	3,377
Variance from normal heating degree days	18 %	(17)%	(11)%	(8)%
Variance from prior period actual heating degree days	42 %	(18)%	(4)%	(4)%

- (1) EBITDA and Adjusted EBITDA are non-GAAP financial measures which are discussed above under “—Evaluating Our Results of Operations.” The table below presents reconciliations of EBITDA and Adjusted EBITDA to the most directly comparable GAAP financial measures.
- (2) Distributable cash flow is a non-GAAP financial measure which is discussed above under “—Evaluating Our Results of Operations.” As defined by our partnership agreement, distributable cash flow is not adjusted for certain non-cash items, such as net losses on the sale and disposition of assets and goodwill and long-lived asset impairment charges. The table below presents reconciliations of distributable cash flow to the most directly comparable GAAP financial measures.
- (3) Distributable cash flow includes a net gain on sale and disposition of assets of \$0.8 million and \$1.1 million for the three months ended June 30, 2020 and 2019, respectively, and \$0.1 million and \$0.6 million for the six months ended June 30, 2020 and 2019, respectively. Distributable cash flow also includes a long-lived asset impairment of \$1.7 million for each of the three and six months ended June 30, 2020. Excluding the net gain on sale and disposition of assets and long-lived asset impairment, distributable cash flow would have been \$96.7 million and \$27.0 million for the three months ended June 30, 2020 and 2019, respectively, and \$119.4 million and \$55.3 million for the six months ended June 30, 2020 and 2019, respectively.
- (4) Crude oil consists of our crude oil sales and revenue from our logistics activities.
- (5) Other oils and related products primarily consist of distillates, residual oil and propane.
- (6) Station operations consist of convenience stores sales, rental income and sundries.
- (7) Product margin is a non-GAAP financial measure which is discussed above under “—Evaluating Our Results of Operations.” The table above includes a reconciliation of product margin on a combined basis to gross profit, a directly comparable GAAP measure.

[Table of Contents](#)

The following table presents reconciliations of EBITDA and Adjusted EBITDA to the most directly comparable GAAP financial measures on a historical basis for each period presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Reconciliation of net income to EBITDA and Adjusted EBITDA:				
Net income	\$ 75,973	\$ 14,371	\$ 79,048	\$ 21,165
Net loss attributable to noncontrolling interest	289	118	490	450
Net income attributable to Global Partners LP	76,262	14,489	79,538	21,615
Depreciation and amortization, excluding the impact of noncontrolling interest	24,779	25,977	50,447	53,912
Interest expense, excluding the impact of noncontrolling interest	21,089	23,066	42,690	46,022
Income tax expense (benefit)	3,528	438	(2,341)	462
EBITDA	125,658	63,970	170,334	122,011
Net gain on sale and disposition of assets	(811)	(1,128)	(68)	(575)
Long-lived asset impairment	1,724	—	1,724	—
Adjusted EBITDA	<u>\$ 126,571</u>	<u>\$ 62,842</u>	<u>\$ 171,990</u>	<u>\$ 121,436</u>
Reconciliation of net cash provided by (used in) operating activities to EBITDA and Adjusted EBITDA:				
Net cash provided by (used in) operating activities	\$ 24,086	\$ 53,545	\$ 162,003	\$ (33,492)
Net changes in operating assets and liabilities and certain non-cash items	76,767	(13,069)	(32,300)	108,967
Net cash from operating activities and changes in operating assets and liabilities attributable to noncontrolling interest	188	(10)	282	52
Interest expense, excluding the impact of noncontrolling interest	21,089	23,066	42,690	46,022
Income tax expense (benefit)	3,528	438	(2,341)	462
EBITDA	125,658	63,970	170,334	122,011
Net gain on sale and disposition of assets	(811)	(1,128)	(68)	(575)
Long-lived asset impairment	1,724	—	1,724	—
Adjusted EBITDA	<u>\$ 126,571</u>	<u>\$ 62,842</u>	<u>\$ 171,990</u>	<u>\$ 121,436</u>

[Table of Contents](#)

The following table presents reconciliations of distributable cash flow to the most directly comparable GAAP financial measures on a historical basis for each period presented (in thousands):

	June 30,		June 30,	
	2020	2019	2020	2019
Reconciliation of net income to distributable cash flow:				
Net income	\$ 75,973	\$ 14,371	\$ 79,048	\$ 21,165
Net loss attributable to noncontrolling interest	289	118	490	450
Net income attributable to Global Partners LP	76,262	14,489	79,538	21,615
Depreciation and amortization, excluding the impact of noncontrolling interest	24,779	25,977	50,447	53,912
Amortization of deferred financing fees and senior notes discount	1,306	1,600	2,567	3,327
Amortization of routine bank refinancing fees	(985)	(890)	(1,925)	(1,912)
Maintenance capital expenditures, excluding the impact of noncontrolling interest	(5,546)	(13,060)	(12,826)	(21,066)
Distributable cash flow (1)(2)	95,816	28,116	117,801	55,876
Distributions to Series A preferred unitholders (3)	(1,682)	(1,682)	(3,364)	(3,364)
Distributable cash flow after distributions to Series A preferred unitholders	<u>\$ 94,134</u>	<u>\$ 26,434</u>	<u>\$ 114,437</u>	<u>\$ 52,512</u>
Reconciliation of net cash provided by (used in) operating activities to distributable cash flow:				
Net cash provided by (used in) operating activities	\$ 24,086	\$ 53,545	\$ 162,003	\$ (33,492)
Net changes in operating assets and liabilities and certain non-cash items	76,767	(13,069)	(32,300)	108,967
Net cash from operating activities and changes in operating assets and liabilities attributable to noncontrolling interest	188	(10)	282	52
Amortization of deferred financing fees and senior notes discount	1,306	1,600	2,567	3,327
Amortization of routine bank refinancing fees	(985)	(890)	(1,925)	(1,912)
Maintenance capital expenditures, excluding the impact of noncontrolling interest	(5,546)	(13,060)	(12,826)	(21,066)
Distributable cash flow (1)(2)	95,816	28,116	117,801	55,876
Distributions to Series A preferred unitholders (3)	(1,682)	(1,682)	(3,364)	(3,364)
Distributable cash flow after distributions to Series A preferred unitholders	<u>\$ 94,134</u>	<u>\$ 26,434</u>	<u>\$ 114,437</u>	<u>\$ 52,512</u>

- (1) Distributable cash flow is a non-GAAP financial measure which is discussed above under “—Evaluating Our Results of Operations.” As defined by our partnership agreement, distributable cash flow is not adjusted for certain non-cash items, such as net losses on the sale and disposition of assets and goodwill and long-lived asset impairment charges.
- (2) Distributable cash flow includes a net gain on sale and disposition of assets of \$0.8 million and \$1.1 million for the three months ended June 30, 2020 and 2019, respectively, and \$0.1 million and \$0.6 million for the six months ended June 30, 2020 and 2019, respectively. Distributable cash flow also includes a long-lived asset impairment of \$1.7 million for each of the three and six months ended June 30, 2020. Excluding the net gain on sale and disposition of assets and long-lived asset impairment, distributable cash flow would have been \$96.7 million and \$27.0 million for the three months ended June 30, 2020 and 2019, respectively, and \$119.4 million and \$55.3 million for the six months ended June 30, 2020 and 2019, respectively.
- (3) Distributions to Series A preferred unitholders represent the distributions payable to the preferred unitholders during the period. Distributions on the Series A Preferred Units are cumulative and payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year.

Results of Operations

Consolidated Sales

Our total sales were \$1.5 billion and \$3.5 billion for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$2.0 billion, or 58.1%, due to decreases in prices and volume sold. Our aggregate volume of product sold was 1.2 billion gallons and 1.6 billion gallons for the three months ended June 30, 2020 and 2019, respectively, declining by 450 million gallons including decreases of 260 million gallons in our Wholesale segment, due to a decline in gasoline and gasoline blendstocks partially offset by increased volume in other oils and related products, 132 million gallons in our GDSO segment and 58 million gallons in our Commercial segment.

Our total sales were \$4.1 billion and \$6.5 billion for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$2.4 billion, or 37%, due to decreases in prices and volume sold. Our aggregate volume of product sold was 2.7 billion gallons and 3.2 billion gallons for the six months ended June 30, 2020 and 2019, respectively, declining by 515 million gallons including decreases of 268 million gallons in our Wholesale segment, primarily in gasoline and

gasoline blendstocks partially offset by increased volume in other oils and related products, 161 million gallons in our GDSO segment and 86 million gallons in our Commercial segment.

Gross Profit

Our gross profit was \$239.9 million and \$167.1 million for the three months ended June 30, 2020 and 2019, respectively, an increase of \$72.8 million, or 44%, primarily due to more favorable market conditions in our Wholesale segment. During the second quarter of 2020, there was a significant recovery in the supply/demand imbalance at the end of the first quarter. The forward product pricing curve flattened which positively impacted our Wholesale segment in the quarter. Our gross profit also benefitted from higher fuel margins (cents per gallon) in gasoline distribution in our GDSO segment which offset a decrease in fuel volume and a decrease in our station operations product margin.

Our gross profit was \$385.7 million and \$324.0 million for the six months ended June 30, 2020 and 2019, respectively, an increase of \$61.7 million, or 19%, primarily due to more favorable market conditions in our Wholesale segment in the second quarter. During the second quarter of 2020, there was a significant recovery in the supply/demand imbalance at the end of the first quarter. The forward product pricing curve flattened which positively impacted our Wholesale segment in the quarter. Our gross profit also benefitted from higher fuel margins (cents per gallon) in our GDSO segment.

Results for Wholesale Segment

Gasoline and Gasoline Blendstocks. Sales from wholesale gasoline and gasoline blendstocks were \$0.5 billion and \$1.6 billion for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$1.1 billion, or 68%, due to a decrease in volume sold and in prices period over period. Our gasoline and gasoline blendstocks product margin was \$57.8 million and \$29.4 million for the three months ended June 30, 2020 and 2019, respectively, an increase of \$28.4 million, or 96%, primarily due to more favorable market conditions compared to the same period in 2019. During the second quarter of 2020, there was a significant recovery in the supply/demand imbalance at the end of the first quarter. The forward product pricing curve flattened which positively impacted our product margins in the quarter.

Sales from wholesale gasoline and gasoline blendstocks were \$1.4 billion and \$2.6 billion for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$1.2 billion, or 46%, due to a decrease in volume sold and in prices period over period. Our gasoline and gasoline blendstocks product margin was \$66.9 million and \$56.4 million for the six months ended June 30, 2020 and 2019, respectively, an increase \$10.5 million, or 18%. During the second quarter of 2020, there was a significant recovery in the supply/demand imbalance at the end of the first quarter. The forward product pricing curve flattened which positively impacted our product margins. In the first quarter of 2020, the COVID-19 pandemic and the price war between Saudi Arabia and Russia caused a rapid decline in prices, steepening the forward product pricing curve which negatively impacted our product margin in gasoline for the first three months of 2020.

Crude Oil. Crude oil sales and logistics revenues were \$9.0 million and \$28.5 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$19.5 million, or 68%, due to a decrease in prices. Our crude oil product margin was \$9.2 million and (\$0.8 million) for the three months ended June 30, 2020 and 2019, respectively, an increase of \$10.0 million, primarily due to more favorable market conditions, including the flattening of the forward product pricing curve.

Crude oil sales and logistics revenues were \$15.5 million and \$42.5 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$27.0 million, or 63%, due to decreases in prices and volume sold. Our crude oil product margin was \$4.7 million and (\$7.0 million) for the six months ended June 30, 2020 and 2019, respectively, an increase of \$11.7 million, or 167%, primarily due to more favorable market conditions and lower railcar related expenses.

Other Oils and Related Products. Sales from other oils and related products (primarily distillates and residual oil) were \$0.2 billion and \$0.3 billion for the three months ended June 30, 2020 and 2019, respectively, decreasing \$89.4 million, or 26%, due to a decrease in prices period over period, offset by an increase in volume sold. Our product

margin from other oils and related products was \$44.5 million and \$9.4 million for the three months ended June 30, 2020 and 2019, respectively, an increase of \$35.1 million, or 373%, primarily due to more favorable market conditions compared to the same period in 2019, largely in distillates but also in residual oil. During the second quarter of 2020, there was a significant recovery in the supply/demand imbalance at the end of the first quarter. The forward product pricing curve flattened which positively impacted our product margins in the quarter. Our product margin in distillates was positively impacted during the second quarter by colder weather. Temperatures in the second quarter were 42% colder than the second quarter of 2019 and 18% colder than normal.

Sales from other oils and related products were \$0.8 billion and \$1.0 billion for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$0.2 billion, or 20%, due to a decrease in prices period over period, offset by an increase in volume sold. Our product margin from other oils and related products was \$44.7 million and \$23.5 million for the six months ended June 30, 2020 and 2019, respectively, an increase of \$21.2 million, or 90%. During the second quarter of 2020, there was a significant recovery in the supply/demand imbalance at the end of the first quarter. The forward product pricing curve flattened which positively impacted our product margins. In the first quarter of 2020, the COVID-19 pandemic and the price war between Saudi Arabia and Russia caused a rapid decline in prices, steepening the forward product pricing curve, which negatively impacted our product margins for the first three months of 2020.

Results for Gasoline Distribution and Station Operations Segment

Gasoline Distribution. Sales from gasoline distribution were \$0.5 billion and \$1.0 billion for the three months ended June 30, 2020 and 2019, respectively, decreasing \$570.5 million, or 56%, due to decreases in prices and volume sold largely due to the impact of the COVID-19 pandemic. Our product margin from gasoline distribution was \$96.8 million and \$87.8 million for the three months ended June 30, 2020 and 2019, respectively, an increase of \$9.0 million, or 10%, due to higher fuel margins (cents per gallon) which more than offset the decline in volume sold.

Sales from gasoline distribution were \$1.2 billion and \$1.8 billion for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$0.6 billion, or 34%, due to decreases in prices and volume sold largely due to the impact of the COVID-19 pandemic. Our product margin from gasoline distribution was \$204.0 million and \$175.3 million for the six months ended June 30, 2020 and 2019, respectively, an increase of \$28.7 million, or 16%, primarily due to higher fuel margins (cents per gallon) which more than offset the decline in volume sold. Our product margin for the first six months of 2020 benefitted from declining wholesale prices in the first quarter of 2020, primarily in March due to the COVID-19 pandemic and geopolitical events. Declining wholesale gasoline prices can improve our gasoline product margin, the extent of which depends on the magnitude and duration of the decline.

Station Operations. Our station operations, which include (i) convenience stores sales at our directly operated stores, (ii) rental income from gasoline stations leased to dealers or from commissioned agents and from cobranding arrangements and (iii) sale of sundries, such as car wash sales and lottery and ATM commissions, collectively generated revenues of \$104.1 million and \$120.5 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$16.4 million, or 14%. Our product margin from station operations was \$48.8 million and \$57.6 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$8.8 million, or 15%. The decreases in sales and product margin are primarily due to less activity at our convenience stores, primarily due to the impact of the COVID-19 pandemic.

Sales from our station operations were \$202.7 million and \$225.2 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$22.5 million, or 10%. Our product margin from station operations was \$97.4 million and \$108.5 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$11.1 million, or 10%. The decreases in sales and product margin are primarily due to less activity at our convenience stores, primarily due to the impact of the COVID-19 pandemic.

Results for Commercial Segment

Our commercial sales were \$133.0 million and \$356.8 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$223.8 million, or 63%, due to decreases in prices and volume sold. Our commercial product

margin was \$3.0 million and \$4.5 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$1.5 million, or 33%, primarily due to a decrease in bunkering activity.

Our commercial sales were \$396.4 million and \$692.4 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$296.0 million, or 43%, due to decreases in prices and volume sold. Our commercial product margin was \$8.9 million and \$11.0 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$2.1 million, or 19%, primarily due to a decrease in bunkering activity.

Selling, General and Administrative Expenses

SG&A expenses were \$59.0 million and \$41.0 million for the three months ended June 30, 2020 and 2019, respectively, an increase of \$18.0 million, or 44%, including increases of \$14.8 million in accrued discretionary incentive compensation, \$1.2 million in professional fees, \$0.9 million in costs associated with the COVID-19 pandemic, \$0.7 million in wages and benefits and \$0.4 million in various other SG&A expenses.

SG&A expenses were \$99.9 million and \$82.1 million for the six months ended June 30, 2020 and 2019, respectively, an increase of \$17.8 million, or 22%, including increases of \$12.3 million in accrued discretionary incentive compensation, \$2.0 million in wages and benefits, \$1.0 million in costs associated with the COVID-19 pandemic, \$0.8 million in advertising costs, \$0.7 million in professional fees and \$1.0 million in various other SG&A expenses.

Operating Expenses

Operating expenses were \$76.7 million and \$86.4 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of \$9.7 million, or 11%, including decreases of \$8.2 million associated with our GDSO operations, primarily due to lower credit card fees and maintenance and repair expenses and to the sale of sites, and \$1.5 million associated with our terminal operations, primarily due to lower maintenance and repair expenses.

Operating expenses were \$159.3 million and \$169.4 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of \$10.1 million, or 6%, including decreases of \$8.3 million associated with our GDSO operations, primarily due to lower credit card fees and maintenance and repair expenses and to the sale of sites, and \$1.8 million associated with our terminal operations, primarily due to lower maintenance and repair expenses.

Lease Exit and Termination Gain

During the six months ended June 30, 2019, we were released from certain of our remaining obligations to provide future railcar storage, freight, insurance and other services for railcars under a fleet management services agreement associated with our 2016 voluntary termination of a railcar sublease. The release of certain obligations resulted in a \$0.5 million reduction of the remaining accrued incremental costs, which benefit is included in lease exit and termination gain in the accompanying statement of operations for the six months ended June 30, 2019.

Amortization Expense

Amortization expense related to intangible assets was \$2.7 million and \$2.9 million for the three months ended June 30, 2020 and 2019, respectively, and \$5.4 million and \$5.9 million for the six months ended June 30, 2020 and 2019, respectively.

Net Gain on Sale and Disposition of Assets

Net gain on sale and disposition of assets was \$0.8 million and \$1.1 million for the three months ended June 30, 2020 and 2019, respectively, and \$0.1 million and \$0.6 million for the six months ended June 30, 2020 and 2019, respectively, primarily due to the sale of GDSO sites.

Long-Lived Asset Impairment

We recognized an impairment charge relating to certain right of use assets allocated to the Wholesale segment in the amount of \$1.7 million for each of the three and six months ended June 30, 2020.

Interest Expense

Interest expense was \$21.1 million and \$23.1 million for the three months ended June 30, 2020 and 2019, respectively, and \$42.7 million and \$46.0 million for the six months ended June 30, 2020 and 2019, respectively. The decreases of \$2.0 million, or 9%, and \$3.3 million, or 7%, for the three and six months ended June 30, 2020, respectively, were due to lower average balances on our credit facilities and lower interest rates, which more than offset the \$0.7 million write-off of deferred financing fees associated with the amendment to our credit agreement in May 2020.

Income Tax (Expense) Benefit

Income tax (expense) benefit was (\$3.5 million) and (\$0.4 million) for the three months ended June 30, 2020 and 2019, respectively, and \$2.3 million and (\$0.5 million) for the six months ended June 30, 2020 and 2019, respectively, which reflects the income tax (expense) benefit from the operating results of GMG, which is a taxable entity for federal and state income tax purposes. For the six months ended June 30, 2020, the income tax benefit consists of an income tax benefit of \$6.3 million (discussed below) offset by an income tax expense of (\$4.0 million).

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) was enacted and signed into law. The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. The CARES Act provides certain tax changes in response to the COVID-19 pandemic, including the temporary removal of certain limitations on the utilization of net operating losses, permitting the carryback of net operating losses generated in 2018, 2019 or 2020 to the five preceding taxable years, increasing the ability to deduct interest expense, deferring the employer share of social security tax payments, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. As a result, we recognized a benefit of \$6.3 million related to the CARES Act net operating loss carryback provisions which is included in income tax benefit in the accompanying statement of operations for the six months ended June 30, 2020. We expect to receive cash refunds totaling \$15.8 million associated with the carryback of losses generated in 2018 to the 2016 and 2017 tax years, and this income tax receivable is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet as of June 30, 2020.

Net Loss Attributable to Noncontrolling Interest

In February 2013, we acquired a 60% membership interest in Basin Transload. The net loss attributable to the noncontrolling interest was \$0.3 million and \$0.1 million for the three months ended June 30, 2020 and 2019, respectively, and \$0.5 million and \$0.4 million for the six months ended June 30, 2020 and 2019, respectively which represents the 40% noncontrolling ownership of the net loss reported.

Liquidity and Capital Resources

Liquidity

Our primary liquidity needs are to fund our working capital requirements, capital expenditures and distributions and to service our indebtedness. Our primary sources of liquidity are cash generated from operations, amounts available under our working capital revolving credit facility and equity and debt offerings. Please read “—Credit Agreement” for more information on our working capital revolving credit facility.

Given the uncertainty surrounding the short-term and long-term impacts of COVID-19, including the timing of an economic recovery, early in the second quarter we took certain steps to increase liquidity and create additional financial flexibility. Such steps included a 25% decrease to our quarterly distribution on our common units for the period from

January 1, 2020 to March 31, 2020. In addition, we borrowed \$50.0 million under our revolving credit facility which was included in cash on our balance sheet. We also reduced planned expenses and 2020 capital spending. We amended our credit agreement to provide temporary adjustments to certain covenants. Given the stronger-than-expected performance in the second quarter, we paid down our revolving credit facility with the \$50.0 million cash on hand and increased our planned 2020 capital spending. In addition, we increased our quarterly distribution on our common units for the period from April 1, 2020 to June 30, 2020. We believe that our current level of cash and borrowing capacity under our credit agreement will be sufficient to meet our liquidity needs.

Working capital was \$341.9 million and \$250.6 million at June 30, 2020 and December 31, 2019, respectively, an increase of \$91.3 million. Changes in current assets and current liabilities increasing working capital include (i) decreases of \$210.0 million in accounts payable and \$107.2 million in the current portion of our working capital revolving credit facility, primarily due to lower prices, and (ii) an increase of \$48.6 million in derivatives, for a total increase in working capital of \$365.8 million. The increase in working capital was offset by decreases of \$180.4 million in accounts receivable and \$106.5 million in inventories, also primarily due to lower prices.

Cash Distributions

Common Units

During 2020, we paid the following cash distributions to our common unitholders and our general partner:

Cash Distribution Payment Date	Total Paid	Distribution Paid for the Quarterly Period Ended
February 14, 2020	\$ 18.3 million	Fourth quarter 2019
May 15, 2020	\$ 13.5 million	First quarter 2020

In addition, on July 31, 2020, the board of directors of our general partner declared a quarterly cash distribution of \$0.45875 per unit (\$1.835 per unit on an annualized basis) on all of our outstanding common units for the period from April 1, 2020 through June 30, 2020 to our common unitholders of record as of the close of business on August 10, 2020. We expect to pay the total cash distribution of approximately \$15.7 million on August 14, 2020.

Preferred Units

During 2020, we paid the following cash distributions to holders of the Series A Preferred Units:

Cash Distribution Payment Date	Total Paid	Distribution Paid for the Quarterly Period Covering
February 18, 2020	\$ 1.7 million	November 15, 2019 - February 14, 2020
May 15, 2020	\$ 1.7 million	February 15, 2020 - May 14, 2020

In addition, on July 20, 2020, the board of directors of our general partner declared a quarterly cash distribution of \$0.609375 per unit (\$2.4375 per unit on an annualized basis) on our Series A Preferred Units for the period from May 15, 2020 through August 14, 2020 to our preferred unitholders of record as of the opening of business on August 3, 2020. We expect to pay the total cash distribution of approximately \$1.7 million on August 17, 2020.

Contractual Obligations

We have contractual obligations that are required to be settled in cash. The amounts of our contractual obligations at June 30, 2020 were as follows (in thousands):

Contractual Obligations	Remainder of 2020	Payments Due by Period				Total
		2021	2022	2023	2024 and Thereafter	
Credit facility obligations (1)	\$ 27,204	\$ 250,703	\$ 146,720	\$ —	\$ —	\$ 424,627
Senior notes obligations (2)	24,500	49,000	49,000	338,500	512,000	973,000
Operating lease obligations (3)	45,631	87,446	57,392	42,986	116,451	349,906
Other long-term liabilities (4)	15,691	26,901	22,091	13,259	50,808	128,750
Financing obligations (5)	7,423	15,016	15,261	15,510	97,874	151,084
Total	<u>\$ 120,449</u>	<u>\$ 429,066</u>	<u>\$ 290,464</u>	<u>\$ 410,255</u>	<u>\$ 777,133</u>	<u>\$ 2,027,367</u>

- (1) Includes principal and interest on our working capital revolving credit facility and our revolving credit facility at June 30, 2020 and assumes a ratable payment through the expiration date. Our credit agreement has a contractual maturity of April 29, 2022 and no principal payments are required prior to that date. However, we repay amounts outstanding and reborrow funds based on our working capital requirements. Therefore, the current portion of the working capital revolving credit facility included in the accompanying consolidated balance sheets is the amount we expect to pay down during the course of the year, and the long-term portion of the working capital revolving credit facility is the amount we expect to be outstanding during the entire year. Please read “—Credit Agreement” for more information on our working capital revolving credit facility.
- (2) Includes principal and interest on our senior notes. No principal payments are required prior to maturity. See Note 8 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on our senior notes.
- (3) Includes operating lease obligations related to leases for office space and computer equipment, land, gasoline stations, railcars and barges.
- (4) Includes amounts related to our 15-year brand fee agreement entered into in 2010 with ExxonMobil and amounts related to our pipeline connection agreements, natural gas transportation and reservation agreements, access right agreements and our pension and deferred compensation obligations.
- (5) Includes lease rental payments in connection with (i) the acquisition of Capitol related to properties previously sold by Capitol within two sale-leaseback transactions; and (ii) the sale of real property assets at 30 gasoline stations and convenience stores. These transactions did not meet the criteria for sale accounting and the lease rental payments are classified as interest expense on the respective financing obligation and the pay-down of the related financing obligation. See Note 8 of Notes to Consolidated Financial Statement for additional information.

Capital Expenditures

Our operations require investments to maintain, expand, upgrade and enhance existing operations and to meet environmental and operational regulations. We categorize our capital requirements as either maintenance capital expenditures or expansion capital expenditures. Maintenance capital expenditures represent capital expenditures to repair or replace partially or fully depreciated assets to maintain the operating capacity of, or revenues generated by, existing assets and extend their useful lives. Maintenance capital expenditures also include expenditures required to maintain equipment reliability, tank and pipeline integrity and safety and to address certain environmental regulations. We anticipate that maintenance capital expenditures will be funded with cash generated by operations. We had approximately \$12.8 million and \$21.1 million in maintenance capital expenditures for the six months ended June 30, 2020 and 2019, respectively, which are included in capital expenditures in the accompanying consolidated statements of cash flows, of which approximately \$10.9 million and \$19.7 million for the six months ended June 30, 2020 and 2019, respectively, are related to our investments in our gasoline station business. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred.

Expansion capital expenditures include expenditures to acquire assets to grow our businesses or expand our existing facilities, such as projects that increase our operating capacity or revenues by, for example, increasing dock capacity and tankage, diversifying product availability, investing in raze and rebuilds and new-to-industry gasoline stations and convenience stores, increasing storage flexibility at various terminals and by adding terminals to our storage network. We have the ability to fund our expansion capital expenditures through cash from operations or our credit

agreement or by issuing debt securities or additional equity. We had approximately \$8.9 million in expansion capital expenditures for each of the six months ended June 30, 2020 and 2019, primarily related to investments in our gasoline station business.

We currently expect maintenance capital expenditures of approximately \$45.0 million to \$55.0 million and expansion capital expenditures, excluding acquisitions, of approximately \$30.0 million to \$40.0 million in 2020, relating primarily to investments in our gasoline station business. These current estimates depend, in part, on the timing of completion of projects, availability of equipment and workforce, weather, the scope and duration of the COVID-19 pandemic and unanticipated events or opportunities requiring additional maintenance or investments.

We believe that we will have sufficient cash flow from operations, borrowing capacity under our credit agreement and the ability to issue additional equity and/or debt securities to meet our financial commitments, debt service obligations, contingencies and anticipated capital expenditures. However, we are subject to business and operational risks, including uncertainties related to the extent and duration of the COVID-19 pandemic and geopolitical events, each of which could adversely affect our cash flow. A material decrease in our cash flows would likely have an adverse effect on our borrowing capacity as well as our ability to issue additional equity and/or debt securities.

Cash Flow

The following table summarizes cash flow activity (in thousands):

	Six Months Ended June 30,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 162,003	\$ (33,492)
Net cash used in investing activities	\$ (16,852)	\$ (20,561)
Net cash (used in) provided by financing activities	\$ (146,835)	\$ 56,378

Operating Activities

Cash flow from operating activities generally reflects our net income, balance sheet changes arising from inventory purchasing patterns, the timing of collections on our accounts receivable, the seasonality of parts of our businesses, fluctuations in product prices, working capital requirements and general market conditions.

Net cash provided by (used in) operating activities was \$162.0 million and (\$33.5 million) for the six months ended June 30, 2020 and 2019, respectively, for a period-over-period increase in cash flow from operating activities of \$195.5 million.

Except for net income, the primary drivers of the changes in operating activities include the following (in thousands):

	Six Months Ended June 30,		Period over Period Change
	2020	2019	
Decrease (increase) in accounts receivable	\$ 180,003	\$ (39,467)	\$ 219,470
Decrease (increase) in inventories	\$ 106,142	\$ (40,009)	\$ 146,151
Decrease in accounts payable	\$ (210,035)	\$ (25,852)	\$ (184,183)
(Increase) decrease in change in derivatives	\$ (48,616)	\$ 25,408	\$ (74,024)

For the six months ended June 30, 2020, the decreases in accounts receivable, inventories and accounts payable are largely due to the decrease in prices, primarily caused by the COVID-19 pandemic and geopolitical events. The increase in operating cash flow was also impacted by the year-over-year change in derivatives of \$74.0 million in part due to the decrease in prices and an increase in the volume of physical forward contracts.

For the six months ended June 30, 2019, the increases in accounts receivable and inventories were primarily due to an increase in prices. The decrease in accounts payable was due in part to carrying lower levels of inventory, partly due to the change in activity as we exited the heating season.

Investing Activities

Net cash used in investing activities was \$16.8 million for the six months ended June 30, 2020 and included \$12.8 million in maintenance capital expenditures, \$8.9 million in expansion capital expenditures and \$1.2 million in seller note issuances, offset by \$6.1 million in proceeds from the sale of property and equipment. The seller note issuances represent notes we received from buyers in connection with the sale of certain of our gasoline stations.

Net cash used in investing activities was \$20.6 million for the six months ended June 30, 2019 and included \$21.1 million in maintenance capital expenditures, \$8.9 million in expansion capital expenditures and \$0.6 million in seller note issuances, offset by \$10.0 million in proceeds from the sale of property and equipment.

Please read “—Capital Expenditures” for a discussion of our capital expenditures for the six months ended June 30, 2020 and 2019.

Financing Activities

Net cash used in financing activities was \$146.8 million for the six months ended June 30, 2020 and included \$107.2 million in net payments on our working capital revolving credit facility due to lower prices and an increase in net income, \$35.0 million in cash distributions to our limited partners (preferred and common unitholders) and our general partner, \$4.7 million in net payments on our revolving credit facility, and \$0.3 million in the repurchase of common units pursuant to our repurchase program for future satisfaction of our LTIP obligations. Net cash used in financing activities was offset by \$0.4 million in capital contributions from our noncontrolling interest at Basin Transload.

Net cash provided by financing activities was \$56.4 million for the six months ended June 30, 2019 and primarily included \$102.8 million in net borrowings from our working capital revolving credit facility primarily due to the increase in inventories and accounts receivable, offset by \$38.4 million in cash distributions to our limited partners (preferred and common unitholders) and our general partner and \$8.0 million in net payments on our revolving credit facility.

See Note 8 of Notes to Consolidated Financial Statement for supplemental cash flow information related to our working capital revolving credit facility and revolving credit facility.

Credit Agreement

Certain subsidiaries of ours, as borrowers, and we and certain of our subsidiaries, as guarantors, have a \$1.17 billion senior secured credit facility which was amended on May 7, 2020 to, among other things, provide temporary adjustments to certain covenants and reduce the total aggregate commitment by \$130.0 million from \$1.3 billion (see “—Fourth Amendment to the Credit Agreement” below).

We repay amounts outstanding and reborrow funds based on our working capital requirements and, therefore, classify as a current liability the portion of the working capital revolving credit facility we expect to pay down during the course of the year. The long-term portion of the working capital revolving credit facility is the amount we expect to be outstanding during the entire year. The credit agreement matures on April 29, 2022.

There are two facilities under the credit agreement:

- a working capital revolving credit facility to be used for working capital purposes and letters of credit in the principal amount equal to the lesser of our borrowing base and \$770.0 million; and
- a \$400.0 million revolving credit facility to be used for general corporate purposes.

Availability under the working capital revolving credit facility is subject to a borrowing base which is redetermined from time to time and based on specific advance rates on eligible current assets. Availability under the borrowing base may be affected by events beyond our control, such as changes in petroleum product prices, collection cycles, counterparty performance, advance rates and limits and general economic conditions.

The average interest rates for the Credit Agreement were 2.8% and 4.5% for the three months ended June 30, 2020 and 2019, respectively, and 3.1% and 4.6% for the six months ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, we had total borrowings outstanding under the credit agreement of \$404.7 million, including \$188.0 million outstanding on the revolving credit facility. In addition, we had outstanding letters of credit of \$39.9 million. Subject to borrowing base limitations, the total remaining availability for borrowings and letters of credit was \$725.4 million and \$660.2 million at June 30, 2020 and December 31, 2019, respectively.

The credit agreement imposes financial covenants that require us to maintain certain minimum working capital amounts, a minimum combined interest coverage ratio, a maximum senior secured leverage ratio and a maximum total leverage ratio. We were in compliance with the foregoing covenants at June 30, 2020. The credit agreement also contains a representation whereby there can be no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect (as defined in the credit agreement). In addition, the credit agreement limits distributions by us to our unitholders to the amount of Available Cash (as defined in the partnership agreement).

Please read Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Agreement” in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on the credit agreement.

Fourth Amendment to the Credit Agreement

On May 7, 2020, we and certain of our subsidiaries entered into the Fourth Amendment to Third Amended and Restated Credit Agreement (the “Fourth Amendment”), which further amends the credit agreement. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the credit agreement.

The Fourth Amendment amends certain terms, provisions and covenants of the credit agreement, including, without limitation:

- (i) increases by 0.125% the applicable rate under the working capital facility for borrowings of base rate loans, Eurocurrency rate loans and cost of funds rate loans and for issuances of letters of credit;
- (ii) adds two pricing levels under the revolving credit facility for borrowings of base rate loans, Eurocurrency rate loans and cost of funds rate loans and for issuances of letters of credit;
- (iii) adds a Eurocurrency rate floor of 0.75% and a cost of funds rate floor of 0.50%;
- (iv) for the four (4) quarters commencing with the quarter ended June 30, 2020, (a) increases to Combined Total Leverage Ratio covenant levels and (b) a reduction to the Combined Interest Coverage Ratio covenant levels; and
- (v) reduces the aggregate commitments under the facilities by 10%, with the commitments under the working capital facility reduced to \$770.0 million from \$850.0 million and the commitments under the revolving credit facility reduced to \$400.0 million from \$450.0 million.

All other material terms of the credit agreement remain substantially the same as disclosed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Agreement” in our Annual Report on Form 10-K for the year ended December 31, 2019.

Senior Notes

We had 7.00% senior notes due 2027 and 7.00% senior notes due 2023 outstanding at March 31, 2020. Please read Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Senior Notes” in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on these senior notes due 2023.

Financing Obligations

Capitol Acquisition

On June 1, 2015, we acquired retail gasoline stations and dealer supply contracts from Capitol Petroleum Group (“Capitol”). In connection with the acquisition, we assumed a financing obligation of \$89.6 million associated with two sale-leaseback transactions by Capitol for 53 leased sites that did not meet the criteria for sale accounting. During the terms of these leases, which expire in May 2028 and September 2029, in lieu of recognizing lease expense for the lease rental payments, we incur interest expense associated with the financing obligation. Interest expense of approximately \$2.3 million was recorded for each of the three months ended June 30, 2020 and 2019, and \$4.6 million and \$4.7 million was recorded for the six months ended June 30, 2020 and 2019, respectively, which is included in interest expense in the accompanying consolidated statements of operations. The financing obligation will amortize through expiration of the leases based upon the lease rental payments which were \$2.5 million and \$2.4 million for the three months ended June 30, 2020 and 2019, respectively, and \$5.0 million and \$4.9 million for the six months ended June 30, 2020 and 2019, respectively. The financing obligation balance outstanding at June 30, 2020 was \$86.6 million associated with the Capitol acquisition.

Sale-Leaseback Transaction

On June 29, 2016, we sold to a premier institutional real estate investor (the “Buyer”) real property assets, including the buildings, improvements and appurtenances thereto, at 30 gasoline stations and convenience stores located in Connecticut, Maine, Massachusetts, New Hampshire and Rhode Island (the “Sale-Leaseback Sites”) for a purchase price of approximately \$63.5 million. In connection with the sale, we entered into a Master Unitary Lease Agreement with the Buyer to lease back the real property assets sold with respect to the Sale-Leaseback Sites (such Master Lease Agreement, together with the Sale-Leaseback Sites, the “Sale-Leaseback Transaction”).

As a result of not meeting the criteria for sale accounting for these sites, the Sale-Leaseback Transaction is accounted for as a financing arrangement. As such, the property and equipment sold and leased back by us has not been derecognized and continues to be depreciated. We recognized a corresponding financing obligation of \$62.5 million equal to the \$63.5 million cash proceeds received for the sale of these sites, net of \$1.0 million financing fees. During the term of the lease, which expires in June 2031, in lieu of recognizing lease expense for the lease rental payments, we incur interest expense associated with the financing obligation. Lease rental payments are recognized as both interest expense and a reduction of the principal balance associated with the financing obligation. Lease rental payments are recognized as both interest expense and a reduction of the principal balance associated with the financing obligation. Interest expense was \$1.1 million for each of the three months ended June 30, 2020 and 2019 and \$2.2 million for each of the six months ended June 30, 2020 and 2019. Lease rental payments were \$1.1 million for each of the three months ended June 30, 2020 and 2019, and \$2.3 million and \$2.2 million for the six months ended June 30, 2020 and 2019, respectively. The financing obligation balance outstanding at June 30, 2020 was \$62.2 million.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these

consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The outbreak of COVID-19 across the United States and the responses of governmental bodies (federal, state and municipal), companies and individuals, including mandated and/or voluntary restrictions to mitigate the spread of the virus, have caused a significant economic downturn. The uncertainty surrounding the short and long-term impact of COVID-19, including the inability to project the timing of an economic recovery, may have an impact on our use of estimates. Actual results may differ from these estimates under different assumptions or conditions.

These estimates are based on our knowledge and understanding of current conditions and actions that we may take in the future. Changes in these estimates will occur as a result of the passage of time and the occurrence of future events. Subsequent changes in these estimates may have a significant impact on our financial condition and results of operations and are recorded in the period in which they become known. We have identified the following estimates that, in our opinion, are subjective in nature, require the exercise of judgment, and involve complex analysis: inventory, leases, revenue recognition, trustee taxes, derivative financial instruments, goodwill, evaluation of long-lived asset impairment and environmental and other liabilities.

The significant accounting policies and estimates that we have adopted and followed in the preparation of our consolidated financial statements are detailed in Note 2 of Notes to Consolidated Financial Statements, “Summary of Significant Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2019. There have been no subsequent changes in these policies and estimates that had a significant impact on our financial condition and results of operations for the periods covered in this report, except as described in Note 19 of Notes to Consolidated Financial Statements herein for the adoption of ASU 2016-13, “Measurement of Credit Losses on Financial Instruments,” including modifications to that standard thereafter, and now codified as ASC 326 which we adopted on January 1, 2020.

Recent Accounting Pronouncements

A description and related impact expected from the adoption of certain new accounting pronouncements is provided in Note 19 of Notes to Consolidated Financial Statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. The principal market risks to which we are exposed are interest rate risk and commodity risk. We currently utilize various derivative instruments to manage exposure to commodity risk.

Interest Rate Risk

We utilize variable rate debt and are exposed to market risk due to the floating interest rates on our credit agreement. Therefore, from time to time, we utilize interest rate collars, swaps and caps to hedge interest obligations on specific and anticipated debt issuances.

As of June 30, 2020, we had total borrowings outstanding under our credit agreement of \$404.7 million. Please read Part I, Item 2. “Management’s Discussion and Analysis—Liquidity and Capital Resources—Credit Agreement,” for information on interest rates related to our borrowings. The impact of a 1% increase in the interest rate on this amount of debt would have resulted in an increase in interest expense, and a corresponding decrease in our results of operations, of approximately \$4.0 million annually, assuming, however, that our indebtedness remained constant throughout the year.

Commodity Risk

We hedge our exposure to price fluctuations with respect to refined petroleum products, renewable fuels, crude oil and gasoline blendstocks in storage and expected purchases and sales of these commodities. The derivative instruments utilized consist primarily of exchange-traded futures contracts traded on the NYMEX, CME and ICE and over-the-

counter transactions, including swap agreements entered into with established financial institutions and other credit-approved energy companies. Our policy is generally to purchase only products for which we have a market and to structure our sales contracts so that price fluctuations do not materially affect our profit. While our policies are designed to minimize market risk, as well as inherent basis risk, exposure to fluctuations in market conditions remains. Except for the controlled trading program discussed below, we do not acquire and hold futures contracts or other derivative products for the purpose of speculating on price changes that might expose us to indeterminable losses.

While we seek to maintain a position that is substantially balanced within our commodity product purchase and sales activities, we may experience net unbalanced positions for short periods of time as a result of variances in daily purchases and sales and transportation and delivery schedules as well as other logistical issues inherent in our businesses, such as weather conditions. In connection with managing these positions, we are aided by maintaining a constant presence in the marketplace. We also engage in a controlled trading program for up to an aggregate of 250,000 barrels of commodity products at any one point in time. Changes in the fair value of these derivative instruments are recognized in the consolidated statements of operations through cost of sales. In addition, because a portion of our crude oil business may be conducted in Canadian dollars, we may use foreign currency derivatives to minimize the risks of unfavorable exchange rates. These instruments may include foreign currency exchange contracts and forwards. In conjunction with entering into the commodity derivative, we may enter into a foreign currency derivative to hedge the resulting foreign currency risk. These foreign currency derivatives are generally short-term in nature and not designated for hedge accounting.

We utilize exchange-traded futures contracts and other derivative instruments to minimize or hedge the impact of commodity price changes on our inventories, fuel purchases and forward fixed price commitments. Any hedge ineffectiveness is reflected in our results of operations. We utilize regulated exchanges, including the NYMEX, CME and ICE, which are exchanges for the respective commodities that each trades, thereby reducing potential delivery and supply risks. Generally, our practice is to close all exchange positions rather than to make or receive physical deliveries.

At June 30, 2020, the fair value of all of our commodity risk derivative instruments and the change in fair value that would be expected from a 10% price increase or decrease are shown in the table below (in thousands):

	Fair Value at June 30, 2020	Gain (Loss)	
		Effect of 10% Price Increase	Effect of 10% Price Decrease
Exchange traded derivative contracts	\$ (6,295)	\$ (15,902)	\$ 15,902
Forward derivative contracts	40,482	(8,390)	8,390
Total	\$ 34,187	\$ (24,292)	\$ 24,292

The fair values of the futures contracts are based on quoted market prices obtained from the NYMEX, CME and ICE. The fair value of the swaps and option contracts are estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at June 30, 2020. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. All hedge positions offset physical exposures to the physical market; none of these offsetting physical exposures are included in the above table. Price-risk sensitivities were calculated by assuming an across-the-board 10% increase or decrease in price regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an actual 10% change in prompt month prices, the fair value of our derivative portfolio would typically change less than that shown in the table due to lower volatility in out-month prices. We have a daily margin requirement to maintain a cash deposit with our brokers based on the prior day's market results on open futures contracts. The balance of this deposit will fluctuate based on our open market positions and the commodity exchange's requirements. The brokerage margin balance was \$32.3 million at June 30, 2020.

We are exposed to credit loss in the event of nonperformance by counterparties to our exchange-traded derivative contracts, physical forward contracts, and swap agreements. We anticipate some nonperformance by some of these counterparties which, in the aggregate, we do not believe at this time will have a material adverse effect on our financial condition, results of operations or cash available for distribution to our unitholders. Exchange-traded derivative

contracts, the primary derivative instrument utilized by us, are traded on regulated exchanges, greatly reducing potential credit risks. We utilize major financial institutions as our clearing brokers for all NYMEX, CME and ICE derivative transactions and the right of offset exists with these financial institutions. Accordingly, the fair value of our exchange-traded derivative instruments is presented on a net basis in the consolidated balance sheet. Exposure on physical forward contracts and swap agreements is limited to the amount of the recorded fair value as of the balance sheet dates.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our principal executive officer and principal financial officer, management evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were operating and effective as of June 30, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this item is included in Note 18 of Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 1A. Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed below and in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition or future results.

The outbreak of COVID-19 and certain developments in global oil markets have had, and may continue to have, material adverse consequences for general economic, financial and business conditions, and could materially and adversely affect our business, financial condition and results of operation and those of our customers, suppliers and other counterparties.

The outbreak of COVID-19 across the United States and the responses of governmental bodies (federal, state and municipal), companies and individuals, including mandated and/or voluntary restrictions to mitigate the spread of the virus, have caused a significant economic downturn. Because there are fewer people commuting to and from work and elsewhere, fewer people traveling as a result of “stay-at-home” or similar-like directives, fewer people on the road to purchase goods or services, and fewer companies engaged in their traditional business activities who would otherwise seek such goods and/or services, there has been a decline in the demand for the products we sell and the services we provide. These declines are further impacted by world-wide events related to production of crude oil and the related steep decline in the pricing of that product.

There is continuing uncertainty surrounding the short-term and long-term impacts of COVID-19 to the national and state economies. The inability to project a timely economic recovery and/or the extent of same on each of a national, state and regional basis remain prevalent. Any prolonged period of economic distress and/or prolonged and disparate periods of economic recovery have had and could continue to have an adverse effect on our financial condition, results of operation and cash available for distribution to our unitholders. These events could also have or cause significant adverse effects on the financial condition of our counterparties, suppliers of goods and services we purchase, and purchasers of customers of the goods and services we sell, resulting in disruption to and a decline in our business activities resulting in an adverse impact to our financial condition and results of operations.

Any of the foregoing events or conditions, or other unforeseen consequences of COVID-19 and certain developments in global oil markets, could significantly adversely affect our business and financial condition and the business and financial condition of our customers, suppliers and counterparties. The ultimate extent of the impact of COVID-19 on our business, financial condition and results of operations depends in large part on future developments which are uncertain and cannot be predicted with any certainty at this time. That uncertainty includes the duration of the COVID-19 pandemic, the geographic regions so impacted, the extent of such impact within specific boundaries of those areas and the impact to the local, state and national economies.

To the extent COVID-19 and certain developments in global oil markets adversely affect our business activities, financial condition and results of operations, the COVID-19 pandemic and such developments in global oil markets may also have the effect of heightening many of the other risk factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 6. Exhibits

(a) Exhibits

- 3.1 — [Certificate of Limited Partnership of Global Partners LP \(incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on May 10, 2005\).](#)
- 3.2 — [Fourth Amended and Restated Agreement of Limited Partnership of Global Partners LP dated as of August 7, 2018 \(incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 7, 2018\).](#)
- 4.1 — [Indenture, dated as of June 4, 2015, among the Issuers, the Guarantors, and Deutsche Bank Trust Company Americas, as trustee \(incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 4, 2015\).](#)
- 4.2 — [Indenture, dated July 31, 2019, among the Issuers, the Guarantors and Deutsche Bank Trust Company Americas, as trustee \(incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on July 31, 2019\).](#)
- 10.1 — [Fourth Amendment to Third Amended and Restated Credit Agreement, dated as of May 7, 2020 \(incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 8, 2020\).](#)
- 31.1* — [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Executive Officer of Global GP LLC, general partner of Global Partners LP.](#)
- 31.2* — [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Financial Officer of Global GP LLC, general partner of Global Partners LP.](#)
- 32.1† — [Section 1350 Certification of Chief Executive Officer of Global GP LLC, general partner of Global Partners LP.](#)
- 32.2† — [Section 1350 Certification of Chief Financial Officer of Global GP LLC, general partner of Global Partners LP.](#)
- 101.INS* — Inline 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.LAB* — Inline XBRL Taxonomy Extension Labels Linkbase Document.
- 101.PRE* — Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF* — Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 104* — Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

† Not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section.

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.

GLOBAL PARTNERS LP

By: Global GP LLC,
its general partner

Dated: August 6, 2020

By: /s/ Eric Slifka
Eric Slifka
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 6, 2020

By: /s/ Daphne H. Foster
Daphne H. Foster
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Eric Slifka, President and Chief Executive Officer of Global GP LLC, the general partner of Global Partners LP, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2020 of Global Partners LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 6, 2020

By: /s/ Eric Slifka

Eric Slifka
President and Chief Executive Officer
of Global GP LLC, general partner
of Global Partners LP

CERTIFICATION

I, Daphne H. Foster, Chief Financial Officer of Global GP LLC, the general partner of Global Partners LP, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2020 of Global Partners LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 6, 2020

By: /s/ Daphne H. Foster
Daphne H. Foster
Chief Financial Officer
of Global GP LLC, general partner
of Global Partners LP

**CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER OF
GLOBAL PARTNERS LP
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying report on Form 10-Q for the period ended June 30, 2020 of Global Partners LP (the "Partnership") and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Slifka, President and Chief Executive Officer of Global GP LLC, the general partner of the Partnership, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: August 6, 2020

By: /s/ Eric Slifka

Eric Slifka
President and Chief Executive Officer
of Global GP LLC, general partner
of Global Partners LP

**CERTIFICATION OF THE
CHIEF FINANCIAL OFFICER OF
GLOBAL PARTNERS LP
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying report on Form 10-Q for the period ended June 30, 2020 of Global Partners LP (the "Partnership") and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daphne H. Foster, Chief Financial Officer of Global GP LLC, the general partner of the Partnership, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: August 6, 2020

By: /s/ Daphne H. Foster

Daphne H. Foster
Chief Financial Officer
of Global GP LLC, general partner
of Global Partners LP
