STAR GROUP, L.P.
Form 10-Q
February 05, 2019

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 December 31, 2018

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: 001-14129

STAR GROUP, L.P.

(Exact name of registrants as specified in its charters)

Delaware (State or other jurisdiction of	06-1437793 (I.R.S. Employer
incorporation or organization)	Identification No.)
9 West Broad Street	
Stamford, Connecticut (Address of principal executive office)	06902

(203) 328-7310

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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, accelerated filer, non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non- accelerated filer Smaller reporting company

Emerging growth company

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

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

At January 31, 2019, the registrant had 51,973,004 Common Units outstanding.

STAR GROUP, L.P. AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
STAR GROUP, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2018 (unaudited)	September 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 23,789	$ 14,531
Receivables, net of allowance of $8,253 and $8,002, respectively	226,692	132,668
Inventories	76,565	56,377
Fair asset value of derivative instruments	-	17,710
Prepaid expenses and other current assets	48,657	35,451
Total current assets	375,703	256,737
Property and equipment, net	88,742	87,618
Goodwill	228,436	228,436
Intangibles, net	94,119	98,444
Restricted cash	250	250
Investments (1)	50,253	45,419
Deferred charges and other assets, net	18,774	13,067
Total assets	$ 856,277	$ 729,971
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable	$ 44,585	$ 35,796
Revolving credit facility borrowings	92,500	1,500
Fair liability value of derivative instruments	18,065	-
Current maturities of long-term debt	10,000	7,500
Accrued expenses and other current liabilities	127,610	116,436
Unearned service contract revenue	68,832	60,700
Customer credit balances	47,137	61,256
Total current liabilities	408,729	283,188
Long-term debt	89,331	91,780
Deferred tax liabilities, net	24,367	21,206
Other long-term liabilities	24,585	24,012
Partners' capital		
Common unitholders	328,633	329,129
General partner	(1,416)	(1,303)
Accumulated other comprehensive loss, net of taxes	(17,952)	(18,041)
Total partners' capital	309,265	309,785
Total liabilities and partners' capital	$ 856,277	$ 729,971

(1) See Note 2 – Investments

See accompanying notes to condensed consolidated financial statements.

STAR GROUP, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
(in thousands, except per unit data - unaudited)	2018	2017
Sales:		
Product	$458,707	$366,734
Installations and services	76,320	70,100
Total sales	535,027	436,834
Cost and expenses:		
Cost of product	306,226	242,780
Cost of installations and services	74,317	69,555
(Increase) decrease in the fair value of derivative instruments	31,039	(11,400)
Delivery and branch expenses	102,673	91,204
Depreciation and amortization expenses	7,745	7,741
General and administrative expenses	7,815	6,651
Finance charge income	(851)	(763)
Operating income	6,063	31,066
Interest expense, net	(2,516)	(2,087)
Amortization of debt issuance costs	(259)	(309)
Income before income taxes	3,288	28,670
Income tax expense (benefit)	973	(1,512)
Net income	$2,315	$30,182
General Partner's interest in net income	15	175
Limited Partners' interest in net income	$2,300	$30,007
Basic and diluted income per Limited Partner Unit (1):	$0.04	$0.45
Weighted average number of Limited Partner units outstanding:		
Basic and Diluted	52,905	55,888

(1) See Note 15 - Earnings Per Limited Partner Unit.
See accompanying notes to condensed consolidated financial statements.

STAR GROUP, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31,	
(in thousands - unaudited)	2018	2017
Net income	$2,315	$30,182
Other comprehensive income:		
Unrealized gain on pension plan obligation (1)	454	448
Tax effect of unrealized gain on pension plan obligation	(124)	(135)
Unrealized gain on investments	389	—
Tax effect of unrealized gain on investments	(82)	—
Unrealized loss on interest rate hedges	(745)	—
Tax effect of unrealized loss on interest rate hedges	197	—
Total other comprehensive income	89	313
Total comprehensive income	$2,404	$30,495

(1) This item is included in the computation of net periodic pension cost.
See accompanying notes to condensed consolidated financial statements.

STAR GROUP, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

	Number of Units				Accum. Other	Total
		General		General	Comprehensive	Partners'
(in thousands - unaudited)	Common	Partner	Common	Partner	Income (Loss)	Capital
Balance as of September 30, 2018	53,088	326	$329,129	$(1,303)	$ (18,041)	$309,785
Impact from adoption of ASU No. 2014-09	—	—	9,164	60	—	9,224
Net income	—	—	2,300	15	—	2,315
Unrealized gain on pension plan obligation	—	—	—	—	454	454
Tax effect of unrealized gain on pension plan	—	—	—	—	(124)	(124)
Unrealized gain on investments	—	—	—	—	389	389
Tax effect of unrealized gain on investments	—	—	—	—	(82)	(82)
Unrealized loss on interest rate hedges	—	—	—	—	(745)	(745)
Tax effect of unrealized loss on interest rate hedges	—	—	—	—	197	197
Distributions	—	—	(6,225)	(188)	—	(6,413)
Retirement of units (1)	(599)	—	(5,735)	—	—	(5,735)
Balance as of December 31, 2018 (unaudited)	52,489	326	$328,633	$(1,416)	$ (17,952)	$309,265

(1) See Note 4 – Common Unit Repurchase and Retirement.

See accompanying notes to condensed consolidated financial statements.

STAR GROUP, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands - unaudited)	Three Months Ended December 31, 2018	2017
Cash flows provided by (used in) operating activities:		
Net income	$2,315	$30,182
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
(Increase) decrease in fair value of derivative instruments	31,039	(11,400)
Depreciation and amortization	8,004	8,050
Provision for losses on accounts receivable	1,529	311
Change in deferred taxes	(616)	(2,740)
Changes in operating assets and liabilities:		
Increase in receivables	(95,743)	(96,193)
Increase in inventories	(20,187)	(11,886)
Increase in other assets	(3,235)	(12,411)
Increase in accounts payable	8,206	27,158
Decrease in customer credit balances	(14,120)	(14,294)
Increase in other current and long-term liabilities	19,917	19,987
Net cash used in operating activities	(62,891)	(63,236)
Cash flows provided by (used in) investing activities:		
Capital expenditures	(4,025)	(3,604)
Proceeds from sales of fixed assets	644	88
Purchase of investments (1)	(4,456)	(34,151)
Acquisitions	(275)	(224)
Net cash used in investing activities	(8,112)	(37,891)
Cash flows provided by (used in) financing activities:		
Revolving credit facility borrowings	92,500	79,149
Term loan repayments	-	(2,500)
Distributions	(6,413)	(6,302)
Unit repurchases	(5,735)	-
Customer retainage payments	(57)	(539)
Payments of debt issue costs	(34)	-
Net cash provided by financing activities	80,261	69,808
Net increase (decrease) in cash, cash equivalents, and restricted cash	9,258	(31,319)
Cash, cash equivalents, and restricted cash at beginning of period	14,781	52,708
Cash, cash equivalents, and restricted cash at end of period	$24,039	$21,389

(1) See Note 2 – Investments.

See accompanying notes to condensed consolidated financial statements.

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STAR GROUP, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) Organization

Star Group, L.P. ("Star" the "Company," "we," "us," or "our") is a full service provider specializing in the sale of home heating and air conditioning products and services to residential and commercial home heating oil and propane customers. The Company has one reportable segment for accounting purposes. We also sell diesel fuel, gasoline and home heating oil on a delivery only basis, and in certain of our marketing areas, we provide plumbing services primarily to our home heating oil and propane customer base. We believe we are the nation's largest retail distributor of home heating oil based upon sales volume. Including our propane locations, we serve customers in the more northern and eastern states within the Northeast, Central and Southeast U.S. regions.

The Company is organized as follows:

- Star is a limited partnership, which at December 31, 2018, had outstanding 52.5 million Common Units (NYSE: "SGU"), representing a 99.4% limited partner interest in Star, and 0.3 million general partner units, representing a 0.6% general partner interest in Star. Our general partner is Kestrel Heat, LLC, a Delaware limited liability company ("Kestrel Heat" or the "general partner"). The Board of Directors of Kestrel Heat (the "Board") is appointed by its sole member, Kestrel Energy Partners, LLC, a Delaware limited liability company ("Kestrel"). Since November 1, 2017, Star Group elected to be treated as a corporation for Federal income tax purposes, so Star Group and its subsidiaries are subject to Federal and state corporate income taxes.
- Star owns 100% of Star Acquisitions, Inc. ("SA"), a Minnesota corporation that owns 100% of Petro Holdings, Inc. ("Petro"). SA and its subsidiaries are subject to Federal and state corporate income taxes. Star's operations are conducted through Petro and its subsidiaries. Petro is primarily a Northeast, Central and Southeast region retail distributor of home heating oil and propane that at December 31, 2018 served approximately 458,000 residential and commercial home heating oil and propane customers. Petro also sells diesel, gasoline and home heating oil to approximately 80,000 customers on a delivery only basis. We installed, maintained, and repaired heating and air conditioning equipment and to a lesser extent provided these services outside our heating oil and propane customer base including approximately 17,000 service contracts for natural gas and other heating systems. In addition, we provided home plumbing services to approximately 21,000 customers.
- Petroleum Heat and Power Co., Inc. ("PH&P") is a 100% owned subsidiary of Star. PH&P is the borrower and Star is the guarantor of the fourth amended and restated credit agreement's $100 million five-year senior secured term loan and the $300 million ($450 million during the heating season of December through April of each year) revolving credit facility, both due July 2, 2023. (See Note 11—Long-Term Debt and Bank Facility Borrowings)

2) Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of Star Group, L.P. and its subsidiaries. All material intercompany items and transactions have been eliminated in consolidation.

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair statement of financial condition and results for the interim periods. Due to the seasonal nature of the Company's business, the results of operations and cash flows for the three month period ended December 31, 2018 are not necessarily indicative of the results to be expected for the full year.

These interim financial statements of the Company have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial information and Rule 10-01 of Regulation S-X of the U.S.

Securities and Exchange Commission and should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018.

Comprehensive Income

Comprehensive income is comprised of Net income and Other comprehensive income. Other comprehensive income consists of the unrealized gain amortization on the Company's pension plan obligation for its two frozen defined benefit pension plans, unrealized gain (loss) on available-for-sale investments, unrealized gain (loss) on interest rate hedge and the corresponding tax effects.

Cash, Cash Equivalents, and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. At December 31, 2018, the $24.0 million of cash, cash equivalents, and restricted cash on the condensed consolidated statement of cash flows is composed of $23.8 million of cash and cash equivalents and $0.3 million of restricted cash. At September 30, 2018, the $14.8 million of cash, cash equivalents, and restricted cash on the condensed consolidated statements of cash flow is composed of $14.5 million of cash and cash equivalents and $0.3 million of restricted cash. Restricted cash represents deposits held by our captive insurance company that are required by state insurance regulations to remain in the captive insurance company as cash.

Investments

At December 31, 2018, captive insurance collateral is comprised of $49.7 million of Level 1 debt securities measured at fair value and $0.6 million of mutual funds measured at net asset value. At September 30, 2018, the balance was comprised of $44.8 million of Level 1 debt securities measured at fair value and $0.6 million of mutual funds measured at net asset value. Unrealized gains and losses, net of related income taxes, are reported as accumulated other comprehensive gain (loss), except for losses from impairments which are determined to be other-than-temporary. Realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities are included in the determination of net income and are included in Interest expense, net, at which time the average cost basis of these securities are adjusted to fair value.

The investments are held by our captive insurance company in an irrevocable trust as collateral for certain workers' compensation, general and automobile liability claims. The collateral is required by a third party insurance carrier that insures per claim amounts above a set deductible. Due to the expected timing of claim payments, the nature of the collateral agreement with the carrier, and our captive insurance company's source of other operating cash, the collateral is not expected to be used to pay obligations within the next twelve months.

Weather Hedge Contract

To partially mitigate the adverse effect of warm weather on cash flows, the Company has used weather hedge contracts for a number of years. Weather hedge contracts are recorded in accordance with the intrinsic value method defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815-45-15 Derivatives and Hedging, Weather Derivatives (EITF 99-2). The premium paid is included in the caption Prepaid expenses and other current assets in the accompanying balance sheets and amortized over the life of the contract, with the intrinsic value method applied at each interim period.

The Company entered into weather hedge contracts for fiscal years 2018, 2019, 2020 and 2021. Under these contracts, we are entitled to receive a payment if the total number of degree days within the hedge period is less than the prior ten year average. The "Payment Thresholds," or strikes, are set at various levels. In addition, we will be obligated to make a payment capped at $5.0 million if degree days exceed the prior ten year average. The hedge period runs from November 1 through March 31, taken as a whole, for each respective fiscal year. For fiscal 2019, 2020 and 2021 the maximum that the Company can receive annually is $12.5 million and the maximum that the Company would be obligated to pay annually is $5.0 million. As of December 31, 2018, the Company recorded a charge of $2.0 million under this contract that increased delivery and branch expenses. As of December 31, 2017, the Company recorded a charge of $3.1 million under its contract which was later reduced. The Company ultimately paid $1.9 million in April 2018.

New England Teamsters and Trucking Industry Pension Fund ("the NETTI Fund") Liability

As of December 31, 2018, we had $0.2 million and $17.1 million balances included in the captions Accrued expenses and other current liabilities and Other long-term liabilities, respectively, on our condensed consolidated balance sheet

representing the remaining balance of the NETTI Fund withdrawal liability. Based on the borrowing rates currently available to the Company for long-term financing of a similar maturity, the fair value of the NETTI Fund withdrawal liability as of December 31, 2018 was $17.8 million. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of this liability.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The FASB has also issued several updates to ASU No. 2014-09. The Company adopted the ASU effective October 1, 2018 by using the modified retrospective method and recognized the cumulative effect of initially applying ASU No. 2014-09 as an adjustment to the opening balance of Partners' Capital at October 1, 2018. The historical periods have not been adjusted and continue to be reported under ASC No. 605, Revenue Recognition. We have applied the guidance in ASU No. 2014-09 retrospectively to all contracts and have elected not to account for significant financing components if the period between revenue recognition and when the customer pays for product, service, or equipment installation will be one year or less. See further detail on the impact of the adoption on our

condensed consolidated statement of operations and the balance sheet as of and for the three months ended December 31, 2018 at Note 3 – Revenue Recognition.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update addresses the issues of debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The Company adopted the ASU effective October 1, 2018. The adoption of ASU No. 2016-15 did not have an impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2019, with early adoption permitted. The Company adopted the ASU effective October 1, 2018. The adoption of ASU No. 2017-01 did not have an impact on the Company's consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases. The update requires all leases with a term greater than twelve months to be recognized on the balance sheet by calculating the discounted present value of such leases and accounting for them through a right-of-use asset and an offsetting lease liability, and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2020, with early adoption permitted. The Company does not intend to early adopt. The Company is continuing to evaluate the effect that ASU No. 2016-02 could have on its consolidated financial statements and related disclosures, but has not yet selected a transition method. The new guidance will materially change how we account for operating leases for office space, trucks and other equipment. Upon adoption, we expect to recognize discounted right-of-use assets and offsetting lease liabilities related to our operating leases of office space, trucks and other equipment. As of December 31, 2018, the undiscounted future minimum lease payments through 2033 for such operating leases are approximately $131.3 million, but the amount of leasing activity expected between December 31, 2018, and the date of adoption, is currently unknown. For this reason we are unable to estimate the discounted right-of-use assets and lease liabilities as of the date of adoption.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses. The update broadens the information that an entity should consider in developing expected credit loss estimates, eliminates the probable initial recognition threshold, and allows for the immediate recognition of the full amount of expected credit losses. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2021, with early adoption permitted in the first quarter of fiscal 2020. The Company is evaluating the effect that ASU No. 2016-13 will have on its consolidated financial statements and related disclosures, but has not yet determined the timing of adoption.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 230): Simplifying the test for goodwill impairment. The update simplifies how an entity is required to test goodwill for impairment. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, but not exceed the total amount of goodwill allocated to the reporting unit. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2021, with early adoption permitted. The Company has not determined the timing of adoption, but does not expect ASU 2017-04 to have a material impact

on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General: Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2021, with early adoption permitted. The Company is evaluating the effect that ASU No. 2018-14 will have on its consolidated financial statements and related disclosures, but has not determined the timing of adoption.

In August 2018, the FASB issued ASU No. 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, which will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2022, with early adoption permitted. The Company is evaluating the effect that ASU No. 2018-15 will have on its consolidated financial statements and related disclosures, but has not determined the timing of adoption.

3) Revenue Recognition

Effective October 1, 2018 we adopted the requirements of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The adoption was not material to the financial statements presented. In accordance with the new revenue standard requirements, our condensed consolidated statement of operations and the consolidated balance sheet were impacted due to the deferment of commissions provided to Company employees that were previously expensed as incurred, the deferment of certain upfront credits provided to customers upon entering into a new annual product or service contract as contra-revenue that were previously expensed as incurred and recorded as delivery and branch expense, and the allocation of transaction price of certain combination of contracts that were previously accounted for as separate contracts. The impact of adoption on our condensed consolidated statement of operations and balance sheet, as of and for the three months ended December 31, 2018 was as follows (in thousands):

	Three months ended December 31, 2018		
Statement of Operations	As Reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Sales:			
Product	$458,707	$462,153	$ (3,446)
Installations and services	76,320	74,794	1,526
Total Sales	535,027	536,947	(1,920)
Cost and Expenses:			
Delivery and branch expenses	102,673	105,209	(2,536)
Operating income	6,063	5,447	616
Income before income taxes	3,288	2,672	616
Income tax expense	973	791	182
Net income	$2,315	$1,881	$ 434
General Partner's interest in net income	15	13	2
Limited Partner's interest in net income	$2,300	$1,868	$ 432
Basic and diluted income per Limited Partner Unit	$0.04	$0.04	$ -

	December 31, 2018		
Balance Sheet	As Reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Assets			
Prepaid expenses and other current assets	$48,657	$41,823	$ 6,834
Deferred charges and other assets, net	$18,774	$12,182	$ 6,592
Liabilities			
Deferred tax liabilities, net	$24,367	$20,599	$ 3,768

Partners' capital			
Common unitholders	$328,633	$319,037	$ 9,596
General partner	$(1,416)	$(1,478)	$ 62

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The following disaggregates our revenue by major sources for the three months ended December 31, 2018:

	Three Months Ended December 31,	
(in thousands)	2018	2017
Petroleum Products:		
Home heating oil and propane	$364,202	$301,468
Other petroleum products	94,505	65,266
Total petroleum products	458,707	366,734
Installations and Services:		
Equipment installations	29,983	27,344
Equipment maintenance service contracts	28,319	25,397
Billable call services	18,018	17,359
Total installations and services	76,320	70,100
Total Sales	$535,027	$436,834

Performance Obligations

Petroleum product revenues primarily consist of home heating oil and propane as well as diesel fuel and gasoline. Revenue from petroleum products are recognized at the time of delivery to the customer when control is passed from the Company to the customer. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring control of the petroleum products. Approximately 96% of our full service residential and commercial home heating oil customers automatically receive deliveries based on prevailing weather conditions. We offer several pricing alternatives to our residential home heating oil customers, including a variable price (market based) option and a price-protected option, the latter of which either sets the maximum price or a fixed price that a customer will pay.

Equipment maintenance service contracts primarily cover heating, air conditioning, and natural gas equipment. We generally do not sell equipment maintenance service contracts to heating oil customers that do not take delivery of product from us. The service contract period of our equipment maintenance service contracts is generally one year or less. Revenues from equipment maintenance service contracts are recognized into income over the terms of the respective service contracts, on a straight-line basis. Our obligation to perform service is consistent through the duration of the contracts, and the straight-line basis of recognition is a faithful depiction of the transfer of our services. To the extent that the Company anticipates that future costs for fulfilling its contractual obligations under its equipment service contracts will exceed the amount of deferred revenue currently attributable to these contracts, the Company recognizes a loss in current period earnings equal to the amount that anticipated future costs exceed related deferred revenues.

Revenue from billable call services (repairs, maintenance and other services including plumbing) and equipment installations (heating, air conditioning, and natural gas equipment) are recognized at the time that the work is performed.

Our standard payment terms are generally 30 days. In addition, approximately 33% of our residential customers take advantage of our “smart pay” budget payment plan under which their estimated annual oil and propane deliveries and service contract billings are paid for in a series of equal monthly installments. Sales reported for product, installations and services exclude taxes assessed by various governmental authorities.

Contract Costs

We have elected to recognize incremental costs of obtaining a contract, other than new residential product and equipment maintenance service contracts, as an expense when incurred when the amortization period of the asset that we otherwise would have recognized is one year or less. We recognize an asset for incremental commission expenses paid to sales personnel in conjunction with obtaining new residential customer product and equipment maintenance service contracts. We only defer these costs when we have determined the commissions are, in fact, incremental and would not have been incurred absent the customer contract. Costs to obtain a contract are amortized and recorded ratably as Delivery and branch expenses over the period representing the transfer of goods or services to which the assets relate. Costs to obtain new residential product and equipment maintenance service contracts are amortized as expense over the estimated customer relationship period, or five years. Deferred contract costs are classified as current or non-current within Prepaid expenses and other current assets and Deferred charges and other assets, net, respectively. At December 31, 2018 the amount of deferred contract costs included in Prepaid expenses and other current assets and Deferred charges and other assets, net was $3.7 million and $6.6 million, respectively. We recognize an impairment charge to the extent the carrying amount of a deferred cost exceeds the remaining amount of consideration we expect to receive in exchange for the petroleum products and services related to the cost, less the expected costs related directly to providing those petroleum products and services that have not yet been recognized as expenses. There have been no impairment charges recognized for the three months ended December 31, 2018.

Significant Judgements – Allocation of Transaction Price to Separate Performance Obligations

Our contracts with customers often include distinct performance obligations to transfer products and perform equipment maintenance services to a customer that should be accounted for separately. Judgement is required to determine the stand-alone selling price for each distinct performance obligation. We determine the stand-alone selling price using information that may include market conditions and other observable inputs and typically have more than one stand-alone selling price for petroleum products and equipment maintenance services due to the stratification of those products and services by geography and customer characteristics.

Contract Liability Balances

The Company has contract liabilities for advanced payments received from customers for future oil deliveries (primarily amounts received from customers on “smart pay” budget payment plans in advance of oil deliveries) and obligations to service customers with equipment maintenance service contracts. Our “smart pay” budget payment plans are annual and generally begin outside of the heating season. We generally have received advanced amounts from customers on “smart pay” budget payment plans prior to the heating season, which are reduced as oil deliveries are made. For customers that are not on “smart pay” budget payment plans, we generally receive the full contract amount for equipment service contracts with customers at the outset of the contracts. Contract liabilities are recognized straight-line over the service contract period, generally one-year or less. As of December 31, 2018 and September 30, 2018 the Company had contract liabilities of $118.6 million and $113.8 million, respectively. During the three months ended December 31, 2018 the Company recognized $67.1 million of revenue that was included in the September 30, 2018 contract liability balance.

4) Common Unit Repurchase and Retirement

In July 2012, the Board adopted a plan to repurchase certain of the Company’s Common Units that was amended in fiscal 2018 (the “Repurchase Plan”). Under the Repurchase Plan, as amended, the Board authorized the repurchase of 10.9 million Common Units, of which, 8.4 million were available for the Company to repurchase in open market transactions, and 2.5 million were available for repurchase in privately-negotiated transactions. As of the end of the first fiscal quarter of 2019, the Company repurchased approximately 6.1 million Common Units in open market transactions under the Repurchase Plan and 4.8 million total Common Units remain available for repurchase. There is no guarantee of the exact number of units that will be purchased under the program and the Company may discontinue purchases at any time. The program does not have a time limit. The Board may also approve additional purchases of units from time to time in private transactions. The Company’s repurchase activities take into account SEC safe harbor rules and guidance for issuer repurchases. All of the Common Units purchased in the repurchase program will be retired.

Under the Company’s fourth amended and restated credit agreement dated July 2, 2018, in order to repurchase Common Units we must maintain Availability (as defined in the amended and restated credit agreement) of $45 million, 15.0% of the facility size of $300 million (assuming the non-seasonal aggregate commitment is outstanding) on a historical pro forma and forward-looking basis, and a fixed charge coverage ratio of not less than 1.15 measured as of the date of repurchase. The Company was in compliance with this covenant as of December 31, 2018.

The following table shows repurchases under the Repurchase Plan.

(in thousands, except per unit amounts)	Total Number of	Average Price	Total Number of	Maximum Number

Period	Units Purchased	Paid per Unit (a)	Units Purchased as Part of Publicly Announced Plans or Programs	of Units that May Yet Be Purchased	
Fiscal year 2012 to 2018 total	7,937	$ 7.11	5,493	5,359	
October 2018	151	$ 9.70	151	5,208	
November 2018	182	$ 9.71	182	5,026	
December 2018	266	$ 9.41	266	4,760	
First quarter fiscal year 2019 total	599	$ 9.57	599	4,760	
January 2019	516	$ 9.39	516	4,244	(b)

(a) Amount includes repurchase costs.

(b) Of the total available for repurchase, approximately 1.7 million are available for repurchase in open market transactions and 2.5 million are available for repurchase in privately-negotiated transactions.

5) Investments

The Company considers all of its investments to be available-for-sale. Investments at December 31, 2018 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Cash and Receivables	$ 416	$ —	$ —	$ 416
U.S. Government Sponsored Agencies	16,208	—	(55)	16,153
Corporate Debt Securities	29,344	—	(701)	28,643
Foreign Bonds and Notes	5,100	—	(59)	5,041
Total	$ 51,068	$ —	$ (815)	$ 50,253

Investments at September 30, 2018 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Cash and Receivables	$ 350	$ —	$ —	$ 350
U.S. Government Sponsored Agencies	10,735	—	(192)	10,543
Corporate Debt Securities	30,427	—	(928)	29,499
Foreign Bonds and Notes	5,111	—	(84)	5,027
Total	$ 46,623	$ —	$ (1,204)	$ 45,419

Maturities of investments were as follows at December 31, 2018 (in thousands):

	Net Carrying Amount
Due within one year	$ 4,455
Due after one year through five years	28,902
Due after five years through ten years	16,896
Total	$ 50,253

6) Derivatives and Hedging—Disclosures and Fair Value Measurements

The Company uses derivative instruments such as futures, options and swap agreements in order to mitigate exposure to market risk associated with the purchase of home heating oil for price-protected customers, physical inventory on hand, inventory in transit, priced purchase commitments and internal fuel usage. FASB ASC 815-10-05 Derivatives and Hedging, established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities, along with qualitative disclosures

regarding the derivative activity. The Company has elected not to designate its commodity derivative instruments as hedging derivatives, but rather as economic hedges whose change in fair value is recognized in its statement of operations in the line item (increase) decrease in the fair value of derivative instruments. Depending on the risk being economically hedged, realized gains and losses are recorded in cost of product, cost of installations and services, or delivery and branch expenses.

As of December 31, 2018, to hedge a substantial majority of the purchase price associated with heating oil gallons anticipated to be sold to its price-protected customers, the Company held the following derivative instruments that settle in future months to match anticipated sales: 14.0 million gallons of swap contracts, 7.9 million gallons of call options, 6.4 million gallons of put options, and 92.4 million net gallons of synthetic call options. To hedge the inter-month differentials for its price-protected customers, its physical inventory on hand and inventory in transit, the Company, as of December 31, 2018, had 18.3 million gallons of long future contracts, and 41.2 million gallons of short future contracts that settle in future months. To hedge its internal fuel usage and other related activities for fiscal 2019, the Company, as of December 31, 2018, had 4.3 million gallons of swap contracts and 2.0 million gallons of short swap contracts that settle in future months.

As of December 31, 2017, to hedge a substantial majority of the purchase price associated with heating oil gallons anticipated to be sold to its price-protected customers, the Company held the following derivative instruments that settle in future months to match anticipated sales: 17.9 million gallons of swap contracts, 7.3 million gallons of call options, 8.7 million gallons of put options, and 83.9 million net gallons of synthetic call options. To hedge the inter-month differentials for its price-protected customers, its physical inventory on hand and inventory in transit, the Company, as of December 31, 2017, had 27.8 million gallons of long future contracts, and 55.1 million gallons of short future contracts that settle in future months. To hedge its internal fuel usage and other related activities for fiscal 2018, the Company, as of December 31, 2017, had 2.3 million gallons of swap contracts that settle in future months.

In August 2018, the Company entered into interest rate swap agreements in order to mitigate exposure to market risk associated with variable rate interest on $50.0 million, or 50%, of our long term debt. The Company has designated its interest rate swap agreements as cash flow hedging derivatives. To the extent these derivative instruments are effective and the standard’s documentation requirements have been met, changes in fair value are recognized in other comprehensive income until the underlying hedged item is recognized in earnings. As of December 31, 2018, the fair value of the swap contracts was ($0.7) million. As of September 30, 2018, the fair value of the swap contracts was $39 thousand. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of the swap contracts.

The Company’s derivative instruments are with the following counterparties: Bank of America, N.A., Bank of Montreal, Cargill, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., Key Bank, N.A., Regions Financial Corporation, Toronto-Dominion Bank and Wells Fargo Bank, N.A. The Company assesses counterparty credit risk and considers it to be low. We maintain master netting arrangements that allow for the non-conditional offsetting of amounts receivable and payable with counterparties to help manage our risks and record derivative positions on a net basis. The Company generally does not receive cash collateral from its counterparties and does not restrict the use of cash collateral it maintains at counterparties. At December 31, 2018, the aggregate cash posted as collateral in the normal course of business at counterparties was $3.0 million and recorded in prepaid expense and other current assets. Positions with counterparties who are also parties to our credit agreement are collateralized under that facility. As of December 31, 2018, $20.2 million of hedge positions and payable amounts were secured under the credit facility.

FASB ASC 820-10 Fair Value Measurements and Disclosures, established a three-tier fair value hierarchy, which classified the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company’s Level 1 derivative assets and liabilities represent the fair value of commodity contracts used in its hedging activities that are identical and traded in active markets. The Company’s Level 2 derivative assets and liabilities represent the fair value of commodity and interest rate contracts used in its hedging activities that are valued using either directly or indirectly observable inputs, whose nature, risk and class are similar. No significant transfers of assets or liabilities have been made into and out of the Level 1 or Level 2 tiers. All derivative instruments were non-trading positions and were either a Level 1 or Level 2 instrument. The Company had no Level 3 derivative instruments. The fair market value of our Level 1 and Level 2 derivative assets and liabilities are calculated by our counter-parties and are independently validated by the Company. The Company’s calculations are, for Level 1 derivative assets and liabilities, based on the published New York Mercantile Exchange (“NYMEX”) market prices for the commodity contracts open at the end of the period. For Level 2 derivative assets and liabilities the calculations performed by the Company are based on a combination of the NYMEX published market prices and other inputs, including such factors as present value, volatility and duration.

The Company had no assets or liabilities that are measured at fair value on a nonrecurring basis subsequent to their initial recognition. The Company's financial assets and liabilities measured at fair value on a recurring basis are listed on the following table.

(In thousands) Derivatives Not Designated as Hedging Instruments Under FASB ASC 815-10	Balance Sheet Location	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2
Asset Derivatives at December 31, 2018				
Commodity contracts	Fair liability value of derivative instruments	$38,247	$ —	$ 38,247
Commodity contracts	Long-term derivative assets included in the deferred charges and other assets, net and other long-term liabilities, net balance	2,193	—	2,193
Commodity contract assets at December 31, 2018		$40,440	$ —	$ 40,440
Liability Derivatives at December 31, 2018				
Commodity contracts	Fair liability value of derivative instruments	$(56,312)	$ —	$ (56,312)
Commodity contracts	Long-term derivative liabilities included in the deferred charges and other assets, net and other long-term liabilities, net balance	(2,445)	—	(2,445)
Commodity contract liabilities at December 31, 2018		$(58,757)	$ —	$ (58,757)
Asset Derivatives at September 30, 2018				
Commodity contracts	Fair asset value of derivative instruments	$17,710	$ —	$ 17,710
Commodity contracts	Long-term derivative assets included in the deferred charges and other assets, net balance	906	—	906
Commodity contract assets September 30, 2018		$18,616	$ —	$ 18,616
Liability Derivatives at September 30, 2018				
Commodity contracts	Fair liability and fair asset value of derivative instruments	$—	$ —	$ —
Commodity contracts	Long-term derivative liabilities included in the deferred charges and other assets, net balance	(103)	—	(103)
Commodity contract liabilities September 30, 2018		$(103)	$ —	$ (103)

The Company's derivative assets (liabilities) offset by counterparty and subject to an enforceable master netting arrangement are listed on the following table.

(In thousands)				Gross Amounts Not Offset in the Statement of Financial Position		
Offsetting of Financial Assets (Liabilities) and Derivative Assets (Liabilities)	Gross Assets Recognized	Gross Liabilities Offset in the Statement of Financial Position	Net Assets (Liabilities) Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Fair asset value of derivative instruments	$ —	$ —	$ —	$—	$ —	$—
Long-term derivative assets included in deferred charges and other assets, net	17	(14)	3	—	—	3
Fair liability value of derivative instruments	38,247	(56,312)	(18,065)	—	—	(18,065)
Long-term derivative liabilities included in other long-term liabilities, net	2,176	(2,431)	(255)	—	—	(255)
Total at December 31, 2018	$ 40,440	$ (58,757)	$ (18,317)	$—	$ —	$(18,317)
Fair asset value of derivative instruments	$ 17,710	$ —	$ 17,710	$—	$ —	$17,710
Long-term derivative assets included in other long-term assets, net	906	(103)	803	—	—	803
Fair liability value of derivative instruments	—	—	—	—	—	—
Long-term derivative liabilities included in other long-term liabilities, net	—	—	—	—	—	—
Total at September 30, 2018	$ 18,616	$ (103)	$ 18,513	$—	$ —	$18,513

(In thousands)
The Effect of Derivative Instruments on the Statement of Operations

		Amount of (Gain) or Loss Recognized	
Derivatives Not Designated as Hedging Instruments Under FASB ASC 815-10	Location of (Gain) or Loss Recognized in Income on Derivative	Three Months Ended December 31,	Three Months Ended December 31,

		2018	2017
Commodity contracts	Cost of product (a)	$ (6,152)	$ 184
Commodity contracts	Cost of installations and service (a)	$ 247	$ (582)
Commodity contracts	Delivery and branch expenses (a)	$ 166	$ (1,229)
Commodity contracts	(Increase) / decrease in the fair value of derivative instruments (b)	$ 31,039	$ (11,400)

(a) Represents realized closed positions and includes the cost of options as they expire.
(b) Represents the change in value of unrealized open positions and expired options.

7) Inventories

The Company’s product inventories are stated at the lower of cost and net realizable value computed on the weighted average cost method. All other inventories, representing parts and equipment are stated at the lower of cost and net realizable value using the FIFO method. The components of inventory were as follows (in thousands):

	December 31, 2018	September 30, 2018
Product	$ 54,631	$ 34,618
Parts and equipment	21,934	21,759
Total inventory	$ 76,565	$ 56,377

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8) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the depreciable assets using the straight-line method (in thousands):

	December 31, 2018	September 30, 2018
Property and equipment	$212,555	$ 210,581
Less: accumulated depreciation	123,813	122,963
Property and equipment, net	$88,742	$ 87,618

9) Business Combinations

During the first quarter of the fiscal year 2019, the Company acquired a propane dealer for an aggregate purchase price of approximately $0.5 million; $0.3 million in cash and $0.2 million in deferred liabilities. The acquired company's operating results are included in the Company's consolidated financial statements, and are not material to the Company's financial condition, results of operations, or cash flows.

10) Intangibles, net

The gross carrying amount and accumulated amortization of intangible assets subject to amortization are as follows (in thousands):

	December 31, 2018			September 30, 2018		
	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Customer lists	$359,073	$ 284,098	$74,975	$358,776	$ 279,990	$78,786
Trade names and other intangibles	32,739	13,595	19,144	32,739	13,081	19,658
Total	$391,812	$ 297,693	$94,119	$391,515	$ 293,071	$98,444

Amortization expense for intangible assets was $4.6 million for the three months ended December 31, 2018, compared to $4.7 million for the three months ended December 31, 2017.

11) Long-Term Debt and Bank Facility Borrowings

The Company's debt is as follows (in thousands):

	December 31,	September 30,

	2018 Carrying Amount	Fair Value (a)	2018 Carrying Amount	Fair Value (a)
Revolving Credit Facility Borrowings	$92,500	$92,500	$1,500	$1,500
Senior Secured Term Loan (b)	99,331	100,000	99,280	100,000
Total debt	$191,831			