

STAR GROUP, L.P.
Form 10-Q
August 01, 2018

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

(203) 328-7310

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(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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. (Check one):

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 July 31, 2018, the registrant had 53,392,840 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)	June 30, 2018	September 30, 2017
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,423	\$ 52,458
Receivables, net of allowance of \$9,366 and \$5,540, respectively	182,573	96,603
Inventories	48,093	59,596
Fair asset value of derivative instruments	11,906	5,932
Prepaid expenses and other current assets	29,256	26,652
Total current assets	281,251	241,241
Property and equipment, net	85,746	79,673
Goodwill	228,331	225,915
Intangibles, net	100,859	105,218
Restricted cash	250	250
Captive insurance collateral (1)	45,195	11,777
Deferred charges and other assets, net	10,397	9,843
Total assets	\$ 752,029	\$ 673,917
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable	\$ 31,469	\$ 26,739
Revolving credit facility borrowings	7,800	-
Fair liability value of derivative instruments	-	289
Current maturities of long-term debt	7,500	10,000
Accrued expenses and other current liabilities	119,815	108,449
Unearned service contract revenue	58,355	60,133
Customer credit balances	31,111	66,723
Total current liabilities	256,050	272,333
Long-term debt (2)	94,612	65,717
Deferred tax liabilities, net	35,961	6,140
Other long-term liabilities	24,047	23,659
Partners' capital		
Common unitholders	361,094	325,762
General partner	(983)	(929)
Accumulated other comprehensive loss, net of taxes	(18,752)	(18,765)
Total partners' capital	341,359	306,068
Total liabilities and partners' capital	\$ 752,029	\$ 673,917

(1) See Note 2 – Captive insurance collateral

(2) See Note 14 – Subsequent events

See accompanying notes to condensed consolidated financial statements.

STAR GROUP, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data - unaudited)	Three Months		Nine Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Sales:				
Product	\$256,447	\$158,531	\$1,246,143	\$950,307
Installations and services	70,907	67,270	202,076	191,664
Total sales	327,354	225,801	1,448,219	1,141,971
Cost and expenses:				
Cost of product	186,207	104,268	832,280	592,802
Cost of installations and services	61,770	58,224	195,984	183,137
(Increase) decrease in the fair value of derivative instruments	(7,515)	3,135	(7,306)	7,026
Delivery and branch expenses	83,312	67,640	281,121	240,987
Depreciation and amortization expenses	7,941	7,418	23,385	20,705
General and administrative expenses	5,894	6,235	18,766	18,144
Finance charge income	(1,438)	(1,308)	(3,733)	(3,288)
Operating income (loss)	(8,817)	(19,811)	107,722	82,458
Interest expense, net	(2,186)	(1,619)	(6,656)	(5,118)
Amortization of debt issuance costs	(418)	(336)	(1,034)	(972)
Income (loss) before income taxes	(11,421)	(21,766)	100,032	76,368
Income tax expense (benefit)	(3,416)	(8,434)	23,077	31,721
Net income (loss)	\$(8,005)	\$(13,332)	\$76,955	\$44,647
General Partner's interest in net income (loss)	(49)	(79)	445	259
Limited Partners' interest in net income (loss)	\$(7,956)	\$(13,253)	\$76,510	\$44,388
Basic and diluted income (loss) per Limited Partner Unit (1):	\$(0.15)	\$(0.24)	\$1.18	\$0.70
Weighted average number of Limited Partner units outstanding:				
Basic and Diluted	53,938	55,888	55,157	55,888

(1) See Note 13 - 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 (LOSS)

	Three Months		Nine Months	
(in thousands - unaudited)	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$(8,005)	\$(13,332)	\$76,955	\$44,647
Other comprehensive income:				
Unrealized gain on pension plan obligation (1)	448	532	1,344	1,598
Tax effect of unrealized gain on pension plan	(120)	(215)	(422)	(647)
Unrealized loss on captive insurance collateral	(220)	-	(1,151)	-
Tax effect of unrealized loss on captive insurance collateral	46	-	242	-
Total other comprehensive income	154	317	13	951
Total comprehensive income (loss)	\$(7,851)	\$(13,015)	\$76,968	\$45,598

(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

(in thousands - unaudited)	Number of Units		Common Partner	Partner	Accum. Other General Comprehensive	Total Partners' Capital
	General	Common Partner				
Balance as of September 30, 2017	55,888	326	\$325,762	\$ (929)	\$ (18,765)	\$306,068
Net income	-	-	76,510	445	-	76,955
Unrealized gain on pension plan obligation	-	-	-	-	1,344	1,344
Tax effect of unrealized gain on pension plan	-	-	-	-	(422)	(422)
Unrealized loss on captive insurance collateral	-	-	-	-	(1,151)	(1,151)
Tax effect of unrealized loss on captive insurance collateral	-	-	-	-	242	242
Distributions	-	-	(18,640)	(499)	-	(19,139)
Retirement of units (1)	(2,370)	-	(22,538)	-	-	(22,538)
Balance as of June 30, 2018 (unaudited)	53,518	326	\$361,094	\$ (983)	\$ (18,752)	\$341,359

(1) See Note 3 – 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)	Nine Months	
	Ended June 30, 2018	2017
Cash flows provided by (used in) operating activities:		
Net income	\$76,955	\$44,647
Adjustment to reconcile net income to net cash provided by (used in)		
operating activities:		
(Increase) decrease in fair value of derivative instruments	(7,306)	7,026
Depreciation and amortization	24,419	21,677
Provision for losses on accounts receivable	5,687	2,261
Change in deferred taxes	29,641	4,451
Changes in operating assets and liabilities:		
Increase in receivables	(86,504)	(40,524)
Decrease in inventories	12,390	3,761
(Increase) decrease in other assets	(2,938)	3,443
Increase (decrease) in accounts payable	5,078	(3,468)
Decrease in customer credit balances	(36,503)	(45,757)
Increase in other current and long-term liabilities	9,100	25,693
Net cash provided by operating activities	30,019	23,210
Cash flows provided by (used in) investing activities:		
Capital expenditures	(8,682)	(9,348)
Proceeds from sales of fixed assets	325	171
Purchase of investments (1)	(34,840)	(11,538)
Acquisitions	(21,262)	(14,504)
Net cash used in investing activities	(64,459)	(35,219)
Cash flows provided by (used in) financing activities:		
Revolving credit facility borrowings	160,104	-
Revolving credit facility repayments	(118,604)	-
Term loan repayments	(7,500)	(13,700)
Distributions	(19,139)	(18,020)
Unit repurchases	(22,538)	-
Customer retainage payments	(918)	(575)
Payments of debt issue costs	-	(60)
Net cash used in financing activities	(8,595)	(32,355)
Net decrease in cash, cash equivalents, and restricted cash	(43,035)	(44,364)
Cash, cash equivalents, and restricted cash at beginning of period	52,708	139,188
Cash, cash equivalents, and restricted cash at end of period	\$9,673	\$94,824

(1) See Note 2 – Captive insurance collateral

See accompanying notes to condensed consolidated financial statements.

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 June 30, 2018, had outstanding 53.5 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”).

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 June 30, 2018 served approximately 459,000 residential and commercial home heating oil and propane customers. Petro also sells diesel fuel, gasoline and home heating oil to approximately 76,000 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 16,000 service contracts for natural gas and other heating systems. In addition, we provided home security and plumbing to approximately 31,000 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 third 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 30, 2020. In July 2018, the Company refinanced its five-year term loan and the revolving credit facility with the execution of the Fourth Amended and Restated Revolving Credit Facility Agreement. (See Note 9—Long-Term Debt and Bank Facility Borrowings and Note 14—Subsequent Events)

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 nine month period ended June 30, 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, 2017.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of Net income (loss) and Other comprehensive income (loss). Other comprehensive income (loss) consists of the unrealized gain amortization on the Company's pension plan obligation for its two frozen defined benefit pension plans, unrealized loss on captive insurance collateral, and the corresponding tax effect.

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 June 30, 2018, the \$9.7 million of cash, cash equivalents, and restricted cash on the condensed consolidated statement of cash flows is composed of \$9.4 million of cash and cash equivalents and \$0.3 million of restricted cash. At September 30, 2017, the \$52.7 million of cash, cash equivalents, and restricted cash on the condensed consolidated statements of cash flow is composed of \$52.5 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.

Captive Insurance Collateral

At June 30, 2018, captive insurance collateral is comprised of \$44.5 million of Level 1 debt securities measured at fair value and \$0.7 million of mutual funds measured at net asset value. At September 30, 2017, the balance was comprised of \$11.3 million of Level 1 debt securities measured at fair value and \$0.5 million of mutual funds measured at net asset value. Unrealized gains and losses, net of related income taxes, are reported as accumulated other comprehensive 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.

At September 30, 2017, the investments were held for workers' compensation, general and automobile liability claims incurred and expected to be incurred in fiscal 2017. In the first quarter of fiscal 2018 we deposited \$34.2 million of cash into the irrevocable trust to secure certain workers' compensation, general and automobile liability claims incurred and expected to be incurred from fiscal 2004 to fiscal 2016 and fiscal 2018.

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 has 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 is \$12.5 million and the maximum that the Company would be obligated to pay is \$5.0 million. As of June 30, 2018, the Company recorded a charge of \$1.9 million under this contract that increased delivery and branch expenses. The amount was paid in April 2018. No charge or benefit was recorded as of June 30, 2017.

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

As of June 30, 2018, we had \$0.2 million and \$17.2 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 June 30, 2018 was \$21.1 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 July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The update changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. The Company adopted the ASU effective December 31, 2017. The adoption of ASU No. 2015-11 did not have an impact on the Company’s consolidated financial statements and related disclosures.

Recently Issued 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 2014-09. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2019, with early adoption permitted beginning in the first quarter of fiscal 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is in the process of evaluating the effect that ASU 2014-09 will have on its revenue streams, consolidated financial statements and related disclosures. The Company has not yet selected a transition method, nor does it intend to early adopt.

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 June 30, 2018, the undiscounted future minimum lease payments through 2032 for such operating leases are approximately \$130.3 million, but the amount of leasing activity expected between June 30, 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 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. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2019, with early adoption permitted. The Company has not determined the timing of adoption, but does not expect ASU 2016-15 to have a material impact on its 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 has not determined the timing of adoption, but does not expect ASU 2017-01 to have a material impact on its consolidated financial statements and related disclosures.

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 February 2018, the FASB issued ASU No. 2018-02, Income Statement – Reporting Comprehensive Income, which allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2020, with early adoption permitted. The Company is evaluating the effect that ASU No. 2018-02 will have on its consolidated financial statements and related disclosures, but has not determined the timing of adoption.

3) Common Unit Repurchase and Retirement

In July 2012, the Board adopted a plan to repurchase certain of the Company's Common Units ("Plan III"). Prior to February 2018, the Company had repurchased approximately 2.7 million Common Units under Plan III. In February 2018, the Board authorized an increase of the number of Common Units that remained available for the Company to repurchase from 2.2 million to a total of 5.5 million, of which, 3.0 million were available for repurchase in open market transactions and 2.5 million were available for repurchase in privately-negotiated transactions. The Company repurchased approximately 1.1 million Common Units in the third fiscal quarter of 2018, and 3.1 million total Common Units remain available for repurchase at the end of the quarter. 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 third amended and restated credit agreement dated July 30, 2015, 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 in effect) 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. This covenant is consistent under the new credit agreement effective July 2, 2018 (see Footnote 14 – Subsequent Events). The Company was in compliance with this covenant as of June 30, 2018.

The following table shows repurchases under Plan III.

(in thousands, except per unit amounts)	Total Number of Units Purchased	Average Price Paid per Unit (a)	Total Number of Units Purchased as Part of Maximum Number of Units that May Yet Be Purchased	
			Publicly Announced Plans or Programs	
Plan III - Fiscal year 2017 total	-	\$ -	-	2,207
Plan III - First quarter fiscal year 2018 total	-	\$ -	-	2,207
Plan III - Second quarter fiscal year 2018 total	1,281	\$ 9.38	1,281	4,219 (b)
Plan III - April 2018	626	\$ 9.71	626	3,593
Plan III - May 2018	202	\$ 9.64	202	3,391
Plan III - June 2018	261	\$ 9.56	261	3,130
Plan III - Third quarter fiscal year 2018 total	1,089	\$ 9.66	1,089	3,130
Plan III - July 2018 (c)	125	\$ 9.72	125	3,005 (d)

(a) Amount includes repurchase costs.

(b) In February 2018, the Board authorized an increase in the number of Common Units available for repurchase from 2.2 million to 5.5 million.

(c) See Note 14 - Subsequent Events.

(d) Of the total available for repurchase, \$0.5 million are available for repurchase in open market transactions and \$2.5 million are available for repurchase in privately-negotiated transactions.

4) Derivatives and Hedging—Disclosures and Fair Value Measurements

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 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. The Company has elected not to designate its 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 June 30, 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: 8.4 million gallons of swap contracts, 3.2 million gallons of call options, 3.8 million gallons of put options, and 60.4 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 June 30, 2018, had 0.4 million gallons of long swap contracts, 53.6 million gallons of long future contracts, and 64.2 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 June 30, 2018, had 3.1 million gallons of swap contracts that settle in future months.

As of June 30, 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: 9.0 million gallons of swap contracts, 3.6 million gallons of call options, 5.0 million gallons of put options, and 55.0 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 June 30, 2017, had 1.3 million gallons of long swap contracts, 53.3 million gallons of long future contracts, and 67.7 million gallons of short future contracts that settle in future months. In addition to the previously described hedging instruments, the Company as of June 30, 2017, had 0.4 million gallons of spread contracts (simultaneous long and short positions) to lock-in the differential between high sulfur home heating oil and ultra low sulfur diesel. To hedge its internal fuel usage and other related activities for fiscal 2017, the Company, as of June 30, 2017, had 6.5 million gallons of swap contracts that settle in future months.

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., Munich Re Trading LLC, Regions Financial Corporation, Societe Generale, 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 June 30, 2018, the aggregate cash posted as collateral in the normal course of business at counterparties was \$0.4 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 June 30, 2018, no 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 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.

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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)		Fair Value Measurements at Reporting Date Using Quoted Prices in		
		Active Markets for Identical Assets	Significant Other Inputs Level 2	Level 3
Derivatives Not Designated as Hedging Instruments		Total	Level 1	Level 2
Under FASB ASC 815-10	Balance Sheet Location			
Asset Derivatives at June 30, 2018				
Commodity contracts	Fair asset value of derivative instruments	\$11,959	\$ -	\$ 11,959
Commodity contracts	Long-term derivative assets included in the deferred charges and other assets, net			
	balance	35	-	35
Commodity contract assets at June 30, 2018		\$11,994	\$ -	\$ 11,994
Liability Derivatives at June 30, 2018				
Commodity contracts	Fair asset value of derivative instruments	\$(53)	\$ -	\$(53)
Commodity contracts	Long-term derivative liabilities included in the deferred charges and other assets, net			
	balance	(5)	-	(5)
Commodity contract liabilities at June 30, 2018		\$(58)	\$ -	\$(58)
Asset Derivatives at September 30, 2017				
Commodity contracts	Fair asset and fair liability value of derivative instruments	\$7,729	\$ -	\$ 7,729
Commodity contracts	Long-term derivative assets included in the deferred charges and other assets, net			
	balance	996	-	996

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Commodity contract assets	September 30, 2017	\$8,725	\$ -	\$ 8,725
Liability Derivatives at September 30, 2017				
Commodity contracts	Fair liability and fair asset value			
	of derivative instruments	\$(2,086)	\$ -	\$ (2,086)
Commodity contracts	Long-term derivative liabilities			
	included in the deferred			
	charges and other assets, net			
	and other long-term liabilities			
	balances	(731)	-	(731)
Commodity contract liabilities	September 30, 2017	\$(2,817)	\$ -	\$ (2,817)

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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		Net Assets		Gross Amounts Not Offset in the	
	Assets	Liabilities	(Liabilities)	Offset in the	Statement of Financial Position	Cash
	Gross	Statement	Statement	Financial	Collateral	Net
Offsetting of Financial Assets (Liabilities) and Derivative Assets (Liabilities)	Recognized	Position	Position	Instrument	Received	Amount
Fair asset value of derivative instruments	\$ 11,959	\$ (53)	\$ 11,906	\$-	\$ -	\$11,906
Long-term derivative assets included in						
deferred charges and other assets, net	35	-	35	-	-	35
Fair liability value of derivative instruments	-	-	-	-	-	-
Long-term derivative liabilities included in						
other long-term liabilities, net	-	(5)	(5)	-	-	(5)
Total at June 30, 2018	\$ 11,994	\$ (58)	\$ 11,936	\$-	\$ -	\$11,936
Fair asset value of derivative instruments	\$ 6,023	\$ (91)	\$ 5,932	\$-	\$ -	\$5,932
Long-term derivative assets included in						
other long-term assets, net	996	(730)	266	-	-	266
Fair liability value of derivative instruments	1,706	(1,995)	(289)	-	-	(289)
Long-term derivative liabilities included in						
other long-term liabilities, net	-	(1)	(1)	-	-	(1)
Total at September 30, 2017	\$ 8,725	\$ (2,817)	\$ 5,908	\$-	\$ -	\$5,908

(In thousands)

The Effect of Derivative Instruments on the Statement of Operations

Derivatives Not Designated as Hedging	Location of (Gain) or Loss	Amount of (Gain) or Loss Recognized		Amount of (Gain) or Loss Recognized	
		Three Months Ended June 30,	Three Months Ended June 30,	Nine Months Ended June 30,	Nine Months Ended June 30,
Instruments Under FASB ASC 815-10	Derivative				

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		2018	2017	2018	2017
Commodity contracts	Cost of product (a)	\$914	\$ 1,092	\$(8,463)	\$ 4,073
Commodity contracts	Cost of installations and service (a)	\$(102)	\$ -	\$(673)	\$(526)
Commodity contracts	Delivery and branch expenses (a)	\$(61)	\$ 27	\$(1,335)	\$(422)
	(Increase) / decrease in the fair				
Commodity contracts	value of derivative instruments (b)	\$(7,515)	\$ 3,135	\$(7,306)	\$ 7,026

(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.

5) 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):

	June 30,	September 30,
	2018	2017
Product	\$25,685	\$ 37,941
Parts and equipment	22,408	21,655
Total inventory	\$48,093	\$ 59,596

6) 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):

	June 30,	September 30,
	2018	2017
Property and equipment	\$213,800	\$ 201,312
Less: accumulated depreciation	128,054	121,639
Property and equipment, net	\$85,746	\$ 79,673

7) Business Combinations

During fiscal 2018, the Company acquired three heating oil dealers and a motor fuel dealer for an aggregate purchase price of approximately \$22.8 million; \$21.3 million in cash and \$1.5 million of deferred liabilities. The gross purchase price was allocated \$12.7 million to intangible assets, \$6.9 million to fixed assets and \$3.2 million to working capital. The acquired companies' operating results are included in the Company's consolidated financial statements starting on their respective acquisition dates, and are not material to the Company's financial condition, results of operations, or cash flows.

8) Goodwill and Intangibles, net

Goodwill

A summary of changes in the Company's goodwill is as follows (in thousands):

Balance as of September 30, 2017	\$225,915
Fiscal year 2018 business combinations	2,416
Balance as of June 30, 2018	\$228,331

Intangibles, net

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

	June 30, 2018			September 30, 2017		
	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Customer lists	\$356,437	\$ 276,075	\$ 80,362	\$346,784	\$ 264,632	\$ 82,152
Trade names and other intangibles	32,528	12,031	20,497	32,047	8,981	23,066
Total	\$388,965	\$ 288,106	\$ 100,859	\$378,831	\$ 273,613	\$ 105,218

Amortization expense for intangible assets was \$14.5 million for the nine months ended June 30, 2018, compared to \$12.4 million for the nine months ended June 30, 2017.

9) Long-Term Debt and Bank Facility Borrowings

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

	June 30, 2018 Carrying	Fair Value (a)	September 30, 2017 Carrying	Fair Value (a)
Revolving Credit Facility Borrowings	\$41,500	\$41,500	\$-	\$-
Senior Secured Term Loan (b)	68,412	68,800	75,717	76,300
Total debt	\$109,912	\$110,300	\$75,717	\$76,300
Total long-term portion of Term Loan (b)	\$60,912	\$61,300	\$65,717	\$66,300
Total long-term portion of Revolving Credit Facility Borrowings (c)	\$33,700	\$33,700	\$-	\$-

(a) The face amount of the Company's variable rate long-term debt approximates fair value.

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- (b) Carrying amounts are net of unamortized debt issuance costs of \$0.4 million as of June 30, 2018 and \$0.6 million as of September 30, 2017.
- (c) On July 2, 2018, the Company refinanced its five-year term loan and the revolving credit facility with the execution of the fourth amended and restated revolving credit facility agreement. (See Note 14—Subsequent Events). As of June 30, 2018, the Company has classified \$33.7 million of its revolving credit facility borrowings as long term debt and repaid it on July 3, 2018 using \$33.7 million of proceeds provided by the fourth amended and restated revolving credit facility agreement.

On July 30, 2015, the Company entered into a third amended and restated asset-based credit agreement with a bank syndicate comprised of thirteen participants, which enables the Company to borrow up to \$300 million (\$450 million during the heating season of December through April of each year) on a revolving credit facility for working capital purposes (subject to certain borrowing base limitations and coverage ratios), provides for a \$100 million five-year senior secured term loan (the “Term Loan”), allows for the issuance of up to \$100 million in letters of credit (changed to \$25 million under the new credit agreement effective July 2, 2018), and has a maturity date of July 30, 2020.

The Company can increase the revolving credit facility size by \$100 million (increased to \$200 million under the new credit agreement effective July 2, 2018) without the consent of the bank group. However, the bank group is not obligated to fund the \$100 million increase. If the bank group elects not to fund the increase, the Company can add additional lenders to the group, with the consent of the Agent (as defined in the credit agreement), which shall not be unreasonably withheld. Obligations under the third amended and restated credit facility are guaranteed by the Company and its subsidiaries and are secured by liens on substantially all of the Company’s assets including accounts receivable, inventory, general intangibles, real property, fixtures and equipment.

All amounts outstanding under the third amended and restated revolving credit facility become due and payable on the facility termination date of July 30, 2020. The Term Loan is repayable in quarterly payments of \$2.5 million, plus an annual payment equal to 25% of the annual Excess Cash Flow as defined in the agreement (an amount not to exceed \$15 million annually), less certain voluntary prepayments made during the year, with final payment at maturity.

The interest rate on the third amended and restated revolving credit facility and the Term Loan is based on a margin over LIBOR or a base rate. At June 30, 2018, the effective interest rate on the Term Loan was approximately 4.8% and the effective interest rate on revolving credit facility borrowings was approximately 3.8%.

The Commitment Fee on the unused portion of the revolving credit facility is 0.30% from December through April, and 0.20% from May through November.

The third amended and restated credit agreement requires the Company to meet certain financial covenants, including a fixed charge coverage ratio (as defined in the credit agreement) of not less than 1.1 as long as the Term Loan is outstanding or revolving credit facility availability is less than 12.5% of the facility size. In addition, as long as the Term Loan is outstanding, a senior secured leverage ratio at any time cannot be more than 3.0 as calculated during the quarters ending June or September, and at any time no more than 4.5 as calculated during the quarters ending December or March.

Certain restrictions are also imposed by the agreement, including restrictions on the Company’s ability to incur additional indebtedness, to pay distributions to unitholders, to pay certain inter-company dividends or distributions, make investments, grant liens, sell assets, make acquisitions and engage in certain other activities.

At June 30, 2018, \$68.8 million of the Term Loan was outstanding, \$41.5 million was outstanding under the revolving credit facility, no hedge positions were secured under the credit agreement, and \$7.1 million of letters of credit were issued and outstanding. At September 30, 2017, \$76.3 million of the Term Loan was outstanding, no amount was outstanding under the revolving credit facility, \$0.1 million of hedge positions were secured under the credit

agreement, and \$48.0 million of letters of credit were issued and outstanding.

At June 30, 2018, availability was \$180.6 million, and the Company was in compliance with the fixed charge coverage ratio and the senior secured leverage ratio. At September 30, 2017, availability was \$166.1 million, and the Company was in compliance with the fixed charge coverage ratio and the senior secured leverage ratio.

10) Income Taxes

At a special meeting held October 25, 2017, unitholders voted in favor of proposals to have the Company be treated as a corporation effective November 1, 2017, instead of a partnership, for federal income tax purposes (commonly referred to as a “check-the-box” election) along with amendments to our Partnership Agreement to effect such changes in income tax classification. For corporate subsidiaries of the Company, a consolidated Federal income tax return is filed. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of assets and

liabilities and their respective tax bases and operating loss carry-forwards. 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. A valuation allowance is recognized if, based on the weight of available evidence including historical tax losses, it is more likely than not that some or all of deferred tax assets will not be realized.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Reform Act”) was enacted into law. The Tax Reform Act is a complicated piece of legislation that, among other provisions, contains several key provisions which impact the Company, especially the reduction of the Federal corporate income tax rate from 35% to 21% effective January 1, 2018. In addition, between September 28, 2017 and December 31, 2022, the Tax Reform Act allows for the full depreciation, in the year acquired, for certain fixed assets purchased in that year (also known as 100% bonus depreciation).

Given the significance and complexity of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period” similar to that used when accounting for business combinations. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

As of June 30, 2018, the income tax benefit is based, in part, on a reasonable estimate of deferred tax balances as of the enactment of the Tax Reform Act. The estimate of such deferred tax balances is provisional. The provisional re-measurement of the deferred tax assets and liabilities resulted in an \$11.5 million discrete tax benefit recorded in the quarter ended December 31, 2017. The provisional re-measurement amount decreased by \$0.3 million as of June 30, 2018 and is anticipated to change as data becomes available allowing more accurate scheduling of certain deferred tax assets and liabilities. We anticipate finalizing and recording any resulting adjustments by September 30, 2018.

The effective tax rate for the three and nine months ended June 30, 2018 was 29.9% and 23.1%, respectively. The income tax provision for the three and nine months ended June 30, 2018 reflects the application of blended statutory rates for calendar years 2017 and 2018 to the quarter’s results, and the nine months ended June 30, 2018 provision was also impacted by the recognition of the \$11.2 million provisional tax benefit due to reduction in the Federal corporate tax rate. As a result of the tax reform, the Company’s net deferred tax liability will be realized at a lower statutory tax rate than when originally recorded, resulting in the aforementioned tax benefit. Excluding the impact of the tax benefit related to this net deferred tax liability, our effective income tax rate decreased from 41.5% for the nine months ended June 30, 2017 to 34.3% for the nine months ended June 30, 2018 primarily due to the lower enacted Federal statutory tax rate.

The accompanying financial statements are reported on a fiscal year, however, the Company and its corporate subsidiaries file Federal and State income tax returns on a calendar year.

The current and deferred income tax (benefit) and expenses for the three and nine months ended June 30, 2018, and 2017 are as follows:

(in thousands)	Three Months		Nine Months Ended	
	Ended June 30, 2018	2017	June 30, 2018	2017
Income (loss) before income taxes	\$ (11,421)	\$ (21,766)	\$ 100,032	\$ 76,368
Current tax (benefit) expense	(5,803)	(5,764)	(6,564)	27,270

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Deferred tax expense (benefit)	2,354	(2,670)	40,844	4,451
Deferred tax expense (benefit) - impact of tax reform	33	-	(11,203)	-
Total deferred tax expense (benefit)	2,387	(2,670)	29,641	4,451
Total tax expense (benefit)	\$(3,416)	\$(8,434)	\$23,077	\$31,721

At June 30, 2018, we did not have unrecognized income tax benefits.

Our continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax expense. We file U.S. Federal income tax returns and various state and local returns. A number of years may elapse before an uncertain tax position is audited and finally resolved. For our Federal income tax returns we have four tax years subject to examination. In our major state tax jurisdictions of New York, Connecticut and Pennsylvania we have four years that are subject to examination. In the state tax jurisdiction of New Jersey we have five tax years that are subject to examination. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, based on our assessment of

many factors including past experience and interpretation of tax law, we believe that our provision for income taxes reflect the most probable outcome. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

11) Supplemental Disclosure of Cash Flow Information

	Nine Months Ended	
Cash paid during the period for: (in thousands)	June 30, 2018	2017
Income taxes, net	\$889	\$4,116
Interest	\$6,958	\$6,002

12) Commitments and Contingencies

On April 18, 2017, a civil action was filed in the United States District Court for the Eastern District of New York, entitled *M. Norman Donnenfeld v. Petro, Inc.*, Civil Action Number 2:17-cv-2310-JFB-SIL, against Petro, Inc. By amended complaint filed on August 15, 2017, the Plaintiff alleges he did not receive expected contractual benefits under his protected price plan contract when oil prices fell and asserts various claims for relief including breach of contract, violation of the New York General Business Law and fraud. The Plaintiff also seeks to have a class certified of similarly situated Petro customers who entered into protected price plan contracts and were denied the same contractual benefits. No class has yet been certified in this action. The Plaintiff seeks compensatory, punitive and other damages in unspecified amounts. On September 15, 2017, Petro filed a motion to dismiss the amended complaint as time-barred and for failure to state a cause of action. The motion was argued on January 18, 2018 and a decision is awaited. The Company believes the allegations lack merit and intends to vigorously defend the action; at this time we cannot assess the potential outcome or materiality of this matter.

The Company's operations are subject to the operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing for use by consumers hazardous liquids such as home heating oil and propane. In the ordinary course of business, the Company is a defendant in various legal proceedings and litigation. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. We do not believe these matters, when considered individually or in the aggregate, could reasonably be expected to have a material adverse effect on the Company's results of operations, financial position or liquidity.

The Company maintains insurance policies with insurers in amounts and with coverages and deductibles we believe are reasonable and prudent. However, the Company cannot assure that this insurance will be adequate to protect it from all material expenses related to current and potential future claims, legal proceedings and litigation, including the above mentioned action, as certain types of claims may be excluded from our insurance coverage. If we incur substantial liability and the damages are not covered by insurance, or are in excess of policy limits, or if we incur liability at a time when we are not able to obtain liability insurance, then our business, results of operations and financial condition could be materially adversely affected.

13) Earnings Per Limited Partner Unit

Income per limited partner unit is computed in accordance with FASB ASC 260-10-05 Earnings Per Share, Master Limited Partnerships (EITF 03-06), by dividing the limited partners' interest in net income by the weighted average number of limited partner units outstanding. The pro forma nature of the allocation required by this standard provides that in any accounting period where the Company's aggregate net income exceeds its aggregate distribution for such

period, the Company is required to present net income per limited partner unit as if all of the earnings for the periods were distributed, regardless of whether those earnings would actually be distributed during a particular period from an economic or practical perspective. This allocation does not impact the Company's overall net income or other financial results. However, for periods in which the Company's aggregate net income exceeds its aggregate distributions for such period, it will have the impact of reducing the earnings per limited partner unit, as the calculation according to this standard result in a theoretical increased allocation of undistributed earnings to the general partner. In accounting periods where aggregate net income does not exceed aggregate distributions for such period, this standard does not have any impact on the Company's net income per limited partner unit calculation. A separate and independent calculation for each quarter and year-to-date period is performed, in which the Company's contractual participation rights are taken into account.

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The following presents the net income allocation and per unit data using this method for the periods presented:

	Three Months		Nine Months	
	Ended		Ended	
Basic and Diluted Earnings Per Limited Partner: (in thousands, except per unit data)	June 30,		June 30,	
	2018	2017	2018	2017
Net income (loss)	\$ (8,005)	\$ (13,332)	\$ 76,955	\$ 44,647
Less General Partner's interest in net income (loss)	(49)	(79)	445	259
Net income (loss) available to limited partners	(7,956)	(13,253)	76,510	44,388
Less dilutive impact of theoretical distribution of earnings				
under FASB ASC 260-10-45-60	-	-	11,610	5,420
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	\$ (7,956)	\$ (13,253)	\$ 64,900	\$ 38,968
Per unit data:				
Basic and diluted net income (loss) available to limited partners	\$ (0.15)	\$ (0.24)	\$ 1.39	\$ 0.79
Less dilutive impact of theoretical distribution of earnings				
under FASB ASC 260-10-45-60	-	-	0.21	\$ 0.09
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	\$ (0.15)	\$ (0.24)	\$ 1.18	\$ 0.70
Weighted average number of Limited Partner units outstanding	53,938	55,888	55,157	55,888

14) Subsequent Events

Fourth Amended and Restated Revolving Credit Facility Agreement

On July 2, 2018, the Company entered into a fourth amended and restated revolving credit facility agreement with a bank syndicate of twelve participants, that enables us to borrow up to \$300 million (\$450 million during the heating season of December through April of each year) on a revolving line of credit for working capital purposes (subject to certain borrowing base limitations and coverage ratios), provides for a \$100 million five-year senior secured term loan (the "Term Loan"), allows for the issuance of up to \$25 million in letters of credit, and extends the maturity date of the previous agreement to July 2, 2023. Proceeds from the new term loan were used to repay the \$66.3 million outstanding balance of the existing term loan and \$33.7 million of the revolving credit facility borrowings.

Consistent with the third amended and restated revolving credit facility, under the Company's fourth amended and restated credit agreement, in order to repurchase Common Units we must maintain Availability 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.

Quarterly Distribution Declared

In July 2018, we declared a quarterly distribution of \$0.1175 per unit, or \$0.47 per unit on an annualized basis, on all Common Units with respect to the third quarter of fiscal 2018, payable on August 7, 2018, to holders of record on

July 30, 2018. The amount of distributions in excess of the minimum quarterly distribution of \$0.0675 are distributed in accordance with our Partnership Agreement, subject to the management incentive compensation plan. As a result, \$6.3 million will be paid to the Common Unit holders, \$0.2 million to the General Partner unit holders (including \$0.17 million of incentive distribution as provided in our Partnership Agreement) and \$0.2 million to management pursuant to the management incentive compensation plan which provides for certain members of management to receive incentive distributions that would otherwise be payable to the General Partner.

Common Units Repurchased and Retired

In accordance with the Plan III common unit repurchase program, during July 2018 the Company repurchased and retired 0.1 million Common Units at an average price paid of \$9.72 per unit.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Disclosure

This Quarterly Report on Form 10-Q includes “forward-looking statements” which represent our expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on our financial performance, the price and supply of the products that we sell, the consumption patterns of our customers, our ability to obtain satisfactory gross profit margins, our ability to obtain new customers and retain existing customers, our ability to make strategic acquisitions, the impact of litigation, our ability to contract for our current and future supply needs, natural gas conversions, future union relations and the outcome of current and future union negotiations, the impact of current and future governmental regulations, including environmental, health, and safety regulations, the ability to attract and retain employees, customer credit worthiness, counterparty credit worthiness, marketing plans, general economic conditions and new technology. All statements other than statements of historical facts included in this Report including, without limitation, the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere herein, are forward-looking statements. Without limiting the foregoing, the words “believe,” “anticipate,” “plan,” “expect,” “seek,” “estimate,” and similar expressions intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct and actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to, those set forth in this Report under the headings “Risk Factors” and “Business Strategy.” Important factors that could cause actual results to differ materially from our expectations (“Cautionary Statements”) are disclosed in this Report. All subsequent written and oral forward-looking statements attributable to Star or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. Unless otherwise required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Report.

Impact on Liquidity of Wholesale Product Cost Volatility

Our liquidity is adversely impacted in times of increasing wholesale product costs, as we must use more cash to fund our hedging requirements as well as the increased levels of accounts receivable, inventory and vehicle fuel costs. This may result in higher interest expense as a result of increased working capital borrowing to finance higher receivables and/or inventory balances. We may also incur higher bad debt expense and credit card processing costs as a result of higher selling prices. Our liquidity can also be adversely impacted by sudden and sharp decreases in wholesale product costs, due to the increased margin requirements for futures contracts and collateral requirements for options and swaps that we use to manage market risks.

Home Heating Oil Price Volatility

Volatility, which is reflected in the wholesale price of home heating oil, has a larger impact on our business when prices rise, as consumer price sensitivity to heating costs increases, often leading to increased gross customer losses. As a commodity, the price of home heating oil is generally impacted by many factors, including economic and geopolitical forces. The price of home heating oil is closely linked to the price refiners pay for crude oil, which is the principal cost component of home heating oil. The volatility in the wholesale cost of home heating oil, as measured by the New York Mercantile Exchange (“NYMEX”), for the fiscal years ending September 30, 2014, through 2018, on a quarterly basis, is illustrated in the following chart (price per gallon):

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Quarter Ended	Fiscal 2018		Fiscal 2017		Fiscal 2016		Fiscal 2015		Fiscal 2014	
	Low	High	Low	High	Low	High	Low	High	Low	High
December 31	\$1.74	\$2.08	\$1.39	\$1.70	\$1.08	\$1.61	\$1.85	\$2.66	\$2.84	\$3.12
March 31	1.84	2.14	1.49	1.70	0.87	1.26	1.62	2.30	2.89	3.28
June 30	1.96	2.29	1.37	1.65	1.08	1.57	1.68	2.02	2.85	3.05
September 30 (a)	-	-	1.45	1.86	1.26	1.53	1.38	1.84	2.65	2.98

(a) On July 31, 2018, the wholesale cost of home heating oil closed at \$2.13 per gallon

Income Taxes

New Federal Income Tax Legislation

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Reform Act”) was enacted into law. The Tax Reform Act contains several key tax provisions that will impact the Company, including the reduction of the corporate Federal income tax rate from 35% to 21% effective January 1, 2018. In addition, between September 28, 2017 and December 31, 2022, the Tax Reform Act allows for the full depreciation, in the year acquired, for certain fixed assets purchased in that year (also known as 100% bonus depreciation).

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During the nine months ended June 30, 2018, the Company recorded an \$11.2 million discrete income tax benefit for the re-measurement of deferred tax assets and liabilities due to the change in the Federal corporate income tax rate on which the deferred taxes are based. Excluding the \$11.2 million benefit recorded to income tax expense, our effective income tax rate was reduced from 41.5% at June 30, 2017 to 34.3% for the nine months ended June 30, 2018.

Book versus Tax Deductions

The amount of cash flow that we generate in any given year depends upon a variety of factors including the amount of cash income taxes that we are required to pay, which will increase as tax depreciation and amortization decreases. The amount of depreciation and amortization that we deduct for book (i.e., financial reporting) purposes will differ from the amount that the Company can deduct for Federal tax purposes. The table below compares the estimated depreciation and amortization for book purposes to the amount that we expect to deduct for Federal tax purposes based on currently owned assets. We file our tax returns based on a calendar year. The amounts below are based on our September 30 fiscal year, and the tax amounts include any 100% bonus depreciation available for fixed assets purchased between October 1, 2017 and June 30, 2018. However, this table does not include any forecast of future annual capital purchases. Given historical levels of annual capital purchases and the current law related to Federal bonus depreciation, it is likely that Federal tax depreciation and amortization will exceed book depreciation and amortization for most, if not all, of the periods presented in the table below.

Estimated Depreciation and Amortization Expense

(In thousands) Fiscal Year	Book	Tax
2018	\$32,129	\$36,559
2019	29,991	26,254
2020	25,912	19,927
2021	20,595	17,642
2022	16,996	15,731
2023	14,973	13,938

Execution of fourth amended and restated revolving asset-based credit agreement

On July 2, 2018, the Company refinanced its credit facility agreement and entered into a new fourth amended and restated revolving credit facility agreement with a bank syndicate of twelve participants, that enables us to borrow up to \$300 million (\$450 million during the heating season of December through April of each year) on a revolving line of credit for working capital purposes (subject to certain borrowing base limitations and coverage ratios), provides for a \$100 million five-year senior secured term loan, allows for the issuance of up to \$25 million in letters of credit, and extends the maturity date of the previous agreement to July 2, 2023. Proceeds from the new term loan were used to repay the \$66.3 million outstanding balance of the term loan and \$33.7 million of the revolving credit facility borrowings under the old credit facility. Availability as a result of the new credit agreement increased \$33.7 million from \$180.6 million to \$214.3 million.

Consistent with the third amended and restated revolving credit facility, under the Company's fourth amended and restated credit agreement, in order to repurchase Common Units we must maintain availability 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.

Weather Hedge Contracts

Weather conditions have a significant impact on the demand for home heating oil and propane because certain customers depend on these products principally for space heating purposes. Actual weather conditions may vary substantially from year to year, significantly affecting our financial performance. To partially mitigate the adverse effect of warm weather on cash flow, we have used weather hedging contracts for a number of years with several providers.

We have purchased weather hedge contracts for fiscal years 2018, 2019, 2020 and 2021. Under these contracts, we are entitled to a payment if the total number of degree days within the hedge period is less than the 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 ten year average. The hedge period runs from November 1 through March 31, taken as a whole, for each respective fiscal year. In fiscal 2018, the Company recorded a charge of \$1.9 million due to colder than average weather conditions. For fiscal 2019, 2020 and 2021 the maximum that the Company can receive is \$12.5 million and the maximum that the Company would be obligated to pay is \$5.0 million.

Per Gallon Gross Profit Margins

We believe home heating oil and propane margins should be evaluated on a cents per gallon basis (before the effects of increases or decreases in the fair value of derivative instruments), as we believe that realized per gallon margins should not include the impact of non-cash changes in the market value of hedges before the settlement of the underlying transaction.

A significant portion of our home heating oil volume is sold to individual customers under an arrangement pre-establishing a ceiling price or fixed price for home heating oil over a fixed period of time, generally twelve to twenty-four months (“price-protected” customers). When these price-protected customers agree to purchase home heating oil from us for the next heating season, we purchase option contracts, swaps and futures contracts for a substantial majority of the heating oil that we expect to sell to these customers. The amount of home heating oil volume that we hedge per price-protected customer is based upon the estimated fuel consumption per average customer per month. In the event that the actual usage exceeds the amount of the hedged volume on a monthly basis, we may be required to obtain additional volume at unfavorable costs. In addition, should actual usage in any month be less than the hedged volume, our hedging costs and losses could be greater, thus reducing expected margins.

As of June 30, 2018, we had 60.4 million gallons of home heating oil hedged for our ceiling customers and 8.4 million gallons for our fixed priced customers. Over 92% of these hedges were at their strike price, which reduces our potential for per gallon margin expansion unless the price for home heating oil declines. During July 2018, the wholesale cost of home heating oil continued to increase, and as of July 31, 2018 over 75% of the hedges for price-protected customers were at their strike price. In addition, the percentage of customers on variable pricing has decreased versus last year (and the percentage of customers who have elected price protection has increased), which may adversely impact home heating oil margins for the remainder of fiscal 2018 and fiscal 2019 as the per-gallon margins realized from price-protected customers generally are less than variable-priced residential customers.

Derivatives

FASB ASC 815-10-05 Derivatives and Hedging requires that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. To the extent derivative instruments designated as cash flow hedges are effective, as defined under this guidance, changes in fair value are recognized in other comprehensive income until the forecasted hedged item is recognized in earnings. We have elected not to designate our derivative instruments as hedging instruments under this guidance and, as a result, the changes in fair value of the derivative instruments are recognized in our statement of operations. Therefore, we experience volatility in earnings as outstanding derivative instruments are marked to market and non-cash gains and losses are recorded prior to the sale of the commodity to the customer. The volatility in any given period related to unrealized non-cash gains or losses on derivative instruments can be significant to our overall results. However, we ultimately expect those gains and losses to be offset by the cost of product when purchased.

Customer Attrition

We measure net customer attrition on an ongoing basis for our full service residential and commercial home heating oil and propane customers. Net customer attrition is the difference between gross customer losses and customers added through marketing efforts. Customers added through acquisitions are not included in the calculation of gross customer gains. However, additional customers that are obtained through marketing efforts or lost at newly acquired businesses are included in these calculations. Customer attrition percentage calculations include customers added through acquisitions in the denominators of the calculations on a weighted average basis. Gross customer losses are the result of a number of factors, including price competition, move-outs, credit losses and conversion to natural gas. When a customer moves out of an existing home, we count the “move out” as a loss, and if we are successful in signing

up the new homeowner, the “move in” is treated as a gain.

Customer gains and losses of home heating oil and propane customers

	Fiscal Year Ended 2018			2017			2016		
	Gross Gains	Customer Losses	Net Gains / (Attrition)	Gross Gains	Customer Losses	Net Gains / (Attrition)	Gross Gains	Customer Losses	Net Gains / (Attrition)
First Quarter	24,700	19,900	4,800	24,300	19,100	5,200	22,800	24,200	(1,400)
Second Quarter	14,100	18,900	(4,800)	13,200	16,400	(3,200)	13,700	19,300	(5,600)
Third Quarter	7,900	16,200	(8,300)	8,000	12,700	(4,700)	7,400	14,100	(6,700)
Fourth Quarter	-	-	-	12,400	16,500	(4,100)	11,400	21,200	(9,800)
Total	46,700	55,000	(8,300)	57,900	64,700	(6,800)	55,300	78,800	(23,500)

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Customer gains (attrition) as a percentage of home heating oil and propane customer base

	Fiscal Year Ended 2018			2017			2016		
	Gross		Net	Gross		Net	Gross		Net
	Customer Gains	Losses	Gains / (Attrition)	Customer Gains	Losses	Gains / (Attrition)	Customer Gains	Losses	Gains / (Attrition)
First Quarter	5.4 %	4.4 %	1.0 %	5.6 %	4.4 %	1.2 %	5.0 %	5.3 %	(0.3 %)
Second Quarter	3.1 %	4.1 %	(1.0 %)	3.0 %	3.7 %	(0.7 %)	3.0 %	4.2 %	(1.2 %)
Third Quarter	1.8 %	3.6 %	(1.8 %)	1.8 %	2.9 %	(1.1 %)	1.6 %	3.1 %	(1.5 %)
Fourth Quarter	-	-	-	2.7 %	3.6 %	(0.9 %)	2.5 %	4.6 %	(2.1 %)
Total	10.3 %	12.1 %	(1.8 %)	13.1 %	14.6 %	(1.5 %)	12.1 %	17.2 %	(5.1 %)

For the nine months ended June 30, 2018, the Company lost 8,300 accounts (net), or 1.8% of our home heating oil and propane customer base, compared to 2,700 accounts lost net, or 0.6%, of our home heating oil and propane customer base, during the nine months ended June 30, 2017. Our net customer attrition was 5,600 accounts worse as our gross customer gains were 1,200 accounts higher than the prior year's comparable period and our gross customer losses were 6,800 accounts higher. Gross customer losses exceeded the prior year primarily as a result of an increase in customer losses due to the price of home heating oil and propane, credit issues, and service disruptions. The wholesale cost of home heating oil and propane increased by 20.4% per gallon year-over-year, putting additional price pressure on retaining our customer base and attracting new customers. Higher prices also drove up customer account balances resulting in higher credit-related losses. In addition, the extremely cold temperatures and hazardous road conditions, due to winter storms at the end of December 2017 and early January 2018, stressed our ability to service our customers at times, resulting in higher delivery and service losses. The majority of the increase in gross customer losses occurred during the third quarter of fiscal 2018, after the heating season when it is easier for a customer to leave us.

During the nine months ended June 30, 2018, we estimate that we lost 1.0% of our home heating oil and propane accounts to natural gas conversions versus 0.9% for the nine months ended June 30, 2017 and 1.0% for the nine months ended June 30, 2016. Losses to natural gas in our footprint for the heating oil and propane industry could be greater or less than the Company's estimates. Conversions to natural gas may continue as it remains less expensive than home heating oil on an equivalent BTU basis.

Protected Price Account Renewals

A substantial majority of the Company's price-protected customers have agreements with us that are subject to annual renewal in the period between April and November of each fiscal year. If a significant number of these customers elect not to renew their price-protected agreements with us and do not continue as our customers under a variable price-plan, the Company's near term profitability, liquidity and cash flow will be adversely impacted. As of July 31, 2018, the wholesale cost of home heating oil as measured by the New York Mercantile Exchange was \$2.13 per gallon, approximately \$0.48 per gallon higher than at July 31, 2017. Based on these recent prices, our price-protected customers will be offered renewal contracts at significantly higher prices than last year which may adversely impact the acceptance rate of these renewals.

Seasonality

The following matters should be considered in analyzing our financial results. Our fiscal year ends on September 30. All references to quarters and years respectively in this document are to the fiscal quarters and years unless otherwise noted. The seasonal nature of our business has resulted, on average, during the last five years, in the sale of approximately 30% of our volume of home heating oil and propane in the first fiscal quarter and 50% of our volume in the second fiscal quarter, the peak heating season. We generally realize net income in both of these quarters and net losses during the quarters ending June and September. In addition, sales volume typically fluctuates from year to year in response to variations in weather, wholesale energy prices and other factors.

Degree Day

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 daily temperature departs from 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 to see if a month or a year was warmer or cooler than usual. Degree days are officially observed by the National Weather Service.

Every ten years, the National Oceanic and Atmospheric Administration (“NOAA”) computes and publishes average meteorological quantities, including the average temperature for the last 30 years by geographical location, and the corresponding degree days. The latest and most widely used data covers the years from 1981 to 2010. Our calculations of “normal” weather are based on these published 30 year averages for heating degree days, weighted by volume for the locations where we have existing operations.

Consolidated Results of Operations

The following is a discussion of the consolidated results of operations of the Company and its subsidiaries and should be read in conjunction with the historical financial and operating data and Notes thereto included elsewhere in this Quarterly Report.

Three Months Ended June 30, 2018

Compared to the Three Months Ended June 30, 2017

Volume

For the three months ended June 30, 2018, retail volume of home heating oil and propane sold increased by 13.9 million gallons, or 34.4%, to 54.5 million gallons, compared to 40.5 million gallons for the three months ended June 30, 2017. For those locations where the Company had existing operations during both periods, which we sometimes refer to as the “base business” (i.e., excluding acquisitions), temperatures (measured on a heating degree day basis) for the three months ended June 30, 2018 were 23.3% colder than the three months ended June 30, 2017 and 1.2% colder than normal, as reported by NOAA. Temperatures fluctuated greatly during the 2018 fiscal third quarter, just as they did during the preceding two fiscal quarters. For the twelve months ended June 30, 2018, net customer attrition for the base business was 2.8%. An analysis of the change in the retail volume of home heating oil and propane sold, which is based on management’s estimates, sampling and other mathematical calculations and certain assumptions, is found below. The impact of fuel conservation, along with any period-to-period differences in delivery scheduling, the monthly timing of degree days, the timing of accounts added or lost during the fiscal years, equipment efficiency and other volume variances not otherwise described are included in the chart below under the heading “Other.”

	Heating Oil and Propane
(in millions of gallons)	
Volume - Three months ended June 30, 2017	40.5
Acquisitions	4.4
Impact of colder temperatures	9.7
Net customer attrition	(1.3)
Other	1.2
Change	14.0
Volume - Three months ended June 30, 2018	54.5

The following chart sets forth the percentage by volume of total home heating oil sold to residential variable-price customers, residential price-protected customers and commercial/industrial/other customers for the three months ended June 30, 2018 compared to the three months ended June 30, 2017:

Customers	Three Months Ended June 30, June 30,	
	2018	2017
Residential Variable	41.5 %	40.2 %
Residential Price-Protected (Ceiling and Fixed Price)	46.9 %	46.9 %
Commercial/Industrial	11.6 %	12.9 %
Total	100.0%	100.0 %

Volume of other petroleum products sold increased by 8.5 million gallons, or 30.9%, to 36.0 million gallons for the three months ended June 30, 2018, largely due to acquisitions (7.2 million gallons) and an increase in the base business of 1.3 million gallons.

Product Sales

For the three months ended June 30, 2018, product sales increased \$97.9 million, or 61.8%, to \$256.4 million, compared to \$158.5 million for the three months ended June 30, 2017 largely due to an increase in wholesale product cost of \$0.5254 per gallon, or 34.3%, and an increase in total volume sold of 33.0%.

Installations and Services

For the three months ended June 30, 2018, installation and service revenue increased \$3.6 million, or 5.4%, to \$70.9 million, compared to \$67.3 million for the three months ended June 30, 2017, as acquisitions contributed \$2.9 million. In the base business, air conditioning and natural gas service contracts were higher by \$0.7 million as the Company continued its efforts at increasing revenue from other services.

Cost of Product

For the three months ended June 30, 2018, cost of product increased \$81.9 million, or 78.6%, to \$186.2 million, compared to \$104.3 million for the three months ended June 30, 2017, due to an increase in total volume sold of 33.0% and a \$0.5254 per gallon, or 34.3%, increase in wholesale product costs.

Gross Profit — Product

The table below calculates the Company's per gallon margins and reconciles product gross profit for home heating oil and propane and other petroleum products. We believe the change in home heating oil and propane margins should be evaluated before the effects of increases or decreases in the fair value of derivative instruments, as we believe that realized per gallon margins should not include the impact of non-cash changes in the market value of hedges before the settlement of the underlying transaction. On that basis, home heating oil and propane margins for the three months ended June 30, 2018 decreased by \$0.0305 per gallon, or 2.7%, to \$1.1150 per gallon, from \$1.1455 per gallon during the three months ended June 30, 2017 largely due to the impact of acquisitions. Excluding acquisitions, home heating oil and propane margins decreased by \$0.0105 per gallon, or 0.9%. A decline in the protected price margins drove the decrease in per gallon margins in the base business. In the three months ended June 30, 2017, the Company benefited from declining cost of product which favorably impacted margins. Due to differences in product offerings, marketing plans and operating costs, acquisitions may have different home heating oil and propane margins than the base business.

Product sales and cost of product include home heating oil, propane, other petroleum products and liquidated damages billings.

	Three Months Ended			
	June 30, 2018		June 30, 2017	
	Amount	Per	Amount	Per
	(in millions)	Gallon	(in millions)	Gallon
Home Heating Oil and Propane				
Volume	54.5		40.5	
Sales	\$169.6	\$3.1130	\$108.1	\$2.6665
Cost	\$108.9	\$1.9980	\$61.7	\$1.5210
Gross Profit	\$60.7	\$1.1150	\$46.4	\$1.1455

	Amount		Amount	
	Per	Per	Per	Per
	(in millions)	Gallon	(in millions)	Gallon
Other Petroleum Products				
Volume	36.0		27.5	
Sales	\$ 86.8	\$2.4112	\$ 50.4	\$1.8325
Cost	\$ 77.3	\$2.1476	\$ 42.6	\$1.5483
Gross Profit	\$ 9.5	\$0.2636	\$ 7.8	\$0.2842

Total Product Amount Amount

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	(in millions)	(in millions)
Sales	\$ 256.4	\$ 158.5
Cost	\$ 186.2	\$ 104.3
Gross Profit	\$ 70.2	\$ 54.3

For the three months ended June 30, 2018, total product gross profit was \$70.2 million, an increase of \$15.9 million, or 29.5%, versus the three months ended June 30, 2017, as an increase in home heating oil and propane volume sold (\$16.0 million) and higher gross profit from other petroleum products (\$1.7 million) due to an increase in volume sold, mostly from acquisitions, was partially offset by a decline in home heating oil and propane margins (\$1.7 million).

As of June 30, 2018, we had 60.4 million gallons of home heating oil hedged for our ceiling customers and 8.4 million gallons hedged for our fixed priced customers. Over 92% of these hedges were at their strike price, which reduces the potential for per gallon margin expansion for these customers unless the price for home heating oil declines. During July 2018, the wholesale cost of home heating oil continued to increase, and as of July 31, 2018 over 75% of our hedges for price-protected customers were at their strike price. In addition, the percentage of customers on variable pricing has decreased (as the percentage of customers that have elected price protection has increased), which may adversely impact home heating oil and propane margins for the remainder of fiscal 2018 and fiscal 2019 as the per gallon margins realized from price-protected customers generally are less than variable-priced residential customers.

Cost of Installations and Service

Total installation costs increased by \$0.9 million for the three months ended June 30, 2018, to \$21.1 million, largely due to acquisitions, versus \$20.2 million for the three months ended June 30, 2017. Installation costs as a percentage of installation sales for the three months ended June 30, 2018 and the three months ended June 30, 2017 were 83.0% and 82.0%, respectively.

Service expense increased by \$2.7 million, or 7.0%, to \$40.7 million for the three months ended June 30, 2018, or 89.4% of service sales, versus \$38.0 million, or 89.2% of service sales, for the three months ended June 30, 2017. This increase was mostly due to acquisitions (\$2.0 million) and an increase of \$0.7 million, or 1.8%, in the base business. We realized a combined gross profit from service and installation of \$9.1 million for the three months ended June 30, 2018 compared to a combined gross profit of \$9.0 million for the three months ended June 30, 2017. Management views the service and installation department on a combined basis because many overhead functions and direct expenses such as service technician time cannot be separated or precisely allocated to either service or installation billings.

(Increase) Decrease in the Fair Value of Derivative Instruments

During the three months ended June 30, 2018, the change in the fair value of derivative instruments resulted in a \$7.5 million credit due to an increase in the market value for unexpired hedges (\$6.9 million), and a \$0.6 million credit due to the expiration of certain hedged positions.

During the three months ended June 30, 2017, the change in the fair value of derivative instruments resulted in a \$3.1 million charge due to a decrease in the market value for unexpired hedges (a \$3.8 million charge) and a \$0.7 million credit due to the expiration of certain hedged positions.

Delivery and Branch Expenses

For the three months ended June 30, 2018, delivery and branch expenses increased \$15.7 million, or 23.2%, to \$83.3 million, compared to \$67.6 million for the three months ended June 30, 2017 due to additional costs from acquisitions of \$5.7 million and a \$10.0 million, or 14.8%, increase in the base business. In the base business, home heating oil and propane volume sold increased by 23.4%, exceeding the increase in delivery and branch expenses of 14.8%. Delivery cost rose in the base business by \$2.3 million, or 13.7%, largely due to the 23.4% increase in volume sold. The Company also saw an increase in credit card fees and bad debt expense of \$1.6 million tied to the higher cost of product and greater use of credit cards in the base business, and insurance expense rose in part by \$2.0 million largely due to an increase in the number of insurance claims in part attributable to the extreme weather conditions earlier in fiscal 2018. Our fixed costs rose by \$1.6 million in part as we invested in customer service, sales, operations and information technology departments. In recognition of the opportunity to differentiate our ability to serve customers through our growth in service offerings, we have begun offering a concierge level service as a test program, which led to an increase in delivery and branch expenses. Normal salary, benefit and other expense changes, as well as higher rent, plant maintenance and customer service overtime expenses accounted for \$2.5 million, or 3.7%, of the increase.

Depreciation and Amortization Expenses

For the three months ended June 30, 2018, depreciation and amortization expense increased by \$0.5 million, or 7.1%, to \$7.9 million, compared to \$7.4 million for the three months ended June 30, 2017, largely due to acquisitions.

General and Administrative Expenses

For the three months ended June 30, 2018, general and administrative expenses decreased by \$0.3 million, or 5.5%, to \$5.9 million compared to \$6.2 million for the three months ended June 30, 2017 largely due to lower legal and professional expenses.

Finance Charge Income

For the three months ended June 30, 2018, finance charge income increased by \$0.1 million, or 10.0%, to \$1.4 million compared to \$1.3 million for the three months ended June 30, 2017. The increase in the wholesale cost of product and additional volume sold led to an increase in product sales and, thus, higher accounts receivable balances subject to a finance charge.

Interest Expense, Net

For the three months ended June 30, 2018, net interest expense increased by \$0.6 million, or 35.0%, to \$2.2 million compared to \$1.6 million for the three months ended June 30, 2017 primarily due to higher borrowing under our revolving credit facility to finance higher working capital requirements.

Amortization of Debt Issuance Costs

For the three months ended June 30, 2018, amortization of debt issuance costs increased by \$0.1 million to \$0.4 million compared to \$0.3 million for the three months ended June 30, 2017.

Income Tax Benefit

For the three months ended June 30, 2018, the Company's income tax benefit decreased by \$5.0 million to \$3.4 million, from \$8.4 million for the three months ended June 30, 2017. On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. This tax reform legislation reduced the federal statutory income tax rate for corporations from 35% to 21% effective January 1, 2018 and as a result, the Company's effective income tax benefit rate decreased from 38.7% for the three months ended June 30, 2017 to 29.9% for the three months ended June 30, 2018.

Net Loss

For the three months ended June 30, 2018, net loss decreased \$5.3 million, or 40.0%, to \$8.0 million, from \$13.3 million for the three months ended June 30, 2017, largely due to an increase in a fair value of derivative instruments.

Adjusted EBITDA Loss

For the three months ended June 30, 2018, the Adjusted EBITDA loss decreased by \$0.9 million, or 9.4%, to \$8.4 million. While the additional volume sold in the base business positively impacted the Adjusted EBITDA loss, this impact was reduced by higher operating expenses and lower home heating oil and propane per gallon margins. The impact of acquisitions on Adjusted EBITDA was minimal.

EBITDA and Adjusted EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provide additional information for evaluating our ability to make the Minimum Quarterly Distribution. EBITDA and Adjusted EBITDA are calculated as follows:

	Three Months	
(in thousands)	Ended June 30,	
	2018	2017
Net loss	\$(8,005)	\$(13,332)
Plus:		
Income tax benefit	(3,416)	(8,434)
Amortization of debt issuance cost	418	336
Interest expense, net	2,186	1,619
Depreciation and amortization	7,941	7,418
EBITDA (a)	(876)	(12,393)
(Increase) / decrease in the fair value of derivative instruments	(7,515)	3,135
Adjusted EBITDA loss (a)	(8,391)	(9,258)
Add / (subtract)		
Income tax benefit	3,416	8,434
Interest expense, net	(2,186)	(1,619)

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Provision for losses on accounts receivable	2,222	736
Decrease in accounts receivables	84,026	71,107
Decrease in inventories	12,498	3,119
Increase in customer credit balances	5,681	