STAR GROUP, L.P.
Form 10-K
December 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 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 registrant as specified in its charter)

Delaware	06-1437793
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 West Broad Street, Suite 310, Stamford, Connecticut	06902
(Address of principal executive office)	(Zip Code)

(203) 328-7310

(Registrant’s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The aggregate market value of the registrant's common units held by non-affiliates on March 31, 2018 was approximately $467,138,000.

As of November 30, 2018, the registrant had 52,755,392 common units outstanding.

Documents Incorporated by Reference: None

STAR GROUP, L.P.

2018 FORM 10-K ANNUAL REPORT

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PART I

Statement Regarding Forward-Looking Disclosure

This Annual Report on Form 10-K (this "Report") 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, potential cyber-attacks, 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 are 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 heading "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 the Company 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.

ITEM 1. BUSINESS

Structure

Star Group, L.P. ("Star" the "Company," "we," "us," or "our") is a home heating oil and propane distributor and services provider with one reportable operating segment that principally provides heating related services to residential and commercial customers. At a special meeting of unitholders held on October 25, 2017, our unitholders voted in favor of proposals to have the Company elect to be treated as a corporation, 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, in each case effective November 1, 2017. In addition, the Company changed its name, effective October 25, 2017, from "Star Gas Partners, L.P." to "Star Group, L.P." to more closely align our name with the scope of our product and service offerings. For tax years after December 31, 2017, unitholders will receive a Form 1099-DIV and will not receive a Schedule K-1 as in previous tax years. Our legal structure will remain a Delaware limited partnership and the distribution provisions under our limited partnership agreement, including the incentive distribution structure will remain unchanged. As of November 30, 2018, we had outstanding 52.8 million common partner 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.

The following chart depicts the ownership of Star as of November 30, 2018:

Star is organized as follows:

- 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").
- Our operations are conducted through Petro Holdings, Inc., a Minnesota corporation that is a wholly owned subsidiary of Star Acquisitions, Inc., and its subsidiaries.
- Petroleum Heat and Power Co., Inc. ("PH&P") is a 100% owned subsidiary of Star. PH&P is the borrower and Star is a guarantor of the fourth amended and restated credit agreement's $100 million five-year senior secured term loan and the $300 million ($450 million during the heating season of December through April of each year) revolving credit facility, both due July 2, 2023. (See Note 12 of the Notes to the Consolidated Financial Statements — Long-Term Debt and Bank Facility Borrowings)

We file annual, quarterly, current and other reports and information with the Securities and Exchange Commission, or SEC. These filings can be viewed and downloaded from the Internet at the SEC's website at www.sec.gov. In addition, these SEC filings are available at no cost as soon as reasonably practicable after the filing thereof on our website at www.stargrouplp.com/sec.cfm. You may also obtain copies of these filings and other information at the offices of the New York Stock Exchange located at 11 Wall Street, New York, New York 10005. Please note that any Internet addresses provided in this Annual Report on Form 10-K are for informational purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such Internet addresses is intended or deemed to be incorporated by reference herein.

Legal Structure

The following chart summarizes our structure as of September 30, 2018.

Business Overview

We are a home heating oil and propane distributor and service provider to residential and commercial customers who heat their homes and buildings in the Northeast, Central and Southeast U.S. regions. Our customers are concentrated in the northern and eastern states. As of September 30, 2018, we sold home heating oil and propane to approximately 454,000 full service residential and commercial customers. We believe we are the largest retail distributor of home heating oil in the United States, based upon sales volume with a market share in excess of 5.5%. We also sell home heating oil, gasoline and diesel fuel to approximately 76,000 customers on a delivery only basis. We install, maintain, and repair heating and air conditioning equipment and to a lesser extent provide these services outside our heating oil and propane customer base including 16,000 service contracts for natural gas and other heating systems. In addition, we provide plumbing to approximately 23,000 customers, many of whom are also existing home heating oil and propane customers. During fiscal 2018, total sales were comprised approximately 65% from sales of home heating oil and propane, 19% from the sale of other petroleum products, and 16% from the installation and repair of heating and air conditioning equipment and ancillary services. We provide home heating equipment repair service and natural gas service 24 hours a day, seven days a week, 52 weeks a year. These services are an integral part of our business, and are intended to maximize customer satisfaction and loyalty.

We conduct our business through an operating subsidiary, Petro Holdings, Inc., utilizing multiple local brand names, such as Petro Home Services, Meenan, and Griffith Energy Services, Inc.

We also offer several pricing alternatives to our residential home heating oil customers, including a variable price (market based) option and a price-protected option, the latter of which either sets the maximum price or a fixed price that a customer will pay. Users choose the plan they feel best suits them which we believe increases customer satisfaction. Approximately 96% of our full service residential and commercial home heating oil customers automatically receive deliveries based on prevailing weather conditions. In addition, approximately 34% of our residential customers take advantage of our “smart pay” budget payment plan under which their estimated annual oil and propane deliveries and service billings are paid for in a series of equal monthly installments. We use derivative instruments as needed to mitigate our exposure to market risk associated with our price-protected offerings and the storing of our physical home heating oil inventory. Given our size, we are able to realize certain benefits of scale and provide consistent, strong customer service.

Currently, we have heating oil and/or propane customers in the following states, regions and counties:

New Hampshire
- Hillsborough
- Merrimack
- Rockingham
- Strafford

Vermont
- Bennington

Massachusetts
- Barnstable
- Bristol
- Essex
- Hampden
- Middlesex
- Norfolk
- Plymouth
- Suffolk
- Worcester

Rhode Island
- Bristol
- Kent
- Newport
- Providence
- Washington

Connecticut
- Fairfield
- Hartford
- Litchfield
- Middlesex
- New Haven
- New London
- Tolland
- Windham

Washington, D.C.
- District of Columbia

Delaware
- Kent
- New Castle
- Sussex

Michigan
- Genesee
- Lapeer
- Macomb
- Oakland
- Sanilac
- St. Clair
- Tuscola
- Wayne

Maryland
- Anne Arundel
- Baltimore
- Calvert
- Caroline
- Carroll
- Cecil
- Charles
- Dorchester
- Frederick
- Harford
- Howard
- Kent
- Montgomery
- Prince George's
- Queen Anne
- St. Mary's
- Talbot
- Washington
- Wicomico
- Worcester

West Virginia
- Berkeley
- Jefferson
- Morgan

Tennessee
- Bradley
- Hamilton
- McMinn
- Meigs
- Polk

New York
- Albany
- Bronx
- Columbia
- Dutchess
- Fulton
- Greene
- Kings
- Montgomery
- Nassau
- New York
- Orange
- Putnam
- Queens
- Rensselaer
- Richmond
- Rockland
- Saratoga
- Schenectady
- Schoharie
- Suffolk
- Sullivan
- Ulster
- Warren
- Washington
- Westchester

Maine
- York

South Carolina
- Bamberg
- Calhoun
- Chester
- Dorchester
- Fairfield
- Kershaw
- Lexington
- Newberry
- Oconec
- Orangeburg
- Saluda
- Sumter
- York

New Jersey
- Atlantic
- Bergen
- Burlington
- Camden
- Cape May
- Cumberland
- Essex
- Gloucester
- Hudson
- Hunterdon
- Mercer
- Middlesex
- Monmouth
- Morris
- Ocean
- Passaic
- Salem
- Somerset
- Sussex
- Union
- Warren

Pennsylvania
- Adams
- Berks
- Bucks
- Chester
- Cumberland
- Dauphin
- Delaware
- Franklin
- Fulton
- Lancaster
- Lebanon
- Lehigh
- Monroe
- Montgomery
- Northampton
- Perry
- Philadelphia
- Schuylkill
- York

North Carolina
- Anson
- Caburras
- Davidson
- Forsyth
- Gaston
- Guilford
- Lincoln
- Mecklenburg
- Montgomery
- Randolph
- Richmond
- Rowan
- Stanly
- Union

Georgia
- Banks
- Cherokee
- Dawson
- Fannin
- Franklin
- Forsyth
- Habersham
- Hall
- Jefferson
- Lumpkin
- Murray
- Rabun
- Stephens
- Towns
- White
- Whitfield

Virginia
- Arlington
- Clarke
- Culpepper
- Fairfax
- Frederick
- Fauquier
- Loudoun
- Prince William
- Stafford
- Warren

Industry Characteristics

Home heating oil is primarily used as a source of fuel to heat residences and businesses in the Northeast and Mid-Atlantic regions. According to the U.S. Department of Energy—Energy Information Administration, Residential Energy Consumption Survey (last updated May 2018), these regions account for 83% (4.8 million of 5.8

million) of the households in the United States where heating oil is the main space-heating fuel and 23% (4.7 million of 20.4 million) of the homes in these regions use home heating oil as their main space-heating fuel. Our experience has been that customers have a tendency to increase their conservation efforts as the price of home heating oil increases, thereby reducing their consumption.

The retail home heating oil industry is mature, with total market demand expected to decline in the foreseeable future due to conversions to natural gas, availability of other alternative energy sources and the installations of more fuel efficient heating systems. Therefore, our ability to maintain our business or grow within the industry is dependent on the acquisition of other retail distributors, the success of our marketing programs, and the growth of our other service offerings. Based on our records, our customer conversions to natural gas have ranged between 1.2% and 2.2% per year over the last five years. We believe this may continue or increase as natural gas has become less expensive than home heating oil on an equivalent BTU basis. In addition, there are legislative and regulatory efforts underway in several states seeking to encourage homeowners to expand the use of natural gas as a heating fuel.

The retail home heating oil industry is highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. Some dealers provide full service, as we do, and others offer delivery only on a cash-on-delivery basis, which we also do to a significantly lesser extent. In addition, the industry is complex and costly due to regulations, working capital requirements, and the costs and risks of hedging for price protected customers.

Propane is a by-product of natural gas processing and petroleum refining. Propane use falls into three broad categories: residential and commercial applications; industrial applications; and agricultural uses. In the residential and commercial markets, propane is used primarily for space heating, water heating, clothes drying and cooking. Industrial customers use propane generally as a motor fuel to power over-the-road vehicles, forklifts and stationary engines, to fire furnaces, as a cutting gas and in other process applications. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry breeding and weed control.

The retail propane distribution industry is highly competitive, and is generally serviced by large multi-state full-service distributors and small local independent distributors. Like the home heating oil industry, each retail propane distribution provider operates in its own competitive environment because propane distributors typically reside in close proximity to their customers. In most retail propane distribution markets, customers can choose from multiple distributors based on the quality of customer service, safety, reputation and price.

It is common practice in our business to price our liquid products to customers based on a per gallon margin over wholesale costs. As a result, we believe distributors such as ourselves generally seek to maintain their per gallon margins by passing wholesale price increases through to customers, thus insulating their margins from the volatility in wholesale prices. However, distributors may be unable or unwilling to pass the entire product cost increases through to customers. In these cases, significant decreases in per gallon margins may result. The timing of cost pass-throughs can also significantly affect margins. (See Customers and Pricing for a discussion on our offerings).

Business Strategy

Our business strategy is to increase Adjusted EBITDA (See Item 6. Selected Historical Financial and Operating Data for a definition and history) and cash flow by effectively managing operations while growing and retaining our customer base as a retail distributor of home heating oil and propane and provider of related products and services. The key elements of this strategy include the following:

Pursue select acquisitions Our senior management team has developed expertise in identifying acquisition opportunities and integrating acquired customers into our operations. We focus on acquiring profitable companies within and outside our current footprint.

We actively pursue home heating oil only companies, propane companies, dual fuel (home heating oil and propane) companies and selectively target motor fuels acquisitions, especially where they are operating in the markets we currently serve. The focus for our acquisitions is both within our current footprint, as well as outside of such areas if the target company is of adequate size to sustain profitability as a stand-alone operation. We have used this strategy to expand into several states over the past five years.

Deliver superior customer service We are dedicated to consistently providing our customers with superior service and a positive customer experience to improve retention and drive additional revenue. We have established a Customer Experience Platform and Voice of the Customer (VOC) Program to effectively measure customer satisfaction at certain brands.

VOC refers to a process (or program) designed to capture customers' preferences and opinions of the service we deliver. The heart of the VOC program is based on transactional surveys with real-time results. We analyze customer input to gain business insights and share this information internally to create meaningful change throughout the company and improve overall customer satisfaction.

We have deployed Salesforce.com, a customer relationship management solution, at most of our larger brands. This will allow us to provide a more consistent customer experience as our employees will have a 360 degree-view of each customer with easy access to key customer information and customized dashboards to track individual employee performance.

We have resources dedicated to training employees to provide superior and consistent service and enhance the customer experience. We also have a technical training committee to ensure that our field personnel are properly educated in using the latest technology in a safe and efficient manner. This effort is supported, reinforced and monitored by our local management teams.

Diversification of product and service offerings In addition to expanding our propane operations, we are focused on expanding our suite of rationally related products and services. These offerings include, but are not limited to, the sales, service and installation of heating and air conditioning equipment, plumbing services, and standby home generators. In addition, we also repair and install natural gas heating systems. We place significant emphasis on growing a solid, credit-worthy customer base with a focus on recurring revenue in the form of annual service agreements.

We have begun to offer a subscription-based, personal home concierge service to customers in certain of our geographic locations. This program may be expanded to our entire geographic foot print and to customers for which we currently do not provide any services. The Company is monitoring the expense levels associated with the roll out of the concierge program to determine that the revenues generated from the program justify the additional costs.

Geographic expansion We utilize census-based demographic data as well as local field expertise to target areas contiguous to our geographic footprint for organic expansion in a strategic manner. We then operate in such areas using a combination of existing logistical resources and personnel and, if warranted by the business demands or opportunity, adding locations.

We grow the business utilizing advertising and marketing initiatives to expand our presence while building an effective marketing database of prospects and customers.

Seasonality

Our fiscal year ends on September 30. All references to quarters and years respectively in this document are to fiscal quarters and years unless otherwise noted. The seasonal nature of our business results 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 of each fiscal year, the peak heating season. Approximately 25% of our volume of other petroleum products is sold in each of the four fiscal quarters. We generally realize net income in our first and second fiscal quarters and net losses during our third and fourth fiscal quarters and we expect that the negative impact of seasonality on our third and fourth fiscal quarter operating results will continue. 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 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.

Competition

Most of our operating locations compete with numerous distributors, primarily on the basis of price, reliability of service and response to customer needs. Each such location operates in its own competitive environment.

We compete with distributors offering a broad range of services and prices, from full-service distributors, such as ourselves, to those offering delivery only. As do many companies in our business, we provide home heating and propane equipment repair service on a 24-hour-a-day, seven-day-a-week, 52 weeks a year basis. We believe that this level of service tends to help build customer loyalty. In some instances homeowners have formed buying cooperatives that seek a lower price than individual customers are otherwise able to obtain. Our business competes for retail customers with suppliers of alternative energy products, principally natural gas, propane (in the case of our home heating oil operations) and electricity.

Customer Attrition

We measure net customer attrition 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 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 conversions to natural gas. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Customer Attrition.)

Customers and Pricing

Home heating oil comprises 84% of our product customer base, with 12% devoted to propane and 4% devoted to other petroleum products. (During fiscal 2018 we sold 357.2 million gallons of home heating oil and propane and 138.3 million gallons of other petroleum products.)

Our full service home heating oil customer base is comprised of 96% residential customers and 4% commercial customers. Approximately 96% of our full service residential and commercial home heating oil customers have their deliveries scheduled automatically and 4% of our home heating oil customer base call from time to time to schedule a delivery. Automatic deliveries are scheduled based on each customer's historical consumption pattern and prevailing weather conditions. Our practice is to bill customers promptly after delivery. We offer a balanced payment plan to residential customers in which a customer's estimated annual oil purchases and service contract fees are paid for in a series of equal monthly payments. Approximately 34% of our residential home heating oil customers have selected this billing option.

We offer several pricing alternatives to our residential home heating oil customers. Our variable pricing program allows the price to float with the heating oil market and other factors. In addition, we offer price-protected programs, which establish either a ceiling or a fixed price per gallon that the customer pays over a defined period. The following chart depicts the percentage of the pricing plans selected by our residential home heating oil customers as of the end of the fiscal year.

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	September 30, 2018	2017	2016	2015	2014
Variable	55.2 %	52.6 %	53.2 %	51.4 %	53.5 %
Ceiling	36.9 %	37.1 %	40.8 %	43.9 %	40.8 %
Fixed	7.9 %	10.3 % (a)	6.0 %	4.7 %	5.7 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

(a) Approximately 2% of the increase in the percentage of accounts under fixed contracts is attributable to fiscal 2017 acquisitions.

Sales to residential customers ordinarily generate higher per gallon margins than sales to commercial customers. Due to greater price sensitivity, our own internal marketing efforts, and hedging costs of residential price-protected customers, the per gallon margins realized from price-protected customers generally are less than from variable priced residential customers.

The propane customer base has a similar profile of heating oil residential and commercial customers. Pricing plans chosen by propane customers are almost exclusively variable in nature where selling prices will float with the propane market and other commercial factors.

The smallest portion of our customer base is devoted to other petroleum products. This customer group includes commercial and industrial customers of unbranded gasoline, diesel, kerosene and related distillate products. We sell products to these customers through contracts of various terms or through a competitive bidding process.

Derivatives

We use derivative instruments in order to mitigate our exposure to market risk associated with the purchase of home heating oil for our price-protected customers, physical inventory on hand, inventory in transit, priced purchase commitments, and the variable interest rate on our term loan. Currently, the Company's derivative instruments are with the following counterparties: Bank of America, N.A., Bank of Montreal, Cargill, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., Key Bank, N.A., Regions Financial Corporation, Toronto-Dominion Bank and Wells Fargo Bank, N.A.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 our interest rate derivative instruments designated as cash flow hedges are effective, as defined under this guidance, changes in fair value are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. We have elected not to designate our commodity derivative instruments as hedging instruments under this guidance, and as a result, the changes in fair value of the derivative instruments during the holding period 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. Depending on the risk being hedged, realized gains and losses are recorded in cost of product, cost of installations and services, or delivery and branch expenses.

Suppliers and Supply Arrangements

We purchase our product for delivery in either barge, pipeline or truckload quantities, and as of September 30, 2018, had contracts with approximately 109 third-party terminal sites for the right to temporarily store petroleum products at their facilities. Home heating oil and propane purchases are made under supply contracts or on the spot market. We have entered into market price based contracts for approximately 80% of our expected home heating oil and propane requirements for the fiscal 2019 heating season. We also have market price based contracts for approximately 29% of our expected diesel and gasoline requirements for fiscal 2019.

During fiscal 2018, Global Companies LLC provided approximately 8.4% of our petroleum product purchases. No other single supplier provided more than 8% of our product supply during fiscal 2018. Supply contracts typically have terms of 6 to 12 months. All of the supply contracts provide for minimum quantities and in most cases do not establish in advance the price of home heating oil or propane. This price is based upon a published market index price at the time of delivery or pricing date plus an agreed upon differential. We believe that our policy of contracting for the majority of our anticipated supply needs with diverse and reliable sources will enable us to obtain sufficient product should unforeseen shortages develop in worldwide supplies.

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):

	Fiscal 2018		Fiscal 2017		Fiscal 2016		Fiscal 2015		Fiscal 2014	
	Low	High	Low	High	Low	High	Low	High	Low	High
Quarter Ended										
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	2.05	2.35	1.45	1.86	1.26	1.53	1.38	1.84	2.65	2.98

On November 30, 2018, the NYMEX ultra low sulfur diesel contract closed at $1.85 per gallon or $0.20 per gallon lower than the average of $2.05 in Fiscal 2018.

Acquisitions

Part of our business strategy is to pursue select acquisitions.

During fiscal 2018, the Company acquired five home heating oil dealers and a motor fuel dealer with a total of 16,950 home heating oil and propane accounts for an aggregate purchase price of approximately $25.2 million; comprised of $23.7 million in cash and $1.5 million of deferred liabilities. The gross purchase price was allocated $15.3 million to intangible assets, $7.5 million to fixed assets and $2.4 million to working capital. Each acquired company's operating results are included in the Company's consolidated financial statements starting on its acquisition date. Customer lists, other intangibles and trade names are amortized on a straight-line basis over seven to twenty years.

During fiscal 2017, the Company acquired four home heating oil dealers, two propane dealers and a plumbing service provider with a total of 28,300 home heating oil and propane accounts for an aggregate purchase price of approximately $44.8 million; comprised of $43.3 million in cash and $1.5 million of deferred liabilities (including $0.6 million of contingent consideration). The gross purchase price was allocated $37.5 million to intangible assets, $10.2 million to fixed assets and reduced by $2.9 million in working capital credits. Each acquired company's operating results are included in the Company's consolidated financial statements starting on its acquisition date. Customer lists, other intangibles and trade names are amortized on a straight-line basis over seven to twenty years.

During fiscal 2016, we acquired a heating oil dealer, a motor fuel dealer, and two propane dealers with a total of 3,300 home heating oil and propane accounts for an aggregate purchase price of approximately $9.8 million. The gross purchase price was allocated $7.4 million to intangible assets, $2.5 million to fixed assets and reduced by $0.1 million for working capital credits.

Employees

As of September 30, 2018, we had 3,403 employees, of whom 927 were office, clerical and customer service personnel; 915 were equipment technicians; 542 were fuel delivery drivers and mechanics; 642 were management and 377 were employed in sales. Of these employees 1,463 (43%) are represented by 57 different collective bargaining agreements with local chapters of labor unions. Due to the seasonal nature of our business and depending on the demands of the 2019 heating season, we anticipate that we will augment our current staffing levels during the heating season from among the 380 employees on temporary leave of absence as of September 30, 2018. There are 13 collective bargaining agreements up for renewal in fiscal 2019, covering approximately 310 employees (9%). We believe that our relations with both our union and non-union employees are generally satisfactory.

Government Regulations

We are subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge or emission of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act, the Oil Pollution Act, and comparable state statutes. CERCLA, also known as the “Superfund” law, imposes joint and several liabilities without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. Products stored and/or delivered by us and certain automotive waste products generated by our fleet are hazardous substances within the meaning of CERCLA or otherwise subject to investigation and cleanup under other environmental laws and regulations. While we are currently not involved with any material CERCLA claims, and we have implemented programs and policies designed to address potential liabilities and costs under applicable environmental laws and regulations, failure to comply with such laws and regulations could result in civil or criminal penalties or injunctive relief in cases of non-compliance or impose liability for remediation costs.

We have incurred and continue to incur costs to address soil and groundwater contamination at some of our locations, including legacy contamination at properties that we have acquired. A number of our properties are currently undergoing remediation, in some instances funded by prior owners or operators contractually obligated to do so. To date, no material issues have arisen with respect to such prior owners or operators addressing such remediation, although there is no assurance that this will continue to be the case. In addition, we have been subject to proceedings by regulatory authorities for alleged violations of environmental and safety laws and regulations. We do not expect any of these liabilities or proceedings of which we are aware to result in material costs to, or disruptions of, our business or operations.

Transportation of our products by truck are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation or similar state agencies. Several of our oil terminals are governed under the United States Coast Guard operations Oversite, Federal OPA 90 FRP programs and Federal Spill Prevention Control and Countermeasure programs. All of our propane bulk terminals are governed under Homeland Security Chemical Facility Anti-Terrorism Standards programs. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations.

ITEM 1A. RISK FACTORS

You should consider carefully the risk factors discussed below, as well as all other information, as an investment in the Company involves a high degree of risk. We are subject to certain risks and hazards due to the nature of the business activities we conduct. The risks discussed below, any of which could materially and adversely affect our business, financial condition, cash flows, and results of operations, could result in a partial or total loss of your investment, and are not the only risks we face. We may experience additional risks and uncertainties not currently known to us or, as a result of developments occurring in the future, conditions that we currently deem to be immaterial may also materially and adversely affect our business, financial condition, cash flows and results of operations.

Our operating results will be adversely affected if we continue to experience significant net customer attrition in our home heating oil and propane customer base.

The following table depicts our gross customer gains, gross customer losses and net customer attrition from fiscal year 2014 to fiscal year 2018. 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 customer gains that are obtained through marketing efforts and losses at newly acquired businesses are included in these calculations from the point of closing going forward. Customer attrition percentage calculations include customers added through acquisitions in the denominators of the calculations on a weighted average basis from the closing date.

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
Gross customer gains	13.2%	13.1%	12.1%	14.6%	16.0%
Gross customer losses	16.4%	14.6%	17.2%	16.4%	16.9%
Net attrition	(3.2 %)	(1.5 %)	(5.1 %)	(1.8 %)	(0.9 %)

The gain of a new customer does not fully compensate for the loss of an existing customer because of the expenses incurred during the first year to add a new customer. Typically, the per gallon margin realized from a new account added is less than the margin of a customer that switches to another provider. Customer losses are the result of various factors, including but not limited to:

- price competition;
- customer relocations and home sales/foreclosures;
- conversions to natural gas;
- credit worthiness; and
- service disruptions.

The continuing volatility in the energy markets can intensify price competition and add to our difficulty in reducing net customer attrition. Warmer than normal weather can also contribute to an increase in attrition as customers perceive less need for a full service provider like ourselves.

If we are not able to reduce the current level of net customer attrition or if such level should increase, attrition will have a material adverse effect on our business, operating results and cash available for distributions to unitholders. For additional information about customer attrition, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Customer Attrition.”

Because of the highly competitive nature of our business, we may not be able to retain existing customers or acquire new customers, which would have an adverse impact on our business, operating results and financial condition.

Our business is subject to substantial competition. Most of our operating locations compete with numerous distributors, primarily on the basis of price, reliability of service and responsiveness to customer service needs. Each operating location operates in its own competitive environment.

We compete with distributors offering a broad range of services and prices, from full-service distributors, such as ourselves, to those offering delivery only. As do many companies in our business, we provide home heating equipment repair service on a 24-hour-a-day, seven-day-a-week, 52 weeks a year basis. We believe that this tends to build customer loyalty. In some instances homeowners have formed buying cooperatives that seek to purchase home heating oil from distributors at a price lower than individual customers are otherwise able to obtain. We also compete for retail customers with suppliers of alternative energy products, principally natural gas, propane (in the case of our home heating oil operations) and electricity. If we are unable to compete effectively, we may lose existing customers and/or fail to acquire new customers, which would have a material adverse effect on our business, operating results and financial condition.

Our operating results will be adversely affected if we experience significant net customer attrition from natural gas conversions

Based on data in the 2010 United States Census, from 2000 to 2010 it appears that heating oil customer conversions to natural gas in the states where we do business averaged from under 1% to over 3% per year.

The following table depicts our estimated customer losses to natural gas conversions for the last five fiscal years. Losses to natural gas in our footprint for the home heating oil industry could be greater or less than our estimates. We believe conversions will continue as natural gas has become less expensive than home heating oil on an equivalent BTU basis. In addition, certain states encourage homeowners to expand the use of natural gas as a heating fuel through legislation and regulatory efforts.

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
Customer losses to natural gas conversion	(1.3)%	(1.2)%	(1.3)%	(1.6)%	(2.2)%

In addition to our direct customer losses to natural gas competition, any conversion to natural gas by a heating oil consumer in our geographic footprint reduces the pool of available customers from which we can gain new heating oil customers, and could have a material adverse effect on our business, operating results and financial condition.

Energy efficiency and new technology may reduce the demand for our products and adversely affect our operating results.

Increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, have adversely affected the demand for our products by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices might reduce demand and adversely affect our operating results.

If we do not make acquisitions on economically acceptable terms, our future growth will be limited.

Generally, heating oil and propane are alternative energy sources to new housing construction, because natural gas is usually selected when natural gas infrastructure exists. In certain geographies, utilities are building out their natural gas infrastructure. As such, our industry is not a growth industry. Accordingly, future growth will depend on our ability to make acquisitions on economically acceptable terms. We cannot assure that we will be able to identify attractive acquisition candidates in our sector in the future or that we will be able to acquire businesses on economically acceptable terms. Adverse operating and financial results may limit our access to capital and adversely affect our ability to make acquisitions. Under the terms of our fourth amended and restated credit agreement that we sometimes refer to in this Form 10-K filing as our fourth amended and restated credit agreement (“Credit Agreement”), we are restricted from making any individual acquisition in excess of $25.0 million without the lenders’ approval. In addition, to make an acquisition, we are required to have Availability (as defined in our Credit Agreement) of at least $40.0 million, on a historical pro forma and forward-looking basis. Furthermore, as long as the bank term loan is outstanding, we must be in compliance with the senior secured leverage ratio (as defined in our Credit Agreement). These covenant restrictions may limit our ability to make acquisitions. Any acquisition may involve potential risks to us and ultimately to our unitholders, including:

- an increase in our indebtedness;
- an increase in our working capital requirements;
- an inability to integrate the operations of the acquired business;

- an inability to successfully expand our operations into new territories;
- the diversion of management’s attention from other business concerns;
- an excess of customer loss from the acquired business;

- loss of key employees from the acquired business; and
- the assumption of additional liabilities including environmental liabilities.

In addition, acquisitions may be dilutive to earnings and distributions to unitholders, and any additional debt incurred to finance acquisitions may, among other things, affect our ability to make distributions to our unitholders.

Since weather conditions may adversely affect the demand for home heating oil and propane, our business, operating results and financial condition are vulnerable to warm winters.

Weather conditions in the Northeast and Mid-Atlantic regions in which we operate have a significant impact on the demand for home heating oil and propane because our customers depend on this product principally for space heating purposes. As a result, weather conditions may materially adversely impact our business, operating results and financial condition. During the peak-heating season of October through March, sales of home heating oil and propane historically have represented approximately 80% of our annual volume. Actual weather conditions can vary substantially from year to year or from month to month, significantly affecting our financial performance. Warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume we sell and the gross profit realized and, consequently, our results of operations.

To partially mitigate the adverse effect of warm weather on cash flows, we have used weather hedge contracts for a number of years. In general, such weather hedge contracts provide that we are entitled to receive a specific payment per heating degree-day shortfall, when the total number of heating degree-days in the hedge period is less than the ten year average. The "payment thresholds," or strikes, are set at various levels. The hedge period runs from November 1, through March 31, of a fiscal year taken as a whole.

For fiscal year 2019, 2020, and 2021 we have weather hedge contracts with one provider. For each fiscal year the maximum that the Company can receive is $12.5 million and the maximum the Company may be obligated to pay is $5.0 million. However, there can be no assurance that such weather hedge contracts would fully or substantially offset the adverse effects of warmer weather on our business and operating results during such period or that colder weather will result in enough profit to offset a payment by the Company to its provider.

High product prices can lead to customer conservation and attrition, resulting in reduced demand for our products.

Prices for our products are subject to volatile fluctuations in response to changes in supply and other market conditions. During periods of high product costs our prices generally increase. High prices can lead to customer conservation and attrition, resulting in reduced demand for our products.

Increases in wholesale product costs may have adverse effects on our business, financial condition, results of operations, or liquidity.

Increases in wholesale product costs may have adverse effects on our business, financial condition and results of operations, including the following:

- customer conservation or attrition due to customers converting to lower cost heating products or suppliers;
- reduced liquidity as a result of higher receivables, and/or inventory balances as we must fund a portion of any increase in receivables, inventory and hedging costs from our own resources, thereby tying up funds that would otherwise be available for other purposes;
- higher bad debt expense and credit card processing costs as a result of higher selling prices;
- higher interest expense as a result of increased working capital borrowing to finance higher receivables and/or inventory balances; and
- higher vehicle fuel costs.

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If increases in wholesale product costs cause our working capital requirements to exceed the amounts available under our revolving credit facility or should we fail to maintain the required availability or fixed charge coverage ratio, we would not have sufficient working capital to operate our business, which could have a material adverse effect on our financial condition and results of operations.

Our business requires a significant amount of working capital to finance inventory and accounts receivable generated during the heating season. Under our revolving credit facility, we may borrow up to $300 million, which increases to $450 million during the peak winter months from December through April of each fiscal year. We are obligated to meet certain financial covenants under our Credit Agreement, including the requirement to maintain at all times either excess availability (borrowing base less amounts borrowed and letters of credit issued) of 12.5% of the revolving credit commitment then in effect or a fixed charge coverage ratio (as defined in our Credit Agreement) of not less than 1.1. In addition, as long as our term loan is outstanding, our senior secured leverage ratio cannot at any time be more than 3.0 as calculated during the quarters ending June or September, and cannot at any time be more than 4.5 as calculated during the quarters ending December or March.

For certain of our supply contracts, we are required to establish the purchase price in advance of receiving the physical product. This occurs at the end of the month and is usually 20 days prior to receipt of the product. We use futures contracts or swaps to “short” the purchase commitment such that the commitment floats with the market. As a result, any upward movement in the market for home heating oil would reduce our liquidity, as we would be required to post additional cash collateral for a futures contract or our availability to borrow under our Credit Agreement would be reduced in the case of a swap.

At December 31, 2018, we expect to have approximately 24 million gallons of priced purchase commitments and physical inventory hedged with a futures contract or swap. If the wholesale price of heating oil increased $1 per gallon, our near term liquidity in December would be reduced by $24 million.

At September 30, 2018, we had approximately 129,000 customers, or 34% of our residential customer base, on the balanced payment plan in which a customer’s estimated annual oil purchases and service contract fees are paid for in a series of equal monthly payments. Increases in wholesale prices could reduce our liquidity if we failed to recalculate the balanced payments on a timely basis or if customers resist higher balanced payments. These customers could possibly owe us more in the future than we had budgeted. Generally, customer credit balances are at their low point after the end of the heating season and at their peak prior to the beginning of the heating season.

Our hedging strategy may adversely affect our liquidity.

We purchase synthetic call options from and enter into forward swaps with members of our lending group to manage market risk associated with our commitments to our customers, our physical inventory and fuel we use for our vehicles. These institutions have not required an initial cash margin deposit or any mark to market maintenance margin for these derivatives. Any mark to market exposure due to reductions in wholesale energy costs reduces our borrowing base and can thus reduce the amount available to us under our Credit Agreement. The highest mark to market reserve against our borrowing base for these derivative instruments with our lending group was $0, $7.8 million, and $25.2 million, during fiscal years 2018, 2017, and 2016 respectively.

We also purchase call options to hedge the price of the products to be sold to our price-protected customers which usually require us to pay an upfront cash payment. This reduces our liquidity, as we must pay for the option before any sales are made to the customer. We also purchase synthetic call options which require us to pay for these options as they expire.

Sudden and sharp oil price increases that cannot be passed on to customers may adversely affect our operating results.

Our industry is a “margin-based” business in which gross profit depends on the excess of sales prices per gallon over supply costs per gallon. Consequently, our profitability is sensitive to changes in the wholesale product cost caused by changes in supply or other market conditions. These factors are beyond our control and thus, when there are sudden and sharp increases in the wholesale cost of home heating oil, we may not be able to pass on these

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increases to customers through increased retail sales prices. In an effort to retain existing accounts and attract new customers we may offer discounts, which will impact the net per gallon gross margin realized.

Significant declines in the wholesale price of home heating oil may cause price-protected customers to renegotiate or terminate their arrangements which may adversely impact our gross profit and operating results.

When the wholesale price of home heating oil declines significantly after a customer enters into a price protection arrangement, some customers attempt to renegotiate their arrangement in order to enter into a lower cost pricing plan with us or terminate their arrangement and switch to a competitor. Under our current price-protected programs, approximately 36.9% and 7.9% of our residential customers are respectively categorized as being either ceiling or fixed.

A significant portion of our home heating oil volume is sold to price-protected customers (ceiling and fixed) and our gross margins could be adversely affected if we are not able to effectively hedge against fluctuations in the volume and cost of product sold to these customers.

A significant portion of our home heating oil volume is sold to individual customers under an arrangement pre-establishing the ceiling sales price or a fixed price of home heating oil over a fixed period. When the customer makes a purchase commitment for the next period we currently purchase option contracts, swaps and futures contracts for a substantial majority of the heating oil that we expect to sell to these price-protected 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. If the actual usage exceeds the amount of the hedged volume on a monthly basis, we could be required to obtain additional volume at unfavorable margins. In addition, should actual usage in any month be less than the hedged volume, (including, for example, as a result of early terminations by fixed price customers) our hedging losses could be greater. Currently, we have elected not to designate our derivative instruments as hedging instruments under FASB ASC 815-10-05 Derivatives and Hedging, and the change in fair value of the derivative instruments is recognized in our statement of operations. Therefore, we experience volatility in earnings as these currently outstanding derivative contracts are marked to market and non-cash gains or losses are recorded in the statement of operations.

Our risk management policies cannot eliminate all commodity risk, basis risk, or the impact of adverse market conditions which can adversely affect our financial condition, results of operations and cash available for distribution to our unitholders. In addition, any noncompliance with our risk management policies could result in significant financial losses.

While our hedging policies are designed to minimize commodity risk, some degree of exposure to unforeseen fluctuations in market conditions remains. For example, we change our hedged position daily in response to movements in our inventory. Any difference between the estimated future sales from inventory and actual sales will create a mismatch between the amount of inventory and the hedges against that inventory, and thus change the commodity risk position that we are trying to maintain. Also, significant increases in the costs of the products we sell can materially increase our costs to carry inventory. We use our revolving credit facility as our primary source of financing to carry inventory and may be limited on the amounts we can borrow to carry inventory. Basis risk describes the inherent market price risk created when a commodity of certain grade or location is purchased, sold or exchanged as compared to a purchase, sale or exchange of a like commodity at a different time or place. Transportation costs and timing differentials are components of basis risk. For example, we use the NYMEX to hedge our commodity risk with respect to pricing of energy products traded on the NYMEX. Physical deliveries under NYMEX contracts are made in New York Harbor. To the extent we take deliveries in other ports, such as Boston Harbor, we may have basis risk. In a backward market (when prices for future deliveries are lower than current prices), basis risk is created with respect to timing. In these instances, physical inventory generally loses value as basis declines over time. Basis risk cannot be entirely eliminated, and basis exposure, particularly in backward or other adverse market conditions, can adversely affect our financial condition, results of operations and cash available for distribution to our unitholders.

We monitor processes and procedures to reduce the risk of unauthorized trading and to maintain substantial balance between purchases and sales or future delivery obligations. We can provide no assurance, however, that these steps will detect and/or prevent all violations of such risk management policies and procedures, particularly if deception or other intentional misconduct is involved.

Failure to effectively estimate employer-sponsored health insurance premiums and incremental costs due to the U.S. Patient Protection and Affordable Care Act (the "ACA") or other healthcare reform laws could materially and adversely affect the Company's financial condition, results of operations, and cash flows.

In March 2010, the United States federal government enacted comprehensive health care reform legislation, which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new taxes on health insurers, self-insured companies, and health care benefits. The legislation imposes implementation effective dates that began in 2010 and extend through 2020 with many of the changes requiring additional guidance from federal agencies and regulations. Possible adverse effects could include increased costs, exposure to expanded liability, and requirements for us to revise the ways in which healthcare and other benefits are provided to employees. Efforts to modify, repeal or otherwise invalidate all, or certain provisions of, the ACA and/or adopt a replacement healthcare reform law may impact our employee healthcare costs. Since its enactment, there have been judicial and Congressional challenges to certain aspects of the ACA, and we expect there will be additional challenges and amendments to the ACA in the future. The Trump administration and members of the U.S. Congress have indicated that they may continue to seek to modify, repeal, or otherwise invalidate all, or certain provisions of the ACA. Most recently, the Tax Cuts and Jobs Acts was enacted, which, among other things, removes penalties for not complying with the individual mandate to carry health insurance. At this time, there is uncertainty concerning whether the ACA will be repealed or what requirements will be included in a new law, if enacted. Increased health care and insurance costs as well as other changes in federal or state workplace regulations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our obligation to fund multi-employer pension plans to which we contribute may have an adverse impact on us.

We participate in a number of multi-employer pension plans for current and former union employees covered under collective bargaining agreements. The risks of participating in multi-employer plans are different from single-employer plans in that assets contributed are pooled and may be used to provide benefits to current and former employees of other participating employers. Several factors could require us to make significantly higher future contributions to these plans, including the funding status of the plan, unfavorable investment performance, insolvency or withdrawal of participating employers, changes in demographics and increased benefits to participants. Several of these multi-employer plans to which we contribute are underfunded, meaning that the value of such plans' assets are less than the actuarial value of the plans' benefit obligations.

We may be subject to additional liabilities imposed by law as a result of our participation in multi-employer defined benefit pension plans. Various Federal laws impose certain liabilities upon an employer who is a contributor to a multi-employer pension plan if the employer withdraws from the plan or the plan is terminated or experiences a mass withdrawal, potentially including an allocable share of the unfunded vested benefits in the plan for all plan participants, not just our retirees. Accordingly, we could be assessed our share of unfunded liabilities should we terminate participation in these plans, or should there be a mass withdrawal from these plans, or if the plans become insolvent or otherwise terminate.

While we currently have no intention of permanently terminating our participation in or otherwise withdrawing from any underfunded multi-employer pension plan, there can be no assurance that we will not be required to record material withdrawal liabilities or be required to make material cash contributions in the future to one or more underfunded plans, whether as a result of withdrawing from a plan, or of agreeing to any alternate funding option, or due to any of the other risks associated with being a participating employer in an underfunded plan. Any of these events could negatively impact our liquidity and financial results.

We rely on the continued solvency of our derivatives, insurance and weather hedge counterparties.

If counterparties to the derivative instruments that we use to hedge the cost of home heating oil sold to price-protected customers, physical inventory and our vehicle fuel costs were to fail, our liquidity, operating results and financial condition could be materially adversely impacted, as we would be obligated to fulfill our operational requirement of purchasing, storing and selling home heating oil and vehicle fuel, while losing the mitigating benefits of economic hedges with a failed counterparty. If one of our insurance carriers were to fail, our liquidity, results of operations and financial condition could be materially adversely impacted, as we would have to fund any catastrophic loss. If our weather hedge counterparty were to fail, we would lose the protection of our weather hedge contract. Currently, we have outstanding derivative instruments with the following counterparties: Bank of America, N.A., Bank of Montreal, Cargill, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., Key Bank, N.A., Regions Financial Corporation, Toronto-Dominion Bank and Wells Fargo Bank, N.A.. Our primary insurance carriers are American International Group, our captive insurance subsidiary, Woodbury Insurance Co., Inc., and our weather hedge counterparty which is a subsidiary of Sompo International.

Our operating results are subject to seasonal fluctuations.

Our operating results are subject to seasonal fluctuations since the demand for home heating oil and propane is greater during the first and second fiscal quarter of our fiscal year, which is the peak heating season. The seasonal nature of our business has resulted on average in 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 of each fiscal year. As a result, we generally realize net income in our first and second fiscal quarters and net losses during our third and fourth fiscal quarters and we expect that the negative impact of seasonality on our third and fourth fiscal quarter operating results will continue. Thus any material reduction in the profitability of the first and second quarters for any reason, including warmer than normal weather, generally cannot be made up by any significant profitability improvements in the results of the third and fourth quarters.

Economic conditions could adversely affect our results of operations and financial condition.

Uncertainty about economic conditions poses a risk as our customers may reduce or postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our equipment and services and could lead to increased conservation, as we have seen certain of our customers seek lower cost providers. Any increase in existing customers or potential new customers seeking lower cost providers and/or increase in our rejection rate of potential accounts because of credit considerations could increase our overall rate of net customer attrition. In addition, we could experience an increase in bad debts from financially distressed customers, which would have a negative effect on our liquidity, results of operations and financial condition.

We are subject to operating and litigation risks that could adversely affect our operating results whether or not covered by insurance.

Our operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing customers with our products such as natural disasters, adverse weather, accidents, fires, explosions, hazardous materials releases, mechanical failures and other events beyond our control. If any of these events were to occur, we could incur substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations. As a result, we may be a defendant in legal proceedings and litigation arising in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable.

As we self-insure workers' compensation, automobile and general liability claims up to pre-established limits, we establish reserves based upon expectations as to what our ultimate liability will be for claims based on our historical factors. We evaluate on an annual basis the potential for changes in loss estimates with the support of qualified actuaries. As of September 30, 2018, we had approximately $72.1 million of net insurance reserves. Other than matters for which we self-insure, we maintain insurance policies with insurers in amounts and with coverage and deductibles that we believe are reasonable and prudent.

However, there can be no assurance that the ultimate settlement of these claims will not differ materially from the assumptions used to calculate the reserves or that the insurance we maintain will be adequate to protect us from all material expenses related to potential future claims for remediation costs and personal and property damage or that these levels of insurance will be available in the future at economical prices, either of which could have a material effect on our results of operations. Further, certain types of claims may be excluded from our insurance coverage, including the legal matter disclosed in Item 3 (Legal Proceedings – Litigation) of this Report. If we were to 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.

Our captive insurance company may not bring the benefits we expect.

Beginning October 1, 2016, we have elected to insure through a wholly-owned captive insurance company, Woodbury Insurance Co., Inc., certain self-insured or deductible amounts. We also continue to maintain our normal, historical, insurance policies with third party insurers. In addition to certain business and operating benefits of having a captive insurance company, we expect to receive certain cash flow benefits related to the timing of the tax deduction related to these claims. Such expected cash tax timing benefits related to coverage provided by Woodbury Insurance Co., Inc. may not materialize, or any cash tax savings may not be as much as anticipated.

Our results of operations and financial condition may be adversely affected by governmental regulation and associated environmental and regulatory costs.

Our business is subject to a wide range of federal, state and local laws and regulations related to environmental and other matters. Such laws and regulations have become increasingly stringent over time. Some state and local governments have enacted or are attempting to enact regulations and incentive programs encouraging the phase-out of the products that we sell in favor of other types of fuels, such as natural gas. We may experience increased costs due to stricter pollution control requirements or liabilities resulting from noncompliance with operating or other regulatory permits. New regulations might adversely impact operations, including those relating to underground storage, transportation and delivery of the products that we sell. In addition, there are environmental risks inherently associated with home heating oil operations, such as the risks of accidental releases or spills. We have incurred and continue to incur costs to remediate soil and groundwater contamination at some of our locations. We cannot be sure that we have identified all such contamination, that we know the full extent of our obligations with respect to contamination of which we are aware, or that we will not become responsible for additional contamination not yet discovered. It is possible that material costs and liabilities will be incurred, including those relating to claims for damages to property and persons and the environment.

In addition, our financial condition, results of operations and ability to pay distributions to our unitholders may be negatively impacted by significant changes in federal and state tax law. For example, an increase in federal and state income tax rates will reduce the amount of cash to pay distributions.

There is increasing attention in the United States and worldwide concerning the issue of climate change and the effect of emissions of greenhouse gases (“GHG”), in particular from the combustion of fossil fuels. Federal, regional and state regulatory authorities in many jurisdictions have begun taking steps to regulate GHG emissions. For example in October 2015, the United States Environmental Protection Agency (“EPA”) published the Clean Power Plan for regulation of GHG emissions associated with the energy sector. Under the Clean Power Plan, the EPA will set state-specific goals for GHG emissions reductions, leaving the states with flexibility to determine how to achieve such goals. However, following litigation and subsequent EPA review of the Clean Power Plan, in August 2018, the EPA proposed the Affordable Clean Energy (“ACE”) Rule to replace the Clean Power Plan. The ACE Rule would establish emissions guidelines pursuant to which states would develop plans to address GHG emissions from existing coal-fired electric generating units rather than EPA setting state-specific standards under the Clean Power Plan and requiring states to develop plans using certain “building blocks,” such as “beyond-the-fence-line” conservation measures, to meet those state-specific standards. Public comments on the ACE Rule were due October 30, 2018. At this time, the final language, implementation, and any impact on our business of the ACE Rule is uncertain. Further, irrespective of federal legislation and regulation, individual states or cities may enact laws and regulations controlling GHG emissions. It is likely that any regulatory program that caps emissions or imposes a carbon tax will increase costs for us and our customers, which could lead to increased conservation or customers seeking lower cost alternatives. We cannot yet estimate the compliance costs or business impact of potential national, regional or state greenhouse gas emissions reduction legislation, regulations or initiatives, since many such programs and proposals are still in development.

Our operations would be adversely affected if service at our third-party terminals or on the common carrier pipelines used is interrupted.

The products that we sell are transported in either barge, pipeline or in truckload quantities to third-party terminals where we have contracts to temporarily store our products. Any significant interruption in the service of these third-party terminals or on the common carrier pipelines used would adversely affect our ability to obtain product.

The risk of global terrorism and political unrest may adversely affect the economy and the price and availability of the products that we sell and have a material adverse effect on our business, financial condition and results of operations.

Terrorist attacks and political unrest may adversely impact the price and availability of the products that we sell, our results of operations, our ability to raise capital and our future growth. The impact that the foregoing may have on our industry in general, and on our business in particular, is not known at this time. An act of terror could result in disruptions of crude oil supplies, markets and facilities, and the source of the products that we sell could be direct or indirect targets. Terrorist activity may also hinder our ability to transport our products if our normal means of transportation become damaged as a result of an attack. Instability in the financial markets as a result of terrorism could also affect our ability to raise capital. Terrorist activity could likely lead to increased volatility in the prices of our products.

The impact of hurricanes and other natural disasters could cause disruptions in supply and could also reduce the demand for the products that we sell, which would have a material adverse effect on our business, financial condition and results of operations.

Hurricanes and other natural disasters may cause disruptions in the supply chains for the products that we sell. Disruptions in supply could have a material adverse effect on our business, financial condition and results of operations, causing an increase in wholesale prices and a decrease in supply. Hurricanes and other natural disasters could also cause disruptions in the power grid, which could prevent our customers from operating their home heating oil systems, thereby reducing our sales. For example, on October 29, 2012, storm Sandy made landfall in our service area, resulting in widespread power outages that affected a number of our customers. Deliveries of home heating oil and propane were less than expected for certain of our customers who were without power for several weeks subsequent to storm Sandy.

We depend on the use of information technology systems that could fail or be the target of cyber-attacks.

Our systems and networks are maintained internally and by third-party vendors, and their failure could significantly impede operations. In addition, our systems and networks, as well as those of our vendors, banks and counterparties, may receive and store personal/business information in connection with human resources operations, customer offerings, and other aspects of our business. A cyber-attack or material network breach in the security of these systems could include the theft of proprietary information or employee and customer information, as well as disrupt our operations or damage our facilities or those of third parties. This could have a material adverse effect on our revenues and increase our operating and capital costs, which could reduce the amount of cash otherwise available for distribution. To the extent that any disruption or security breach results in a loss or damage to the Company's data, or an inappropriate disclosure of confidential or customer or employee information, it could cause significant damage to the Company's reputation, affect relationships with its customers and employees, lead to claims against the Company, and ultimately harm our business. In addition, we may be required to incur additional costs to modify, remediate and protect against damage caused by these disruptions or security breaches in the future.

If we fail to maintain an effective system of internal controls, then we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common units.

Effective internal controls are necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. We may experience difficulties in implementing effective internal controls as part of our integration of acquisitions from private companies, which are not subject to the internal control requirements imposed on public companies. If we are unable to maintain adequate controls over our financial processes and reporting in the future or if the businesses we acquire have ineffective internal controls, our operating results could be harmed or we may fail to meet our reporting obligations. Ineffective internal controls over financial reporting could cause our unitholders to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common units.

Conflicts of interest have arisen and could arise in the future.

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and us or any of our limited partners, on the other hand. As a result of these conflicts the general partner may favor its own interests and those of its affiliates over the interests of the unitholders. The nature of these conflicts is ongoing and includes the following considerations:

- The general partner's affiliates are not prohibited from engaging in other business or activities, including direct competition with us.
- The general partner determines the amount and timing of asset purchases and sales, capital expenditures, distributions to unitholders, unit repurchases, borrowings and reserves, each of which can impact the amount of cash, if any, available for distribution to unitholders, and available to pay principal and interest on debt and the amount of incentive distributions payable in respect of the general partner units.
- The general partner controls the enforcement of obligations owed to us by the general partner.
- The general partner decides whether to retain its counsel or engage separate counsel to perform services for us.
- In some instances the general partner may borrow funds in order to permit the payment of distributions to unitholders.
- The general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without limitations, constitute breaches of fiduciary duty.
- Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.
- The general partner is allowed to take into account the interests of parties in addition to the Company in resolving conflicts of interest, thereby limiting its fiduciary duty to the unitholders.
- The general partner determines whether to issue additional units or other of our securities.
- The general partner determines which costs are reimbursable by us.
- The general partner is not restricted from causing us to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

We could experience significant increases in operating costs and reduced profitability due to competition for drivers and equipment technicians' labor.

We compete with other entities for drivers and equipment technicians' labor, including entities that operate in different market sectors than us. Costs to recruit, train and retain adequate personnel, the loss of certain personnel, our inability to attract and retain other qualified personnel or a labor shortage that reduces the pool of qualified candidates could adversely affect our results of operations.

A substantial portion of our workforce is unionized, and we may face labor actions that could disrupt our operations or lead to higher labor costs and adversely affect our business.

As of September 30, 2018, approximately 43% of our employees were covered under 57 different collective bargaining agreements. As a result, we are usually involved in union negotiations with several local bargaining units at any given time. There can be no assurance that we will be able to negotiate the terms of any expired or expiring agreement on terms satisfactory to us. Although we consider our relations with our employees to be generally satisfactory, we may experience strikes, work stoppages or slowdowns in the future. If our unionized workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations, which could have a material adverse effect on our business, results of operations and financial condition. Moreover, our non-union employees may become subject to labor organizing efforts. If any of our current non-union facilities were to unionize, we could incur increased risk of work stoppages and potentially higher labor costs.

Cash distributions (if any) are not guaranteed and may fluctuate with performance and reserve requirements.

Distributions of available cash by us to unitholders will depend on the amount of cash generated, and distributions may fluctuate based on our performance. The actual amount of cash that is available will depend upon numerous factors, including:

- profitability of operations,
- required principal and interest payments on debt or debt prepayments,
- debt covenants,
- margin account requirements,
- cost of acquisitions,
- issuance of debt and equity securities,
- fluctuations in working capital,
- capital expenditures,
- units repurchased,
- adjustments in reserves,
- prevailing economic conditions,
- financial, business and other factors,
- increased pension funding requirements
- results of potential adverse litigation, and
- the amount of cash taxes we have to pay in Federal, State and local corporate income and franchise taxes.

Our Credit Agreement imposes restrictions on our ability to pay distributions to unitholders, including the need to maintain certain covenants. (See the fourth amended and restated credit agreement and Note 12 of the Notes to the Consolidated Financial Statements—Long-Term Debt and Bank Facility Borrowings)

Our substantial debt and other financial obligations could impair our financial condition and our ability to obtain additional financing and have a material adverse effect on us if we fail to meet our financial and other obligations.

At September 30, 2018, we had outstanding under our Credit Agreement a $100 million term loan due July 2023. In addition, under the revolver portion of our Credit Agreement which expires in July 2023, we had borrowings of $1.5 million, $7.1 million of letters of credit were issued, no hedge positions were secured, and availability was $189.0 million. Exclusive of the term loan, during the last three fiscal years we have utilized as much as $167.3 million of our Credit Agreement in borrowings, letters of credit and hedging reserve. Our substantial indebtedness and other financial obligations could:

- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, unit repurchases or general partnership purposes;

- have a material adverse effect on us if we fail to comply with financial and affirmative and restrictive covenants in our debt agreements and an event of default occurs that is not cured or waived;
- require us to dedicate a substantial portion of our cash flow for principal and interest payments on our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital and capital expenditures;
- expose us to interest rate risk because certain of our borrowings are at variable rates of interest;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a competitive disadvantage compared to our competitors that have proportionally less debt.

If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional equity capital or sell our assets. We might then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all.

We are not required to accumulate cash for the purpose of meeting our future obligations to our lenders, which may limit the cash available to service the final payment due on the term loan outstanding under our Credit Agreement.

Subject to the limitations on restricted payments that are contained in our Credit Agreement, we are not required to accumulate cash for the purpose of meeting our future obligations to our lenders. As a result, we may be required to refinance the final payment of our term loan. Our ability to refinance the term loan will depend upon our future results of operation and financial condition as well as developments in the capital markets. Our general partner will determine the future use of our cash resources and has broad discretion in determining such uses and in establishing reserves for such uses, which may include but are not limited to:

- complying with the terms of any of our agreements or obligations;
- providing for distributions of cash to our unitholders in accordance with the requirements of our Partnership Agreement;
- providing for future capital expenditures and other payments deemed by our general partner to be necessary or advisable, including to make acquisitions; and
- repurchasing common units.

Depending on the timing and amount of our use of cash, this could significantly reduce the cash available to us in subsequent periods to make payments on borrowings under our Credit Agreement.

Restrictive covenants in our Credit Agreement may reduce our operating flexibility.

Our Credit Agreement contains various covenants that limit our ability and the ability of our subsidiaries to, among other things:

- incur indebtedness;
- make distributions to our unitholders;
- purchase or redeem our outstanding equity interests or subordinated indebtedness;
- make investments;
- create liens;
- sell assets;
- engage in transactions with affiliates;
- restrict the ability of our subsidiaries to make payments, loans, guarantees and transfers of assets or interests in assets;

- engage in sale-leaseback transactions;
- effect a merger or consolidation with or into other companies, a sale of all or substantially all of our properties or assets; and
- engage in other lines of business.

These restrictions could limit our ability to obtain future financings, make capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. Our Credit Agreement also requires us to maintain specified financial ratios and satisfy other financial conditions. Our ability to meet those financial ratios and conditions can be affected by events beyond their control, such as weather conditions and general economic conditions. Accordingly, we may be unable to meet those ratios and conditions.

Any breach of any of these covenants, failure to meet any of these ratios or conditions, or occurrence of a change of control would result in a default under the terms of the relevant indebtedness or other financial obligations to become immediately due and payable. If we were unable to repay those amounts, the lenders could initiate a bankruptcy proceeding or liquidation proceeding or proceed against the collateral, if any. If the lenders of our indebtedness or other financial obligations accelerate the repayment of borrowings or other amounts owed, we may not have sufficient assets to repay our indebtedness or other financial obligations, including the notes.

Under our Credit Agreement, the occurrence of a “change of control” is considered a default. We may be unable to repay borrowings under our Credit Agreement if the indebtedness outstanding thereunder is accelerated following a change of control.

In the event of a change in control, we may not have the financial resources to repay borrowings under our Credit Agreement and may be unable to satisfy our obligations unless we are able to refinance or obtain waivers under our other indebtedness.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We provide services to our customers in the United States in eighteen states and the District of Columbia, ranging from Maine to Georgia from 46 principal operating locations and 89 depots, 51 of which are owned and 84 of which are leased. As of September 30, 2018, we had a fleet of 1,251 truck and transport vehicles, the majority of which were owned, 1,306 service and 363 support vehicles, the majority of which were leased. We lease our corporate headquarters in Stamford, Connecticut. Our obligations under our Credit Agreement are secured by liens and mortgages on substantially all of the Company’s and subsidiaries’ real and personal property.

ITEM 3. LEGAL PROCEEDINGS—LITIGATION

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 fraudulent inducement. 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. On September 12, 2018, the district court granted in part and denied in part Petro's motion to dismiss. The district court dismissed the Plaintiff's claims for breach of the covenant of good faith and fair dealing and fraudulent inducement, but declined to dismiss the Plaintiff's remaining claims. The district court granted the Plaintiff leave to amend to attempt to replead his

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fraudulent inducement claim. On October 10, 2018, the Plaintiff filed a second amended complaint. The second amended complaint attempts to replead a fraudulent inducement claim and is otherwise substantially similar or identical to the prior complaint. On November 13, 2018, Petro moved to dismiss the fraudulent inducement and unjust enrichment claims in the second amended complaint. Oral argument on Petro's motion is set for January 9, 2019. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S UNITS AND RELATED MATTERS

The common units, representing limited partner interests in Star, are listed and traded on the New York Stock Exchange, Inc. ("NYSE") under the symbol "SGU."

The following tables set forth the range of the daily high and low sales prices per common unit and the cash distributions declared on each unit for the periods indicated.

	SGU – Common Unit Price Range				Distributions Declared per Unit	
	High		Low			
Quarter Ended	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2017
December 31,	$11.35	$11.30	$10.07	$9.06	$ 0.1100	$ 0.1025
March 31,	$11.10	$11.39	$8.74	$9.02	$ 0.1100	$ 0.1025
June 30,	$10.09	$11.70	$9.14	$9.00	$ 0.1175	$ 0.1100
September 30,	$10.10	$11.35	$9.21	$10.26	$ 0.1175	$ 0.1100

As of November 30, 2018, there were approximately 236 holders of record of common units.

There is no established public trading market for the Company's 0.3 million general partner units.

Distribution Provisions

We are required to make distributions in an amount equal to our Available Cash, as defined in our Partnership Agreement, no more than 45 days after the end of each fiscal quarter, to holders of record on the applicable record dates. Available Cash, as defined in our Partnership Agreement, generally means all cash on hand at the end of the relevant fiscal quarter less the amount of cash reserves established by the Board of Directors of our general partner in its reasonable discretion for future cash requirements. These reserves are established for the proper conduct of our business (including reserves for future capital expenditures) for minimum quarterly distributions during the next four quarters and to comply with applicable laws and the terms of any debt agreements or other agreement to which we are subject. The Board of Directors of our general partner reviews the level of Available Cash each quarter based upon information provided by management.

According to the terms of our Partnership Agreement, minimum quarterly distributions on the common units accrue at the rate of $0.0675 per quarter ($0.27 on an annual basis). The information concerning restrictions on distributions required by Item 5 of this Report is incorporated by reference to Note 3. Quarterly Distribution of Available Cash, of the Company's consolidated financial statements. The Credit Agreement imposes certain restrictions on our ability to pay distributions to unitholders. In order to pay any distributions to unitholders or repurchase Common Units, the Company must maintain Availability (as defined in the fourth 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. (See Note 12 of the Notes to the Consolidated Financial Statements—Long-Term Debt and Bank Facility Borrowings).

On October 18, 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 fourth quarter of fiscal 2018, paid on November 6, 2018, to holders of record on October 29, 2018. The amount of distributions in excess of the minimum quarterly distribution of $0.0675, were distributed in accordance with our Partnership Agreement, subject to management incentive compensation plan. As a result, $6.2 million was 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 Unit Repurchase Plans and Retirement

Note 4 to the Condensed Consolidated Financial Statements concerning the Company's repurchase of Common Units during the three months ended September 30, 2018 is incorporated into this Item 5 by reference.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The selected financial data as of September 30, 2018 and 2017, and for the years ended September 30, 2018, 2017 and 2016 is derived from the financial statements of Star included elsewhere in this Report. The selected financial data as of September 30, 2016, 2015 and 2014 and for the years ended September 30, 2015 and 2014 is derived from the financial statements of Star not included in this Report. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Years Ending September 30,				
(in thousands, except per unit data)	2018	2017	2016	2015	2014
Statement of Operations Data:					
Sales	$1,677,837	$1,323,555	$1,161,338	$1,674,291	$1,961,724
Costs and expenses:					
Cost of sales	1,214,495	915,056	768,841	1,203,588	1,555,300
(Increase) decrease in the fair value of derivative instruments	(11,408)	(2,193)	(18,217)	4,187	6,566
Delivery and branch expenses	357,580	306,534	276,493	309,025	282,646
Depreciation and amortization expenses	31,575	27,882	26,530	24,930	21,635
General and administrative expenses	24,227	24,998	23,366	25,908	22,592
Multiemployer pension plan withdrawal charge	—	—	—	17,796	—
Finance charge income	(4,700)	(4,054)	(3,079)	(4,756)	(6,870)
Operating income	66,068	55,332	87,404	93,613	79,855
Interest expense, net	8,716	6,775	7,485	14,059	16,854
Amortization of debt issuance costs	1,288	1,281	1,247	1,818	1,602
Loss on redemption of debt	—	—	—	7,345	—
Other income, net	(7,043)	—	—	—	—
Income before income taxes	63,107	47,276	78,672	70,391	61,399
Income tax expense	7,602	20,376	33,738	32,835	25,315
Net income	$55,505	$26,900	$44,934	$37,556	$36,084
Weighted average number of limited partner units:					
Basic and diluted	54,764	55,888	57,022	57,285	57,476

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(in thousands, except per unit data)	Fiscal Years Ended September 30, 2018	2017	2016	2015	2014
Per Unit Data:					
Basic and diluted net income per unit (a)	$0.89	$0.46	$0.70	$0.59	$0.57
Cash distribution declared per common unit	$0.455	$0.425	$0.395	$0.365	$0.340
Balance Sheet Data (end of period):					
Current assets	$256,737	$241,241	$294,858	$271,479	$296,465
Total assets	$729,971	$673,917	$692,111	$685,508	$685,107
Long-term debt	$91,780	$65,717	$75,441	$90,000	$124,572
Partners' Capital	$309,785	$306,068	$301,493	$289,886	$273,245
Summary Cash Flow Data:					
Net cash provided by operating activities	$57,460	$21,058	$101,957	$136,853	$95,155
Net cash used in investing activities	$(65,252)	$(66,381)	$(19,631)	$(30,385)	$(107,318)
Net cash provided by (used in) financing activities	$(30,135)	$(41,157)	$(43,646)	$(54,959)	$(23,895)
Other Data:					
Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization (EBITDA) (b)	$104,686	$83,214	$113,934	$111,198	$101,490
Adjusted EBITDA (b)	$86,235	$81,021	$95,717	$140,526	$108,056
Retail home heating oil and propane gallons sold	357,187	316,892	302,517	382,834	360,972
Temperatures (warmer) colder than normal (c)	(4.7)%	(12.4)%	(17.8)%	5.0%	4.9%

(a) Net income per unit is computed in accordance with FASB ASC 260-10-45-60 Earnings per Share, Master Limited Partnerships (EITF 03-06). See Note 18. Earnings Per Limited Partner Units, of the consolidated financial statements.

(b) EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, (increase) decrease in the fair value of derivatives, net other income, multiemployer pension plan withdrawal charge, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges) are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

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

The method of calculating Adjusted EBITDA may not be consistent with that of other companies, and EBITDA and Adjusted EBITDA both have limitations as an analytical tool and so should not be viewed in isolation and should be viewed in conjunction with measurements that are computed in accordance with GAAP. Some of the limitations of EBITDA and Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

EBITDA and Adjusted EBITDA are calculated for the fiscal years ended September 30 as follows:

(in thousands)	2018	2017	2016	2015	2014
Net income	$55,505	$26,900	$44,934	$37,556	$36,084
Plus:					
Income tax expense	7,602	20,376	33,738	32,835	25,315
Amortization of debt issuance cost	1,288	1,281	1,247	1,818	1,602
Interest expense, net	8,716	6,775	7,485	14,059	16,854
Depreciation and amortization	31,575	27,882	26,530	24,930	21,635
EBITDA from continuing operations	104,686	83,214	113,934	111,198	101,490
(Increase)/decrease in the fair value of derivative instruments	(11,408)	(2,193)	(18,217)	4,187	6,566
Multiemployer pension plan withdrawal charge	—	—	—	17,796	—
Loss on redemption of debt	—	—	—	7,345	—
Other income, net (d)	(7,043)	—	—	—	—
Adjusted EBITDA	86,235	81,021	95,717	140,526	108,056
Add/(subtract)					
Income tax expense	(7,602)	(20,376)	(33,738)	(32,835)	(25,315)
Interest expense, net	(8,716)	(6,775)	(7,485)	(14,059)	(16,854)
Multiemployer pension plan withdrawal charge	—	—	—	(17,796)	—
Provision for losses on accounts receivable	6,283	1,639	(639)	3,738	7,514
(Increase) decrease in accounts receivables	(37,149)	(19,844)	10,965	30,141	12,771
(Increase) decrease in inventories	4,177	(10,598)	9,979	4,326	14,057
Increase (decrease) in customer credit balances	(6,563)	(23,085)	6,490	3,992	(2,433)
Change in deferred taxes	14,685	10,134	9,670	(4,101)	658
Change in other operating assets and liabilities	6,110	8,942	10,998	22,921	(3,299)
Net cash provided by operating activities	$57,460	$21,058	$101,957	$136,853	$95,155
Net cash used in investing activities	$(65,252)	$(66,381)	$(19,631)	$(30,385)	$(107,318)
Net cash used in financing activities	$(30,135)	$(41,157)	$(43,646)	$(54,959)	$(23,895)

(c) Temperatures (warmer) colder than normal are for those locations where we had existing operations, which we sometimes refer to as the "base business" (i.e. excluding acquisitions), temperatures (measured on a degree day basis) as reported by the National Oceanic and Atmospheric Administration ("NOAA").

(d) During fiscal 2018, we sold our security business to a national dealer and recorded a gain of $7.0 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Disclosure

This Annual Report on Form 10-K 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 Increases in Wholesale Product Cost

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 and inventory. 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 as well as higher vehicle fuel costs due to the increase in energy costs. 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):

Fiscal 2018		Fiscal 2017		Fiscal 2016		Fiscal 2015		Fiscal 2014	
Low	High	Low	High	Low	High	Low	High	Low	High

Quarter Ended										
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	2.05	2.35	1.45	1.86	1.26	1.53	1.38	1.84	2.65	2.98

On November 30, 2018, the NYMEX ultra low sulfur diesel contract closed at $1.85 per gallon or $0.20 per gallon lower than the average of $2.05 in Fiscal 2018.

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).

During fiscal 2018, the Company recorded an $11.1 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 $11.1 million benefit recorded to income tax expense, our combined federal, state, and local effective income tax rate was reduced from 43.1% at September 30, 2017 to 29.6% for the twelve months ended September 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 September 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)	Book	Tax
2018	$31,739	$43,898
2019	30,702	26,507
2020	26,851	19,895
2021	22,508	18,177
2022	18,571	16,470
2023	16,317	14,646

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.

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 may 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 September 30, 2018, we had 85.4 million gallons of home heating oil hedged for our ceiling customers and 11.7 million gallons for our fixed priced customers. Of these hedges, 100% were at their strike price, which reduces our potential for per gallon margin expansion unless the price for home heating oil declines.

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 our interest rate 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 commodity 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, conversion to natural gas and service disruptions. 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 Customer Gains	Gross Customer Losses	Net Gains / (Attrition)	Gross Customer Gains	Gross Customer Losses	Net Gains / (Attrition)	Gross Customer Gains	Gross 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	13,100	19,400	(6,300)	12,400	16,500	(4,100)	11,400	21,200	(9,800)
Total	59,800	74,400	(14,600)	57,900	64,700	(6,800)	55,300	78,800	(23,500)

	Fiscal Year Ended 2018			2017			2016		
	Gross Customer Gains	Gross Customer Losses	Net Gains / (Attrition)	Gross Customer Gains	Gross Customer Losses	Net Gains / (Attrition)	Gross Customer Gains	Gross Customer Losses	Net Gains / (Attrition)
First Quarter	5.4 %	4.3 %	1.1 %	5.6 %	4.4 %	1.2 %	5.0 %	5.3 %	(0.3)%
Second Quarter	3.0 %	4.1 %	(1.1)%	3.0 %	3.7 %	(0.7)%	3.0 %	4.2 %	(1.2)%
Third Quarter	1.7 %	3.5 %	(1.8)%	1.8 %	2.9 %	(1.1)%	1.6 %	3.1 %	(1.5)%
Fourth Quarter	2.9 %	4.3 %	(1.4)%	2.7 %	3.6 %	(0.9)%	2.5 %	4.6 %	(2.1)%
Total	13.0%	16.2 %	(3.2)%	13.1%	14.6 %	(1.5)%	12.1%	17.2 %	(5.1)%

For the twelve months ended September 30, 2018, the Company lost 14,600 accounts (net), or 3.2%, of our home heating oil and propane customer base, compared to 6,800 accounts lost (net), or 1.5%, of our home heating oil and propane customer base, during the twelve months ended September 30, 2017. Our net customer attrition was worse by 7,800 accounts. While our gross customer gains were 1,900 accounts higher than the prior year's comparable period, our gross customer losses were 9,700 accounts higher. Gross customer losses exceeded the prior year primarily due to the price of home heating oil and propane, credit issues, and service disruptions. The wholesale cost of home heating oil increased by $0.4667 per gallon year-over-year, putting additional price pressure on retaining our customer base and attracting new customers as price protected customers renewed their plan, after the heating season, product cost rose by $0.5817 per gallon. In addition, the extremely cold temperatures experienced at the end of December 2017 and in 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 and fourth quarter of fiscal 2018, i.e., after the heating season when it is easier for a customer to discontinue service with us. In addition, higher prices also drove up customer account balances resulting in higher credit-related losses.

For fiscal 2017, our net customer attrition improved by 16,700 accounts as we lost 6,800 accounts (net), or 1.5%, of our home heating oil and propane customer base, compared to 23,500 accounts lost (net), or 5.1% of our home heating oil and propane customer base, during the prior year's comparable period. The net customer attrition rate improved by 3.6%. Our gross customer gains were 2,600 higher than the prior year's comparable period and our gross customer losses were lower by 14,100 accounts. During the first fiscal quarter of fiscal 2017, net customer attrition improved by 6,600 accounts due to competitive margin management, certain marketing incentives, and more normal weather conditions, as we believe that customers did not see a need during the prior fiscal year first quarter (a very warm period) for the higher level of service that we can provide. During the second and third quarters of fiscal 2017, net customer attrition improved by 4,400 compared to the prior year period. Gross customer gains were higher by 100 accounts, and gross customer losses improved by 4,300 accounts. In the fourth quarter of fiscal 2017, net customer attrition improved by 5,700 accounts due largely to a reduction in gross customer losses of 4,700 accounts versus the fourth quarter of fiscal 2016. We believe that the modest increase in gross customer gains during the second, third and fourth quarters of fiscal 2017 can be in part attributable to competitive margin management and marketing incentives and that the lower level of gross customer losses reflect the impact of increased expenditures in the customer experience area and our focus on customer satisfaction and retention efforts. Also, in the fourth quarter of fiscal 2016, our losses were impacted by the purging of certain customers that were deemed to be inactive.

During fiscal 2018, we estimate that we lost 1.3% of our home heating oil and propane accounts to natural gas conversions versus 1.2% for fiscal 2017 and 1.3% for fiscal 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.

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. Approximately 25% of our volume of other petroleum products is sold in each of the four fiscal quarters. 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.

Acquisitions

During fiscal 2018, the Company completed six acquisitions. The timing of these transactions and the types of products sold by the acquired companies will impact year-over-year comparisons. The following table details the Company's acquisition activity and the volumes sold by the acquired company during the 12-month period prior to the date of acquisition.

(in thousands of gallons)
Fiscal 2018 Acquisitions

Acquisition Number	Month of Acquisition	Home Heating Oil and Propane	Other Petroleum Products	Total
1	November	53	75	128
2	November	164	6	170
3	April	7,775	6,567	14,342
4	May	1,573	35,617	37,190
5	August	1,136	135	1,271
6	September	1,730	180	1,910
		12,431	42,580	55,011

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 Star and its subsidiaries and should be read in conjunction with the historical financial and operating data and Notes thereto included elsewhere in this Annual Report.

Fiscal Year Ended September 30, 2018

Compared to Fiscal Year Ended September 30, 2017

Volume

For fiscal 2018, retail volume of home heating oil and propane sold increased by 40.3 million gallons, or 12.7%, to 357.2 million gallons, compared to 316.9 million gallons for fiscal 2017. For those locations where we 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 fiscal 2018 were 9.0% colder than fiscal 2017 but 4.7% warmer than normal, as reported by NOAA. For fiscal 2018, net customer attrition for the base business was 3.2%. The impact of fuel conservation, along with any period-to-period differences in delivery scheduling, 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.” An analysis of the change in the retail volume of home heating oil and propane, which is based on management’s estimates, sampling, and other mathematical calculations and certain assumptions, is found below:

(in millions of gallons)	Heating Oil and Propane
Volume - Fiscal 2017	316.9
Acquisitions	22.2
Impact of colder temperatures	25.9
Net customer attrition	(12.4)
Lower margin transport/commercial	1.6
Other	3.0
Change	40.3
Volume - Fiscal 2018	357.2

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 fiscal 2018 compared to fiscal 2017:

	Twelve Months Ended	
	September 30,	September 30,
Customers	2018	2017
Residential Variable	42.3 %	42.4 %
Residential Price-Protected	45.3 %	45.2 %
Commercial/Industrial/Other	12.4 %	12.4 %
Total	100.0 %	100.0 %

Volume of other petroleum products sold increased by 26.2 million gallons, or 23.4%, to 138.3 million gallons for fiscal 2018, compared to 112.1 million gallons for fiscal 2017, mainly attributable to acquisitions.

Product Sales

For fiscal 2018, product sales increased $339.3 million, or 31.9%, to $1.4 billion, compared to $1.1 billion for fiscal 2017, reflecting an increase in wholesale product costs of $0.3588 per gallon, or 22.8%, and an increase in total volume of 15.5%.

Installations and Services Sales

For fiscal 2018, installation and service sales increased $15.0 million, or 5.8%, to $273.5 million, compared to $258.5 million for fiscal 2017, largely due to acquisitions ($9.2 million) as well as growth in the base business ($5.8 million). Installation sales increased by $3.1 million primarily due to acquisitions. Service sales increased by $11.9 million, of which, $5.8 million was related to acquisitions. Service sales rose in the base business by $6.1 million, or 3.7%, due to higher equipment service contracts for air conditioning, natural gas and home heating oil, increased service billings due in part to the colder temperatures as well as the expansion of other services.

Cost of Product

For fiscal 2018, cost of product increased $282.5 million, or 41.8%, to $957.9 million, compared to $675.4 million for fiscal 2017, due largely to a $0.3588 per gallon, or 22.8%, increase in wholesale product cost and an increase in total volume of 15.5%.

Gross Profit—Product

The table below calculates our 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 fiscal 2018 increased by $0.0189 per gallon, or 1.7%, to $1.1497 per gallon, from $1.1308 per gallon during fiscal 2017. Excluding acquisitions, home heating oil and propane margins increased by $0.0356 per gallon, or 3.2%. Due to differences in product offerings, marketing plans and operating costs, businesses we acquire through acquisitions may have different home heating oil and propane margins than the base business. First year margins realized from acquisitions may not be indicative of the Company's expectations for acquired business. Going forward, we cannot assume that the per gallon margins realized in fiscal 2018 are sustainable, for future periods. Product sales and cost of product include home heating oil, propane, other petroleum products and liquidated damages billings.

	Twelve Months Ended			
	September 30, 2018		September 30, 2017	
Home Heating Oil and Propane	Amount (in millions)	Per Gallon	Amount (in millions)	Per Gallon
Volume	357.2		316.9	
Sales	$1,084.8	$3.0372	$854.1	$2.6951
Cost	$674.2	$1.8875	$495.7	$1.5643
Gross Profit	$410.6	$1.1497	$358.4	$1.1308
Other Petroleum Products	Amount (in millions)	Per Gallon	Amount (in millions)	Per Gallon
Volume	138.3		112.1	
Sales	$319.6	$2.3105	$211.0	$1.8822
Cost	$283.7	$2.0511	$179.7	$1.6025
Gross Profit	$35.9	$0.2594	$31.3	$0.2797
Total Product	Amount (in millions)		Amount (in millions)	
Sales	$1,404.4		$1,065.1	

Cost	$957.9	$675.4
Gross Profit	$446.5	$389.7

For fiscal 2018, total product gross profit was $446.5 million, which was $56.8 million, or 14.6%, greater than fiscal 2017, due to an increase in home heating oil and propane volume ($45.6 million) sold at slightly higher margins ($6.6 million), and an increase in gross profit from other petroleum products ($4.6 million).

Cost of Installations and Services

Total installation costs for fiscal 2018 increased by $3.8 million, or 4.8%, to $82.5 million, compared to $78.7 million in installation costs for fiscal 2017, largely due to acquisitions. Installation costs as a percentage of installation sales for fiscal 2018 and fiscal 2017 were 84.1% and 82.8%, respectively.

Service expense increased $13.2 million, or 8.2%, to $174.2 million for fiscal 2018, representing 99.3% of service sales, versus $161.0 million, or 98.5% of service sales, for fiscal 2017. This increase was due to acquisition related service expenses of $7.5 million and a $5.7 million, or 3.5%, increase in the base business due in part to the extremely cold weather conditions experienced during the last week of December 2017 and first week of January 2018 (when temperatures were 45% colder than normal), as well as to normal wage and benefit increases. This extremely cold weather resulted in significantly higher demand for service and additional hours worked at premium labor rates. In addition, a portion of these service calls were with customers who have a service contract and, thus, did not result in any additional service revenue. We realized a combined gross profit from service and installation of $16.8 million for fiscal 2018 compared to a combined gross profit of $18.8 million for fiscal 2017. Management views the service and installation department on a combined basis because many overhead functions cannot be separated or precisely allocated to either service or installation billings.

(Increase) Decrease in the Fair Value of Derivative Instruments

During fiscal 2018, the change in the fair value of derivative instruments resulted in an $11.4 million credit as an increase in the market value for unexpired hedges (a $14.9 million credit) was partially offset by a $3.5 million charge due to the expiration of certain hedged positions.

During fiscal 2017, the change in the fair value of derivative instruments resulted in a $2.2 million credit as an increase in the market value for unexpired hedges (a $3.7 million credit) was partially offset by a $1.5 million charge due to the expiration of certain hedged positions.

Delivery and Branch Expenses

For fiscal 2018, delivery and branch expenses increased $51.1 million, or 16.7%, to $357.6 million, compared to $306.5 million for fiscal 2017, due to additional costs from acquisitions of $18.2 million, as well as a $31.0 million, or 10.1% expense increase in the base business, and a $1.9 million charge related to an amount due under our weather hedge contract, as temperatures were slightly colder than the Payment Threshold. (The weather hedge covered the period from November 1, 2017 to March 31, 2018, taken as a whole.)

Expenses in the base business rose by 10.1%, exceeding the 5.7% increase in home heating oil and propane volume sold. The extremely cold weather conditions experienced in late December 2017 and early January 2018, as previously mentioned, not only increased the demand for service calls but also drove an increase in direct delivery expense as well as many other branch expenses. Certain December and January deliveries were made at premium labor rates, and the unusual weather conditions necessitated increased staffing levels for delivery and office personnel to handle the tremendous influx of customer inquiries regarding the status of their delivery or service call. We estimate that the extremely cold weather conditions in January 2018 resulted in unanticipated expenses of $2.8 million and the increase in volume sold in the base business resulted in higher costs of $2.6 million. The Company also saw an increase in credit card fees and bad debt expense of $5.7 million tied to the higher cost of product and greater use of credit cards. Insurance expense rose by $4.5 million largely reflecting an increase in the number of insurance claims due in part to the extreme weather conditions. In addition, our fixed costs increased by $3.6 million as we strengthened our customer service, sales, operations, and information technology departments. In recognition of the opportunity to differentiate Star and, thereby, to attract and retain customers through our service offerings, we have begun offering a concierge level service as a test program, which led to an increase in delivery and branch expenses of $3.4 million.

We also experienced increases in rent, plant maintenance, higher vehicle fuel costs and increased customer concessions in the base business totaling $2.6 million, incurred rebranding expenses of $1.1 million, and we also took a charge for severance of $0.5 million during the fourth quarter of 2018 as 11 positions were eliminated which should save us over $2 million in fiscal 2019. In the prior year’s comparable period we provided disaster relief services and recorded a net benefit to delivery and branch of $0.5 million. Finally, normal salary, benefit and other expense changes totaled $3.7 million, or 1.2% of the increase.

Depreciation and Amortization

For fiscal 2018, depreciation and amortization expense increased by $3.7 million, or 13.2%, to $31.6 million, compared to $27.9 million for fiscal 2017, as increases from acquisitions and accelerated amortization of certain tradenames related to rebranding more than offset the impact of certain assets that became fully amortized.

General and Administrative Expenses

For fiscal 2018, general and administrative expenses decreased $0.8 million, to $24.2 million, from $25.0 million for fiscal 2017, primarily due to lower legal and professional expenses of $1.2 million. In fiscal 2017 the Company incurred legal and professional fees related to its October 2017 conversion to a C Corporation that did not reoccur in fiscal 2018. This reduction in legal and professional expenses plus lower profit sharing expense of $0.3 million and lower frozen pension expense of $0.3 million, was largely offset by the costs of increased human resource staffing and other normal salary and benefit changes totaling $1.0 million. The Company accrues approximately 6% of Adjusted EBITDA, as defined in the profit sharing plan, for distribution to its employees, and this amount is payable when the Company achieves Adjusted EBITDA of at least 70% of the amount budgeted. The dollar amount of the profit sharing pool is subject to increases and decreases in line with increases and decreases in Adjusted EBITDA.

Finance Charge Income

For fiscal 2018, finance charge income increased by $0.6 million, or 15.9%, to $4.7 million compared to $4.1 million for fiscal 2017. The income primarily represents late customer payment charges. The increase in the wholesale cost of product and the increase in volume led to higher product sales and thus an increase in accounts receivable balances subject to a finance charge.

Interest Expense, Net

For fiscal 2018, interest expense increased $1.9 million, or 28.6%, to $8.7 million compared to $6.8 million for fiscal 2017 primarily due to an increase in average borrowings of $53.1 million from $81.7 million in fiscal 2017 to $134.9 million in fiscal 2018 and an increase in the weighted average interest rate from 4.1% in fiscal 2017 to 4.6% in fiscal 2018. The increase in average borrowings of $53.1 million was used to fund higher working capital needs, acquisitions and an investment into our captive insurance company. Funding of the captive reduced the need to secure our insurance liability with letters of credit. To hedge against rising interest rates, the Company entered into an interest rate swap in July 2018 for $50.0 million, or 50%, of our long term debt.

Amortization of Debt Issuance Costs

For fiscal 2018, amortization of debt issuance costs was $1.3 million unchanged from fiscal 2017.

Other Income, Net

During fiscal 2018, we sold our security business to a national dealer and recorded a gain of $7.0 million. Revenues and gross profit from the security business have averaged $3.4 million and $0.1 million, respectively, per year for the last three years.

Income Tax Expense

For fiscal 2018, income tax expense decreased by $12.8 million to $7.6 million, from $20.4 million for fiscal 2017. The decrease was primarily due to an $11.1 million tax benefit to reflect the impact of the Tax Cuts and Jobs Act signed into law on December 22, 2017. The tax reform reduced the federal statutory income tax rate for corporations from 35% to 21% effective January 1, 2018 and, therefore, the Company’s net deferred tax liability will be realized at a lower statutory tax rate than originally recorded, resulting in a tax benefit to the Company. The Company’s effective tax rate declined from 43.1% to 12.0%. Excluding the impact of this net deferred tax liability related tax benefit, our effective income tax rate decreased from 43.1% in fiscal 2017 to 29.6% in fiscal 2018, primarily due to the lower enacted federal statutory income tax rate.

Net Income

For fiscal 2018, net income increased $28.6 million, or 106.3%, to $55.5 million, primarily due to an increase in Adjusted EBITDA of $5.2 million, discussed below, a favorable change in the fair value of derivative instruments of $9.2 million, the $7.0 million net gain from the sale of customer assets (our security business), and a decrease in the Company’s effective tax rate described above.

Adjusted EBITDA

For fiscal 2018, Adjusted EBITDA increased by $5.2 million, or 6.4%, to $86.2 million. The increase in Adjusted EBITDA was primarily provided by acquisitions of $4.9 million, which includes an Adjusted EBITDA loss for 2018 acquisitions completed after the heating season of $0.8 million. In the base business, the additional volume sold due largely to the impact of colder temperatures and higher home heating oil and propane margins was reduced by higher operating costs in the base business and a $1.9 million charge related to an amount due under our weather hedge contract because temperatures were colder than the Payment Threshold. The extreme cold weather conditions experienced in late December 2017 and early January 2018 not only increased the demand for service calls but also drove an increase in direct delivery expense as well as many other branch expenses. Certain December and January deliveries were made at premium labor rates, and the unusual weather conditions necessitated increased staffing levels for delivery and office personnel to handle the tremendous influx of customer inquiries regarding the status of their delivery or service call. In addition to these costs and normal increases in salaries, benefits, and other items, delivery and branch expenses were also higher due to an increase in fixed costs, an increase in insurance expense, the expansion of our concierge program, rebranding expense, severance cost and, reflecting the increase in sales, greater credit card usage and higher bad debt expense.

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 each provides additional information for evaluating our ability to make the Minimum Quarterly Distribution.

EBITDA and Adjusted EBITDA are calculated as follows:

	Twelve Months Ended September 30,	
(in thousands)	2018	2017
Net income	$55,505	$26,900
Plus:		
Income tax expense	7,602	20,376
Amortization of debt issuance cost	1,288	1,281
Interest expense, net	8,716	6,775
Depreciation and amortization	31,575	27,882
EBITDA (a)	104,686	83,214
(Increase) / decrease in the fair value of derivative instruments	(11,408)	(2,193)
Other income, net	(7,043)	-
Adjusted EBITDA (a)	86,235	81,021
Add / (subtract)		
Income tax expense	(7,602)	(20,376)
Interest expense, net	(8,716)	(6,775)
Provision for losses on accounts receivable	6,283	1,639
Increase in receivables	(37,149)	(19,844)
Decrease (increase) in inventories	4,177	(10,598)
Decrease in customer credit balances	(6,563)	(23,085)
Change in deferred taxes	14,685	10,134
Change in other operating assets and liabilities	6,110	8,942
Net cash provided by operating activities	$57,460	$21,058
Net cash used in investing activities	$(65,252)	$(66,381)
Net cash used in financing activities	$(30,135)	$(41,157)

(a) EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, (increase) decrease in the fair value of derivatives, net other income, multiemployer pension plan withdrawal charge, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges) are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;
- our operating performance and return on invested capital compared to those of other companies in the retail distribution of refined petroleum products, without regard to financing methods and capital structure;
- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners; and
-

the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

The method of calculating Adjusted EBITDA may not be consistent with that of other companies, and EBITDA and Adjusted EBITDA both have limitations as analytical tools and so should not be viewed in isolation and should be viewed in conjunction with measurements that are computed in accordance with GAAP. Some of the limitations of EBITDA and Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;

- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

Fiscal Year Ended September 30, 2017

Compared to Fiscal Year Ended September 30, 2016

Volume

For fiscal 2017, retail volume of home heating oil and propane sold increased by 14.4 million gallons, or 4.8%, to 316.9 million gallons, compared to 302.5 million gallons for fiscal 2016. For those locations where we 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 fiscal 2017 were 7.0% colder than fiscal 2016 but 12.4% warmer than normal, as reported by NOAA. For fiscal 2017, net customer attrition for the base business was 1.5%. The impact of fuel conservation, along with any period-to-period differences in delivery scheduling, 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.” An analysis of the change in the retail volume of home heating oil and propane, which is based on management’s estimates, sampling, and other mathematical calculations and certain assumptions, is found below:

(in millions of gallons)	Heating Oil and Propane
Volume - Fiscal 2016	302.5
Acquisitions	4.2
Impact of colder temperatures	18.6
Net customer attrition	(7.5)
Other	(0.9)
Change	14.4
Volume - Fiscal 2017	316.9

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 fiscal 2017 compared to fiscal 2016:

Customers	Twelve Months Ended September 30, 2017	September 30, 2016

Residential Variable	42.4	%	40.8	%
Residential Price-Protected	45.2	%	46.5	%
Commercial/Industrial/Other	12.4	%	12.7	%
Total	100.0	%	100.0	%

Volume of other petroleum products sold increased by 2.6 million gallons, or 2.4%, to 112.1 million gallons for fiscal 2017, compared to 109.5 million gallons for fiscal 2016, mainly attributable to acquisitions.

Product Sales

For fiscal 2017, product sales increased $154.1 million, or 16.9%, to $1.1 billion, compared to $0.9 billion for fiscal 2016, reflecting an increase in wholesale product costs of $0.2642 per gallon, or 20.2%, and an increase in total volume of 4.1%.

Installations and Services Sales

For fiscal 2017, installation and service sales increased $8.2 million, or 3.3%, to $258.5 million, compared to $250.3 million for fiscal 2016, largely due to higher air conditioning installation and service, sales growth in other services and acquisitions.

Cost of Product

For fiscal 2017, cost of product increased $135.6 million, or 25.1%, to $675.4 million, compared to $539.8 million for fiscal 2016, due largely to a $0.2642 per gallon, or 20.2%, increase in wholesale product cost and an increase in total volume of 4.1%.

Gross Profit—Product

The table below calculates our 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 fiscal 2017 increased by $0.0086 per gallon, or 0.8%, to $1.1308 per gallon, from $1.1222 per gallon during fiscal 2016. Our ability to achieve the per gallon margins in fiscal 2017 was due in part to the warm weather and relatively low cost of product. Going forward, we cannot assume that the per gallon margins realized in fiscal 2017 or fiscal 2016 are sustainable, for future periods. Product sales and cost of product include home heating oil, propane, other petroleum products and liquidated damages billings.

	Twelve Months Ended			
	September 30, 2017		September 30, 2016	
Home Heating Oil and Propane	Amount (in millions)	Per Gallon	Amount (in millions)	Per Gallon
Volume	316.9		302.5	
Sales	$854.1	$2.6951	$731.2	$2.4172
Cost	$495.7	$1.5643	$391.7	$1.2950
Gross Profit	$358.4	$1.1308	$339.5	$1.1222
Other Petroleum Products	Amount (in millions)	Per Gallon	Amount (in millions)	Per Gallon
Volume	112.1		109.5	
Sales	$211.0	$1.8822	$179.8	$1.6415

Cost	$179.7	$1.6025	$148.1	$1.3520
Gross Profit	$31.3	$0.2797	$31.7	$0.2895

Total Product	Amount (in millions)	Amount (in millions)
Sales	$1,065.1	$911.0
Cost	$675.4	$539.8
Gross Profit	$389.7	$371.2

For fiscal 2017, total product gross profit was $389.7 million, which was $18.5 million, or 5.0%, more than fiscal 2016, due to an increase in home heating oil and propane volume ($16.1 million) sold at slightly higher margins ($2.7 million), reduced by lower gross profit from other petroleum products ($0.3 million).

Cost of Installations and Services

Total installation costs for fiscal 2017 increased by $2.8 million, or 3.7%, to $78.7 million, compared to $75.9 million in installation costs for fiscal 2016, largely due to higher air conditioning installations, sales growth in other services and acquisitions. Installation costs as a percentage of installation sales for fiscal 2017 and fiscal 2016 were 82.8% and 83.7%, respectively.

Service expense increased $7.9 million, or 5.1% to $161.0 million for fiscal 2017, representing 98.5% of service sales, versus $153.1 million, or 95.9% of service sales, for fiscal 2016. Of the total year-over-year increase, service expenses rose by $3.5 million during the first quarter of fiscal 2017 primarily due to the higher need to service our customer base in response to 33.6% colder temperatures versus the first quarter of fiscal 2016 (which was unusually warm). Service expenses also increased during the fiscal year due to costs required to support the rise in air conditioning service revenue, expense attributable to the growth in other services, expansion of our propane business, training costs for our new service platform, and acquisitions as well as normal expense increases. We realized a combined gross profit from service and installation of $18.8 million for fiscal 2017 compared to a combined gross profit of $21.3 million for fiscal 2016. We have evaluated our pricing and staffing models for our service offerings in several markets to increase the overall service profitability. Management views the service and installation department on a combined basis because many overhead functions cannot be separated or precisely allocated to either service or installation billings.

(Increase) Decrease in the Fair Value of Derivative Instruments

During fiscal 2017, the change in the fair value of derivative instruments resulted in a $2.2 million credit as an increase in the market value for unexpired hedges (a $3.7 million credit) was partially offset by a $1.5 million charge due to the expiration of certain hedged positions.

During fiscal 2016, the change in the fair value of derivative instruments resulted in a $18.2 million credit due to the expiration of certain hedged positions (a $15.3 million credit) and an increase in the market value of unexpired hedges (a $2.9 million credit).

Delivery and Branch Expenses

For fiscal 2017, delivery and branch expenses increased $30.0 million, or 10.9%, to $306.5 million, compared to $276.5 million for fiscal 2016, due to the absence of a $12.5 million credit as was recorded in the first quarter of 2016 under our weather hedge contract, higher delivery expenses of $2.5 million, or 3.0%, due in part to the increase in home heating oil and propane volume of 3.4% in the base business, costs related to acquired entities of $4.5 million, higher sales commissions and premiums related to obtaining new accounts of $1.4 million, higher bank and credit card processing fees of $0.9 million due to a 14% increase in revenues, and an increase in spending of $8.2 million largely due to additional staffing in the areas of information technology, customer service, operations management, sales and marketing, and the costs related to implementing new technology. We believe the $8.2 million expense increase along with the higher premiums and sales commissions contributed to and positively impacted the 16,700 account improvement in net customer attrition.

Depreciation and Amortization

For fiscal 2017, depreciation and amortization expense increased by $1.4 million, or 5.1%, to $27.9 million, compared to $26.5 million for fiscal 2016 as a result of accelerated amortization of certain tradenames related to rebranding.

General and Administrative Expenses

For fiscal 2017, general and administrative expenses increased $1.6 million, to $25.0 million, from $23.4 million for fiscal 2016, primarily due to higher legal and professional expense of $0.9 million and increased staffing of $0.6 million primarily in the human resource area.

Finance Charge Income

For fiscal 2017, finance charge income increased by $1.0 million, or 31.7%, to $4.1 million compared to $3.1 million for fiscal 2016. The income primarily represents late customer payment charges. The increase in the wholesale cost of product and the increase in volume led to higher product sales and thus an increase in accounts receivable balances subject to a finance charge.

Interest Expense, Net

For fiscal 2017, interest expense decreased $0.7 million, or 9.5%, to $6.8 million compared to $7.5 million for fiscal 2016 as a reduction in debt of $16.2 million and an increase in income earned on cash balances was partially offset by an increase in long-term borrowing rates.

Amortization of Debt Issuance Costs

For fiscal 2017, amortization of debt issuance costs was $1.3 million unchanged from fiscal 2016.

Income Tax Expense

For fiscal 2017, income tax expense decreased by $13.4 million to $20.4 million, from $33.7 million for fiscal 2016, primarily due to a decrease in income before income taxes of $31.4 million. Our effective income tax rate was 43.1% for fiscal 2017, compared to 42.9% for fiscal 2016.

Net Income

For fiscal 2017, net income decreased $18.0 million, or 40.1%, to $26.9 million, from $44.9 million for fiscal 2016 largely due to the decline in pretax income of $31.4 million.

Adjusted EBITDA

For fiscal 2017, Adjusted EBITDA decreased by $14.7 million, or 15.4%, to $81.0 million as the impact of higher home heating oil and propane volume sold and slightly higher home heating oil and propane margins were more than offset by the absence of a $12.5 million credit as was recorded in the first quarter of 2016 under our weather hedge contract, lower services and installations gross profit, additional staffing expenses in the areas of information technology, customer service, operations management, human resources and sales and marketing and other expense increases.

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 each provides additional information for evaluating our ability to make the Minimum Quarterly Distribution.

EBITDA and Adjusted EBITDA are calculated as follows:

	Twelve Months Ended September 30,	
(in thousands)	2017	2016
Net income	$26,900	$44,934
Plus:		
Income tax expense	20,376	33,738
Amortization of debt issuance cost	1,281	1,247
Interest expense, net	6,775	7,485
Depreciation and amortization	27,882	26,530
EBITDA (a)	83,214	113,934
(Increase) / decrease in the fair value of derivative instruments	(2,193)	(18,217)
Adjusted EBITDA (a)	81,021	95,717
Add / (subtract)		
Income tax expense	(20,376)	(33,738)
Interest expense, net	(6,775)	(7,485)
Provision (recovery) for losses on accounts receivable	1,639	(639)
(Increase) decrease in accounts receivables	(19,844)	10,965
(Increase) decrease in inventories	(10,598)	9,979
(Decrease) increase in customer credit balances	(23,085)	6,490
Change in deferred taxes	10,134	9,670
Change in other operating assets and liabilities	8,942	10,998
Net cash provided by operating activities	$21,058	$101,957
Net cash used in investing activities	$(66,381)	$(19,631)
Net cash used in financing activities	$(41,157)	$(43,646)

(a) EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, (increase) decrease in the fair value of derivatives, net other income, net, multiemployer pension plan withdrawal charge, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges) are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;
- our operating performance and return on invested capital compared to those of other companies in the retail distribution of refined petroleum products, without regard to financing methods and capital structure;
- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

The method of calculating Adjusted EBITDA may not be consistent with that of other companies, and EBITDA and Adjusted EBITDA both have limitations as analytical tools and so should not be viewed in isolation and should be viewed in conjunction with measurements that are computed in accordance with GAAP. Some of the limitations of EBITDA and Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

DISCUSSION OF CASH FLOWS

We use the indirect method to prepare our Consolidated Statements of Cash Flows. Under this method, we reconcile net income to cash flows provided by operating activities by adjusting net income for those items that impact net income but may not result in actual cash receipts or payment during the period.

Operating Activities

Due to the seasonal nature of our business, cash is generally used in operations during the winter (our first and second fiscal quarters) as we require additional working capital to support the high volume of sales during this period, and cash is generally provided by operating activities during the spring and summer (our third and fourth quarters) when customer payments exceed the cost of deliveries.

During fiscal 2018, cash provided by operating activities increased by $36.4 million to $57.5 million, compared to $21.1 million of cash provided by operating activities during fiscal 2017. The $25.2 million increase in cash generated from operations was largely due to the impact of certain tax planning initiatives and the Tax Reform Act on current income taxes and to, a lesser extent, the increase in Adjusted EBITDA. Cash was used to finance an increase in accounts receivable of $17.3 million due to an increase in selling prices driven by higher product costs and an increase in day's sales outstanding over a comparative two year period. On a comparative basis, the decline of $16.5 million in cash used due to the change in customer credit balances was largely due to the weather conditions in 2016. Fiscal 2016 was 17.8 % warmer than normal and as a result, customers on a budget payment plan built up a credit balance as payments exceeded actual deliveries. Customers used this balance at the end of 2016 to pay for sales in fiscal 2017. To a lesser extent, the same pattern occurred in fiscal 2018 when compared to fiscal 2017 as fiscal 2018 was 4.7 % warmer than normal and fiscal 2017 was 12.4 % warmer than normal. At the end of fiscal 2017, the Company increased its liquid product inventory to take advantage of market conditions. At September 30, 2018 inventory levels were reduced to approximately the same quantity of liquid product inventory as of September 30, 2016. As a result of these changes in quantities on hand as well as increases in per gallon product costs, a $14.8 million positive change in cash was provided. In addition, the Company recorded an income tax receivable of $5.8 million at September which was the driver of the increase in other assets.

During fiscal 2017, cash provided by operating activities decreased by $80.9 million to $21.1 million, when compared to $102.0 million of cash provided by operating activities during fiscal 2016, due to an unfavorable change in cash relating to accounts receivable of $60.4 million (including customer credit balances) and an increase in the cash used to purchase inventory of $20.6 million. The impact of colder weather and an increase in per gallon product cost drove increases in accounts receivable and product purchases and resulted in a much higher, albeit expected, use of cash.

Investing Activities

Our capital expenditures for fiscal 2018 totaled $13.6 million, as we invested in computer hardware and software ($3.7 million), refurbished certain physical plants ($2.2 million), expanded our propane operations

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($2.5 million) and made additions to our fleet and other equipment ($5.2 million). We also received $6.8 million of cash proceeds from the sale of our security business to a national dealer and completed six acquisitions for an aggregate purchase price of approximately $25.2 million; $23.7 million in cash and $1.5 million of deferred liabilities. The gross purchase price was allocated $15.3 million to intangible assets, $7.5 million to fixed assets and $2.4 million to working capital.

In October 2017, we deposited $34.2 million of cash into an irrevocable trust to secure certain liabilities for our captive insurance company and, as a result, $36.6 million of letters of credit were cancelled that previously had secured these liabilities. Subsequently, $1.0 million of earnings have been reinvested into the irrevocable trust. The cash deposited into the trust is shown on our balance sheet as Investments and, correspondingly, reduced cash on our balance sheet. We believe that the investment into the irrevocable trust will lower our letter of credit fees, increase interest income on invested cash balances, and provide us with certain tax advantages attributable to a captive insurance company.

Our capital expenditures for fiscal 2017 totaled $12.2 million, as we invested in computer hardware and software ($4.1 million), refurbished certain physical plants ($2.5 million), expanded our propane operations ($2.5 million) and made additions to our fleet ($2.9 million) and other equipment ($0.2 million). We also completed seven acquisitions for aggregate purchase price of approximately $44.8 million; comprised of $43.3 million in cash and $1.5 million of deferred liabilities (including $0.6 million of contingent consideration). The gross purchase price was allocated $37.5 million to intangible assets, $10.2 million to fixed assets and reduced by $2.9 million in working capital credits.

In fiscal 2017 we also deposited $11.6 million into an irrevocable trust to secure certain liabilities for our newly created captive insurance company.

Financing Activities

During fiscal 2018, we paid distributions of $24.9 million to our Common Unit holders, $0.7 million to our general partner (including $0.6 million of incentive distributions as provided in our Partnership Agreement). We also repurchased 2.8 million Common Units for $26.7 million in connection with our unit repurchase plan. In addition, we amended and extended our bank credit facility which resulted in a $23.7 million increase in bank term debt from $76.3 million to $100 million at September 30, 2018. Our borrowings under the revolving line of credit for working capital purposes increased by $1.5 million, as we borrowed $161.6 million during the year and subsequently repaid $160.1 million.

During fiscal 2017, we paid distributions of $23.8 million to our common unit holders, $0.6 million to our general partner (including $0.5 million of incentive distributions) and repaid $16.2 million of our term-loan

FINANCING AND SOURCES OF LIQUIDITY

Liquidity and Capital Resources

Our primary uses of liquidity are to provide funds for our working capital, capital expenditures, distributions on our units, acquisitions and unit repurchases. Our ability to provide funds for such uses depends on our future performance, which will be subject to prevailing economic, financial, business and weather conditions, the ability to pass on the full impact of high product costs to customers, the effects of high net customer attrition, conservation and other factors. Capital requirements, at least in the near term, are expected to be provided by cash flows from operating activities, cash on hand as of September 30, 2018 ($14.5 million) or a combination thereof. To the extent future capital requirements exceed cash on hand plus cash flows from operating activities, we anticipate that working capital will be financed by our revolving credit facility. As of September 30, 2018, we had borrowed $1.5 million under our revolving credit facility, had $100 million outstanding under our term loan, and $7.1 million in letters of credit were outstanding.

Under the terms of the fourth amended and restated credit agreement, we must maintain at all times Availability (borrowing base less amounts borrowed and letters of credit issued) of 12.5% of the maximum facility size and a fixed charge coverage ratio of not less than 1.1. While the term loan is outstanding we must maintain a senior secured leverage ratio that 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. As of September 30, 2018, Availability, as defined in the Credit Agreement, was $189.0 million and we were in compliance with the fixed charge coverage ratio and senior secured leverage ratio.

For fiscal 2019, capital expenditures primarily for maintenance purposes are estimated to be approximately $10.6 million, excluding the capital requirements for leased fleet which we currently estimate to be $13.7 million. In addition, we plan to invest an additional $2.3 million in our propane operations including one start-up operation. Distributions for fiscal 2019, at the current quarterly level of $0.1175 per unit, would equate to approximately $24.8 million, in aggregate, paid to common and unit holders, $0.7 million to our general partner (including $0.7 million of incentive distribution as provided for in our Partnership Agreement) and $0.7 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. Under the terms of our credit facility, our term-loan is repayable in quarterly payments of $2.5 million and we expect to repay $7.5 million in fiscal 2019. We also intend to continue to repurchase Common Units pursuant to our unit repurchase plan and seek attractive acquisition opportunities within the Availability constraints of our Credit Agreement and funding resources.

In addition to inflationary pressures on operating expenses and the additional expenses associated with the six acquisitions completed in fiscal 2018, the Company anticipates an estimated increase in operating expenses of $3.0 to $4.0 million in fiscal 2019 over 2018 to fund our concierge service. The Company is monitoring the expense levels associated with the roll out of the concierge program to determine that the revenues generated from the program justify the additional costs.

Contractual Obligations and Off-Balance Sheet Arrangements

We have no special purpose entities or off balance sheet debt, other than operating leases entered into in the ordinary course of business.

Long-term contractual obligations, except for our long-term debt and New England Teamsters and Trucking Industry Pension Fund withdrawal obligations, are not recorded in our consolidated balance sheet. Non-cancelable purchase obligations are obligations we incur during the normal course of business, based on projected needs. The Company had no capital lease obligations as of September 30, 2018

The table below summarizes the payment schedule of our contractual obligations at September 30, 2018 (in thousands):

	Payments Due by Fiscal Year				
	Total	2019	2020 and 2021	2022 and 2023	Thereafter
Debt obligations (a)	$101,500	$9,000	$20,000	$72,500	$ —
Operating lease obligations (b)	127,554	21,548	36,159	23,168	46,679
Purchase obligations and other (c)	68,801	14,902	10,825	5,698	37,376
Interest obligations (d)	25,492	10,195	9,132	6,165	—
Long-term liabilities reflected on the balance sheet	1,546	350	700	496	—
	$324,893	$55,995	$76,816	$108,027	$ 84,055

(a)

Excludes potential prepayments resulting from Excess Cash Flow as defined in our Credit Agreement beyond fiscal year 2018.

(b) Represents various operating leases for office space, trucks, vans and other equipment with third parties.

(c) Represents non-cancelable commitments as of September 30, 2018 for operations such as weather hedge premiums, customer related invoice and statement processing, voice and data phone/computer services, real estate taxes on leased property and our undiscounted future payment obligations to the New England Teamsters and Trucking Industry Pension Fund.

(d) Reflects interest obligations on our term loan due July 2023 and the unused commitment fee on the revolving credit facility.

Recent 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. We plan to adopt the standard beginning in the first quarter of fiscal 2019 by using the cumulative effect transition method. The Company does not expect that the standard will have a material impact on its revenue streams, and consolidated financial statements. The standard does require additional disclosures. Upon adoption of the standard we will include additional disclosure of our revenue streams, performance obligations for our contracts with customers, contract asset and liability balances, and revenue generated from contract liabilities.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The FASB has also issued several updates to ASU 2016-02. 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 September 30, 2018, the undiscounted future minimum lease payments through 2033 for such operating leases are approximately $127.6 million, but what amount of leasing activity is expected between September 30, 2018, and the date of adoption, are 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 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 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 August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General: Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2021, with early adoption permitted. The Company is evaluating the effect that ASU No. 2018-02 will have on its consolidated financial statements and related disclosures, but has not determined the timing of adoption.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, which will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance is effective for our annual reporting period beginning in the first quarter of fiscal 2022, with early adoption permitted. The Company is evaluating the effect that ASU No. 2018-15 will have on its consolidated financial statements and related disclosures, but has not determined the timing of adoption.

Critical Accounting Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to establish accounting policies and make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the Consolidated Financial Statements. The Company evaluates its policies and estimates on an on-going basis. A change in any of these critical accounting estimates could have a material effect on the results of operations. The Company's Consolidated Financial Statements may differ based upon different estimates and assumptions. The Company's critical accounting estimates have been reviewed with the Audit Committee of the Board of Directors.

Our significant accounting policies are discussed in Note 2 of the Notes to the Consolidated Financial Statements. We believe the following are our critical accounting policies and estimates:

Goodwill and Other Intangible Assets

We calculate amortization using the straight-line method over periods ranging from five to twenty years for intangible assets with finite useful lives based on historical statistics. We use amortization methods and determine asset values based on our best estimates using reasonable and supportable assumptions and projections. Key assumptions used to determine the value of these intangibles include projections of future customer attrition or growth rates, product margin increases, operating expenses, our cost of capital, and corporate income tax rates. For significant acquisitions we may engage a third party valuation firm to assist in the valuation of intangible assets of that acquisition. We assess the useful lives of intangible assets based on the estimated period over which we will receive benefit from such intangible assets such as historical evidence regarding customer churn rate. In some cases, the estimated useful lives are based on contractual terms. At September 30, 2018, we had $98.4 million of net intangible assets subject to amortization. If lives were shortened by one year, we estimate that amortization for these assets for fiscal 2018 would have increased by approximately $4.7 million.

FASB ASC 350-10-05, Intangibles-Goodwill and Other, requires goodwill to be assessed at least annually for impairment. The Company has one reporting unit and performs its annual assessment at the end of August. As provided for by the standard, we performed qualitative assessments (commonly referred to as Step 0) to evaluate whether it is more-likely-than-not (a likelihood that is more than 50%) that goodwill has been impaired, as a basis to determine whether it is necessary to perform the two-step quantitative impairment test. The Company's qualitative assessment included a review of factors such as our reporting unit's market value compared to its carrying value, our short-term and long-term unit price performance, our planned overall business strategy compared to recent financial results, as well as macroeconomic conditions, industry and market considerations, cost factors, and other relevant Company-specific events. In considering the totality of the qualitative factors assessed, based on the weight of evidence it was determined that it was not more-likely-than-not that goodwill was impaired as of August 31, 2018, and as such it was determined that further goodwill testing was not necessary.

Intangible assets with finite lives must be assessed for impairment whenever changes in circumstances indicate that the assets may be impaired. The assessment for impairment requires estimates of future cash flows related to the intangible asset. To the extent the carrying value of the assets exceeds its future undiscounted cash flows, an impairment loss is recorded based on the fair value of the asset.

Fair Values of 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. The Company has elected not to designate its derivative instruments as hedging instruments under this guidance, and the change in fair value of the derivative instruments are recognized in our statement of operations.

We have established the fair value of our derivative instruments using estimates determined by our counterparties and subsequently evaluated them internally using established index prices and other sources. These values are based upon, among other things, future prices, volatility, time-to-maturity value and credit risk. The estimate of fair value we report in our financial statements changes as these estimates are revised to reflect actual results, changes in market conditions, or other factors, many of which are beyond our control.

Insurance Reserves

We currently self-insure a portion of workers' compensation, auto, general liability and medical claims. We establish reserves based upon expectations as to what our ultimate liability may be for outstanding claims using developmental factors based upon historical claim experience, supplemented by a third-party actuary. We periodically evaluate the potential for changes in loss estimates with the support of qualified actuaries. As of September 30, 2018, we had approximately $72.1 million of net insurance reserves. The ultimate resolution of these claims could differ materially from the assumptions used to calculate the reserves, which could have a material adverse effect on results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk primarily through our bank credit facilities. We utilize these borrowings to meet our working capital needs.

At September 30, 2018, we had outstanding borrowings totaling $101.5 million, which are subject to variable interest rates under our Credit Agreement. In the event that interest rates associated with this facility were to increase 100 basis points, the after tax impact on annual future cash flows would be a decrease of $0.7 million.

We regularly use derivative financial instruments to manage our exposure to market risk related to changes in the current and future market price of home heating oil. The value of market sensitive derivative instruments is subject to change as a result of movements in market prices. Sensitivity analysis is a technique used to evaluate the impact of hypothetical market value changes. Based on a hypothetical ten percent increase in the cost of product at September 30, 2018, the potential impact on our hedging activity would be to increase the fair market value of these outstanding derivatives by $15.7 million to a fair market value of $34.2 million; and conversely a hypothetical ten percent decrease in the cost of product would decrease the fair market value of these outstanding derivatives by $17.8 million to a fair market value of $0.7 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and financial statement schedules referred to in the index contained on page F-1 of this Report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our general partner's chief executive officer and its chief financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of September 30, 2018. Based on that evaluation, such chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018 at the reasonable level of assurance. For purposes of Rule 13a-15(e), the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its chief executive and chief financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision of management and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation of internal control over financial reporting, our management concluded that our internal control over financial reporting was effective as of September 30, 2018.

The effectiveness of our internal control over financial reporting as of September 30, 2018 has been audited by our independent registered public accounting firm, as stated in their report which is included herein.

(c) Change in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Other

Our general partner and the Company believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Therefore, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our disclosure controls and procedures are designed to provide such reasonable assurances of achieving our desired control objectives, and the chief executive officer and chief financial officer of our general partner have concluded, as of September 30, 2018, that our disclosure controls and procedures were effective in achieving that level of reasonable assurance.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Partnership Management

Our general partner is Kestrel Heat. The Board of Directors of Kestrel Heat is appointed by its sole member, Kestrel, which is a private equity investment partnership formed by Yorktown Energy Partners VI, L.P., Paul A. Vermylen Jr. and other investors.

Kestrel Heat, as our general partner, oversees our activities. Unitholders do not directly or indirectly participate in our management or operation or elect the directors of the general partner. The Board of Directors (sometimes referred to as the "Board") of Kestrel Heat has adopted a set of Partnership Governance Guidelines in accordance with the requirements of the New York Stock Exchange. A copy of these Guidelines is available on our website at www.stargrouplp.com or a copy may be obtained without charge by contacting Richard F. Ambury, (203) 328-7310.

As of November 30, 2018, Kestrel Heat and its affiliates owned an aggregate of 500,000 common units, representing 1% of the issued and outstanding common units, and Kestrel Heat owned 325,729 general partner units.

The general partner owes a fiduciary duty to the unitholders. However, our Partnership Agreement contains provisions that allow the general partner to take into account the interests of parties other than the limited partners in resolving conflict of interest, thereby limiting such fiduciary duty. Notwithstanding any limitation on obligations or duties, the general partner will be liable, as our general partner, for all our debts (to the extent not paid by us), except to the extent that indebtedness or other obligations incurred by us are made specifically non-recourse to the general partner.

The general partner does not directly employ any of the persons responsible for managing or operating Star.

Directors and Executive Officers of the General Partner

Directors are appointed for an indefinite term, subject to the discretion of Kestrel. The following table shows certain information for directors and executive officers of the general partner as of November 30, 2018:

Name	Age	Position
Paul A. Vermylen, Jr.	71	Chairman, Director
Steven J. Goldman	58	President, Chief Executive Officer and Director
Richard F. Ambury	61	Chief Financial Officer, Executive Vice President, Treasurer and Secretary
Richard G. Oakley	58	Senior Vice President—Accounting
Henry D. Babcock(1)	78	Director
C. Scott Baxter(1)	57	Director
David M. Bauer	49	Director
Daniel P. Donovan	72	Director
Bryan H. Lawrence	76	Director
William P. Nicoletti (1)	73	Director

(1) Audit Committee member

Paul A. Vermylen, Jr. Mr. Vermylen has been the Chairman and a director of Kestrel Heat since April 28, 2006. Mr. Vermylen is a founder of Kestrel and has served as its President and as a manager since July 2005. Mr. Vermylen had been employed since 1971, serving in various capacities, including as a Vice President of Citibank N.A. and Vice President-Finance of Commonwealth Oil Refining Co. Inc. Mr. Vermylen served as Chief Financial Officer of

Meenan Oil Co., L.P. (“Meenan”) from 1982 until 1992 and as President of Meenan until 2001, when we acquired Meenan. Since 2001, Mr. Vermylen has pursued private investment opportunities.

Mr. Vermylen serves as a director of certain non-public companies in the energy industry in which Kestrel holds equity interests including Downeast LNG, Inc. Mr. Vermylen is a graduate of Georgetown University and has an M.B.A. from Columbia University.

Mr. Vermylen's substantial experience in the home heating oil industry and his leadership skills and experience as an executive officer of Meenan, among other factors, led the Board to conclude that he should serve as the Chairman and a director of Kestrel Heat.

Steven J. Goldman. Mr. Goldman has been President and Chief Executive Officer of Kestrel Heat since October 1, 2013. Mr. Goldman has been a director of Kestrel Heat since October 29, 2013. From May 1, 2010 to September 30, 2013, Mr. Goldman was Executive Vice President and Chief Operating Officer of Kestrel Heat, and was Senior Vice President of Operations from April 1, 2007 until April 30, 2010. Mr. Goldman was Vice President of Operations of Petro Holdings, Inc. from July 2004 until May 31, 2007. From February 2000 to June 2004, Mr. Goldman held various operating management positions with Petro. Prior to joining Petro Holdings, Inc. as a General Manager in 2000, Mr. Goldman worked for United Parcel Service from 1982 to 2000. Mr. Goldman has also held various positions within the management of companies in industrial engineering and those with international operations. Mr. Goldman is a graduate of the State University of New York at Stony Brook.

Mr. Goldman's in-depth knowledge of the Company's business and his substantial experience in the home heating oil industry, among other factors, led the Board to conclude that he should serve as a director of Kestrel Heat.

Richard F. Ambury. Mr. Ambury has been Executive Vice President of Kestrel Heat since May 1, 2010 and has been Chief Financial Officer, Treasurer and Secretary of Kestrel Heat since April 28, 2006. Mr. Ambury was Chief Financial Officer, Treasurer and Secretary of Star Group from May 2005 until April 28, 2006. From November 2001 to May 2005, Mr. Ambury was Vice President and Treasurer of Star Group. From March 1999 to November 2001, Mr. Ambury was Vice President of Star Gas Propane, L.P. From February 1996 to March 1999, Mr. Ambury served as Vice President—Finance of Star Gas Corporation, a predecessor general partner. Mr. Ambury was employed by Petroleum Heat and Power Co., Inc. from June 1983 through February 1996, where he served in various accounting/finance capacities. From 1979 to 1983, Mr. Ambury was employed by a predecessor firm of KPMG, a public accounting firm. Mr. Ambury has been a Certified Public Accountant since 1981 and is a graduate of Marist College.

Richard G. Oakley. Mr. Oakley has been Senior Vice President of Kestrel Heat since May 1, 2014. From May 22, 2006 until April 30, 2014, Mr. Oakley was Vice President and Controller of Kestrel Heat. From September 1982 until May 2006 he held various positions with Meenan Oil Co. LP, most recently that of Controller since 1993. Mr. Oakley is a graduate of Long Island University.

Henry D. Babcock. Mr. Babcock has been a director of Kestrel Heat since April 28, 2006. He is also a director and the former President of The Caumsett Foundation, Inc., a non-profit that supports Caumsett Historic State Park Preserve. Until his retirement in 2010, Mr. Babcock had worked with Train, Babcock Advisors LLC, a private registered investment advisor, since 1976, becoming a Member in 1980. Prior to this, he ran an affiliated venture capital company active in the U.S. and abroad. Mr. Babcock received a BA from Yale University and an MBA from Columbia. He served in the U.S. Army for three years.

Mr. Babcock's significant experience in capital markets, corporate finance and venture capital, among other factors, led the Board to conclude that he should serve as a director of Kestrel Heat.

C. Scott Baxter. Mr. Baxter has been a director of Kestrel Heat since April 28, 2006. Mr. Baxter is currently Managing Partner of Green River Energy Partners, a boutique energy investment banking firm headquartered in New York City. Mr. Baxter has over 25 years of energy investment banking experience and has been a primary advisor in sourcing and executing over $150 billion in corporate M&A, restructuring and equity financing transactions in the energy industry. Mr. Baxter also has significant experience advising independent committees of boards including rendering over 30 independent fairness opinions spanning the upstream, downstream and midstream energy sectors including for many MLPs.

Mr. Baxter's previous energy investment banking experience includes opening and running the Houston office for Petrie Partners, serving as Head of the Americas for J.P. Morgan's global energy group, Managing Director in the global energy group at Citigroup (Salomon Brothers), and serving as head of the energy group for Houlihan Lokey.

Mr. Baxter holds a B.S. degree in Economics from Weber State University where he graduated cum laude, and received an MBA degree from the University of Chicago Graduate School of Business. Mr. Baxter also served as an adjunct professor of finance at Columbia University's Graduate School of Business from 2002 to 2006, and has been on the President's National Advisory Council for Weber State University since 1996.

Mr. Baxter's significant experience in finance, accounting, as an investor and as a senior investment banker focused in the energy industry, among other factors, led the Board to conclude that he should serve as a director of Kestrel Heat.

David M. Bauer. Mr. Bauer has served as the Chief Investment Officer of Lubar & Co. since 2005. Mr. Bauer's work experience includes five years with Facilitator Capital Fund, a Wisconsin-based Small Business Investment Company, and 10 years with the accounting firm of Arthur Andersen, where he led the Wisconsin transaction advisory team assisting private equity funds and large corporations with their acquisitions and divestitures. He currently serves on the board of several private companies.

Mr. Bauer earned a Master of Business Administration degree from Marquette University in 2005 and a Bachelor of Science degree in Accounting from Marquette University in 1991. He is a Certified Public Accountant and a member of the Wisconsin Institute of CPAs and the American Institute of CPAs.

Daniel P. Donovan. Mr. Donovan has been a director of Kestrel Heat since April 28, 2006. Mr. Donovan was Chief Executive Officer of Kestrel Heat from May 31, 2007 to September 30, 2013 and had been President from April 28, 2006 to September 30, 2013. From April 28, 2006 to May 30, 2007 Mr. Donovan was also the Chief Operating Officer of Kestrel Heat. Mr. Donovan was the President and Chief Operating Officer of a predecessor general partner, Star Gas LLC ("Star Gas"), from March 2005 until April 28, 2006. From May 2004 to March 2005 he was President and Chief Operating Officer of the Company's heating oil segment. Mr. Donovan held various management positions with Meenan Oil Co. LP, from January 1980 to May 2004, including Vice President and General Manager from 1998 to 2004. Mr. Donovan worked for Mobil Oil Corp. from 1971 to 1980. His last position with Mobil was President and General Manager of its heating oil subsidiary in New York City and Long Island. Mr. Donovan is a graduate of St. Francis College in Brooklyn, New York and received an M.B.A. from Iona College.

Mr. Donovan's in-depth knowledge of the Company's business, having been its president and chief executive officer, and his substantial experience in the home heating oil industry, among other factors, led the Board to conclude that he should serve as a director of Kestrel Heat.

Bryan H. Lawrence. Mr. Lawrence has been a director of Kestrel Heat since April 28, 2006 and a manager of Kestrel since July 2005. Mr. Lawrence is a founder and senior manager of Yorktown Partners LLC, the manager of the Yorktown group of investment partnerships, which make investments in companies engaged in the energy industry. The Yorktown partnerships were formerly affiliated with the investment firm of Dillon, Read & Co. Inc., where Mr. Lawrence was employed beginning in 1966, serving as a Managing Director until the merger of Dillon Read with SBC Warburg in September 1997. Mr. Lawrence also serves as a director of Carbon Natural Resources, Hallador

Petroleum Company, Ramaco Resources, Inc. (each a United States publicly traded company), and certain non-public companies in the energy industry in which Yorktown partnerships hold equity interests. Mr. Lawrence is a graduate of Hamilton College and received an M.B.A. from Columbia University.

Mr. Lawrence's significant financial and investment experience, and experience as a founder of Yorktown Energy Partners LLC, among other factors, led the Board to conclude that he should serve as a director of Kestrel Heat.

William P. Nicoletti. Mr. Nicoletti has been a director of Kestrel Heat since April 28, 2006. Mr. Nicoletti was the non-executive chairman of the board of Star Gas from March 2005 until April 28, 2006. Mr. Nicoletti was a director of Star Gas from March 1999 until April 28, 2006 and was a director of Star Gas Corporation from November 1995 until March 1999. Since February 1, 2009, he has been a Managing Director of Parkman Whaling LLC, a Houston, Texas based energy investment banking firm. Previously, he was Managing Director of Nicoletti & Company, Inc., a private investment banking firm. Mr. Nicoletti was formerly a senior officer and head of Energy Investment Banking for E. F. Hutton & Company, Inc., PaineWebber Incorporated and McDonald Investments, Inc. Mr. Nicoletti is a graduate of Seton Hall University and received an M.B.A. from Columbia University.

Mr. Nicoletti's current and prior leadership experience in the energy investment banking industry and his significant experience in finance, accounting and corporate governance matters, among other factors, led the Board to conclude that he should serve as a director of Kestrel Heat.

Director Independence

Section 303A of the New York Stock Exchange listed company manual provides that limited partnerships are not required to have a majority of independent directors. It is the policy of the Board of Directors that the Board shall at all times have at least three independent directors or such higher number as may be necessary to comply with the applicable federal securities law requirements. For the purposes of this policy, "independent director" has the meaning set forth in Section 10A(m) of the Securities Exchange Act of 1934, as amended, any applicable stock exchange rules and the rules and regulations promulgated in the Partnership governance guidelines available on its website www.stargrouplp.com. The Board of Directors has determined that Messrs. Nicoletti, Babcock, and Baxter are independent directors.

Meetings of Directors

During fiscal 2018, the Board of Directors of Kestrel Heat met six times. All directors attended each meeting.

Committees of the Board of Directors

Kestrel Heat's Board of Directors has one standing committee, the Audit Committee. Its members are appointed by the Board of Directors for a one-year term and until their respective successors are elected. The NYSE corporate governance standards do not require limited partnerships to have a Nominating or Compensation Committee.

Audit Committee

William P. Nicoletti, Henry D. Babcock and C. Scott Baxter have been appointed to serve on the Audit Committee, which has adopted an Audit Committee Charter. Mr. Nicoletti serves as chairman of the Audit Committee. A copy of this charter is available on the Company's website at www.stargrouplp.com or a copy may be obtained without charge by contacting Richard F. Ambury at (203) 328-7310. The Audit Committee reviews the external financial reporting of the Company, selects and engages the Company's independent registered public accountants and approves all non-audit engagements of the independent registered public accountants.

Members of the Audit Committee may not be employees of Kestrel Heat or its affiliated companies and must otherwise meet the New York Stock Exchange and SEC independence requirements for service on the Audit

Committee. The Board of Directors has determined that Messrs. Nicoletti, Babcock and Baxter are independent directors in that they do not have any material relationships with the Company (either directly, or as a partner, shareholder or officer of an organization that has a relationship with the Company) and they otherwise meet the independence requirements of the NYSE and the SEC. The Company's Board of Directors has also determined that at least one member of the Audit Committee, Mr. Nicoletti, meets the SEC criteria of an "audit committee financial expert." Please see Mr. Nicoletti's biography under "Directors and Officers of the General Partner" for his relevant experience regarding his qualifications as an "audit committee financial expert."

During fiscal 2018, the Audit Committee of Kestrel Heat, LLC met six times. All directors attended each meeting.

Reimbursement of Expenses of the General Partner

The general partner does not receive any management fee or other compensation for its management of the Company. The general partner is reimbursed for all expenses incurred on behalf of the Company, including the cost of compensation that are properly allocable to the Company. The Partnership Agreement provides that the general partner shall determine the expenses that are allocable to the Company in any reasonable manner determined by the general partner in its sole discretion. In addition, the general partner and its affiliates may provide services to the Company for which a reasonable fee would be charged as determined by the general partner. There were no reimbursements of the General Partner in fiscal year 2018.

Adoption of Code of Business Conduct and Ethics

We have adopted a written Code of Business Conduct and Ethics that applies to our officers and employees and our directors. A copy of the Code of Business Conduct and Ethics is available on our website at www.stargrouplp.com or a copy may be obtained without charge, by contacting Investor Relations, (203) 328-7310.

We intend to post amendments to or waivers of our Code of Business Conduct and Ethics (to the extent applicable to any executive officer or director) on our website.

Section 16(a) Beneficial Ownership Reporting Compliance

Based on copies of reports furnished to us, we believe that during fiscal year 2018, all reporting persons complied with the Section 16(a) filing requirements applicable to them.

Non-Management Directors and Interested Party Communications

The non-management directors on the Board of Directors of the general partner are Messrs. Babcock, Bauer, Baxter, Donovan, Lawrence, Nicoletti and Vermylen. The non-management directors have selected Mr. Vermylen, the Chairman of the Board, to serve as lead director to chair executive sessions of the non-management directors. Interested parties who wish to contact the non-management directors as a group may do so by contacting Paul A. Vermylen, Jr. c/o Star Group, L.P., 9 West Broad Street, Suite 310, Stamford, CT 06902.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Our Third Amended and Restated Agreement of Limited Partnership, provides that our general partner, Kestrel Heat, shall conduct, direct and manage all activities of the Company. The limited liability company agreement of the general partner provides that the business of the general partner shall be managed by a Board of Directors. The responsibility of the Board is to supervise and direct the management of the Company in the interest and for the benefit of our unitholders. Among the Board's responsibilities is to regularly evaluate the performance and to approve the compensation of the Chief Executive Officer and, with the advice of the Chief Executive Officer, regularly evaluate the performance and approve the compensation of key executives.

As a limited partnership that is listed on the New York Stock Exchange, we are not required to have a Compensation Committee. Since the Chairman of the general partner and the majority of the Board are not employees, the Board determined that it has adequate independence to act in the capacity of a Compensation

Committee to establish and review the compensation our executive officers and directors. The Board is comprised of Paul A. Vermylen Jr. (Chairman), Steven J. Goldman (President and Chief Executive Officer), Daniel P. Donovan, Henry D. Babcock, David M. Bauer, C. Scott Baxter, Bryan H. Lawrence, and William P. Nicoletti.

Throughout this Report, each person who served as chief executive officer (“CEO”) during fiscal 2018, each person who served as chief financial officer (“CFO”) during fiscal 2018 and the one other most highly compensated executive officer serving at September 30, 2018 (there being no other executive officers who earned more than $100,000 during fiscal 2018) are referred to as the “named executive officers” and are included in the Executive Compensation Table.

In this Compensation Discussion and Analysis, we address the compensation paid or awarded to Messrs. Goldman, Ambury and Oakley. We refer to these executive officers as our “named executive officers.”

Compensation decisions for the above named executive officers were made by the Board of Directors of the Company.

Compensation Philosophy and Policies

The primary objectives of our compensation program, including compensation of the named executive officers, are to attract and retain highly qualified officers, employees and directors and to reward individual contributions to our success. The Board of Directors considers the following policies in determining the compensation of the named executive officers:

- compensation should be related to the performance of the individual executive and the performance measured against both financial and non-financial achievements;
- compensation levels should be competitive to ensure that we will be able to attract, motivate and retain highly qualified executive officers; and
- compensation should be related to improving unitholder value over time.

Compensation Methodology

The elements of our compensation program for named executive officers are intended to provide a total incentive package designed to drive performance and reward contributions in support of business strategies at the Company. Subject to the terms of employment agreements that have been entered into with the named executive officers, all compensation determinations are discretionary and subject to the decision-making authority of the Board of Directors. We do not use benchmarking as a fixed criterion to determine compensation. Rather, after subjectively setting compensation based on the policies discussed above under “Compensation Philosophy and Policies”, we reviewed the compensation paid to officers holding similar positions at our peer group companies and certain information for privately held companies to obtain a general understanding of the reasonableness of base salaries and other compensation payable to our named executive officers. Our peer group of public companies was comprised of the following companies: Amerigas Partners, L.P., Suburban Propane Partners, L.P., Sprague Resourses, L.P. and Global Partners, L.P. We chose these companies because they are engaged in the distribution of energy products like us.

Elements of Executive Compensation

For the fiscal year ended September 30, 2018, the principal components of compensation for the named executive officers were:

- base salary;
- annual discretionary profit sharing allocation;
- management incentive compensation plan; and
- retirement and health benefits.

Under our compensation structure, the mix of base salary, discretionary profit sharing allocation and long-term compensation provided to each executive officer varies depending on their position. The base salary for each executive officer is the only fixed component of compensation. All other compensation, including annual discretionary profit sharing allocation and long-term incentive compensation, is variable in nature.

The majority of the Company’s compensation allocation is weighted towards base salary and annual discretionary profit sharing allocation. In addition, during fiscal 2018, an aggregate of $267,082 was paid to the named executive officers under the terms of the management incentive compensation plan and represented a small portion of the executive compensation that was paid to these officers. If we are successful in increasing the overall level of distributions payable to unitholders, the amounts payable to the named executive officers under the management incentive compensation plan should increase.

We believe that together all of our compensation components provide a balanced mix of fixed compensation and compensation that is contingent upon each executive officer’s individual performance and our overall performance. A goal of the compensation program is to provide executive officers with a reasonable level of security through base salary and benefits, while rewarding them through incentive compensation to achieve business objectives and create unitholder value over time. We believe that each of our compensation components is important in achieving this goal. Base salaries provide executives with a base level of monthly income and security. Annual discretionary profit sharing allocations and long-term incentive awards provide an incentive to our executives to achieve business objectives that increase our financial performance, which creates unitholder value through continuity of, and increases in, distributions and increases in the market value of the units. In addition, we want to ensure that our compensation programs are appropriately designed to encourage executive officer retention, which is accomplished through all of our compensation elements.

Base Salary

The Board of Directors establishes base salaries for the named executive officers based on a number of factors, including:

- The historical salaries for services rendered to the Company and responsibilities of the named executive officer.
- The salaries of equivalent executive officers at our peer group companies and other data for our industry.
- The prevailing levels of compensation and cost of living in the location in which the named executive officer works.

In determining the initial base compensation payable to individual named executive officers when they are first hired by Star, our starting point is the historical compensation levels that we have paid to officers performing similar functions over the past few years. We also consider the level of experience and accomplishments of individual candidates and general labor market conditions, including the availability of candidates to fill a particular position. When we make adjustments to the base salaries of existing named executive officers, we review the individual’s performance, the value each named executive officer brings to us and general labor market conditions.

Elements of individual performance considered, among others, without any specific weight given to each element, include business-related accomplishments during the year, difficulty and scope of responsibilities, effective leadership, experience, expected future contributions to the Company and difficulty of replacement. While base salary provides a base level of compensation intended to be competitive with the external market, the base salary for each named executive officer is determined on a subjective basis after consideration of these factors and is not based on target percentiles or other formal criteria. Although we believe that base salaries for our named executive officers are generally competitive with the external market, we do not use benchmarking as a fixed criterion to determine base compensation. Rather, after subjectively setting base salaries based on the above factors, we review the compensation paid to officers holding similar positions at our peer group companies to obtain a general understanding of the reasonableness of base salaries and other compensation payable to our named executive officers. We also take into account geographic differences for similar positions in the New York Metropolitan area. While cost of living is considered in determining annual increases, we do not typically provide full cost of living adjustments as salary increases are constrained by budgetary restrictions and the ability to fund the Company’s current cash needs such as interest expense, maintenance capital, income taxes and distributions.

Profit Sharing Allocations

We maintain a profit sharing pool for certain employees, including named executive officers, which is equal to approximately 6% of our earnings before income taxes, depreciation and amortization, excluding items affecting comparability ("adjusted EBITDA") for the given fiscal year. The annual discretionary profit sharing allocations paid to the named executive officers are payable from this pool. The size of the pool fluctuates based upon upward or downwards changes in adjusted EBITDA and the size of an individual award to a named executive officer fluctuates based on the size of the profit sharing pool and the number of participants in the plan. Depending upon the size of the profit sharing pool, and the number of participants in the plan, the amount paid to the named executive officers could be more or less.

There are no set formulas for determining the amount payable to our named executive officers from the profit sharing plan. Factors considered by our CEO and the Board in determining the level of profit sharing allocations generally include, without assigning a particular weight to any factor:

- whether or not we achieved certain budgeted goals for the year and any material shortfalls or superior performances relative to expectations. Under the plan, no profit sharing was payable with respect to fiscal 2018 unless we have achieved actual adjusted EBITDA for fiscal 2018 of at least 70% of the amount of budgeted adjusted EBITDA for fiscal 2018.
- the level of difficulty associated with achieving such objectives based on the opportunities and challenges encountered during the year; and
- significant transactions or accomplishments for the period not included in the goals for the year.

Our CEO takes these factors into consideration as well as the relative contributions of each of the named executive officers to the year's performance in developing his recommendations for profit sharing amounts. Based on such assessment, our CEO submits recommendations to the Board of Directors for the annual profit sharing amounts to be paid to our named executive officers (other than the CEO), for the Board's review and approval. Similarly, the Chairman assesses the CEO's contribution toward meeting the Company's goals based upon the above factors, and recommends to the Board of Directors a profit sharing allocation for the CEO it believes to be commensurate with such contribution.

The Board of Directors retains the ultimate discretion to determine whether the named executive officers will receive annual profit sharing allocations based upon the factors discussed above.

Management Incentive Compensation Plan

In fiscal 2007, following our recapitalization, the Board of Directors adopted the Management Incentive Compensation Plan (the "Plan") for certain named employees. Under the Plan, employees who participate shall be entitled to receive a pro rata share (as determined in the manner described below) of an amount in cash equal to:

- 50% of the distributions ("Incentive Distributions") of Available Cash in excess of the minimum quarterly distribution of $0.0675 per unit otherwise distributable to Kestrel Heat pursuant to the Partnership Agreement on account of its general partner units; and
- 50% of the cash proceeds (the "Gains Interest") which Kestrel Heat shall receive from any sale of its general partner units (as defined in the Partnership Agreement), less expenses and applicable taxes.

We believe that the Plan provides a long-term incentive to its participants because it encourages Star's management to increase available cash for distributions in order to trigger the incentive distributions that are only payable if distributions from available cash exceeds certain target distribution levels, with higher amounts of incentive distributions triggered by higher levels of distributions. Such increases are not sustainable on a consistent basis without long-term improvements in our operations. In addition, under certain Plan amendments that were adopted in 2012, the participation points of existing plan participants will vest and become irrevocable over a four year period, provided that the participants continue to be employed by us during the vesting period. We believe that this will help ensure that the Plan participants, which include our named executive officers, will have a continuing personal interest in the success of Star.

The pro rata share payable to each participant under the Plan is based on the number of participation points as described under “Fiscal 2018 Compensation Decisions—Management Incentive Compensation Plan.” The amount paid in Incentive Distributions is governed by the Partnership Agreement and the calculation of Available Cash (as defined in our Partnership Agreement) is distributed to the holders of our common units and general partner units in the following manner:

First, 100% to all common units, pro rata, until there has been distributed to each common unit an amount equal to the minimum quarterly distribution of $0.0675 for that quarter;

Second, 100% to all common units, pro rata, until there has been distributed to each common unit an amount equal to any arrearages in the payment of the minimum quarterly distribution for prior quarters;

Third, 100% to all general partner units, pro rata, until there has been distributed to each general partner unit an amount equal to the minimum quarterly distribution;

Fourth, 90% to all common units, pro rata, and 10% to all general partner units, pro rata, until each common unit has received the first target distribution of $0.1125; and

Finally, 80% to all common units, pro rata, and 20% to all general partner units, pro rata.

Available Cash, as defined in our Partnership Agreement, generally means all cash on hand at the end of the relevant fiscal quarter less the amount of cash reserves established by the Board of Directors of our general partner in its reasonable discretion for future cash requirements. These reserves are established for the proper conduct of our business, including acquisitions, the payment of debt principal and interest and for distributions during the next four quarters and to comply with applicable law and the terms of any debt agreements or other agreements to which we are subject. The Board of Directors of our general partner reviews the level of Available Cash each quarter based upon information provided by management.

To fund the benefits under the Plan, Kestrel Heat has agreed to permanently and irrevocably forego receipt of the amount of Incentive Distributions that are payable to plan participants. For accounting purposes, amounts payable to management under this Plan will be treated as compensation and will reduce both EBITDA and net income but not adjusted EBITDA. Kestrel Heat has also agreed to contribute to the Company, as a contribution to capital, an amount equal to the Gains Interest payable to participants in the Plan by the Company. The Company is not required to reimburse Kestrel Heat for amounts payable pursuant to the Plan.

The Plan is administered by our Chief Financial Officer under the direction of the Board or by such other officer as the Board may from time to time direct. In general, no payments will be made under the Plan if we are not distributing cash under the Incentive Distributions described above.

Effective as of July 19, 2012, the Board of Directors adopted certain amendments (the “Plan Amendments”) to the Plan. Under the Plan Amendments, the number and identity of the Plan participants and their participation interests in the Plan have been frozen at the current levels. In addition, under the Plan Amendments, the plan benefits (to the extent vested) may be transferred upon the death of a participant to his or her heirs. A participant’s vested percentage of his or her plan benefits will be 100% during the time a participant is an employee or consultant of the Company. Following the termination of such positions, a participant’s vested percentage shall be equal to 20% for each full or partial year of employment or consultation with us starting with the fiscal year ended September 30, 2012 (33 1/3% in the case of the Company’s chief executive officer at that time).

We distributed $599,572 in Incentive Distributions under the Plan during fiscal 2018, including payments to the named executive officers of approximately $267,082. With regard to the Gains Interest, Kestrel Heat has not given any indication that it will sell its general partner units within the next twelve months. Thus the Plan’s value attributable to the Gains Interest currently cannot be determined.

Retirement and Health Benefits

We offer a health and welfare and retirement program to all eligible employees. The named executive officers are generally eligible for the same programs on the same basis as other employees of Star. We maintain a tax-qualified 401(k) retirement plan that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. Under the 401(k) plan, subject to IRS limitations, each participant can contribute from 0% to 60% of compensation.

We make a 4% (or a maximum of 5.5% for participants who had 10 or more years of service at the time our defined benefit plans were frozen and who have reached the age 55) core contribution of a participant's compensation and generally can match 2/3 (up to 3.0%) of a participant's contributions, subject to IRS limitations.

In addition, we have two frozen defined benefit pension plans that were maintained for all its eligible employees, including certain executive officers. The present value of accumulated benefits under these frozen defined benefit pension plans for certain executive officers is provided in the table labeled, pension plans pursuant to which named executive officers have an accumulated benefit but are not currently accruing benefits.

Fiscal 2018 Compensation Decisions

For fiscal 2018, the foregoing elements of compensation were applied as follows

Base Salary

The following table sets forth each named executive officer's base salary as of October 1, 2018 and the percentage increase in base salary over October 1, 2017. The current base salaries for our named executive officers were determined based upon the factors discussed under the caption "Base Salary." The average percentage increase in base salary for executives in our peer group was approximately 3.6%.

Name	Salary	Percentage Change From Prior Year	
Steven J. Goldman	$481,000	3.4	%
Richard F. Ambury	$411,190	5.0	%
Richard G. Oakley	$262,250	2.3	%

Annual Discretionary Profit Sharing Allocation

Based on the annual performance reviews for our CEO and named executive officers, the Board approved annual profit sharing allocations as reflected in the "Summary Compensation Table" and notes thereto. For fiscal 2018 the profit sharing amounts reflected in the Summary Compensation Table are 10%, 8%, and 9% lower than fiscal 2017 for Messrs. Goldman, Ambury, and Oakley, respectively. One of our primary performance measures for profit sharing purpose is Adjusted EBITDA. Adjusted EBITDA increased by $5.2 million, or 6.4%, to $86.2 million for fiscal 2018. For our peer group, the average percentage increase in Adjusted EBITDA was 18.3%, but the average percentage increase in total compensation was 61.9%. Another performance measure is acquisitions and in fiscal 2018, we completed six acquisitions with an aggregate purchase price of approximately $25.2 million ($23.7 million in cash and $1.5 million of deferred liabilities) and added approximately 16,950 customers. Messrs. Goldman, Ambury, and Oakley were instrumental in the analysis that led to the successful integration of these transactions. Mr. Goldman continued to focus on our initiatives to increase revenues other than through the sale of home heating oil, such as the expansion of our concierge service, and organically expanding our presence in the distribution of propane. 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. This deposit for our captive insurance company resulted in a tax deduction at a blended rate of 41.5% At a special meeting of unitholders held on October 25, 2017, our unitholders voted in favor of proposals to have the Company elect to be treated as a corporation, 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, in each case effective November 1, 2017. In July 2018, the Company amended and extended its bank agreement which increased

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availability by $33.7 million. Messrs. Ambury and Oakley were instrumental in the preceding tax planning strategy, securing the unit holder vote and extending and amending the bank facility.

Management Incentive Compensation Plan

In 2012 under the Plan Amendments adopted by the Board, the number and identity of the Plan participants and their participation points were frozen at the current levels in order to more closely align the interests of Plan participants and unitholders and to give Plan participants a continuing personal interest in our success. The number of participation points that were previously awarded to the named executive officers was based on the length of service and level of responsibility of the named executive and our desire to retain the named executive.

In fiscal 2018, $267,082 was paid to the named executive officers under the Plan as indicated in the following chart:

Name	Points	Percentage		Management Incentive Payments
Steven J. Goldman	215	19.5	%	117,189
Richard F. Ambury	235	21.4	%	128,090
Richard G. Oakley	40	3.6	%	21,803
Other Plan Participants (a)	610	55.5	%	332,490
Total	1,100	100	%	599,572

(a) Includes 300 points (27.3%) that were awarded to Mr. Donovan prior to his retirement as the Company's President and Chief Executive Officer effective September 30, 2013.

Retirement and Health Benefits

The named executive officers participate in our retirement and health benefit plans.

Employment Contracts and Severance Agreements

Agreement with Steven J. Goldman

Effective October 1, 2013, Steven J. Goldman was appointed President and Chief Executive Officer. Mr. Goldman entered into a three year employment agreement with us effective as of October 1, 2013. In December 2016 we entered into an employment agreement with Mr. Goldman effective as of October 1, 2016 where Mr. Goldman will continue to serve as President and Chief Executive Officer on an at-will basis. Under his employment agreement, if Mr. Goldman is terminated for reasons other than cause or if he terminates his employment for good reason, Mr. Goldman will be entitled to one year's salary as severance.

Agreement with Richard F. Ambury

We entered into an employment agreement with Mr. Ambury effective as of April 28, 2008. Mr. Ambury will serve as Chief Financial Officer and Treasurer on an at-will basis. The employment agreement provides for one year's salary as severance if Mr. Ambury's employment is terminated without cause or by Mr. Ambury for good reason.

Agreement with Richard G. Oakley

Effective November 2, 2009, we entered into an agreement with Mr. Richard G. Oakley pursuant to which Mr. Oakley will continue to be employed as Senior Vice President on an at-will basis, and provides for one year's salary as severance if his employment is terminated for reasons other than cause.

Change in Control Agreements

We have entered into a Change in Control Agreement with Mr. Goldman, Chief Executive Officer and Mr. Ambury, Chief Financial Officer. Under the terms of each agreement, if either of these executive officers is terminated as a result of a change in control (as defined in the agreement) he will be entitled to a payment equal to two times his base annual salary in the year of such termination plus two times the average amount paid as a bonus and/or as profit sharing during the three years preceding the year of such termination. The term change in control means the present equity owners of Kestrel and their affiliates collectively cease to beneficially own equity interests having the voting power to elect at least a majority of the members of the Board of Directors or other governing board of the general partner or any successor entity. If a change in control were to have occurred and their employment was terminated as of the date of this Report, Mr. Goldman would have received a payment of $2,005,998 and Mr. Ambury would have received a payment of $1,682,493.

Pay Ratio Disclosure

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 402(u) of Regulation S-K, we are providing the following information about the ratio of the annual total compensation, calculated in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K of our CEO, Steven J. Goldman and the annual total compensation of our median employee. For fiscal 2018, our last completed fiscal year, our CEO's total compensation was $1,110,511, versus our median employee compensation of $58,720. This reflects a CEO pay ratio of 19:1. We identified our median compensation employee by examining total compensation paid for fiscal year 2018 to all individuals, excluding Mr. Goldman, who were employed by us on September 30, 2018, the last day of our fiscal year based on payroll records. No assumptions, adjustments or estimates were made in respect of total compensation, except that we annualized the compensation of any employee that was not employed with us for all of fiscal year 2018, excluding seasonal and temporary employees.

Indemnification Agreements

We have entered into an indemnification agreement with each of our directors and senior executives. These agreements provide for us to, among other things, indemnify such persons against certain liabilities that may arise by reason of their status or service as directors or officers, to advance their expenses incurred as a result of a proceeding as to which they may be indemnified and to cover such person under any directors' and officers' liability insurance policy we choose, in our discretion, to maintain. These indemnification agreements are intended to provide indemnification rights to the fullest extent permitted under applicable indemnification rights statutes in the State of Delaware and are in addition to any other rights such person may have under our Partnership Agreement and the limited liability company agreement of our general partner, and applicable law. We believe these indemnification agreements enhance our ability to attract and retain knowledgeable and experienced executives and independent, non-management directors.

Board of Directors Report

The Board of Directors of the general partner of the Company does not have a separate compensation committee. Executive compensation is determined by the Board of Directors.

The Board of Directors reviewed and discussed with the Company's management the Compensation Discussion and Analysis contained in this annual report on Form 10-K. Based on that review and discussion, the Board of Directors recommends that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K for the year ended September 30, 2018.

Paul A. Vermylen, Jr.

Steven J. Goldman

Henry D. Babcock

David M. Bauer

C. Scott Baxter

Daniel P. Donovan

Bryan H. Lawrence

William P. Nicoletti

Executive Compensation Table

The following table sets forth the annual salary compensation, bonus and all other compensation awards earned and accrued by the named executive officers in the fiscal year.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary	Bonus	Unit Awards	Option Awards	Non-Equity Incentive Plan Comp.(1)	Change in Pension Value and Nonqualified Deferred Comp. Earnings (2)	All Other Comp.(3)	Total
Steven J. Goldman	2018	$465,000	—	—	—	$482,937	$ —	$162,574	$1,110,511
President and	2017	$450,000	—	—	—	$536,060	$ —	$135,834	$1,121,894
Chief Executive Officer	2016	$420,000	—	—	—	$547,000	$ —	$120,563	$1,087,173
Richard F. Ambury	2018	$401,400	—	—	—	$410,850	$ —	$176,222	$988,472
Chief Financial Officer,	2017	$384,079	—	—	—	$445,320	$ —	$147,254	$976,653
Treasurer and Executive	2016	$368,100	—	—	—	$434,000	$ 40,838	$129,326	$972,264
Vice President									
Richard G. Oakley	2018	$259,250	—	—	—	$138,500	$ —	$69,202	$466,952
Senior Vice President -	2017	$253,125	—	—	—	$152,000	$ —	$61,377	$466,502
Accounting	2016	$247,083	—	—	—	$145,750	$ 62,632	$58,491	$513,956

(1) Payable pursuant to the Company's profit sharing pool, which is described under "Compensation Discussion and Analysis. – Profit Sharing Allocation."

(2) We have two frozen defined benefit pension plans that we sometimes refer in this Report as the Petro defined benefit pension plan and the Meenan defined benefit pension plan, where participants are not accruing additional benefits. Mr. Ambury also participated in a tax-qualified supplemental employee retirement plan which prior to being frozen in 1997, represented contributions to an employee plan to compensate for a reduction in certain benefits prior to 1997. Included in Mr. Ambury's amounts for the Change in Pension Value and Nonqualified Deferred Comp. Earnings are $0, $0, and $6,560 for fiscal years 2018, 2017, and 2016 respectively, for the actuarial changes in the value of his frozen supplemental employee retirement plan. The change in all the named executive's pension values (including the supplemental employee retirement plan) are non-cash, and reflect normal adjustments resulting from changes in discount rates and government mandated mortality tables.

(3) All other compensation is subdivided as follows:

Name	Management Incentive Compensation Plan	Company Match and Core Contribution to 401(K) Plan	Car Allowance or Monetary Value for Personal Use of Company Owned Vehicle	Total
Steven J. Goldman	$ 117,189	$ 15,900	$ 29,485	$162,574
Richard F. Ambury	$ 128,090	$ 20,932	$ 27,200	$176,222
Richard G. Oakley	$ 21,803	$ 20,199	$ 27,200	$69,202

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Grants of Plan-Based Awards

Name	Grant Date (1)	Estimated Future Payouts Equity Incentive Plan Awards (1) Threshold ($)	Target ($) (2)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Threshold (#)	Target (#)	Maximum (#)	All Other Stocks Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
Steven J. Goldman	7/21/09	—	$ 482,937								