

STAR GROUP LP
Form 10-K
December 06, 2017
Table of Contents

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, 2017

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
(State or other jurisdiction of
incorporation or organization)

06-1437793
(I.R.S. Employer
Identification No.)

9 West Broad Street, Suite 310, Stamford, Connecticut
(Address of principal executive office)
(203) 328-7310

06902
(Zip Code)

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act (check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the registrant's common units held by non-affiliates on March 31, 2017 was approximately \$409,476,507.

As of November 30, 2017, the registrant had 55,887,832 common units outstanding.

Documents Incorporated by Reference: None

Table of Contents**STAR GROUP, L.P.****2017 FORM 10-K ANNUAL REPORT****TABLE OF CONTENTS**

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	23
Item 2. <u>Properties</u>	23
Item 3. <u>Legal Proceedings Litigation</u>	24
Item 4. <u>Mine Safety Disclosures</u>	24
<u>PART II</u>	
Item 5. <u>Market for the Registrant's Units and Related Matters</u>	24
Item 6. <u>Selected Historical Financial and Operating Data</u>	27
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	52
Item 8. <u>Financial Statements and Supplementary Data</u>	52
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	52
Item 9A. <u>Controls and Procedures</u>	53
Item 9B. <u>Other Information</u>	53
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	54
Item 11. <u>Executive Compensation</u>	59
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management</u>	71
Item 13. <u>Certain Relationships and Related Transactions</u>	72
Item 14. <u>Principal Accounting Fees and Services</u>	73
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	74

PART I**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 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.

Table of Contents**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, 2017, we had outstanding 55.9 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, 2017:

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 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 third amended and restated credit agreement s five-year senior secured term loan and the \$300 million (\$450 million during the heating season of December through April of each year) revolving credit facility, both due July 30, 2020. (See Note 11 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. These reports are also available to be read and copied at the SEC s public reference room located at Judiciary Plaza, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. 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.

Table of Contents

Legal Structure

The following chart summarizes our structure as of September 30, 2017.

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, 2017, we sold home heating oil and propane to approximately 455,000 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 74,000 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 customer base including 15,300 service contracts for natural gas and other heating systems. In addition, we provide home security and plumbing, to approximately 31,000 customers, many of whom are also existing home heating oil and propane customers. During fiscal 2017, total sales were comprised approximately 64.4% from sales of home heating oil and propane; 19.6 % from the installation and repair of heating and air conditioning equipment and ancillary services; and 16.0% from the sale of other petroleum products. 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 homeowners 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.

Table of Contents

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

<u>New Hampshire</u>	<u>Maine</u>	<u>New Jersey</u>	<u>Tennessee</u>
Hillsborough	York	Atlantic	Bradley
Merrimack		Bergen	Hamilton
Rockingham	<u>New York</u>	Burlington	McMinn
Strafford	Albany	Camden	Meigs
	Bronx	Cumberland	Polk
<u>Vermont</u>	Columbia	Essex	
Bennington	Dutchess	Gloucester	<u>North Carolina</u>
	Fulton	Hudson	Anson
<u>Massachusetts</u>	Greene	Hunterdon	Caburras
Barnstable	Kings	Mercer	Davidson
Bristol	Montgomery	Middlesex	Forsyth
Essex	Nassau	Monmouth	Gaston
Hampden	New York	Morris	Guilford
Middlesex	Orange	Ocean	Lincoln
Norfolk	Putnam	Passaic	Mecklenburg
Plymouth	Queens	Salem	Montgomery
Suffolk	Rensselaer	Somerset	Randolph
Worcester	Richmond	Sussex	Richmond
	Rockland	Union	Rowan
<u>Rhode Island</u>	Saratoga	Warren	Stanly
Bristol	Schenectady		Union

Kent	Schoharie	<u><i>Pennsylvania</i></u>	
Newport	Suffolk	Adams	<u><i>South Carolina</i></u>
Providence	Sullivan	Berks	Bamberg
Washington	Ulster	Bucks	Calhoun
	Warren	Chester	Chester
<u><i>Connecticut</i></u>	Washington	Cumberland	Dorchester
Fairfield	Westchester	Dauphin	Fairfield
Hartford		Delaware	Kershaw
Litchfield	<u><i>Maryland</i></u>	Franklin	Lexington
Middlesex	Anne Arundel	Fulton	Newberry
New Haven	Baltimore	Lancaster	Oconec
New London	Calvert	Lebanon	Orangeburg
Tolland	Caroline	Lehigh	Saluda
Windham	Carroll	Monroe	Sumter
	Cecil	Montgomery	York
<u><i>Washington, D.C.</i></u>	Charles	Northampton	
District of Columbia	Dorchester	Perry	<u><i>Georgia</i></u>
	Frederick	Philadelphia	Banks
<u><i>Delaware</i></u>	Harford	Schuylkill	Cherokee
Kent	Howard	York	Dawson
New Castle	Kent		Fannin
Sussex	Montgomery	<u><i>Virginia</i></u>	Franklin
	Prince George s	Arlington	Forsyth
<u><i>Michigan</i></u>	Queen Anne	Clarke	Habersham
Genesee	St. Mary s	Culpepper	Hall
Lapeer	Talbot	Fairfax	Jefferson

Edgar Filing: STAR GROUP LP - Form 10-K

Macomb	Washington	Frederick	Lumpkin
Oakland	Wicomico	Fauquier	Murray
Sanilac	Worcester	Loudoun	Rabun
St. Clair		Prince William	Stephens
Tuscola	<u>West Virginia</u>	Stafford	Towns
Wayne	Berkeley	Warren	White
	Jefferson		Whitfield
	Morgan		

Table of Contents

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, 2015 Residential Energy Consumption Survey (the latest survey published), these regions account for 80% (4.7 million of 5.9 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 and other alternative energy sources. 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 2.4% 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.

Table of Contents

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 Department 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 are also deploying 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 created a specific department 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.

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. 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. 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.

Table of Contents

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

Our full service home heating oil customer base is comprised of 97% residential customers and 3% commercial customers. Our residential customer receives on average 164 gallons per delivery and our commercial accounts receive on average 322 gallons per delivery. Typically, we make four to six deliveries per customer per year. 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 also offer a 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. 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 home 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.

	September 30,				
	2017	2016	2015	2014	2013
Variable	52.6%	53.2%	51.4%	53.5%	53.1%
Ceiling	37.1%	40.8%	43.9%	40.8%	42.3%
Fixed	10.3%(a)	6.0%	4.7%	5.7%	4.6%
	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.

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 and priced purchase commitments. 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., Munich Re Trading LLC, Regions Financial Corporation, Societe Generale, and Wells Fargo Bank, N.A.

Table of Contents

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 derivative instruments designated as cash flow hedges are effective, as defined under this guidance, changes in fair value are recognized in other comprehensive income until the forecasted hedged item is recognized in earnings. We have elected not to designate our derivative instruments as hedging instruments under this guidance, and as a result, the changes in fair value of the derivative instruments 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, 2017 had contracts with approximately 90 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 83% of our expected home heating oil and propane requirements for the fiscal 2018 heating season. We also have market price based contracts for approximately 43% of our expected diesel and gasoline requirements for fiscal 2018.

During fiscal 2017, Global Companies LLC and NIC Holding Corp. provided approximately 13% and 8%, respectively, of our petroleum product purchases. No other single supplier provided more than 8% of our product supply during fiscal 2017. For fiscal 2018, we generally have supply contracts for similar quantities with Global Companies LLC and NIC Holding Corp. 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

In recent years, the wholesale price of home heating oil has been extremely volatile, resulting in increased consumer sensitivity to heating costs and possibly increased gross customer attrition. Like any other market 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) price per gallon for the fiscal years ended September 30, 2013 through 2017, on a quarterly basis, is illustrated by the following chart:

Quarter Ended	Fiscal 2017 (2)		Fiscal 2016		Fiscal 2015		Fiscal 2014		Fiscal 2013 (1)	
	Low	High	Low	High	Low	High	Low	High	Low	High

Edgar Filing: STAR GROUP LP - Form 10-K

December 31	\$ 1.39	\$ 1.70	\$ 1.08	\$ 1.61	\$ 1.85	\$ 2.66	\$ 2.84	\$ 3.12	\$ 2.90	\$ 3.26
March 31	1.49	1.70	0.87	1.26	1.62	2.30	2.89	3.28	2.86	3.24
June 30	1.37	1.65	1.08	1.57	1.68	2.02	2.85	3.05	2.74	3.09
September 30	1.45	1.86	1.26	1.53	1.38	1.84	2.65	2.98	2.87	3.21

- (1) Beginning April 1, 2013, the NYMEX contract specifications were changed from high sulfur home heating oil to ultra low sulfur diesel. Ultra low sulfur diesel is similar in composition to ultra low sulfur home heating oil.
- (2) On November 30, 2017, the NYMEX ultra low sulfur diesel contract closed at \$1.89 per gallon or \$0.31 per gallon higher than the average of \$1.58 in Fiscal 2017.

Table of Contents

Acquisitions

Part of our business strategy is to pursue select acquisitions. 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.

During fiscal 2015, we acquired three heating oil and propane dealers (with one dealer also having motor fuel accounts) with a total of 23,300 home heating oil and propane accounts for an aggregate purchase price of approximately \$20.8 million. The gross purchase price was allocated \$21.8 million to intangible assets, \$2.5 million to fixed assets and reduced by \$3.5 million for working capital credits.

Employees

As of September 30, 2017, we had 3,362 employees, of whom 839 were office, clerical and customer service personnel; 947 were equipment technicians; 563 were fuel delivery drivers and mechanics; 616 were management and 397 were employed in sales. Of these employees 1,451 (43%) are represented by 61 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 2018 heating season, we anticipate that we will augment our current staffing levels during the heating season from among the 345 employees on temporary leave of absence as of September 30, 2017. There are 21 collective bargaining agreements up for renewal in fiscal 2018, covering approximately 381 employees (11%). 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.

Table of Contents

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 Oversight, 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 2013 to fiscal year 2017. 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.

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Gross customer gains	13.1%	12.1%	14.6%	16.0%	14.8%
Gross customer losses	14.6%	17.2%	16.4%	16.9%	18.1%
Net attrition	(1.5%)	(5.1%)	(1.8%)	(0.9%)	(3.3%)

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; and

credit worthiness.

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.

Table of Contents

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.

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,				
	2017	2016	2015	2014	2013
Customer losses to natural gas conversion	(1.2)%	(1.3)%	(1.6)%	(2.2)%	(2.4)%

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.

Table of Contents

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. Factors that may adversely affect our operating and financial results may limit our access to capital and adversely affect our ability to make acquisitions. Under the terms of our third amended and restated credit agreement that we sometimes refer to in this Report as our 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.

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.

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.

Table of Contents

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.

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 oil 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. In fiscal years 2017, 2016, 2012 and 2002 temperatures were significantly warmer than normal for the areas in which we sell our products, which adversely affected the amount of net income, EBITDA and Adjusted EBITDA that we generated during these periods.

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 2018 and 2019 we have weather hedge contracts with several providers. For fiscal year 2018 the maximum that the Company can receive is \$17.5 million and the maximum the Company can pay is \$5.0 million. For fiscal year 2019 the maximum that the Company can receive is \$12.5 million and the maximum the Company can pay is \$5.0 million. However, there can be no assurance that such weather hedge contract would fully or substantially offset the adverse effects of warmer weather on our business and operating results during such period.

Table of Contents**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. 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., Munich Re Trading LLC, Regions Financial Corporation, Societe Generale, and Wells Fargo Bank, N.A. Our primary insurance carriers are American International Group, Federated Mutual Insurance Company, our captive insurance subsidiary, Woodbury Insurance Co., Inc., and our weather hedge counterparties which are subsidiaries of Swiss Re and Endurance Specialty Insurance Ltd.

Table of Contents

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.

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

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.

Volatility in wholesale energy costs may adversely affect our liquidity.

Our business requires a significant amount of working capital to finance accounts receivable and inventory 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.

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.

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 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 \$7.8 million, \$25.2 million, and \$28.9 million, during fiscal years 2017, 2016, and 2015, 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.

Table of Contents

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, 2017, we expect to have approximately 30 million gallons of priced purchase commitments and physical inventory hedged with a futures contract or swap. If the wholesale price of heating oil increased \$1.00 per gallon, our near term liquidity in December would be reduced by \$30 million.

At September 30, 2017, we had approximately 131,000 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. Volatility 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.

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 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. As a result of significant decreases in the price of home heating oil following the summer of 2008, many price-protected customers attempted to renegotiate their agreements with us in fiscal 2009. It is our policy to bill a termination fee when customers terminate their arrangement with us. We believe that approximately 10,000 customers terminated their relationship with us as a result of being billed the termination fee in fiscal 2009. Under our current price-protected programs, approximately 37% and 10% of our residential customers are respectively categorized as being either ceiling or fixed.

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.

Table of Contents

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, 2017, we had approximately \$63.9 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. 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 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.

Table of Contents

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) issued its final Clean Power Plan for regulation of GHG emissions. 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. The Clean Power Plan is currently the subject of multiple judicial challenges and it is unclear what, if any, effect the results of the 2016 elections will have on the Clean Power Plan. But even if the Clean Power Plan is ultimately upheld by the courts, it is too early to predict how the states where we operate or from which we obtain our products will elect to control GHG emissions. 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.

Table of Contents

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, 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.

Table of Contents

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 servicemen labor.

We compete with other entities for drivers and servicemen labor, including entities that operate in different market sectors than us. Costs to recruit 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, 2017, approximately 43% of our employees were covered under 61 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, and

the amount of cash taxes we have to pay in Federal, State and local corporate income and franchise taxes.

Table of Contents

Our credit agreement imposes restrictions on our ability to pay distributions to unitholders, including the need to maintain certain covenants. (See the third amended and restated credit agreement and Note 11 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, 2017, we had outstanding under our credit agreement a \$76.3 million term loan due July 2020. In addition, under the revolver portion of our credit agreement which expires in July 2020, we had no borrowings, but \$48 million of letters of credit were issued, \$0.1 million of hedge positions were secured, and availability was \$166.1 million. Exclusive of the term loan, during the last three fiscal years we have utilized as much as \$84.2 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.

Table of Contents

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.

We may be unable to satisfy our obligations under our credit agreement unless we are able to refinance or obtain waivers under our other indebtedness. We may not have the financial resources to repay borrowings under our credit agreement.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We provide services to our customers in the United States from eighteen states and the District of Columbia, ranging from Maine to Georgia from 48 principal operating locations and 79 depots, 45 of which are owned and 82 of which are leased. As of September 30, 2017, we had a fleet of 1,205 truck and transport vehicles, many of which were owned and 1,341 service vans, 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.

Table of Contents**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 fraud. The Plaintiff also seeks to have a class certified of similarly situated Petro customers who entered into protected price plan contracts and were denied the same contractual benefits. No class has yet been certified in this action. The Plaintiff seeks compensatory, punitive and other damages in unspecified amounts. On September 15, 2017, Petro filed a motion to dismiss the amended complaint as time-barred and for failure to state a cause of action. The motion is fully briefed and awaiting oral argument. 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.

Quarter Ended	SGU Common Unit Price Range		Distributions Declared			
	High		Low		per Unit	
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
December 31,	\$ 11.30	\$ 8.82	\$ 9.06	\$ 6.77	\$ 0.1025	\$ 0.0950
March 31,	\$ 11.39	\$ 8.40	\$ 9.02	\$ 7.25	\$ 0.1025	\$ 0.0950
June 30,	\$ 11.70	\$ 9.00	\$ 9.00	\$ 8.10	\$ 0.1100	\$ 0.1025
September 30,	\$ 11.35	\$ 9.75	\$ 10.26	\$ 8.54	\$ 0.1100	\$ 0.1025

As of November 30, 2017, there were approximately 253 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 the payment of debt principal and interest, 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.

Table of Contents

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 third 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 11 of the Notes to the Consolidated Financial Statements Long-Term Debt and Bank Facility Borrowings).

On October 12, 2017, we declared a quarterly distribution of \$0.11 per unit, or \$0.44 per unit on an annualized basis, on all Common Units with respect to the fourth quarter of fiscal 2017, paid on October 31, 2017, to holders of record on October 23, 2017. In accordance with our Partnership Agreement, the amount of distributions in excess of the minimum quarterly distribution of \$0.0675, are distributed 90% to Common Unit holders and 10% to the General Partner unit holders (until certain distribution levels are met), subject to the management incentive compensation plan. As a result, \$6.1 million was paid to the Common Unit holders, \$0.2 million to the general partner unit holders (including \$0.1 million of incentive distribution as provided in our Partnership Agreement) and \$0.1 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

From July 21, 2009 (the start of the Plan I Common Unit repurchase program) to November 30, 2017 (the current Plan III Common Units repurchase program in effect) we have repurchased and retired 19.9 million Common Units at an aggregate purchase price of \$95.9 million or an average price of \$4.82 per unit.

In fiscal 2010, we concluded its Plan I of the Common Unit repurchase program and retired all 7.5 million Common Units authorized for repurchase at an average price paid of \$4.04 per unit.

In fiscal 2012, we concluded its Plan II of the Common Unit repurchase program and retired all 7.25 million Common Units authorized for repurchase at an average price paid of \$4.94 per unit.

Table of Contents

In July 2012, the Board of Directors (the Board) of Star authorized the repurchase of up to 3.0 million of the Company's Common Units (Plan III). In July 2013, the Board authorized the repurchase of an additional 1.9 million Common Units under Plan III. The authorized Common Unit repurchases may be made from time-to-time in the open market, in privately negotiated transactions or in such other manner deemed appropriate by management. There is no guarantee of the exact number of units that will be purchased under the program and we may discontinue purchases at any time. The program does not have a time limit. The Board may also approve additional purchases of units from time to time in private transactions. The Company's repurchase activities take into account SEC safe harbor rules and guidance for issuer repurchases. All of the Common Units purchased in the repurchase program will be retired.

(in thousands, except per unit amounts)

Period	Total Number of Units Purchased (a)	Average Price Paid per Unit (b)	Maximum Number of Units that May Yet Be Purchased (c)
Plan III - Number of units authorized			4,894
Private transaction - Number of units authorized			2,450
			7,344
Plan III - Fiscal year 2012 total	22	\$ 4.26	2,978
Plan III - Fiscal year 2013 total (d)	3,284	\$ 4.63	2,738
Plan III - Fiscal year 2014 total	313	\$ 5.32	2,425
Plan III - Fiscal year 2015 total	123	\$ 5.64	2,302
Plan III - Fiscal year 2016 total (e)	1,395	\$ 8.62	2,207
Plan III - Fiscal year 2017 total		\$	2,207
Plan III - October and November 2017		\$	2,207

- (a) Units were repurchased as part of a publicly announced program, except as noted in a private transaction.
(b) Amounts include repurchase costs.
(c) Number reflects what was authorized to yet be purchased as of the end of the respective period.
(d) Fiscal year 2013 common unit repurchases include 1.15 million common units acquired in a private transaction.
(e) Fiscal year 2016 common unit repurchases include 1.3 million common units acquired in a private transaction.

Table of Contents**ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA**

The selected financial data as of September 30, 2017 and 2016, and for the years ended September 30, 2017, 2016 and 2015 is derived from the financial statements of Star included elsewhere in this Report. The selected financial data as of September 30, 2015, 2014 and 2013 and for the years ended September 30, 2014 and 2013 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.

(in thousands, except per unit data)	Fiscal Years Ending September 30,				
	2017	2016	2015	2014	2013
Statement of Operations Data:					
Sales	\$ 1,323,555	\$ 1,161,338	\$ 1,674,291	\$ 1,961,724	\$ 1,741,796
Costs and expenses:					
Cost of sales	915,056	768,841	1,203,588	1,555,300	1,388,668
(Increase) decrease in the fair value of derivative instruments	(2,193)	(18,217)	4,187	6,566	6,775
Delivery and branch expenses	306,534	276,493	309,025	282,646	250,210
Depreciation and amortization expenses	27,882	26,530	24,930	21,635	17,303
General and administrative expenses	24,998	23,366	25,908	22,592	18,356
Multiemployer pension plan withdrawal charge			17,796		
Finance charge income	(4,054)	(3,079)	(4,756)	(6,870)	(5,521)
Operating income	55,332	87,404	93,613	79,855	66,005
Interest expense, net	6,775	7,485	14,059	16,854	14,433
Amortization of debt issuance costs	1,281	1,247	1,818	1,602	1,745
Loss on redemption of debt			7,345		
Income before income taxes	47,276	78,672	70,391	61,399	49,827
Income tax expense	20,376	33,738	32,835	25,315	19,921
Net income	\$ 26,900	\$ 44,934	\$ 37,556	\$ 36,084	\$ 29,906
Weighted average number of limited partner units:					
Basic and diluted	55,888	57,022	57,285	57,476	59,409

Table of Contents

(in thousands, except per unit data)	Fiscal Years Ended September 30,				
	2017	2016	2015	2014	2013
Per Unit Data:					
Basic and diluted net income per unit (a)	\$ 0.46	\$ 0.70	\$ 0.59	\$ 0.57	\$ 0.47
Cash distribution declared per common unit	\$ 0.425	\$ 0.395	\$ 0.365	\$ 0.340	\$ 0.320
Balance Sheet Data (end of period):					
Current assets	\$ 241,241	\$ 294,858	\$ 271,479	\$ 296,465	\$ 305,880
Total assets	\$ 673,917	\$ 692,111	\$ 685,508	\$ 685,107	\$ 632,504
Long-term debt	\$ 65,717	\$ 75,441	\$ 90,000	\$ 124,572	\$ 124,460
Partners Capital	\$ 306,068	\$ 301,493	\$ 289,886	\$ 273,245	\$ 259,281
Summary Cash Flow Data:					
Net cash provided by operating activities	\$ 21,058	\$ 101,957	\$ 136,853	\$ 95,155	\$ 18,492
Net cash used in investing activities	\$ (66,381)	\$ (19,631)	\$ (30,385)	\$ (107,318)	\$ (6,960)
Net cash provided by (used in) financing activities	\$ (41,157)	\$ (43,646)	\$ (54,959)	\$ (23,895)	\$ (34,566)
Other Data:					
Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization (EBITDA) (b)	\$ 83,214	\$ 113,934	\$ 111,198	\$ 101,490	\$ 83,308
Adjusted EBITDA (b)	\$ 81,021	\$ 95,717	\$ 140,526	\$ 108,056	\$ 90,083
Retail home heating oil and propane gallons sold	316,892	302,517	382,834	360,972	324,797
Temperatures (warmer) colder than normal (c)	(12.4)%	(17.8)%	5.0%	4.9%	(4.1)%

- (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 17. 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, 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;

Table of Contents

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)	2017	2016	2015	2014	2013
Net income	\$ 26,900	\$ 44,934	\$ 37,556	\$ 36,084	\$ 29,906
Plus:					
Income tax expense	20,376	33,738	32,835	25,315	19,921
Amortization of debt issuance cost	1,281	1,247	1,818	1,602	1,745
Interest expense, net	6,775	7,485	14,059	16,854	14,433
Depreciation and amortization	27,882	26,530	24,930	21,635	17,303
EBITDA from continuing operations	83,214	113,934	111,198	101,490	83,308
(Increase)/decrease in the fair value of derivative instruments	(2,193)	(18,217)	4,187	6,566	6,775
Multiemployer pension plan withdrawal charge			17,796		
Loss on redemption of debt			7,345		
Adjusted EBITDA	81,021	95,717	140,526	108,056	90,083
<u>Add/(subtract)</u>					
Income tax expense	(20,376)	(33,738)	(32,835)	(25,315)	(19,921)
Interest expense, net	(6,775)	(7,485)	(14,059)	(16,854)	(14,433)
Multiemployer pension plan withdrawal charge			(17,796)		
Provision (recovery) for losses on accounts receivable	1,639	(639)	3,738	7,514	6,481
(Increase) decrease in accounts receivables	(19,844)	10,965	30,141	12,771	(14,074)
(Increase) decrease in inventories	(10,598)	9,979	4,326	14,057	(20,664)
Increase (decrease) in customer credit balances	(23,085)	6,490	3,992	(2,433)	(15,878)
Change in deferred taxes	10,134	9,670	(4,101)	658	1,676
Change in other operating assets and liabilities	8,942	10,998	22,921	(3,299)	5,222
Net cash provided by operating activities	\$ 21,058	\$ 101,957	\$ 136,853	\$ 95,155	\$ 18,492
Net cash used in investing activities	\$ (66,381)	\$ (19,631)	\$ (30,385)	\$ (107,318)	\$ (6,960)
Net cash used in financing activities	\$ (41,157)	\$ (43,646)	\$ (54,959)	\$ (23,895)	\$ (34,566)

- (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).

Table of Contents**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 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 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.

Change in Federal Income Tax Classification and Name Change

At a special meeting held October 25, 2017, unitholders voted in favor of proposals to have the Company 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 addition, we changed our name to Star Group, L.P., and will continue to trade on the New York Stock Exchange under the ticker SGU. The name change was made to more closely align our name with the scope of products and services we offer.

We believe that, by being treated as a corporation for federal income tax purposes, instead of a partnership, we will (i) eliminate unitholders out-of-pocket tax burden (phantom income) arising from allocating taxable income to them without making corresponding cash distributions; (ii) potentially broaden our base of interested investors; (iii) enable us to fully deduct for tax purposes certain public company-related expenses; and (iv) lower our administrative expenses by eliminating Schedules K-1, which will no longer be necessary. 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. We will remain a Delaware limited partnership for state law purposes and the distribution provisions under our limited partnership agreement, including the incentive distributions, will not change.

Additional Cash Investment into an Irrevocable Trust – Captive Insurance Company

On October 11, 2017, subsequent to the fiscal year, we deposited \$34.2 million of cash into an irrevocable trust to secure certain liabilities for our captive insurance company and several days later, \$36.6 million of letters of credit

were cancelled that previously had secured these liabilities. The cash deposited into the trust will be shown as a long-term asset in investments and will correspondingly reduce 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. As a result of these transactions, our ability to borrow from our bank group increased by \$2.4 million as the decrease in letters of credit was greater than the cash deposit.

Table of Contents**Degree Days**

A degree day is an industry measurement of temperature designed to evaluate energy demand and consumption. Degree days are based on how far the average 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.

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.

During fiscal 2012 and 2016, we collected \$12.5 million in each of these fiscal years for amounts due under our weather hedge contracts and recorded a corresponding credit of \$12.5 million that reduced delivery and branch expenses. While temperatures were 12.4% warmer than normal (as defined by NOAA) in fiscal 2017, we did not receive a payout under our weather hedge contract because the payment thresholds were not met under the contract.

We have purchased weather hedge contracts for fiscal years 2018 and 2019. 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 required to make a payment 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. For fiscal year 2018 the maximum that the Company can receive is \$17.5 million and the maximum the Company can pay is \$5.0 million. For fiscal year 2019 the maximum that the Company can receive is \$12.5 million and the maximum the Company can pay is \$5.0 million. If the company has the same weather conditions in fiscal 2018 and 2019 as it did in fiscal 2017, the company would receive \$4.4 million in fiscal 2018 and \$8.4 million in fiscal 2019. If the company has the same weather conditions in fiscal 2018 and 2019 as it did in fiscal 2014 and fiscal 2015, the company would pay \$5.0 million in fiscal 2018 and 2019.

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.

Table of Contents

At September 30, 2017, we had 79.0 million gallons of home heating oil hedged for our ceiling customers and 15.6 million gallons for our fixed priced customers. Over 95% of these hedges were at their strike price which reduces the potential for per gallon margin expansion for these customers unless the price for home heating oil declines. In addition, the percentage of customers on variable pricing has decreased and the percentage of customers that have elected price protection has increased, which may adversely impact home heating oil margins in fiscal 2018 as the per gallon margins realized from price protected customers generally are less than variable priced residential customers. Our efforts to retain lower margin price-protected customers and attract new customers may also impact our per gallon margins in fiscal 2018. As of November 30, 2017, home heating oil wholesale product cost was \$1.89 per gallon or 31.0 cents per gallon higher than the average for fiscal 2017. This increase might also hamper per gallon margins in fiscal 2018 as well.

Impact on Liquidity of Wholesale Product Cost Volatility

Our liquidity is adversely impacted in times of increasing wholesale product costs, as we must use more cash to fund our hedging requirements and a portion of the increased levels of accounts receivable and inventory. Our liquidity is also adversely impacted at times 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, 2013, through 2017, on a quarterly basis, is illustrated in the following chart (price per gallon):

Quarter Ended	Fiscal 2017 (2)		Fiscal 2016		Fiscal 2015		Fiscal 2014		Fiscal 2013 (1)	
	Low	High	Low	High	Low	High	Low	High	Low	High
December 31	\$ 1.39	\$ 1.70	\$ 1.08	\$ 1.61	\$ 1.85	\$ 2.66	\$ 2.84	\$ 3.12	\$ 2.90	\$ 3.26
March 31	1.49	1.70	0.87	1.26	1.62	2.30	2.89	3.28	2.86	3.24
June 30	1.37	1.65	1.08	1.57	1.68	2.02	2.85	3.05	2.74	3.09
September 30	1.45	1.86	1.26	1.53	1.38	1.84	2.65	2.98	2.87	3.21

- (1) Beginning April 1, 2013, the NYMEX contract specifications were changed from high sulfur home heating oil to ultra low sulfur diesel. Ultra low sulfur diesel is similar in composition to ultra low sulfur home heating oil.
- (2) On November 30, 2017, the NYMEX ultra low sulfur diesel contract closed at \$1.89 per gallon or \$0.31 per gallon higher than the average of \$1.58 in fiscal 2017.

Derivatives

FASB ASC 815-10-05 Derivatives and Hedging requires that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. To the extent derivative instruments designated as cash flow hedges are effective, as defined under this guidance, changes in fa