SUBURBAN PROPANE PARTNERS LP
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 1-14222

SUBURBAN PROPANE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	22-3410353
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

240 Route 10 West

Whippany, NJ 07981

(973) 887-5300

(Address, including zip code, and telephone number,

including area code, of registrant’s principal executive offices)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(do not check if a smaller reporting company)	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

At August 6, 2018, there were 61,405,409 Common Units of Suburban Propane Partners, L.P. outstanding.

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements ("Forward-Looking Statements") as defined in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to future business expectations and predictions and financial condition and results of operations of Suburban Propane Partners, L.P. (the "Partnership"). Some of these statements can be identified by the use of forward-looking terminology such as "prospects," "outlook," "believes," "estimates," "intends," "may," "will," "should," "could," "anticipates," "expects" or "plans" or the negative or othe these or similar words, or by discussion of trends and conditions, strategies or risks and uncertainties. These Forward-Looking Statements involve certain risks and uncertainties that could cause actual results to differ materially from those discussed or implied in such Forward-Looking Statements (statements contained in this Quarterly Report identifying such risks and uncertainties are referred to as "Cautionary Statements"). The risks and uncertainties and their impact on the Partnership's results include, but are not limited to, the following risks:

- The impact of weather conditions on the demand for propane, fuel oil and other refined fuels, natural gas and electricity;
- Volatility in the unit cost of propane, fuel oil and other refined fuels, natural gas and electricity, the impact of the Partnership's hedging and risk management activities, and the adverse impact of price increases on volumes sold as a result of customer conservation;
- The ability of the Partnership to compete with other suppliers of propane, fuel oil and other energy sources;
- The impact on the price and supply of propane, fuel oil and other refined fuels from the political, military or economic instability of the oil producing nations, global terrorism and other general economic conditions;
- The ability of the Partnership to acquire sufficient volumes of, and the costs to the Partnership of acquiring, transporting and storing, propane, fuel oil and other refined fuels;
- The ability of the Partnership to acquire and maintain reliable transportation for its propane, fuel oil and other refined fuels;
- The ability of the Partnership to retain customers or acquire new customers;
- The impact of customer conservation, energy efficiency and technology advances on the demand for propane, fuel oil and other refined fuels, natural gas and electricity;
- The ability of management to continue to control expenses;
- The impact of changes in applicable statutes and government regulations, or their interpretations, including those relating to the environment and climate change, derivative instruments and other regulatory developments on the Partnership's business;
- The impact of changes in tax laws that could adversely affect the tax treatment of the Partnership for income tax purposes;
- The impact of legal proceedings on the Partnership's business;
- The impact of operating hazards that could adversely affect the Partnership's operating results to the extent not covered by insurance;
- The Partnership's ability to make strategic acquisitions and successfully integrate them;
- The impact of current conditions in the global capital and credit markets, and general economic pressures;
- The operating, legal and regulatory risks the Partnership may face; and
- Other risks referenced from time to time in filings with the Securities and Exchange Commission ("SEC") and those factors listed or incorporated by reference into the Partnership's most recent Annual Report under "Risk Factors."

Some of these Forward-Looking Statements are discussed in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report. Reference is also made to the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. On different occasions, the Partnership or its representatives have made or may make Forward-Looking Statements in other filings with the SEC, press releases or oral statements made by or with the approval of one of the Partnership's authorized executive officers. Readers are cautioned not to place undue reliance on Forward-Looking Statements, which reflect management's view only as of the date made. The Partnership undertakes no obligation to update any Forward-Looking Statement or Cautionary Statement, except as required by law. All subsequent written and oral

Forward-Looking Statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements in this Quarterly Report and in future SEC reports.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	June 30, 2018	September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$3,439	$2,789
Accounts receivable, less allowance for doubtful accounts of $4,643 and $3,044, respectively	88,047	65,683
Inventories	49,838	53,220
Other current assets	22,435	17,801
Total current assets	163,759	139,493
Property, plant and equipment, net	659,581	692,627
Goodwill	1,093,470	1,094,635
Other intangible assets, net	189,382	219,876
Other assets	25,341	24,652
Total assets	$2,131,533	$2,171,283
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$31,098	$38,652
Accrued employment and benefit costs	28,756	27,402
Customer deposits and advances	45,487	97,023
Accrued interest	14,550	13,682
Other current liabilities	33,782	33,607
Total current liabilities	153,673	210,366
Long-term borrowings	1,262,178	1,272,164
Accrued insurance	57,576	54,921
Other liabilities	79,819	80,850
Total liabilities	1,553,246	1,618,301
Commitments and contingencies		
Partners' capital:		
Common Unitholders (61,405 and 61,105 units issued and outstanding at June 30, 2018 and September 30, 2017, respectively)	604,828	581,794
Accumulated other comprehensive loss	(26,541)	(28,812)
Total partners' capital	578,287	552,982
Total liabilities and partners' capital	$2,131,533	$2,171,283

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit amounts)

(unaudited)

	Three Months Ended	
	June 30, 2018	June 24, 2017
Revenues		
Propane	$205,400	$188,406
Fuel oil and refined fuels	15,400	12,886
Natural gas and electricity	10,403	11,923
All other	10,733	9,680
	241,936	222,895
Costs and expenses		
Cost of products sold	95,392	92,094
Operating	97,519	97,070
General and administrative	14,705	12,968
Depreciation and amortization	31,259	31,825
	238,875	233,957
Operating income (loss)	3,061	(11,062)
Interest expense, net	19,512	18,502
Loss before provision for income taxes	(16,451)	(29,564)
Provision for income taxes	144	152
Net loss	$(16,595)	$(29,716)
Net loss per Common Unit - basic	$(0.27)	$(0.48)
Weighted average number of Common Units outstanding - basic	61,598	61,290
Net loss per Common Unit - diluted	$(0.27)	$(0.48)
Weighted average number of Common Units outstanding - diluted	61,598	61,290

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit amounts)

(unaudited)

	Nine Months Ended June 30, 2018	Nine Months Ended June 24, 2017
Revenues		
Propane	$990,344	$843,519
Fuel oil and refined fuels	82,414	69,612
Natural gas and electricity	43,942	44,229
All other	34,795	33,420
	1,151,495	990,780
Costs and expenses		
Cost of products sold	507,223	402,726
Operating	310,132	306,839
General and administrative	49,685	40,179
Depreciation and amortization	94,593	95,756
	961,633	845,500
Loss on sale of business	4,823	—
Operating income	185,039	145,280
Loss on debt extinguishment	—	1,567
Interest expense, net	58,428	54,820
Income before (benefit from) provision for income taxes	126,611	88,893
(Benefit from) provision for income taxes	(749)	308
Net income	$127,360	$88,585
Net income per Common Unit - basic	$2.07	$1.45
Weighted average number of Common Units outstanding - basic	61,542	61,227
Net income per Common Unit - diluted	$2.06	$1.44
Weighted average number of Common Units outstanding - diluted	61,780	61,410

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 24, 2017	June 30, 2018	June 24, 2017
Net (loss) income	$(16,595)	$(29,716)	$127,360	$88,585
Other comprehensive income:				
Net unrealized (losses) on cash flow hedges	—	—	—	(10)
Reclassification of realized losses on cash flow hedges into earnings	—	—	—	215
Amortization of net actuarial losses and prior service credits into earnings	757	1,203	2,271	3,609
Other comprehensive income	757	1,203	2,271	3,814
Total comprehensive (loss) income	$(15,838)	$(28,513)	$129,631	$92,399

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended June 30, 2018	Nine Months Ended June 24, 2017
Cash flows from operating activities:		
Net income	$127,360	$88,585
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	94,593	95,756
Loss on sale of business	4,823	—
Loss on debt extinguishment	—	1,567
Other, net	7,065	7,271
Changes in assets and liabilities:		
Accounts receivable	(21,932)	(19,143)
Inventories	3,545	3,492
Other current and noncurrent assets	(5,111)	(5,193)
Accounts payable	(6,434)	(2,826)
Accrued employment and benefit costs	1,355	6,925
Customer deposits and advances	(51,536)	(49,652)
Contributions to defined benefit pension plan	(3,839)	(7,542)
Other current and noncurrent liabilities	6,227	4,738
Net cash provided by operating activities	156,116	123,978
Cash flows from investing activities:		
Capital expenditures	(25,847)	(22,004)
Acquisition of businesses	(14,873)	—
Proceeds from sale of business	2,800	—
Proceeds from sale of property, plant and equipment	5,143	3,829
Net cash (used in) investing activities	(32,777)	(18,175)
Cash flows from financing activities:		
Proceeds from long-term borrowings	—	350,000
Repayments of long-term borrowings (includes premium and fees)	—	(360,931)
Proceeds from borrowings under revolving credit facility	283,700	273,240
Repayments of borrowings under revolving credit facility	(295,200)	(232,095)
Issuance costs associated with long-term borrowings	—	(7,064)
Partnership distributions	(110,342)	(162,347)
Other, net	(847)	(736)
Net cash (used in) financing activities	(122,689)	(139,933)
Net increase (decrease) in cash and cash equivalents	650	(34,130)
Cash and cash equivalents at beginning of period	2,789	37,341
Cash and cash equivalents at end of period	$3,439	$3,211

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(in thousands)

(unaudited)

	Number of Common Units	Common Unitholders	Accumulated Other Comprehensive (Loss)	Total Partners' Capital
Balance at September 30, 2017	61,105	$ 581,794	$ (28,812)	$ 552,982
Net income		127,360		127,360
Other comprehensive income			2,271	2,271
Partnership distributions		(110,342)		(110,342)
Common Units issued under Restricted Unit Plans	300			
Compensation cost recognized under Restricted Unit Plans, net of forfeitures		6,016		6,016
Balance at June 30, 2018	61,405	$ 604,828	$ (26,541)	$ 578,287

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

SUBURBAN PROPANE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except unit and per unit amounts)

(unaudited)

1. Partnership Organization and Formation

Suburban Propane Partners, L.P. (the “Partnership”) is a publicly traded Delaware limited partnership principally engaged, through its operating partnership and subsidiaries, in the retail marketing and distribution of propane, fuel oil and refined fuels, as well as the marketing of natural gas and electricity in deregulated markets. In addition, to complement its core marketing and distribution businesses, the Partnership services a wide variety of home comfort equipment, particularly for heating and ventilation. The publicly traded limited partner interests in the Partnership are evidenced by common units traded on the New York Stock Exchange (“Common Units”), with 61,405,409 Common Units outstanding at June 30, 2018. The holders of Common Units are entitled to participate in distributions and exercise the rights and privileges available to limited partners under the Third Amended and Restated Agreement of Limited Partnership (the “Partnership Agreement”), as amended. Rights and privileges under the Partnership Agreement include, among other things, the election of all members of the Board of Supervisors and voting on the removal of the general partner.

Suburban Propane, L.P. (the “Operating Partnership”), a Delaware limited partnership, is the Partnership’s operating subsidiary formed to operate the propane business and assets. In addition, Suburban Sales & Service, Inc. (the “Service Company”), a subsidiary of the Operating Partnership, was formed to operate the service work and appliance and parts businesses of the Partnership. The Operating Partnership, together with its direct and indirect subsidiaries, accounts for substantially all of the Partnership’s assets, revenues and earnings. The Partnership, the Operating Partnership and the Service Company commenced operations in March 1996 in connection with the Partnership’s initial public offering.

The general partner of both the Partnership and the Operating Partnership is Suburban Energy Services Group LLC (the “General Partner”), a Delaware limited liability company, the sole member of which is the Partnership’s Chief Executive Officer. Other than as a holder of 784 Common Units that will remain in the General Partner, the General Partner does not have any economic interest in the Partnership or the Operating Partnership.

The Partnership’s fuel oil and refined fuels, natural gas and electricity and services businesses are structured as either limited liability companies that are treated as corporations or corporate entities (collectively referred to as the “Corporate Entities”) and, as such, are subject to corporate level U.S. income tax.

Suburban Energy Finance Corp., a direct 100%-owned subsidiary of the Partnership, was formed on November 26, 2003 to serve as co-issuer, jointly and severally with the Partnership, of the Partnership’s senior notes.

2. Basis of Presentation

Principles of Consolidation. The condensed consolidated financial statements include the accounts of the Partnership, the Operating Partnership and all of its direct and indirect subsidiaries. All significant intercompany transactions and account balances have been eliminated. The Partnership consolidates the results of operations, financial condition and cash flows of the Operating Partnership as a result of the Partnership’s 100% limited partner interest in the Operating Partnership.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). They include all adjustments that the Partnership considers necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed. These financial statements should be read in conjunction with the financial statements included in the Partnership's Annual Report on Form 10-K for the fiscal year ended September 30, 2017. Due to the seasonal nature of the Partnership's operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Fiscal Period. The Partnership uses a 52/53 week fiscal year which ends on the last Saturday in September. The Partnership's fiscal quarters are generally thirteen weeks in duration. When the Partnership's fiscal year is 53 weeks long, as was the case for fiscal 2017, the corresponding fourth quarter is fourteen weeks in duration.

Revenue Recognition. Sales of propane, fuel oil and refined fuels are recognized at the time product is delivered to the customer. Revenue from the sale of appliances and equipment is recognized at the time of sale or when installation is complete, as applicable. Revenue from repairs, maintenance and other service activities is recognized upon completion of the service. Revenue from annually billed service contracts is recognized ratably over the service period. Revenue from the natural gas and electricity business is recognized based on customer usage as determined by meter readings for amounts delivered, some of which may be unbilled at the end of each accounting period. Revenue from annually billed tank fees is deferred at the time of billings and recognized on a straight-line basis over one year.

Fair Value Measurements. The Partnership measures certain of its assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants – in either the principal market or the most advantageous market. The principal market is the market with the greatest level of activity and volume for the asset or liability.

The common framework for measuring fair value utilizes a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

Business Combinations. The Partnership accounts for business combinations using the acquisition method and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the Partnership, and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Identifiable intangible assets with finite lives are amortized over their useful lives. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date. The Partnership expenses all acquisition-related costs as incurred.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have been made by management in the areas of self-insurance and litigation reserves, pension and other postretirement benefit liabilities and costs, valuation of derivative instruments, depreciation and amortization of long-lived assets, asset impairment assessments, tax valuation allowances, allowances for doubtful accounts, and purchase price allocation for acquired businesses. The Partnership uses Society of Actuaries life expectancy information when developing the annual mortality assumptions for the pension and postretirement benefit plans, which are used to measure net periodic benefit costs and the obligation under these plans. Actual results could differ from those estimates, making it reasonably possible that a material change in these estimates could occur in the near term.

Reclassifications. Certain prior period amounts have been reclassified to conform with the current period presentation. See Recently Adopted Accounting Pronouncements, below.

Recently Issued Accounting Pronouncements. In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). This update provides guidance on the capitalization, presentation and disclosure of net benefit costs. ASU 2017-07 is effective for the first interim period within annual reporting periods beginning after December 15, 2017, which will be the Partnership's first quarter of fiscal 2019 and will be applied retrospectively upon adoption. The Partnership is currently evaluating the impact that the standard will have on the Partnership's consolidated statements of operations.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). This update eliminates the second of the two-step goodwill impairment test, as described in Note 6, "Goodwill and Other Intangible Assets." Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for the first interim period within annual reporting periods beginning after December 15, 2019, which will be the Partnership's first quarter of fiscal 2021. Early adoption of ASU 2017-04 is permitted. The Partnership does not expect that the adoption of ASU 2017-04 will have a material impact on the Partnership's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). This update addresses eight specific cash flow issues and is intended to reduce diversity in practice on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for the first interim period within annual reporting periods beginning after December 15, 2017, which will be the Partnership's first quarter of fiscal 2019. Early adoption of ASU 2016-15 is permitted. The Partnership is currently evaluating the impact of adopting the standard on the Partnership's consolidated statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for the first interim period within annual reporting periods beginning after December 15, 2018, which will be the Partnership's first quarter of fiscal 2020. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Partnership is currently evaluating the impact of adopting ASU 2016-02 on the Partnership's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers" ("ASU 2014-09"). This update provides a principles-based approach to revenue recognition, requiring revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU provides a five-step model to be applied to all contracts with customers. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when each performance obligation is satisfied. On July 9, 2015, the FASB finalized a one-year deferral of the effective date of ASU 2014-09. The revenue standard is therefore effective for the first interim period within annual reporting periods beginning after December 15, 2017, which will be the Partnership's first quarter of fiscal 2019. Early adoption as of the original effective date is permitted. ASU 2014-09 can be applied either retrospectively to each prior reporting period presented or with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. While the Partnership is still in the process of evaluating the potential impact of ASU 2014-09, it does not expect its adoption will have a material impact on the Partnership's consolidated financial statements.

Recently Adopted Accounting Pronouncements. During the first quarter of fiscal 2018, the Partnership adopted new accounting guidance regarding stock-based compensation under ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). Cash payments made to the taxing authorities on employees' behalf for withheld shares are now presented as financing activities on the condensed consolidated statement of cash flows, rather than operating activities. The amounts paid to federal and state taxing authorities were $847 and $736 for the nine months ended June 30, 2018 and June 24, 2017, respectively.

3. Acquisition and Disposition of Businesses

On November 7, 2017, the Operating Partnership acquired the propane assets and operations of a propane retailer headquartered in California for $4,871, including $750 for non-compete consideration, plus working capital acquired. As of June 30, 2018, $4,251 was paid and the remainder of the purchase price will be funded in accordance with the terms of the asset purchase and non-compete agreements. The acquisition was consummated pursuant to the Partnership's strategic growth initiatives. The purchase price allocation and results of operations of the acquired business were not material to the Partnership's condensed consolidated financial position and statement of operations.

On December 8, 2017, the Operating Partnership sold certain assets and operations in a non-strategic market of its propane segment for $2,800, plus working capital consideration, resulting in a loss of $4,823 that was recognized during the first quarter of fiscal 2018, principally for the allocated goodwill and other identifiable intangible assets associated with this business. The corresponding net assets and results of operations were not material to the Partnership's condensed consolidated results of operations, financial position and cash flows.

On April 5, 2018, the Operating Partnership acquired the propane assets and operations of two affiliated propane retailers headquartered in Florida for $11,900, including $1,750 for non-compete consideration, plus working capital acquired. As of June 30, 2018, $10,622 was paid and the remainder of the purchase price will be funded in accordance with the terms of the asset purchase and non-compete agreements. The acquisition was consummated pursuant to the Partnership's strategic growth initiatives. The preliminary purchase price allocation and results of operations of the acquired business were not material to the Partnership's condensed consolidated financial position and statement of operations.

4. Financial Instruments and Risk Management

Cash and Cash Equivalents. The Partnership considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount approximates fair value because of the short-term maturity of these instruments.

Derivative Instruments and Hedging Activities

Commodity Price Risk. Given the retail nature of its operations, the Partnership maintains a certain level of priced physical inventory to help ensure its field operations have adequate supply commensurate with the time of year. The Partnership's strategy is to keep its physical inventory priced relatively close to market for its field operations. The Partnership enters into a combination of exchange-traded futures and option contracts and, in certain instances, over-the-counter options and swap contracts (collectively, "derivative instruments") to hedge price risk associated with propane and fuel oil physical inventories, as well as future purchases of propane or fuel oil used in its operations and to help ensure adequate supply during periods of high demand. In addition, the Partnership sells propane and fuel oil to customers at fixed prices, and enters into derivative instruments to hedge a portion of its exposure to fluctuations in commodity prices as a result of selling the fixed price contracts. Under this risk management strategy, realized gains or losses on derivative instruments will typically offset losses or gains on the physical inventory once the product is sold or delivered as it pertains to fixed price contracts. All of the Partnership's derivative instruments are reported on the condensed consolidated balance sheet at their fair values. In addition, in the course of normal operations, the Partnership routinely enters into contracts such as forward priced physical contracts for the purchase or sale of propane and fuel oil that qualify for and are designated as normal purchase or normal sale contracts. Such contracts are exempted from the fair value accounting requirements and are accounted for at the time product is purchased or sold under the related contract. The Partnership does not use derivative instruments for speculative trading purposes. Market risks associated with derivative instruments are monitored daily for compliance with the Partnership's Hedging and Risk Management Policy which includes volume limits for open positions. Priced on-hand inventory is also reviewed and managed daily as to exposures to changing market prices.

On the date that derivative instruments are entered into, other than those designated as normal purchases or normal sales, the Partnership makes a determination as to whether the derivative instrument qualifies for designation as a hedge. Changes in the fair value of derivative instruments are recorded each period in current period earnings or other comprehensive income ("OCI"), depending on whether the derivative instrument is designated as a hedge and, if so, the type of hedge. For derivative instruments designated as cash flow hedges, the Partnership formally assesses, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in cash flows of hedged items. Changes in the fair value of derivative instruments designated as cash flow hedges are reported in OCI to the extent effective and reclassified into earnings during the same period in which the hedged item affects earnings. The mark-to-market gains or losses on ineffective portions of cash flow hedges are recognized in earnings immediately. Changes in the fair value of derivative instruments that are not designated as cash flow hedges, and that do not meet the normal purchase and normal sale exemption, are recorded within earnings as they occur. Cash flows associated with derivative instruments are reported as operating activities within the condensed consolidated statement of cash flows.

Interest Rate Risk. A portion of the Partnership's borrowings bear interest at prevailing interest rates based upon, at the Operating Partnership's option, LIBOR plus an applicable margin or the base rate, defined as the higher of the Federal Funds Rate plus ½ of 1% or the agent bank's prime rate, or LIBOR plus 1%, plus the applicable margin. The applicable margin is dependent on the level of the Partnership's total leverage (the ratio of total debt to income before deducting interest expense, income taxes, depreciation and amortization ("EBITDA")). Therefore, the Partnership is subject to interest rate risk on the variable component of the interest rate. From time to time, the Partnership manages part of its variable interest rate risk by entering into interest rate swap agreements. The interest rate swaps have been designated as, and are accounted for as, cash flow hedges. The fair value of the interest rate swaps are determined using an income approach, whereby future settlements under the swaps are converted into a single present value, with fair value being based on the value of current market expectations about those future amounts. Changes in the fair value are recognized in OCI until the hedged item is recognized in earnings. However, due to changes in the underlying interest rate environment, the corresponding value in OCI is subject to change prior to its impact on earnings.

Valuation of Derivative Instruments. The Partnership measures the fair value of its exchange-traded options and futures contracts using quoted market prices found on the New York Mercantile Exchange (the “NYMEX”) (Level 1 inputs); the fair value of its swap contracts using quoted forward prices, and the fair value of its interest rate swaps using model-derived valuations driven by observable projected movements of the 3-month LIBOR (Level 2 inputs); and the fair value of its over-the-counter options contracts using Level 3 inputs. The Partnership’s over-the-counter options contracts are valued based on an internal option model. The inputs utilized in the model are based on publicly available information as well as broker quotes. The significant unobservable inputs used in the fair value measurements of the Partnership’s over-the-counter options contracts are interest rate and market volatility.

The following summarizes the fair value of the Partnership's derivative instruments and their location in the condensed consolidated balance sheets as of June 30, 2018 and September 30, 2017, respectively:

	As of June 30, 2018		As of September 30, 2017	
Asset Derivatives	Location	Fair Value	Location	Fair Value
Derivatives not designated as hedging instruments:				
Commodity-related derivatives	Other current assets	$10,953	Other current assets	$11,164
	Other assets	158	Other assets	771
		$11,111		$11,935
Liability Derivatives	Location	Fair Value	Location	Fair Value
Derivatives not designated as hedging instruments:				
Commodity-related derivatives	Other current liabilities	$4,962	Other current liabilities	$1,978
	Other liabilities	—	Other liabilities	432
		$4,962		$2,410

The following summarizes the reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)			
	Nine Months Ended June 30, 2018		Nine Months Ended June 24, 2017	
	Assets	Liabilities	Assets	Liabilities
Beginning balance of over-the-counter options	$4,108	$ 737	$809	$ —
Beginning balance realized during the period				