

Edgar Filing: Crestwood Equity Partners LP - Form 10-Q

Crestwood Equity Partners LP
Form 10-Q
May 03, 2018
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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
X 1934

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____ .

(Exact name of registrant as specified in its charter)	Commission file number	State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
Crestwood Equity Partners LP	001-34664	Delaware	43-1918951
Crestwood Midstream Partners LP	001-35377	Delaware	20-1647837

811 Main Street, Suite 3400
Houston, Texas 77002
(Address of principal executive offices) (Zip code)
(832) 519-2200
(Registrant's telephone number, including area code)

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.

Crestwood Equity Partners LP Yes No
Crestwood Midstream Partners LP Yes No

(Explanatory Note: Crestwood Midstream Partners LP is currently a voluntary filer and is not subject to the filing requirements of the Securities Exchange Act of 1934. Although not subject to these filing requirements, Crestwood Midstream Partners LP 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.)

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).

Crestwood Equity Partners LP Yes No
Crestwood Midstream Partners LP Yes No

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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.

Crestwood Equity Partners LP	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
Crestwood Midstream Partners LP	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>

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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.

Crestwood Equity Partners LP
Crestwood Midstream Partners LP

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Crestwood Equity Partners LP Yes No
Crestwood Midstream Partners LP Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (April 30, 2018)

Crestwood Equity Partners LP 71,229,147
Crestwood Midstream Partners LP None

Crestwood Midstream Partners LP, as a wholly-owned subsidiary of a reporting company, meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this report with the reduced disclosure format as permitted by such instruction.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CRESTWOOD EQUITY PARTNERS LP

CONSOLIDATED BALANCE SHEETS

(in millions, except unit information)

	March 31, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 7.3	\$ 1.3
Accounts receivable, less allowance for doubtful accounts of \$0.9 million and \$2.4 million at March 31, 2018 and December 31, 2017	386.2	442.7
Inventory	32.3	68.4
Assets from price risk management activities	5.0	7.2
Prepaid expenses and other current assets	11.4	10.9
Total current assets	442.2	530.5
Property, plant and equipment	2,436.1	2,285.2
Less: accumulated depreciation and depletion	508.8	464.4
Property, plant and equipment, net	1,927.3	1,820.8
Intangible assets	788.8	788.8
Less: accumulated amortization	203.0	191.6
Intangible assets, net	585.8	597.2
Goodwill	147.6	147.6
Investments in unconsolidated affiliates	1,162.7	1,183.0
Other assets	5.6	5.8
Total assets	\$ 4,271.2	\$ 4,284.9
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	\$ 355.5	\$ 349.4
Accrued expenses and other liabilities	103.3	105.9
Liabilities from price risk management activities	10.9	48.9
Current portion of long-term debt	0.9	0.9
Total current liabilities	470.6	505.1
Long-term debt, less current portion	1,467.5	1,491.3
Other long-term liabilities	165.3	104.7
Deferred income taxes	3.0	3.3
Commitments and contingencies (Note 10)		
Partners' capital:		
Crestwood Equity Partners LP partners' capital (71,674,595 and 70,721,563 common and subordinated units issued and outstanding at March 31, 2018 and December 31, 2017)	1,373.9	1,393.5
Preferred units (71,257,445 units issued and outstanding at both March 31, 2018 and December 31, 2017)	611.9	612.0
Total Crestwood Equity Partners LP partners' capital	1,985.8	2,005.5
Interest of non-controlling partners in subsidiaries	179.0	175.0
Total partners' capital	2,164.8	2,180.5

Total liabilities and partners' capital	\$ 4,271.2	\$ 4,284.9
See accompanying notes.		

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except unit and per unit data)
(unaudited)

	Three Months Ended March 31, 2018 2017	
Revenues:		
Product revenues:		
Gathering and processing	\$272.2	\$293.1
Marketing, supply and logistics	753.4	430.2
	1,025.6	723.3
Services revenues:		
Gathering and processing	68.1	75.0
Storage and transportation	4.2	10.0
Marketing, supply and logistics	16.8	19.3
Related party (Note 11)	0.3	0.5
	89.4	104.8
Total revenues	1,115.0	828.1
Costs of product/services sold (exclusive of items shown separately below):		
Product costs	938.9	666.7
Product costs - related party (Note 11)	13.1	4.1
Service costs	13.8	12.7
Total costs of products/services sold	965.8	683.5
Expenses:		
Operations and maintenance	34.5	33.7
General and administrative	23.9	26.4
Depreciation, amortization and accretion	45.1	48.4
	103.5	108.5
Other operating expenses:		
Gain on long-lived assets, net	0.3	—
Operating income	46.0	36.1

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
(in millions, except unit and per unit data)
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Earnings from unconsolidated affiliates, net	12.4	8.1
Interest and debt expense, net	(24.4)	(26.5)
Loss on modification/extinguishment of debt	—	(37.3)
Other income, net	0.1	0.1
Income (loss) before income taxes	34.1	(19.5)
Benefit for income taxes	—	0.1
Net income (loss)	34.1	(19.4)
Net income attributable to non-controlling partners	4.0	6.1
Net income (loss) attributable to Crestwood Equity Partners LP	30.1	(25.5)
Net income attributable to preferred units	15.0	17.8
Net income (loss) attributable to partners	\$ 15.1	\$ (43.3)
Subordinated unitholders' interest in net income	\$0.1	\$—
Common unitholders' interest in net income (loss)	\$ 15.0	\$ (43.3)
Net income (loss) per limited partner unit:		
Basic	\$0.21	\$ (0.62)
Diluted	\$0.21	\$ (0.62)
Weighted-average limited partners' units outstanding (in thousands):		
Basic	71,165	69,697
Dilutive units	789	—
Diluted	71,954	69,697

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	\$34.1	\$(19.4)
Change in fair value of Suburban Propane Partners, L.P. units	(0.3)	(0.4)
Comprehensive income (loss)	33.8	(19.8)
Comprehensive income attributable to non-controlling partners	4.0	6.1
Comprehensive income (loss) attributable to Crestwood Equity Partners LP	\$29.8	\$(25.9)

See accompanying notes.

Table of ContentsCRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(in millions)

(unaudited)

	Preferred Units	Preferred Capital	Partners Common Units	Partners Subordinated Units	Subordinated Capital	Non-Controlling Partners	Total Partners' Capital
Balance at December 31, 2017	71.3	\$612.0	70.3	0.4	\$1,393.5	\$ 175.0	\$ 2,180.5
Cumulative effect of accounting change (Note 2)	—	—	—	—	7.5	—	7.5
Distributions to partners	—	(15.0)	—	—	(42.7)	—	(57.7)
Unit-based compensation charges	—	—	1.2	—	7.2	—	7.2
Taxes paid for unit-based compensation vesting	—	—	(0.2)	—	(6.3)	—	(6.3)
Change in fair value of Suburban Propane Partners, L.P. units	—	—	—	—	(0.3)	—	(0.3)
Other	—	(0.1)	—	—	(0.1)	—	(0.2)
Net income	—	15.0	—	—	15.1	4.0	34.1
Balance at March 31, 2018	71.3	\$611.9	71.3	0.4	\$1,373.9	\$ 179.0	\$ 2,164.8

See accompanying notes.

Table of ContentsCRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Operating activities		
Net income (loss)	\$34.1	\$(19.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	45.1	48.4
Amortization of debt-related deferred costs	1.8	1.8
Unit-based compensation charges	7.2	7.3
Gain on long-lived assets, net	(0.3)	—
Loss on modification/extinguishment of debt	—	37.3
Earnings from unconsolidated affiliates, net, adjusted for cash distributions received	(0.6)	(0.3)
Deferred income taxes	(0.2)	(0.6)
Other	0.1	(0.4)
Changes in operating assets and liabilities	61.5	(15.2)
Net cash provided by operating activities	148.7	58.9
Investing activities		
Purchases of property, plant and equipment	(65.3)	(22.7)
Investment in unconsolidated affiliates	(0.1)	(0.1)
Capital distributions from unconsolidated affiliates	11.5	10.5
Net proceeds from sale of assets	1.2	—
Net cash used in investing activities	(52.7)	(12.3)
Financing activities		
Proceeds from the issuance of long-term debt	399.8	1,154.5
Payments on long-term debt	(425.4)	(1,143.7)
Payments on capital leases	(0.3)	(0.4)
Payments for debt-related deferred costs	—	(8.5)
Distributions to partners	(42.7)	(41.8)
Distributions to non-controlling partners	—	(3.8)
Distribution to preferred unit holders	(15.0)	—
Taxes paid for unit-based compensation vesting	(6.3)	(3.4)
Other	(0.1)	(0.1)
Net cash used in financing activities	(90.0)	(47.2)
Net change in cash	6.0	(0.6)
Cash at beginning of period	1.3	1.6
Cash at end of period	\$7.3	\$1.0
Supplemental schedule of noncash investing and financing activities		
Net change to property, plant and equipment through accounts payable and accrued expenses	\$12.7	\$(2.0)

See accompanying notes.

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CRESTWOOD MIDSTREAM PARTNERS LP
 CONSOLIDATED BALANCE SHEETS
 (in millions)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash	\$ 7.0	\$ 1.0
Accounts receivable, less allowance for doubtful accounts of \$0.9 million and \$2.4 million at March 31, 2018 and December 31, 2017	384.7	442.6
Inventory	32.3	68.4
Assets from price risk management activities	5.0	7.2
Prepaid expenses and other current assets	11.4	10.9
Total current assets	440.4	530.1
Property, plant and equipment	2,766.1	2,615.3
Less: accumulated depreciation and depletion	655.7	607.8
Property, plant and equipment, net	2,110.4	2,007.5
Intangible assets	773.3	773.3
Less: accumulated amortization	188.2	177.6
Intangible assets, net	585.1	595.7
Goodwill	147.6	147.6
Investments in unconsolidated affiliates	1,162.7	1,183.0
Other assets	2.4	2.4
Total assets	\$ 4,448.6	\$ 4,466.3
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	\$ 352.9	\$ 346.8
Accrued expenses and other liabilities	102.0	104.7
Liabilities from price risk management activities	10.9	48.9
Current portion of long-term debt	0.9	0.9
Total current liabilities	466.7	501.3
Long-term debt, less current portion	1,467.5	1,491.3
Other long-term liabilities	163.0	102.6
Deferred income taxes	0.5	0.7
Commitments and contingencies (Note 10)		
Partners' capital	2,171.9	2,195.4
Interest of non-controlling partners in subsidiary	179.0	175.0
Total partners' capital	2,350.9	2,370.4
Total liabilities and partners' capital	\$ 4,448.6	\$ 4,466.3

See accompanying notes.

Table of ContentsCRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Product revenues:		
Gathering and processing	\$272.2	\$293.1
Marketing, supply and logistics	753.4	430.2
	1,025.6	723.3
Service revenues:		
Gathering and processing	68.1	75.0
Storage and transportation	4.2	10.0
Marketing, supply and logistics	16.8	19.3
Related party (Note 11)	0.3	0.5
	89.4	104.8
Total revenues	1,115.0	828.1
Costs of product/services sold (exclusive of items shown separately below):		
Product costs	938.9	666.7
Product costs - related party (Note 11)	13.1	4.1
Service costs	13.8	12.7
Total costs of product/services sold	965.8	683.5
Expenses:		
Operations and maintenance	34.5	33.7
General and administrative	22.8	25.5
Depreciation, amortization and accretion	47.8	51.2
	105.1	110.4
Other operating expenses:		
Gain on long-lived assets, net	0.3	—
Operating income	44.4	34.2
Earnings from unconsolidated affiliates, net	12.4	8.1
Interest and debt expense, net	(24.4)	(26.5)
Loss on modification/extinguishment of debt	—	(37.3)
Income (loss) before income taxes	32.4	(21.5)
Benefit for income taxes	—	0.1
Net income (loss)	32.4	(21.4)
Net income attributable to non-controlling partners	4.0	6.1
Net income (loss) attributable to Crestwood Midstream Partners LP	\$28.4	\$(27.5)

See accompanying notes.

Table of ContentsCRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

(in millions)

(unaudited)

	Partners	Non-Controlling Partners	Total Partners' Capital
Balance at December 31, 2017	\$2,195.4	\$ 175.0	\$ 2,370.4
Cumulative effect of accounting change (Note 2)	7.5	—	7.5
Distributions to partners	(60.5)	—	(60.5)
Unit-based compensation charges	7.2	—	7.2
Taxes paid for unit-based compensation vesting	(6.3)	—	(6.3)
Other	0.2	—	0.2
Net income	28.4	4.0	32.4
Balance at March 31, 2018	\$2,171.9	\$ 179.0	\$ 2,350.9

See accompanying notes.

Table of ContentsCRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended March 31, 2018 2017	
Operating activities		
Net income (loss)	\$32.4	\$(21.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	47.8	51.2
Amortization of debt-related deferred costs	1.8	1.8
Unit-based compensation charges	7.2	7.3
Gain on long-lived assets	(0.3)	—
Loss on modification/extinguishment of debt	—	37.3
Earnings from unconsolidated affiliates, net, adjusted for cash distributions received	(0.6)	(0.3)
Deferred income taxes	(0.1)	—
Other	0.1	(0.4)
Changes in operating assets and liabilities	63.1	(15.5)
Net cash provided by operating activities	151.4	60.0
Investing activities		
Purchases of property, plant and equipment	(65.3)	(22.7)
Investment in unconsolidated affiliates	(0.1)	(0.1)
Capital distributions from unconsolidated affiliates	11.5	10.5
Net proceeds from sale of assets	1.2	—
Net cash used in investing activities	(52.7)	(12.3)
Financing activities		
Proceeds from the issuance of long-term debt	399.8	1,154.5
Payments on long-term debt	(425.4)	(1,143.7)
Payments on capital leases	(0.3)	(0.4)
Payments for debt-related deferred costs	—	(8.5)
Distributions to partners	(60.5)	(46.9)
Taxes paid for unit-based compensation vesting	(6.3)	(3.4)
Net cash used in financing activities	(92.7)	(48.4)
Net change in cash	6.0	(0.7)
Cash at beginning of period	1.0	1.3
Cash at end of period	\$7.0	\$0.6
Supplemental schedule of non-cash investing and financing activities		
Net change to property, plant and equipment through accounts payable and accrued expenses	\$12.7	\$(2.0)

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
CRESTWOOD MIDSTREAM PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 – Organization and Business Description

Organization

The accompanying notes to the consolidated financial statements apply to Crestwood Equity Partners LP and Crestwood Midstream Partners LP, unless otherwise indicated. References in this report to “we,” “us,” “our,” “ours,” “our company,” the “partnership,” the “Company,” “Crestwood Equity,” “CEQP,” and similar terms refer to either Crestwood Equity Partners LP itself or Crestwood Equity Partners LP and its consolidated subsidiaries, as the context requires. Unless otherwise indicated, references to “Crestwood Midstream” and “CMLP” refer to Crestwood Midstream Partners LP and its consolidated subsidiaries.

The accompanying consolidated financial statements and related notes should be read in conjunction with our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2018. The financial information as of March 31, 2018, and for the three months ended March 31, 2018 and 2017, is unaudited. The consolidated balance sheets as of December 31, 2017, were derived from the audited balance sheets filed in our 2017 Annual Report on Form 10-K.

Business Description

Crestwood Equity is a publicly-traded (NYSE: CEQP) Delaware limited partnership that develops, acquires, owns or controls, and operates primarily fee-based assets and operations within the energy midstream sector. We provide broad-ranging infrastructure solutions across the value chain to service premier liquids-rich natural gas and crude oil shale plays across the United States. We own and operate a diversified portfolio of crude oil and natural gas gathering, processing, storage and transportation assets that connect fundamental energy supply with energy demand across North America. Crestwood Equity is a holding company and all of its consolidated operating assets are owned by or through its wholly-owned subsidiary, Crestwood Midstream, a Delaware limited partnership.

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and include the accounts of all consolidated subsidiaries after the elimination of all intercompany accounts and transactions. Certain amounts in prior periods have been reclassified to conform to the current year presentation, none of which impacted our previously reported net income, earnings per unit or partners' capital. In management's opinion, all necessary adjustments to fairly present our results of operations, financial position and cash flows for the periods presented have been made and all such adjustments are of a normal and recurring nature. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

Significant Accounting Policies

Effective January 1, 2018, we adopted the following accounting standards. There were no other material changes in our significant accounting policies from those described in our 2017 Annual Report on Form 10-K.

Revenue Recognition

We provide gathering, processing, compression, storage, fractionation, and transportation (consisting of pipelines, truck and rail terminals, truck/trailer units and rail cars) services and we sell commodities (including crude oil, natural gas, NGLs and water) under various contracts. These contracts include:

- Fixed-fee contracts. Under these contracts, we do not take title to the underlying crude oil, natural gas or NGLs but charge our customers a fixed-fee for the services we provide, which can be a firm reservation charge and/or a charge

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per volume gathered, processed, compressed, stored, loaded and/or transported (which, in certain contracts, can be subject to a minimum level of volumes);

Percentage-of-proceeds service contracts. Under these contracts, we effectively take title to crude oil, natural gas or NGLs after the commodity leaves our gathering and processing facilities. We often market and sell those commodities to third parties after they leave our facilities and we will remit a portion of the sales proceeds to our producers;

Percentage-of-proceeds product contracts. Under these contracts, we effectively take title to crude oil, natural gas or NGLs before the commodity enters our facilities. We market and sell those commodities to third parties and we will remit a portion of the sales proceeds to our producers; and

Purchase and sale contracts. Under these contracts, we purchase crude oil, natural gas or NGLs before the commodity enters our facilities, and we market and sell those commodities to third parties.

On January 1, 2018, we adopted the provisions of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted the standard using the modified retrospective method for all revenue contracts that involve revenue generating activities that occur after January 1, 2018. Results for reporting periods beginning after January 1, 2018 are p