

STAR GAS FINANCE CO
Form 10-Q
February 04, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

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

Commission File Number: 333-103873

STAR GAS PARTNERS, L.P.

STAR GAS FINANCE COMPANY

(Exact name of registrants as specified in its charters)

Delaware

06-1437793

Delaware

75-3094991

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2187 Atlantic Street, Stamford, Connecticut
(Address of principal executive office)

06902

(203) 328-7310

(Registrants telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act). Yes No

At January 31, 2009, the registrants had units and shares of each issuer's classes of common stock outstanding as follows:

Star Gas Partners, L.P.	Common Units	75,774,336
Star Gas Partners, L.P.	General Partner Units	325,729
Star Gas Finance Company	Common Shares	100

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2008 (unaudited)	September 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 148,213	\$ 178,808
Receivables, net of allowance of \$11,302 and \$10,821, respectively	147,938	95,691
Inventories	65,918	44,759
Fair asset value of derivative instruments	1,545	7,452
Prepaid expenses and other current assets	26,331	17,589
 Total current assets	 389,945	 344,299
Property and equipment, net	38,600	38,829
Long-term portion of accounts receivables	517	634
Goodwill	182,933	182,011
Intangibles, net	28,906	30,861
Deferred charges and other assets, net	5,373	8,799
 Total assets	 \$ 646,274	 \$ 605,433
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable	\$ 24,812	\$ 16,887
Fair liability value of derivative instruments	28,266	7,188
Accrued expenses and other current liabilities	76,905	64,670
Unearned service contract revenue	46,533	39,085
Customer credit balances	94,830	85,408
 Total current liabilities	 271,346	 213,238
Long-term debt	163,646	173,752
Other long-term liabilities	18,966	18,466
Partners capital		
Common unitholders	211,568	219,544
General partner	(221)	(186)
Accumulated other comprehensive loss	(19,031)	(19,381)
 Total partners capital	 192,316	 199,977
 Total liabilities and partners capital	 \$ 646,274	 \$ 605,433

See accompanying notes to condensed consolidated financial statements.

Table of Contents**STAR GAS PARTNERS, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per unit data - unaudited)	Three Months Ended December 31,	
	2008	2007
Sales:		
Product	\$ 354,267	\$ 401,040
Installations and service	48,583	52,904
Total sales	402,850	453,944
Cost and expenses:		
Cost of product	249,545	319,258
Cost of installations and service	49,030	52,574
(Increase) decrease in the fair value of derivative instruments	36,854	(17,753)
Delivery and branch expenses	63,534	57,952
Depreciation and amortization expenses	6,043	7,008
General and administrative expenses	5,210	4,846
Operating income (loss)	(7,366)	30,059
Interest expense	(5,019)	(5,059)
Interest income	1,092	1,452
Amortization of debt issuance costs	(592)	(570)
Gain on redemption of debt	3,522	
Income (loss) before income taxes	(8,363)	25,882
Income tax expense (benefit)	(352)	785
Net income (loss)	\$ (8,011)	\$ 25,097
General Partner's interest in net income (loss)	(35)	107
Limited Partners' interest in net income (loss)	\$ (7,976)	\$ 24,990
Basic and Diluted income (loss) per Limited Partner Unit	\$ (0.11)	\$ 0.33
Weighted average number of Limited Partner units outstanding:		
Basic and Diluted	75,774	75,774

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
AND COMPREHENSIVE INCOME

(in thousands)	Number of Units				Accum. Other	Total
	Common	General Partner	Common	General Partner	Income (Loss)	Partners Capital
Balance as of September 30, 2008	75,774	326	\$ 219,544	\$ (186)	\$ (19,381)	\$ 199,977
Comprehensive loss:						
Net loss (unaudited)			(7,976)	(35)		(8,011)
Unrealized gain on pension plan obligation					350	350
Total comprehensive loss			(7,976)	(35)	350	(7,661)
Balance as of December 31, 2008 (unaudited)	75,774	326	\$ 211,568	\$ (221)	\$ (19,031)	\$ 192,316

See accompanying notes to condensed consolidated financial statements.

Table of Contents**STAR GAS PARTNERS, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands - unaudited)	Three Months Ended December 31,	
	2008	2007
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ (8,011)	\$ 25,097
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
(Increase) decrease in fair value of derivative instruments	36,854	(17,753)
Depreciation and amortization	6,635	7,578
Gain on redemption of debt	(3,522)	
Provision for losses on accounts receivable	2,868	1,710
Changes in operating assets and liabilities:		
Increase in receivables	(54,998)	(108,322)
Increase in inventories	(21,029)	(17,165)
Increase in other assets	(16,025)	(10,639)
Increase in accounts payable	7,925	4,703
Increase (decrease) in customer credit balances	8,713	(22,946)
Increase in other current and long-term liabilities	20,399	12,045
Net cash used in operating activities	(20,191)	(125,692)
Cash flows provided by (used in) investing activities:		
Capital expenditures	(837)	(947)
Proceeds from sales of fixed assets	74	159
Acquisitions	(3,241)	
Net cash used in investing activities	(4,004)	(788)
Cash flows provided by (used in) financing activities:		
Revolving credit facility borrowings		22,500
Revolving credit facility repayments		(2,846)
Repayment of debt	(6,400)	
Increase in deferred charges		(110)
Net cash provided by (used in) financing activities	(6,400)	19,544
Net decrease in cash and cash equivalents	(30,595)	(106,936)
Cash and cash equivalents at beginning of period	178,808	112,886
Cash and cash equivalents at end of period	\$ 148,213	\$ 5,950

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) Partnership Organization

Star Gas Partners, L.P. (Star Gas Partners, the Partnership, we, us, or our) is a home heating oil distributor and services provider with one reportable operating segment that principally provides services to residential and commercial customers to heat their homes and buildings. Star Gas Partners is a master limited partnership, which at December 31, 2008, had outstanding 75.8 million common units (NYSE: SGU) representing 99.6% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing 0.4% general partner interest in Star Gas Partners.

The Partnership is organized as follows:

The general partner of the Partnership 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).

The Partnership's operations are conducted through Petro Holdings, Inc. and its subsidiaries (Petro). Petro is a Minnesota corporation that is an indirect wholly-owned subsidiary of the Partnership. Petro is a Northeast and Mid-Atlantic region retail distributor of home heating oil that at December 31, 2008 served approximately 402,000 full-service residential and commercial home heating oil customers, and 7,000 propane customers. Petro also sold home heating oil, gasoline and diesel fuel to approximately 31,000 customers on a delivery only basis. In addition, Petro installed, maintained, and repaired heating and air conditioning equipment for its customers, and provided ancillary home services, including home security and plumbing, to approximately 11,000 customers.

Star Gas Finance Company is a wholly-owned subsidiary of the Partnership. Star Gas Finance Company serves as the co-issuer, jointly and severally with the Partnership, of the Partnership's \$163.6 million 10/4% Senior Notes, which are due in 2013. The Partnership is dependent on distributions including intercompany interest payments from its subsidiaries to service the Partnership's debt obligations. The distributions from the Partnership's subsidiaries are not guaranteed and are subject to certain loan restrictions. Star Gas Finance Company has nominal assets and conducts no business operations.

2) Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of Star Gas Partners, L.P. and its subsidiaries. All material intercompany items and transactions have been eliminated in consolidation.

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair statement of financial condition and results for the interim periods. Due to the seasonal nature of the Partnership's business, the results of operations for the three-month periods ended December 31, 2008 and December 31, 2007 are not necessarily indicative of the results to be expected for the full year.

These interim financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission and should be read in conjunction with the Partnership's Annual Report on Form 10-K for the year ended September 30, 2008.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results

could differ from those estimates.

Revenue Recognition

Sales of heating oil and other fuels are recognized at the time of delivery of the product to the customer and sales of heating and air conditioning equipment are recognized at the time of installation. Revenue from repairs and maintenance service is recognized upon completion of the service. Payments received from customers for heating oil equipment service

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contracts are deferred and amortized into income over the terms of the respective service contracts, on a straight-line basis, which generally do not exceed one year. To the extent that the Partnership anticipates that future costs for fulfilling its contractual obligations under its service maintenance contracts will exceed the amount of deferred revenue currently attributable to these contracts, the Partnership recognizes a loss in current period earnings equal to the amount that anticipated future costs exceed related deferred revenues.

Allowance for Doubtful Accounts

The Partnership periodically reviews past due customer accounts receivable balances. After giving consideration to economic conditions, overdue status and other factors, it establishes an allowance for doubtful accounts, representing the Partnership's best estimate of amounts that may not be collectible.

Basic and Diluted Net Income (Loss) per Limited Partner Unit

Net income (loss) per limited partner unit is computed by dividing net income, after deducting the general partner's interest, by the weighted average number of common units outstanding. Each unit in each of the partnership's ownership classes participates in net income equally.

Cash Equivalents

The Partnership considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Inventories

The Partnership's inventory of heating oil and other fuels are stated at the lower of cost computed on the weighted average cost (WAC) method, or market. All other inventories, representing parts and equipment are stated at the lower of cost computed on the FIFO method, or market.

(in thousands)	December 31, 2008	September 30, 2008
Heating oil and other fuels	\$ 51,262	\$ 30,208
Fuel oil parts and equipment	14,656	14,551