

STAR GAS FINANCE CO
Form 10-Q
August 03, 2010
Table of Contents

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 June 30, 2010

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 | (I.R.S. Employer |
| of incorporation or organization) | Identification No.) |
| 2187 Atlantic Street, Stamford, Connecticut | 06902 |
| (Address of principal executive office) | |
| (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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes No

* The registrant has not yet been phased into the interactive data requirements.

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 <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

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

At July 31, 2010, the registrants had units and shares of each issuer's classes of common stock outstanding as follows:

| | | |
|-------------------------|-----------------------|------------|
| Star Gas Partners, L.P. | Common Units | 68,274,306 |
| Star Gas Partners, L.P. | General Partner Units | 325,729 |

Table of Contents

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

INDEX TO FORM 10-Q

| | Page |
|---|-------------|
| Part I Financial Information | |
| Item 1 Condensed Consolidated Financial Statements | |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2010 (unaudited) and September 30, 2009</u> | 3 |
| <u>Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2010 and June 30, 2009 (unaudited)</u> | 4 |
| <u>Condensed Consolidated Statement of Partners' Capital and Comprehensive Income for the nine months ended June 30, 2010 (unaudited)</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended June 30, 2010 and June 30, 2009</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> | 7-20 |
| <u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21-40 |
| <u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u> | 40 |
| <u>Item 4 Controls and Procedures</u> | 41 |
| Part II Other Information: | |
| <u>Item 1 Legal Proceedings</u> | 41 |
| <u>Item 1A Risk Factors</u> | 41 |
| <u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u> | 42 |
| <u>Item 6 Exhibits</u> | 42 |
| <u>Signatures</u> | 43 |

Table of Contents

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

| (in thousands) | June 30, 2010 (unaudited) | September 30, 2009 |
|--|---------------------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 43,951 | \$ 195,160 |
| Receivables, net of allowance of \$8,446 and \$6,267, respectively | 106,074 | 58,854 |
| Inventories | 62,851 | 62,636 |
| Fair asset value of derivative instruments | 6,652 | 14,676 |
| Current deferred tax asset, net | 24,940 | 30,135 |
| Prepaid expenses and other current assets | 20,545 | 15,437 |
| Total current assets | 265,013 | 376,898 |
| Property and equipment, net | 43,971 | 37,494 |
| Long-term portion of accounts receivables | 662 | 504 |
| Goodwill | 202,803 | 182,942 |
| Intangibles, net | 59,552 | 20,468 |
| Long-term deferred tax asset, net | 1,300 | 36,265 |
| Deferred charges and other assets, net | 6,721 | 9,555 |
| Total assets | \$ 580,022 | \$ 664,126 |
| LIABILITIES AND PARTNERS' CAPITAL | | |
| Current liabilities | | |
| Accounts payable | \$ 15,788 | \$ 17,103 |
| Fair liability value of derivative instruments | 276 | 665 |
| Accrued expenses and other current liabilities | 70,061 | 64,446 |
| Unearned service contract revenue | 40,066 | 37,121 |
| Customer credit balances | 33,533 | 74,153 |
| Total current liabilities | 159,724 | 193,488 |
| Long-term debt | 82,797 | 133,112 |
| Other long-term liabilities | 30,821 | 31,192 |
| Partners' capital | | |
| Common unitholders | 331,516 | 332,340 |
| General partner | 397 | 309 |
| Accumulated other comprehensive income (loss), net of taxes | (25,233) | (26,315) |
| Total partners' capital | 306,680 | 306,334 |
| Total liabilities and partners' capital | \$ 580,022 | \$ 664,126 |

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 June 30, | | Nine Months Ended June 30, | |
|--|--------------------------------|------------|-------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Sales: | | | | |
| Product | \$ 130,168 | \$ 126,404 | \$ 942,646 | \$ 959,433 |
| Installations and service | 46,593 | 41,265 | 134,666 | 131,586 |
| Total sales | 176,761 | 167,669 | 1,077,312 | 1,091,019 |
| Cost and expenses: | | | | |
| Cost of product | 93,345 | 85,100 | 669,573 | 658,511 |
| Cost of installations and service | 40,066 | 37,447 | 128,255 | 130,790 |
| (Increase) decrease in the fair value of derivative instruments | 2,324 | (9,656) | (5,770) | (15,064) |
| Delivery and branch expenses | 45,076 | 44,776 | 169,770 | 180,903 |
| Depreciation and amortization expenses | 4,083 | 3,744 | 11,179 | 15,853 |
| General and administrative expenses | 5,748 | 5,302 | 16,447 | 15,556 |
| Operating income (loss) | (13,881) | 956 | 87,858 | 104,470 |
| Interest expense | (3,103) | (4,119) | (11,258) | (13,487) |
| Interest income | 1,421 | 1,305 | 2,750 | 3,593 |
| Amortization of debt issuance costs | (660) | (564) | (1,988) | (1,732) |
| Gains (loss) on redemption of debt | | | (1,132) | 9,740 |
| Income (loss) before income taxes | (16,223) | (2,422) | 76,230 | 102,584 |
| Income tax expense (benefit) | (6,232) | (498) | 33,681 | 3,852 |
| Net income (loss) | \$ (9,991) | \$ (1,924) | \$ 42,549 | \$ 98,732 |
| General Partner's interest in net income (loss) | (47) | (8) | 194 | 423 |
| Limited Partners' interest in net income (loss) | \$ (9,944) | \$ (1,916) | \$ 42,355 | \$ 98,309 |
| Basic and Diluted income (loss) per Limited Partner Unit (1) | \$ (0.14) | \$ (0.03) | \$ 0.53 | \$ 1.07 |
| Weighted average number of Limited Partner units outstanding: | | | | |
| Basic and Diluted | 69,469 | 75,774 | 70,819 | 75,774 |

(1) See Note 2 Summary of Significant Accounting Policies - Net Income (Loss) per Limited Partner Unit.
See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

| (in thousands) | Number of Units | | Common | General Partner | Accum. Other Comprehensive Income (Loss) | Total Partners Capital |
|---|-----------------|-----------------|------------|-----------------|--|------------------------|
| | Common | General Partner | | | | |
| Balance as of September 30, 2009 | 75,137 | 326 | \$ 332,340 | \$ 309 | \$ (26,315) | \$ 306,334 |
| Comprehensive income (unaudited): | | | | | | |
| Net income | | | 42,355 | 194 | | 42,549 |
| Unrealized gain on pension plan obligation | | | | | 1,848 | 1,848 |
| Tax affect of unrealized gain on pension plan | | | | | (766) | (766) |
| Total comprehensive income | | | 42,355 | 194 | 1,082 | 43,631 |
| Distributions | | | (15,251) | (106) | | (15,357) |
| Retirement of units (1) | (6,863) | | (27,928) | | | (27,928) |
| Balance as of June 30, 2010 (unaudited) | 68,274 | 326 | \$ 331,516 | \$ 397 | \$ (25,233) | \$ 306,680 |

(1)