

STAR GAS FINANCE CO  
Form 10-Q  
February 07, 2008  
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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, 2007

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)

<b>Delaware</b>	<b>06-1437793</b>
<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>75-3094991</b> (I.R.S. Employer Identification No.)
<b>2187 Atlantic Street, Stamford, Connecticut</b> (Address of principal executive office)	<b>06902</b>
<b>(203) 328-7310</b>	
(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, or non-accelerated filers. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

At January 31, 2008, 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, 2007 (unaudited)	September 30, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,950	\$ 112,886
Receivables, net of allowance of \$8,380 and \$7,645, respectively	185,780	78,923
Inventories	103,133	85,968
Fair asset value of derivative instruments	28,978	14,510
Prepaid expenses and other current assets	37,656	28,216
<b>Total current assets</b>	<b>361,497</b>	<b>320,503</b>
Property and equipment, net	40,564	41,721
Long-term portion of accounts receivables	1,116	1,362
Goodwill	181,496	181,496
Intangibles, net	43,488	48,468
Deferred charges and other assets, net	8,020	8,554
<b>Total assets</b>	<b>\$ 636,181</b>	<b>\$ 602,104</b>
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 23,500	\$ 18,797
Working capital facility borrowings	19,654	
Fair liability value of derivative instruments	837	5,312
Accrued expenses and other current liabilities	69,975	65,444
Unearned service contract revenue	44,867	37,219
Customer credit balances	48,163	71,109
<b>Total current liabilities</b>	<b>206,996</b>	<b>197,881</b>
Long-term debt	173,895	173,941
Other long-term liabilities	13,617	13,951
<b>Partners capital</b>		
Common unitholders	257,885	232,895
General partner	(22)	(129)
Accumulated other comprehensive loss	(16,190)	(16,435)
<b>Total partners capital</b>	<b>241,673</b>	<b>216,331</b>
<b>Total liabilities and partners capital</b>	<b>\$ 636,181</b>	<b>\$ 602,104</b>

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,	
	2007	2006
Sales:		
Product	\$ 401,040	\$ 280,402
Installations and service	52,904	49,842
Total sales	453,944	330,244
Cost and expenses:		
Cost of product	319,258	206,236
Cost of installations and service	52,574	50,474
(Increase) decrease in the fair value of derivative instruments	(17,753)	6,315
Delivery and branch expenses	57,952	46,494
Depreciation and amortization expenses	7,008	7,372
General and administrative expenses	4,846	4,688
Operating income	30,059	8,665
Interest expense	(5,059)	(5,108)
Interest income	1,452	1,794
Amortization of debt issuance costs	(570)	(570)
Income before income taxes	25,882	4,781
Income tax expense	785	65
Net income	\$ 25,097	\$ 4,716
General Partner's interest in net income	107	20
Limited Partners' interest in net income	\$ 24,990	\$ 4,696
Basic and Diluted income per Limited Partner Unit	\$ 0.33	\$ 0.06
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		Common	General Partner	Accum. Other Comprehensive Income (Loss)	Total Partners Capital
	Common	General Partner				
Balance as of September 30, 2007	75,774	326	\$ 232,895	\$ (129)	\$ (16,435)	\$ 216,331
Comprehensive Income:						
Net income (unaudited)			24,990	107		25,097
Unrealized gain on pension plan obligation					245	245
<b>Total comprehensive income</b>			<b>24,990</b>	<b>107</b>	<b>245</b>	<b>25,342</b>
Balance as of December 31, 2007 (unaudited)	75,774	326	\$ 257,885	\$ (22)	\$ (16,190)	\$ 241,673

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,	
	2007	2006
<b>Cash flows provided by (used in) operating activities:</b>		
Net income	\$ 25,097	\$ 4,716
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
(Increase) decrease in fair value of derivative instruments	(17,753)	6,315
Depreciation and amortization	7,578	7,942
Provision for losses on accounts receivable	1,710	1,952
Changes in operating assets and liabilities:		
Increase in receivables	(108,322)	(50,490)
Increase in inventories	(17,165)	(280)
Increase in weather insurance contract		(7,200)
Decrease (increase) in other assets and assets held for sale, net	(10,639)	1,373
Increase in accounts payable	4,703	2,084
Decrease in customer credit balances	(22,946)	(1,085)
Increase in other current and long-term liabilities	12,045	13,788
Net cash used in operating activities	(125,692)	(20,885)
<b>Cash flows provided by (used in) investing activities:</b>		
Capital expenditures	(947)	(1,124)
Proceeds from sales of fixed assets	159	624
Net cash used in investing activities	(788)	(500)
<b>Cash flows provided by (used in) financing activities:</b>		
Working capital facility borrowings	22,500	
Working capital facility repayments	(2,846)	
Increase in deferred charges	(110)	
Net cash provided by financing activities	19,544	
Net decrease in cash and cash equivalents	(106,936)	(21,385)
Cash and cash equivalents at beginning of period	112,886	91,121
Cash and cash equivalents at end of period	\$ 5,950	\$ 69,736

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, 2007, 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. ( Petro ) and its subsidiaries. Petro is a Minnesota corporation that is a wholly-owned subsidiary of Star/Petro, Inc., which is a wholly-owned subsidiary of the Partnership. Petro is a Northeast and Mid-Atlantic region retail distributor of home heating oil that at December 31, 2007 served approximately 411,000 residential and commercial customers, and 7,000 propane customers. Petro also sold home heating oil, gasoline and diesel fuel to approximately 27,000 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 \$172.8 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, 2007 and December 31, 2006 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, 2007.

*Reclassification*

Certain prior year amounts have been reclassified to conform with the current year presentation.



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### *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.

**Table of Contents***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 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 per Limited Partner Unit*

Net income 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 or market computed on the weighted average cost (WAC) method. All other inventories, representing parts and equipment are stated at the lower of cost or market using the FIFO method.

<b>(in thousands)</b>	<b>December 31, 2007</b>	<b>September 30, 2007</b>
Heating oil and other fuels	\$ 88,143	\$ 72,309
Fuel oil parts and equipment	14,990	13,659
	<b>\$ 103,133</b>	<b>\$ 85,968</b>

*Weather Insurance Contract*

Weather insurance contract is recorded in accordance with the intrinsic value method defined by the Emerging Issues Task Force (EITF) 99-2, Accounting for Weather Derivatives. The premium paid is amortized over the life of the contract and the intrinsic value method is applied at each interim period.

*Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost. Depreciation is compu