

STAR GAS FINANCE CO
Form 10-Q
February 03, 2010
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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, 2009

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 Delaware (State or other jurisdiction of incorporation or organization)	06-1437793 75-3094991 (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 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 January 31, 2010, the registrants had units and shares of each issuer's classes of common stock outstanding as follows:

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Star Gas Partners, L.P.	Common Units	70,880,583
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, 2009 (unaudited)	September 30, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 98,671	\$ 195,160
Receivables, net of allowance of \$6,848 and \$6,267, respectively	133,518	58,854
Inventories	72,023	62,636
Fair asset value of derivative instruments	19,796	14,676
Current deferred tax asset, net	32,067	30,135
Prepaid expenses and other current assets	24,780	15,437
Total current assets	380,855	376,898
Property and equipment, net	37,727	37,494
Long-term portion of accounts receivables	644	504
Goodwill	182,942	182,942
Intangibles, net	18,396	20,468
Long-term deferred tax asset, net	24,851	36,265
Deferred charges and other assets, net	9,001	9,555
Total assets	\$ 654,416	\$ 664,126
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable	\$ 25,217	\$ 17,103
Fair liability value of derivative instruments	1,696	665
Accrued expenses and other current liabilities	68,350	64,446
Unearned service contract revenue	45,408	37,121
Customer credit balances	52,363	74,153
Total current liabilities	193,034	193,488
Long-term debt	133,059	133,112
Other long-term liabilities	31,570	31,192
Partners capital		
Common unitholders	322,366	332,340
General partner	341	309
Accumulated other comprehensive income (loss), net of taxes	(25,954)	(26,315)
Total partners capital	296,753	306,334
Total liabilities and partners capital	\$ 654,416	\$ 664,126

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data - unaudited)	Three Months Ended December 31,	
	2009	2008
Sales:		
Product	\$ 301,765	\$ 354,267
Installations and service	47,054	48,583
Total sales	348,819	402,850
Cost and expenses:		
Cost of product	214,515	249,706
Cost of installations and service	45,672	48,782
(Increase) decrease in the fair value of derivative instruments	(3,392)	36,854
Delivery and branch expenses	56,822	63,571
Depreciation and amortization expenses	3,535	6,043
General and administrative expenses	5,053	5,260
Operating income	26,614	(7,366)
Interest expense	(4,270)	(5,019)
Interest income	394	1,092
Amortization of debt issuance costs	(656)	(592)
Gain on redemption of debt		3,522
Income (loss) before income taxes	22,082	(8,363)
Income tax expense (benefit)	10,077	(352)
Net income (loss)	\$ 12,005	\$ (8,011)
General Partner's interest in net income (loss)	54	(35)
Limited Partners' interest in net income (loss)	\$ 11,951	\$ (7,976)
Basic and Diluted income (loss) per Limited Partner Unit (1)	\$ 0.15	\$ (0.11)
Weighted average number of Limited Partner units outstanding:		
Basic and Diluted	72,661	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.

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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, 2009	75,137	326	\$ 332,340	\$ 309	\$ (26,315)	\$ 306,334
Comprehensive income:						
Net income (unaudited)			11,951	54		12,005
Unrealized gain on pension plan obligation					616	616
Tax affect of unrealized gain on pension plan					(255)	(255)
Total comprehensive income			11,951	54	361	12,366
Distributions			(5,037)	(22)		(5,059)
Retirement of units (1)	(4,256)		(16,888)			(16,888)
Balance as of December 31, 2009 (unaudited)	70,881	326	\$ 322,366	\$ 341	\$ (25,954)	\$ 296,753

- (1) See Note 2 - Common Unit Repurchase and Retirement.
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,	
	2009	2008
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 12,005	\$ (8,011)
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
(Increase) decrease in fair value of derivative instruments	(3,392)	36,854
Depreciation and amortization	4,191	6,635
Gain on redemption of debt		(3,522)
Provision for losses on accounts receivable	2,148	2,868
Change in deferred taxes	9,482	
Changes in operating assets and liabilities:		
Increase in receivables	(76,952)	(54,998)
Increase in inventories	(9,387)	(21,029)
Increase in other assets	(10,282)	(16,025)
Increase in accounts payable	8,114	7,925
Increase (decrease) in customer credit balances	(21,790)	8,713
Increase in other current and long-term liabilities	12,876	20,399
Net cash used in operating activities	(72,987)	(20,191)
Cash flows provided by (used in) investing activities:		
Capital expenditures	(1,636)	(837)
Proceeds from sales of fixed assets	81	74
Acquisitions		(3,241)
Net cash used in investing activities	(1,555)	(4,004)
Cash flows provided by (used in) financing activities:		
Repayment of debt		(6,400)
Distributions	(5,059)	
Unit repurchase	(16,888)	
Net cash provided by (used in) financing activities	(21,947)	(6,400)
Net decrease in cash and cash equivalents	(96,489)	(30,595)
Cash and cash equivalents at beginning of period	195,160	178,808
Cash and cash equivalents at end of period	\$ 98,671	\$ 148,213

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, 2009, had outstanding 70.9 million common units (NYSE: SGU) representing 99.5% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing 0.5 % 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, 2009 served approximately 370,000 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 36,000 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 100% owned subsidiary of the Partnership. Star Gas Finance Company serves as the co-issuer, jointly and severally with the Partnership, of the Partnership's \$132.5 million 10.25% Senior Notes (excluding discounts and premiums), which are due in 2013. The Partnership is dependent on distributions including inter-company 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. (See Note 6. Long-Term Debt and Bank Facility Borrowings)

2) Common Unit Repurchase and Retirement

On July 21, 2009, the Board of Directors of the Partnership's General Partner authorized the repurchase of up to 7.5 million of the Partnership's common units. The authorized common unit repurchases may be made from time-to-time in the open market, in privately negotiated transactions or in such other manner deemed appropriate by management. The program does not have a time limit. The Partnership's repurchase activities take into account SEC safe harbor rules and guidance for issuer repurchases. All of the common units purchased in the repurchase program will be retired.

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(in thousands, except per unit amounts)

Period	Total Number of Units Purchased as Part of a Publicly Announced Plan or Program	Average Price Paid per Unit	Maximum Number of Units that May Yet Be Purchased Under the Plans or Programs
Fiscal year 2009 total	637	\$ 3.67	6,863
October 2009	3,072	\$ 3.97	3,791
November 2009	350	\$ 3.96	3,441
December 2009	834	\$ 3.95	2,607
First quarter fiscal year 2010 total	4,256	\$ 3.97	2,607

3) 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 inter-company 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, 2009 and December 31, 2008 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, 2009.

Reclassification

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

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 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.

Cost of Product

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Cost of product includes the cost of heating oil, diesel, kerosene, heavy oil, gasoline, throughput costs, barging costs, option costs, and realized gains/losses on closed derivative positions for product sales.

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Cost of Installations and Service

Cost of installations and service includes equipment and material costs, wages and benefits for equipment technicians, dispatchers and other support personnel, subcontractor expenses, commissions and vehicle related costs.

Delivery and Branch Expenses

Delivery and branch expenses include wages and benefits and department related costs for drivers, dispatchers, mechanics, customer service, sales and marketing, compliance, credit and branch accounting, information technology and operational support.

General and Administrative Expenses

General and administrative expenses include wages and benefits and department related costs for human resources, finance and accounting, administrative support and insurance.

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.

Allocation of Net Income (Loss)

Net income (loss) for partners' capital and statement of operations is allocated to the general partner and the limited partners in accordance with their respective ownership percentages, after giving effect to cash distributions paid to the general partner in excess of its ownership interest, if any.

Net Income (Loss) per Limited Partner Unit

Income per limited partner unit is computed in accordance with FASB ASC 260-10-45-60 Basic and Diluted Earnings per Share topic, Participating Securities and the Two-Class Method subtopic (EITF 03-06), by dividing the limited partners' interest in net income by the weighted average number of limited partner units outstanding. The pro forma nature of the allocation required by this standard provides that in any accounting period where the Partnership's aggregate net income exceeds its aggregate distribution for such period, the Partnership is required to present net income per limited partner unit as if all of the earnings for the periods were distributed, regardless of whether those earnings would actually be distributed during a particular period from an economic or practical perspective. This allocation does not impact the Partnership's overall net income or other financial results. However, for periods in which the Partnership's aggregate net income exceeds its aggregate distributions for such period, it will have the impact of reducing the earnings per limited partner unit, as the calculation according to this standard results in a theoretical increased allocation of undistributed earnings to the general partner. In accounting periods where aggregate net income does not exceed aggregate distributions for such period, this standard does not have any impact on the Partnership's net income per limited partner unit calculation. A separate and independent calculation for each quarter and year-to-date period is required.

Until the quarter ended March 31, 2009, the partners had no rights to accrue or receive distributions.

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The following presents the net income allocation and per unit data using this method for the periods presented:

Basic and Diluted Earnings Per Limited Partner:	Three Months Ended	
	December 31,	
(in thousands, except per unit data)	2009	2008
Net income (loss)	\$ 12,005	\$ (8,011)
Less General Partners' interest in net income (loss)	54	(35)
Net income (loss) available to limited partners	11,951	(7,976)
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60	994	
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	\$ 10,957	\$ (7,976)
Per unit data:		
Basic and diluted net income (loss) available to limited partners	\$ 0.16	\$ (0.11)
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60	0.01	
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	\$ 0.15	\$ (0.11)
Weighted average number of Limited Partner units outstanding	72,661	75,774

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, 2009	September 30, 2009
Heating oil and other fuels	\$ 57,820	\$ 48,504
Fuel oil parts and equipment	14,203	14,132
	\$ 72,023	\$ 62,636

Derivatives and Hedging Disclosures and Fair Value Measurements

The Partnership uses derivative instruments such as futures, options, and swap agreements, in order to mitigate exposure to market risk associated with the purchase of home heating oil for price-protected customers, physical inventory on hand, inventory in transit and priced purchase commitments.

To hedge a substantial majority of the purchase price associated with heating oil gallons anticipated to be sold to its price-protected customers as of December 31, 2009, the Partnership had 2.3 million gallons of swap contracts to buy heating oil; 0.1 million gallons of futures contracts to sell heating oil; 87.9 million gallons of call options; 0.7 million gallons of put options and 17.2 million net gallons of synthetic calls (a swap combined with two offsetting puts at different prices). At December 31, 2008, the Partnership had 27.3 million gallons of swap contracts to buy

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heating oil; 0.3 million gallons of futures contracts to sell heating oil; 86.4 million gallons of call options; 18.3 million gallons of put options and 17.0 million net gallons of synthetic calls.

To hedge the inter-month differentials for our price protected customers, its physical inventory on hand, and inventory in transit, the Partnership as of December 31, 2009 had 10.6 million gallons of future contracts to buy heating oil; 11.3 million gallons of future contracts to sell heating oil; and 30.2 million gallons of swap contracts to sell heating oil. The Partnership at December 31, 2008 had 26.7 million gallons of futures contract to buy heating oil; 34.8 million gallons of future contracts to sell heating oil; and 30.7 million gallons of swap contracts to sell heating oil.

To hedge a portion of its internal fuel usage, the Partnership as of December 31, 2009, had 1.1 million gallons of swap contracts to buy gasoline and 0.9 million gallons of swap contracts to buy diesel. The Partnership at December 31, 2008, had 1.0 million gallons of swap contracts to buy gasoline and 0.9 million gallons of swap contracts to buy diesel.

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The Partnership's derivative instruments are with the following counterparties: Newedge USA, LLC, JPMorgan Chase Bank, NA, Societe Generale, Key Bank National Association, Cargill, Inc., Wachovia Bank, NA, and Bank of America, N.A. The Partnership maintains master netting arrangements with its counterparties to help manage counterparty credit risks and records its derivative positions on a net basis. At December 31, 2009, the aggregate cash posted as collateral in the normal course of business at counterparties was \$0.3 million.

FASB ASC 815-10-05 Derivatives and Hedging topic (SFAS 133), established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities, along with qualitative disclosures regarding the derivative activity. To the extent derivative instruments designated as cash flow hedges are effective and the standard's documentation requirements have been met, changes in fair value are recognized in other comprehensive income until the underlying hedged item is recognized in earnings. The Partnership has elected not to designate its derivative instruments as hedging instruments under this standard and the change in fair value of the derivative instruments is recognized in our statement of operations in the line item (increase) decrease in the fair value of derivative instruments. Realized gains and losses are recorded in cost of product.

FASB ASC 820-10 Fair Value Measurements and Disclosures topic (SFAS 157), established a three-tier fair value hierarchy, which classified the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Partnership's financial assets and liabilities measured at fair value on a recurring basis are listed on the following table. The Partnership had no assets or liabilities that are measured at fair value on a nonrecurring basis subsequent to their initial recognition. All derivative instruments were non-trading positions. The market prices used to value the Partnership's derivatives have been determined using the New York Mercantile Exchange (NYMEX) and independent third party prices.

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(In thousands)

Derivatives Not Designated as Hedging Instruments	Under FASB ASC 815-10	Balance Sheet Location	Total	Fair Value Measurements at Reporting Date Using:		
				Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Asset Derivatives at December 31, 2009						
Commodity contracts		Fair asset and fair liability value of derivative instruments	\$ 26,971	\$ 2,610	\$ 24,361	\$
Commodity contracts		Long-term derivative assets included in the deferred charges and other assets, net balance	552	368	184	
Commodity contract assets at December 31, 2009			\$ 27,523	\$ 2,978	\$ 24,545	\$
Liability Derivatives at December 31, 2009						
Commodity contracts		Fair liability and fair asset value of derivative instruments	\$ (8,871)	\$ (3,246)	\$ (5,625)	\$
Commodity contract liabilities at December 31, 2009			\$ (8,871)	\$ (3,246)	\$ (5,625)	\$
Asset Derivatives at September 30, 2009						
Commodity contracts		Fair asset and fair liability value of derivative instruments	\$ 23,867	\$ 3,875	\$ 19,992	\$
Commodity contracts		Long-term derivative assets included in the deferred charges and other assets, net balance	389	133	256	
Commodity contract assets at September 30, 2009			\$ 24,256	\$ 4,008	\$ 20,248	\$
Liability Derivatives at September 30, 2009						
Commodity contracts		Fair liability and fair asset value of derivative instruments	\$ (9,856)	\$ (3,986)	\$ (5,870)	\$
Commodity contract liabilities at September 30, 2009			\$ (9,856)	\$ (3,986)	\$ (5,870)	\$

(In thousands)

The Effect of Derivative Instruments on the Statement of Operations

Derivatives Not Designated as Hedging Instruments	Location of (Gain) or Loss Recognized in Income on Derivative	Amount of (Gain) or Loss Recognized in Income on Derivative	
		Three Months Ended December 31, 2009	Three Months Ended December 31, 2008

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Under FASB ASC 815-10

Commodity contracts	Cost of product (a)	\$ 9,878	\$ 14,015
Commodity contracts	(Increase) / decrease in the fair value of derivative instruments	\$ (3,392)	\$ 36,854

(a) Represents realized closed positions and includes the cost of options as they expire.

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Weather hedge contract is recorded in accordance with the intrinsic value method defined by FASB ASC 815-45-15 Derivatives and Hedging topic, Weather Derivatives subtopic (EITF 99-2). 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 computed over the estimated useful lives of the depreciable assets using the straight-line method.

(in thousands)	December 31, 2009	September 30, 2009
Property, plant and equipment	\$ 136,671	\$ 135,269
Less: accumulated depreciation	98,944	97,775
Property, plant and equipment, net	\$ 37,727	\$ 37,494

Goodwill and Intangible Assets

Goodwill and intangible assets include goodwill, customer lists and covenants not to compete.

Goodwill is the excess of cost over the fair value of net assets in the acquisition of a company. Under FASB ASC 350-10-05 Intangibles-Goodwill and Other topic (SFAS No. 142), a potential goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. If goodwill of a reporting unit is determined to be impaired, the amount of impairment is measured based on the excess of the net book value of the goodwill over the implied fair value of the goodwill.

The Partnership has selected August 31 of each year to perform its annual impairment review under this standard. The evaluations utilize an Income Approach and Market Approach (consisting of the Market Comparable and the Market Transaction Approach), which contain reasonable and supportable assumptions and projections reflecting management's best estimate in deriving the Partnership's total enterprise value. The Income Approach calculates over a discrete period the free cash flow generated by the Partnership to determine the enterprise value. The Market Comparable approach compares the Partnership to comparable companies in similar industries to determine the enterprise value. The Market Transaction approach uses exchange prices in actual sales and purchases of comparable businesses to determine the enterprise value.

The total enterprise value as indicated by these two approaches is compared to the Partnership's book value of net assets and reviewed in light of the Partnership's market capitalization.

Customer lists are the names and addresses of an acquired company's customers. Based on historical retention experience, these lists are amortized on a straight-line basis over eight to ten years.

Trade names are the names of acquired companies. Based on the economic benefit expected and historical retention experience of customers, trade names are amortized on a straight-line basis over eight to ten years.

Covenants not to compete are agreements with the owners of acquired companies and are amortized over the respective lives of the covenants on a straight-line basis, which are generally five years.

Partners' Capital

Comprehensive income includes net income (loss), plus certain other items that are recorded directly to partners' capital. Accumulated other comprehensive income reported on the Partnerships' consolidated balance sheets consists of unrealized losses on pension plan obligations and the tax affect. For the three months ended December 31, 2009, comprehensive income was \$12.4 million, comprised of net income of \$12.0 million, an unrealized gain on pension plan obligation of \$0.6 million and the tax affect of \$0.2 million. For the three months ended December 31, 2008,

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comprehensive loss was \$7.7 million, comprised of net loss of \$8.0 million and an unrealized gain on pension plan obligation of \$0.3 million.

Income Taxes

The Partnership is a master limited partnership and is not subject to tax at the entity level for federal and state income tax purposes. Rather, income and losses of the Partnership are allocated directly to the individual partners. While the Partnership will generate non-qualifying Master Limited Partnership revenue, distributions from the corporate subsidiaries to the Partnership are generally included in the determination of qualified Master Limited Partnership income. All or a portion of the distributions received by the Partnership from the corporate subsidiaries could be a dividend or capital gain to the partners.

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The accompanying financial statements are reported on a fiscal year, however, the Partnership and its Corporate subsidiaries file Federal and State income tax returns on a calendar year.

As most of the Partnership's income is derived from its corporate subsidiaries, these financial statements reflect significant federal and state income taxes. For corporate subsidiaries of the Partnership, a consolidated Federal income tax return is filed. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized if, based on the weight of available evidence including historical tax losses, it is more likely than not that some or all of deferred tax assets will not be realized.

Until September 30, 2009, the Partnership's deferred tax assets and liabilities related to its corporate subsidiaries were fully offset by a valuation allowance. Approximately \$86.4 million of this valuation allowance was released as of September 30, 2009 resulting in net deferred tax assets being recorded on the balance sheet. As a result of this change, any comparison of the income tax expense (benefit) in the first three fiscal quarters of 2009 to the corresponding quarters of fiscal 2010 will be comparing current income tax expense (benefit) in the fiscal 2009 quarters to both current and deferred income tax expense (benefit) in fiscal 2010 quarters. For the three months ended December 31, 2008 the Partnership recorded an income tax benefit of \$0.4 million on a loss before income taxes of \$8.4 million. The entire benefit recorded was for current taxes only. For the three months ended December 31, 2009 the Partnership recorded an income tax expense of \$10.1 million on income before taxes of \$22.1 million. The \$10.1 million consists of \$0.8 million in current tax expense and \$9.3 million in deferred tax expense.

As of the calendar tax year ended December 31, 2009, Star Acquisitions, a wholly-owned subsidiary of the Partnership, had a federal net operating loss carry forward (NOL) of approximately \$51 million. The NOLs, which will expire between 2018 and 2024, are generally available to offset any future taxable income. In the event that the Partnership experiences an ownership change for federal income tax purposes under Internal Revenue Code Section 382 (Section 382), Star Acquisitions may be restricted annually in its ability to use its NOLs to reduce its federal taxable income. In general, the Partnership would be deemed to have an ownership change under Section 382 if, immediately after any owner shift involving a 5% unitholder or any equity structure shift, the percentage of units of the Partnership owned by one or more 5% unitholder has increased by more than 50% over the lowest percentage of units of the Partnership (or any predecessor entity) owned by such unitholder at any time during the three-year testing period.

FASB ASC 740-10-05-6 Income Taxes topic, Tax Position subtopic (SFAS No. 109 and FIN 48), provides financial statement accounting guidance for uncertainty in income taxes and tax positions taken or expected to be taken in a tax return.

At December 31, 2009, we had unrecognized income tax benefits totaling \$1.9 million including related accrued interest and penalties of \$0.1 million. These unrecognized tax benefits are primarily the result of federal tax uncertainties. If recognized, these tax benefits and related interest and penalties would be recorded as a benefit to the effective tax rate.

We believe that the total liability for unrecognized tax benefits will decrease by \$0.1 million during the next 12 months ending December 31, 2010. Our continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax expense.

We file U.S. federal income tax returns and various state and local returns. A number of years may elapse before an uncertain tax position is audited and finally resolved. For our Federal income tax returns we have four tax years subject to examination. In our major state tax jurisdictions of New York, Pennsylvania, Connecticut, and New Jersey, we have four, four, five, and five tax years, respectively, that are subject to examination. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, based on our assessment of many factors including past experience and interpretation of tax law, we believe that our provision for income taxes reflect the most probable outcome. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

Sales, Use and Value Added Taxes

Taxes are assessed by various governmental authorities on many different types of transactions. Sales reported for product, installation and service exclude taxes.

Table of Contents**Recent Accounting Pronouncements**

In the first quarter of fiscal 2010, the Partnership adopted the provisions of FASB ASC 805-10 Business Combinations (SFAS No. 141R). This standard establishes in a business combination principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, goodwill acquired, liabilities assumed, and any noncontrolling interests.

4) Goodwill and Intangibles, net**Goodwill**

A summary of changes in the Partnership's goodwill is as follows (in thousands):

Balance as of September 30, 2009	\$ 182,942
Fiscal year 2010 acquisitions	
Balance as of December 31, 2009	\$ 182,942

The Partnership performed its annual goodwill impairment valuation for the period ending August 31, 2009 and determined that there was no goodwill impairment.

The preparation of this analysis (see Note 3. Summary of Significant Accounting Policies – Goodwill and Intangible Assets) was based upon management's estimates and assumptions, and future impairment calculations would be affected by actual results that are materially different from projected amounts. To provide for a sensitivity of the discount rates and transaction multiples used, ranges of high and low values are employed in the analysis, with the low values examined to ensure that a reasonably likely change in an assumption would not cause the Partnership to reach a different conclusion.

Intangibles, net

The gross carrying amount and accumulated amortization of intangible assets subject to amortization are as follows:

(in thousands)	December 31, 2009			September 30, 2009		
	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Customer lists and other intangibles	\$ 204,425	\$ 186,029	\$ 18,396	\$ 204,426	\$ 183,958	\$ 20,468

Amortization expense for intangible assets and deferred charges was \$2.1 million for the three months ended December 31, 2009 compared to \$4.4 million for the three months ended December 31, 2008. Amortization expense was lower as acquisitions from 1999 with a 10 year life became fully amortized in fiscal 2009. Total estimated annual amortization expense related to intangible assets subject to amortization and deferred charges, for the fiscal year ending September 30, 2010 and the four succeeding fiscal years ending September 30, is as follows (in thousands):

	Estimated Annual Book Amortization Expense
2010	\$ 7,820
2011	\$ 5,769

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2012	\$	1,402
2013	\$	1,400
2014	\$	1,324

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The Partnership made no acquisitions for the three months ended December 31, 2009.

For the three months ended December 31, 2008 the Partnership acquired one retail heating oil dealer. The aggregate purchase price was approximately \$3.9 million, reduced by working capital credits of \$0.7 million.

6) Long-Term Debt and Bank Facility Borrowings

The Partnership's long-term debt is as follows (in thousands):

	At December 31, 2009		At September 30, 2009	
	Carrying Amount	Estimated Fair Value (a)	Carrying Amount	Estimated Fair Value (a)
10.25% Senior Notes (b)	\$ 133,059	\$ 133,059	\$ 133,112	\$ 133,112
Revolving Credit Facility Borrowings (c)				
Total debt	\$ 133,059	\$ 133,059	\$ 133,112	\$ 133,112
Total long-term portion of debt	\$ 133,059	\$ 133,059	\$ 133,112	\$ 133,112