

STAR GAS PARTNERS LP
Form 10-Q
August 07, 2013
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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 June 30, 2013

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

STAR GAS PARTNERS, L.P.

(Exact name of registrants as specified in its charters)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

06-1437793
(I.R.S. Employer
Identification No.)

06902

(203) 328-7310
(Registrant's telephone number, including area code)

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

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. 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

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 July 31, 2013, the registrant had 57,980,850 common units outstanding.

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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)	June 30, 2013 (unaudited)	September 30, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 44,382	\$ 108,091
Receivables, net of allowance of \$11,225 and \$6,886, respectively	152,558	88,267
Inventories	49,084	47,465
Fair asset value of derivative instruments		5,004
Current deferred tax assets, net	18,425	25,844
Prepaid expenses and other current assets	22,545	26,848
Total current assets	286,994	301,519
Property and equipment, net	49,673	52,608
Goodwill	201,119	201,103
Intangibles, net	68,464	74,712
Deferred charges and other assets, net	7,883	9,405
Total assets	\$ 614,133	\$ 639,347
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable	\$ 15,122	\$ 22,583
Fair liability value of derivative instruments	4,081	453
Accrued expenses and other current liabilities	98,544	78,518
Unearned service contract revenue	41,436	40,799
Customer credit balances	33,335	85,976
Total current liabilities	192,518	228,329
Long-term debt	124,434	124,357
Long-term deferred tax liabilities, net	6,120	8,436
Other long-term liabilities	14,293	18,080
Partners capital		
Common unitholders	302,208	286,819
General partner	151	97
Accumulated other comprehensive loss, net of taxes	(25,591)	(26,771)
Total partners capital	276,768	260,145
Total liabilities and partners capital	\$ 614,133	\$ 639,347

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 June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Sales:				
Product	\$ 208,862	\$ 181,751	\$ 1,396,281	\$ 1,172,628
Installations and service	53,662	50,725	167,907	150,914
Total sales	262,524	232,476	1,564,188	1,323,542
Cost and expenses:				
Cost of product	163,515	146,034	1,091,918	921,931
Cost of installations and service	44,102	39,892	152,661	136,617
(Increase) decrease in the fair value of derivative instruments	1,910	11,225	6,428	1,362
Delivery and branch expenses	53,798	46,760	205,507	176,230
Depreciation and amortization expenses	4,328	4,608	13,007	12,066
General and administrative expenses	4,557	4,008	13,809	13,927
Operating income (loss)	(9,686)	(20,051)	80,858	61,409
Interest expense	(3,547)	(3,435)	(10,998)	(10,716)
Interest income	1,696	1,538	4,978	3,474
Amortization of debt issuance costs	(415)	(486)	(1,325)	(1,145)
Income (loss) before income taxes	(11,952)	(22,434)	73,513	53,022
Income tax expense (benefit)	(4,364)	(10,645)	29,670	21,398
Net income (loss)	\$ (7,588)	\$ (11,789)	\$ 43,843	\$ 31,624
General Partner's interest in net income (loss)	(41)	(62)	237	166
Limited Partners' interest in net income (loss)	\$ (7,547)	\$ (11,727)	\$ 43,606	\$ 31,458
Basic and Diluted income (loss) per Limited Partner Unit (1)				
	\$ (0.13)	\$ (0.19)	\$ 0.63	\$ 0.46
Weighted average number of Limited Partner units outstanding:				
Basic and Diluted	59,370	61,024	59,918	62,236

(1) See Note 14 - Earnings (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 STATEMENTS OF COMPREHENSIVE INCOME

(in thousands - unaudited)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income (loss)	\$ (7,588)	\$ (11,789)	\$ 43,843	\$ 31,624
Other comprehensive income:				
Unrealized gain on pension plan obligation (1)	664	688	1,992	2,064
Tax effect of unrealized gain on pension plan	(270)	(281)	(812)	(842)
Total other comprehensive income	394	407	1,180	1,222
Total comprehensive income (loss)	\$ (7,194)	\$ (11,382)	\$ 45,023	\$ 32,846

(1) These items are included in the computation of net periodic pension cost. See Note 10 - Employee Benefit Plan. 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

(in thousands)	Number of Units		Common	General Partner	Accum. Other Comprehensive Income (Loss)	Total Partners Capital
	Common	General Partner				
Balance as of September 30, 2012	61,002	326	\$ 286,819	\$ 97	\$ (26,771)	\$ 260,145
Net income			43,606	237		43,843
Unrealized gain on pension plan obligation (1)					1,992	1,992
Tax effect of unrealized gain on pension plan					(812)	(812)
Distributions			(14,277)	(183)		(14,460)
Retirement of units (2)	(3,022)		(13,940)			(13,940)
Balance as of June 30, 2013 (unaudited)	57,980	326	\$ 302,208	\$ 151	\$ (25,591)	\$ 276,768

(1) These items are included in the computation of net periodic pension cost. See Note 10 - Employee Benefit Plan.

(2) See Note 3 - 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)	Nine Months Ended June 30,	
	2013	2012
Cash flows provided by (used in) operating activities:		
Net income	\$ 43,843	\$ 31,624
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
(Increase) decrease in fair value of derivative instruments	6,428	1,362
Depreciation and amortization	14,332	13,211
Provision for losses on accounts receivable	7,814	6,864
Change in deferred taxes	4,292	13,657
Changes in operating assets and liabilities:		
Increase in receivables	(71,929)	(21,831)
(Increase) decrease in inventories	(1,585)	45,067
Decrease in other assets	6,452	9,203
Decrease in accounts payable	(7,461)	(2,010)
Decrease in customer credit balances	(52,719)	(15,697)
(Increase) decrease in other current and long-term liabilities	18,903	(351)
Net cash provided by (used in) operating activities	(31,630)	81,099
Cash flows provided by (used in) investing activities:		
Capital expenditures	(3,133)	(3,536)
Proceeds from sales of fixed assets	133	357
Acquisitions	(644)	(38,336)
Net cash used in investing activities	(3,644)	(41,515)
Cash flows provided by (used in) financing activities:		
Revolving credit facility borrowings	111,542	86,252
Revolving credit facility repayments	(111,542)	(86,252)
Distributions	(14,460)	(14,739)
Unit repurchases	(13,940)	(19,555)
Deferred charges	(35)	(847)
Net cash used in financing activities	(28,435)	(35,141)
Net increase (decrease) in cash and cash equivalents	(63,709)	4,443
Cash and cash equivalents at beginning of period	108,091	86,789
Cash and cash equivalents at end of period	\$ 44,382	\$ 91,232

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 and propane 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 June 30, 2013, had outstanding 58.0 million common units (NYSE: SGU), representing the 99.44% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing the 0.56% 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 (the Board) 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 subject to Federal and state corporation income taxes. Petro is a Northeast and Mid-Atlantic region retail distributor of home heating oil and propane that at June 30, 2013 served approximately 407,000 full-service residential and commercial home heating oil and propane customers. Petro also sold home heating oil, gasoline and diesel fuel to approximately 53,600 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 11,600 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 its \$125 million (excluding discount) 8.875% Senior Notes outstanding at June 30, 2013, that are due 2017. 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 8 Long-Term Debt and Bank Facility Borrowings)

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 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 and cash flows for the nine month period ended June 30, 2013 and June 30, 2012 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 U.S. Generally Accepted Accounting Principles (GAAP) 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 financial statements included in the Partnership's Annual Report on Form 10-K for the year ended September 30, 2012.

Comprehensive Income (Loss)

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Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of the unrealized gain (loss) amortization on the Partnership's pension plan obligation for its two frozen defined benefit pension plans, and the corresponding tax effect.

Table of Contents**Recent Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. This standard requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position. The amendments require added disclosures about financial instruments and derivative instruments that are either (1) offset in accordance with other GAAP or (2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset on the balance sheet. This new guidance is effective for our annual reporting periods beginning in the first quarter of fiscal year 2014. The adoption of ASU No. 2011-11 will not impact our results of operations or the amount of assets and liabilities reported. We are currently evaluating the impact on our disclosures.

3) Common Unit Repurchase and Retirement

In July 2012, the Board authorized the repurchase of up to 3.0 million of the Partnership's common units (Plan III). 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. There is no guarantee of the exact number of units that will be purchased under the program and the Partnership may discontinue purchases at any time. The program does not have a time limit. In June 2013, the Board authorized the repurchase of 1.15 million additional common units in a private transaction. 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.

In July 2013, the Board authorized an additional 1.9 million common units to be repurchased under its Plan III common unit repurchase plan, restoring the number of units that may yet be repurchased under this program to 3.0 million common units at July 31, 2013.

The Partnership must maintain Availability (as defined in the revolving credit facility agreement) of \$61.3 million, 17.5% of the maximum facility size of \$350 million (assuming a seasonal advance of \$100 million is outstanding) on a historical pro forma and forward-looking basis, and a fixed charge coverage ratio of not less than 1.15 in order to repurchase common units.

(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 (a)	Maximum Number of Units that May Yet Be Purchased Under the Program
Plan III - Number of units authorized			3,000
Private transaction - Number of units authorized (b)			1,150
			4,150
Plan III - Fiscal year 2012 total	22	\$ 4.26	4,128
Plan III - October 2012	39	\$ 4.28	4,089
Plan III - November 2012	645	\$ 4.20	3,444
Plan III - December 2012	331	\$ 4.13	3,113
Plan III - First quarter fiscal year 2013 total	1,015	\$ 4.18	
Plan III - January 2013	91	\$ 4.25	3,022
Plan III - February 2013		\$	3,022
Plan III - March 2013	219	\$ 4.40	2,803
Plan III - Second quarter fiscal year 2013 total	310	\$ 4.36	

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Plan III - April 2013	161	\$	4.74	2,642
Plan III - May 2013	228	\$	4.88	2,414
Plan III - June 2013 (b)	1,308	\$	4.95	1,106
Plan III - Third quarter fiscal year 2013 total	1,697	\$	4.92	
<hr/>				
Plan III - Nine months fiscal year 2013 total	3,022	\$	4.61	

- (a) Amounts include repurchase costs.
 (b) June 2013 common unit repurchases include 1.15 million common units acquired in a private transaction.

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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 June 30, 2013, the Partnership held 1.0 million gallons of physical inventory and had bought 4.3 million gallons of swap contracts, 1.3 million gallons of call options, 3.1 million gallons of put options and 47.1 million net gallons of synthetic calls all in future months to match anticipated sales. To hedge the inter-month differentials for its price-protected customers, its physical inventory on hand and inventory in transit, the Partnership, as of June 30, 2013, had bought 27.3 million gallons of future contracts, had sold 34.0 million gallons of future contracts and had sold 4.4 million gallons of future swap contracts. To hedge a majority of its internal fuel usage for fiscal 2013, the Partnership as of June 30, 2013, had bought 2.0 million gallons of future swap contracts.

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 June 30, 2012, the Partnership held 1.2 million gallons of physical inventory and had bought 4.8 million gallons of swap contracts, 1.4 million gallons of call options, 4.1 million gallons of put options and 44.6 million net gallons of synthetic calls all in future months to match anticipated sales. To hedge the inter-month differentials for its price-protected customers, its physical inventory on hand and inventory in transit, the Partnership, as of June 30, 2012, had bought 47.0 million gallons of future contracts and had sold 51.5 million gallons of future contracts. To hedge a majority of its internal fuel usage for fiscal 2012, the Partnership as of June 30, 2012, had bought 2.6 million gallons of future swap contracts.

The Partnership's derivative instruments are with the following counterparties: Bank of America, N.A., Bank of Montreal, Cargill, Inc., JPMorgan Chase Bank, N.A., Key Bank, N.A., Regions Financial Corporation, Societe Generale, and Wells Fargo Bank, N.A. The Partnership assesses counterparty credit risk and maintains master netting arrangements with counterparties to help manage the risks, and record derivative positions on a net basis. The Partnership considers counterparty credit risk to be low. At June 30, 2013, the aggregate cash posted as collateral in the normal course of business at counterparties was \$0.9 million. Positions with counterparties who are also parties to our revolving credit facility are collateralized under that facility. As of June 30, 2013, \$8.0 million of hedge positions were secured under the credit facility.

FASB ASC 815-10-05 Derivatives and Hedging, 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. Depending on the risk being hedged, realized gains and losses are recorded in cost of product, cost of installations and service, or delivery and branch expenses.

FASB ASC 820-10 Fair Value Measurements and Disclosures, 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 Level 1 derivative assets and liabilities represent the fair value of commodity contracts used in its hedging activities that are identical and traded in active markets. The Partnership's Level 2 derivative assets and liabilities represent the fair value of commodity contracts used in its hedging activities that are valued using either directly or indirectly observable inputs, whose nature, risk and class are similar. No significant transfers of assets or liabilities have been made into and out of the Level 1 or Level 2 tiers. All derivative instruments were non-trading positions and were either a Level 1 or Level 2 instrument. The fair market value of our Level 1 and Level 2 derivative assets and liabilities are calculated by our counter-parties and are independently validated by the Partnership. The Partnership's calculations are, for Level 1 derivative assets and liabilities, based on the published New York Mercantile Exchange (NYMEX) market prices for the commodity contracts open at the end of the period. For Level 2 derivative assets and liabilities the calculations performed by the Partnership are based on a combination of the NYMEX published market prices and other inputs, including such factors as present value, volatility and duration.

The Partnership had no assets or liabilities that are measured at fair value on a nonrecurring basis subsequent to their initial recognition. The Partnership's financial assets and liabilities measured at fair value on a recurring basis are listed on the following table.

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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		
			Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Asset Derivatives at June 30, 2013					
Commodity contracts	Fair asset and fair liability value of derivative instruments	\$ 12,015	\$ 2,529	\$ 9,486	\$
Commodity contract assets at June 30, 2013		\$ 12,015	\$ 2,529	\$ 9,486	\$
Liability Derivatives at June 30, 2013					
Commodity contracts	Fair liability and fair asset value of derivative instruments	\$ (16,096)	\$ (2,435)	\$ (13,661)	\$
Commodity contract liabilities at June 30, 2013		\$ (16,096)	\$ (2,435)	\$ (13,661)	\$
Asset Derivatives at September 30, 2012					
Commodity contracts	Fair asset and fair liability value of derivative instruments	\$ 15,100	\$ 1,749	\$ 13,351	\$
Commodity contract assets at September 30, 2012		\$ 15,100	\$ 1,749	\$ 13,351	\$
Liability Derivatives at September 30, 2012					
Commodity contracts	Fair liability and fair asset value of derivative instruments	\$ (10,549)	\$ (1,898)	\$ (8,651)	\$
Commodity contract liabilities at September 30, 2012		\$ (10,549)	\$ (1,898)	\$ (8,651)	\$

(In thousands)

The Effect of Derivative Instruments on the Statement of Operations

Derivatives Not Designated as Hedging Instruments Under FASB ASC 815-10	Location of (Gain) or Loss Recognized in Income on Derivative	Amount of (Gain) or Loss Recognized			
		Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Commodity contracts	Cost of product (a)	\$ 2,531	\$ 359	\$ 15,951	\$ 15,683
Commodity contracts	Cost of installations and service (a)	\$ (67)	\$ (120)	\$ (401)	\$ (224)
Commodity contracts	Delivery and branch expenses (a)	\$ (43)	\$ 4	\$ (246)	\$ (87)
Commodity contracts	(Increase) / decrease in the fair value of derivative instruments	\$ 1,910	\$ 11,225	\$ 6,428	\$ 1,362

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

Table of Contents**5) Inventories**

The Partnership's product inventories are stated at the lower of cost or market computed on the weighted average cost method. All other inventories, representing parts and equipment are stated at the lower of cost or market using the FIFO method. The components of inventory were as follows (in thousands):

	June 30, 2013	September 30, 2012
Product	\$ 31,135	\$ 30,786
Parts and equipment	17,949	16,679
Total inventory	\$ 49,084	\$ 47,465

6) Property and Equipment

Property 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):

	June 30, 2013	September 30, 2012
Property and equipment	\$ 167,055	\$ 167,060
Less: accumulated depreciation	117,382	114,452
Property and equipment, net	\$ 49,673	\$ 52,608

7) Business Combination

During fiscal 2013, the Partnership acquired a heating oil dealer for an aggregate purchase price of approximately \$0.6 million. The gross purchase price was allocated \$0.6 million to intangible assets, \$0.1 million to fixed assets and reduced by \$0.1 million for working capital credits. The operating results of this acquisition has been included in the Partnership's consolidated financial statements since the date of acquisition, and are not material to the Partnership's financial condition, results of operations, or cash flows.

8) Goodwill and Intangibles, net**Goodwill**

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

Balance as of September 30, 2012	\$ 201,103
Fiscal year 2013 business combination	16
Balance as of June 30, 2013	\$ 201,119

Consistent with the requirements of FASB ASC 350-10-05 Intangibles - Goodwill and Other, the Partnership has selected August of each year to perform its annual impairment review. Based on our August 31, 2012 annual impairment review, we determined that there was no goodwill impairment. The preparation of this analysis was based upon management's estimates and assumptions. Future impairment calculations may 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.

Table of Contents**Intangibles, net**

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

	June 30, 2013			September 30, 2012		
	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Customer lists and other intangibles	\$ 287,382	\$ 218,918	\$ 68,464	\$ 286,783	\$ 212,071	\$ 74,712

Amortization expense for intangible assets was \$6.8 million for the nine months ended June 30, 2013, compared to \$6.0 million for the nine months ended June 30, 2012. Total estimated annual amortization expense related to intangible assets subject to amortization, for the fiscal year ending September 30, 2013, and the four succeeding fiscal years ending September 30, is as follows (in thousands):

	Estimated Annual Book Amortization Expense
2013	\$ 9,142
2014	\$ 9,110
2015	\$ 8,974
2016	\$ 8,804
2017	\$ 8,284

9) Long-Term Debt and Bank Facility Borrowings

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

	June 30, 2013		September 30, 2012	
	Carrying Amount	Fair Value (a)	Carrying Amount	Fair Value (a)
8.875% Senior Notes (b)	\$ 124,434	\$ 126,563	\$ 124,357	\$ 126,563
Revolving Credit Facility Borrowings (c)				
Total debt	\$ 124,434	\$ 126,563	\$ 124,357	\$ 126,563
Total long-term portion of debt	\$ 124,434	\$ 126,563	\$ 124,357	\$ 126,563

- (a) The Partnership's fair value estimates of long-term debt are made at a specific point in time, based on Level 2 inputs.
- (b) The 8.875% Senior Notes were originally issued in November 2010 in a private placement offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, and in February 2011, were exchanged for substantially identical public notes registered with the Securities and Exchange Commission. These public notes mature in December 2017 and accrue interest at an annual rate of 8.875% requiring semi-annual interest payments on June 1 and December 1 of each year. The discount on these notes was \$0.6 million at June 30, 2013. Under the terms of the indenture, these notes permit restricted payments after passing certain financial tests. The Partnership can incur debt up to \$100 million for acquisitions and can also pay restricted payments of \$22.0 million without passing certain financial tests.
- (c) In June 2011, the Partnership entered into an amended and restated asset based revolving credit facility agreement with a bank syndication comprised of fifteen banks. The amended and restated revolving credit facility expires in June 2016. In November 2011, the Partnership exercised the provision under this agreement to expand the facility by an additional \$50 million. Under this agreement, the Partnership

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may borrow up to \$250 million (\$350 million during the heating season from December to April each year) for working capital purposes (subject to certain borrowing base limitations and coverage ratios) and may issue up to \$100 million in letters of credit. The Partnership can increase the facility size by \$100 million without the consent of the bank group. The bank group is not obligated to fund the \$100 million increase. If the bank group elects not to fund the increase, the Partnership can add additional lenders to the group, with the consent of the agent (as appointed in the revolving credit facility agreement), which shall not be unreasonably withheld. Obligations under the revolving credit facility are guaranteed by the Partnership and its subsidiaries and are secured by liens on substantially all of the Partnership's assets including accounts receivable, inventory, general intangibles, real property, fixtures and equipment.

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The interest rate is LIBOR plus (i) 1.75% (if Availability, as defined in the revolving credit facility agreement is greater than or equal to \$150 million), or (ii) 2.00% (if Availability is greater than \$75 million but less than \$150 million), or (iii) 2.25% (if Availability is less than or equal to \$75 million). The Commitment Fee on the unused portion of the facility is 0.375% per annum. This amended and restated revolving credit facility imposes certain restrictions, including restrictions on the Partnership's ability to incur additional indebtedness, to pay distributions to unitholders, to pay inter-company dividends or distributions, make investments, grant liens, sell assets, make acquisitions and engage in certain other activities.

The Partnership is obligated to meet certain financial covenants under the amended and restated revolving credit facility, including the requirement to maintain at all times either Availability (borrowing base less amounts borrowed and letters of credit issued) of \$43.8 million, 12.5% of the maximum facility size, or a fixed charge coverage ratio (as defined in the revolving credit facility agreement) of not less than 1.1, which is calculated based upon Adjusted EBITDA for the trailing twelve months. In order to make acquisitions, the Partnership must maintain Availability of \$40 million on a historical pro forma and forward-looking basis. In addition, the Partnership must maintain Availability of \$61.3 million, 17.5% of the maximum facility size of \$350 million (assuming a seasonal advance of \$100 million is outstanding) on a historical pro forma and forward-looking basis, and a fixed charge coverage ratio of not less than 1.15 in order to pay any distributions to unitholders or repurchase common units.

At June 30, 2013, no amount was outstanding under the revolving credit facility and \$45.0 million of letters of credit were issued. At September 30, 2012, no amount was outstanding under the revolving credit facility and \$42.8 million of letters of credit were issued.

The amended and restated revolving credit facility prohibits certain activities including investments, acquisitions, asset sales, inter-company dividends or distributions (including those needed to pay interest or principal on the 8.875% senior notes), except to the Partnership or a wholly owned subsidiary of the Partnership, if the relevant covenant described above has not been met. The occurrence of an event of default or an acceleration under the amended and restated revolving credit facility would result in the Partnership's inability to obtain further borrowings under that facility, which could adversely affect its results of operations. Such a default may also restrict the ability of the Partnership to obtain funds from its subsidiaries in order to pay interest or pay down debt. An acceleration under the amended and restated revolving credit facility would result in a default under the Partnership's other funded debt.

At June 30, 2013, availability was \$139.1 million and the Partnership was in compliance with the fixed charge coverage ratio. At September 30, 2012, availability was \$179.2 million and the Partnership was in compliance with the fixed charge coverage ratio.

In July 2011, the Partnership's shelf registration became effective, providing for the sale of up to \$250 million in one or more offerings of common units representing limited partnership interests, partnership securities and debt securities; which may be secured or unsecured senior debt securities or secured or unsecured subordinated debt securities. As of June 30, 2013, no offerings under this shelf registration have occurred.

10) Employee Benefit Plan

(in thousands)	Three Months		Nine Months Ended	
	Ended June 30, 2013	2012	June 30, 2013	2012
<u>Components of net periodic benefit cost:</u>				
Service cost	\$	\$	\$	\$
Interest cost	620	714	1,860	2,142
Expected return on plan assets	(948)	(941)	(2,844)	(2,823)
Net amortization	664	688	1,992	2,064
Net periodic benefit cost	\$ 336	\$ 461	\$ 1,008	\$ 1,383

For the nine months ended June 30, 2013, the Partnership contributed \$2.3 million and expects to make an additional \$1.2 million contribution in fiscal 2013 to fund its pension obligation.

Table of Contents**11) Income Taxes**

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.

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 (the Partnership's corporate subsidiaries are subject to tax at the entity level for federal and state income tax purposes). Even though the Partnership will generate non-qualifying Master Limited Partnership revenue through its corporate subsidiaries, 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.

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.

The current and deferred income tax expenses for the three and nine months ended June 30, 2013, and 2012 are as follows (in thousands):

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Income (loss) before income taxes	\$ (11,952)	\$ (22,434)	\$ 73,513	\$ 53,022
Current tax expense (benefit)	\$ (5)	\$ (1,372)	\$ 25,378	\$ 7,741
Deferred tax expense (benefit)	(4,359)	(9,273)	4,292	13,657
Total tax expense (benefit)	\$ (4,364)	\$ (10,645)	\$ 29,670	\$ 21,398

As of the calendar tax year ended December 31, 2012, Star Acquisitions, a wholly-owned subsidiary of the Partnership, had an estimated Federal net operating loss carry forward (NOLs) of approximately \$10.6 million. The Federal NOLs, which will expire between 2018 and 2024, are generally available to offset any future taxable income but are also subject to annual limitations of between \$1.0 million and \$2.2 million.

FASB ASC 740-10-05-6 Income Taxes: Uncertain Tax Position, provides financial statement accounting guidance for uncertainty in income taxes and tax positions taken or expected to be taken in a tax return. At June 30, 2013, we had unrecognized income tax benefits totaling \$0.8 million. These unrecognized tax benefits are primarily the result of state tax uncertainties. If recognized, these tax benefits would be recorded as a benefit to the effective tax rate.

We believe that the total liability for unrecognized tax benefits will not materially change during the next 12 months ending June 30, 2014. Our continuing practice is to recognize interest 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, Connecticut, Pennsylvania and New Jersey, we have four, four, four 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.

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(in thousands)	Nine Months Ended	
	2013	June 30, 2012
<u>Cash paid during the period for:</u>		
Income taxes, net	\$ 11,864	\$ 2,687
Interest	\$ 13,771	\$ 13,540
Non-cash financing activities:		
Increase in interest expense - amortization of debt discount on 8.875% Senior Note	\$ 77	\$ 70

13) Commitments and Contingencies

The Partnership's operations are subject to the operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing for use by consumers of hazardous liquids such as home heating oil and propane. As a result, at any given time, the Partnership is generally a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies in amounts and with coverages and deductibles we believe are reasonable and prudent. However, the Partnership cannot assure that this insurance will be adequate to protect it from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. The Partnership does not carry business interruption insurance. In the opinion of management the Partnership is not a party to any litigation, which individually or in the aggregate could reasonably be expected to have a material adverse effect on the Partnership's results of operations, financial position or liquidity.

14) Earnings (Loss) Per Limited Partner Unit

Income per limited partner unit is computed in accordance with FASB ASC 260-10-05 Earnings Per Share, Master Limited Partnerships (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 performed, in which the Partnership's contractual participation rights are taken into account.

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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		Nine Months Ended	
	June 30,		June 30,	
(in thousands, except per unit data)	2013	2012	2013	2012
Net income (loss)	\$ (7,588)	\$ (11,789)	\$ 43,843	\$ 31,624
Less General Partners' interest in net income (loss)	(41)	(62)	237	166
Net income (loss) available to limited partners	(7,547)	(11,727)	43,606	31,458
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60			5,623	3,141
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	\$ (7,547)	\$ (11,727)	\$ 37,983	\$ 28,317
Per unit data:				
Basic and diluted net income (loss) available to limited partners	\$ (0.13)	\$ (0.19)	\$ 0.73	\$ 0.51
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60			0.10	0.05
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	\$ (0.13)	\$ (0.19)	\$ 0.63	\$ 0.46
Weighted average number of Limited Partner units outstanding	59,370	61,024	59,918	62,236

15) Subsequent Events*Quarterly Distribution Declared*

In July 2013, we declared a quarterly distribution of \$0.0825 per unit, or \$0.33 per unit on an annualized basis, on all common units with respect to the third quarter of fiscal 2013, payable on August 13, 2013, to holders of record on August 5, 2013. In accordance with our Partnership Agreement, the amount of distributions in excess of the minimum quarterly distribution of \$0.0675, are distributed 90% to the holders of common units and 10% to the holders of the General Partner units (until certain distribution levels are met), subject to the management incentive compensation plan. As a result, \$4.8 million will be paid to the common unit holders, \$0.1 million to the General Partner (including \$0.05 million of incentive distribution as provided in our Partnership Agreement) and \$0.05 million to management pursuant to the management incentive compensation plan which provides for certain members of management to receive incentive distributions that would otherwise be payable to the General Partner.

Additional Common Units Authorized for Repurchase Under the Plan III Repurchase Program

In July 2013, the Board authorized an additional 1.9 million common units to be repurchased under its Plan III common unit repurchase plan, restoring the number of units that may yet be repurchased under this program to 3.0 million common units at July 31, 2013.

Acquisition

In August 2013, the Partnership purchased for cash the customer lists and assets of a home heating oil dealership for approximately \$0.7 million, including net working capital credits of \$0.1 million.

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ITEM 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Statement Regarding Forward-Looking Disclosure

This Quarterly Report on Form 10-Q includes forward-looking statements which represent our expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on our financial performance, the price and supply of the products that we sell, the consumption patterns of our customers, our ability to obtain satisfactory gross profit margins, our ability to obtain new customers and retain existing customers, our ability to make strategic acquisitions, the impact of litigation, our ability to contract for our current and future supply needs, natural gas conversions, future union relations and the outcome of current and future union negotiations, the impact of current and future governmental regulations, including environmental, health, and safety regulations, the ability to attract and retain employees, customer credit worthiness, counterparty credit worthiness, marketing plans, general economic conditions and new technology. All statements other than statements of historical facts included in this Report including, without limitation, the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere herein, are forward-looking statements. Without limiting the foregoing, the words believe, anticipate, plan, expect, seek, estimate, and similar expressions are intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct and actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to, those set forth under the heading Risk Factors and Business Strategy in our Annual Report on Form 10-K (the Form 10-K) for the fiscal year ended September 30, 2012, and under the heading Risk Factors in this Quarterly Report on Form 10-Q. Important factors that could cause actual results to differ materially from our expectations (Cautionary Statements) are disclosed in the Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. Unless otherwise required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Report.

Overview

The following is a discussion of our historical financial condition and results of our operations and should be read in conjunction with the description of our business and the historical financial and operating data and notes thereto included elsewhere in this Report.

Seasonality

The following matters should be considered in analyzing our financial results. Our fiscal year ends on September 30. All references to quarters and years respectively in this document are to the fiscal quarters and years unless otherwise noted. The seasonal nature of our business has resulted, on average during the last five years, in the sale of approximately 30% of our volume of home heating oil and propane in the first fiscal quarter and 50% of our volume in the second fiscal quarter, the peak heating season. We generally realize net income in both of these quarters and net losses during the quarters ending June and September. In addition, sales volume typically fluctuates from year to year in response to variations in weather, wholesale energy prices and other factors.

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Degree Day

A degree day is an industry measurement of temperature designed to evaluate energy demand and consumption. Degree days are based on how far the average daily temperature departs from 65°F. Each degree of temperature above 65°F is counted as one cooling degree day, and each degree of temperature below 65°F is counted as one heating degree day. Degree days are accumulated each day over the course of a year and can be compared to a monthly or a long-term (multi-year) average to see if a month or a year was warmer or cooler than usual. Degree days are officially observed by the National Weather Service.

Every ten years, the National Oceanic and Atmospheric Administration (NOAA) computes and publishes average meteorological quantities, including the average temperature for the last 30 years by geographical location, and the corresponding degree days. The latest and most widely used data covers the years from 1981 to 2010. Our calculations of normal weather are based on these published 30 year averages for heating degree days, weighted by volume for the locations where we have existing operations.

Home Heating Oil Price Volatility

In recent years, the wholesale price of home heating oil has been volatile, resulting in increased consumer price sensitivity to heating costs and increased gross customer losses. As a commodity, the price of home heating oil is generally impacted by many factors, including economic and geopolitical forces. The price of home heating oil is closely linked to the price refiners pay for crude oil, which is the principal cost component of home heating oil. The volatility in the wholesale cost of home heating oil, as measured by the New York Mercantile Exchange (NYMEX) price per gallon for the fiscal years ending September 30, 2009, through 2013, on a quarterly basis, is illustrated in the following chart:

Quarter Ended	Fiscal 2013 *		Fiscal 2012		Fiscal 2011		Fiscal 2010		Fiscal 2009	
	Low	High	Low	High	Low	High	Low	High	Low	High
December 31	\$ 2.90	\$ 3.26	\$ 2.72	\$ 3.17	\$ 2.19	\$				