

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**  
SEC Accession No. **0000950112-95-001265**

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FILER

**PETROLEUM HEAT & POWER CO INC**

CIK: **736768** | IRS No.: **061183025** | State of Incorpor.: **MN** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-09358** | Film No.: **95535926**  
SIC: **5900** Miscellaneous retail

Mailing Address  
2187 ATLANTIC ST  
STAMFORD CT 06902

Business Address  
2187 ATLANTIC ST  
STAMFORD CT 06902  
2033255400

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

/ X / QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
---  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1995  
-----

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 2-88526

PETROLEUM HEAT AND POWER CO., INC.  
-----

(Exact name of registrant as specified in its charter)

Minnesota  
-----

06-1183025  
-----

(State or other jurisdiction of  
incorporation or organization)

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

2187 Atlantic Street, Stamford, Connecticut 06902  
-----

(Address of principal executive office)

(Zip Code)

Registrant's telephone number,  
including area code:

(203) 325-5400

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 Sections 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) had been subject to such filing requirements for the past 90 days.

Yes X No  
--- --

As of March 31, 1995 there were 22,855,097 shares of the Registrant's Class A Common Stock, 15,503 shares of the Registrant's Class B Common Stock and 2,597,519 shares of the Registrant's Class C Common Stock outstanding.

This Report contains a total of 13 pages.

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Petroleum Heat and Power Co., Inc. and Subsidiaries

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PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES  
 Consolidated Balance Sheets  
 (Unaudited)

(In thousands)

Assets

- - - - -

	March 31, 1995	December 1994
	-----	-----
31,		
Current Assets:		
Cash	\$ 45,843	\$ 15,474
Accounts receivable (net of allowance of \$2,185 and \$1,769)	99,065	87,246
Inventories	18,935	21,746
Prepaid expenses	8,381	7,382
Notes receivable and other current assets	2,341	1,279
	-----	-----
Total current assets	174,565	133,127
	-----	-----
Property, plant and equipment - net	128,387	127,174
	-----	-----
Intangible assets (net of accumulated amortization of \$250,044 and \$243,115)		
Customer lists	101,595	102,636
Deferred charges and pension costs	38,338	32,692
	-----	-----
	139,933	135,328
	-----	-----
Other assets	2,110	1,545

	----- \$ 444,995 =====	----- \$ 397,174 =====
Liabilities and Stockholders' Equity (Deficiency)		
Current liabilities:		
Current debt	\$ 15,399	\$ 5,617
Current maturities of cumulative redeemable preferred stock	4,167	4,167
Accounts payable	13,768	19,786
Customer credit balances	10,990	26,903
Unearned service contract revenue	11,923	14,334
Accrued expenses and other liabilities	30,488	33,975
	-----	-----
Total current liabilities	86,735	104,782
	-----	-----
Supplemental benefits and other liabilities	2,908	2,961
	-----	-----
Pension plan obligation	9,023	9,029
	-----	-----
Notes payable and other long-term debt	34,051	99,681
	-----	-----
Senior notes payable	35,200	42,632
	-----	-----
Subordinated notes payable	285,200	167,632
	-----	-----
Star Gas preferred stock	-	19,966
	-----	-----
Cumulative redeemable exchangeable preferred stock	16,667	16,667
	-----	-----
Stockholders' equity (deficiency):		
Common stock - par value \$.10 per share	2,547	2,412
Additional paid-in capital	77,262	72,296
Deficit	(96,667)	(132,953)
Minimum pension liability adjustment	(6,651)	(6,651)
	-----	-----
	(23,509)	(64,896)
Note receivable from stockholder	(1,280)	(1,280)
	-----	-----
Total stockholders' equity (deficiency)	(24,789)	(66,176)
	-----	-----
	\$ 444,995 =====	\$ 397,174 =====

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Petroleum Heat and Power Co., Inc.  
and Subsidiaries

Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended March 31,	
	----- 1995 -----	1994 -----
(In thousands, except per share data)		
Net sales	\$ 253,737	\$ 266,793
Cost of sales	147,332	163,263
	-----	-----
Gross profit	106,405	103,530
Selling, general and administrative expenses	31,076	24,927
Direct delivery expense	14,608	14,714
Amortization of customer lists	5,452	4,876
Depreciation and amortization of plant and equipment	2,803	1,365
Amortization of deferred charges	1,477	1,496
Provision for supplemental benefits	335	70
	-----	-----
Operating income	50,654	56,082
Other income (expense):		
Interest expense	(9,760)	(6,000)
Interest income	522	315
Other	858	20
	-----	-----
Income before income taxes, equity interest and extraordinary item	42,274	50,417
Income taxes	400	601
	-----	-----
Income before equity interest and extraordinary item	41,874	49,816

Equity in earnings of Star Gas Corporation	-	2,263
	-----	-----
Income before extraordinary item	41,874	52,079
Extraordinary item - loss on early extinguishment of debt	-	(654)
	-----	-----
Net Income	\$ 41,874	\$ 51,425
	=====	=====
Net income applicable to common stock	\$ 40,104	\$ 49,626
Income before extraordinary item per common share		
Class A Common Stock	\$ 1.61	\$ 2.33
Class B Common Stock	-	.41
Class C Common Stock	1.61	2.33
Extraordinary loss per common share		
Class A Common Stock	-	\$ (.03)
Class B Common Stock	-	-
Class C Common Stock	-	(.03)
Net income per common share		
Class A Common Stock	\$ 1.61	\$ 2.30
Class B Common Stock	-	.41
Class C Common Stock	1.61	2.30
Cash dividends declared per common share		
Class A Common Stock	\$ .15	\$ .14
Class B Common Stock	-	.41
Class C Common Stock	.15	.14
Weighted average number of common shares outstanding		
Class A Common Stock	22,253	18,993
Class B Common Stock	18	217
Class C Common Stock	2,598	2,545

See accompanying notes to condensed consolidated financial statements.

(In thousands)

	Three Months Ended March 31,	
	----- 1995 -----	----- 1994 -----
Cash flows from operating activities:		
Net income	\$ 41,874	\$ 51,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of customer lists	5,452	4,876
Equity in earnings of Star Gas Corporation	-	(2,263)
Depreciation and amortization of plant and equipment	2,803	1,365
Amortization of deferred charges	1,477	1,496
Provision for losses on accounts receivable	460	487
Provision for supplemental benefits	335	70
Loss on early extinguishment of debt	-	654
Gain on sale of business	(832)	-
Other	(32)	(28)
Increase in accounts receivable	(12,279)	(29,267)
Decrease in inventory	2,811	1,436
Increase in prepaid expenses, notes receivable and other current assets	(2,061)	(244)
Decrease (increase) in other assets	(565)	15
Decrease in accounts payable	(6,018)	(5,697)
Decrease in customer credit balances	(15,913)	(15,947)
Decrease in unearned service contract revenue	(2,411)	(2,474)
Increase (decrease) in accrued expenses	(3,972)	3,342
	-----	-----
Net cash provided by operating activities	11,129	9,246
	-----	-----
Cash flows from (used for) investing activities:		
Acquisitions	(8,533)	(594)
Capital expenditures	(2,716)	(337)
Proceeds from sale of business	1,477	-
Proceeds from sales of fixed assets	70	44
	-----	-----
Net cash used for investing activities	(9,702)	(887)
	-----	-----



Petroleum Heat and Power Co., Inc.  
and Subsidiaries

Consolidated Statement of Cash Flows  
(Continued)

(In thousands)

	Three Months Ended March 31,	
	1995	1994
Cash flows from (used for) financing activities:		
Net proceeds from issuance of common stock	\$ 18,516	\$ -
Net proceeds from issuance of subordinated notes	120,350	71,087
Repayment of notes payable	(65,612)	(50,654)
Credit facility borrowings	-	21,000
Credit facility repayments	(5,100)	(49,000)
Repurchase of common stock	(13,681)	-
Release of cash collateral account	-	20,000
Redemption of preferred stock	(19,966)	-
Restricted cash held as collateral for payment of a long-term note payable	-	(1,663)
Cash dividends paid	(5,253)	(4,862)
Other	(312)	(1,390)
	-----	-----
Net cash from financing activities	28,942	4,518
	-----	-----
Net increase in cash	30,369	12,877
Cash at beginning of year	15,474	4,613
	-----	-----
Cash at the end of period	\$ 45,843	\$ 17,490
	=====	=====

Supplemental disclosure of cash flow information:

Cash paid during the period for:		
Interest	\$ 6,792	\$ 2,694
Income taxes	60	68
Non-cash investing activity:		
Acquisitions	-	(1,630)
Non-cash financing activity:		
Issuance of note payable	-	1,630

See accompanying notes to condensed consolidated financial statements.

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Petroleum Heat and Power Co., Inc.  
and Subsidiaries

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1- Basis of Presentation  
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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 results for the interim periods.

The results of operations for the three months ended March 31, 1995 are not necessarily indicative of the results to be expected for the full year.

2- Per Share Data  
-----

Net income per common shares are computed utilizing the three class method based upon the weighted average number of shares of Class A Common Stock, Class B Common Stock and Class C Common Stock outstanding after adjusting net income for preferred dividends declared aggregating \$1,770,000 and \$1,799,000 for the three months ended March 31, 1995 and 1994, respectively. Fully diluted net income per common shares are not presented because the effect is not material.

### 3- Acquisitions/Sale

-----

During the three month period ending March 31, 1995, the Company acquired the customer lists and equipment of an unaffiliated fuel oil dealer. The aggregate consideration for this acquisition, accounted for by the purchase method, was approximately \$8.5 million. Sales and net income of the acquired company is included in the consolidated statement of income from the date of acquisition.

The Company sold its New Hampshire operations in March 1995 to an unaffiliated fuel oil dealer. The Company received proceeds of approximately \$1.5 million and realized a gain on this transaction of approximately \$0.8 million.

Had this acquisition and disposal occurred at the beginning of the period, the pro forma unaudited results of operations for the three months ended March 31, 1995 would have been as follows:

(Thousands, Except Per Share)

-----

Net Sales	\$256,146
Net Income	\$ 41,380
Net Income Per Common Share:	
Class A Common Stock	\$1.59
Class B Common Stock	-
Class C Common Stock	\$1.59

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Petroleum Heat and Power Co., Inc. and Subsidiaries

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

-----

Three Months Ended March 31, 1995  
Compared to Three Months Ended March 31, 1994

-----

Net sales declined 4.9% for the first quarter 1995, from \$266.8 million for the three months ended March 31, 1994 to \$253.7 million for the

comparable period in 1995. While the December 1994 acquisition of Star Gas Corporation ("Star Gas"), the country's 10th largest retail propane distributor, generated an additional \$35.9 million of sales in the first quarter of 1995 this was offset by a \$48.9 million decline in home heating oil sales caused by the first three months of 1995 being 17.7% warmer than the first quarter 1994.

Despite the 17.7% warmer first quarter weather, volume declined only 6.4% as the gallonage resulting from the acquisition of Star Gas and nine other home heating oil acquisitions offset, to a certain extent, the warmer temperatures. Total retail heating oil and propane volume declined 15.5 million gallons to 225.6 million gallons, as a result of a 46.4 million gallon decline in home heating oil volume only partially offset by 30.9 million gallons of retail propane sold by Star Gas. The decrease in home heating oil volume was due not only to the direct impact of the 17.7% warmer temperatures, but also to lower consumption rates associated with the warmer weather, as well as account attrition, which was only partially offset by the increased volume associated with nine heating oil acquisitions made in 1994.

Gross profit grew 2.8% to \$106.4 million, despite the volume decline, due to \$19.3 million of additional gross profit from Star Gas which more than offset a \$16.4 million decline in heating oil gross profit. While lower home heating oil volume was the major cause for this gross profit decline, its effect was mitigated by a 1.8 cents per gallon increase in home heating oil gross profit margins and the Company's ability to reduce the cost of providing heating equipment repair and maintenance costs with the decline in heating oil volume.

Direct delivery expense decreased 0.7% to \$14.6 million in the first quarter of 1995, despite approximately \$3.0 million of additional delivery expenses associated with Star Gas, due to a 20.8% reduction in these costs at the home heating oil division. The Company's ability to reduce home heating oil delivery expenses resulted from the improved operating expense control program begun in the summer of 1994, which both improved delivery efficiency generally and enabled the Company to react better to the unexpected reduction in first quarter volumes.

Selling, general and administrative expenses increased \$6.2 million to \$31.1 million for the first quarter of 1995. This represents an additional \$6.9 million of expenses associated with Star Gas and a reduction of approximately \$.8 million of heating oil division costs. This improvement was primarily the result of a \$2.7 million reduction in marketing and local branch operating expenses offset only to a certain extent by additional costs associated with the Company's operations in three new markets.

Depreciation expense increased from \$1.4 million in the first quarter of 1994 to \$2.8 million in the first quarter of 1995. This increase of \$1.4 million was primarily due to \$1.2 million of depreciation relating to Star Gas as well as a \$.2 million increase in the heating oil division associated with the Company's increased size and asset base.

Amortization of customer lists, deferred charges and other non-cash items increased \$0.8 million to \$7.3 million for the first quarter of 1995. These non-cash expenses increased primarily due to the \$0.7 million amortization of intangible assets associated with the Star Gas acquisition. In the heating oil division, these expenses increased \$.1 million to \$6.6 million in the first quarter of 1995.

Operating Income declined \$5.4 million to \$50.7 million in the first quarter of 1995 due to a weather related \$3.2 million decline in EBITDA\* and an increase of \$2.2 million in non-cash expenses. While Star Gas accounted for an approximate \$7.5 million increase in first quarter 1995 Operating Income, this was offset by a \$12.9 million decline at the heating oil division, as increased acquisition volume, improved gross profit margins and reduced operating expenses could not offset the weather's impact on volume.

Net interest expense increased by \$3.6 million for the first quarter of 1995 due to increased borrowings associated with the Company's 1994 acquisition program and a prefunding of its 1995 capital requirements. Average debt outstanding increased approximately \$131.1 million from the previous year's first quarter as a result of financing the Star Gas acquisition, as well as debt incurred to provide a portion of the funds to finance the nine heating oil acquisitions made in 1994. In addition, this additional debt, combined with other sources of cash flow, resulted in an increase in the Company's working capital to \$87.8 million, and its cash balance to \$45.8 million, as of March 31, 1995.

Other income of \$0.9 million for the first quarter of 1995 represents the gain associated with the sale of certain customer lists and other assets of a non-strategic home heating oil business located in New Hampshire.

Income taxes were \$0.4 million for the first quarter of 1995 compared to \$0.6 million for the first quarter of 1994. These taxes represent certain state taxes since the Company has not provided for any Federal Income Taxes for the three months ended March 31, 1995 due to the availability of Federal Income Tax net operating loss carryforwards.

In the first quarter of 1994, the Company recorded an extraordinary loss of \$0.7 million which represents the premium paid in connection with the February 1994 refinancing of \$50.0 million in long term notes that were scheduled to mature in June 1994.

\*EBITDA is defined as operating income before depreciation, amortization, non-cash charges relating to the grant of stock options to executives of the Company, non-cash charges associated with deferred compensation plans, and other non-cash charges of a similar nature, if any.

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Net income declined from \$51.4 million for the first quarter of 1994 to \$41.9 million for the first quarter of 1995. This represented an 18.6% decline due to the 5.0% decline in EBITDA, as well as increased non-cash and interest expenses associated with the Company's larger size and the elimination of Petro's first quarter 1994 equity interest in Star's income of \$2.3 million. Until December 1994, when Petro completed its acquisition of Star, its holdings was accounted for as an unconsolidated equity investment.

Despite temperatures in the first quarter of 1995 being 17.7% warmer than in the comparable 1994 quarter, EBITDA declined only 5.0% to \$60.7 million from \$63.9 million in the first quarter of 1994 as acquisition related volume growth, a 1.8 cents per gallon improvement in home heating oil gross profit margins and a 9.7% reduction in home heating oil operating expenses were offset by the abnormally warm weather. This \$3.2 million EBITDA decline was a result of a \$12.6 million decrease in the heating oil division EBITDA, partially offset by \$9.4 million of additional EBITDA generated by Star Gas.

#### Liquidity and Financial Condition

-----

In February 1995, the Company completed public offerings of \$125.0 million of its 12 1/4% Subordinated Debentures due February 1, 2005 and approximately 2.9 million shares of Class A Common Stock. The net proceeds of the two offerings were approximately \$138.9 million. In February 1995, \$98.9 million of the proceeds were used to purchase \$85.4 million of long term debt and preferred stock of Star Gas Corporation and to retire approximately 1.5 million shares of Class A Common Stock issued as part of the Star Gas acquisition in December 1994. The Company applied \$14.2 million of the proceeds in April 1995, to repay approximately \$12.8 million of long-term debt due in March 2000. The balance of the net proceeds, approximately \$25.8 million, has yet to be applied for long-term purposes.

Net cash provided by operating activities of \$11.1 million, along with \$40.0 million of unapplied net proceeds from the above mentioned public offerings amounted to \$51.1 million for the three months ended March 31, 1995. These funds were utilized in investing activities for acquisitions

and the purchase of fixed assets (\$11.2 million) and in financing activities to pay dividends of \$5.3 million, to repay working capital borrowings of \$5.1 million, to make principal payments on other long-term obligations of \$0.3 million and for other long-term financing requirements of \$0.3 million. In addition, the sale of the Company's New Hampshire operations generated \$1.5 million of proceeds. As result of the above activity, the Company's cash balance increased by \$30.4 million.

The Company currently has available a \$140 million credit facility consisting of a \$75 million working capital commitment, a \$50 million acquisition facility and a \$15 million letter of credit commitment to secure certain insurance requirements. At March 31, 1995 there were no outstanding working capital borrowings, \$16.0 million remained available under the acquisition facility and the Company had \$87.8 million of working capital.

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For the remainder of 1995, the Company anticipates paying dividends on its Common Stock of approximately \$11.5 million, redeeming \$4.2 million of Redeemable Preferred Stock and paying \$1.5 million in preferred dividends. Based on the Company's current cash position, bank credit availability, expected net cash provided by operating activities and the \$25.8 million of available proceeds from the February 1995 public offerings, the Company expects to be able to meet all of the above mentioned obligations in 1995, as well as meet all of its other current obligations as they become due.

#### Supplemental Financial Information

- -----

During the first quarter of 1995, the Company generated \$50.9 million in NIDA\* compared to \$56.1 million for the first quarter of 1994. This \$5.2 million decrease (9.3%) was primarily due to the effects of the abnormally warm temperatures which more than offset the NIDA contribution from the propane division.

\*NIDA is defined as net income (loss), plus depreciation, amortization, non-cash charges relating to the grant of stock options to executives of the Company, non-cash charges associated with deferred compensation plans and other non-cash charges of a similar nature, if any, less dividends accrued on preferred stock, excluding net income (loss) derived from investments accounted for by the equity method, except to the extent of any cash dividends received by the Company.

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PART II OTHER INFORMATION  
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Item 6. Exhibits and Reports on Form 8-K  
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(a) Exhibits Included Within:  
-----

(27) Financial Data Schedule

(b) Reports on Form 8-K  
-----

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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SIGNATURE

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

Signature	Title	Date
- - - - -	-----	-----
Irik P. Sevin -----	President, Chairman of the Board, Chief Executive Officer, and Chief Financial and Accounting Officer and Director	May 10, 1995

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EXHIBIT 27

Petroleum Heat and Power Co., Inc. and Subsidiaries

This schedule contains summary financial information (in thousands except per share data) extracted from Petroleum Heat and Power Co., Inc. and Subsidiaries financial statements as of March 31, 1995 and is qualified in its entirety by reference to such financial statements.

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