

Warming up

Earnings at the former Heating Oil Partners are on the rebound



When Heating Oil Partners LP filed for Chapter 11 on Sept. 26, 2005, its flame was near extinction.

The Darien, Conn.-based heating oil distributor, ultimately controlled by Toronto's Heating Oil Partners Income Fund, was buffeted by a 56% year-over-year spike in fuel costs, increased operating expenses and a slip in both margins and customers.

The company had 137,000 customers in 10 states and Washington, D.C., and took in about \$346.64 million in sales in 2004 and \$432.9 million in sales for the year ended Sept. 30, 2005. Still, it reported a net loss of \$98 million for the latter period.

Prepetition lenders were owed more than \$67 million, and senior secured noteholders had \$50 million in claims.

HOP and debtor affiliates Heating Oil Partners GP Inc. and HOP Holdings Inc. survived with the help of a \$115 million debtor-in-possession loan from a **Bank of America NA**-led syndicate that included **Stanfield Capital Partners LLC**, **Ore Hill Hub Fund Ltd.**, **Credit Suisse First Boston** and **Deutsche Bank Trust Co. Americas**.

Judge Alan H.W. Schiff of the U.S. Bankruptcy Court for the District of Connecticut in Bridgeport confirmed HOP's plan of reorganization on June 13, 2006, and HOP emerged Aug. 7, 2006, from twin bankruptcy proceedings in Connecticut and the Ontario Superior Court of Justice.

Prepetition secured creditors led by **Longroad Asset Management LLC** swapped their \$111 million in claims for the new equity of the company, renamed **HOP Energy LLC**.

Administrative claims, including the \$43.2 million drawn on the DIP, received a full recovery.

Unsecured creditors recovered roughly 15% on an estimated \$3.37 million in claims through distributions of up to \$525,000, says chief restructuring officer Michael Buenzow of **FTI Consulting Inc.**

Old equity was wiped out. (**Zeisler & Zeisler PC** and **Robinson & Cole LLP** served as debtor counsel.)

Upon the company's exit, a Longroad company statement boasted: "HOP Energy LLC now has the strongest balance sheet in the industry. With a substantial infusion of capital under new ownership, HOP Energy now stands as a formidable leader in the heating oil industry."

At first that stance didn't translate into earnings, as HOP did not post positive Ebitda last year, Buenzow says. This year, however, he expects the company to have \$20 million in Ebitda on roughly \$750 million in revenue.

The reorganization, he continues, has been "hugely successful, primarily because [the company] emerged from bankruptcy with an appropriate capital structure. It didn't come out with heavy levels of debt. This has given the company the ability to fix its day-to-day operations."

Although HOP secured a \$125 million exit loan from **J.P. Morgan Chase Bank NA**, it has tapped only \$20 million, says Buenzow, now a director on

HOP's board.

It doesn't appear likely, therefore, that HOP will need to exercise an option to increase the limit on the five-year revolving loan by as much as \$25 million.

HOP has also focused on improving operations.

"HOP Energy has been involved with the divestiture of some of its underperforming segments, cost reduction and minor acquisitions," Buenzow says. "The company has seen an operational turnaround since its bankruptcy."

Buenzow declines to disclose details on the acquisitions but says a local oil company purchased the Brooklyn, N.Y., business of HOP in April for an undisclosed price.

HOP determined the operations were not a strategic fit with the remainder of the company, which services the retail, commercial and fleet fueling markets in Connecticut, New York, Pennsylvania, New Jersey, Massachusetts and Maryland. HOP also installs and services boilers, furnaces, heating equipment and air conditioners.

Given the turnaround, it's not surprising that HOP Energy is still controlled by the same shareholders as the day it exited. In addition to Longroad, they include Stanfield Capital Partners, Ore Hill and Bank of America, Buenzow says.

"The principals of Longroad are still actively involved day-to-day to help manage the company," Buenzow says.

The ultimate good news for shareholders?

The company's performance has been so successful that they received an \$8 million dividend, according to Buenzow. ■

—Jamie Mason

TIMELINE OF HOP BANKRUPTCY

Sept. 2005	Heating Oil Partners files for bankruptcy
Aug. 2006	Exits Chapter 11 protection
April 2007	Sells Brooklyn, N.Y., oil business
Oct. 2007	HOP expects 2007 Ebitda of \$20 million

Source: www.BankruptcyInsider.com