

STAR GAS PARTNERS LP  
Form 10-K/A  
August 01, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-K/A**  
**(Amendment No. 2)**

**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended September 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 registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

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

**06902**  
**(Zip Code)**

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

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Units</b>	<b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act (check one).

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Large accelerated filer  Accelerated filer  x  
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No  x

The aggregate market value of the registrant's common units held by non-affiliates on March 31, 2013 was approximately \$270,937,000. As of November 30, 2013, the registrant had 57,467,744 common units outstanding.

Documents Incorporated by Reference: None

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### Explanatory Note

Star Gas Partners, L.P. is filing this Amendment No. 2 on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended September 30, 2013, originally filed with the Securities and Exchange Commission on December 11, 2013, to make only the following changes:

- 1) To amend and restate Item 9A. Controls and Procedures related to the effectiveness of our disclosure controls and procedures and internal control over financial reporting; and
- 2) To amend and restate Item 8. Financial Statements, Report of Independent Registered Public Accounting Firm, solely in relation to the independent registered public accounting firm's report on our internal control over financial reporting.

This Amendment No. 2 does not amend or update any other information set forth in the Annual Report and we have not updated disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the Annual Report.

In the third quarter of fiscal 2014, management became aware that a regional zone controller overrode controls over reporting to senior management certain state sales tax and petroleum tax assessments which primarily related to prior periods. The same employee also overrode certain reconciliation controls related to the accuracy and existence of installations and service sales and accounts receivable of an insignificant business (the Impacted Business) whose balances and results are maintained on an offline ledger and periodically transferred to the Partnership's general ledger. This employee's actions were in violation of the Partnership's established control policies and procedures. These control deficiencies resulted in errors in installations and service sales, delivery and branch expenses, interest expense, net, current assets, accrued expenses and other current liabilities. These control deficiencies did not result in a material misstatement to the Partnership's consolidated financial statements for any periods through and including the fiscal year ended September 30, 2013 or unaudited condensed consolidated financial statements for the first two fiscal quarters of 2014. The correction of these errors was recognized in our unaudited condensed consolidated financial statements for the quarter ended June 30, 2014. No changes to the consolidated financial statements filed as part of the Annual Report have been made in this Amendment No. 2.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this Amendment No. 2, the certifications pursuant to Rules 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended and Section 906 of the Sarbanes-Oxley Act of 2002 have been re-executed and refiled as of the date of this Amendment No. 2. As a result, the Exhibit Index in Part IV; Item 15 of the Annual Report is also being amended to reflect the inclusion of the aforementioned updates.

## Item 9A. Controls and Procedures

### (a) Evaluation of disclosure controls and procedures.

In the third quarter of fiscal 2014, management became aware that a regional zone controller overrode controls over reporting to senior management certain state sales tax and petroleum tax assessments which primarily related to prior periods. The same employee also overrode certain reconciliation controls related to the accuracy and existence of installations and service sales and accounts receivable of an insignificant business (the Impacted Business) whose balances and results are maintained on an offline ledger and periodically transferred to the Partnership's general ledger. This employee's actions were in violation of the Partnership's established control policies and procedures. These control deficiencies did not result in a material misstatement to the Partnership's consolidated financial statements for any periods through and including the fiscal year ended September 30, 2013, or unaudited condensed consolidated financial statements for the first two fiscal quarters of 2014. The correction of these errors was recognized in our unaudited condensed consolidated financial statements for the quarter ended June 30, 2014.

The general partner's chief executive officer and its chief financial officer evaluated the effectiveness of the Partnership's disclosure controls and procedures (as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of September 30, 2013. Our chief executive officer and chief financial officer concluded that, as a result of the material weakness in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of September 30, 2013. The Partnership is amending Item 9A of its Annual Report on Form 10-K for 2013, as well as Item 4 of its Quarterly Reports on Form 10-Q for the first and second quarters of fiscal 2014 to reflect the conclusion by management that there was a material weakness in internal control over financial reporting as of the end of the periods covered by these reports.

For purposes of Rule 13a-15(e), the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its chief executive and chief financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### (b) Management's Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision of the Audit Committee of the Board of Directors and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of that evaluation, management identified the following control deficiencies as of September 30, 2013, that constituted a material weakness:

Ineffective design and operation of controls over the recognition and measurement of certain state sales and petroleum tax assessments, including the communication of those assessments by the regional zone controller to senior management. The Partnership did not have an independent monitoring control in place to ensure that these controls were working effectively.

Ineffective operation of account reconciliation controls over installations and service sales and accounts receivable of the Impacted Business, where the same regional zone controller did not adequately investigate certain reconciling items, and did not timely communicate them to senior management.

These control deficiencies resulted in errors in installations and service sales, delivery and branch expenses, interest expense, net, current assets, accrued expenses and other current liabilities. These errors did not, individually or in the aggregate, result in a material misstatement to the Partnership's consolidated financial statements for any periods through and including the fiscal year ended September 30, 2013. However such control deficiencies could have resulted in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that the override of certain process level and information reporting controls and the lack of an independent control in place to reconcile the state sales and petroleum tax returns with the Partnership's books and records constituted a material weakness in the aggregate.

The effectiveness of our internal control over financial reporting as of September 30, 2013, has been audited by our independent registered public accounting firm, as stated in their adverse report which is included herein.

(c) Change in Internal Control over Financial Reporting.

No change in the Partnership's internal control over financial reporting occurred during the Partnership's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the Partnership's internal control over financial reporting.

(d) Remediation

In the fourth quarter of fiscal 2014, management became actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness in our internal control over financial reporting identified above. Management has implemented or intends to implement additional controls surrounding the collection, recording and remittance of non-income related taxes and to reinforce the certification process to emphasize senior manager's accountability for, and commitment to maintaining an ethical environment.

Management believes the measures described above and others that will be implemented will remediate the material weakness that we have identified. As management continues to evaluate and improve internal control over financial reporting, we may decide to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures contemplated.

Nonetheless, the chief executive officer and chief financial officer believe that the subsequent procedures we performed in connection with our preparation of this Form 10-K/A provide reasonable assurance that the identified material weakness did not lead to material misstatements in our consolidated financial statements presented in this Form 10-K/A or prior periods and that the consolidated financial statements included in this Form 10-K/A fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods presented, in accordance with U.S. GAAP.

(e) Other.

The General Partner and the Partnership do not expect that our disclosure controls and procedures or our internal control over financial reporting will certainly prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, our internal control system can provide only reasonable assurance of achieving its objectives and no evaluation of controls can provide absolute assurance that all control issues and occurrences of fraud, if any, within our Partnership have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by

management override of the control. The design of any system of internal control is also based in part upon certain assumptions about the likelihood of future events, and can provide only reasonable, not absolute, assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances, or the degree of compliance with the policies and procedures may deteriorate.



**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****INDEX TO EXHIBITS**

<b>Exhibit</b>	<b>Incorp by</b>	
<b>Number</b>	<b>Ref. to Exh.</b>	<b>Description</b>
3.1	3.1(1)	Amended and Restated Certificate of Limited Partnership
4.1	99.1(2)	Second Amended and Restated Agreement of Limited Partnership
4.2	99.3(3)	Amendment No. 1 to Second Amended and Restated Agreement of Limited Partnership
4.3	4.3(16)	Amendment No. 2 to Second Amended and Restated Agreement of Limited Partnership
4.4	(20)	Amendment No. 3 to Second Amended and Restated Agreement of Limited Partnership
10.1	99.2(5)	Letter Agreement and general release dated March 7, 2005 between Star Gas Partners L.P. and Irik P. Sevin
10.2	99.2(3)	Management Incentive Compensation Plan
10.3	(20)	Amended and Restated Management Incentive Compensation Plan
10.4	99.4(3)	Form of Indemnification Agreement for Officers and Directors.
10.5	(4)	Approved Dealer / Contractor Agreement dated as of July 11, 2006 by and between AFC First Financial Corporation and Petro Holdings, Inc.
10.6	99.4(7)	Form of Amendment No. 1 to Indemnification Agreement.
10.7	(9)	Description of 2008 Profit Sharing Plan.
10.8	(10)	Employment Agreement dated December 3, 2007 between Star Gas Partners, L.P. and Steven J. Goldman.
10.9	(10)	Change in Control Agreement dated December 4, 2007 between Star Gas Partners, L.P. and Daniel P. Donovan.
10.10	(10)	Change in Control Agreement dated December 4, 2007 between Star Gas Partners, L.P. and Richard F. Ambury.
10.11	(11)	Employment Agreement dated April 28, 2008 between Star Gas Partners, L.P. and Richard Ambury
10.12	(13)	Agreement dated November 2, 2009 between Star Gas Partners, L.P. and Richard G. Oakley.
10.13	(14)	Champion Equity Purchase Agreement dated as of May 10, 2010.
10.14	(15)	Employment Agreement dated as of November 8, 2010 between Star Gas Partners, L.P. and Daniel P. Donovan.
10.15	10.21(16)	Senior Notes Purchase Agreement, dated as of November 10, 2010, between Star Gas Partners, L.P., J.P. Morgan Securities LLC and RBS.
10.16	10.23(16)	Indenture dated as of November 16, 2010 for the 8.875% Senior Notes due 2017.

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10.17	10.24(17)	Amended and Restated Revolving Credit Facility Agreement dated as of June 3, 2011.
10.18	10.25(17)	Amended and Restated Pledge Agreement dated as of June 3, 2011.
10.19	(18)	First Amendment dated as of November 22, 2011 to Amended and Restated Revolving Credit Facility Agreement.
10.20	(19)	Second Amendment dated as of April 6, 2012 to Amended and Restated Revolving Credit Facility Agreement.
10.21	(21)	Letter Agreement, dated as of July 22, 2013, between the Partnership and Dan Donovan.
10.22	(21)	Letter Agreement, dated as of July 22, 2013, between the Partnership and Steven Goldman regarding employment.
10.23	(21)	Letter Agreement, dated as of July 22, 2013, between the Partnership and Steven Goldman regarding Change of Control.
14	(11)	Code of Business Conduct and Ethics
21	(22)	Subsidiaries of the Registrant
31.1	*	Certification of Chief Executive Officer, Star Gas Partners, L.P., pursuant to Rule 13a-14(a)/15d-14(a).(1)
31.2	*	Certification of Chief Financial Officer, Star Gas Partners, L.P., pursuant to Rule 13a-14(a)/15d-14(a).(1)
32.1	*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
32.2	*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
101.INS	*	XBRL Instance Document.
101.SCH	*	XBRL Taxonomy Extension Schema Document.
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document.

\* Filed Herewith

Employee compensation plan.

- (1) Incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 9, 2006.
- (2) Incorporated by reference to an exhibit to the Registrant's Form 8-K dated April 28, 2006.
- (3) Incorporated by reference to an exhibit to the Registrant's Form 8-K dated July 20, 2006.
- (4) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on January 17, 2007.
- (5) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 8, 2005.
- (6) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated December 5, 2005.
- (7) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated October 19, 2006.
- (8) [Intentionally Omitted]
- (9) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated October 22, 2007.
- (10) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 filed with the Commission on December 7, 2007.
- (11) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2008 filed with the Commission on December 10, 2008.
- (12) [Intentionally Omitted]
- (13) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated November 3, 2009.
- (14) Incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010.
- (15) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated November 12, 2010.
- (16) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.
- (17) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated June 7, 2011.
- (18) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2011.
- (19) Incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012.
- (20) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated July 20, 2012.
- (21) Incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K dated July 23, 2013.
- (22) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 filed with the Commission on December 11, 2013.

**SIGNATURE**

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

STAR GAS PARTNERS, L.P.

By: KESTREL HEAT, LLC (General Partner)

By: /s/ Steven J. Goldman  
**Steven J. Goldman**  
**President and Chief Executive**

**Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Steven J. Goldman	President and Chief Executive Officer	
<b>Steven J. Goldman</b>	and Director Kestrel Heat, LLC	August 1, 2014
/s/ Richard F. Ambury	Chief Financial Officer	
<b>Richard F. Ambury</b>	(Principal Financial Officer)	
	Kestrel Heat, LLC	August 1, 2014

**STAR GAS PARTNERS, L.P. AND SUBSIDIARIES**  
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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes therein.	

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**Report of Independent Registered Public Accounting Firm**

The Partners of Star Gas Partners, L.P.:

We have audited the accompanying consolidated balance sheets of Star Gas Partners, L.P. and Subsidiaries (the Partnership) as of September 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, partners' capital and cash flows for each of the years in the three-year period ended September 30, 2013. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules I and II listed in the accompanying index. We also have audited the Partnership's internal control over financial reporting as of September 30, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for these consolidated financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules and an opinion on the Partnership's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to ineffective design and operation of controls over the communication and recognition of certain state sales and petroleum tax assessments and ineffective operation of account reconciliation controls over installations and service sales and accounts receivable at an insignificant business has been identified and included in management's assessment.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Star Gas Partners, L.P. and Subsidiaries as of September 30, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2013, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the related financial statement schedules I and II listed in the accompanying index, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Also in our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, Star Gas Partners, L.P. has not maintained effective internal control over financial reporting as of September 30, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

Stamford, Connecticut

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December 11, 2013 except for the restatement of the effectiveness of  
internal control over financial reporting for the identified material  
weakness which is as of August 1, 2014

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## STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30,	
	2013	2012
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 85,057	\$ 108,091
Receivables, net of allowance of \$7,928 and \$6,886, respectively	96,124	88,267
Inventories	68,150	47,465
Fair asset value of derivative instruments	646	5,004
Current deferred tax assets, net	32,447	25,844
Prepaid expenses and other current assets	23,456	26,848
<b>Total current assets</b>	<b>305,880</b>	<b>301,519</b>
Property and equipment, net	51,323	52,608
Goodwill	201,130	201,103
Intangibles, net	66,790	74,712
Deferred charges and other assets, net	7,381	9,405
<b>Total assets</b>	<b>\$ 632,504</b>	<b>\$ 639,347</b>
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 18,681	\$ 22,583
Fair liability value of derivative instruments	3,999	453
Accrued expenses and other current liabilities	87,142	78,518
Unearned service contract revenue	40,608	40,799
Customer credit balances	70,196	85,976
<b>Total current liabilities</b>	<b>220,626</b>	<b>228,329</b>
Long-term debt	124,460	124,357
Long-term deferred tax liabilities, net	19,292	8,436
Other long-term liabilities	8,845	18,080
<b>Partners capital</b>		
Common unitholders	282,289	286,819
General partner	3	97
Accumulated other comprehensive loss, net of taxes	(23,011)	(26,771)
<b>Total partners capital</b>	<b>259,281</b>	<b>260,145</b>
<b>Total liabilities and partners capital</b>	<b>\$ 632,504</b>	<b>\$ 639,347</b>

See accompanying notes to consolidated financial statements.



## STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)	Years Ended September 30,		
	2013	2012	2011
<b>Sales:</b>			
Product	\$ 1,518,738	\$ 1,295,374	\$ 1,392,871
Installations and service	223,058	202,214	198,439
Total sales	1,741,796	1,497,588	1,591,310
<b>Cost and expenses:</b>			
Cost of product	1,192,009	1,024,071	1,057,783
Cost of installations and service	196,659	175,740	179,558
(Increase) decrease in the fair value of derivative instruments	6,775	(8,549)	2,567
Delivery and branch expenses	250,210	217,376	250,762
Depreciation and amortization expenses	17,303	16,395	17,884
General and administrative expenses	18,356	18,689	20,709
Finance charge income	(5,521)	(4,393)	(4,814)
Operating income	66,005	58,259	66,861
Interest expense, net	(14,433)	(14,060)	(15,654)
Amortization of debt issuance costs	(1,745)	(1,634)	(2,440)
Loss on redemption of debt			(1,700)
Income before income taxes	49,827	42,565	47,067
Income tax expense	19,921	16,576	22,723
Net income	\$ 29,906	\$ 25,989	\$ 24,344
General Partner's interest in net income	159	136	115
Limited Partners' interest in net income	\$ 29,747	\$ 25,853	\$ 24,229
Basic and diluted income per Limited Partner Unit (1):	\$ 0.47	\$ 0.40	\$ 0.35
<b>Weighted average number of Limited Partner units outstanding:</b>			
Basic and Diluted	59,409	61,931	66,822

(1) See Note 17 Earnings Per Limited Partner Units.

See accompanying notes to consolidated financial statements.

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**STAR GAS PARTNERS, L.P. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)	Years Ended September 30,		
	2013	2012	2011
Net income	\$ 29,906	\$ 25,989	\$ 24,344
Other comprehensive income:			
Unrealized gain on pension plan obligation (1)	6,337	1,176	171
Tax effect of unrealized gain on pension plan obligation	(2,577)	(480)	(167)
Total other comprehensive income	3,760	696	4
Total comprehensive income	\$ 33,666	\$ 26,685	\$ 24,348

- (1) These items are included in the computation of net periodic pension cost. See Note 12 Employee Benefit Plan. See accompanying notes to consolidated financial statements.

## STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

Years Ended September 30, 2013, 2012 and 2011

(in thousands)	Number of Units		Common	General Partner	Accum. Other Comprehensive Income (Loss)	Total Partners Capital
	Common	General Partner				
<b>Balance as of September 30, 2010</b>	<b>67,078</b>	<b>326</b>	<b>\$ 307,092</b>	<b>\$ 290</b>	<b>\$ (27,471)</b>	<b>\$ 279,911</b>
Net income			24,229	115		24,344
Unrealized gain on pension plan obligation (1)					171	171
Tax effect of unrealized gain on pension plan obligation					(167)	(167)
Distributions (2)			(20,459)	(218)		(20,677)
Retirement of units (3)	(2,108)		(10,949)			(10,949)
<b>Balance as of September 30, 2011</b>	<b>64,970</b>	<b>326</b>	<b>\$ 299,913</b>	<b>\$ 187</b>	<b>\$ (27,467)</b>	<b>\$ 272,633</b>
Net income			25,853	136		25,989
Unrealized gain on pension plan obligation (1)					1,176	1,176
Tax effect of unrealized gain on pension plan obligation					(480)	(480)
Distributions (2)			(19,299)	(226)		(19,525)
Retirement of units (3)	(3,968)		(19,648)			(19,648)
<b>Balance as of September 30, 2012</b>	<b>61,002</b>	<b>326</b>	<b>\$ 286,819</b>	<b>\$ 97</b>	<b>\$ (26,771)</b>	<b>\$ 260,145</b>
Net income			29,747	159		29,906
Unrealized gain on pension plan obligation (1)					6,337	6,337
Tax effect of unrealized gain on pension plan obligation					(2,577)	(2,577)
Distributions (2)			(19,060)	(253)		(19,313)
Retirement of units (3)	(3,284)		(15,217)			(15,217)
<b>Balance as of September 30, 2013</b>	<b>57,718</b>	<b>326</b>	<b>\$ 282,289</b>	<b>\$ 3</b>	<b>\$ (23,011)</b>	<b>\$ 259,281</b>

(1) These items are included in the computation of net periodic pension cost. See Note 12 Employee Benefit Plan.

(2) See Note 3 Quarterly Distributions of Available Cash.

(3) See Note 4 Common Unit Repurchase and Retirement.

See accompanying notes to consolidated financial statements.

## STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended September 30,		
	2013	2012	2011
<b>Cash flows provided by (used in) operating activities:</b>			
Net income	\$ 29,906	\$ 25,989	\$ 24,344
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
(Increase) decrease in fair value of derivative instruments	6,775	(8,549)	2,567
Depreciation and amortization	19,047	18,029	20,324
Loss on redemption of debt			1,700
Provision for losses on accounts receivable	6,481	6,017	10,388
Change in deferred taxes	1,676	12,913	15,831
Changes in operating assets and liabilities net of amounts related to acquisitions:			
(Increase) decrease in receivables	(14,074)	5,804	(31,593)
(Increase) decrease in inventories	(20,664)	34,335	(13,189)
Decrease in other assets	4,207	4,226	1,594
Increase (decrease) in accounts payable	(4,555)	3,372	1,943
Increase (decrease) in customer credit balances	(15,878)	11,952	(1,776)
Increase (decrease) in other current and long-term liabilities	5,571	(8,260)	7,269
Net cash provided by operating activities	18,492	105,828	39,402
<b>Cash flows provided by (used in) investing activities:</b>			
Capital expenditures	(5,994)	(5,803)	(6,361)
Proceeds from sales of fixed assets	410	503	92
Acquisitions	(1,376)	(39,217)	(9,659)
Net cash used in investing activities	(6,960)	(44,517)	(15,928)
<b>Cash flows provided by (used in) financing activities:</b>			
Revolving credit facility borrowings	111,542	86,252	88,416
Revolving credit facility repayments	(111,542)	(86,252)	(88,416)
Repayment of debt			(82,499)
Proceeds from the issuance of debt			124,188
Debt extinguishment costs			(1,409)
Distributions	(19,313)	(19,525)	(20,677)
Unit repurchase	(15,217)	(19,648)	(10,949)
Increase in deferred charges	(36)	(836)	(6,401)
Net cash provided by (used in) financing activities	(34,566)	(40,009)	2,253
Net increase (decrease) in cash	(23,034)	21,302	25,727
Cash and equivalents at beginning of period	108,091	86,789	61,062
Cash and equivalents at end of period	\$ 85,057	\$ 108,091	\$ 86,789

See accompanying notes to consolidated financial statements.

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**STAR GAS PARTNERS, L.P. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****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 September 30, 2013, had outstanding 57.7 million common units (NYSE: SGU ) representing 99.44% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing 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 September 30, 2013 served approximately 404,000 full-service residential and commercial home heating oil and propane customers. Petro also sold home heating oil, gasoline and diesel fuel to approximately 54,000 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 15,700 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 September 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 11 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 intercompany items and transactions have been eliminated in consolidation.

*Reclassification*

The accompanying September 30, 2012 and 2011 consolidated statements of operations have been revised from their previous presentation to reclassify finance charge income of \$4,393 and \$4,814, respectively and present it separately as an element of operating income. Previously, finance charge income was included in the caption interest income in the consolidated statements of operations. This reclassification was made in order to conform with common industry practice regarding the reporting of finance charge income in operating income, and had no impact on net income, financial position, and cash flows for any period. As a result, interest expense, net consists of:

(in thousands)	September 30,		
	2013	2012	2011
Interest expense	\$ (14,474)	\$ (14,110)	\$ (15,710)
Interest income	41	50	56

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Interest expense, net	\$ (14,433)	\$ (14,060)	\$ (15,654)
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*Comprehensive Income*

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income 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.

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#### *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### *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 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*

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

#### *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, garage mechanics, customer service, sales and marketing, compliance, credit and branch accounting, information technology, insurance, weather hedge contract costs and recoveries, and operational support.

#### *General and Administrative Expenses*

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

#### *Receivables and Allowance for Doubtful Accounts*

Accounts receivables from customers are recorded at the invoiced amounts. Finance charges may be applied to trade receivables that are more than 30 days past due, and are recorded as finance charge income.

The allowance for doubtful accounts is the Partnership's best estimate of the amount of trade receivables that may not be collectible. The allowance is determined at an aggregate level by grouping accounts based on the type of account and its receivable aging. The allowance is based on both quantitative and qualitative factors, including historical loss experience, historical collection patterns, overdue status, aging trends, and current economic conditions. The Partnership has an established process to periodically review current and past due trade receivable balances to determine the adequacy of the allowance. No single statistic or measurement determines the adequacy of the allowance. The total allowance reflects management's estimate of losses inherent in its trade receivables at the balance sheet date. Different assumptions or changes in economic conditions could result in material changes to the allowance for doubtful accounts.

#### *Allocation of Net Income*

Net income 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 per Limited Partner Unit*

Income per limited partner unit is computed in accordance with the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( 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.

*Cash, Accounts Receivable, Notes Receivable, Revolving Credit Facility Borrowings, and Accounts Payable*

The carrying amount of cash, accounts receivable, notes receivable, revolving credit facility borrowings, and accounts payable approximates fair value because of the short maturity of these instruments.

*Cash Equivalents*

The Partnership considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

*Inventories*

Liquid product inventories are stated at the lower of cost or market using the weighted average cost method of accounting. All other inventories, representing parts and equipment are stated at the lower of cost or market using the FIFO method.

*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.

*Goodwill and Intangible Assets*

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

Goodwill is the excess of cost over the fair value of net assets in the acquisition of a company. In accordance with FASB ASC 350-10-05 Intangibles-Goodwill and Other, goodwill and intangible assets with indefinite useful lives are not amortized, but instead are annually tested for impairment. Also in accordance with this standard, intangible assets with finite useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment. The Partnership performs its annual impairment review during its fiscal fourth quarter or more frequently if events or circumstances indicate that the value of goodwill might be impaired.

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 seven 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 seven to twenty 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.

*Business Combinations*

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The Partnership uses the acquisition method of accounting in accordance with FASB ASC 805 Business Combinations. The acquisition method of accounting requires the Partnership to use significant estimates and assumptions, including fair value estimates, as of the business combination date, and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which the amounts recognized for a business combination may be adjusted). Each acquired company's operating results are included in the Partnership's consolidated financial statements starting on the date of acquisition. The purchase price is equivalent to the fair value of consideration transferred. Tangible and identifiable intangible assets acquired and liabilities assumed as of the date of acquisition are recorded at the acquisition date fair value. The separately identifiable intangible assets generally are comprised of customer lists, trade names and covenants not to compete. Goodwill is recognized for the excess of the purchase price over the net fair value of assets acquired and liabilities assumed.

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Costs that are incurred to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration transferred, and are charged to general and administrative expense as they are incurred. For any given acquisition, certain contingent consideration may be identified. Estimates of the fair value of liability or asset classified contingent consideration are included under the acquisition method as part of the assets acquired or liabilities assumed. At each reporting date, these estimates are remeasured to fair value, with changes recognized in earnings.

#### *Impairment of Long-lived Assets*

The Partnership reviews intangible assets and other long-lived assets in accordance with FASB ASC 360-10-05-4 Property Plant and Equipment, Impairment or Disposal of Long-Lived Assets subsection, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership determines whether the carrying values of such assets are recoverable over their remaining estimated lives through undiscounted future cash flow analysis. If such a review should indicate that the carrying amount of the assets is not recoverable, the Partnership will reduce the carrying amount of such assets to fair value.

#### *Deferred Charges*

Deferred charges represent the costs associated with the issuance of debt instruments and are amortized over the lives of the related debt instruments.

#### *Advertising and Direct Mail Expenses*

Advertising and direct mail costs are expensed as they are incurred. Advertising and direct mail expenses were \$10.5 million, \$9.6 million, and \$9.5 million, in 2013, 2012, and 2011, respectively and are recorded in delivery and branch expenses.

#### *Customer Credit Balances*

Customer credit balances represent payments received in advance from customers pursuant to a balanced payment plan (whereby customers pay on a fixed monthly basis) and the payments made have exceeded the charges for liquid product and other services.

#### *Environmental Costs*

Costs associated with managing hazardous substances and pollution are expensed on a current basis. Accruals are made for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred and the amount can be reasonably estimated.

#### *Insurance Reserves*

The Partnership uses a combination of insurance, self-insured retention and self-insurance for a number of risks, including workers compensation, general liability, vehicle liability and property. Reserves are established and periodically evaluated, based upon expectations as to what our ultimate liability may be for outstanding claims using developmental factors based upon historical claim experience, including frequency, severity, demographic factors and other actuarial assumptions, supplemented with support from qualified actuaries.

#### *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 (the Partnership's corporate subsidiaries are subject to tax at the entity level for federal and state income tax purposes). While 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.

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

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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.

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*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 excludes taxes.

*Derivatives and Hedging*

FASB ASC 815-10-05 Derivatives and Hedging, requires that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. The Partnership has elected not to designate its derivative instruments as hedging instruments under this guidance, and the changes in fair value of the derivative instruments are recognized in our statement of operations.

*Weather Hedge Contract*

To partially mitigate the adverse effect of warm weather on cash flows, the Partnership has used weather hedge contracts for a number of years. Weather hedge contracts are recorded in accordance with the intrinsic value method defined by FASB ASC 815-45-15 Derivatives and Hedging, Weather Derivatives (EITF 99-2). The premium paid is included in the caption prepaid expenses and other current assets in the accompanying balance sheets and amortized over the life of the contract, with the intrinsic value method applied at each interim period.

In July 2012, the Partnership entered into a weather hedge contract for the fiscal years September 30, 2013, 2014 and 2015 with Swiss Re Financial Products Corporation, under which we are entitled to receive a payment of \$35,000 per heating degree-day shortfall, if the total number of heating degree-days in the period covered is less than 92.5% of the ten year average (the Payment Threshold). The hedge covers the period from November 1 through March 31, taken as a whole, for each respective fiscal year and has a maximum payout of \$12.5 million for each fiscal year.

*Recent Accounting Pronouncements*

In fiscal 2013, the provisions of FASB ASU No. 2011-08, Intangibles-Goodwill and Other (350): Testing Goodwill for Impairment became effective. This standard simplifies how entities test goodwill for impairment by providing for an optional qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, as a basis for determining whether it is necessary to perform the first step, of the two-step goodwill impairment test. We did not elect to perform the optional qualitative test in fiscal 2013.

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) Quarterly Distribution of Available Cash**

The Partnership agreement provides that beginning October 1, 2008, minimum quarterly distributions on the common units will start accruing at the rate of \$0.0675 per quarter (\$0.27 on an annual basis) in accordance with the Partnership agreement. There were no distributions of available cash by us before February 2009. Thereafter, in general, the Partnership intends to distribute to its partners on a quarterly basis, all of its available cash, if any, in the manner described below. Available cash generally means, for any of its fiscal quarters, all cash on hand at the end of that quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partners to:

provide for the proper conduct of the Partnership's business including acquisitions and debt payments;

comply with applicable law, any of its debt instruments or other agreements; or

provide funds for distributions to the common unitholders during the next four quarters, in some circumstances.

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Available cash will generally be distributed as follows:

first, 100% to the common units, pro rata, until the Partnership distributes to each common unit the minimum quarterly distribution of \$0.0675;

second, 100% to the common units, pro rata, until the Partnership distributes to each common unit any arrearages in payment of the minimum quarterly distribution on the common units for prior quarters;

third, 100% to the general partner units, pro rata, until the Partnership distributes to each general partner unit the minimum quarterly distribution of \$0.0675;

fourth, 90% to the common units, pro rata, and 10% to the general partner units, pro rata (subject to the Management Incentive Plan), until the Partnership distributes to each common unit the first target distribution of \$0.1125; and

thereafter, 80% to the common units, pro rata, and 20% to the general partner units, pro rata.

The Partnership is obligated to meet certain financial covenants under the amended and restated revolving credit facility. The Partnership must maintain excess availability of at least 17.5% of the revolving commitment then in effect and a fixed charge coverage ratio of 1.15 in order to make any distributions to unitholders.

For fiscal 2013, 2012, and 2011, cash distributions declared per common unit were \$0.320, \$0.310, and \$0.305, respectively.

For fiscal 2013, 2012, and 2011, \$0.2 million, \$0.1 million, and \$0.1 million, respectively, of incentive distributions were paid to the general partner, exclusive of amounts paid subject to the Management Incentive Plan.

#### **4) Common Unit Repurchase Plans and Retirement**

In fiscal 2010, the Partnership concluded its Plan I common units repurchase program and retired at an average price paid of \$4.04 per unit, all 7.5 million common units authorized for repurchase.

In fiscal 2012, the Partnership concluded its Plan II common units repurchase program and retired at an average price paid of \$4.94 per unit, all 7.25 million common units authorized for repurchase.

In July 2012, the Board authorized the repurchase of up to 3.0 million of the Partnership's common units ( Plan III ). In July 2013, the Board authorized an additional 1.9 million common units to be repurchased under its Plan III common unit repurchase plan. 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.

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
<b>Plan III - Number of units authorized</b>			<b>4,894</b>
<b>Private transaction - Number of units authorized (b)</b>			<b>1,150</b>
			<b>6,044</b>
Plan III - Fiscal year 2012 total	22	\$ 4.26	6,022
Plan III - First quarter fiscal year 2013 total	1,015	\$ 4.18	5,007
Plan III - Second quarter fiscal year 2013 total	310	\$ 4.36	4,697
Plan III - Third quarter fiscal year 2013 total (b)	1,697	\$ 4.92	3,000
Plan III - July 2013		\$	3,000
Plan III - August 2013	120	\$ 4.87	2,880
Plan III - September 2013	142	\$ 4.84	2,738
Plan III - Fourth quarter fiscal year 2013 total	262	\$ 4.85	2,738
Plan III - Fiscal year 2013 total	3,284	\$ 4.63	2,738

(a) Amounts include repurchase costs.

(b) Third quarter fiscal 2013 common unit repurchases include 1.15 million common units acquired in a private transaction.

#### 5) 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 September 30, 2013, the Partnership held 2.4 million gallons of physical inventory and had bought 6.0 million gallons of swap contracts with a notional value of \$18.0 million and a fair value of \$(0.2) million, 2.9 million gallons of call options with a notional value of \$10.6 million and a fair value of \$0.02 million, 5.0 million gallons of put options with a notional value of \$11.8 million and a fair value of \$0.04 million and 81.2 million net gallons of synthetic calls with a notional value of \$252.8 million and a fair value of \$(15.9) million, 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 September 30, 2013, had bought 17.4 million gallons of future contracts with a notional value of \$51.9 million and a fair value of \$(0.6) million, had sold 26.4 million gallons of future contracts with a notional value of \$78.9 million and a fair value of \$1.2



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million and had sold 8.5 million gallons of future swap contracts with a notional value of \$24.9 million and a fair value of \$(0.3) million. To hedge high sulfur home heating oil gallons anticipated to be sold in future months, the Partnership as of September 30, 2013, had bought corresponding long and short 28.2 million net gallons of swap contracts with a notional value of \$83.8 million and a fair value of \$0.7 million and bought 6.0 million gallons of spread contracts (simultaneous long and short positions) with a notional value of \$(0.5) million and a fair value of \$0.1 million. To hedge a majority of its internal fuel usage for fiscal 2013, the Partnership as of September 30, 2013, had bought 3.2 million gallons of future swap contracts with a notional value of \$9.0 million and a fair value of \$0.05 million.

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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 September 30, 2012, the Partnership held 3.3 million gallons of physical inventory and had bought 7.1 million gallons of swap contracts with a notional value of \$21.1 million and a fair value of \$0.8 million, 2.8 million gallons of call options with a notional value of \$10.0 million and a fair value of \$0.1 million, 6.8 million gallons of put options with a notional value of \$16.1 million and a fair value of \$0.1 million and 75.2 million net gallons of synthetic calls with a notional value of \$237.5 million and a fair value of \$3.7 million, 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 September 30, 2012, had bought 22.6 million gallons of future contracts with a notional value of \$67.6 million and a fair value of \$1.7 million, had sold 26.7 million gallons of future contracts with a notional value of \$80.3 million and a fair value of \$(1.9) million, had bought 19.2 million gallons of future swap contracts with a notional value of \$60.6 million and a fair value of \$(0.4) million and had sold 24.3 million gallons of future swap contracts with a notional value of \$75.3 million and a fair value of \$(0.3) million. To hedge a majority of its internal fuel usage for fiscal 2012, the Partnership as of September 30, 2012, had bought 2.2 million gallons of future swap contracts with a notional value of \$5.7 million and a fair value of \$0.6 million.

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 September 30, 2013, the aggregate cash posted as collateral in the normal course of business at counterparties was \$1.1 million. Positions with counterparties who are also parties to our revolving credit facility are collateralized under that facility. As of September 30, 2013, \$10.5 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.

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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.

(In thousands)		Fair Value Measurements at Reporting Date Using:			
Derivatives Not Designated			Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
as Hedging Instruments	Balance Sheet Location	Total			
Under FASB ASC 815-10	Asset Derivatives at September 30, 2013				
Commodity contracts	Fair asset and fair liability value of derivative instruments	\$ 14,467	\$ 1,175	\$ 13,292	\$
<b>Commodity contract assets at September 30, 2013</b>		<b>\$ 14,467</b>	<b>\$ 1,175</b>	<b>\$ 13,292</b>	<b>\$</b>
<b>Liability Derivatives at September 30, 2013</b>					
Commodity contracts	Fair liability and fair asset value of derivative instruments	\$ (17,820)	\$ (519)	\$ (17,301)	\$
<b>Commodity contract liabilities at September 30, 2013</b>		<b>\$ (17,820)</b>	<b>\$ (519)</b>	<b>\$ (17,301)</b>	<b>\$</b>
<b>Asset Derivatives at September 30, 2012</b>					
Commodity contracts	Fair asset and fair liability value of derivative instruments	\$ 15,100	\$ 1,749	\$ 13,351	\$
<b>Commodity contract assets at September 30, 2012</b>		<b>\$ 15,100</b>	<b>\$ 1,749</b>	<b>\$ 13,351</b>	<b>\$</b>
<b>Liability Derivatives at September 30, 2012</b>					
Commodity contracts	Fair liability and fair asset value of derivative instruments	\$ (10,549)	\$ (1,898)	\$ (8,651)	\$
<b>Commodity contract liabilities at September 30, 2012</b>		<b>\$ (10,549)</b>	<b>\$ (1,898)</b>	<b>\$ (8,651)</b>	<b>\$</b>

(In thousands)

**The Effect of Derivative Instruments on the Statement of Operations**

Amount of (Gain) or Loss Recognized  
Years Ended September 30,

**Derivatives Not**

**Designated as Hedging**

**Location of (Gain) or**

**Instruments Under**

**Loss Recognized in**

FASB ASC 815-10	Income on Derivative	2013	2012	2011
Commodity contracts	Cost of product (a)	\$ 17,769	\$ 18,636	\$ (9,089)
Commodity contracts	Cost of installations and service (a)	\$ (440)	\$ (284)	\$ (1,030)
Commodity contracts	Delivery and branch expenses (a)	\$ (286)	\$ (82)	\$ (740)

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Commodity contracts	(Increase) / decrease in the fair value of derivative instruments	\$ 6,775	\$ (8,549)	\$ 2,567
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- (a) Represents realized closed positions and includes the cost of options as they expire.

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**6) 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):

	September 30,	
	2013	2012
Product	\$ 50,197	\$ 30,786
Parts and equipment	17,953	16,679
<b>Total inventory</b>	<b>\$ 68,150</b>	<b>\$ 47,465</b>

Product inventories were comprised of 17.1 million gallons and 10.0 million gallons on September 30, 2013 and September 30, 2012, respectively. The Partnership has market price based product supply contracts for approximately 221 million gallons of home heating oil and propane, that it expects to fully utilize to meet its requirements over the next twelve months.

During fiscal 2013, Global Companies LLC, JPMorgan Ventures Energy Corporation, NIC Holding Corp. (Northville Industries) and Phillips 66 provided approximately 19%, 11%, 9% and 9% respectively, of our petroleum product purchases. During fiscal 2012, Global Companies LLC provided approximately 24% of our petroleum product purchases. No other single supplier provided more than 10% of our petroleum product supply during fiscal 2012, however, JPMorgan Ventures Energy Corporation and NIC Holding Corp. (Northville Industries) each provided approximately 9%.

**7) Property and Equipment**

The components of property and equipment and their estimated useful lives were as follows (in thousands):

	September 30,	
	2013	2012
Land and land improvements	\$ 13,958	\$ 13,904
Buildings and leasehold improvements	27,571	27,354
Fleet and other equipment	46,260	47,742
Tanks and equipment	21,445	18,792
Furniture, fixtures and office equipment	61,228	59,268
<b>Total</b>	<b>170,462</b>	<b>167,060</b>
<b>Less accumulated depreciation</b>	<b>119,139</b>	<b>114,452</b>
<b>Property and equipment, net</b>	<b>\$ 51,323</b>	<b>\$ 52,608</b>

Depreciation expense was \$8.1 million, \$8.1 million, and \$7.3 million, for the fiscal years ended September 30, 2013, 2012, and 2011 respectively.

**8) Business Combinations**

During fiscal 2013, the Partnership acquired two heating oil dealers for an aggregate purchase price of approximately \$1.4 million. The gross purchase price was allocated \$1.3 million to intangible assets, \$0.2 million to fixed assets and reduced by \$0.1 million for working capital credits. The operating results of these two acquisitions have 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. The fair values of the assets acquired and liabilities assumed are comprised primarily of intangibles and certain working capital items which are reflected in the Consolidated Balance Sheet as of September 30, 2013.

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During fiscal 2012, the Partnership acquired seven heating oil and propane dealers for an aggregate purchase price of approximately \$39.2 million. The gross purchase price was allocated \$32.4 million to intangible assets, \$8.0 million to fixed assets and reduced by \$1.2 million for working capital credits.

During fiscal 2011, the Partnership acquired four retail heating oil and propane dealers for an aggregate purchase price of approximately \$9.7 million. The gross purchase price was allocated \$4.3 million to intangible assets, \$3.5 million to fixed assets and other long term assets, and working capital of \$1.9 million.

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**9) Goodwill and Other Intangible Assets**

*Goodwill*

Under FASB ASC 350-10-05 Intangibles-Goodwill and Other, goodwill impairment if any, needs to be determined 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, whereby the total enterprise value as indicated by the Income Approach and Market Approach (consisting of the Market Comparable and Market Transaction Approach) is compared to the Partnership's book value of net assets and reconciled to the Partnership's market capitalization.

The Partnership performed its annual goodwill impairment valuation in each of the periods ending August 31, 2013, 2012, and 2011, and it was determined based on each year's analysis that there was no goodwill impairment.

The preparation of this analysis 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.

A summary of changes in the Partnership's goodwill during the fiscal years ended September 30, 2013 and 2012 are as follows (in thousands):

Balance as of September 30, 2011	\$ 199,296
Fiscal year 2012 business combination	1,807
Balance as of September 30, 2012	201,103
Fiscal year 2013 business combination	27
Balance as of September 30, 2013	\$ 201,130

*Intangibles, net*

Intangible assets subject to amortization consist of the following (in thousands):

	2013			September 30, 2012		
	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Customer lists and other intangibles	\$ 288,011	\$ 221,221	\$ 66,790	\$ 286,783	\$ 212,071	\$ 74,712

Amortization expense for intangible assets was \$9.2 million, \$8.2 million, and \$10.3 million, for the fiscal years ended September 30, 2013, 2012, and 2011, respectively. Total estimated annual amortization expense related to intangible assets subject to amortization, for the year ended September 30, 2014 and the four succeeding fiscal years ended September 30, is as follows (in thousands):

	Amount
2014	\$ 9,188
2015	\$ 9,053
2016	\$ 8,882
2017	\$ 8,362
2018	\$ 7,523





**10) Accrued Expenses and Other Current Liabilities**

The components of accrued expenses and other current liabilities were as follows (in thousands):

	September 30,	
	2013	2012
Accrued wages and benefits	\$ 18,932	\$ 15,578
Accrued insurance and environmental costs	58,470	52,934
Other accrued expenses and other current liabilities	9,740	10,006
 Total accrued expenses and other current liabilities	 \$ 87,142	 \$ 78,518

**11) Long-Term Debt and Bank Facility Borrowings**

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

	2013		September 30,	
	Carrying Amount	Fair Value (a)	Carrying Amount	Fair Value (a)
8.875% Senior Notes (b)	\$ 124,460	\$ 130,000	\$ 124,357	\$ 126,563
Revolving Credit Facility Borrowings (c)				
 Total debt	 \$ 124,460	 \$ 130,000	 \$ 124,357	 \$ 126,563
 Total long-term portion of debt	 \$ 124,460	 \$ 130,000	 \$ 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 \$0.5 million at September 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 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.

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 September 30, 2013, no amount was outstanding under the revolving credit facility and \$44.7 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 September 30, 2013, availability was \$164.3 million, the restricted net assets totaled approximately \$375 million and the Partnership was in compliance with the fixed charge coverage ratio. Restricted net assets are assets in the Partnership's subsidiaries the distribution or transfer of which to Star Gas Partners, L.P. are subject to limitations under its revolving credit facility. At September 30, 2012, availability was \$179.2 million, the restricted net assets totaled approximately \$378 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 September 30, 2013, no offerings under this shelf registration have occurred.

As of September 30, 2013, the maturities including working capital borrowings during fiscal years ending September 30, are set forth in the following table (in thousands):

2014	\$
2015	\$
2016	\$
2017	\$
2018	\$ 125,000
Thereafter	\$

## 12) Employee Benefit Plans

### Defined Contribution Plans

The Partnership has two 401(k) plans that cover eligible non-union and union employees. Subject to IRS limitations, the 401(k) plans provide for each participant to contribute from 0% to 60% of compensation. For most participants, the Partnership generally can make a 4% (to a maximum of 5.5% for participants who had 10 or more years of service at the time the Defined Benefit Plans were frozen and who have reached the age 55) core contribution of a participant's compensation and generally can match 2/3 of each amount a participant contributes up to a maximum of 2.0% of a participant's compensation. However, participants at specific operating locations that participate in these plans are only eligible for an employer discretionary pretax matching contribution and/or an annual employer discretionary profit sharing contribution. The Partnership's aggregate contributions to the 401(k) plans during fiscal 2013, 2012, and 2011, were \$4.9 million, \$4.5 million, and \$4.7 million, respectively.

### Management Incentive Compensation Plan

The Partnership has a Management Incentive Compensation Plan. The long-term compensation structure is intended to align the employees' performance with the long-term performance of our unitholders. Under the Plan, employees who participate shall be entitled to receive a pro rata share of an amount in cash equal to:

50% of the distributions ( Incentive Distributions ) of Available Cash in excess of the minimum quarterly distribution of \$0.0675 per unit otherwise distributable to Kestrel Heat pursuant to the Partnership Agreement on account of its general partner units; and

50% of the cash proceeds (the Gains Interest ) which Kestrel Heat shall receive from the sale of its general partner units (as defined in the Partnership Agreement), less expenses and applicable taxes.

The pro rata share payable to each participant under the Plan is based on the number of participation points as described under Fiscal 2013 Compensation Decisions Management Incentive Compensation Plan. The amount paid in Incentive Distributions is governed by the Partnership Agreement and the calculation of Available Cash.

To fund the benefits under the Plan, Kestrel Heat has agreed to forego receipt of the amount of Incentive Distributions that are payable to plan participants. For accounting purposes, amounts payable to management under this Plan will be treated as compensation and will reduce net income. Kestrel Heat has also agreed to contribute to the Partnership, as a contribution to capital, an amount equal to the Gains Interest payable to participants in the Plan by the Partnership. The Partnership is not required to reimburse Kestrel Heat for amounts payable pursuant to the Plan.

The Plan is administered by the Partnership's Chief Financial Officer under the direction of the Board or by such other officer as the Board may from time to time direct. Determination of the employees that participate in the Plan is under the sole discretion of the Board of Directors. In general, no payments will be made under this plan if the Partnership is not distributing cash under the Incentive Distributions described above.

The Board of Directors reserves the right to amend, change or terminate the Plan at any time. Without limiting the foregoing, the Board of Directors reserves the right to adjust the amount of Incentive Distributions to be allocated to the Bonus Pool if in its judgment extenuating circumstances warrant adjustment from the guidelines, and to change the timing of any payments due thereunder at any time in its sole discretion.

The Partnership distributed to management and the general partner Incentive Distributions of approximately \$330,000 during fiscal 2013, \$277,000 during fiscal 2012, and \$261,000 during fiscal 2011. Included in these amounts for fiscal 2013, 2012, and 2011, were distributions under the management incentive compensation plan of \$165,000, \$138,000 and \$130,000, respectively, of which named executive officers received approximately \$119,000 during fiscal 2013, \$99,000 during fiscal 2012, and \$92,000 during fiscal 2011. With regard to the Gains Interest, Kestrel Heat has not given any indication that it will sell its general partner units within the next twelve months. Thus the Plan's value attributable to the Gains Interest currently cannot be determined.

Multiemployer Pension Plans

We contribute to various multiemployer union administered pension plans under the terms of collective bargaining agreements that provide for such plans for covered union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in that assets contributed are pooled and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the remaining participating employers may be required to bear the unfunded obligations of the plan. If we choose to stop participating in a multiemployer plan, we may be required to pay a withdrawal liability based on the underfunded status of the plan. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

The following table outlines our participation and contributions to multiemployer pension plans for the periods ended September 30, 2013, 2012 and 2011. The EIN/Pension Plan Number column provides the Employer Identification Number ( EIN ) and the three-digit plan number. The most recent Pension Protection Act Zone Status for 2013 and 2012 relates to the plans' two most recent fiscal year-ends, based on information received from the plans and are certified by the plans' actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The FIP/RP Status Pending/Implemented column indicates plans for which a financial improvement plan ( FIP ) or a rehabilitation plan ( RP ) is either pending or has been implemented. Certain plans have been aggregated in the All Other Multiemployer Pension Plans line of the following table, as our participation in each of these individual plans are not significant.

For the Westchester Teamsters Pension Fund, Local 553 Pension Fund and Local 463 Pension Fund, we provided more than 5 percent of the total plan contributions from all employers for 2013, 2012 and 2011, as disclosed in the respective plan's Form 5500. The collective bargaining agreements of these plans require contributions based on the hours worked and there are no minimum contributions required.

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP / RP Status	Partnership Contributions (in thousands)			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2013	2012	Pending / Implemented	2013	2012	2011		
<b>New England Teamsters &amp; Trucking Industry Pension Fund</b>	<b>04-6372430 / 001</b>	Yellow	Yellow	N/A	\$ 2,709	\$ 2,532	\$ 2,512	No	3/31/2014
<b>Westchester Teamsters Pension Fund</b>	<b>13-6123973 / 001</b>	Green	Green	N/A	820	771	817	No	1/31/2014
<b>Local 553 Pension Fund</b>	<b>13-6637826 / 001</b>	Green	Green	N/A	2,729	2,152	2,082	No	1/15/2014
<b>Local 463 Pension Fund</b>	<b>11-1800729 / 001</b>	Green	Green	N/A	146	155	155	No	2/28/2014
<b>All Other Multiemployer Pension Plans</b>					1,614	1,627	1,364		
				Total Contributions	\$ 8,018	\$ 7,237	\$ 6,930		

Defined Benefit Plans

The Partnership accounts for its two frozen defined benefit pension plans ( the Plan ) in accordance with FASB ASC 715-10-05 Compensation-Retirement Benefits. The Partnership has no post-retirement benefit plans.

The following table provides the net periodic benefit cost for the period, a reconciliation of the changes in the Plan assets, projected benefit obligations, and the amounts recognized in other comprehensive income and accumulated other comprehensive income at the dates indicated using a measurement date of September 30 (in thousands):



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Debit / (Credit)	Net Periodic Pension Cost in Income Statement	Cash	Fair Value of Pension Plan Assets	Projected Benefit Obligation	Other Comprehensive (Income) / Loss	Gross Pension Related Accumulated Other Comprehensive Income
<b>Fiscal Year 2011</b>						
Beginning balance			\$ 49,323	\$ (65,922)		\$ 33,212
Interest cost	2,993			(2,993)		
Actual return on plan assets	(3,984)		3,984			
Employer contributions		(3,224)	3,224			
Benefit payments			(4,097)	4,097		
Investment and other expenses	(377)			377		
Difference between actual and expected return on plan assets	597				(597)	
Anticipated expenses	246			(246)		
Actuarial loss				(3,191)	3,191	
Amortization of unrecognized net actuarial loss	2,765				(2,765)	
Annual cost/change	\$ 2,240	\$ (3,224)	3,111	(1,956)	\$ (171)	(171)
Ending balance			\$ 52,434	\$ (67,878)		\$ 33,041
Funded status at the end of the year				\$ (15,444)		
<b>Fiscal Year 2012</b>						
Interest cost	2,858			(2,858)		
Actual return on plan assets	(8,727)		8,727			
Employer contributions		(3,365)	3,365			
Benefit payments			(4,223)	4,223		
Investment and other expenses	(374)			374		
Difference between actual and expected return on plan assets	5,075				(5,075)	
Anticipated expenses	262			(262)		
Actuarial loss				(6,650)	6,650	
Amortization of unrecognized net actuarial loss	2,751				(2,751)	
Annual cost/change	\$ 1,845	\$ (3,365)	7,869	(5,173)	\$ (1,176)	(1,176)
Ending balance			\$ 60,303	\$ (73,051)		\$ 31,865
Funded status at the end of the year				\$ (12,748)		
<b>Fiscal Year 2013</b>						
Interest cost	2,477			(2,477)		
Actual return on plan assets	(332)		332			
Employer contributions		(3,476)	3,476			
Benefit payments			(4,083)	4,083		
Investment and other expenses	(285)			285		
Difference between actual and expected return on plan assets	(3,475)				3,475	
Anticipated expenses	302			(302)		
Actuarial gain				7,157	(7,157)	
Amortization of unrecognized net actuarial loss	2,655				(2,655)	
Annual cost/change	\$ 1,342	\$ (3,476)	(275)	8,746	\$ (6,337)	(6,337)

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Ending balance	\$ 60,028	\$ (64,305)	\$ 25,528
Funded status at the end of the year		\$ (4,277)	

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At September 30, 2013 and 2012, the amounts included on the balance sheet in other long-term liabilities were \$4.3 million and \$12.7 million, respectively.

The \$25.5 million net actuarial loss balance at September 30, 2013 for the two frozen defined benefit pension plans in accumulated other comprehensive income will be recognized and amortized into net periodic pension costs as an actuarial loss in future years. The estimated amount that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year is \$2.1 million.

Weighted-Average Assumptions Used in the Measurement of the Partnership's Benefit Obligation	September 30,		
	2013	2012	2011
Discount rate at year end date	4.45%	3.50%	4.35%
Expected return on plan assets for the year ended	7.00%	7.75%	7.75%
Rate of compensation increase	N/A	N/A	N/A

The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets determined using fair value.

The Partnership's expected long-term rate of return on plan assets is updated at least annually, taking into consideration our asset allocation, historical returns on the types of assets held, and the current economic environment. The Partnership revised its return on plan assets assumption to 5.75% per annum effective fiscal year 2014.

The discount rate used to determine net periodic pension expense for fiscal year 2013, 2012 and 2011 was 3.50%, 4.35%, and 4.70% respectively. The discount rate used by the Partnership in determining pension expense and pension obligations reflects the yield of high quality (AA or better rating by a recognized rating agency) corporate bonds whose cash flows are expected to match the timing and amounts of projected future benefit payments.

The Plan's objectives are to have the ability to pay benefit and expense obligations when due, to maintain the funded ratio of the Plan, to maximize return within reasonable and prudent levels of risk in order to minimize contributions and charges to the profit and loss statement, and to control costs of administering the Plan and managing the investments of the Plan. The strategic asset allocation of the Plan (currently 80% domestic fixed income, 15% domestic equities and 5% international equities) is based on a long-term perspective, and as the Plan gets closer to being fully funded, the allocations have been adjusted to lower volatility from equity holdings.

The fair values and percentage of the Partnership's pension plan assets by asset category are as follows (in thousands):

Asset Category at September 30, 2013	Level 1	Level 2	Level 3	Total	Concentration Percentage
Corporate and U.S. government bond fund (1)	47,364			47,364	79%
U.S. large-cap equity (1)	9,123			9,123	15%
International equity (1)	3,082			3,082	5%
Cash	459			459	1%
<b>Total</b>	<b>60,028</b>			<b>60,028</b>	<b>100%</b>

(1) Represent investments in Vanguard funds that seek to replicate the asset category description. The Partnership expects to make pension contributions of approximately \$2.7 million in fiscal 2014.

Expected benefit payments over each of the next five years will total approximately \$4.4 million per year. Expected benefit payments for the five years thereafter will aggregate approximately \$21.2 million.



**13) Income Taxes**

Income tax expense is comprised of the following for the indicated periods (in thousands):

	Years Ended September 30,		
	2013	2012	2011
<b>Current:</b>			
Federal	\$ 14,486	\$ 2,168	\$ 3,216
State	3,759	1,495	3,676
Deferred	1,676	12,913	15,831
	\$ 19,921	\$ 16,576	\$ 22,723

The provision for income taxes differs from income taxes computed at the Federal statutory rate as a result of the following (in thousands):

	Years Ended September 30,		
	2013	2012	2011
Income from continuing operations before taxes	\$ 49,827	\$ 42,565	\$ 47,067
Provision for income taxes:			
Tax at Federal statutory rate	\$ 17,440	\$ 14,898	\$ 16,473
Impact of Partnership income or loss not subject to federal income taxes	97	697	1,631
State taxes net of federal benefit	3,192	2,801	3,493
Permanent differences	37	28	54
Change in valuation allowance	(658)	(14)	672
Change in unrecognized tax benefit	55	(1,669)	189
Other	(242)	(165)	211
	\$ 19,921	\$ 16,576	\$ 22,723

The components of the net deferred taxes and the related valuation allowance for the years ended September 30, 2013 and September 30, 2012 using current tax rates are as follows (in thousands):

	September 30,	
	2013	2012
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 6,760	\$ 8,626
Vacation accrual	2,580	2,586
Pension accrual	2,672	5,201
Allowance for bad debts	3,158	2,845
Fair value of derivative instruments	2,314	
Insurance accrual	21,073	18,085
Inventory	941	869
Alternative minimum tax credit carryforward	261	261
Other, net	1,906	2,188
<b>Total deferred tax assets</b>	<b>41,665</b>	<b>40,661</b>
Valuation allowance		(658)
<b>Net deferred tax assets</b>	<b>\$ 41,665</b>	<b>\$ 40,003</b>

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Deferred tax liabilities:		
Property and equipment	\$ 2,225	\$ 1,947
Intangibles	26,285	20,164
Fair value of derivative instruments		484
Total deferred tax liabilities	\$ 28,510	\$ 22,595
Net deferred taxes	\$ 13,155	\$ 17,408

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As of the calendar tax year ended December 31, 2012, Star Acquisitions, a wholly-owned subsidiary of the Partnership, had a 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 September 30, 2013, we had unrecognized income tax benefits totaling \$0.8 million including related accrued interest and penalties of \$0.1 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.

Tax Uncertainties (in thousands)

Balance at September 30, 2012	\$ 700
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	84
Reduction for tax positions of prior years	
Reductions due to lapse in statute of limitations/settlements	
Balance at September 30, 2013	\$ 784

We believe that the total liability for unrecognized tax benefits will not materially change during the next 12 months ending September 30, 2014. 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, 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.

**14) Lease Commitments**

The Partnership has entered into certain operating leases for office space, trucks and other equipment. The future minimum rental commitments at September 30, 2013 under operating leases having an initial or remaining non-cancelable term of one year or more are as follows (in thousands):

2014	\$ 13,819
2015	12,130
2016	9,892
2017	6,952
2018	3,721
Thereafter	6,919
Total future minimum lease payments	\$ 53,433

Rent expense for the fiscal years ended September 30, 2013, 2012, and 2011, was \$14.7 million, \$14.2 million, and \$13.8 million, respectively.

**15) Supplemental Disclosure of Cash Flow Information**

(in thousands)	Years Ended September 30,		
	2013	2012	2011
<u>Cash paid during the period for:</u>			
Income taxes, net	\$ 16,137	\$ 6,175	\$ 9,215
Interest	\$ 14,376	\$ 14,487	\$ 12,994
Debt redemption premium	\$	\$	\$ 1,409
<u>Non-cash financing activities:</u>			
Increase (decrease) in interest expense amortization of debt discount 8.875% and debt premium 10.25%	\$ 103	\$ 94	\$ 52
Decrease in net debt premium attributable to redemption of debt	\$	\$	\$ 247

**16) Commitments and Contingencies**

The Partnership's operations are subject to all operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing for use by consumers of combustible liquids such as home heating oil and propane. As a result, at any given time the Partnership is a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies with insurers 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. 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.

**17) Earnings Per Limited Partner Units**

The following table presents the net income allocation and per unit data in accordance with FASB ASC 260-10-45-60 Earnings per Share, Master Limited Partnerships (EITF 03-06):

Basic and Diluted Earnings Per Limited Partner: (in thousands, except per unit data)	Years Ended September 30,		
	2013	2012	2011
Net income	\$ 29,906	\$ 25,989	\$ 24,344
Less General Partners' interest in net income	159	136	115
Net income available to limited partners	29,747	25,853	24,229
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60 *	2,010	1,142	574
Limited Partner's interest in net income under FASB ASC 260-10-45-60	\$ 27,737	\$ 24,711	\$ 23,655
<u>Per unit data:</u>			
Basic and diluted net income available to limited partners	\$ 0.50	\$ 0.42	\$ 0.36
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60 *	0.03	0.02	0.01
Limited Partner's interest in net income under FASB ASC 260-10-45-60	\$ 0.47	\$ 0.40	\$ 0.35
Weighted average number of Limited Partner units outstanding	59,409	61,931	66,822

\* In any accounting period where the Partnership's aggregate net income exceeds its aggregate distribution for such period, the Partnership is required as per FASB ASC 260-10-45-60 to present net income per limited partner unit as if all of the earnings for the period were distributed, based on the contractual participation rights of the security to share in earnings, 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.

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**18) Selected Quarterly Financial Data (unaudited)**

Due to the seasonal nature of the Partnership's business, we generally realize net income during the quarters ending December and March and net losses during the quarters ending June and September.

(in thousands - except per unit data)	Three Months Ended				Total
	Dec. 31, 2012	Mar. 31, 2013	Jun. 30, 2013	Sep. 30, 2013	
Sales	\$ 516,525	\$ 785,139	\$ 262,524	\$ 177,608	\$ 1,741,796
Gross profit for product, installation and service	102,691	162,011	54,907	33,519	353,128
Operating income (loss)	18,577	75,229	(8,001)	(19,800)	66,005
Income (loss) before income taxes	14,669	70,796	(11,952)	(23,686)	49,827
Net income (loss)	9,752	41,679	(7,588)	(13,937)	29,906
Limited Partner interest in net income (loss)	9,699	41,454	(7,547)	(13,859)	29,747
Net income (loss) per Limited Partner unit:					
Basic and diluted (a)	\$ 0.15	\$ 0.58	\$ (0.13)	\$ (0.24)	\$ 0.47

(in thousands - except per unit data)	Three Months Ended				Total
	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	
Sales	\$ 461,474	\$ 629,592	\$ 232,476	\$ 174,046	\$ 1,497,588
Gross profit for product, installation and service	92,450	125,994	46,550	32,783	297,777
Operating income (loss)	9,293	74,077	(18,525)	(6,586)	58,259
Income (loss) before income taxes	5,583	69,873	(22,434)	(10,457)	42,565
Net income (loss)	2,931	40,482	(11,789)	(5,635)	25,989
Limited Partner interest in net income (loss)	2,916	40,269	(11,727)	(5,605)	25,853
Net income (loss) per Limited Partner unit:					
Basic and diluted (a)	\$ 0.05	\$ 0.55	\$ (0.19)	\$ (0.09)	\$ 0.40

**19) Subsequent Events***Quarterly Distribution Declared*

On October 29, 2013, we declared a quarterly distribution of \$0.0825 per unit, or \$0.33 per unit on an annualized basis, on all common units in respect of the fourth quarter of fiscal 2013 payable on November 14, 2013 to holders of record on November 12, 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, \$4.7 million will be paid to the common unit holders, \$0.07 million to the general partner (including \$0.05 million of incentive distributions) 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.

*Common Units Repurchased and Retired*

In accordance with the Plan III common unit repurchase program, during the first two months of fiscal 2014 the Partnership repurchased and retired 250 thousand common units at an average price paid of \$5.20 per unit.



**STAR GAS PARTNERS, L.P. (PARENT COMPANY)**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

(in thousands)	September 30,	
	2013	2012
<b>Balance Sheets</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 324	\$ 317
Prepaid expenses and other current assets	206	268
Total current assets	530	585
Investment in subsidiaries (a)	384,783	387,799
Deferred charges and other assets, net	2,523	2,997
Total Assets	\$ 387,836	\$ 391,381
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>Current liabilities</b>		
Accrued expenses	\$ 4,095	\$ 4,706
Total current liabilities	4,095	4,706
Long-term debt (b)	124,460	124,357
Other long-term liabilities		2,173
Partners capital	259,281	260,145
Total Liabilities and Partners Capital	\$ 387,836	\$ 391,381

- (a) Investments in Star Acquisitions, Inc. and subsidiaries are recorded in accordance with the equity method of accounting.
- (b) Scheduled principal repayments of long-term debt during each of the next five fiscal years ending September 30, are as follows: 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$125,000; thereafter \$0. The \$125,000 8.875% Senior Notes mature in December 2017.

## STAR GAS PARTNERS, L.P. (PARENT COMPANY)

## CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(in thousands)	Years Ended September 30,		
	2013	2012	2011
<b>Statements of Operations</b>			
Revenues	\$	\$	\$
General and administrative expenses	31	2,019	2,026
Operating loss	(31)	(2,019)	(2,026)
Net interest expense	(11,197)	(11,188)	(11,638)
Amortization of debt issuance costs	(474)	(330)	(501)
Gain (loss) on redemption of debt			(1,700)
Net loss before equity income	(11,702)	(13,537)	(15,865)
Equity income of Star Petro Inc. and subs	41,608	39,526	40,209
Net income	\$ 29,906	\$ 25,989	\$ 24,344

## STAR GAS PARTNERS, L.P. (PARENT COMPANY)

## CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(in thousands)	Years Ended September 30,		
	2013	2012	2011
<b>Statements of Cash Flows</b>			
<b>Cash flows provided by (used in) operating activities:</b>			
Net cash provided by (used in) operating activities (a)	\$ 34,537	\$ 39,196	\$ (4,813)
<b>Cash flows provided by (used in) investing activities:</b>			
Net cash provided by (used in) investing activities			
<b>Cash flows provided by (used in) financing activities:</b>			
Repayment of debt			(82,499)
Proceeds from the issuance of debt			124,188
Debt extinguishment costs			(1,409)
Distributions	(19,313)	(19,525)	(20,677)
Unit repurchase	(15,217)	(19,648)	(10,949)
Increase in deferred charges			(3,777)
Net cash provided by (used in) financing activities	(34,530)	(39,173)	4,877
Net increase in cash	7	23	64
Cash and cash equivalents at beginning of period	317	294	230
Cash and cash equivalents at end of period	\$ 324	\$ 317	\$ 294
(a) Includes distributions from subsidiaries	\$ 34,530	\$ 39,173	\$ 32,579

## STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

Schedule II

## VALUATION AND QUALIFYING ACCOUNTS

Years Ended September 30, 2013, 2012 and 2011

(in thousands)

Year	Description	Balance at Beginning of Year	Charged to Costs & Expenses	Other Changes Add (Deduct)	Balance at End of Year
2013	Allowance for doubtful accounts	\$ 6,886	\$ 6,481	\$ (5,439) <sup>(a)</sup>	\$ 7,928
2012	Allowance for doubtful accounts	\$ 9,530	\$ 6,017	\$ (8,661) <sup>(a)</sup>	\$ 6,886
2011	Allowance for doubtful accounts	\$ 5,443	\$ 10,388	\$ (6,301) <sup>(a)</sup>	\$ 9,530

<sup>(a)</sup> Bad debts written off (net of recoveries).

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