STAR GAS PARTNERS LP
Form 8-K
July 08, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of report (Date of earliest event reported) July 8, 2004

STAR GAS PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	33-98490	06-1437793
(State or other jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2187 Atlantic Street, Stamford, CT	06902
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (203) 328-7300

Not Applicable

(Former name or former address, if changed since last report.)

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ITEM 5. OTHER EVENTS

Star Gas Partners, L.P. (Star Gas or the Partnership) was formerly engaged as an energy reseller that marketed natural gas and electricity to residential households in deregulated energy markets through Total Gas & Electric, Inc. (TG&E), a Florida corporation, that was an indirect wholly-owned subsidiary of Petro Holdings, Inc. On March 31, 2004, the Partnership sold the stock and business of TG&E in an all-cash transaction to a private party. The Partnership received proceeds of approximately $12.8 million from the sale of TG&E. This amount is subject to adjustments, primarily for post closing increases in bad debts and for gross customer losses over an agreed amount. The amount of net working capital paid at closing by the buyer is also subject to verification. These adjustments have been estimated and are included in the $12.8 million of proceeds.

This Form 8-K, consists of Items 6, 7 and 8 from the Partnership s Annual Report on Form 10-K for the fiscal year ended September 30, 2003, which have been revised to give effect to the sale of the Partnership s natural gas and electricity operations as of March 31, 2004. Except as specifically indicated herein, the information contained in this Form 8-K has not been updated from the information contained in the Form 10-K that was filed with the SEC on December 22, 2003.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STAR GAS PARTNERS, L.P.

By: Star Gas LLC (General Partner)

By: /s/ Ami Trauber

Name: Ami Trauber
Title: Chief Financial Officer

Principal Financial and Accounting Officer

Date: July 8, 2004

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ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth selected historical and other data of the Partnership. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The Selected Financial Data as of September 30, 2002 and 2003 and for the years ended September 30, 2001, 2002 and 2003 is derived from the financial statements of the Partnership included elsewhere in this report and should be read in conjunction therewith.

	Fiscal Years Ended September 30,				
(in thousands, except per unit data)	**1999[c][d]**	**2000[d][e]**	**2001[d][e]**	**2002[d][e]**	**2003[e]**
Statement of Operations Data:					
Sales	$ 224,020	$ 721,061	$ 994,299	$ 985,895	$ 1,382,268
Costs and expenses:					
Cost of sales	131,649	479,563	687,967	629,360	938,558
Delivery and branch expenses	86,489	156,862	200,059	235,708	293,523
General and administrative expenses	11,717	18,470	26,366	26,271	50,331
Depreciation and amortization expenses	22,713	34,292	42,462	57,227	52,493
Operating income (loss)	(28,548)	31,874	37,445	37,329	47,363
Interest expense, net	15,435	26,478	32,579	37,070	40,567
Amortization of debt issuance costs	347	534	737	1,447	2,232
Loss on redemption of debt					181
Income (loss) from continuing operations before income taxes	(44,330)	4,862	4,129	(1,188)	4,383
Income tax expense (benefit)	(14,780)	490	1,497	(1,456)	1,500
Income (loss) from continuing operations	(29,550)	4,372	2,632	268	2,883
Income (loss) from discontinued operations before cumulative effects of changes in accounting principles		(3,019)	(9,347)	(11,437)	1,230
Cumulative effects of changes in accounting principles for discontinued operations:					
Adoption of SFAS No. 133			(398)		
Adoption of SFAS No. 142					(3,901)
Income (loss) before cumulative effects of changes in accounting principle	(29,550)	1,353	(7,113)	(11,169)	212
Cumulative effects of changes in accounting principle for adoption of SFAS No. 133			1,864		
Net income (loss)	$ (29,550)	$ 1,353	$ (5,249)	$ (11,169)	$ 212
Weighted average number of limited partner units:					
Basic	11,447	18,288	22,439	28,790	32,659
Diluted	11,447	18,288	22,552	28,821	32,767

Per Unit Data:					
Basic and diluted income (loss) from continuing operations per unit [a]	$ (2.53)	$ 0.24	$ 0.12	$ 0.01	$ 0.09
Basic and diluted net income (loss) per unit [a]	$ (2.53)	$ 0.07	$ (0.23)	$ (0.38)	$ 0.01
Cash distribution declared per common unit	$ 2.25	$ 2.30	$ 2.30	$ 2.30	$ 2.30
Cash distribution declared per senior sub. unit	$	$ 0.25	$ 1.98	$ 1.65	$ 1.65
Balance Sheet Data (end of period):					
Current assets	$ 86,868	$ 126,990	$ 185,262	$ 222,201	$ 211,109
Total assets	539,344	618,976	898,819	943,766	975,610
Long-term debt	276,638	308,551	456,523	396,733	499,341
Partners Capital	150,176	139,178	198,264	232,264	189,776
Summary Cash Flow Data:					
Net Cash provided by operating activities	$ 10,795	$ 30,606	$ 63,696	$ 64,033	$ 50,595
Net Cash used in investing activities	(2,977)	(65,893)	(255,816)	(61,462)	(101,089)
Net Cash provided by (used in) financing activities	(4,441)	43,950	199,521	44,781	(3,539)
Other Data:					
Earnings (loss) from continuing operations before interest, taxes, depreciation and amortization (EBITDA) [b]	$ (5,835)	$ 66,166	$ 81,771	$ 94,556	$ 99,675
Retail propane gallons sold	99,457	107,557	137,031	140,324	166,768
Heating oil gallons sold	74,039	345,684	427,168	457,749	567,024

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ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA (Continued)

(a) Income (loss) from continuing operations per unit is computed by dividing the limited partners interest in income (loss) from continuing operations by the weighted average number of limited partner units outstanding. Net income (loss) per unit is computed by dividing the limited partners interest in net income (loss) by the weighted average number of limited partner units outstanding.

(b) EBITDA from continuing operations should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership s ability to make the Minimum Quarterly Distribution. The definition of EBITDA set forth above may be different from that used by other companies. EBITDA from continuing operations is calculated for the fiscal years ended September 30 as follows:

(in thousands)	1999	2000	2001	2002	2003
Income (loss) from continuing operations	$ (29,550)	$ 4,372	$ 2,632	$ 268	$ 2,883
Cumulative effects of changes in accounting principle for adoption of SFAS No. 133 for continuing operations			1,864		
Plus:					
Income tax expense (benefit)	(14,780)	490	1,497	(1,456)	1,500
Amortization of debt issuance cost	347	534	737	1,447	2,232
Interest expense, net	15,435	26,478	32,579	37,070	40,567
Depreciation and amortization	22,713	34,292	42,462	57,227	52,493
EBITDA from continuing operations	$ (5,835)	$ 66,166	$ 81,771	$ 94,556	$ 99,675

(c) The results of operations for the year ended September 30, 1999 include Petro s results of operations from March 26, 1999. Since Petro was acquired after the heating season, the results for the year ended September 30, 1999 include typical third and fourth fiscal quarters losses but do not include the profits from the heating season. Accordingly, results of operations for the year ended September 30, 1999 presented are not indicative of the results to be expected for a full year.

(d) The Partnership s results for fiscal years ended September 30, 1999, 2000, 2001 and 2002 do not reflect the impact of the provisions of SFAS No. 142.

(e) The Partnership s results for fiscal years ended September 30, 2000, 2001, 2002 and 2003, have been restated to give effect to the sale of the Partnership s TG&E segment as of March 31, 2004. The results of the TG&E segment have been restated as a component of discontinued operations in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets .

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Disclosure

This Report includes forward-looking statements which represent the Partnership s expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on the Partnership s financial performance, the price and supply of home heating oil and propane, the ability of the Partnership to obtain new accounts and retain existing accounts and the realization of savings from the business process redesign. All statements other than statements of historical facts included in this Report including, without limitation, the statements under Management s Discussion and Analysis of Financial Condition and Results of Operations and Business and elsewhere herein, are forward-looking statements. Although the Partnership believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Partnership s expectations (Cautionary Statements) are disclosed in this Report, including without limitation and in conjunction with the forward-looking statements included in this Report. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements.

Overview

In analyzing the financial results of the Partnership, the following matters should be considered.

The primary use of heating oil and propane is for space heating in residential and commercial applications. As a result, weather conditions have a significant impact on financial performance and should be considered when analyzing changes in financial performance. In addition, gross margins vary according to customer mix. For example, sales to residential customers generate higher profit margins than sales to other customer groups, such as agricultural customers. Accordingly, a change in customer mix can affect gross margins without necessarily impacting total sales.

The following is a discussion of the historical condition and results of operations of Star Gas Partners, L.P. and its subsidiaries, and should be read in conjunction with the historical Financial and Operating Data and Notes thereto included elsewhere in this annual report on Form 10K. The Partnership completed the sale of its TG&E segment in March 2004. The following discussion reflects the historical results for the TG&E segment as discontinued operations.

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FISCAL YEAR ENDED SEPTEMBER 30, 2003

COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 2002

Volume

For fiscal 2003, retail volume of home heating oil and propane increased 135.7 million gallons, or 22.7%, to 733.8 million gallons, as compared to 598.1 million gallons for fiscal 2002. This increase was due to a 109.3 million gallon increase in the heating oil segment and a 26.4 million gallon increase in the propane segment. The increase in volume primarily reflects the impact of significantly colder temperatures and the impact of an additional 21.2 million gallons provided by acquisitions. Customer attrition, largely in the home heating oil segment s lower margin commercial business, partially offset these volume increases. The Partnership also believes that a planned shift in the delivery pattern at the heating oil segment, designed to increase efficiency, decreased volume for fiscal 2003 by an estimated 10.1 million gallons. Typical delivery patterns would have resulted in these gallons being delivered in fiscal 2003 but were actually delivered in the three months ended September 30, 2002. Temperatures in the Partnership s areas of operations were an average of 29.8% colder than in the prior year s comparable period and approximately 9.0% colder than normal as reported by the National Oceanic Atmospheric Administration (NOAA).

Sales

For fiscal 2003, sales increased $396.4 million, or 40.2%, to $1,382.3 million, as compared to $985.9 million for fiscal 2002. This increase was due to $312.6 million higher home heating oil sales and $83.8 million higher propane segment sales. Sales increased largely due to the higher retail volume sold and as a result of higher selling prices. Selling prices increased versus the prior year s comparable period in response to higher supply costs. Sales of rationally related products, including heating and air conditioning equipment installation and service and water softeners increased by $15.2 million in the heating oil segment and by $3.6 million in the propane segment from the prior year s comparable period due to acquisitions, price increases and from colder temperatures.

Cost of Product

For fiscal 2003, cost of product increased $290.9 million, or 65.1%, to $737.4 million, as compared to $446.5 million for fiscal 2002. This increase was due to $230.1 million of higher cost of product at the home heating oil segment and $60.8 million higher cost of product at the propane segment. Cost of product increased largely due to the higher retail volume sold and from higher supply cost. While selling prices and supply cost both increased on a per gallon basis, the increase in selling prices was equal to the increase in supply costs, which resulted in approximately the same per gallon margins.

Cost of Installations, Service and Appliances

For fiscal 2003, cost of installations, service and appliances increased $18.3 million, or 10.0%, to $201.2 million, as compared to $182.8 million for fiscal 2002. This increase was due to an additional $17.0 million in the heating oil segment and by $1.4 million in the propane segment from the prior year s comparable period due to the increase in sales of these products and from additional cost of service expenses resulting from the colder temperatures.

Delivery and Branch Expenses

For fiscal 2003, delivery and branch expenses increased $57.8 million, or 24.5%, to $293.5 million, as compared to $235.7 million for fiscal 2002. This increase was due to an additional $43.2 million of delivery and branch expenses at the heating oil segment and a $14.6 million increase in delivery and branch expenses for the propane segment. The period to period comparison was impacted by the purchase of weather insurance that allowed the Partnership to record approximately $6.4 million of net weather insurance recoveries in the fiscal 2002 period versus a $3.6 million expense in the fiscal 2003 period for weather insurance premiums paid. The remaining increase in delivery and branch expenses of $47.8 million, for fiscal 2003, was largely due to the additional operating cost associated with increased volumes delivered, higher marketing costs at the heating oil segment of $5.7 million, higher bad debt expense of $2.9 million at the heating oil segment, higher bad debt expense of $0.4 million at the propane segment and to the impact of operating expense and wage increases.

Depreciation and Amortization Expenses

For fiscal 2003, depreciation and amortization expenses decreased $4.7 million, or 8.3%, to $52.5 million, as compared to $57.2 million for fiscal 2002. During fiscal 2002, approximately $7.8 million of goodwill amortization was included in depreciation and amortization expense. As of October 1, 2002, goodwill is no longer amortized in accordance to SFAS No. 142. Depreciation and amortization expense related to acquisitions and fixed asset additions acquired after September 30, 2002, resulted in increases which partially offset the decrease attributable to goodwill amortization.

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General and Administrative Expenses

For fiscal 2003, general and administrative expenses increased $24.1 million, or 91.6%, to $50.3 million, as compared to $26.3 million for fiscal 2002. This increase was largely due to the inclusion of $7.4 million of incremental expense related to the business process redesign project in the heating oil segment, a $9.9 million increase in the accrual for compensation earned for unit appreciation rights and restricted stock awards previously granted and for other increases of $6.8 million, largely due to increased bonus compensation based upon results for fiscal 2003 ($1.9 million), higher legal and professional expenses at the Partnership level ($2.4 million) and for increased expenses at the propane segment ($2.0 million) for its increased size. The increase in legal and professional expenses at the Partnership level largely were incurred for Sarbanes compliance, acquisitions and financing related issues.

The heating oil segment continued to progress with its business reorganization project during fiscal 2003. The heating oil segment is seeking to take advantage of its large size to utilize technology to increase the efficiency and quality of services provided to its customers. The segment is seeking to create a more customer oriented service company to significantly differentiate itself from its competitive peers.

A core business process redesign project began in fiscal 2002 with an exhaustive effort to identify customer expectations and document existing business processes. These findings led to a conclusion that improved processes, consolidation of operations, technology investments and selective outsourcing would have a meaningful impact on improving customer services while reducing annual operating costs.

Consolidation of certain heating oil operational activities have been undertaken to create operating efficiencies and cost savings. Service technicians are being dispatched from two consolidated locations rather than 27 local offices. Oil delivery is now being managed from 11 regional locations rather than 27 local offices. The organization continues to adjust to these significant operational changes.

A transition to outsourcing in the area of customer relationship management has been undertaken as both a customer satisfaction and a cost reduction strategy. The Partnership believes outsourcing customer inquiries will improve performance and leverage technology to eliminate system redundancy available from third party service organizations. In addition, an outsourcing partner has greater flexibility to manage extreme seasonal volume. Significant challenges remain with this dramatic transition. The complexity of customer interactions combined with the Partnership s goal for service excellence has led to protracted training efforts. The heating oil segment has begun introducing call based technology enhancements including capabilities for customer inquiries via automated interactive telephone response and the web. While the physical transition is largely complete, the Partnership anticipates that supplementary training and support will be required through the 2003 - 2004 heating season.

The $7.4 million incremental expense in fiscal 2003 ($9.4 million of actual fiscal 2003 expense) related to this redesign project largely consisted of consulting fees, employee termination benefits and separation cost and travel related expenditures. In connection with this plan, the Partnership reduced the size of its work force and recognized a liability of approximately $2.0 million related to certain employee termination benefits and separation costs.

By the completion of the program, total expenditures are estimated to be $28.1 million. Through September 30, 2003, total expenditures for the program were $26.5 million with the balance to be spent in fiscal 2004. It is anticipated that the program will improve operating income by approximately $15.0 million annually of which $8.4 million is expected to be realized in fiscal 2004, with the remainder in fiscal 2005 and fiscal 2006. While the Partnership believes that these levels of savings will be realized, there can be no assurance that these amounts will actually be forthcoming, or that other events will not offset the expected benefits.

Interest Expense

For fiscal 2003, interest expense increased $3.9 million, or 9.7%, to $44.4 million, as compared to $40.5 million for fiscal 2002. This increase was largely due to additional interest expense of $1.5 million for higher average outstanding working capital borrowings and due to additional interest related to the higher interest rate on the Partnership s $200.0 million debt offering partially offset by interest expense related to the debt repaid with the offering.

Income Tax Expense

For fiscal 2003, income tax expense increased $3.0 million to $1.5 million, as compared to a tax benefit of $1.5 million for fiscal 2002. This increase was due to higher state income taxes based upon the higher pretax earnings achieved for fiscal 2003 and the absence in fiscal 2003 of the tax benefit from a federal tax loss carryback of $2.2 million recorded in fiscal 2002.

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Income from Continuing Operations

For fiscal 2003, net income from continuing operations increased $2.6 million, to $2.9 million, as compared to $0.3 million for fiscal 2002. The increase was due to a $16.7 million increase in net income at the heating oil segment, a $6.6 million increase in the propane segment offset by a $20.7 million increase in the net loss at the Partnership level. This increase was primarily due to the impact of colder weather on continuing operations and lower depreciation and amortization for continuing operations.

Income (loss) from Discontinued Operations

For fiscal 2003, the income (loss) from discontinued operations increased $12.7 million from a loss of $11.4 million in fiscal 2002 to income of $1.2 million in fiscal 2003 due to lower bad debt and related collection expenses, the impact of colder temperatures, the additional income provided from account growth and lower legal, professional and relocation expenses. In addition, depreciation and amortization declined by $1.2 million and interest expense was lower by $0.4 million. TG&E was sold on March 31, 2004. For fiscal 2003, the Partnership recorded a $3.9 million decrease in net income arising from the adoption of SFAS No. 142 to reflect the impairment of its goodwill for its TG&E segment which is reflected herein as discontinued operations.

Net Income (loss)

For fiscal 2003, net income increased $11.4 million or 101.9% to $0.2 million, as compared to a loss of $11.2 million in fiscal 2002. This increase was due to the increase in net income from continuing operations of $2.6 million, the additional net income provided from discontinued operations of $12.7 million partially offset by the $3.9 million decrease in net income at the discontinued TG&E segment from the adoption of SFAS No. 142.

FISCAL YEAR ENDED SEPTEMBER 30, 2002

COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 2001

Volume

For fiscal 2002, retail volume of home heating oil and propane increased 33.9 million gallons, or 6.0%, to 598.1 million gallons, as compared to 564.2 million gallons for fiscal 2001. This increase was due to a 30.6 million gallon increase in the heating oil segment and a 3.3 million gallon increase in the propane segment. The increase in volume reflects the impact of an additional 135.4 million gallons provided by acquisitions, which was largely offset by the impact of significantly warmer temperatures and to a much lesser extent by customer attrition in the heating oil segment. The Partnership also believes that a shift in the delivery pattern at the heating oil segment increased volume in fiscal 2002 by an estimated 11.0 million gallons. Temperatures in the Partnership s areas of operations were an average of 18.4% warmer than in the prior year s comparable period and approximately 18% warmer than normal. The abnormally warm weather made the past heating season the warmest in over a hundred years with temperatures approximately 6% higher than the next warmest year in the century.

Sales

For fiscal 2002, sales decreased $8.4 million, or 0.8%, to approximately $985.9 million, as compared to approximately $994.3 million for fiscal 2001. This decrease was due to $30.8 million lower propane segment sales offset by a $22.4 million increase in sales at the heating oil segment. Sales decreased largely as a result of lower selling prices which were only partially offset by sales from the higher retail volume in the heating oil and propane segments. Selling prices, in all segments, decreased versus the prior year s comparable period in response to lower product commodity costs. Sales of rationally related products, including heating and air conditioning equipment installation and service and water softeners increased in the heating oil segment by $40.6 million and by $3.8 million in the propane segment from the prior year s comparable period due to acquisitions.

Cost of Product

For fiscal 2002, cost of product decreased $98.3 million, or 18.0%, to $446.6 million, as compared to $544.9 million for fiscal 2001. This decrease was due to $55.2 million of lower cost of product at the heating oil segment and $43.1 million lower propane segment cost of product. Cost of product decreased due to the impact of lower product commodity cost partially offset by the cost of product for the higher retail volume sales. While selling prices and supply cost decreased on a per gallon basis, the decrease in selling prices was less than the decrease in supply costs, which resulted in an increase in per gallon margins.

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Cost of Installations, Service and Appliances

For fiscal 2002, cost of installations, service and appliances increased $39.7 million or 27.7% to $182.8 million as compared to $143.1 million for fiscal 2001. This increase was due to an additional $37.9 million in the heating oil segment and by $1.8 million in the propane segment from the prior years comparable period due to the increase in sales of these products.

Delivery and Branch Expenses

For fiscal 2002, delivery and branch expenses increased $35.6 million, or 17.8%, to $235.7 million, as compared to $200.1 million for fiscal 2001. This increase was due to an additional $31.0 million of delivery and branch expenses at the heating oil segment and a $4.6 million increase in delivery and branch expenses for the propane segment. Delivery and branch expenses increased both at the heating oil and propane segments largely due to additional operating costs associated with increased volumes delivered by acquired companies and due to the impact of price and wage increases. Due to the fixed component of the Partnership s cost structure, the significant reduction in volume caused by the extremely warm weather conditions didn t allow the Partnership to completely reduce operating expenses in direct proportion to the volume reduction. The heating oil segment s delivery and branch expense also increased by approximately $2.8 million due to an increase in the estimate of the accrual required to cover certain insurance reserves. The increase in delivery and branch expenses was mitigated by the purchase of weather insurance that allowed the Partnership to record approximately $6.4 million of net weather insurance recoveries.

Depreciation and Amortization Expenses

For fiscal 2002, depreciation and amortization expenses increased $14.8 million, or 34.8%, to $57.2 million, as compared to $42.5 million for fiscal 2001. This increase was primarily due to additional depreciation and amortization on fixed assets and intangibles (other than goodwill) related to heating oil and propane acquisitions. Amortization expense would be approximately $3.4 million higher in fiscal 2002 if SFAS No. 141 was not implemented. See Accounting Principles Not Yet Adopted for a further discussion of the effects of SFAS No. 141.

General and Administrative Expenses

For fiscal 2002, general and administrative expenses were $26.3 million or $0.1 million lower than fiscal 2001. The decline was due to lower general and administrative expenses at the Partnership level of $5.0 million offset by $2.1 million of general and administrative expenses for acquisitions, $2.0 million of incremental expense related to the business process redesign project in the heating oil segment and other increases of $0.8 million. General and administrative expenses were lower at the Partnership level due to a reduction in the accrual for compensation earned for unit appreciation rights previously granted of $0.9 million, $2.9 million decrease in unit compensation expense, and other expense reductions of $1.2 million. The decrease in unit compensation expense was due to a reduction in the accrual for units expected to be earned versus the prior year under the Partnership s Unit Incentive Plan pursuant to which certain employees were granted senior subordinated units as an incentive for achieving specified objectives which were not achieved in fiscal 2002. The Partnership has determined that these contingent units will not vest for fiscal 2002.

The $2.0 million incremental expense at the heating oil segment in the 2002 fiscal year largely consisted of consulting fees and travel related expenditures. The heating oil segment is seeking to take advantage of its large size and utilize modern technology to increase the efficiency and quality of services provided to its customers. The segment is seeking to create a more customer oriented service company to significantly

differentiate itself from its competitive peers. A core business process redesign project began this past fiscal year with an exhaustive effort to identify customer expectations and document existing business processes. The customer remains the focal point for change, although significant improvement in operational efficiency is also a goal. While the critical analysis and redesign of existing business processes continues, the segment has already documented near term opportunities for productivity and cost improvement. Preliminary conclusions indicate that improved processes and related technology investments could have a meaningful impact on reducing the heating oil segment s annual operating costs. The expenses related to the on going business process redesign project will continue into fiscal 2004.

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Interest Expense

For fiscal 2002, interest expense, increased $4.4 million, or 12.0%, to $40.5 million, as compared to $36.1 million for fiscal 2001. This increase was due to additional interest expense for the financing of propane and heating oil acquisitions partially offset by lower interest expense for working capital borrowings.

Income Tax Expense (benefit)

For fiscal 2002, income tax expense decreased $3.0 million, or 197.3%, to a tax benefit of $1.5 million, as compared to an expense of $1.5 million for fiscal 2001. This decrease was due to the availability of carrying back certain Federal tax losses resulting from a change in the tax laws enacted during fiscal year 2002 of approximately $2.2 million and due to lower state income taxes based upon the lower pretax earnings achieved for fiscal year 2002.

Income from Continuing Operations

Income from continuing operations for fiscal 2002 declined $2.4 million, or 89.8%, to $0.3 million, as compared to $2.6 million for fiscal 2001. This change was due to a $7.6 million decrease in net income at the heating oil segment offset by a $0.1 million increase in net income at the propane segment and a $5.1 million reduction in the net loss at the Partnership level. The increase in the net loss was primarily due to decreased volume from the impact of the warmer weather, partially offset by a per gallon improvement in gross margins, net weather insurance recoveries, the tax benefit of the tax loss carryback and by net income generated from acquisitions.

Loss from Discontinued Operations

For fiscal 2002, the loss from discontinued operations increased $2.1 million, or 22.4%, to $11.4 million, as compared to $9.3 million for fiscal 2001 due to warmer weather, account losses and additional expenses associated with collecting accounts receivable. For fiscal 2001, the Partnership also recorded a $0.4 million charge arising from the adoption of SFAS No. 133 for the discontinued TG&E operations, which is not reflected in the $9.3 million loss from discontinued operations. TG&E was sold on March 31, 2004.

Cumulative Effect of Adoption of Accounting Principle

For fiscal 2001, the Partnership recorded a $1.9 million increase in net income arising from the adoption of SFAS No. 133.

Net Loss

For fiscal 2002, net loss increased $5.9 million, or 112.8%, to $11.2 million, as compared to $5.2 million for fiscal 2001 due to a decrease in the income from continuing operations of $2.4 million, an increase in the net loss from discontinued operations of $1.7 million, and the cumulative effect of adoption of SFAS No. 133 in fiscal 2001.

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Liquidity and Capital Resources

The ability of Star Gas to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business, and weather conditions, and other factors, most of which are beyond its control. Capital requirements of Star Gas are expected to be provided by cash flows from operating activities and cash on hand at September 30, 2003. To the extent for fiscal 2004, capital requirements exceed cash flows from operating activities:

a) working capital will be financed by the Partnership s working capital lines of credit and repaid from subsequent seasonal reductions in inventory and accounts receivable;

b) growth capital expenditures, mainly for customer tanks, will be financed in fiscal 2004 through the use of the Partnership s credit facilities; and

c) acquisition capital expenditures will be financed by the revolving acquisition lines of credit, long-term debt issuance, the issuance of additional Common Units or a combination thereof.

See also Financing and Sources of Liquidity below for a discussion of the Partnership s outstanding debt amortization requirements.

Cash Flows

Operating Activities. Cash provided by operating activities for the fiscal year ended September 30, 2003 was $50.6 million as compared to cash provided by operating activities of $64.0 million for the fiscal year 2002. This decrease in cash provided by operating activities was largely due to an increase in operating assets and liabilities in fiscal 2003 from fiscal 2002, primarily due to a $24.0 million increase in accounts receivable largely due to the colder weather experienced in fiscal 2003. The net cash provided by operations of $50.6 million for fiscal 2003 consisted of net income of $0.2 million adjusted for non-cash charges of $69.0 million - primarily depreciation and amortization of $52.5 million - offset by an increase in operating assets and liabilities of $17.4 million, due largely to an increase in receivables from the colder temperatures experienced in fiscal 2003, and by the income from discontinued operations of $1.2 million.

Investing Activities. Star Gas completed ten acquisitions during fiscal 2003, investing $84.4 million. This expenditure for acquisitions is included in the cash used in investing activities of $101.1 million along with the $18.4 million invested for capital expenditures. The $18.4 million for capital expenditures is comprised of $7.0 million of capital additions needed to sustain operations at current levels and $11.4 million for capital expenditures incurred in connection with the heating oil segment s business process redesign program and for customer tanks and other capital expenditures to support growth of operations. The capital expenditures made for the business process redesign program were largely for the purchase of modern technology to increase the efficiency and quality of services provided to its customers. Investing activities also includes proceeds from the sale of fixed assets of $1.7 million.

Financing Activities. During fiscal 2003 cash used in financing activities, included $189.7 million of net proceeds from the Partnership s $200 million 10.25% Senior Note offering in February 2003, $34.2 million from a common unit offering in August 2003 and $13.0 million from the net increase in acquisition borrowings. Cash distributions paid to Unitholders of $72.6 million, debt repayments of $155.5 million, decreased working capital borrowings of $11.0 million and other financing activities of $1.3 million resulted in net cash used in financing activities of $3.5 million.

As a result of the above activity and the $3.1 million of cash provided by discontinued operations, cash decreased by $51.0 million to $10.0 million as of September 30, 2003.

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Earnings from continuing operations before interest, taxes, depreciation and amortization (EBITDA)

For the fiscal year ended September 30, 2003, EBITDA increased $5.1 million, or 5.4% to $99.7 million as compared to $94.6 million for fiscal 2002. This increase was due to $13.8 million additional EBITDA generated by the heating oil segment and $4.6 million additional EBITDA at the propane segment, partially offset by $13.3 million reduction in EBITDA at the Partnership level largely due to the increase in the accrual for compensation earned for unit appreciation rights and restricted stock awards previously granted. The increase in EBITDA was largely due to the impact of colder temperatures in our areas of operations as reported by NOAA. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership s ability to make the Minimum Quarterly Distribution. EBITDA is calculated for the fiscal years ended September 30 as follows:

	Fiscal Years Ended September 30,	
(in thousands)	**2002**	**2003**
Income from continuing operations	$ 268	$ 2,883
Plus:		
Income tax expense (benefit)	(1,456)	1,500
Amortization of debt issuance costs	1,447	2,232
Interest expense, net	37,070	40,567
Depreciation and amortization	57,227	52,493
EBITDA	94,556	99,675
Add/(subtract)		
Loss of redemption of debt		181
Income tax (expense) benefit	1,456	(1,500)
Interest expense, net	(37,070)	(40,567)
Unit compensation expense	367	2,606
Provision for losses on accounts receivable	4,315	7,726
Loss (gain) on sales of fixed assets, net	336	(156)
Change in operating assets and liabilities	73	(17,370)
Net cash used in operating activities	$ 64,033	$ 50,595

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Financing and Sources of Liquidity

The Partnership s heating oil segment had a bank credit facility at September 30, 2003, which included a working capital facility, providing for up to $115.5 million of borrowings to be used for working capital purposes, an acquisition facility, providing for up to $50.0 million of borrowings to be used for acquisitions and for capital expenditures and a $27.5 million insurance letter of credit facility. The working capital facility and letter of credit facility were scheduled to expire on June 30, 2004. The acquisition facility was also scheduled to convert to a term loan for any outstanding borrowings on June 30, 2004, which balance will be payable in eight equal quarterly principal payments. At September 30, 2003, $6.0 million of working capital borrowings and $33.0 million of acquisition facility borrowings and $26.9 million of the insurance letters of credit were outstanding.

On December 22, 2003, the heating oil segment entered into a new credit agreement consisting of three facilities totaling $235.0 million having a maturity date of June 30, 2006. These facilities consist of a $150.0 million revolving credit facility, the proceeds of which are to be used for working capital purposes, a $35.0 million revolving credit facility, the proceeds of which are to be used for the issuance of standby letters of credit in connection with surety, worker s compensation and other financial guarantees, and a $50.0 million revolving credit facility, the proceeds of which are to be used to finance or refinance certain acquisitions and capital expenditures, for the issuance of letters of credit in connection with acquisitions and, to the extent that there is insufficient availability under the working capital facility. These facilities will refinance and replace the existing credit agreements described in the preceding paragraph, which totaled $193.0 million.

The Partnership s propane segment has a bank credit facility, which consists of a $25.0 million acquisition facility, a $25.0 million parity debt facility that can be used to fund maintenance and growth capital expenditures and a $24.0 million working capital facility. The working capital facility expires on September 30, 2006. Borrowings under the acquisition and parity debt facilities will revolve until September 30, 2006, after which time any outstanding loans thereunder, will amortize in quarterly principal payments with a final payment due on September 30, 2008. At September 30, 2003, $2.0 million of parity debt facility borrowings, $12.6 million of acquisition facility borrowings and $6.0 million of working capital borrowings were outstanding.

The Partnership s bank credit facilities and debt agreements contain several financial tests and covenants restricting the various segments and Partnership s ability to pay distributions, incur debt and engage in certain other business transactions. In general these tests are based upon achieving certain debt to cash flow ratios and cash flow to interest expense ratios. In addition, amounts borrowed under the working capital facilities are subject to a requirement to maintain a zero balance for at least forty-five consecutive days. Failure to comply with the various restrictive and affirmative covenants of the Partnership s various bank and note facility agreements could negatively impact the Partnership s ability to incur additional debt and/or pay distributions and could cause certain debt to become currently payable.

As of September 30, 2003, the Partnership was in compliance with all debt covenants.

On February 6, 2003, the Partnership and its wholly owned subsidiary, Star Gas Finance Company, jointly issued $200.0 million face value Senior Notes due on February 15, 2013. These notes accrue interest at an annual rate of 10.25% and require semi-annual interest payments on February 15 and August 15 of each year commencing on August 15, 2003. These notes are redeemable at the option of the Partnership, in whole or in part, from time to time by payment of a premium as defined. These notes were priced at 98.466% for total gross proceeds of $196.9 million. The Partnership also incurred $7.2 million of fees and expenses in connection with the issuance of these notes resulting in net proceeds of $189.7 million. The Partnership used the proceeds to repay existing long-term debt and working capital facility borrowings in the amount of $169.0 million, $17.7 million for acquisitions and $3.0 million to finance capital expenditures.

The Partnership has $522.2 million of debt outstanding as of September 30, 2003 (amount does not include working capital borrowings of $12.0 million), with significant maturities occurring over the next five years. The following summarizes the Partnership s long-term debt maturities during fiscal years ending September 30, exclusive of amounts that have been repaid through September 30, 2003:

2004	$ 22.8 million
2005	$ 40.9 million
2006	$ 94.1 million
2007	$ 46.0 million
2008	$ 22.9 million
Thereafter	$ 295.5 million

The Partnership s heating oil segment s bank facilities allow for the refinancing of up to $20.0 million of existing senior debt and the Partnership s propane segment s bank facilities allow for the refinancing of up to $25.0 million of existing senior debt. The refinancing capabilities are subject to capacity and other restrictions. Funding for future year s debt maturities other than what could be refinanced with bank facilities will largely be dependent upon new debt or equity issuances.

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In general, the Partnership distributes to its partners on a quarterly basis, all of its Available Cash in the manner described in Note 4 (Quarterly Distribution of Available Cash) of the Consolidated Financial Statements. Available Cash is defined for any of the Partnership s fiscal quarters, as 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 partner to (i) provide for the proper conduct of the business; (ii) comply with applicable law, any of its debt instruments or other agreements; or (iii) provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters, in some circumstances.

The Partnership believes that the purchase of weather insurance could be an important element in the Partnership s ability to maintain the stability of its cash flows. In August 2002, the Partnership purchased weather insurance that could have provided up to $20.0 million of coverage for the impact of warm weather on the Partnership s operating results for the 2002 - 2003 heating season. No amounts were received under the policies during fiscal 2003 due to the colder than normal temperatures. In addition, the Partnership purchased a base of $12.5 million of weather insurance coverage for each year from 2004 2007 and purchased an additional $7.5 million of weather insurance coverage for fiscal 2004. The amount of insurance proceeds that could be realized under these policies is calculated by multiplying a fixed dollar amount by the degree day deviation from an agreed upon cumulative degree day strike price.

For fiscal 2004, the Partnership anticipates paying interest of approximately $44.8 million, and anticipates growth and maintenance capital additions of approximately $8.1 million. In addition, the Partnership plans to pay distributions on its units to the extent there is sufficient Available Cash in accordance with the partnership agreement. The Partnership plans to fund acquisitions made through a combination of debt and equity. Based on its current cash position, bank credit availability and anticipated net cash to be generated from operating activities, the Partnership expects to be able to meet all of its fiscal 2004 obligations.

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Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to establish accounting policies and make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the Consolidated Financial Statements. Star Gas evaluates its policies and estimates on an on-going basis. The Partnership s Consolidated Financial Statements may differ based upon different estimates and assumptions.

The Partnership s significant accounting policies are discussed in Note 2 to the Consolidated Financial Statements. Star Gas believes the following are its critical accounting policies:

Goodwill and Other Intangible Assets

The FASB issued SFAS No. 142, Goodwill and Other Intangible Assets in June 2001. SFAS No. 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives, such as customer lists, continue to be amortized over their respective estimated useful lives.

The Partnership calculates amortization using the straight-line method over periods ranging from 5 to 15 years for intangible assets with definite useful lives. Star Gas uses amortization methods and determines asset values based on its best estimates using reasonable and supportable assumptions and projections. Star Gas assesses the useful lives of intangible assets based on the estimated period over which Star Gas will receive benefit from such intangible assets such as historical evidence regarding customer churn rate. In some cases, the estimated useful lives are based on contractual terms. At September 30, 2003, the Partnership had $201.5 million of net intangible assets subject to amortization. If circumstances required a change in estimated useful lives of the assets, it could have a material effect on results of operations. For example, if lives were shortened by one year, the Partnership estimates that amortization for these assets for fiscal 2003 would have increased by approximately $2.8 million.

SFAS No. 142 also requires the Partnership s goodwill to be assessed annually for impairment. These assessments involve management s estimates of future cash flows, market trends and other factors to determine the fair value of the reporting unit, which includes the goodwill to be assessed. If goodwill is determined to be impaired, a loss is recorded in accordance with SFAS No. 142. At September 30, 2003, the Partnership had $278.9 million of goodwill. Intangible assets with finite lives must be assessed for impairment whenever changes in circumstances indicate that the assets may be impaired. Similar to goodwill, the assessment for impairment requires estimates of future cash flows related to the intangible asset. To the extent the carrying value of the assets exceeds it future cash flows, an impairment loss is recorded based on the fair value of the asset.

Depreciation of Property, Plant and Equipment

Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets ranging from 3 to 30 years. Net property, plant and equipment was $261.9 million for the Partnership at September 30, 2003. If circumstances required a change in estimated useful lives of the assets, it could have a material effect on results of operations. For example, if lives were shortened by one year, the Partnership estimates that depreciation for fiscal 2003 would have increased by approximately $2.8 million.

Assumptions Used in the Measurement of the Partnership s Defined Benefit Obligations

SFAS No. 87, Employers Accounting for Pensions requires the Partnership to make assumptions as to the expected long-term rate of return that could be achieved on defined benefit plan assets and discount rates to determine the present value of the plans pension obligations. The Partnership evaluates these critical assumptions at least annually.

The discount rate enables the Partnership to state expected future cash flows at a present value on the measurement date. The rate is required to represent the market rate for high-quality fixed income investments. A lower discount rate increases the present value of benefit obligations and increases pension expense. A 25 basis point decrease in the discount rated used for fiscal 2003 would have increased pension expense by approximately $0.1 million and would have increased the minimum pension liability by another $1.8 million. The Partnership assumed a discount rate of 6.00% as of September 30, 2003.

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The Partnership considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets to determine its expected long-term rate of return on pension plan assets. The expected long-term rate of return on assets is developed with input from the Partnership s actuarial firm. The long-term rate of return assumption used for determining net periodic pension expense for fiscals 2002 and 2003 was 8.50 percent. As of September 30, 2003, this assumption was reduced to 8.25 percent for determining fiscal 2004 net periodic pension expense. A further 25 basis point decrease in the expected return on assets would have increased pension expense in fiscal 2003 by approximately $0.1 million.

Over the life of the plans, both gains and losses have been recognized by the plans in the calculation of annual pension expense. As of September 30, 2003, $17.2 million of unrecognized losses remain to be recognized by the plans. These losses may result in increases in future pension expense as they are recognized.

Insurance Reserves

The Partnership s heating oil segment has in the past and is currently self-insuring a portion of workers compensation, auto and general liability claims. In February 2003, the propane segment also began self-insuring a portion of its workers compensation claims. The Partnership establishes reserves based upon expectations as to what its ultimate liability will be for these claims using developmental factors based upon historical claim experience. The Partnership continually evaluates the potential for changes in loss estimates with the support of qualified actuaries. As of September 30, 2003, the heating oil segment had approximately $29.4 million of insurance reserves and the propane segment had $1.1 million of insurance reserves. The ultimate settlement of these claims could differ materially from the assumptions used to calculate the reserves which could have a material effect on results of operations.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SEE INDEX TO FINANCIAL STATEMENTS PAGE F-1

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

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AND FINANCIAL STATEMENT SCHEDULE

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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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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Star Gas Partners, L.P. and Subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2002 and 2003 and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2 and 9 to the consolidated financial statements, Star Gas Partners, L.P. adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as of October 1, 2002.

KPMG LLP

Stamford, Connecticut

December 4, 2003, except for Notes 3 and 19 which are as of July 8, 2004.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)	Years Ended September 30, 2002	Years Ended September 30, 2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 61,007	$ 10,044
Receivables, net of allowance of $3,808 and $7,542, respectively	80,732	100,511
Inventories	37,457	38,561
Prepaid expenses and other current assets	36,806	51,470
Net current assets of discontinued operations	6,199	10,523
Total current assets	222,201	211,109
Property and equipment, net	241,152	261,867
Long-term portion of accounts receivables	6,672	7,145
Goodwill	254,533	272,740
Intangibles, net	192,757	201,468
Deferred charges and other assets, net	15,080	14,414
Net long-term assets of discontinued operations	11,371	6,867
Total Assets	$ 943,766	$ 975,610
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable	$ 16,795	$ 27,140
Working capital facility borrowings	23,000	12,000
Current maturities of long-term debt	71,413	22,847
Accrued expenses	68,274	82,356
Unearned service contract revenue	30,549	32,036
Customer credit balances	65,833	74,716
Net current liabilities of discontinued operations	13,380	7,569
Total current liabilities	289,244	258,664
Long-term debt	396,733	499,341
Other long-term liabilities	25,525	27,829
Partners capital (deficit)		
Common unitholders	242,696	210,636
Subordinated unitholders	3,105	(57)
General partner	(2,710)	(3,082)
Accumulated other comprehensive loss	(10,827)	(17,721)
Total Partners capital	232,264	189,776
Total Liabilities and Partners Capital	$ 943,766	$ 975,610

See accompanying notes to consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)	Years Ended September 30,		
	2001	2002	2003
Sales:			
Product	$ 867,172	$ 814,360	$ 1,191,904
Installations, service and appliances	127,127	171,535	190,364
Total sales	994,299	985,895	1,382,268
Cost and expenses:			
Cost of product	544,865	446,551	737,405
Cost of installations, service and appliances	143,102	182,809	201,153
Delivery and branch expenses	200,059	235,708	293,523
Depreciation and amortization expenses	42,462	57,227	52,493
General and administrative expenses	26,366	26,271	50,331
Operating income	37,445	37,329	47,363
Interest expense	(36,145)	(40,495)	(44,432)
Interest income	3,566	3,425	3,865
Amortization of debt issuance costs	(737)	(1,447)	(2,232)
Loss on redemption of debt			(181)
Income (loss) from continuing operations before income taxes	4,129	(1,188)	4,383
Income tax expense (benefit)	1,497	(1,456)	1,500
Income from continuing operations	2,632	268	2,883
Income (loss) from discontinued operations before cumulative effect of change in accounting principle, net of income taxes	(9,347)	(11,437)	1,230
Cumulative effects of changes in accounting principles for discontinued operations:			
Adoption of SFAS No. 133	(398)		
Adoption of SFAS No. 142			(3,901)
Income (loss) before cumulative effects of changes in accounting principle for continuing operations	(7,113)	(11,169)	212
Cumulative effects of changes in accounting principle for adoption SFAS No. 133	1,864		
Net income (loss)	$ (5,249)	$ (11,169)	$ 212
General Partner s interest in net income (loss)	$ (75)	$ (116)	$ 2
Limited Partners interest in net income (loss)	$ (5,174)	$ (11,053)	$ 210
Basic and diluted income from continuing operations per Limited Partner unit	$ .12	$ .01	$ .09
Basic and diluted net income (loss) per Limited Partner unit	$ (.23)	$ (.38)	$ .01
Weighted average number of Limited Partner units outstanding:			

Basic	22,439	28,790	32,659
Diluted	22,552	28,821	32,767

See accompanying notes to consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)	Years Ended September 30, 2001	2002	2003
Net income (loss)	$ (5,249)	$ (11,169)	$ 212
Other comprehensive income (loss):			
Unrealized gain (loss) on derivative instruments	(18,594)	12,968	(5,425)
Unrealized loss on pension plan obligations	(4,149)	(11,596)	(1,469)
Comprehensive loss	$ (27,992)	$ (9,797)	$ (6,682)

Reconciliation of Accumulated Other Comprehensive Income (Loss)

(in thousands)	Pension Plan Obligations	Derivative Instruments	Total
Balance as of September 30, 2000	$	$	$
Cumulative effect of the adoption of SFAS No. 133		10,544	10,544
Reclassification to earnings		(2,473)	(2,473)
Unrealized loss on pension plan obligations	(4,149)		(4,149)
Unrealized loss on derivative instruments		(16,121)	(16,121)
Other comprehensive loss	(4,149)	(18,594)	(22,743)
Balance as of September 30, 2001	(4,149)	(8,050)	(12,199)
Reclassification to earnings		16,252	16,252
Unrealized loss on pension plan obligations	(11,596)		(11,596)
Unrealized loss on derivative instruments		(3,284)	(3,284)
Other comprehensive income (loss)	(11,596)	12,968	1,372
Balance as of September 30, 2002	(15,745)	4,918	(10,827)
Reclassification to earnings		(8,074)	(8,074)
Unrealized loss on pension plan obligations	(1,469)		(1,469)
Unrealized gain on derivative instruments		2,649	2,649
Other comprehensive loss	(1,469)	(5,425)	(6,894)
Balance as of September 30, 2003	$ (17,214)	$ (507)	$ (17,721)

See accompanying notes to consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

Years Ended September 30, 2001, 2002 and 2003

	Number of Units								Accumulative Other Comprehensive	Total
(in thousands, except per unit amounts)	Common	Senior Sub.	Junior Sub.	General Partner	Common	Senior Sub.	Junior Sub.	General Partner	Income (Loss)	Partners Capital
Balance as of September 30, 2000	16,045	2,587	345	326	$ 134,672	$ 6,125	$ (35)	$ (1,584)	$	$ 139,178
Issuance of units:										
Common	7,349				123,846					123,846
Senior Subordinated		130				3,319				3,319
Net Loss					(4,475)	(620)	(79)	(75)		(5,249)
Other Comprehensive Loss, net									(12,199)	(12,199)
Distributions:										
($2.300 per unit)					(44,132)					(44,132)
($1.975 per unit)						(5,341)				(5,341)
($1.725 per unit)							(597)	(561)		(1,158)
Balance as of September 30, 2001	23,394	2,717	345	326	209,911	3,483	(711)	(2,220)	(12,199)	198,264
Issuance of units:										
Common	5,576				100,409					100,409
Senior Subordinated		417				6,742				6,742
Net Loss					(9,815)	(1,115)	(123)	(116)		(11,169)
Other Comprehensive Income, net									1,372	1,372
Unit Compensation Expense:										
Common					201					201
Senior Subordinated						166				166
Distributions:										
($2.30 per unit)					(58,010)					(58,010)
($1.65 per unit)						(4,939)				(4,939)
($1.15 per unit)							(398)	(374)		(772)
Balance as of September 30, 2002	28,970	3,134	345	326	242,696	4,337	(1,232)			