

STAR GAS PARTNERS LP
Form 10-K
December 11, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(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.

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(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:

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

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).

Large accelerated filer Accelerated filer 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

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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STAR GAS PARTNERS, L.P.

2013 FORM 10-K ANNUAL REPORT

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PART I

Statement Regarding Forward-Looking Disclosure

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

ITEM 1. BUSINESS

Structure

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 homes and buildings.

Star Gas Partners is a Delaware limited partnership, which at November 30, 2013, had outstanding 57.5 million common partner units (NYSE: SGU) representing a 99.44% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing a 0.56% general partner interest in Star Gas Partners. Our general partner is Kestrel Heat, LLC, a Delaware limited liability company (Kestrel Heat or the general partner).

The following chart depicts the ownership of the partnership as of November 30, 2013:

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The Partnership is organized as follows:

Our general partner is Kestrel Heat. The Board of Directors of Kestrel Heat is appointed by its sole member, Kestrel Energy Partners, LLC, a Delaware limited liability company (Kestrel).

Our operations are conducted through Petro Holdings, Inc. (a Minnesota corporation that is our indirect wholly owned subsidiary) and its subsidiaries, all of which are corporations subject to Federal and state income taxes. At December 31, 2012, our Federal Net Operating Loss carryforwards (NOLs) were \$10.6 million, subject to annual limitations on the amount of losses that can be used of between \$1.0 million and \$2.2 million.

Star Gas Finance Company is our 100% owned subsidiary. Star Gas Finance Company serves as the co-issuer, jointly and severally with us, of our \$125.0 million 8.875% Senior Notes (excluding discounts), which are due in December 2017, that we sometimes refer to in this Report as the notes or the senior notes. We are dependent on distributions, including inter-company dividends and interest payments, from our subsidiaries to service our debt obligations. The distributions from our 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 of the Notes to the Consolidated Financial Statements - Long-Term Debt and Bank Facility Borrowings)

We file annual, quarterly, current and other reports and information with the Securities and Exchange Commission, or SEC. These filings can be viewed and downloaded from the Internet at the SEC's website at www.sec.gov. In addition, these SEC filings are available at no cost as soon as reasonably practicable after the filing thereof on our website at www.star-gas.com/sec.cfm. These reports are also available to be read and copied at the SEC's public reference room located at Judiciary Plaza, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of these filings and other information at the offices of the New York Stock Exchange located at 11 Wall Street, New York, New York 10005. Please note that any Internet addresses provided in this Annual Report on Form 10-K are for informational purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such Internet addresses is intended or deemed to be incorporated by reference herein.

Partnership Structure

The following chart summarizes our partnership structure as of September 30, 2013. Other than Star Gas Partners, L.P. all other entities in this structure are taxable as corporations for Federal and state income tax purposes.

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Business Overview

As of September 30, 2013, we sold home heating oil and propane to approximately 404,000 full service residential and commercial customers. We believe we are the largest retail distributor of residential home heating oil in the United States, based upon sales volume. We also sell home heating oil, gasoline and diesel fuel to approximately 54,000 customers on a delivery only basis. We install, maintain, and repair heating and air conditioning equipment for our customers and provide ancillary home services, including home security and plumbing, to approximately 15,700 customers. During fiscal 2013, total sales were comprised of approximately 75% from sales of home heating oil and propane; 13% from the installation and repair of heating and air conditioning equipment and ancillary services; and 12% from the sale of other petroleum products. We provide home heating equipment repair service 24 hours a day, seven days a week, 52 weeks a year. These services are an integral part of our business and are intended to maximize customer satisfaction and loyalty.

We conduct our business through an operating subsidiary, Petro Holdings, Inc., and its subsidiaries, utilizing over 30 local brand names such as Petro Heating & Air Conditioning Services and Meenan Oil. We believe that the Petro, Meenan and other trademarks and service marks are an important part of our ability to attract new customers and to effectively maintain and service our customer base.

We offer several pricing alternatives to our residential home heating oil customers, including a variable price (market based) option and a price-protected option, the latter of which either sets the maximum price or a fixed price that a customer will pay. Approximately 96% of our full service residential and commercial home heating oil and propane customers automatically receive deliveries based on prevailing weather conditions. In addition, we offer a smart pay budget payment plan in which homeowners' estimated annual oil and propane deliveries and service billings are paid for in a series of equal monthly installments. We utilize derivative instruments in order to hedge a substantial majority of the home heating oil volume we expect to sell to price-protected customers that have renewed their price-protected plans, mitigating our exposure to changing commodity prices. We also use derivative instruments as a hedge against our home heating oil physical inventory and home heating oil priced purchase commitments. Our size gives us the ability to realize economies of scale and the ability to provide consistent, strong customer service.

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Currently, we have heating oil and/or propane customers in the following states, regions and counties:

<u>Maine</u>	<u>New York</u>	<u>New Jersey</u>	<u>Maryland</u>
York	Albany	Bergen	Anne Arundel
	Bronx	Burlington	Baltimore
<u>New Hampshire</u>	Columbia	Camden	Calvert
Hillsborough County	Dutchess	Essex	Carroll
Merrimack	Essex	Gloucester	Cecil
Rockingham	Franklin	Hudson	Charles
Strafford	Fulton	Hunterdon	Frederick
	Greene	Mercer	Harford
<u>Vermont</u>	Hamilton	Middlesex	Howard
Bennington	Kings	Monmouth	Montgomery
Rutland	Montgomery	Morris	North Calvert
	Nassau	Ocean	Prince George s
<u>Massachusetts</u>	New York	Passaic	
Barnstable	Onondaga	Salem	<u>Washington, D.C.</u>
Berkshire	Orange	Somerset	District of Columbia
Bristol	Putnam	Sussex	
Essex	Queens	Union	<u>Virginia</u>
Middlesex	Rensselaer	Warren	Arlington
Norfolk	Richmond		Fairfax
Plymouth	Rockland	<u>Pennsylvania</u>	Fauquier
Suffolk	Saratoga	Berks	Loudoun
Worcester	Schenectady	Bucks	Prince William
	Schoharie	Chester	Stafford

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<u>Rhode Island</u>	Suffolk	Cumberland	
Bristol	Sullivan	Dauphin	<u>North Carolina</u>
Kent	Ulster	Delaware	Union County
Newport	Warren	Lancaster	
Providence	Washington	Lebanon	<u>South Carolina</u>
Washington	Westchester	Lehigh	Bamberg
		Monroe	Calhoun
<u>Connecticut</u>		Montgomery	Dorchester
Fairfield		Northampton	Lexington
Hartford		Perry	Orangeburg
Litchfield		Philadelphia	
Middlesex		Pike	
New Haven		York	
New London			
Tolland			
Windham			

Industry Characteristics

Home heating oil is primarily used as a source of fuel to heat residences and businesses in the Northeast and Mid-Atlantic regions. According to the U.S. Department of Energy Energy Information Administration, 2009 Residential Energy Consumption Survey (the latest survey published), these regions account for 83% (5.7 million of 6.9 million) of the households in the United States where heating oil is the main space-heating fuel and 28% (5.7 million of 20.8 million) of the homes in these regions use home heating oil as their main space-heating fuel. In recent years, as the price of home heating oil increased, customers have tended to increase their conservation efforts, which has decreased their consumption of home heating oil.

The retail home heating oil industry is mature, with total market demand expected to decline in the foreseeable future due to conversions to natural gas. We believe that conversions to natural gas have increased and may continue to do so as natural gas has become significantly less expensive than home heating oil on an equivalent BTU basis. Our customer losses to natural gas conversions for fiscal years 2013, 2012 and 2011 were 2.4%, 2.0% and 1.5% respectively. Therefore, our ability to maintain our business or grow within the industry is dependent on the acquisition of other retail distributors as well as the success of our marketing programs. Conversions to natural gas are increasing and we believe this may continue as natural gas has become significantly less expensive than home heating oil on an equivalent BTU basis. In addition, the states of New York, Connecticut and Pennsylvania are seeking to encourage homeowners to expand the use of natural gas as a heating fuel through legislation and regulatory efforts.

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Propane is a by-product of natural gas processing and petroleum refining. Propane use falls into three broad categories: residential and commercial applications; industrial applications; and agricultural uses. In the residential and commercial markets, propane is used primarily for space heating, water heating, clothes drying and cooking. Industrial customers use propane generally as a motor fuel to power over-the-road vehicles, forklifts and stationary engines, to fire furnaces, as a cutting gas and in other process applications. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry breeding and weed control.

It is common practice in our business to price products to customers based on a per gallon margin over wholesale costs. As a result, we believe distributors such as ourselves generally seek to maintain their per gallon margins by passing wholesale price increases through to customers, thus insulating their margins from the volatility in wholesale prices. However, distributors may be unable or unwilling to pass the entire product cost increases through to customers. In these cases, significant decreases in per gallon margins may result. The timing of cost pass-throughs can also significantly affect margins. The retail home heating oil industry is highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. Some dealers provide full service, as we do, and others offer delivery only on a cash-on-delivery basis, which we also do to a significantly lesser extent. The industry is complex and costly due to regulations, working capital requirements and the cost to hedge for price-protected customers.

Business Strategy

Our business strategy is to increase operating profits and cash flow by conservatively managing our operations and growing and retaining our customer base as a retail distributor of home heating oil and propane and provider of ancillary products and services. The key elements of this strategy include the following:

Deliver superior customer service. We are completely focused on providing the best customer service in our regions, with the aim of maximizing customer satisfaction and retention. To engage our employees and enhance their ability to provide superior customer service and reduce gross customer losses, we require all employees to go through customer service training supplemented by ongoing monitoring and guidance from management.

Broaden products and services. We sell related and complementary products and services, such as air conditioning systems, plumbing services, generators and home security systems, in order to leverage our organizational structure and improve our sales penetration within our existing customer base. We strive to increase the quality and breadth of our service offerings and believe that these efforts will further enhance our position with existing and potential customers, allowing us to maintain or improve customer retention.

Pursue select acquisitions. Our senior management team has developed expertise in identifying acquisition opportunities and integrating acquired customers into our operations. Through our acquisitions, we have been able to increase our presence in some of our existing geographic markets and selectively expand into new markets. Our acquisition strategy has enabled us to achieve our current market position and offers us the opportunity to achieve operating efficiencies and economies of scale.

Continue to focus on operating efficiencies. We constantly work to reduce operating costs and streamline our operations through the elimination of redundant systems and appropriate reductions in overhead.

Seasonality

Our fiscal year ends on September 30. All references to quarters and years respectively in this document are to fiscal quarters and years unless otherwise noted. The seasonal nature of our business results in the sale of approximately 30% of our volume of home heating oil and propane in the first fiscal quarter and 50% of our volume in the second fiscal quarter of each fiscal year, the peak heating season. As a result, we generally realize net income in our first and second fiscal quarters and net losses during our third and fourth fiscal quarters and we expect that the negative impact of seasonality on our third and fourth fiscal quarter operating results will continue. In addition, sales volume typically fluctuates from year to year in response to variations in weather, wholesale energy prices and other factors.

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Competition

Most of our operating locations compete with numerous distributors, primarily on the basis of price, reliability of service and response to customer needs. Each such location operates in its own competitive environment.

We compete with distributors offering a broad range of services and prices, from full-service distributors, such as ourselves, to those offering delivery only. As do many companies in our business, we provide home heating and propane equipment repair service on a 24-hour-a-day, seven-day-a-week, 52 weeks a year basis. We believe that this level of service tends to help build customer loyalty. In some instances homeowners have formed buying cooperatives that seek a lower price than individual customers are otherwise able to obtain. Our business competes for retail customers with suppliers of alternative energy products, principally natural gas, propane (in the case of our home heating oil operations) and electricity.

Customer Attrition

We measure net customer attrition for our full service residential and commercial home heating oil and propane customers. Since October 1, 2010, we have included propane customers in this calculation as several of our acquisitions since such date have included propane operations. Net customer attrition is the difference between gross customer losses and customers added through marketing efforts. Customers added through acquisitions are not included in the calculation of gross customer gains. However, additional customers that are obtained through marketing efforts at newly acquired businesses are included in these calculations. Customer attrition percentage calculations include customers added through acquisitions in the denominators of the calculations on a weighted average basis. Gross customer losses are the result of a number of factors, including price competition, move outs, credit losses and conversions to natural gas. (See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Customer Attrition.)

Customers and Pricing

Our full service home heating oil customer base is comprised of 95% residential customers and 5% commercial customers. Our residential customer receives on average 150 gallons per delivery and our commercial accounts receive on average 310 gallons per delivery. Typically, we make four to six deliveries per customer per year. Currently, 96% of our full service residential and commercial home heating oil customers have their deliveries scheduled automatically and 4% of our home heating oil customer base call from time to time to schedule a delivery. Automatic deliveries are scheduled based on each customer’s historical consumption pattern and prevailing weather conditions. Our practice is to bill customers promptly after delivery. We also offer a balanced payment plan in which a customer’s estimated annual oil purchases and service contract fees are paid for in a series of equal monthly payments. Approximately 38% of our residential home heating oil customers have selected this billing option.

We offer several pricing alternatives to our residential home heating oil customers. Our variable pricing program allows the price to float with the home heating oil market and other factors. In addition, we offer price protected programs, which establish either a ceiling or a fixed price per gallon that the customer would pay over a defined period. The following chart depicts the percentage of the pricing plans selected by our residential home heating oil customers as of the end of the fiscal year.

	September 30,				
	2013	2012	2011	2010	2009
Variable	53.1%	54.7%	54.9%	55.8%	52.3%
Ceiling	42.3%	40.5%	41.5%	41.8%	44.6%
Fixed	4.6%	4.8%	3.6%	2.4%	3.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

Sales to residential customers ordinarily generate higher per gallon margins than sales to commercial customers. Due to greater price sensitivity and hedging costs of residential price-protected customers, the per gallon margins realized from price protected customers generally are less than from variable priced residential customers.

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Derivatives

We use derivative instruments in order to mitigate our exposure to market risk associated with the purchase of home heating oil for our price-protected customers, physical inventory on hand, inventory in transit and priced purchase commitments. Currently, the Partnership's derivative instruments are with the following counterparties: Bank of America, N.A., Bank of Montreal, Cargill, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., Key Bank, N.A., Regions Financial Corporation, Societe Generale, and Wells Fargo Bank, N.A.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (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. To the extent derivative instruments designated as cash flow hedges are effective, as defined under this guidance, changes in fair value are recognized in other comprehensive income until the forecasted hedged item is recognized in earnings. We have elected not to designate our derivative instruments as hedging instruments under this guidance, and as a result, the changes in fair value of the derivative instruments during the holding period are recognized in our statement of operations. Therefore, we experience volatility in earnings as outstanding derivative instruments are marked to market and non-cash gains and losses are recorded prior to the sale of the commodity to the customer. The volatility in any given period related to unrealized non-cash gains or losses on derivative instruments can be significant to our overall results. However, we ultimately expect those gains and losses to be offset by the cost of product when purchased. 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.

Suppliers and Supply Arrangements

We purchase our product for delivery in either barge, pipeline or truckload quantities, and as of September 30, 2013 had contracts with approximately 70 third-party terminals for the right to temporarily store petroleum products and propane at their facilities. Home heating oil and propane purchases are made under supply contracts or on the spot market. We have entered into market price based contracts for approximately 81% of our expected retail home heating oil and propane requirements for the fiscal 2014 heating season. During fiscal 2013, Global Companies LLC and JPMorgan Ventures Energy Corporation provided approximately 19% and 11%, respectively, of our petroleum product purchases. No other single supplier provided more than 10% of our product supply during fiscal 2013, however, NIC Holding Corp. and Phillips 66 each provided approximately 9% of our petroleum product purchases. For fiscal 2014, we generally have supply contracts for similar quantities with Global Companies LLC, JPMorgan Ventures Energy Corporation, NIC Holding Corp. and Phillips 66. Supply contracts typically have terms of 6 to 12 months. All of the supply contracts provide for minimum quantities. In all cases, the supply contracts do not establish in advance the price of home heating oil or propane. This price is based upon a published market index price at the time of delivery or pricing date plus an agreed upon differential. We believe that our policy of contracting for the majority of our anticipated supply needs with diverse and reliable sources will enable us to obtain sufficient product should unforeseen shortages develop in worldwide supplies.

Home Heating Oil Price Volatility

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

Quarter Ended	Fiscal 2013 (1)		Fiscal 2012		Fiscal 2011		Fiscal 2010		Fiscal 2009	
	Low	High	Low	High	Low	High	Low	High	Low	High
December 31	\$ 2.90	\$ 3.26	\$ 2.72	\$ 3.17	\$ 2.19	\$ 2.54	\$ 1.78	\$ 2.12	\$ 1.20	\$ 2.85
March 31	2.86	3.24	2.99	3.32	2.49	3.09	1.89	2.20	1.13	1.63
June 30	2.74	3.09	2.53	3.25	2.75	3.32	1.87	2.35	1.31	1.86
September 30	2.87	3.21	2.68	3.24	2.77	3.13	1.92	2.24	1.50	1.96

(1) Beginning April 1, 2013, the NYMEX contract specifications were changed from high sulfur home heating oil to ultra low sulfur diesel.

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Acquisitions

Part of our business strategy is to pursue select acquisitions. During fiscal 2013, the Partnership completed two acquisitions and added approximately 2,000 home heating oil and propane accounts for an aggregate cost of approximately \$1.4 million, reduced by working capital credits of \$0.1 million. In fiscal 2012, we acquired seven retail heating oil dealers with approximately 41,000 home heating oil and propane accounts for an aggregate cost of approximately \$39.2 million, reduced by working capital credits of \$1.2 million. In fiscal 2011, we acquired four retail heating oil dealers with approximately 8,800 home heating oil and propane accounts for an aggregate cost of approximately \$9.7 million, including working capital of \$1.9 million.

Employees

As of September 30, 2013, we had 2,577 employees, of whom 747 were office, clerical and customer service personnel; 776 were equipment technicians; 386 were fuel delivery drivers and mechanics; 377 were management and 291 were employed in sales. Of these employees 866 are represented by 45 different collective bargaining agreements with local chapters of labor unions. Some of these unions have union administered pension plans that have significant unfunded liabilities, a portion of which could be assessed to us should we withdraw from these plans. The Partnership does not expect to withdraw from these plans. Depending on the demands of the 2014 heating season, we anticipate that we will augment our current staffing levels from the 483 employees on leave (330 of whom are represented by collective bargaining agreements with labor unions). We are currently involved in union negotiations with three local bargaining units. We believe that our relations with both our union and non-union employees are generally satisfactory.

Government Regulations

We are subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge or emission of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes. CERCLA, also known as the Superfund law, imposes joint and several liabilities without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. Products stored and/or delivered by us and certain automotive waste products generated by our fleet are hazardous substances within the meaning of CERCLA or otherwise subject to investigation and cleanup under other environmental laws and regulations. While we are currently not involved with any material CERCLA claims, and we have implemented programs and policies designed to address potential liabilities and costs under applicable environmental laws and regulations, failure to comply with such laws and regulations could result in civil or criminal penalties in cases of non-compliance or impose liability for remediation costs.

We have incurred and continue to incur costs to address soil and groundwater contamination at some of our locations, including legacy contamination at properties that we have acquired. A number of our properties are currently undergoing remediation, in some instances funded by prior owners or operators contractually obligated to do so. To date, no material issues have arisen with respect to such prior owners or operators addressing such remediation, although there is no assurance that this will continue to be the case. In addition, we have been subject to proceedings by regulatory authorities for alleged violations of environmental and safety laws and regulations. We do not expect any of these liabilities or proceedings of which we are aware to result in material costs to, or disruptions of, our business or operations.

In addition, transportation of our products by truck are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation or similar state agencies. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable safety regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations.

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You should consider carefully the risk factors discussed below, as well as all other information, as an investment in the Partnership involves a high degree of risk. Any of the risks described below could impair our business, financial condition and operating results, which could result in a partial or total loss of your investment.

Our operating results will be adversely affected if we continue to experience significant net attrition in our home heating oil and propane customer base.

The following table depicts our gross customer gains, gross customer losses and net customer attrition from fiscal year 2009 to fiscal year 2013. Net customer attrition is the difference between gross customer losses and customers added through marketing efforts. Customers added through acquisitions are not included in the calculation of gross customer gains. However, additional customers that are obtained through marketing efforts at newly acquired businesses are included in these calculations. Customer attrition percentage calculations include customers added through acquisitions in the denominators of the calculations on a weighted average basis. Starting October 1, 2010, we have included propane customers in this calculation as several of our acquisitions since such date have included propane operations.

	2013	Fiscal Year Ended September 30,			
	2012	2011	2010 (a)	2009 (a)	
Gross customer gains	14.8%	13.4%	13.2%	11.6%	13.5%
Gross customer losses	18.1%	18.3%	16.7%	16.6%	21.1%
Net attrition	(3.3%)	(4.9%)	(3.5%)	(5.0%)	(7.6%)(b)

- (a) Prior to October 1, 2010, we measured only home heating oil net customer attrition.
 (b) As a result of significant decreases in the price of home heating oil following the summer of 2008, we believe that approximately 10,000 price-protected customers in fiscal year 2009, chose another supplier due to being billed the termination fee for canceling their arrangement with us.

The gain of a new customer does not fully compensate for the loss of an existing customer because of the expenses incurred during the first year to acquire a new customer. Customer losses are the result of various factors, including but not limited to:

price competition;

customer relocations and home sales/foreclosures;

conversions to natural gas; and

credit worthiness.

The continuing volatility in the energy markets has intensified price competition and added to our difficulty in reducing net customer attrition.

If we are not able to reduce the current level of net customer attrition or if such level should increase, it will have a material adverse effect on our business, operating results and cash available for distributions to unitholders. For additional information about customer attrition, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Customer Attrition.

Because of the highly competitive nature of our business, we may not be able to retain existing customers or acquire new customers, which would have an adverse impact on our business, operating results and financial condition.

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Our business is subject to substantial competition. Most of our operating locations compete with numerous distributors, primarily on the basis of price, reliability of service and responsiveness to customer service needs. Each operating location operates in its own competitive environment.

We compete with distributors offering a broad range of services and prices, from full-service distributors, such as ourselves, to those offering delivery only. As do many companies in our business, we provide home heating equipment repair service on a 24-hour-a-day, seven-day-a-week, 52 weeks a year basis. We believe that this tends to build customer loyalty. In some instances homeowners have formed buying cooperatives that seek to purchase home heating oil from distributors at a price lower than individual customers are otherwise able to obtain. We also compete for retail customers with suppliers of alternative energy products, principally natural gas, propane (in the case of our home heating oil operations) and electricity. If we are unable to compete effectively, we may lose existing customers and/or fail to acquire new customers, which would have a material adverse effect on our business, operating results and financial condition.

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The following table depicts our customer losses to natural gas conversions from fiscal year 2009 to fiscal year 2013. Conversions to natural gas are increasing and we believe this may continue as natural gas has become significantly less expensive than home heating oil on an equivalent BTU basis. In addition, the states of New York, Connecticut and Pennsylvania are seeking to encourage homeowners to expand the use of natural gas as a heating fuel through legislation and regulatory efforts.

	Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Customer losses to natural gas conversion	(2.4%)	(2.0%)	(1.5%)	(1.1%)	(1.5%)

In addition to our direct customer losses to natural gas competition, any conversion to natural gas by a heating oil consumer in our geographic footprint reduces the pool of available customers from which we can gain new heating oil customers, and could have a material adverse effect on our business, operating results and financial condition.

If we do not make acquisitions on economically acceptable terms, our future growth will be limited.

Our industry is not a growth industry because new housing generally uses natural gas when it is available, and competition has also increased from alternative energy sources. Accordingly, future growth will depend on our ability to make acquisitions on economically acceptable terms. We cannot assure that we will be able to identify attractive acquisition candidates in our sector in the future or that we will be able to acquire businesses on economically acceptable terms. Factors that may adversely affect our operating and financial results may limit our access to capital and adversely affect our ability to make acquisitions. Under the terms of our amended and restated revolving credit facility that we sometimes refer to in this Report as the revolving credit facility, we are restricted from making any individual acquisition in excess of \$25.0 million without the lenders' approval. In addition, to make an acquisition, we are required to have Availability (as defined in the revolving credit facility) of at least \$40.0 million, on a historical pro forma and forward-looking basis. This covenant restriction may limit our ability to make acquisitions. Any acquisition may involve potential risks to us and ultimately to our unitholders, including:

an increase in our indebtedness;

an increase in our working capital requirements;

an inability to integrate the operations of the acquired business;

an inability to successfully expand our operations into new territories;

the diversion of management's attention from other business concerns;

an excess of customer loss or loss of key employees from the acquired business; and

the assumption of additional liabilities including environmental liabilities.

In addition, acquisitions may be dilutive to earnings and distributions to unitholders, and any additional debt incurred to finance acquisitions may, among other things, affect our ability to make distributions to our unitholders.

High product prices can lead to customer conservation and attrition, resulting in reduced demand for our products.

Prices for our products are subject to volatile fluctuations in response to changes in supply and other market conditions. During periods of high product costs our prices generally increase. High prices can lead to customer conservation and attrition, resulting in reduced demand for our

products.

A significant portion of our home heating oil volume is sold to price-protected customers (ceiling and fixed) and our gross margins could be adversely affected if we are not able to effectively hedge against fluctuations in the volume and cost of product sold to these customers.

A significant portion of our home heating oil volume is sold to individual customers under an arrangement pre-establishing the ceiling sales price or a fixed price of home heating oil over a fixed period. When the customer makes a purchase commitment for the next period we currently purchase option contracts, swaps and futures contracts for a substantial majority of the heating oil that we expect to sell to these price-protected customers. The amount of home heating oil volume that we hedge per price-protected customer is based upon the estimated fuel consumption per average customer, per month. If the actual usage exceeds the amount of the hedged volume on a monthly basis, we could be required to obtain additional volume at unfavorable margins. In addition, should actual usage in any month be less than the hedged volume, (including, for example, as a result of early terminations by fixed price customers) our hedging losses could be greater. Currently, we have elected not to designate our derivative instruments as hedging instruments under FASB ASC 815-10-05 Derivatives and Hedging, and the change in fair value of the derivative instruments is recognized in our statement of operations. Therefore, we experience volatility in earnings as these currently outstanding derivative contracts are marked to market and non-cash gains or losses are recorded in the statement of operations.

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Our risk management policies cannot eliminate all commodity risk, basis risk, or the impact of adverse market conditions which can adversely affect our financial condition, results of operations and cash available for distribution to our unitholders. In addition, any noncompliance with our risk management policies could result in significant financial losses.

While our hedging policies are designed to minimize commodity risk, some degree of exposure to unforeseen fluctuations in market conditions remains. For example, we change our hedged position daily in response to movements in our inventory. Any difference between the estimated future sales from inventory and actual sales will create a mismatch between the amount of inventory and the hedges against that inventory, and thus change the commodity risk position that the Partnership is trying to maintain. Also, significant increases in the costs of the products we sell can materially increase our costs to carry inventory. We use our credit facility as our primary source of financing to carry inventory and may be limited on the amounts we can borrow to carry inventory. Basis risk describes the inherent market price risk created when a commodity of certain grade or location is purchased, sold or exchanged as compared to a purchase, sale or exchange of a like commodity at a different time or place. Transportation costs and timing differentials are components of basis risk. For example, we use the NYMEX to hedge our commodity risk with respect to pricing of energy products traded on the NYMEX. Physical deliveries under NYMEX contracts are made in New York Harbor. To the extent we take deliveries in other ports, such as Boston Harbor, we may have basis risk. In a backward market (when prices for future deliveries are lower than current prices), basis risk is created with respect to timing. In these instances, physical inventory generally loses value as basis declines over time. Basis risk cannot be entirely eliminated, and basis exposure, particularly in backward or other adverse market conditions, can adversely affect our financial condition, results of operations and cash available for distribution to our unitholders.

We monitor processes and procedures to prevent unauthorized trading and to maintain substantial balance between purchases and sales or future delivery obligations. We can provide no assurance, however, that these steps will detect and/or prevent all violations of such risk management policies and procedures, particularly if deception or other intentional misconduct is involved.

The change in the NYMEX contract specifications from high sulfur home heating oil to ultra low sulfur diesel has increased the risks, costs and complexities of hedging.

Effective as of April 1, 2013 the NYMEX contract specifications were changed from high sulfur home heating oil to ultra low sulfur diesel. From April 1, 2013, to September 30, 2013, high sulfur home heating oil was sold at a discount to the NYMEX ultra low sulfur diesel of between \$0.065 and \$0.250 cents per gallon.

Because of differences in the price and availability of ultra low sulfur home heating oil and high sulfur home heating oil, we believe that the change in the NYMEX hedge contracts has increased the complexity, costs and risks inherent in hedging the Partnership's physical inventory and sales to its customers, which may impact home heating oil per gallon gross profit margins.

Since weather conditions may adversely affect the demand for home heating oil, our business, operating results and financial condition is vulnerable to warm winters.

Weather conditions in the Northeast and Mid-Atlantic regions in which we operate have a significant impact on the demand for home heating oil because our customers depend on this product principally for space heating purposes. As a result, weather conditions may materially adversely impact our business, operating results and financial condition. During the peak-heating season of October through March, sales of home heating oil and propane historically have represented approximately 80% of our annual oil volume. Actual weather conditions can vary substantially from year to year or from month to month, significantly affecting our financial performance. Warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume we sell and the gross profit realized and, consequently, our results of operations. In fiscal years 2012 and 2002 temperatures were significantly warmer than normal for the areas in which we sell our products, which adversely affected the amount of net income, EBITDA and Adjusted EBITDA that we generated during these periods.

To partially mitigate the adverse effect of warm weather on cash flows, we have used weather hedge contracts for a number of years. In general, such weather hedge contracts provide that we are entitled to receive a specific payment per heating degree-day shortfall, when 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 generally covers the period from November 1, through March 31, of a fiscal year taken as a whole, and has a maximum payout amount. Temperatures in fiscal year 2012, taken as a whole met the Payment Threshold, and the heating degree-day shortfall during this period resulted in our receiving the full \$12.5 million payout, which was recorded as a reduction of expenses in the line item delivery and branch expenses in the statements of operations. Temperatures in fiscal year 2013, taken as a whole did not meet the Payment Threshold and there was no payout under the weather hedge contract.

For the fiscal years 2014 and 2015, we have a weather hedge contract with Swiss Re Financial Products Corporation under which we are entitled to receive a payment of \$35,000 per heating degree-day shortfall, when the total number of heating degree-days in the period covered is less than

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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 respective fiscal year. However, there can be no assurance that such weather hedge contract would fully or substantially offset the adverse effects of warmer weather on our business and operating results during such periods.

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We experienced warmer than normal weather conditions in the fiscal 2012 heating season, which had an adverse effect on our fiscal 2012 results of operations and our financial condition.

In fiscal year 2012 temperatures were significantly warmer than normal for the areas in which we sell our products, which adversely affected the amount of net income, EBITDA and Adjusted EBITDA that we generated during this period. For those locations where we had existing operations in both periods, which we sometimes refer to as the base business (i.e., excluding acquisitions in the year made), temperatures (measured on a degree day basis) for fiscal 2012 were 21.4% warmer than the fiscal 2011 and 21.7% warmer than normal, as reported by the National Oceanic and Atmospheric Administration (NOAA).

Because of the adverse impact of warm weather in our market areas during the fiscal 2012 heating season even with the benefit of the weather hedge contract, our fixed charge coverage ratio for the twelve months ended March 31, 2012 was 1.14 versus the 1.15 required under our revolving credit facility for payments of distributions. As a result, in April 2012, we entered into an amendment to our revolving credit facility that permitted us to continue paying distributions to our unitholders for the period from April 1, 2012 through December 31, 2012, provided that our Availability (borrowing base less amounts borrowed and letters of credit Issued) was in excess of \$50.0 million and provided that distributions made during such period did not exceed \$0.2325 per common unit. During this period, we were not required to meet the fixed charge coverage test to pay distributions but were required to meet the fixed charge coverage test of 1.15 to repurchase units in addition to having an Availability of \$61.3 million. In order to pay distributions subsequent to December 31, 2012, we must maintain an availability of \$61.3 million, 17.5% of the maximum facility size on a historical pro forma and forward looking basis, and have a fixed charge coverage ratio of 1.15. Our fiscal year ended September 30, 2012, fixed charge coverage ratio was in excess of 1.15.

We participate in multiemployer pension plans whose costs represent a significant expense to us.

We participate in a number of trustee-managed multiemployer pension plans for employees covered under collective bargaining agreements. Several factors could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, insolvency of participating employers, changes in demographics and increased benefits to participants. Some of these unions have union administered pension plans that have significant unfunded liabilities, a portion of which could be assessed to us should we withdraw from these plans. However, we do not expect to withdraw from these plans. At this time, we are unable to determine whether any material adverse effect on our financial condition, results of operations or liquidity will result from our participation in these plans.

We rely on the continued solvency of our derivatives, insurance and weather hedge counterparties.

If counterparties to the derivative instruments that we use to hedge the cost of home heating oil sold to price-protected customers, physical inventory and our vehicle fuel costs were to fail, our liquidity, operating results and financial condition could be materially adversely impacted, as we would be obligated to fulfill our operational requirement of purchasing, storing and selling home heating oil and vehicle fuel, while losing the mitigating benefits of economic hedges with a failed counterparty. If one of our insurance carriers were to fail, our liquidity, results of operations and financial condition could be materially adversely impacted, as we would have to fund any catastrophic loss. If our weather hedge counterparty were to fail, we would lose the protection of our weather hedge contract in case of warmer than normal weather. Currently, we have outstanding derivative instruments with the following counterparties: Bank of America, N.A., Bank of Montreal, Cargill, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., Key Bank, N.A., Regions Financial Corporation, Societe Generale, and Wells Fargo Bank, N.A. Our primary insurance carrier is American International Group and our weather hedge counterparty is Swiss Re Financial Products Corporation.

Our operating results are subject to seasonal fluctuations.

Our operating results are subject to seasonal fluctuations since the demand for home heating oil and propane is greater during the first and second fiscal quarter of our fiscal year, which is the peak heating season. The seasonal nature of our business has resulted on average in the last five years in the sale of approximately 30% of our volume of home heating oil and propane in the first fiscal quarter and 50% of our volume in the second fiscal quarter of each fiscal year. As a result, we generally realize net income in our first and second fiscal quarters and net losses during our third and fourth fiscal quarters and we expect that the negative impact of seasonality on our third and fourth fiscal quarter operating results will continue. Thus any material reduction in the profitability of the first and second quarters for any reason, including warmer than normal weather, generally cannot be made up by any significant profitability improvements in the results of the third and fourth quarters.

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Our substantial debt and other financial obligations could impair our financial condition and our ability to fulfill our debt obligations.

At September 30, 2013, we had outstanding \$125.0 million (excluding discount) of senior notes due 2017 (the "notes"), no amount outstanding under our revolving credit facility which expires June 2016, \$44.7 million of letters of credit issued under our revolving credit facility and availability of \$164.3 million under such revolving credit facility. During the last three fiscal years we have utilized as much as \$156.3 million of our revolving credit facility in borrowings and letters of credit. Our substantial indebtedness and other financial obligations could:

impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, unit repurchases or general partnership purposes;

have a material adverse effect on us if we fail to comply with financial and affirmative and restrictive covenants in our debt agreements and an event of default occurs that is not cured or waived;

require us to dedicate a substantial portion of our cash flow for interest payments on our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital and capital expenditures;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

place us at a competitive disadvantage compared to our competitors that have proportionally less debt.

If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional equity capital or sell our assets. We might then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all.

Increases in wholesale product costs beyond current levels may have adverse effects on our business, financial condition and results of operations.

Increases in wholesale product costs beyond current levels may have adverse effects on our business, financial condition and results of operations, including the following:

customer conservation or attrition due to customers converting to lower cost heating products or suppliers;

reduced liquidity as a result of higher receivables, and/or inventory balances as we must fund a portion of any increase in receivables, inventory and hedging costs from our own resources, thereby tying up funds that would otherwise be available for other purposes;

higher bad debt expense and credit card processing costs as a result of higher selling prices;

higher interest expense as a result of increased working capital borrowing to finance higher receivables and/or inventory balances; and

higher vehicle fuel costs.

The volatility in wholesale energy costs may adversely affect our liquidity.

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Our business requires a significant amount of working capital to finance accounts receivable and inventory during the heating season. Under our revolving credit facility, we may borrow up to \$250 million, which increases to \$350 million during the peak winter months from December through April of each fiscal year. We are obligated to meet certain financial covenants under the revolving credit facility, including the requirement to maintain at all times either excess availability (borrowing base less amounts borrowed and letters of credit issued) of 12.5% of the revolving credit commitment then in effect or a fixed charge coverage ratio (as defined in the revolving credit facility agreement) of not less than 1.1.

If increases in wholesale product costs cause our working capital requirements to exceed the amounts available under our revolving credit facility or should we fail to maintain the required availability or fixed charge coverage ratio, we would not have sufficient working capital to operate our business, which could have a material adverse effect on our financial condition and results of operations.

We purchase synthetic call options and forward swaps with members of our lending group to manage market risk associated with our commitments to our customers, our physical inventory and fuel we use for our vehicles. These institutions have not required an initial cash margin deposit or any mark to market maintenance margin for these derivatives. Any mark to market exposure is reserved against our borrowing base and can thus reduce the amount available to us under our revolving credit facility. The mark to market reserve against our borrowing base for these derivative instruments with our lending group was as high as \$13.8 million, \$16.1 million, and \$9.4 million during fiscal years 2013, 2012 and 2011, respectively.

We also purchase call options to hedge the price of the products to be sold to our price-protected customers which usually require us to pay an up front cash payment. This reduces our liquidity, as we must pay for the option before any sales are made to the customer. We also purchase synthetic call options which require us to pay for these options as they expire.

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For certain of our supply contracts, we are required to establish the purchase price in advance of receiving the physical product. This occurs at the end of the month and is usually 20 days prior to receipt of the product. We use futures contracts or swaps to short the purchase commitment such that the commitment floats with the market. As a result, any upward movement in the market for home heating oil would reduce our liquidity, as we would be required to post additional cash collateral for a futures contract or our availability to borrow under our bank facility would be reduced in the case of a swap. At December 31, 2013, we expect to have approximately 40 million gallons of purchase commitments and physical inventory shorted with a futures contract or swap. If the wholesale price of heating oil increased \$1.00 per gallon, our near term liquidity in December would be reduced by \$40 million.

At September 30, 2013, we had approximately 137,000 customers, or 38% of our residential customer base, on the balanced payment plan. Volatility in wholesale prices could reduce our liquidity if we failed to recalculate the balanced payments on a timely basis or if customers resist higher balanced payments. These customers could possibly owe us more in the future than we had budgeted. Generally, customer credit balances are at their low point after the end of the heating season and at their peak prior to the beginning of the heating season.

Sudden and sharp oil price increases that cannot be passed on to customers may adversely affect our operating results.

Our industry is a margin-based business in which gross profit depends on the excess of sales prices per gallon over supply costs per gallon. Consequently, our profitability is sensitive to changes in the wholesale product cost caused by changes in supply or other market conditions. These factors are beyond our control and thus, when there are sudden and sharp increases in the wholesale cost of home heating oil, we may not be able to pass on these increases to customers through increased retail sales prices. In an effort to retain existing accounts and attract new customers we may offer discounts, which will impact the net per gallon gross margin realized.

Significant declines in the wholesale price of home heating oil may cause price-protected customers to renegotiate or terminate their arrangements which may adversely impact our gross profit and operating results.

When the wholesale price of home heating oil declines significantly after a customer enters into a price protection arrangement, some customers attempt to renegotiate their arrangement in order to enter into a lower cost pricing plan with us or terminate their arrangement and switch to a competitor. As a result of significant decreases in the price of home heating oil following the summer of 2008, many price-protected customers attempted to renegotiate their agreements with us in fiscal 2009. It is our policy to bill a termination fee when customers terminate their arrangement with us. We believe that approximately 10,000 customers chose another supplier as a result of being billed the termination fee in fiscal 2009.

Current economic conditions could adversely affect our results of operations and financial condition.

Uncertainty about current economic conditions poses a risk as our customers may reduce or postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our equipment and services and could lead to increased conservation, as we have seen certain of our customers seek lower cost providers. Any increase in existing customers or potential new customers seeking lower cost providers and/or increase in our rejection rate of potential accounts because of credit considerations could increase our overall rate of net customer attrition. In addition, we could experience an increase in bad debts from financially distressed customers, which would have a negative effect on our liquidity, results of operations and financial condition.

We are subject to operating and litigation risks that could adversely affect our operating results whether or not covered by insurance.

Our operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing customers with our products, which include combustible liquids such as propane. As a result, we may be a defendant in legal proceedings and litigation arising in the ordinary course of business.

We maintain insurance policies with insurers in amounts and with coverage and deductibles that we believe are reasonable. However, there can be no assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for remediation costs and personal and property damage or that these levels of insurance will be available in the future at economical prices.

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Our operations are subject to operational hazards and our insurance reserves may not be adequate to cover actual losses.

In storing and delivering product to our customers, our operations are subject to operational hazards such as natural disasters, adverse weather, accidents, fires, explosions, hazardous materials releases, mechanical failures and other events beyond our control. If any of these events were to occur, we could incur substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations.

As we self-insure workers' compensation, automobile and general liability claims up to pre-established limits, we establish reserves based upon expectations as to what our ultimate liability will be for claims based on our historical developmental factors. We evaluate on an annual basis the potential for changes in loss estimates with the support of qualified actuaries. As of September 30, 2013, we had approximately \$51.3 million of net insurance reserves and had issued \$42.5 million in letters of credit for current and future claims. The ultimate settlement of these claims could differ materially from the assumptions used to calculate the reserves, which could have a material effect on our results of operations.

Our results of operations and financial condition may be adversely affected by governmental regulation and associated environmental and regulatory costs.

Our business is subject to a wide range of federal and state laws and regulations related to environmental and other matters. Such laws and regulations have become increasingly stringent over time. We may experience increased costs due to stricter pollution control requirements or liabilities resulting from noncompliance with operating or other regulatory permits. New regulations might adversely impact operations, including those relating to underground storage and transportation of the products that we sell. In addition, there are environmental risks inherently associated with home heating oil operations, such as the risks of accidental releases or spills. We have incurred and continue to incur costs to remediate soil and groundwater contamination at some of our locations. We cannot be sure that we have identified all such contamination, that we know the full extent of our obligations with respect to contamination of which we are aware, or that we will not become responsible for additional contamination not yet discovered. It is possible that material costs and liabilities will be incurred, including those relating to claims for damages to property and persons.

In addition, our financial condition, results of operations and ability to pay distributions to our unitholders may be negatively impacted by significant changes in federal and state tax law.

There is increasing attention in the United States and worldwide concerning the issue of climate change and the effect of emissions of greenhouse gases, in particular from the combustion of fossil fuels. It is probable that any regulatory program that caps emissions or imposes a carbon tax will increase costs for us and our customers, which could lead to increased conservation or customers seeking lower cost alternatives. However, we cannot yet estimate the compliance costs or business impact of potential national, regional or state greenhouse gas emissions reduction legislation, regulations or initiatives, since such programs and proposals are in the early stages of development.

Energy efficiency and new technology may reduce the demand for our products and adversely affect our operating results.

Increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, have adversely affected the demand for our products by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices might reduce demand and adversely affect our operating results.

Our operations would be adversely affected if service at our third-party terminals or on the common carrier pipelines used is interrupted.

The products that we sell are transported in either barge, pipeline or in truckload quantities to third-party terminals where we have contracts to temporarily store our products. Any significant interruption in the service of these third-party terminals or on the common carrier pipelines used would adversely affect our ability to obtain product.

The risk of global terrorism and political unrest may adversely affect the economy and the price and availability of the products that we sell and have a material adverse effect on our business, financial condition and results of operations.

Terrorist attacks and political unrest may adversely impact the price and availability of the products that we sell, our results of operations, our ability to raise capital and our future growth. The impact that the foregoing may have on our industry in general, and on our business in particular, is not known at this time. An act of terror could result in disruptions of crude oil supplies, markets and facilities, and the source of the products that we sell could be direct or indirect targets. Terrorist activity may also hinder our ability to transport our products if our normal

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means of transportation become damaged as a result of an attack. Instability in the financial markets as a result of terrorism could also affect our ability to raise capital. Terrorist activity could likely lead to increased volatility in the prices of our products.

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The impact of hurricanes and other natural disasters could cause disruptions in supply and could also reduce the demand for home heating oil which would have a material adverse effect on our business, financial condition and results of operations.

Hurricanes and other natural disasters may cause disruptions in the supply chains for home heating oil and other products that we sell. Disruptions in supply could have a material adverse effect on our business, financial condition and results of operations, causing an increase in wholesale prices and a decrease in supply. Hurricanes and other natural disasters could also cause disruptions in the power grid, which could prevent our customers from operating their home heating oil systems, thereby reducing our sales. For example, on October 29, 2012, storm Sandy made landfall in our service area, resulting in widespread power outages that affected a number of our customers. Deliveries of home heating oil and propane were less than expected for certain of our customers who were without power for several weeks subsequent to storm Sandy.

Conflicts of interest have arisen and could arise in the future.

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and us or any of our limited partners and noteholders, on the other hand. As a result of these conflicts the general partner may favor its own interests and those of its affiliates over the interests of the unitholders and noteholders. The nature of these conflicts is ongoing and includes the following considerations:

The general partner's affiliates are not prohibited from engaging in other business or activities, including direct competition with us.

The general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings and reserves, each of which can impact the amount of cash, if any, available for distribution to unitholders, and available to pay principal and interest on debt and the amount of incentive distributions payable in respect of the general partner units.

The general partner controls the enforcement of obligations owed to us by the general partner.

The general partner decides whether to retain separate counsel or others to perform services for us.

In some instances the general partner may borrow funds in order to permit the payment of distributions to unitholders.

The general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

The general partner is allowed to take into account the interests of parties in addition to the Partnership in resolving conflicts of interest, thereby limiting its fiduciary duty to the unitholders.

The general partner determines whether to issue additional units or other of our securities.

The general partner determines which costs are reimbursable by us.

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The general partner is not restricted from causing us to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

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Cash distributions (if any) are not guaranteed and may fluctuate with performance and reserve requirements.

Distributions of available cash by us to unitholders will depend on the amount of cash generated, and distributions may fluctuate based on our performance. The actual amount of cash that is available will depend upon numerous factors, including:

profitability of operations,

required principal and interest payments on debt or debt prepayments,

debt covenants,

margin account requirements,

cost of acquisitions,

issuance of debt and equity securities,

fluctuations in working capital,

capital expenditures,

units repurchased,

adjustments in reserves,

prevailing economic conditions,

financial, business and other factors,

increased pension funding requirements,

the amount of our net operating loss carry forwards (as subject to any Section 382 limitation and utilization), and

the amount of cash taxes we have to pay in Federal, State and local corporate income and franchise taxes.

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Our operations are conducted through Petro Holdings, Inc. (a Minnesota corporation that is our indirect wholly owned subsidiary) and its subsidiaries, all of which are corporations subject to federal and state income taxes filed on a calendar year basis. At December 31, 2012, our federal Net Operating Loss carryforwards (NOLs) were \$10.6 million, subject to annual limitations on the amount of losses that can be used of between \$1.0 million and \$2.2 million.

Most of these factors are beyond the control of the general partner. Our Partnership Agreement gives the general partner discretion in establishing reserves for the proper conduct of our business, including acquisitions. These reserves will also affect the amount of cash available for distribution.

Our revolving credit facility and the indenture for our notes, both impose certain restrictions on our ability to pay distributions to unitholders. The most restrictive covenant is found in the revolving credit facility. In order to make any distributions to unitholders, we must maintain availability of 17.5% of the maximum facility size and a fixed charge coverage ratio of not less than 1.15, which is based on Adjusted EBITDA. (See Note 11 of the Notes to the Consolidated Financial Statements Long-Term Debt and Bank Facility Borrowings)

Unitholders have in the past and may in the future have to report income for Federal income tax purposes on their investment in us without receiving any cash distributions from us.

Star Gas Partners is a master limited partnership. Currently, our main asset and source of income is our 100% ownership interest in Star Acquisitions, Inc. (Star Acquisitions), which is the parent company of Petro Holdings, Inc. Our unitholders do not receive any of the tax benefits normally associated with owning units in a publicly traded partnership, as any cash coming from Star Acquisitions to us will generally have been taxed first at a corporate level and then may also be taxable to our unitholders as dividends, reported via annual Forms K-1. We expect that an investor will be allocated taxable income (mostly dividend income from Star Acquisitions, interest income and possibly cancellation of indebtedness income) regardless of whether a cash distribution has been paid. Our unitholders are required to report for Federal income tax purposes their allocable share of our income, gains, losses, deductions and credits, regardless of whether we make cash distributions. For example, our unitholders had \$20.3 million in dividend income reported on their 2012 K-1 s related to dividends received by us that we used to repurchase units.

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We are a holding company and have no material operations or assets. Accordingly, we are dependent on distributions from our subsidiaries to service our debt obligations. These distributions are not guaranteed and may be restricted. In addition, the notes are non-recourse to our subsidiaries.

We are a holding company for our direct and indirect subsidiaries. We have no material operations and only limited assets. Accordingly, we are dependent on cash distributions from our subsidiaries to service our debt obligations. Noteholders will not receive payments required by the notes unless our subsidiaries are able to make distributions to us after they first comply with the restrictions on distributions under the terms of their own borrowing arrangements and reserve any necessary amounts to meet their own financial obligations.

Additionally, our obligations under the notes are non-recourse to our subsidiaries. Therefore, if we should fail to pay interest or principal on the notes or breach any of our other obligations under the notes or the indenture, noteholders would not be able to obtain any such payments or obtain any other remedy from our subsidiaries, which are not liable for any of our obligations under the indenture or the notes.

We are not required to accumulate cash for the purpose of meeting our future obligations to our noteholders, which may limit the cash available to service our notes.

Subject to the limitations on restricted payments that are contained in the revolving credit facility and in the indenture governing the notes, we are not required to accumulate cash for the purpose of meeting our future obligations to our noteholders. As a result, we do not expect to accumulate significant amounts of cash and anticipate that we will be required to refinance the notes prior to their maturity. Our ability to refinance the notes will depend upon our future results of operation and financial condition as well as developments in the capital markets. Our general partner will determine the future use of our cash resources and has broad discretion in determining such uses and in establishing reserves for such uses, which may include but are not limited to:

complying with the terms of any of our agreements or obligations;

providing for distributions of cash to our unitholders in accordance with the requirements of our Partnership Agreement;

providing for future capital expenditures and other payments deemed by our general partner to be necessary or advisable, including to make acquisitions; and

repurchasing common units.

Depending on the timing and amount our use of cash, this could significantly reduce the cash available to us in subsequent periods to make payments on the notes.

The notes are structurally subordinated to all indebtedness and other liabilities of our subsidiaries.

The notes are structurally subordinated to all existing and future claims of creditors of our subsidiaries, including the lenders under our revolving credit facility, their trade creditors and all of their possible future creditors. This is because these creditors will have priority as to the assets of our subsidiaries over our claims as a direct or indirect equity holder in our subsidiaries and, thereby, indirect priority over noteholder claims. As a result, upon any distribution to these creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our property, these creditors will be entitled to be paid in full before any payment may be made with respect to the notes. Thereafter, the holders of the notes will participate with our trade creditors and all other holders of our senior indebtedness in the assets remaining, if any. In any of these cases, we may have insufficient funds to pay all of our creditors and noteholders may therefore receive less, ratably, than creditors of our subsidiaries. As of September 30, 2013, the notes ranked structurally junior to \$245.2 million of indebtedness and other liabilities of our subsidiaries.

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Restrictive covenants in the agreements governing our indebtedness and other financial obligations of our subsidiaries may reduce our operating flexibility.

The indenture governing our notes and the revolving credit facility agreement contain various covenants that limit our ability and the ability of specified subsidiaries of ours to, among other things:

incur additional indebtedness;

make distributions to our unitholders;

purchase or redeem our outstanding equity interests or subordinated debt;

make specified investments;

create liens;

sell assets;

engage in specified transactions with affiliates;

restrict the ability of our subsidiaries to make specified payments, loans, guarantees and transfers of assets or interests in assets;

engage in sale-leaseback transactions;

effect a merger or consolidation with or into other companies or a sale of all or substantially all of our properties or assets; and

engage in other lines of business.

These restrictions could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. The agreements also require us to maintain specified financial ratios and satisfy other financial conditions. Our ability to meet those financial ratios and conditions can be affected by events beyond their control, such as weather conditions and general economic conditions. Accordingly, we may be unable to meet those ratios and conditions.

Any breach of any of these covenants or failure to meet any of these ratios or conditions could result in a default under the terms of the relevant indebtedness or other financial obligations, which could cause such indebtedness or other financial obligations, and by reason of cross-default provisions, the notes, to become immediately due and payable. If we were unable to repay those amounts, the lenders could initiate a bankruptcy proceeding or liquidation proceeding or proceed against the collateral, if any. If the lenders of our indebtedness or other financial obligations accelerate the repayment of borrowings or other amounts owed, we may not have sufficient assets to repay our indebtedness or other financial obligations, including the notes.

We may be unable to repurchase the notes upon a change of control and it may be difficult to determine if a change of control has occurred.

Upon the occurrence of a change of control as defined in the indenture for the notes, we or a third party will be required to make a change of control offer to repurchase the notes at 101% of their principal amount, plus accrued and unpaid interest. The terms of our indebtedness limit our ability to repurchase the notes in those circumstances. Any of our future debt agreements may contain similar restrictions and provisions. Accordingly, we may be unable to satisfy our obligations to purchase the notes unless we are able to refinance or obtain waivers under our indebtedness. We may not have the financial resources to purchase the notes, particularly if a change of control event triggers a similar repurchase requirement for, or results in the acceleration of, other indebtedness. Our failure to make or consummate a change of control repurchase offer or pay the change of control purchase price when due will give the trustee and the holders of the notes certain default rights as set forth in the indenture.

Our obligations under the revolving credit facility (as of September 30, 2013, no amount was outstanding under the revolving credit facility, \$44.7 million of letters of credit were issued and we had availability of \$164.3 million) are subject to change of control provisions at least as restrictive as the change of control provisions under the notes. Accordingly, any event which would be a change of control under the senior notes would also be a change of control under such other indebtedness. We are not restricted from entering into a transaction that would trigger the change of control provisions. If these change of control provisions are triggered, some of the outstanding debt may become due. It is possible that we would not have sufficient funds at the time of any change of control to make the required debt payments or that restrictions in other debt instruments would not permit those payments. In some instances, lenders would have the right to foreclose on our assets if debt payments were not made upon a change of control.

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A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Our debt currently has a non-investment grade rating, and any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. Credit ratings are not recommendations to purchase, hold or sell the notes. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure or marketing of the notes. Any downgrade by either Standard & Poor's or Moody's Investors Service would increase the interest rate on our revolving credit facility, decrease earnings and may result in higher borrowing costs.

Any future lowering of our ratings likely would make it more difficult or more expensive for us to obtain additional debt financing. If any credit rating initially assigned to the notes is subsequently lowered or withdrawn for any reason, noteholders may not be able to resell their notes without a substantial discount.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We provide services to our customers in the United States from Maine to South Carolina from 35 principal operating locations and 72 depots, 31 of which are owned and 76 of which are leased. As of September 30, 2013, we had a fleet of 998 truck and transport vehicles, the majority of which were owned and 1,066 service vans, the majority of which were leased. We lease our corporate headquarters in Stamford, Connecticut. Our obligations under our revolving credit facility are secured by liens and mortgages on substantially all of the Partnership's and subsidiaries' real and personal property.

ITEM 3. LEGAL PROCEEDINGS LITIGATION

We are involved from time to time in litigation incidental to the conduct of our business, but we are not currently a party to any material lawsuit or proceeding.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S UNITS AND RELATED MATTERS

The common units, representing limited partner interests in the Partnership, are listed and traded on the New York Stock Exchange, Inc. (NYSE) under the symbol SGU .

The following tables set forth the high and low closing price ranges for the common units and the cash distribution declared on each unit for the fiscal 2013 and 2012 quarters indicated.

SGU	Common Unit Price Range	Distributions Declared
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Quarter Ended	High		Low		per Unit	
	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
	Year	Year	Year	Year	Year	Year
	2013	2012	2013	2012	2013	2012
December 31,	\$ 4.36	\$ 5.15	\$ 3.98	\$ 4.70	\$ 0.0775	\$ 0.0775
March 31,	\$ 4.90	\$ 4.88	\$ 4.13	\$ 4.09	\$ 0.0775	\$ 0.0775
June 30,	\$ 5.02	\$ 4.19	\$ 4.48	\$ 3.66	\$ 0.0825	\$ 0.0775
September 30,	\$ 5.07	\$ 4.52	\$ 4.73	\$ 4.11	\$ 0.0825	\$ 0.0775

As of November 30, 2013, there were approximately 340 holders of record of common units.

There is no established public trading market for the Partnership's 0.3 million general partner units.

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Partnership Distribution Provisions