STAR GAS PARTNERS LP
Form 10-K
December 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number: 001-14129

STAR GAS PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**06-1437793**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9 West Broad Street, Stamford, Connecticut	**06902**
(Address of principal executive office)	**(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 x

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 x

¨ 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 x 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 x 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, and accelerated filer and smaller reporting company in Rule 12b-2 of the Act (check one).

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant s common units held by non-affiliates on March 31, 2014 was approximately $255,051,000. As of November 30, 2014, the registrant had 57,282,752 common units outstanding.

Documents Incorporated by Reference: None

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STAR GAS PARTNERS, L.P.

2014 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 heading 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 provide 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, 2014, had outstanding 57.3 million common partner units (NYSE: SGU) representing a 99.43% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing a 0.57% 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, 2014:

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The Partnership is organized as follows:

- Our general partner is Kestrel Heat, LLC, a Delaware limited liability company (Kestrel Heat or the general partner). 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 a wholly owned subsidiary of Star Acquisitions, Inc., and its subsidiaries.

- 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 principal amount of 8.875% Senior Notes, 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, 2014. 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

We are a home heating oil and propane distributor and service provider that principally serves residential and commercial customers in the Northeast and Mid-Atlantic regions to heat their homes and buildings. As of September 30, 2014, we sold home heating oil and propane to approximately 444,000 full service residential and commercial customers. We believe we are the largest retail distributor of home heating oil in the United States, based upon sales volume with a market share in excess of 5.5%. We also sell home heating oil, gasoline and diesel fuel to approximately 68,000 customers on a delivery only basis. We install, maintain, and repair heating and air conditioning equipment and to a lesser extent provide these services outside our customer base. In addition, we provide ancillary home services, including home security and plumbing, to approximately 22,000 customers, many who are also existing home heating oil and propane customers. During fiscal 2014, total sales were comprised approximately 74% from sales of home heating oil and propane; 12% from the installation and repair of heating and air conditioning equipment and ancillary services; and 14% 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., utilizing over 30 local brand names such as Petro Home Services, Burke Heat, Atlas Glen-mor, and Griffith Energy Services, Inc. to name a few.

We also 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. Users choose which plan they feel best suits them increasing customer satisfaction. Approximately 96% of our full service residential and commercial home heating oil customers automatically receive deliveries based on prevailing weather conditions. In addition, we offer a smart pay budget payment plan in which homeowners estimated annual billings are paid for in a series of equal monthly installments. We use derivative instruments as needed to mitigate our exposure to market risk associated with our price-protected offerings and the storing of our physical home heating oil inventory. Given our size, we are able to realize benefits of scale and 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:

Maine

York

New Hampshire

Hillsborough

Merrimack

Rockingham

Strafford

Vermont

Bennington

Massachusetts

Barnstable

Bristol

Essex

Hampden

Middlesex

Norfolk

Plymouth

Suffolk

Worcester

Rhode Island

New York

Albany

Bronx

Columbia

Dutchess

Fulton

Greene

Kings

Montgomery

Nassau

New York

Orange

Putnam

Queens

Rensselaer

Richmond

Rockland

Saratoga

Schenectady

Schoharie

Suffolk

Sullivan

Ulster

Warren

New Jersey

Atlantic

Bergen

Burlington

Camden

Cumberland

Essex

Gloucester

Hudson

Hunterdon

Mercer

Middlesex

Monmouth

Morris

Ocean

Passaic

Salem

Somerset

Sussex

Union

Warren

Pennsylvania

Adams

Maryland

Anne Arundel

Baltimore

Calvert

Caroline

Carroll

Cecil

Charles

Dorchester

Frederick

Harford

Howard

Kent

Montgomery

Prince George s

Queen Anne

St. Mary s

Talbot

Washington

Virginia

Arlington

Clarke

Fairfax

Bristol

Kent

Newport

Providence

Washington

Connecticut

Fairfield

Hartford

Litchfield

Middlesex

New Haven

New London

Tolland

Windham

Washington

Westchester

Delaware

Kent

New Castle

Sussex

Washington, D.C.

District of Columbia

Berks

Bucks

Chester

Cumberland

Dauphin

Delaware

Franklin

Fulton

Lancaster

Lebanon

Lehigh

Monroe

Montgomery

Northampton

Perry

Philadelphia

Schuylkill

York

Frederick

Fauquier

Loudoun

Prince William

Stafford

Warren

West Virginia

Berkeley

Jefferson

Morgan

North Carolina

Union

South Carolina

Bamberg

Calhoun

Chester

Dorchester

Fairfield

Kershaw

Lexington

Orangeburg

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 in part to conversions to natural gas. Our customer losses to natural gas conversions for fiscal years 2014, 2013, 2012, 2011 and 2010 were 2.2%, 2.4%, 2.0%, 1.5% and 1.1% 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 have increased 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.

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 Adjusted EBITDA and cash flow by effectively managing operations while 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:

Pursue select acquisitions. Our senior management team has developed expertise in identifying acquisition opportunities and integrating acquired customers into our operations. We continue to focus on acquiring profitable companies within and outside our current footprint.

While we still actively pursue home heating oil only companies, we have found that modestly sized dual fuel (home heating oil and propane) companies are a niche for us and can help us grow our propane business more rapidly.

The focus for our acquisitions is both within our current footprint, where we can leverage our existing operating structure to reduce costs, as well as outside of such areas if the target company is of adequate size to sustain profitability as a stand-alone operation. We have used this strategy to expand into several states over the past five years.

Deliver superior customer service. We are dedicated to providing the best customer service in our industry to maximize customer satisfaction and retention. To engage our employees and enhance their ability to provide superior customer service and reduce gross customer losses, our employees are encouraged to go through customer service training, supplemented by ongoing monitoring and guidance from management.

Additionally, we have established a technical training committee to ensure that our field personnel are properly educated on the latest technology while operating in a safe and efficient manner.

Diversification of product and service offerings. In addition to expanding our propane operations, we continue to focus on expanding our suite of rationally related products and services in an effort to increase revenue and Adjusted EBITDA while improving retention of our existing home heating oil and propane customers. These offerings include, but are not limited to, the sales, service and installation of heating and air conditioning equipment, plumbing services, home security systems and standby home generators. In addition, we also repair and install natural gas heating systems. We place significant emphasis on growing a solid, credit-worthy customer base with a focus on recurring revenue in the form of annual service agreements.

Realizing we have historically been known primarily as a home heating oil provider, we are in the process of repositioning our larger brands to reflect a broader range of products and services and position us as a leading provider of such services within the markets where we operate.

The addition of these products and services gives us the ability to leverage our existing organizational structure and improve our sales penetration with current and potential customers, allowing us to retain our customers.

Geographic expansion

We utilize census-based demographic data as well as local field expertise to target areas contiguous to our geographic footprint for organic expansion in a strategic manner. We then operate in such areas using existing logistical resources and personnel, adding staff if required as the business demands.

We grow the business in a strategic fashion utilizing advertising and marketing initiatives to expand our presence while building an effective marketing database of prospects and customers.

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.

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 fiscal 2011, we have included propane customers in this calculation as several of our acquisitions 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.)

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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 160 gallons per delivery and our commercial accounts receive on average 320 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 billings are paid for in a series of equal monthly payments. Approximately 37% 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,				
	2014	**2013**	**2012**	**2011**	**2010**
Variable	53.5%	53.1%	54.7%	54.9%	55.8%
Ceiling	40.8%	42.3%	40.5%	41.5%	41.8%
Fixed	5.7%	4.6%	4.8%	3.6%	2.4%
	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.

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 services, or delivery and branch expenses.

Suppliers and Supply Arrangements

We purchase our product for delivery in either barge, pipeline, in place or truckload quantities, and as of September 30, 2014 had contracts with approximately 100 third-party terminals for the right to temporarily store petroleum products 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 87% of our expected retail home heating oil and propane requirements for the fiscal 2015 heating season. We also have market price based contracts for approximately 28% of our expected diesel and gasoline requirements for fiscal 2015.

During fiscal 2014, Global Companies LLC and NIC Holding Corp. provided approximately 17% and 11%, respectively, of our petroleum product purchases. No other single supplier provided more than 10% of our product supply during fiscal 2014. For fiscal 2015, we generally have supply contracts for similar quantities with Global Companies LLC and NIC Holding Corp. Supply contracts typically have terms of 6 to 12 months. All of the supply contracts provide for minimum quantities and in most cases 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, 2010 through 2014, on a quarterly basis, is illustrated by the following chart:

	Fiscal 2014 (1) (2)		Fiscal 2013 (1)		Fiscal 2012		Fiscal 2011		Fiscal 2010	
	Low	High	Low	High	Low	High	Low	High	Low	High
Quarter Ended										
December 31	$ 2.84	$ 3.12	$ 2.90	$ 3.26	$ 2.72	$ 3.17	$ 2.19	$ 2.54	$ 1.78	$ 2.12
March 31	2.89	3.28	2.86	3.24	2.99	3.32	2.49	3.09	1.89	2.20
June 30	2.85	3.05	2.74	3.09	2.53	3.25	2.75	3.32	1.87	2.35
September 30	2.65	2.98	2.87	3.21	2.68	3.24	2.77	3.13	1.92	2.24

(1) Beginning April 1, 2013, the NYMEX contract specifications were changed from high sulfur home heating oil to ultra low sulfur diesel.
(2) As of November 30, 2014, the price per gallon for ultra low sulfur diesel was $2.23.

Acquisitions

Part of our business strategy is to pursue select acquisitions. During fiscal 2014, including the acquisition of Griffith Energy Services, Inc. (Griffith), the Partnership acquired three heating oil dealers with approximately 51,000 home heating oil and propane accounts for an aggregate purchase price of approximately $98.5 million. Of this total, $97.7 million pertained to the purchase price of Griffith, which was allocated $52.6 million to intangible assets, $17.3 million to fixed assets and $27.8 million to working capital (net of $4.2 million of cash acquired). The $0.8 million gross purchase price of our other two fiscal year 2014 acquisitions were allocated $1.1 million to intangible assets, $0.3 million to fixed assets and reduced by $0.6 million for working capital credits. Each acquired company s operating results are included in the Partnership s consolidated financial statements starting on its acquisition date. Customer lists, other intangibles and trade names are amortized on a straight-line basis over seven to twenty years.

During fiscal 2013, the Partnership acquired two heating oil dealers with approximately 2,000 home heating oil and propane accounts for an aggregate purchase price of approximately $1.4 million. The gross purchase price was allocated $1.3 million to intangible assets, $0.2 million to fixed assets and reduced by $0.1 million for working capital credits.

During fiscal 2012, the Partnership acquired seven heating oil and propane dealers with approximately 41,000 home heating oil and propane accounts for an aggregate purchase price of approximately $39.2 million. The gross purchase price was allocated $32.4 million to intangible assets, $8.0 million to fixed assets and reduced by $1.2 million for working capital credits.

Employees

As of September 30, 2014, we had 2,958 employees, of whom 823 were office, clerical and customer service personnel; 888 were equipment technicians; 479 were fuel delivery drivers and mechanics; 451 were management and 317 were employed in sales. Of these employees 1,182 are represented by 49 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 2015 heating season, we anticipate that we will augment our current staffing levels from the 457 employees on leave (309 of whom are represented by collective bargaining agreements with labor unions indicated earlier). We are currently involved in union negotiations with two local bargaining units which cover 19 employees. There currently are four collective bargaining agreements that are expired, covering approximately 27 employees, and 10 more collective bargaining agreements which come up for renewal in fiscal 2015, covering approximately 205 employees. 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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ITEM 1A. RISK FACTORS

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. We are subject to certain risks and hazards due to the nature of the business activities we conduct. The risks discussed below, any of which could materially and adversely affect our business, financial condition, cash flows, and results of operations, could result in a partial or total loss of your investment, and are not the only risks we face. We may experience additional risks and uncertainties not currently known to us or, as a result of developments occurring in the future, conditions that we currently deem to be immaterial may also materially and adversely affect our business, financial condition, cash flows and results of operations.

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 2010 to fiscal year 2014. 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.

	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010 (a)
Gross customer gains	16.0%	14.8%	13.4%	13.2%	11.6%
Gross customer losses	16.9%	18.1%	18.3%	16.7%	16.6%
Net attrition	(0.9%)	(3.3%)	(4.9%)	(3.5%)	(5.0%)

(a) Prior to fiscal 2011, we measured only home heating oil net customer attrition.

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.

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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.

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.

The following table depicts our customer losses to natural gas conversions from fiscal year 2010 to fiscal year 2014. Conversions to natural gas have increased 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,				
	2014	2013	2012	2011	2010
Customer losses to natural gas conversion	(2.2)%	(2.4)%	(2.0)%	(1.5)%	(1.1)%

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

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.

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.

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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.

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 we are 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.

Since weather conditions may adversely affect the demand for home heating oil and propane, our business, operating results and financial condition are 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 and propane 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 hedge period is less than approximately 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.

For fiscal years 2015, 2016 and 2017 we have a weather hedge contract with subsidiaries of Swiss Re 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 hedge period is less than approximately 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 period.

The increased costs of employer-sponsored health insurance premiums and incremental costs due to the Affordable Healthcare Act could materially and adversely affect the Company s financial condition, results of operations, cash flows and ability to hire and retain employees.

In March 2010, the United States federal government enacted comprehensive health care reform legislation, which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new fees on health insurers, self-insured companies, and health care benefits. The legislation imposes implementation effective dates that began in 2010 and extend through 2020 with many of the changes requiring additional guidance and regulations from federal agencies. Possible adverse effects could include increased costs, exposure to expanded liability, and requirements for us to revise the ways in which healthcare and other benefits are provided to employees. Such future higher costs could have a material adverse effect on our financial condition, results of operations, and cash flows. Attempts to pass all the increased costs through to our customers could result in higher attrition. Mitigating those costs through reducing benefits to employees could impair our ability to hire and/or retain employees, as other potential employers may be able to either absorb the higher costs or be able to pass more of the increase through to their customers than we may be able to.

Our obligation to fund multi-employer pension plans to which we contribute may have an adverse impact on us.

We participate in a number of trustee-managed multi-employer 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, there be a mass withdrawal from these plans, or the plans become insolvent or otherwise terminate. While we currently have no intention of withdrawing from a plan and unfunded pension obligations have not significantly affected our operations in the past, there can be no assurance that we will not be required to make material cash contributions to one or more of these plans to satisfy certain underfunded benefit obligations in the future. Any termination of a multi-employer plan, or mass withdrawal or insolvency of contributing employers, could require us to contribute an amount under a plan of rehabilitation or surcharge assessment that would have a material adverse impact on our consolidated financial condition, results of operations and cash flows.

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. 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 carriers are American International Group and Federated Mutual Insurance Company, and our weather hedge counterparties are subsidiaries of Swiss Re.

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, 2014, we had outstanding $125.0 million of senior notes due 2017 (the notes), zero borrowed under our revolving credit facility, which expires in January 2019 (if the Partnership has met the conditions of the facility termination date as defined in the agreement), $52.8 million of letters of credit issued, $14.9 million of hedge positions secured, and availability of $149.6 million under such revolving credit facility. During the last three fiscal years we have utilized as much as $253.8 million of our revolving credit facility in borrowings, letters of credit and hedging reserve. 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 may have adverse effects on our business, financial condition and results of operations.

Increases in wholesale product costs 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.

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 $300 million, which increases to $450 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 highest mark to market reserve against our borrowing base for these derivative instruments with our lending group was $14.9 million, $13.8 million, and $16.1 million, during fiscal years 2014, 2013, and 2012, 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 upfront 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.

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, 2014, 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, 2014, we had approximately 142,000 customers, or 37% 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 terminated their relationship with us 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. 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.

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

In providing services 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, 2014, we had approximately $57.3 million of net insurance reserves and had issued $48.4 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. For example, an increase in federal and state income tax rates will reduce the amount of cash to pay distributions.

There is increasing attention in the United States and worldwide concerning the issue of climate change and the effect of emissions of greenhouse gases (GHG), in particular from the combustion of fossil fuels. Federal, regional and state regulatory authorities in many jurisdictions have begun taking steps to regulate GHG emissions. In June 2014, the United States Environmental Protection Agency (EPA) issued its Clean Power Plan for regulation of GHG emissions. Under the Clean Power Plan, the EPA will set state-specific goals for GHG emissions reductions, leaving the states with flexibility to determine how to achieve such goals. While it is too early to predict how the states where we operate or from which we obtain our products will elect to control GHG emissions, it is likely 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 many such programs and proposals are still in development.

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 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.

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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 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.

The impact of hurricanes and other natural disasters could cause disruptions in supply and could also reduce the demand for the products that we sell, 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 the 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.

Our operations depend on the use of information technology (IT) systems that could be the target of cyber-attack.

Our systems and networks, as well as those of our customers, vendors, banks, and counterparties, may become the target of cyber-attacks or information security breaches, which in turn could result in the unauthorized release and misuse of confidential or proprietary information as well as disrupt our operations or damage our facilities or those of third parties, which could have a material adverse effect on our revenues and increase our operating and capital costs, which could reduce the amount of cash otherwise available for distribution. We may be required to incur additional costs to modify or enhance our systems or in order to try to prevent or remediate any such attacks.

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.

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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We identified a material weakness in our internal control over financial reporting at our last assessment date.

In connection with our assessment of the effectiveness of internal control over financial reporting at our last assessment date, September 30, 2013, we identified certain deficiencies related to the recognition and measurement of certain state sales and petroleum tax assessments and the ineffective operation of certain account reconciliation controls. These control deficiencies did not result in a material misstatement to our consolidated financial statements. However, they could have resulted in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected, and therefore constituted a material weakness in our internal control related to financial reporting.

Management of the Company implemented several processes to remediate the material weakness in the Company s internal control over financial reporting and the ineffectiveness of its disclosure controls and procedures including:

Appointment of an experienced zone controller to replace the prior zone controller of the accounting region in which the material weakness occurred.

Additional controls surrounding the collection, recording and remittance of non-income related taxes.

Reinforcement of management s certification process to emphasize senior manager s accountability for, and commitment to maintaining an ethical environment.

Code of Conduct and Ethics trainings with all accounting and financial reporting personnel.

We have determined as of September 30, 2014 that the remediation controls discussed above were effectively designed and demonstrated effective operation for a sufficient period of time to enable us to conclude that the material weakness has been remediated.

For further detail regarding these deficiencies and our remediation efforts to address the material weakness, see Item 9 A. Controls and Procedures.

A substantial portion of our workforce is unionized, and we may face labor actions that could disrupt our operations or lead to higher labor costs and adversely affect our business.

As of September 30, 2014, approximately 40% of our employees were covered under 49 different collective bargaining agreements. As a result, we are usually involved in union negotiations with several local bargaining units at any given time. There can be no assurance that we will be able to negotiate the terms of any expired or expiring agreement on terms satisfactory to us. Although we consider our relations with our employees to be generally satisfactory, we may experience strikes, work stoppages or slowdowns in the future. If our unionized workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations, which could have a material adverse effect on our business, results of operations and financial condition. Moreover, our non-union employees may become subject to labor organizing efforts. If any of our current non-union facilities were to unionize, we could incur increased risk of work stoppages and potentially higher labor costs.

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, including minimum availability requirements,

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. As of January 1, 2014, our federal Net Operating Loss carryforwards (NOLs) were $8.3 million. The Federal NOLs, which expire between 2018 and 2024, are generally available to offset any future taxable income but are subject to annual limitations of between $1.0 million and $2.2 million.

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 15.0% of the 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 $12.2 million in dividend income reported on their 2013 K-1 s related to dividends received by us that we used to repurchase units.

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

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The $125.0 million of senior notes due 2017 (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, 2014, the notes ranked structurally junior to $280.6 million of indebtedness and other liabilities of our subsidiaries.

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 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 other 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 other 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.

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Our obligations under the revolving credit facility (as of September 30, 2014, no amount was outstanding under the revolving credit facility, $52.8 million of letters of credit were issued, $14.9 million were used to secure hedge positions and we had availability of $149.6 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.

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 fifteen states and the District of Columbia, ranging from Maine to South Carolina from 41 principal operating locations and 74 depots, 35 of which are owned and 80 of which are leased. As of September 30, 2014, we had a fleet of 1,154 truck and transport vehicles, the majority of which were owned and 1,194 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 .

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The following tables set forth the range of the daily high and low sales prices per common unit and the cash distributions declared on each unit for the periods indicated.

	SGU Common Unit Price Range High		Low		Distributions Declared per Unit	
	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013
Quarter Ended						
December 31,	$ 5.65	$ 4.36	$ 4.86	$ 3.92	$ 0.0825	$ 0.0775
March 31,	$ 5.99	$ 4.96	$ 5.26	$ 4.13	$ 0.0825	$ 0.0775
June 30,	$ 7.24	$ 5.02	$ 5.85	$ 4.44	$ 0.0875	$ 0.0825
September 30,	$ 6.60	$ 5.35	$ 5.35	$ 4.63	$ 0.0875	$ 0.0825

As of November 30, 2014, there were approximately 315 holders of record of common units.

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

Partnership Distribution Provisions

We are required to make distributions in an amount equal to our Available Cash, as defined in our Partnership Agreement, no more than 45 days after the end of each fiscal quarter, to holders of record on the applicable record dates. Available Cash, as defined in our Partnership Agreement, generally means all cash on hand at the end of the relevant fiscal quarter less the amount of cash reserves established by the Board of Directors of our general partner in its reasonable discretion for future cash requirements. These reserves are established for the proper conduct of our business, including the payment of debt principal and interest, for minimum quarterly distributions during the next four quarters and to comply with applicable laws and the terms of any debt agreements or other agreement to which we are subject. The Board of Directors of our general partner reviews the level of Available Cash each quarter based upon information provided by management.

According to the terms of our Partnership Agreement, minimum quarterly distributions on the common units accrue at the rate of $0.0675 per quarter ($0.27 on an annual basis). The information concerning restrictions on distributions required by Item 5 of this report is incorporated by reference to Note 3. Quarterly Distribution of Available Cash, of the Partnership s consolidated financial statements.

The revolving credit facility and the indenture for the notes both impose certain restrictions on our ability to pay distributions to unitholders. The most restrictive covenant is found in the Partnership s revolving credit facility. In order to pay any distributions to unitholders or repurchase Common Units, the Partnership must maintain Availability (as defined in the second amended and restated credit facility agreement) of $45 million, 15.0% of the facility size of $300 million (assuming the non-seasonal aggregate commitment is outstanding), on a historical pro forma and forward-looking basis, and a fixed charge coverage ratio of not less than 1.15 measured as of the date of repurchase. (See Note 11 of the Notes to the Consolidated Financial Statements Long-Term Debt and Bank Facility Borrowings).

On October 30, 2014, we declared a quarterly distribution of $0.0875 per unit, or $0.35 per unit on an annualized basis, on all Common Units with respect to the fourth quarter of fiscal 2014, payable on November 14, 2014, to holders of record on November 10, 2014. In accordance with our Partnership Agreement, the amount of distributions in excess of the minimum quarterly distribution of $0.0675, are distributed 90% to Common Unit holders and 10% to the General Partner unit holders (until certain distribution levels are met), subject to the management incentive compensation plan. As a result, $5.0 million was paid to the Common Unit holders, $0.1 million to the General Partner unit holders (including $0.06 million of incentive distribution as provided for in our Partnership Agreement) and $0.06 million to management pursuant to the management incentive compensation plan which provides for certain members of management to receive incentive distributions that would otherwise be payable to the General Partner.

Common Unit Repurchase Plans and Retirement

From July 21, 2009 (the start of the Plan I Common Units repurchase program) to November 30, 2014 (the current Plan III Common Units repurchase program in effect) the Partnership has repurchased and retired 18.5 million Common Units at an aggregate purchase price of $83.9 million or an average price of $4.54 per unit.

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

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

In July 2012, the Board of Directors (the Board) of the general partner of the Partnership authorized the repurchase of up to 3.0 million of the Partnership s Common Units (Plan III). In July 2013, the Board authorized the repurchase of an additional 1.9 million Common Units under Plan III. The authorized Common Unit repurchases may be made from time-to-time in the open market, in privately negotiated transactions or in such other manner deemed appropriate by management. There is no guarantee of the exact number of units that will be purchased under the program and the Partnership may discontinue purchases at any time. The program does not have a time limit. The Board may also approve additional purchases of units from time to time in private transactions. The Partnership s repurchase activities take into account SEC safe harbor rules and guidance for issuer repurchases. All of the Common Units purchased in the repurchase program will be retired.

(in thousands, except per unit amounts)

Period		Total Number of Units Purchased (a)	Average Price Paid per Unit (b)		Maximum Number of Units that May Yet Be Purchased
Plan III	**Number of units authorized**				**4,894**
Private transaction	**Number of units authorized (c)**				**1,150**
					6,044
Plan III	Fiscal year 2012 total	22	$	4.26	6,022
Plan III	Fiscal year 2013 total (c)	3,284	$	4.63	2,738
Plan III	First quarter fiscal year 2014 total (d)	250	$	5.20	2,488
Plan III	Second quarter fiscal year 2014 total		$		2,488
Plan III	Third quarter fiscal year 2014 total		$		2,488
Plan III	July 2014		$		2,488
Plan III	August 2014	9	$	5.76	2,479
Plan III	September 2014	54	$	5.78	2,425
Plan III	Fourth quarter fiscal year 2014 total	63	$	5.77	2,425
Plan III	Fiscal year 2014 total	313	$	5.32	2,425
Plan III	October 2014	122	$	5.64	2,303
Plan III	November 2014		$		2,303

(a) Units were repurchased as part of a publicly announced program, except as noted in a private transaction.
(b) Amounts include repurchase costs.
(c) Fiscal year 2013 common unit repurchases include 1.15 million common units acquired in a private transaction.
(d) First quarter fiscal year 2014 common unit repurchases were acquired in a private transaction.

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ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The selected financial data as of September 30, 2014 and 2013, and for the years ended September 30, 2014, 2013 and 2012 is derived from the financial statements of the Partnership included elsewhere in this Report. The selected financial data as of September 30, 2012, 2011 and 2010 and for the years ended September 30, 2011 and 2010 is derived from financial statements of the Partnership not included in this Report. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Years Ending September 30,				
(in thousands, except per unit data)	**2014**	**2013**	**2012**	**2011**	**2010**
Statement of Operations Data:					
Sales	$ 1,961,724	$ 1,741,796	$ 1,497,588	$ 1,591,310	$ 1,212,776
Costs and expenses:					
Cost of sales	1,555,300	1,388,668	1,199,811	1,237,341	904,047
(Increase) decrease in the fair value of derivative instruments	6,566	6,775	(8,549)	2,567	(5,622)
Delivery and branch expenses	282,646	250,210	217,376	250,762	218,625
Depreciation and amortization expenses	21,635	17,303	16,395	17,884	15,745
General and administrative expenses	22,592	18,356	18,689	20,709	21,397
Finance charge income	(6,870)	(5,521)	(4,393)	(4,814)	(3,442)
Operating income	79,855	66,005	58,259	66,861	62,026
Interest expense, net	16,854	14,433	14,060	15,654	14,262
Amortization of debt issuance costs	1,602	1,745	1,634	2,440	2,680
Loss on redemption of debt				1,700	1,132
Income before income taxes	61,399	49,827	42,565	47,067	43,952
Income tax expense	25,315	19,921	16,576	22,723	15,632
Net income	$ 36,084	$ 29,906	$ 25,989	$ 24,344	$ 28,320
Weighted average number of limited partner units:					
Basic and diluted	57,476	59,409	61,931	66,822	70,019

	Fiscal Years Ended September 30,				
(in thousands, except per unit data)	**2014**	**2013**	**2012**	**2011**	**2010**
Per Unit Data:					
Basic and diluted net income per unit (a)	$ 0.57	$ 0.47	$ 0.40	$ 0.35	$ 0.38
Cash distribution declared per common unit	$ 0.340	$ 0.320	$ 0.310	$ 0.305	$ 0.285
Balance Sheet Data (end of period):					
Current assets	$ 296,465	$ 305,880	$ 301,519	$ 303,775	$ 251,051
Total assets	$ 685,107	$ 632,504	$ 639,347	$ 630,487	$ 586,696
Long-term debt	$ 124,572	$ 124,460	$ 124,357	$ 124,263	$ 82,770
Partners Capital	$ 273,245	$ 259,281	$ 260,145	$ 272,633	$ 279,911
Summary Cash Flow Data:					
Net cash provided by operating activities	$ 95,155	$ 18,492	$ 105,828	$ 39,402	$ 44,429
Net cash used in investing activities	$ (107,318)	$ (6,960)	$ (44,517)	$ (15,928)	$ (73,956)
Net cash provided by (used in) financing activities	$ (23,895)	$ (34,566)	$ (40,009)	$ 2,253	$ (104,571)
Other Data:					
Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization (EBITDA) (b)	$ 101,490	$ 83,308	$ 74,654	$ 83,045	$ 76,639
Adjusted EBITDA (b)	$ 108,056	$ 90,083	$ 66,105	$ 87,312	$ 72,149
Retail home heating oil and propane gallons sold	360,972	324,797	277,204	355,569	310,323
Temperatures (warmer) colder than normal (c)	4.9%	(4.1)%	(21.7)%	(0.4)%	(7.9)%

(a) Net income per unit is computed in accordance with FASB ASC 260-10-45-60 Earnings per Share, Master Limited Partnerships (EITF 03-06). See Note 17. Earnings Per Limited Partner Units, of the condensed consolidated financial statements.

(b) EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, (increase) decrease in the fair value of derivatives, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges) are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

our compliance with certain financial covenants included in our debt agreements;

our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;

our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;

our operating performance and return on invested capital as compared to those of other companies in the retail distribution of refined petroleum products business, without regard to financing methods and capital structure; and

the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

The method of calculating Adjusted EBITDA may not be consistent with that of other companies and each of EBITDA and Adjusted EBITDA has its limitations as an analytical tool, should not be considered in isolation and should be viewed in conjunction with measurements that are computed in accordance with GAAP. Some of the limitations of EBITDA and Adjusted EBITDA are:

EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;

Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;

EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;

EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and

EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

EBITDA and Adjusted EBITDA are calculated for the fiscal years ended September 30 as follows:

(in thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Net income	$ 36,084	$ 29,906			