

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1996  
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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: 0-27300  
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STAR GAS PARTNERS, L.P.  
-----

(Exact name of registrant as specified in its charter)

Delaware  
-----

(State or other jurisdiction of  
incorporation or organization)

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

2187 Atlantic Street, Stamford, Connecticut 06902  
-----

(Address of principal executive office) (Zip Code)

(203) 328-7300  
-----

(Registrant's telephone number, including area code)

-----  
(Former name, former address and former fiscal year, if changed since last  
report)

Indicate by check mark whether the Registrant (1) has filed all reports required  
to be filed by Sections 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) had been subject to such filing  
requirements for the past 90 days.

Yes ☒ No ☐  
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Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of August 6, 1996:

Star Gas Partners, L.P. 2,875,000 Common Units  
2,396,078 Subordinated Units

This Report contains a total of 27 pages.

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

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STAR GAS PARTNERS, L.P. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

June 30, 1996 (unaudited)	September 30, 1995 (Predecessor)
-----	-----

Assets:

Current assets:

Cash	\$ 10,335	\$ 727
Receivables, net of allowance of \$320 and \$362, respectively	6,190	6,436
Inventories	2,993	6,154
Prepaid expenses and other current assets	1,176	949
	-----	-----
Total current assets	20,694	14,266
	-----	-----
Property and equipment	108,989	103,879
Less accumulated depreciation	(11,036)	(5,192)
	-----	-----
	97,953	98,687
Intangibles, net of accumulated amortization of \$5,800 and \$3,267, respectively and other assets	41,561	42,440
	-----	-----
Total assets	\$160,208	\$155,393
	=====	=====

Liabilities and Partners' Capital/Predecessor Equity

Current liabilities:

Current debt	\$ -	\$ 748
Accounts payable	1,961	2,824
Accrued interest	2,058	20
Other accrued expenses	2,504	2,980
Dividends payable	-	4,875
Customer credit balances	-	3,305
	-----	-----
Total current liabilities	6,523	14,752
	-----	-----
Long-term debt	85,000	1,389
Due to Petro	-	86,002
Other long-term liabilities	252	320
Cumulative redeemable preferred stock	-	8,625
Predecessor Equity	-	44,305
Partners' Capital:		
Common unitholders	56,544	-
Subordinated unitholder	11,582	-
General partner	307	-
	-----	-----
Total Partners' Capital/Predecessor Equity	68,433	44,305
	-----	-----
Total Liabilities and Partners' Capital/Predecessor Equity	\$160,208	\$155,393
	=====	=====

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per unit amounts)  
(unaudited)

	June 30, 1996	June 30, 1995 (Predecessor)
Sales	\$18,416	\$16,718
Cost of sales	8,483	7,666
Gross profit	9,933	9,052
Delivery and branch	7,768	7,699
Depreciation and amortization	2,546	2,354
General and administrative	2,005	1,719
Net gain (loss) on sales of assets	(29)	-
Operating loss	(2,415)	(2,720)
Interest expense (net)	1,614	2,155
Loss before income taxes	(4,029)	(4,875)
Income tax expense	17	35
Net loss	<u>\$ (4,046)</u>	<u>\$ (4,910)</u>
General Partner's interest in net loss	<u>\$ (81)</u>	
Limited Partners' interest in net loss	<u>\$ (3,965)</u>	
Net loss per Limited Partner unit	<u>\$ (0.75)</u>	
Weighted average number of Limited Partner units outstanding	<u>5,271</u>	

See accompanying notes to condensed consolidated financial statements

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STAR GAS PARTNERS, L.P. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per unit amounts)  
(unaudited)

	Nine Months Ended			
	October 1, 1995 through December 20, 1995 (Predecessor)	December 20, 1995 through June 30, 1996	October 1, 1995 through June 30, 1996 (Combined)	October 1, 1994 through June 30, 1995 (Predecessor)
Sales	\$28,159	\$71,971	\$100,130	\$87,389
Cost of sales	12,808	36,061	48,869	41,599
Gross profit	15,351	35,910	51,261	45,790
Delivery and branch	7,729	18,759	26,488	26,957
Depreciation and amortization	2,177	5,285	7,462	7,557
General and administrative	1,349	3,543	4,892	4,514
Net gain (loss) on sales of assets	(113)	(52)	(165)	(584)
Operating income	3,983	8,271	12,254	6,178
Interest expense (net)	1,922	3,569	5,491	6,415
Income (loss) before income taxes	2,061	4,702	6,763	(237)
Income tax expense	60	33	93	140
Net income (loss)	<u>\$ 2,001</u>	<u>\$ 4,669</u>	<u>\$ 6,670</u>	<u>\$ (377)</u>

General Partner's interest in net income	\$ 93 -----
Limited Partners' interest in net income	\$ 4,576 =====
Net income per Limited Partner unit	\$0.87 =====
Weighted average number of Limited Partner units outstanding	5,271 =====

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	October 1, 1995 through December 20, 1995 (Predecessor)	December 20, 1995 through June 30, 1996	October 1, 1995 through June 30, 1996 (Combined)	October 1, 1994 through June 30, 1995 (Predecessor)
Operating activities:				
Net income (loss)	\$ 2,001	\$ 4,669	\$ 6,670	\$ (377)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,177	5,285	7,462	7,557
Provision for losses on accounts receivable	101	245	346	421
Loss on sales of assets	113	52	165	572
Changes in operating assets and liabilities:				
Decrease (increase) in receivables	(2,779)	2,878	99	1,740
Decrease in inventories	1,430	1,733	3,163	251
Decrease (increase) in prepaid and other assets	(455)	400	(55)	596
Increase (decrease) in accounts payable	10	(873)	(863)	(354)
Increase (decrease) in other current liabilities	(1,713)	1,206	(507)	(4,086)
Decrease in other long-term liabilities	(12)	(56)	(68)	(60)
Net cash provided by operating activities	873	15,539	16,412	6,260
Investing activities:				
Capital expenditures	(1,617)	(2,315)	(3,932)	(6,129)
Purchase of company	-	(1,527)	(1,527)	(3,607)
Proceeds from sales of fixed assets	566	130	696	228
Proceeds from sale of business	-	-	-	13,250
Net cash provided by (used in) investing activities	(1,051)	(3,712)	(4,763)	3,742
Financing activities:				
Net repayments under revolving credit facility	-	-	-	(2,300)
Borrowings (repayments) of debt to Petro	(31,425)	(54,577)	(86,002)	782
Repayments of preferred stock	-	-	-	(5,091)
Dividends to Petro	(25,538)	-	(25,538)	-
Minimum Quarterly Distribution	-	(3,348)	(3,348)	(252)
Loan to Petro	(12,000)	-	(12,000)	-
Proceeds from debt placement	85,000	-	85,000	-
Proceeds from offering	-	63,306	63,306	-
Repayment of preferred stock to Petro	(8,625)	-	(8,625)	-
Debt placement and credit agreement expenses	(1,412)	(814)	(2,226)	-
Expenses of offering	-	(6,578)	(6,578)	-
Repayment of other debt	(30)	-	(30)	(4,443)
Cash retained by general partner	(6,000)	-	(6,000)	-
Net cash used in financing activities	(30)	(2,011)	(2,041)	(11,304)

Net increase (decrease) in cash	(208)	9,816	9,608	(1,302)
Cash at beginning of period	727	519	727	1,825
Cash at end of period	<u>\$ 519</u>	<u>\$ 10,335</u>	<u>\$ 10,335</u>	<u>\$ 523</u>

See accompanying notes to condensed consolidated financial statements.

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# STAR GAS PARTNERS, L.P. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL (in thousands) (unaudited)

	Number of units				General Partner	Total Partners' Capital
	Common	Subordinated	Common	Subordinated		
Balance December 20, 1995	-	-	-	-	-	-
Contribution of net assets from Predecessor	-	2,396	\$ -	\$10,956	\$225	\$11,181
Issuance of Common Units, net	2,875	-	55,875	-	56	55,931
Minimum Quarterly Distribution			(1,790)	(1,491)	(67)	(3,348)
Net income	-	-	2,459	2,117	93	4,669
Balance June 30, 1996	<u>2,875</u>	<u>2,396</u>	<u>\$56,544</u>	<u>\$11,582</u>	<u>\$307</u>	<u>\$68,433</u>

See accompanying notes to condensed consolidated financial statements.

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# STAR GAS PARTNERS, L.P. AND SUBSIDIARY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JUNE 30, 1996 AND 1995

### 1) Partnership Organization and Formation

Star Gas Partners, L.P. ("Star Gas Partners") was formed on October 16, 1995, as a Delaware limited partnership. Star Gas Partners and its subsidiary, Star Gas Propane, L.P., a Delaware limited partnership, (the "Operating Partnership") were formed to acquire, own and operate substantially all of the propane operations and assets and liabilities of Star Gas Corporation ("Star Gas"), a Delaware corporation (and the general partner of Star Gas Partners and the Operating Partnership) and the propane operations and assets and liabilities of Star Gas' parent corporation, Petroleum Heat and Power Co., Inc., a Minnesota corporation ("Petro"), (collectively hereinafter referred to as the "Star Gas Group" or the "Predecessor Company"). The Operating Partnership is, and the Star Gas Group was, engaged in the marketing and distribution of propane gas and related appliances to retail and wholesale customers in the United States located principally in the Midwest and Northeast. On December 20, 1995, (i) Petro conveyed all of its propane assets and related liabilities to Star Gas and (ii) Star Gas and its subsidiaries conveyed substantially all of their assets (other than \$83.6 million in cash from the proceeds of the First Mortgage Notes and certain non-operating assets) to the Operating Partnership (the "Star Gas Conveyance") in exchange for general and limited partner interests in the Operating Partnership and the assumption by the Operating Partnership of substantially all of the liabilities of Star Gas and its subsidiaries (excluding certain income tax liabilities and certain other long-term obligations of Star Gas that were assumed by Petro), including the First Mortgage Notes and approximately \$54.6 million in outstanding Star Gas debt due to Petro. The net book value of the assets

contributed by Star Gas and its subsidiaries to the Operating Partnership exceeded the liabilities assumed by \$10.4 million. Immediately after the Star Gas Conveyance, Star Gas and its subsidiaries conveyed their limited partner interests in the Operating Partnership to Star Gas Partners in exchange for an aggregate of 2.4 million Subordinated Units of limited partner interest in Star Gas Partners.

Of the \$83.6 million in cash retained by the General Partner, \$31.5 million was paid to Petro in satisfaction of additional indebtedness, \$8.6 million was used to redeem preferred stock of the General Partner held by Petro, \$12.0 million was loaned to Petro, and \$6.0 million was retained to be available to fund the General Partner's additional capital contribution obligation. The remaining \$25.5 million was paid to Petro as dividends.

On December 20, 1995, Star Gas Partners completed its initial public offering of 2.6 million Common Units, representing Limited Partner interests, at a price of \$22.00 a unit. The net proceeds received of \$51.0 million, after deducting underwriting discounts, commissions and expenses

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#### 1) Partnership Organization and Formation - Continued

were contributed to the Operating Partnership and used to repay debt due to Petro which was assumed by the Operating Partnership in the Star Gas Conveyance.

On January 18, 1996, pursuant to the underwriters' over-allotment option, Star Gas Partners, L.P. issued an additional 275,000 Common Units at \$22.00 per share for \$5.6 million, net of underwriting discounts and expenses. The Partnership will use these proceeds for general corporate purposes.

The General Partner holds a 1.0% general partner interest in Star Gas Partners and a 1.0101% general partner interest in the Operating Partnership. Star Gas Partners and the Operating Partnership have no employees. The General Partner conducts, directs and manages all activities of Star Gas Partners and the Operating Partnership and is reimbursed on a monthly basis for all direct and indirect expenses it incurs on their behalf including the cost of employee wages.

The Condensed Consolidated Financial Statements for the period December 20, 1995 through June 30, 1996 include the accounts of Star Gas Partners, L.P., the Operating Partnership and its corporate subsidiary, Stellar Propane Service Corp., collectively referred to herein as (the "Partnership"). The accompanying Condensed Consolidated Financial Statements are unaudited and have been prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission. They include all adjustments which the Partnership considers necessary for a fair statement of the results of the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. These financial statements should be read in conjunction with the financial statements and the notes thereto for the fiscal years ended September 30, 1993, 1994 and 1995 included in the registration statement on Form S-1 (No. 33-98490) of Star Gas Partners, L.P. filed with the Securities and Exchange Commission in connection with Star Gas Partners' initial public offering. Due to the seasonal nature of the Partnership's propane business, the results of operations for the periods presented are not necessarily indicative of the results to be expected for a full year.

#### 2) Quarterly Distribution of Available Cash

The Partnership will distribute to its partners, on a quarterly basis, all of its Available Cash. "Available Cash" generally means, with respect to any fiscal quarter of the Partnership, all cash on hand at the end of such quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the Partnership's business, (ii) comply with applicable law or any Partnership debt instrument or other agreement, or (iii) provide funds for distributions to the Unitholders and the General Partner during the next four quarters.

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2) Quarterly Distribution of Available Cash - Continued

Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus. This distinction affects the amounts distributed to Unitholders in relation to the General Partner, and under certain circumstances it determines whether holders of the Subordinated Units receive any distributions.

Operating Surplus generally refers to (i) the cash balance of the Partnership on the date the Partnership commences operations, plus \$6.0 million, plus all cash receipts of the Partnership, less (ii) all Partnership operating expenses (including expenses the General Partner incurred on behalf of the Partnership), debt service payments, maintenance capital expenditures and reserves established for future debt service and Partnership operations.

Capital Surplus will generally be generated only by borrowings (other than for working capital purposes), sales of debt and equity securities and sales or other dispositions of assets for cash (other than inventory, accounts receivable and other assets, all as disposed of in the ordinary course of business).

To avoid the difficulty of trying to determine whether Available Cash distributed by the Partnership is from Operating Surplus or Capital Surplus, all Available Cash distributed by the Partnership from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of the Partnership equals the Operating Surplus as of the end of the quarter prior to such distribution. Any excess Available Cash (irrespective of its source) will be deemed to be Capital Surplus and distributed accordingly.

If Capital Surplus is distributed in respect of each Common Unit in an aggregate amount equal to the initial public offering price of the Common Unit (the "Initial Unit Price"), the distinction between Operating Surplus and Capital Surplus will cease, and all distributions will be treated as from Operating Surplus. The General Partner does not expect that there will be significant distributions from Capital Surplus.

The Subordinated Units are a separate class of interests in the Partnership, and the rights of holders of such interests to participate in distributions differ from the rights of the holders of Common Units. For any given quarter, Available Cash will be distributed to the General Partner and to the holders of Common Units, and it may also be distributed to the holders of Subordinated Units, depending upon the amount of Available Cash for the quarter, amounts distributed in prior quarters, whether the Subordination Period has ended and other factors discussed below.

Distribution by the Partnership in an amount equal to 100% of its Available Cash will generally be made 98% to the Common and Subordinated Unitholders and 2% to the General Partner, subject to the payment of incentive distributions in the event Available Cash exceeds the Minimum

2) Quarterly Distribution of Available Cash - Continued

Quarterly Distribution (\$0.55) on all Units. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution, plus any arrearages, prior to the distribution of Available Cash to holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the end of the Subordination Period (as defined below) and Subordinated Units will not accrue any arrearage with respect to distributions for any quarter.

To enhance the Partnership's ability to pay the Minimum Quarterly Distribution on the Common Units, the General Partner has agreed, subject to certain limitations, to contribute additional capital to the Partnership if, and to the extent that, the amount of Available Cash constituting Operating Surplus (without giving effect to any such additional contribution) with respect to any quarter is less than the amount necessary to distribute the Minimum Quarterly Distribution on all outstanding Common Units for such quarter. As of June 30, 1996, the General Partner's



additional Capital Contribution obligation was \$4.5 million.

The Partnership will make distributions to its partners with respect to each fiscal quarter in an amount equal to all of its Available Cash for such quarter approximately 45 days after each quarter ending March 31, June 30, September 30 and December 31. The first distribution commenced with the quarter ending March 31, 1996 and was paid on May 15, 1996 to holders of record as of May 1, 1996. The initial distribution was \$0.6225 per unit and represented a pro rata distribution of \$0.0725 per unit for the period December 20, 1995 to December 31, 1995 and a quarterly distribution of \$0.55 per unit for the three months ended March 31, 1996. The distribution for the quarter ending June 30, 1996 of \$0.55 will be paid on August 15, 1996 to holders of record as of August 1, 1996.

3) Distributions from Operating Surplus During Subordination Period

The Subordination Period will generally extend until the first day of any quarter beginning on or after January 1, 2001 in respect of which (i) distributions of Available Cash from Operating Surplus on the Common Units and the Subordinated Units equals or exceeds the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equals or exceeds the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units.

Prior to the end of the Subordination Period, a portion of the Subordinated Units will convert into Common Units on the first day after the record date established for any quarter ending on or after March 31, 1999 (with respect to 599,020 of the Subordinated Units) and March 31, 2000 (with respect to an additional 599,020 of the Subordinated Units), on a cumulative basis, in respect of which (i) distributions of Available

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3) Distributions from Operating Surplus During Subordination Period-Continued

Cash from Operating Surplus on the Common Units and the Subordinated Units equals or exceeds the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equals or exceeds the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units.

4) Long-Term Debt

In December 1995, the General Partner issued \$85.0 million of first mortgage notes (the "First Mortgage Notes") with an annual interest rate of 8.04%. These notes were assumed as part of the Star Gas Conveyance by the Operating Partnership. The Operating Partnership's obligations under the First Mortgage Note Agreement are secured, on an equal and ratable basis with the Operating Partnership's obligations under the Bank Credit Facilities, by a mortgage on substantially all of the real property and liens on substantially all of the operating facilities, equipment and other assets of the Operating Partnership. The First Mortgage Notes will mature September 15, 2009, and will require semiannual prepayments, without premium on the principal thereof, beginning on March 15, 2001. Interest is payable semiannually on March 15 and September 15. For the nine months ended June 30, 1996 the Partnership paid interest in the amount of \$1.7 million.

The First Mortgage Note Agreement contains various restrictive and affirmative covenants applicable to the Operating Partnership, including (i) restrictions on the incurrence of additional indebtedness and (ii) restrictions on certain liens, investments, guarantees, loans, advances, payments, mergers, consolidations, distributions, sales of assets and other

transactions.

5) Bank Credit Facilities

The Bank Credit Facilities (the "Bank Credit Facilities") consist of a \$25.0 million acquisition facility (the "Acquisition Facility") and a \$12.0 million working capital facility (the "Working Capital Facility"). The Operating Partnership's obligations, under the Bank Credit Facilities, are secured, on an equal and ratable basis with the Operating Partnership's obligations under the First Mortgage Notes. The Bank Credit Facilities will bear interest at a rate based upon either the London Interbank Offered Rate plus a margin or a Base Rate. This agreement contains covenants generally similar to those contained in the First Mortgage Notes.

The Working Capital Facility will expire on December 31, 1998. The Acquisition Facility will revolve until September 30, 1998, after which any outstanding loans will amortize quarterly in equal principal payments over a period of 3 1/4 years.

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6) Over-allotment Exercise

On January 18, 1996, pursuant to the underwriters' over-allotment option, Star Gas Partners issued an additional 275,000 Common Units at \$22.00 per share for \$5.6 million, net of underwriting discounts and expenses. The Partnership will use these proceeds for general corporate purposes.

7) Repayment of Additional Debt Due to Petro

In order that the Partnership would commence operations with \$6.2 million of working capital on December 20, 1995, the Conveyance Agreement provided that the amount of debt due to Petro at closing would be adjusted upwards or downwards to the extent that the Star Gas Group's net working capital exceeded or was less than \$6.2 million. At closing, net working capital was \$9.7 million and \$3.5 million was repaid to Petro on January 18, 1996.

8) Net Income per Limited Partner Unit

Net income per Limited Partner Unit is computed by dividing net income, after deducting the General Partner's 2.0% interest, by the weighted average number of Common Units and Subordinated Units outstanding.

9) Commitments and Contingencies

In the ordinary course of business, the Partnership is threatened with, or is named in, various lawsuits. The Partnership is not a party to any litigation which individually or in the aggregate could reasonably be expected to have a material adverse effect on the company.

10) Related Party Transactions

The Partnership has no employees and is managed and controlled by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business. For the period December 20, 1995 through June 30, 1996, the Partnership reimbursed the General Partner approximately \$11.5 million representing salary, payroll tax and other compensation paid to the employees of the General Partner.

In addition, Petro has incurred and was reimbursed for approximately \$1.3 million of facility operating costs and management service expenses it incurred on behalf of the Partnership for the period December 20, 1995 through June 30, 1996. These expenses represent the Partnership's share of the costs incurred by Petro in conducting the operations of certain shared branch locations and to provide certain managerial services.

## 11) Unaudited Pro Forma Financial Information

The accompanying unaudited Pro Forma Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 1995 and 1996 were derived from the historical statements of operations of the Star Gas Group, for the periods October 1, 1994 through June 30, 1995 and October 1, 1995 through December 20, 1995 and the Condensed Consolidated Statement of Operations of the Partnership from December 20, 1995 through June 30, 1996. The Pro Forma Condensed Consolidated Statements of Operations were prepared to reflect the effects of Partnership formation as if it had been completed in its entirety as of the beginning of the periods presented. However, these statements do not purport to present the results of operations of the Partnership had partnership formation actually been completed as of the beginning of the periods presented. In addition, the Pro Forma Condensed Consolidated Statements of Operations are not necessarily indicative of the results of future operations of the Partnership and should be read in conjunction with the historical Condensed Consolidated Financial Statements of the Predecessor Company and the Partnership.

## 11) Unaudited Pro Forma Financial Information - Continued

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

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per unit amounts)  
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1996	1995	1996	1995
Sales	\$18,416	\$16,718	\$100,130	\$85,335
Cost of sales	8,483	7,666	48,869	40,588
Gross profit	9,933	9,052	51,261	44,747
Operating expenses	9,773	9,452	31,430	30,256
Depreciation and amortization	2,546	2,354	7,462	7,381
Net gain (loss) on sales of assets	(29)	-	(165)	51
Operating income (loss)	(2,415)	(2,754)	12,204	7,161
Interest expense (net)	1,614	1,614	5,080	5,080
Income (loss) before income taxes	(4,029)	(4,368)	7,124	2,081
Income tax expense	17	17	42	42
Net income (loss)	<u>\$ (4,046)</u>	<u>\$ (4,385)</u>	<u>\$ 7,082</u>	<u>\$ 2,039</u>
General Partner's interest in net income (loss)	<u>\$ (81)</u>	<u>\$ (88)</u>	<u>\$ 142</u>	<u>\$ 41</u>
Limited Partners' interest in net income (loss)	<u>\$ (3,965)</u>	<u>\$ (4,297)</u>	<u>\$ 6,940</u>	<u>\$ 1,998</u>
Net income (loss) per Limited Partner unit	<u>\$ (0.75)</u>	<u>\$ (0.82)</u>	<u>\$ 1.32</u>	<u>\$ 0.38</u>
Weighted average number of Limited Partner units outstanding	5,271	5,271	5,271	5,271

	=====	=====	=====	=====
Other Data:				
EBITDA (A)	\$ 160	\$ (400)	\$ 19,831	\$14,491
Retail propane gallons sold	13,527	12,335	82,532	74,017

(A) EBITDA is defined as operating income (loss) plus depreciation and amortization expense and less net gain (loss) on sales of assets. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution.

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#### 11) Unaudited Pro Forma Financial Information - Continued

Significant pro forma adjustments reflected in the above data include the following:

1. For the nine months ended June 30, 1995, the elimination of the results of the Star Gas Group's propane operations in Southern Georgia from October 1, 1994 - November 16, 1994.
2. For the three and nine months ended June 30, 1995, the elimination of management fees paid by the Star Gas Group to Petro.
3. For the three and nine months ended June 30, 1995 and the nine months ended June 30, 1996, the addition of the estimated incremental general and administrative costs associated with operating as a publicly traded partnership.
4. For the three and nine months ended June 30, 1995 and the nine months ended June 30, 1996, an adjustment to interest expense to reflect the repayment of debt due to Petro and to reflect the interest expense associated with the First Mortgage Notes and Bank Credit Facility.
5. For the three and nine months ended June 30, 1995 and the nine months ended June 30, 1996, the elimination of the provision for income taxes, as taxes on income will be borne by the Partners and not the Partnership, except for corporate income taxes relative to the Partnership's wholly owned subsidiary, which will conduct non-qualifying Master Limited Partnership business.

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#### 12) Acquisition

During the nine month period ending June 30, 1996, the Partnership acquired the assets of one unaffiliated propane dealer. The aggregate consideration for this acquisition, accounted for by the purchase method, was approximately \$1.5 million. Sales and net income of the acquired company are included in the Condensed Consolidated Statements of Operations from the date of acquisition.

Had this acquisition occurred at the beginning of the period, the pro forma unaudited results of operations for the nine months ended June 30, 1996 would have been as follows:

	October 1, 1995 through December 20, 1995 -----	December 20, 1995 through June 30, 1996 -----	October 1, 1995 through June 30, 1996 -----
Sales	\$ 28,348 =====	\$ 72,211 =====	\$ 100,559 =====

Net Income	\$ 2,014	\$ 4,797	\$ 6,811
	=====	=====	=====
General Partner's interest in net income		\$ 96	
		=====	
Limited Partners' interest in net income		\$ 4,701	
		=====	
Net income per Limited Partner unit		\$ 0.89	
		=====	
Weighted average number of Limited Partner unit		5,271	
		=====	

### 13) Subsequent Event - Acquisition

On July 22, 1996, the Partnership acquired the assets of one unaffiliated propane dealer. The aggregate consideration for this acquisition, accounted for by the purchase method, was approximately \$0.9 million.

### 14) Subsequent Event - Retention of Morgan Stanley & Co. Incorporated

On August 1, 1996, the Partnership announced that it has retained Morgan Stanley & Co., Incorporated to assist it in the development and consideration of strategic alternatives designed to maximize value for its unitholders. Alternatives to be investigated may include, but will not be limited to, the sale or merger of Star Gas.

### 15) General Partner Financial Statements

The following presents the Condensed Consolidated Balance Sheet as of June 30, 1996 together with the Condensed Consolidated Statement of Operations of the General Partner, Star Gas Corporation and Subsidiaries, for the period December 20, 1995 through December 31, 1995 and January 1, 1996 through June 30, 1996.

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### 15) General Partner Financial Statements - Continued

#### Star Gas Corporation and Subsidiaries

#### Condensed Consolidated Balance Sheet (in thousands) (unaudited)

#### Assets:

##### Current assets:

Cash	\$ 4,632
Due from Petro	3,085
Interest receivable	702
	-----
Total current assets	8,419

Note receivable from Petro	12,000
----------------------------	--------

Investment in Partnership	11,889
---------------------------	--------

Total assets	\$32,308
	=====

#### Liabilities and Shareholders' Equity:

##### Current liabilities:

Accrued expenses	\$ 15
------------------	-------

Shareholders' equity	32,293
	-----

Total liabilities and shareholders' equity	\$32,308
	=====

Star Gas Corporation  
and Subsidiaries

Condensed Consolidated Statement of Operations  
(in thousands)  
(unaudited)

	December 20, 1995 through December 31, 1995 -----	January 1, 1996 through June 30, 1996 -----	December 20, 1995 through June 30, 1996 -----
Revenues:			
Reimbursement of employee expenses from Operating Partnership	\$ 883	\$ 10,588	\$ 11,471
Expenses:			
Operating Expenses	-	2	2
Cost of employee services provided	883	10,588	11,471
	-----	-----	-----
Operating loss	-	(2)	(2)
Interest income	6	844	850
	-----	-----	-----
Income before equity interest in Star Gas Partners, L.P.	6	842	848
	-----	-----	-----
Share of income of Star Gas Partners, L.P.	728	1,482	2,210
	-----	-----	-----
Net income	\$ 734	\$ 2,324	\$ 3,058
	=====	=====	=====

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STAR GAS PARTNERS, L.P. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS  
AND RESULTS OF OPERATIONS

NINE MONTHS ENDED JUNE 30, 1996

-----

COMPARED TO NINE MONTHS ENDED JUNE 30, 1995

-----

Volume

For the nine months ended June 30, 1996, retail propane volume increased 8.7% or 6.6 million gallons to 82.5 million gallons, as compared to 75.9 million gallons for the nine months ended June 30, 1995. Excluding the divested southern Georgia operations, which contributed 1.9 million gallons for the nine months ended June 30, 1995, retail propane increased 11.5% or 8.5 million gallons. Propane sold to residential and commercial customers increased 18.9% or 10.4 million gallons, due to colder temperatures, acquisitions and internal account growth. While the residential and commercial market segments were favorably impacted by the colder temperatures, sales to agricultural customers, who use propane predominately in the grain drying process, declined by approximately 2.0 million gallons primarily as a result of the unusually dry crop harvest in the fall of 1995.

Sales

Sales increased 14.6% or \$12.7 million, to \$100.1 million for the nine months

ended June 30, 1996, as compared to \$87.4 million for the nine months ended June 30, 1995. Excluding the results attributable to the southern Georgia operations, which contributed \$2.1 million of sales in the prior year's period, sales rose \$14.8 million due to increased volume and higher retail selling prices.

#### Cost of Sales

Cost of sales increased 17.5% or \$7.3 million to \$48.9 million for the nine months ended June 30, 1996, as compared to \$41.6 million for the nine months ended June 30, 1995. The divestiture of the southern Georgia operations led to a \$1.0 million reduction in cost of sales, which was offset by an increase of \$8.3 million associated with additional volume sold and higher per gallon wholesale costs. While the partnership did derive a benefit from the utilization of its underground storage facility which reduced cost of sales during the first quarter of the fiscal year, this benefit was offset during the second quarter by the rapid but temporary spike in wholesale product costs.

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#### Gross Profit

Gross Profit increased 11.9% or \$5.5 million, to \$51.3 million for the nine months ended June 30, 1996, as compared to \$45.8 million for the nine months ended June 30, 1995. Adjusting for \$1.0 million of gross profit associated with the divested southern Georgia operations, gross profit increased 14.6% or \$6.5 million, as the increase in gross profit provided by the additional volume sold to higher margin residential and commercial customers more than offset a decline in gross profit attributable to the rapid rise in wholesale propane costs experienced during the second quarter of fiscal 1996. Gross profit was also impacted by a 2.0 million gallon decline in volume sold to lower margin agricultural customers. In addition, gross profit margins increased due to the shift in volume towards higher margin residential and commercial customers.

#### Delivery and Branch Expenses

Delivery and branch expenses declined 1.7% or \$0.5 million to \$26.5 million for the nine months ended June 30, 1996 from \$27.0 million for nine months ended June 30, 1995. The divestiture of the southern Georgia operations, which accounted for a \$1.2 million reduction in these expenses was partially offset by an increase of \$0.7 million or 2.8% in the core operations. The increase of \$0.7 million in core operations was attributable to the 11.5% increase in volume and approximately \$0.2 million of storm related costs associated with severe winter weather experienced in the Partnership's Northeast markets. On a per gallon basis, operating costs in the core operations declined 7.8% due to lower insurance expense, improved operating efficiencies and economies of scale achieved in connection with the growth of the Partnership's customer base.

#### Depreciation and Amortization

Depreciation and amortization expense declined \$0.1 million to \$7.5 million for the nine months ended June 30, 1996, as compared to \$7.6 million for the nine months ended June 30, 1995 due to the elimination of depreciation and amortization expense associated with the divested southern Georgia operations.

#### General and Administrative Expenses

General and administrative expenses increased approximately \$0.4 million to \$4.9 million for the nine months ended June 30, 1996, as compared to \$4.5 million for the nine months ended June 30, 1995. This increase was primarily due to \$0.4 million of non-recurring expenses associated with certain professionals engaged by the partnership to assist management in structuring and analyzing two major, complex acquisition candidates. These acquisitions will not be completed.

#### Gain (Loss) on Sales of Assets

Loss on sales of assets declined to \$0.2 million for the nine months ended June 30, 1996 from \$0.6 million for the nine months ended June 30, 1995. During the nine months ending June 30, 1995, a loss of \$0.7 million was recorded in

connection with the sale of the southern Georgia operations.

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#### Interest Expense

Interest expense declined 14.4% or \$0.9 million to \$5.5 million for the nine months ended June 30, 1996, as compared to \$6.4 million for the nine months ended June 30, 1995. This reduction was primarily due to a decline in the weighted average long-term borrowing rate. For further discussions concerning the Partnership's current debt structure, refer to footnote 4 of the Condensed Consolidated Financial Statements.

#### Income Tax Expense

Income tax expense for the nine months ended June 30, 1996 was approximately \$0.1 million. This expense primarily represents certain state income taxes that the Star Gas Group was required to pay. Subsequent to December 20, 1995, taxes on income will be borne by the Partners and not the Partnership, except for income taxes relating to the Partnership's wholly owned corporate subsidiary which conducts non-qualifying master limited partnership business.

#### Net Income

Net Income increased \$7.0 million to \$6.7 million for the nine months ended June 30, 1996. This improvement of \$7.0 million was attributable to the 11.5% increase in retail propane volume, the positive impact of divesting the southern Georgia operations and lower non-cash expenses, including the loss on sales of assets.

#### EBITDA

EBITDA (defined as operating income plus depreciation and amortization less net gain (loss) of sale of asset) increased \$5.6 million or 38.8% to \$19.9 million for the nine months ended June 30, 1996. The improvement in EBITDA was the result of the increase in volume associated with colder temperatures and growth in the Partnership's customer base due to both acquisitions and internal marketing, partially offset by the impact of lower per gallon gross profit margins experienced during the second quarter of fiscal 1996. For continuing operations, delivery and branch expenses declined by 7.8% on a per gallon basis as a result of cost reduction programs implemented over the past two years. Also contributing to the increase in EBITDA was the divestiture of the southern Georgia operations, which negatively impacted EBITDA in the prior year by approximately \$0.3 million.

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

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1996

- - - - -

COMPARED TO THREE MONTHS ENDED JUNE 30, 1995

- - - - -

#### Volume

For the three months ended June 30, 1996, retail propane volume increased 9.7% or 1.2 million gallons to 13.5 million gallons, as compared to 12.3 million gallons for the three months ended June 30, 1995. This increase in volume was attributable to colder temperatures, the impact of acquisitions and internal account growth.

#### Sales



Sales increased 10.2% or \$1.7 million to \$18.4 million for the three months ended June 30, 1996, as compared to \$16.7 million for the three months ended June 30, 1995. The increase was primarily due to higher volume and higher retail selling prices. During the three months ended June 30, 1996, selling prices were increased to fully reflect the Partnership's response to higher per gallon wholesale propane costs.

#### Cost of Sales

Cost of sales increased 10.7% or \$0.8 million to \$8.5 million from \$7.7 million for three months ended June 30, 1995. This increase was attributable to the additional volume sold and to higher per gallon wholesale propane costs. While per gallon propane costs for the three months ended June 30, 1996 were greater than the prior year's comparable quarter, these costs declined from peak levels experienced during January through March 1996.

#### Gross Profit

Gross profit increased 9.7% or \$0.9 million, to \$9.9 million for the three months ended June 30, 1996, as compared to \$9.0 million for the three months ended June 30, 1995 due to the increase in volume sold and higher retail propane gross profit margins. During the three months ended June 30, 1996, the increase in retail selling prices over the prior year's levels exceeded the change in wholesale propane costs and resulted in a 1.7 cents per gallon increase in propane margins.

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#### Delivery and Branch Expenses

Delivery and branch expenses increased slightly to \$7.8 million for the three months ended June 30, 1996, approximately \$0.1 million more than the \$7.7 million of expenses incurred during the three months ended June 30, 1995. Despite a 9.7% increase in retail propane volume, these expenses increased only 0.9%. On a per gallon basis these expenses declined by 8.0% due to management's success in negotiating lower insurance expense and the positive effect of certain expense reduction initiatives undertaken during the current year.

#### Depreciation and Amortization

Depreciation and amortization expense increased \$0.2 million to \$2.5 million for the three months ended June 30, 1996, as compared to \$2.4 million for the three months ended June 30, 1995 primarily due to the impact of three acquisitions completed since April 1, 1995 and the amortization of certain deferred charges.

#### General and Administrative Expenses

General and administrative expenses increased \$0.3 million to \$2.0 million for the three months ended June 30, 1996. The increase was primarily attributable to \$0.4 million of non-recurring expenses associated with certain professionals engaged by the partnership to assist management in structuring and analyzing two major, complex acquisition candidates. These acquisitions will not be completed.

#### Net Interest Expense

Interest expense declined 25.1% or \$0.5 million to \$1.6 million for the three months ended June 30, 1996, as compared to \$2.2 million for the three months ended June 30, 1995. This reduction was primarily due to a decline in the weighted average long term borrowing rate and to interest income generated on higher cash balances. For further discussions concerning the Partnership's current debt structure, refer to footnote 4 of the Condensed Consolidated Financial Statements.

#### Income Tax Expense

Income tax expense for the three months ended June 30, 1996 represents certain

state income taxes related to the Partnership's wholly owned subsidiary which conducts non-qualifying master limited partnership business.

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#### Net Income

The net loss for the three months ended June 30, 1996, declined 17.6% or \$0.9 million to \$4.0 million, as compared to a loss of \$4.9 million for the three months ended June 30, 1995. This improvement was attributable to a \$0.9 million increase in gross profit, and a \$0.5 million reduction in interest expense which were partially offset by higher general and administrative expenses, primarily legal and professional expenses.

#### EBITDA

EBITDA increased \$0.5 million to \$0.2 million for the three months ended June 30, 1996. This improvement in EBITDA was the result of increased volume due to growth in the Partnership's customer base attributable to acquisitions and internal marketing as well as improved retail propane margins. Delivery and branch expenses declined by 8.0% on a per gallon basis despite an increase of 9.7% in retail propane volume, as a result of cost reduction programs implemented over the past two years. The favorable results arising from the volume growth, margin improvement and expense curtailments were offset to a certain extent by approximately \$0.4 million of non-recurring legal and professional expenses associated with the review of several large acquisition candidates. EBITDA should not be considered as an alternative to net income as a measure of operating performance or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) but, provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution.

#### LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended June 30, 1996, cash flow provided by operating activities of \$16.4 million consisted of \$6.7 million of net income, \$7.5 million of non cash charges and other changes in working capital items, principally a reduction in inventory of \$3.2 million. Net cash used in investing activities was \$4.8 million for the nine months ended June 30, 1996. Proceeds from the sale of fixed assets were used to partially fund the \$1.5 million acquisition of a propane distributor and \$3.9 million of capital expenditures, including \$2.4 million of growth related capital expenditures.

In December 1995, Star Gas issued \$85.0 million of First Mortgage Notes with an interest rate of 8.04% that provided \$83.6 million in cash, net of expenses. (The liability for these notes was assumed by the Operating Partnership pursuant to the Conveyance Agreement). Star Gas used the net proceeds from these notes to repay \$40.1 million of debt and preferred stock, pay dividends of \$25.5 million, and loan \$12.0 million, all to Petro and \$6.0 million was retained by Star Gas to fund the General Partner's additional contribution obligation. (See Footnote 2.) Also in December 1995, the Partnership sold 2.6 million Common Units, which provided \$51.0 million in cash, net of expenses. The proceeds from this public offering were used to repay \$51.0 million of debt due to Petro. In January 1996, the Partnership paid to Petro \$3.5 million representing additional indebtedness resulting from the excess of working capital over \$6.2 million as provided in the Conveyance Agreement.

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#### LIQUIDITY AND CAPITAL RESOURCES - Continued

Pursuant to an over-allotment option, in January 1996 the Partnership sold an additional 275,000 Common Units at \$22.00 per share. The net proceeds, after deducting the underwriting discount of \$0.4 million, was \$5.6 million. As a result of the exercise of the over-allotment option, the General Partner was required to make an additional capital contribution of \$56,000. The Partnership intends to use these funds for general partnership purposes.

The Partnership plans to make distributions in an amount equal to all of its

Available Cash approximately 45 days after the end of each fiscal quarter ending March 31, June 30, September 30 and December 31, to holders of record on the applicable record date. The initial distribution of \$0.6225 per unit represented a pro rata distribution of \$0.0725 per unit for the period December 20, 1995 to December 31, 1995 and a quarterly distribution of \$0.55 per unit for the three months ended March 31, 1996 and was paid on May 15, 1996. The distribution for the quarter ending June 30, 1996 of \$0.55 will be paid on August 15, 1996 to holders of record as of August 1, 1996.

Based on its current cash position, bank credit availability and expected net cash from operating activities, the Partnership expects to be able to meet all of its above obligations for fiscal 1996, as well as all of its other current obligations as they become due. For the remainder of fiscal 1996, the Partnership anticipates paying interest on the First Mortgage Notes of \$3.4 million.

On August 1, 1996, the Partnership announced that it has retained Morgan Stanley & Co. Incorporated to assist it in the development and consideration of strategic alternatives designed to maximize value for its unitholders. Alternatives to be investigated may include, but will not be limited to, the sale or merger of Star Gas.

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## PART II: OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits Included Within:

(27) Financial Data Schedule

#### (b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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### SIGNATURE

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

Star Gas Partners, L.P.

By: Star Gas Corporation  
(General Partner)

Signature  
- -----

Title  
-----

Date  
----

By: /s/ William G. Powers, Jr. President August 7, 1996  
-----  
William G. Powers, Jr. Star Gas Corporation

By:/s/ Richard F. Ambury  
-----  
Richard F. Ambury

Vice President - Finance August 7, 1996  
Star Gas Corporation

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STAR GAS PARTNERS, L.P. AND SUBSIDIARY CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 1996 AND CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE INTERIM PERIOD DECEMBER 20, 1995 THROUGH JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

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<F1>COMMON STOCK - IN DECEMBER 1995 STAR GAS PARTNERS, L.P. ISSUED COMMON AND SUBORDINATED UNITS WHICH REPRESENT LIMITED PARTNER INTERESTS. THESE UNITS ARE CONSIDERED TO POSSESS THE CHARACTERISTICS OF COMMON STOCK AND ARE BOTH INCLUDED IN THE DETERMINATION OF EPS.

<F2>OTHER SE - REPRESENTS THE GENERAL PARTNER'S INTEREST IN THE PARTNERSHIP AND IS CLASSIFIED HERE SINCE IT DOES NOT POSSESS THE RELEVANT CHARACTERISTICS OF EITHER COMMON OR PREFERRED STOCK.

</FN>