UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

For the transition period from _________ to _________

Commission File Number: 33-98490

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.)
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 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 the number of shares outstanding of each of the issuer's classes of common stock, as of July 30, 1999:

Star Gas Partners, L.P.	13,251,667	Common Units
	2,476,797	Senior Subordinated Units
	345,364	Junior Subordinated Units
	325,729	General Partner Units

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

INDEX TO FORM 10-Q

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 1998	June 30, 1999 (unaudited)

Assets		
Current assets:		
Cash and cash equivalents	$ 1,115	$ 20,849
Receivables, net of allowance of $252 and $1,759 respectively	5,279	49,588
Inventories	10,608	14,868
Prepaid expenses and other current assets	945	9,260
Total current assets	17,947	94,565
Property and equipment, net	110,262	148,358
Intangibles and other assets, net	51,398	318,793
Total assets	$179,607	$561,716
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	$ 3,097	$ 10,389
Bank credit facility borrowings	4,770	1,400
Current maturities of long-term debt	692	2,331
Accrued expenses	3,315	37,882
Unearned service contract revenue	-	12,990
Customer credit balances	6,038	23,690
Total current liabilities	17,912	88,682
Long-term debt	104,308	265,407
Other long-term liabilities	40	7,247
Deferred income taxes	-	34,632
Partners' Capital:		
Common unitholders	58,686	156,697
Subordinated unitholders	(1,446)	10,164
General partner	107	(1,113)
Total Partners' Capital	57,347	165,748
Total Liabilities and Partners' Capital	$179,607	$561,716

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1998	1999	1998	1999
Sales:				
Product	$14,347	$ 59,022	$89,437	$135,925
Installation, service and appliances	1,896	20,070	6,534	25,505
Total sales	16,243	79,092	95,971	161,430
Costs and expenses:				
Cost of product	6,005	28,642	41,784	58,471
Cost of installation, service and appliances	513	24,021	1,942	26,651
Delivery and branch	8,538	32,122	28,280	54,447
Depreciation and amortization	2,868	8,458	8,509	14,489
General and administrative	1,602	4,070	4,420	7,226
Net (loss) on sales of assets	(28)	(5)	(213)	(96)
Operating income (loss)	(3,311)	(18,226)	10,823	50
Interest expense, net	1,873	5,221	5,834	9,760
Amortization of debt issuance costs	45	128	135	218

Income (loss) before income taxes	(5,229)	(23,575)	4,854	(9,928)
Income tax expense (benefit)	6	(5,362)	19	(5,324)
Net income (loss)	$(5,235)	$(18,213)	$ 4,835	$ (4,604)
General Partner's interest in net income (loss)	$ (105)	$ (364)	$ 97	$ (92)
Limited Partners' interest in net income (loss)	$(5,130)	$(17,849)	$ 4,738	$ (4,512)
Basic and diluted net income per Limited Partner unit	$ (0.82)	$ (1.11)	$ 0.79	$ (0.46)
Basic and diluted weighted average number of Limited Partner units outstanding	6,228	16,011	5,965	9,717

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	1998	1999
Cash flows from operating activities:		
Net income (loss)	$ 4,835	$ (4,604)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,509	14,489
Amortization of debt issuance cost	135	218
Provision for losses on accounts receivable	240	168
Loss on sales of assets	213	96
Deferred tax benefit	-	(5,368)
Other	-	(7)
Changes in operating assets and liabilities:		
Decrease in receivables	579	26,277
Decrease (increase) in inventories	(874)	9,195
Decrease (increase) in other assets	85	(4,444)
Decrease in accounts payable	(584)	(4,377)
Increase (decrease) in other current and long-term liabilities	(375)	2,313
Net cash provided by operating activities	12,763	33,956
Cash flows from investing activities:		
Capital expenditures	(3,825)	(4,936)
Proceeds from sales of fixed assets	245	137
Cash acquired in acquisition	1,825	18,760
Acquisitions	(5,259)	(2,581)
Net cash provided by (used in) investing activities	(7,014)	11,380
Cash flows from financing activities:		
Credit facility borrowings	13,280	11,850
Credit facility repayments	(12,330)	(15,220)
Acquisition facility borrowings	21,000	-
Acquisition facility repayments	(21,000)	(7,000)
Distributions	(9,949)	(12,005)
Increase in deferred charges	(177)	(927)
Proceeds from issuance of Common Units, net	16,089	118,824
Repayment of debt, net	(23,000)	(197,053)
Redemption of preferred stock	-	(11,746)
Proceeds from issuance of debt	11,000	87,552
Other	-	123
Net cash used in financing activities	(5,087)	(25,602)
Net increase in cash	662	19,734

Cash at beginning of period	889	1,115
Cash at end of period	$ 1,551	$ 20,849
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,959	$ 10,616
Non-cash investing activities:		
Acquisitions	$(26,467)	$ -
Redemption of preferred stock	$ -	$ (6,858)
Assumption of note payable	$ 23,000	$ -
Non-cash financing activities:		
Issuance of Common Units	$ 3,399	$ 6,858
Additional General Partner interest	$ 68	$ -

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

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

	Number of Units									
	Common	Sub.	Senior Sub.	Junior Sub.	General Partner	Common	Sub.	Senior Sub.	Junior Sub.	General Partner
Balance as of September 30, 1998	3,859	2,396	-	-	-	$ 58,686	$(1,446)	$ -	$ -	$ 107
Exchange of ownership in connection with the Star Gas / Petro Transaction		(2,396)	2,477	345	326	(8,958)	(2,754)	11,903	797	(988)
Issuance of Units in equity offering (including exercise of overallotment)	8,950					118,824				
Issuance of Units in redemption of Petro's 12 7/8% Preferred Stock	401					5,399				
Issuance of Units in redemption of Petro's Junior Preferred Stock	103					1,459				
Net loss						(5,977)	4,200	(2,404)	(331)	(92)
Distributions ($1.675 per common unit)						(11,865)				(140)
Other	(61)					(871)		199		
Balance as of June 30, 1999	13,252	-	2,477	345	326	$156,697	$ -	$ 9,698	$ 466	$(1,113)

	Partners' Capital
Balance as of September 30, 1998	$ 57,347
Exchange of ownership in connection with the Star Gas / Petro Transaction	-
Issuance of Units in equity offering (including exercise of overallotment)	118,824
Issuance of Units in redemption of Petro's 12 7/8% Preferred Stock	5,399
Issuance of Units in redemption of Petro's Junior Preferred Stock	1,459
Net loss	(4,604)
Distributions ($1.675 per common unit)	(12,005)
Other	(672)
Balance as of	

June 30, 1999	$165,748

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1) Partnership Organization

Star Gas Partners, L.P. ("Star Gas Partners" or "the "Partnership") is a leading distributor of propane and home heating oil in the United States. Star Gas Propane, L.P., ("Star Gas Propane") a subsidiary of the Partnership, markets and distributes propane gas and related appliances to approximately 168,000 retail and wholesale customers in the Midwest and Northeast. Petro Holdings, Inc. ("Petro"), a subsidiary of Star Gas Propane, is the nation's largest distributor of home heating oil and serves approximately 335,000 customers in the Northeast and Mid-Atlantic region of the United States. Petro was acquired by the Partnership in a four part transaction as described in footnote 2.

Prior to March 26, 1999, Petro had a 40.5% equity interest in the Partnership and a subsidiary of Petro was its general partner.

2) Acquisition of Petro

On March 26, 1999, the Partnership acquired Petro in a four part transaction ("Star Gas / Petro Transaction"), which closed concurrently. This acquisition was accounted for under the purchase method of accounting and is described below.

Acquisition of Petro

On October 22, 1998, Petro, Star Gas Partners, and Star Gas Propane executed a merger agreement. On February 3, 1999 the parties entered into an amended and restated merger agreement to reflect changes in the transaction (the "Merger Agreement"). Under the terms of the Merger Agreement, a newly formed subsidiary of Star Gas Propane was merged with Petro, with Petro surviving the merger as a wholly-owned indirect subsidiary of Star Gas Propane.

As a result of the merger:

- each outstanding share of Petro Class A common stock, par value $0.10 per share, and Petro Class C common stock, par value $0.10 per share, other than shares that were exchanged (the "Exchange"), was converted into 0.11758 senior subordinated units (2,476,797 senior subordinated units issued in total);

- each outstanding share of Petro junior convertible preferred stock was converted into 0.13064 common units (102,848 total common units); and

- each outstanding share of Petro Series C exchangeable preferred stock due 2009 was converted into the right to receive $10.69 in cash per share plus accrued and unpaid dividends except for an aggregate of 505,000 shares of Series C preferred stock that were converted into an aggregate of 400,531 common units, plus accrued and unpaid dividends on the preferred, and may in the future receive an additional 175,000 Senior Subordinated Units.

The Exchange occurred immediately prior to the merger and was comprised of the following elements.

(a) Holders of Petro common stock, consisting of Irik P. Sevin, Audrey L. Sevin, Hanseatic Corp. and Hanseatic Americas Inc., who are referred to as the "LLC Owners," formed Star Gas LLC, to which they contributed their outstanding shares of Petro common stock in exchange for all of the limited liability company interests in Star Gas LLC. Star Gas LLC contributed those shares to Star Gas Partners in exchange for general partner units (325,729 general partner units). In addition, the LLC Owners contributed their remaining shares of Petro common stock to Star Gas Partners in exchange for junior subordinated units (345,364 junior subordinated units).

(b) Other Petro common stockholders who were affiliates of Petro contributed shares of Petro common stock to Star Gas Partners in exchange for Star Gas Partners senior subordinated units.

Financings and Refinancings

Star Gas Partners offered and sold to the public 9.0 million common units in an equity offering (including 230,000 overallotment common units), the net proceeds of which were approximately $118.8 million. Petro offered and sold, in a private placement, $90.0 million of senior secured notes, the net proceeds of which were approximately $87.6 million. Star Gas Partners and Petro Holdings (a legal entity created as a result of the Star Gas / Petro Transaction to be the parent company of all the former Petro entities) guaranteed the notes.

All of the net proceeds of the equity offering, together with the $87.6 million of net proceeds from the debt offering and $5.4 million of Petro's cash were used:

. to redeem $80.2 million principal amount of Petro's 12 1/4% Senior Subordinated Debentures due 2005, $48.7 million principal amount of Petro's 10 1/8% Senior Subordinated Notes due 2003, $74.3 million principal amount of Petro's 9 3/8% Senior Subordinated Debentures due 2006 and the $17.4 million of Petro's 12 7/8% preferred stock at an aggregate redemption price of $201.3 million;

. to repurchase Petro's 1989 preferred stock; and

. to pay for a portion of the expenses of the transaction.

New General Partner

Since Star Gas Corporation is a wholly-owned subsidiary of Petro, which became a subsidiary of the Partnership in the transaction, it was no longer able to serve as Star Gas Partners' general partner. Star Gas Partners' new general partner is Star Gas LLC, which is owned by the LLC Owners. Star Gas LLC's sole business activity is being the general partner. Also, simultaneous to this change was the transfer of all Star Gas Corporation employees to Star Gas Propane.

Amendment of Partnership Agreement

In order to complete the transaction, Star Gas Partners amended its partnership agreement and Star Gas Propane's partnership agreement to among other matters, increased the Minimum Quarterly Distribution ("MQD") from $0.55 to $0.575 per unit. The increase in the MQD raised the threshold needed to end the subordination period.

In connection with the Star Gas/Petro transaction, the Senior Subordinated Units, Junior Subordinated Units and General Partnership Units can earn, pro rata, 303,000 additional Senior Subordinated Units each year that Petro meets certain financial goals up to a maximum of 909,000 additional Senior Subordinated Units.

3) Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the interim periods presented. The Consolidated Financial

Statements for the period October 1, 1997 through June 30, 1998 include the accounts of Star Gas Partners, L.P., Star Gas Propane and its corporate subsidiary, Stellar Propane Service Corp. Beginning March 26, 1999, the Condensed Consolidated Financial Statements also include the accounts of Petro Holdings and its Subsidiaries, a wholly owned subsidiary of the Partnership resulting from the Star Gas / Petro Transaction. All material intercompany items and transactions have been eliminated in consolidation.

Use of Estimates

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

Revenue Recognition

Sales of propane, heating oil, and equipment are recognized at the time of delivery of the product to the customer or at the time of sale, service, or installation. Revenue from repairs and maintenance service is recognized upon completion of the service. Payments received from customers for heating oil equipment service contracts are deferred and amortized into income over the terms of the respective service contracts, on a straight line basis, which generally do not exceed one year.

The propane and heating oil industry are seasonal in nature because both are primarily used for heating in residential and commercial buildings. Therefore, the results of operations for the period ended June 30, 1998 and June 30, 1999 are not necessarily indicative of the results to be expected for a full year.

Comprehensive Income

The Partnership's comprehensive income consists of net income and other comprehensive income, the sole component of which is the minimum pension liability adjustment from its wholly-owned subsidiary Petro. There were no minimum pension liability adjustments at June 30, 1999.

Net Income (loss) per Limited Partner Unit

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

Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost or market and are computed on a first-in, first-out basis.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the depreciable assets using the straight-line method.

Intangible Assets

Intangible assets include goodwill, covenants not to compete, customer lists and deferred charges.

Goodwill is the excess of cost over the fair value of net assets in the acquisition of a company. Both the propane and heating oil segments amortize goodwill using the straight-line method over a twenty-five year period.

Covenants not to compete are non-compete agreements established with the owners of an acquired company. Covenants not to compete are amortized over the respective lives of the covenants, which are generally five years.

Customer lists are the names and delivery addresses of the acquired company's patrons. Based on the historical retention experience of these lists, the propane segment amortizes customer lists on a straight-line method over fifteen years, and the heating oil segment amortizes customer lists on a straight-line method over ten years.

Deferred charges represent the cost associated with the issuance of debt instruments. Both the propane and heating oil segments amortize deferred charges using the interest method over the lives of the related debt instrument.

It is the Partnership's policy to review intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership determines that the carrying values of intangible assets are recoverable over their remaining estimated lives through undiscounted future cash flow analysis. If such a review should indicate that the carrying amount of the intangible assets is not recoverable, it is the Partnership's policy to reduce the carrying amount of such assets to fair value.

Advertising Expenses

Advertising costs are expensed as they are incurred.

Customer Credit Balances

Customer credit balances represent pre-payments received from customers pursuant to a budget payment plan (whereby customers pay their estimated annual propane / heating oil charges on a fixed monthly basis) and the payments made have exceeded the charges for deliveries.

Environmental Costs

The Partnership expenses, on a current basis, costs associated with managing hazardous substances and pollution in ongoing operations. The Partnership also accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred and the amount can be reasonably estimated.

Income Taxes

The Partnership is a master limited partnership. As a result, for Federal income tax purposes, earnings or losses are allocated directly to the individual partners. Except for the Partnership's corporate subsidiaries, no recognition has been given to Federal income taxes in the accompanying financial statements of the Partnership. While the Partner's corporate subsidiaries will generate non-qualifying Master Limited Partnership revenue, dividends from the corporate subsidiaries to the Partnership are included in the determination of Master Limited Partnership income. In addition, a portion of the dividends received by the Partnership from the corporate subsidiaries will be taxable to the limited partners. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and due to the taxable income allocation requirements of the Partnership agreement.

The Partnership's corporate subsidiaries file a consolidated Federal income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As a result of the Star Gas / Petro Transaction, the Partnership's heating oil subsidiary Petro, recorded a $40 million deferred income tax liability, which primarily reflects a difference in the basis between book and tax for the intangible assets acquired from Petro. At June 30, 1999 this amount was partially offset by the $5.4 million deferred tax asset generated by Petro's net operating loss carryforwards.

Accounting Changes

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 - "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, FASB amended the effective date for SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Partnership is assessing the impact and disclosure requirements of SFAS No. 133.

4) Quarterly Distribution of Available Cash

In general, the Partnership distributes to its partners on a quarterly basis all "Available Cash." Available Cash generally means, with respect to any fiscal quarter, 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 (1) provide for the proper conduct of the Partnership's business, (2) comply with applicable law or any of its debt instruments or other agreements or (3) in certain circumstances provide funds for distributions to the Common Unitholders and the Senior Subordinated Unitholders during the next four quarters. The General Partner may not establish cash reserves for distributions to the Senior Subordinated Units unless the General Partner has determined that in its judgment the establishment of reserves will not prevent the Partnership from distributing the Minimum Quarterly Distribution on all Common Units and any Common Unit Arrearages thereon with respect to the next four quarters. Certain restrictions on distributions on Senior Subordinated Units, Junior Subordinated Units and General Partner Units could result in cash that would otherwise be Available Cash being reserved for other purposes. Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus.

The Senior Subordinated Units, the Junior Subordinated Units, and General Partner Units are each a separate class of interest in Star Gas Partners, and the rights of holders of those interests to participate in distributions differ from the rights of the holders of Common Unit.

4) Quarterly Distribution of Available Cash - (continued)

Subsequent to the Star Gas / Petro Transaction, the Partnership intends to distribute to the extent there is sufficient available cash, at least a minimum quarterly distribution of $0.575 per unit, or $2.30 per unit on a yearly basis. In general, available cash will be distributed per quarter based on the following priorities:

- First, to the common units until each has received $0.575, plus any arrearages from prior quarters.

- Second, to the senior subordinated units until each has received $0.575.

- Third, to the junior subordinated units and general partner units until each has received $0.575.

- Finally, after each has received $0.575, available cash will be distributed proportionately to all units until target levels are met.

If distributions of available cash exceed target levels greater than $0.604, the Senior Subordinated Units, Junior Subordinated Units and General Partner Units will receive incentive distributions.

The subordination period will end once the Partnership has met the financial tests stipulated in the partnership agreement, but it generally cannot end before October 1, 2002. However, if the general partner is removed under some circumstances, the subordination period will end. When the subordination period ends, all senior subordinated units and junior subordinated units will convert into Class B common units on a one-for-one basis, and each common unit will be redesignated as a Class A common unit. The main difference between the Class A common units and Class B common units is that the Class B common units will continue to have the right to receive incentive distributions and additional units.

In accordance with the merger agreement, distributions will not be made on the senior subordinated units, junior subordinated units, or general partner units until February 2000 at the earliest.

5) Segment Reporting

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Partnership as a result of the Star Gas / Petro Transaction (see footnote 2), has two reportable segments, propane and heating oil. Management has chosen to organize the enterprise under these two segments in order to leverage the expertise it has in each industry, allow each segment to continue to strengthen its core competencies, and facilitate a clear means for evaluation.

The propane segment is primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers, operating from fifty-five branches in the Midwest and nineteen branches in the Northeast. Propane is used primarily for space heating, water heating and cooking by the Partnership's residential and commercial customers and as a result, weather conditions have a significant impact on the demand for propane.

The heating oil segment is primarily engaged in the retail distribution of home heating oil, related equipment services, and equipment sales to residential and commercial customers. It operates from twenty-four branches / depots and thirteen satellites primarily in the Northeast United States. Home heating oil is principally used by the Partnership's residential and commercial customers to heat their homes and buildings, and as a result, weather conditions also have a significant impact on the demand for home heating oil.

5) Segment Reporting - (continued)

The following are the statement of operations and balance sheets for each segment as of the periods indicated. The heating oil segment was consolidated with the propane segment beginning March 26, 1999, subsequent to the closing of the Star Gas / Petro Transaction.

(in thousands)	Three Months Ended			
		June 30, 1999		
Statement of Operations	June 30, 1998 Propane	Heating Oil	Propane	Consolidated
Sales:				
Product	$14,347	$ 45,404	$ 13,618	$ 59,022
Installation, service, and appliance	1,896	18,056	2,014	20,070
Total sales	16,243	63,460	15,632	79,092
Costs and expenses:				
Cost of product	6,005	23,455	5,187	28,642
Cost of installation, service, and appliances	513	23,316	705	24,021
Delivery and branch	8,538	22,583	9,539	32,122
Depreciation and amortization	2,868	5,423	3,035	8,458
General and administrative	1,602	2,439	1,631	4,070
Net (loss) on sales of assets	(28)	2	(7)	(5)

Operating income (loss)	(3,311)	(13,754)	(4,472)	(18,226)
Interest expense, net	1,873	3,261	1,960	5,221
Amortization of debt issuance costs	45	83	45	128
Income (loss) before income taxes	(5,229)	(17,098)	(6,477)	(23,575)
Income tax expense (benefit)	6	(5,368)	6	(5,362)
Net income (loss)	$(5,235)	$(11,730)	$ (6,483)	$(18,213)
Capital expenditures	$ 797	$ 1,121	$ 1,464	$ 2,585

(in thousands)	Nine Months Ended			
		June 30, 1999		
Statement of Operations	June 30, 1998 Propane	Heating Oil	Propane	Consolidated
Sales:				
Product	$89,437	$ 53,312	$82,613	$135,925
Installation, service, and appliance	6,534	18,281	7,224	25,505
Total sales	95,971	71,593	89,837	161,430
Costs and expenses:				
Cost of product	41,784	27,152	31,319	58,471
Cost of installation, service, and appliances	1,942	24,290	2,361	26,651
Delivery and branch	28,280	23,726	30,721	54,447
Depreciation and amortization	8,509	5,423	9,066	14,489
General and administrative	4,420	2,589	4,637	7,226
Net (loss) on sales of assets	(213)	2	(98)	(96)
Operating income (loss)	10,823	(11,585)	11,635	50
Interest expense, net	5,834	3,486	6,274	9,760
Amortization of debt issuance costs	135	83	135	218
Income (loss) before income taxes	4,854	(15,154)	5,226	(9,928)
Income tax expense (benefit)	19	(5,343)	19	(5,324)
Net income (loss)	$ 4,835	$ (9,811)	$ 5,207	$ (4,604)
Capital expenditures	$ 3,825	$ 1,121	$ 3,815	$ 4,936

(in thousands)		June 30, 1999		
Balance Sheet	September 30, 1998 Propane	Heating Oil	Propane	(1) Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 1,115	$ 20,541	$ 308	$ 20,849
Receivables	5,279	43,957	5,631	49,588
Inventories	10,608	10,863	4,005	14,868
Prepaid expenses and other current assets	945	9,147	1,335	9,260
Total current assets	17,947	84,508	11,279	94,565
Property and equipment, net	110,262	40,091	108,267	148,358
Investment in Petro Holdings	-	-	107,476	-
Intangibles and other assets, net	51,398	269,513	49,280	318,793
Total assets	$179,607	$394,112	$276,302	$561,716
Liabilities and Partners' Capital				
Current Liabilities:				
Accounts payable	$ 3,097	$ 8,143	$ 2,246	$ 10,389
Bank credit facility borrowings	4,770	-	1,400	1,400
Current maturities of long-term debt	692	2,331	-	2,331
Accrued expenses	3,315	32,924	5,307	37,882
Unearned service contract revenue	-	12,990	-	12,990
Customer credit balances	6,038	20,970	2,720	23,690
Total current liabilities	17,912	77,358	11,673	88,682
Long-term debt	104,308	167,407	98,000	265,407
Other long-term liabilities	40	7,239	8	7,247
Deferred income taxes	-	34,632	-	34,632

Partners' Capital	57,347	107,476	166,621	165,748
Total Liabilities and Partners' Capital	$179,607	$394,112	$276,302	$561,716

(1) The consolidated amounts include the necessary entries to eliminate the Investment in Petro Holdings.

6) Inventories

The components of inventory were as follows:

(in thousands)	September 30, 1998	June 30, 1999
Propane gas	$ 8,807	$ 2,031
Propane appliances and equipment	1,801	1,974
Fuel oil	-	4,333
Fuel oil parts and equipment	-	6,530
	$10,608	$14,868

Substantially all of the Partnership's propane supplies for the Northeast retail operations are purchased under supply contracts. Certain of the supply contracts provide for minimum and maximum amounts of propane to be purchased thereunder, and provide for pricing in accordance with posted prices at the time of delivery or include a pricing formula that typically is based on current market prices. Historically, spot purchases from Mont Belvieu sources accounted for approximately one-third of the Partnership's total volume of propane purchases. In addition, the three single largest suppliers in the aggregate account for less than half of total propane purchases.

The Partnership obtains home heating oil in either barge or truckload quantities, and has contracts with over 80 terminals for the right to temporarily store its heating oil at facilities not owned by the Partnership. Purchases are made pursuant to supply contracts or on the spot market. The Partnership has market price based contracts for substantially all its petroleum requirements with 12 different suppliers, the majority of which have significant domestic sources for their product, and many of which have been suppliers for over 10 years. Typically supply contracts have terms of 12 months. All of the supply contracts provide for maximum and in some cases minimum quantities, and in most cases the price is based upon the market price at the time of delivery.

The Partnership may enter into forward contracts with Mont Belvieu suppliers or refineries which call for a fixed price for the product to be purchased based on current market conditions, with delivery occurring at a later date. In most cases the Partnership has entered into similar agreements to sell this product to customers for a fixed price based on market conditions. In the event that the Partnership enters into these types of contracts without a subsequent sale, it is exposed to some market risk. Currently, the Partnership does not have any contracts that if market conditions were to change, would have a material affect on its financial statements.

Concentration of Revenue with Guaranteed Maximum Price Customers

Approximately 25% of the volume sold in the Partnership's heating oil segment is sold to individual customers under an agreement pre-establishing the maximum sales price of home heating oil over a twelve month period. The maximum price at which home heating oil is sold to these capped-price customers is generally renegotiated prior to the heating season of each year based on current market conditions. The heating oil segment currently enters into forward purchase contracts and futures contracts for a substantial majority of the heating oil it sells to these capped-price customers in advance and at a fixed cost. Should events occur after a capped-sales price is established that increases the cost of home heating oil above the amount anticipated, margins for the capped-price customers whose heating oil was not purchased in advance would be lower than expected, while those customers whose heating oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of heating oil below the amount anticipated, margins for the capped-price customers whose heating oil was purchased in advance could be lower than expected, while those customers whose heating oil was not purchased in advance would be unaffected or higher than expected.

6) Inventories - (continued)

In accordance with SFAS No. 80, "Accounting for Futures Contracts," futures contracts are classified as a hedge when the item to be hedged exposes the company to price risk and the futures contract reduces that risk exposure. Future contracts that relate to transactions that are expected to occur are accounted for as a hedge when the significant characteristics and expected terms of the anticipated transactions are identified and it is probable that the anticipated transaction will occur. If a transaction does not meet the criteria to qualify as a hedge, it is considered to be speculative. Any gains or losses associated with futures contracts which are classified as speculative are recognized in the current period. If a futures contract that has been accounted for as a hedge is closed or matures before the date of the anticipated transaction, the accumulated change in value of the contract is carried forward and included in the measurement of the related transaction. Option contracts are accounted for in the same manner as futures contracts. At June 30, 1999 the heating oil segment had futures contracts to buy 50.7 million gallons of home heating oil with a notional and fair market value totaling $25.6 million and $26.0 million respectively; the propane segment had options to buy 5.0 million gallons of propane with a notional and fair market value totaling $1.6 million and $1.8 million respectively.

At June 30, 1999 the heating oil segment also had 1.0 million gallons of heating oil forward purchase contracts which expire at various times with no contract expiring later than September 1999; the propane segment did not have any forward purchase contracts. At June 30, 1999, the unrealized gains on the heating oil segment and propane segment hedging activity was approximately $0.5 million and $0.2 million respectively. The heating oil segment's hedging activity is designed to help it achieve its planned margins and represents approximately 25% of the expected total home heating oil volume sold in a twelve month period. The propane segment's hedging activity is also designed to help it achieve its planned margins and represents approximately 5% of the expected total propane volume sold in a twelve month period.

The carrying amount of all hedging financial instruments at June 30, 1999 was $0.3 million and was included in Prepaid Expenses on the Condensed Consolidated Balance Sheet. The risk that counterparties to such instruments may be unable to perform is minimized by limiting the counterparties to major oil companies and major financial institutions, including the New York Mercantile Exchange. The Partnership does not expect any losses due to such counterparty default.

7) Property, Plant and Equipment

The components of property, plant, and equipment and their estimated useful lives were as follows:

(in thousands)

	September 30, 1998	June 30, 1999	Estimated Useful Lives
Land	$ 4,635	$ 8,227	
Buildings and leasehold improvements	10,313	20,583	4 - 30 years
Fleet and other equipment	16,918	33,437	3 - 30 years
Tanks and equipment	102,493	106,594	8 - 30 years
Furniture and fixtures	2,833	13,695	5 - 12 years
Total	137,192	182,536	
Less accumulated depreciation	26,930	34,178	
Total	$110,262	$148,358	

8) Intangibles and Other Assets

The components of intangibles and other assets were as follows at the indicated dates:

(in thousands)	September 30, 1998	June 30, 1999			Useful Lives
	(Propane)	(Propane)	(Heating Oil)	Total	
Goodwill	$25,690	$25,690	$175,615	$201,305	25 years
Covenants not to compete	2,341	2,361	-	2,361	5 years
Customer lists	34,028	34,599	94,633	129,232	10 - 15 years
Deferred charges	2,907	3,104	2,742	5,846	6 - 14 years
Total intangibles	64,966	65,754	272,990	338,744	
Less accumulated amortization	13,568	16,564	4,159	20,723	
Net intangibles	51,398	49,190	268,831	318,021	
Other assets	-	90	682	772	
Intangibles and other assets	$51,398	$49,280	$269,513	$318,793	

The table below summarizes the current allocation by the Partnership of the excess of purchase price over book value related to the acquisition of Petro. The allocation of the purchase price was based on the results of an appraisal of property, plant and equipment, customer lists and the March 26, 1999 recorded values for tangible assets and liabilities as follows:

	(in thousands)
Consideration given for the exchange of Petro shares	$ 20,822
Fair market value of Petro's assets and liabilities as of March 26, 1999:	
Current assets	(107,102)
Property, plant and equipment (1)	(40,109)
Value of Petro's investment in the Partnership	(21,864)
Current liabilities	79,792
Long-term debt	276,568
Deferred income taxes	40,000
Other liabilities	7,251
Preferred stock	12,978
Junior preferred stock	1,459
Sub-total	248,973
Total value assigned to intangibles and other assets	$ 269,795
Consisting of:	
Customer lists	$ 94,000
Goodwill	175,080
Other assets	715
Total	$ 269,795

(1) Includes fair market value adjustment of $13.4 million.

The fair market value for property, plant and equipment, excluding real estate, was established using the replacement cost approach method. The market approach was used in valuing the real estate. The value assigned to customer lists was derived using a discounted cash flow analysis. The cash attributable to the customer lists were discounted back at an equity risk adjusted cost of capital to the net present value. Any excess was attributable to goodwill.

9) Acquisitions

During the nine months ended June 30, 1999, the Partnership acquired one unaffiliated retail propane dealer with an aggregate cost of $1.2 million, and Petro in a four part transaction as described in footnote number 2. Since the Star Gas / Petro Transaction, the Partnership has also acquired two unaffiliated heating oil dealers with an aggregate cost of $1.4 million.

During fiscal 1998, the Partnership acquired seven unaffiliated retail propane dealers with an aggregate cost of $35.6 million. The acquisitions were accounted for under the purchase method of accounting. Since these acquisitions were completed after the heating season, the Partnership could not fully determine the impact of customer losses on the useful life of the customer lists acquired. As a result, the Partnership assigned a useful life of 15 years to these acquired customer lists, and has continued to monitor customer losses from these acquisitions in order to make any necessary adjustments.

The following table indicates the allocation of the aggregate purchase prices paid for these acquisitions and the respective periods of amortization assigned:

(in thousands)		Useful Lives
Land	$ 492	-
Buildings	1,381	30 years
Furniture and equipment	153	10 years
Fleet	1,613	5-30 years
Tanks and equipment	14,829	5-30 years
Customer lists	5,231	15 years
Restrictive covenants	300	5 years
Goodwill	11,503	25 years
Deferred charges	56	6 years
Total	$35,558	

The most significant transaction was the acquisition of the Pearl Gas Co., "Pearl". In October 1997, pursuant to a purchase agreement, the General Partner (prior to the Star Gas / Petro Transaction) purchased 240 shares of Common Stock ($100 par value) of Pearl, representing all of its issued and outstanding capital stock. The purchase price was $23.0 million and included working capital of $1.9 million and $0.4 of transaction expenses. Funding for this purchase was provided by a $23.0 million bank acquisition facility.

This General Partner then contributed to the Partnership all of the assets it obtained in the stock purchase of Pearl Gas in exchange for a 2.7% interest in the Partnership and the assumption of all liabilities associated with the Pearl stock including the $23.0 million of bank debt. Subsequent to the acquisition, Pearl was merged into this General Partner as part of a tax-free liquidation. This General Partner purchased the outstanding shares of Common Stock of Pearl and subsequently conveyed the assets obtained in connection with this purchase, primarily to accommodate the prior owners desire to sell stock as opposed to assets and to complete the transaction using the most tax advantaged method possible.

The aggregate value of the interests transferred to this General Partner from the Partnership was $3.5 million representing a .00027 General Partner interest and 147,727 Common Units in the Partnership. This amount was intended to compensate this General Partner for additional significant income tax liabilities which would be reflected in the consolidated federal income tax return of this entity's parent corporation, Petro, and was based upon an average of the of the Partnership's Common Units.

The issuance of such partnership interests was approved by the Audit Committee of this General Partner and the Executive Committee of Petro.

The acquisitions were accounted for under the purchase method of accounting. Purchase prices have been allocated to the acquired assets and liabilities based on their respective fair market values on the dates of acquisition. The purchase prices in excess of the fair values of net assets acquired were classified as intangibles in the Condensed Consolidated Balance Sheets. Sales and net income have been included in the Condensed Consolidated Statements of Operations from the respective dates of acquisition.

9) Acquisitions - (continued)

The following unaudited pro forma information presents the results of operations of the Partnership and the acquisitions previously described, including the acquisition of Petro as described in footnote 2, as if the acquisitions had taken place on October 1, 1997.

(in thousands)	Nine Months Ended June 30, 1998	Nine Months Ended June 30, 1999
Sales	$510,033	$457,106
Net income	$ 25,732	$ 33,272
General Partner's interest in net income		
	$ 515	$ 665
Limited Partners' interest in net income		
Basic and Diluted net income per limited partner unit	$ 25,217	$ 32,607
	$ 1.57	$ 2.03

10) Long-Term Debt and Working Capital Borrowings

Long-term debt consisted of the following at the indicated dates:

(in thousands)	September 30, 1998	June 30, 1999
Star Gas Propane:		
8.04% First Mortgage Notes (a)	$ 85,000	$ 85,000
7.17% First Mortgage Notes (a)	11,000	11,000
Acquisition Facility Borrowings (b)	9,000	2,000
Working Capital Facility Borrowings (b)	4,770	1,400
Petro:		
7.92% Senior Notes (c)	-	90,000
9.0% Senior Notes (d)	-	62,697
10.25% Senior and Subordinated Notes (e)	-	4,280
Acquisition Facility Borrowings (f)	-	-
Acquisition Notes Payable (g)	-	9,739
Subordinated Debentures (h)	-	3,022
	109,770	269,138
Less current maturities	(692)	(2,331)
Less bank credit facility borrowings	(4,770)	(1,400)
Total	$104,308	$265,407

(a) In December 1995, the General Partner at that time 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 Star Gas Propane. In January 1998, Star Gas Propane issued an additional $11.0 of First Mortgage Notes with an annual interest rate of 7.17%. Star Gas Propane's obligations under the First Mortgage Note Agreements are secured, on an equal basis with Star Gas Propane'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 Star Gas Propane. The First Mortgage Notes will mature September 15, 2010, and will require semiannual prepayments, without premium on the principal thereof, beginning on March 15, 2001. Interest on the Notes is payable semiannually on March 15 and September 15. For the year ended September 30, 1998, the Partnership incurred interest expense in the amount of $7.4 million on the

First Mortgage Notes. The First Mortgage Note Agreements contain various restrictive and affirmative covenants applicable to Star Gas Propane, including restrictions on the incurrence of additional indebtedness and restrictions on certain investments, guarantees, loans, sales of assets and other transactions.

(b) The Star Gas Propane Bank Credit Facilities consist of a $25.0 million Acquisition Facility and a $12.0 million Working Capital Facility. At June 30, 1999 $2.0 million and $1.4 million was borrowed under the Acquisition Facility and Working Capital Facility respectively. The agreement governing the Bank Credit Facilities contains covenants and default provisions generally similar to those contained in the First Mortgage Note Agreements. The Bank Credit Facilities bear interest at a rate based upon, at the Partnership's option, either the London Interbank Offered Rate plus a margin or a Base Rate (each as defined in the Bank Credit Facilities). The Partnership is required to pay a fee for unused commitments which amounted to $0.1 million for fiscal 1996, $0.2 million for fiscal 1997 and $0.1 million for fiscal 1998. For fiscal 1998, the weighted average interest rate on borrowings under these facilities was 7.46%.

The Working Capital Facility will expire June 30, 2001, but may be extended annually thereafter with the consent of the banks. Borrowings under the Acquisition Facility will revolve until September 30, 2000, after which time any outstanding loans thereunder, will amortize quarterly in equal principal payments with a final payment due on September 30, 2003. However, there must be no amount outstanding under the Working Capital Facility for at least 30 consecutive days during each fiscal year.

(c) Petro issued $90.0 million of 7.92% Senior Secured Notes in six separate series in a private placement to institutional investors as part of the Star Gas / Petro Transaction. The Senior Secured Notes are guaranteed by Star Gas Partners and are secured equally and ratably with Petro's existing senior debt and bank credit facilities by Petro's cash, accounts receivable, notes receivable, inventory and customer list. Each series of Senior Secured Notes will mature between April 1, 2003 and April 1, 2014. Only interest on each series is due semiannually. On the last interest payment date for each series, the outstanding principal amount is due and payable in full.

The note agreements for the senior secured notes contain various negative and affirmative covenants, including restrictions on payment of dividends or other distributions by Star Gas Partners on any partnership interest if the ratio of consolidated pro forma operating cash flow to consolidated pro forma interest expense, do not meet the requirements in the agreement for the period of the four most recent fiscal quarters ending on or prior to the date of the dividend or distribution or an event of default would exist.

(d) The Petro 9.0% Senior Secured Notes which pay interest semiannually were issued under agreements that are substantially identical to the agreements under which the $90.0 million of Senior Secured Notes were issued, including negative and affirmative covenants. The 9.0% Senior Notes are guaranteed by Star Gas Partners. The notes have various sinking fund payments of which the largest are $15.5 million due on October 1, 2000, $15.4 million due on October 1, 2001 and a final maturity payment of $30.3 million due on October 1, 2002. All such notes are redeemable at the option of the Partnership, in whole or in part upon payment of a premium as defined in the note agreement. The holders of these notes have the right to extend each maturity of the note for a one year period at an annual rate of 10.9%.

(e) The Petro 10.25% Senior and Subordinated Notes which pay interest quarterly also were issued under agreements that are substantially identical to the agreements under which the $90.0 million and 9.0% Senior Notes were issued. These notes are also guaranteed by Star Gas Partners. Petro is required to repay $2.2 million on January 15, 2000 and to make a final maturity payment of $2.1 million on January 15, 2001. No premium is payable in connection with these required payments. The holders of these notes have the right to extend each maturity of the note for a one year period at an annual rate of 14.1%.

10) Long-Term Debt and Working Capital Borrowings - (continued)

(f) The Petro Bank Facilities consist of three separate facilities; a $40 million working capital facility, a $10 million insurance letter of credit facility and a $50 million acquisition facility. At June 30, 1999 no amount was outstanding under the working capital facility, $9.5 million of the insurance letter of credit was used, and $9.2 million of the acquisition facility was outstanding in the form of letter of credits (see footnote g below). The working capital facility and letter of credit facility will expire on June 30, 2001. The acquisition facility will convert to a term loan on June 30, 2001 which will be payable in eight equal quarterly principal payments. Amounts borrowed under the working capital facility are subject to a requirement to maintain a zero balance for 90 consecutive days during the period from April 1 to September 30 of each year. In addition, each facility will bear an interest rate that is based on either the London Interbank Offer Rate or another base rate plus a set percentage. The bank facilities agreement contains covenants and default provisions generally similar to those contained in the note agreement for the senior secured notes.

(g) These Petro notes were issued in connection with the purchase of fuel oil dealers and other notes payable and are due in monthly, quarterly, and annual installments. Interest is at various rates ranging from 8% to 15% per annum, maturing at various dates through 2004. Approximately $9.2 million of letter of credits issued under the Petro Bank Acquisition Facility are issued to support these notes.

(h) Petro also has outstanding $1.3 million of 10 1/8% Subordinated Debentures due 2003, $0.7 million of 9 3/8% Subordinated Notes due 2006 and $1.1 million of 12 1/4% Subordinated Notes due 2005. In October 1998, the indentures under which the 10 1/8%, 9 3/8% and 12 1/4% subordinated notes were issued were amended to eliminate substantially all of the covenants provided by the indentures.

As of June 30, 1999, the maturities during fiscal years ending September 30 are set forth in the following table:

	(in thousands)
1999	$ 146
2000	12,914
2001	20,796
2002	25,575
2003	54,136
Thereafter	155,571
	$269,138

As of June 30, 1999, the Partnership was in compliance with all borrowing covenants, as amended.

11) Employee Benefit Plans

Propane Segment

The propane segment has a 401(k) plan which covers certain eligible non-union and union employees. Subject to IRS limitations, the 401(k) plan provides for each employee to contribute from 1.0% to 15.0% of compensation. The propane segment contributes to non-union participants a matching amount up to a maximum of 3.0% of compensation. Aggregate matching contributions made to the 401(k) plan during fiscal 1997 and 1998 were $0.4 million and $0.3 million, respectively. The propane segment also makes monthly contributions on behalf of its union employees to a union sponsored defined benefit plan. The amount charged to expense was $0.4 million for both fiscal 1997 and 1998.

Heating Oil Segment

Effective December 31, 1996, the heating oil segment consolidated all of its defined contribution pension plans and froze the benefits for nonunion personnel covered under defined benefit pension plans. In 1997, the heating oil segment froze the benefits of its New York City union defined benefit pension plan as a result of operation consolidations.

11) Employee Benefit Plans - (continued)

The defined benefit and defined contribution plans covered substantially all of the heating oil segment's nonunion employees. Benefits under the frozen defined benefit plans were generally based on years of service and each employee's compensation. Benefits under the consolidated defined contribution plan are based on an employee's compensation. For the heating oil segment, pension expense under all non-union plans for the twelve months ended December 31, 1997 and 1998 was $4.0 million and $4.4 million respectively.

The following tables provide a reconciliation of the changes in the heating oil segment's plan benefit obligations, fair value of assets, and a statement of the funded status at the indicated dates:

(in thousands)	Twelve Months Ended December 31,	
Reconciliation of Benefit Obligations	1997	1998
Benefit obligations at beginning of year	$29,323	$29,258
Service cost	116	-
Interest cost	1,895	1,930
Actuarial (gain) loss	977	(63)
Benefit payments	(1,384)	(1,547)
Settlements	(1,669)	(2,201)
Benefit obligation at end of year	$29,258	$27,377
Reconciliation of Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	$20,367	$22,292
Actual return on plan assets	2,780	2,561
Employer contributions	2,458	615
Benefit payments	(1,384)	(1,547)
Settlements	(1,929)	(2,883)
Fair value of plan assets at end of year	$22,292	$21,038

	Twelve Months Ended December 31,	
Funded Status	1997	1998
Benefit obligation	$29,258	$27,377
Fair value of plan assets	22,292	21,038
Unrecognized transition (asset) obligation	(52)	(39)
Unrecognized prior service cost	-	-
Unrecognized net actuarial (gain) loss	5,807	4,776
Prepaid (accrued) benefit cost prior to additional liability	(1,211)	(1,602)
Amount included in comprehensive income	4,646	4,737
Prepaid (accrued) benefit cost	$(5,857)	$(6,339)
Weighted-Average Assumptions Used in the Measurement of the Company's Benefit Obligation as of December 31,		
Discount rate	6.5%	6.5%
Expected return on plan assets	8.5%	8.5%
Rate of compensation increase	N/A	N/A

In addition, the heating oil segment made contributions to union-administered pension plans during the twelve months ended December 31, 1997 and 1998 of $2.5 million, and $2.0 million respectively.

12) Unit Option Plan

On December 20, 1995, the Partnership adopted a Unit Option Plan (the "Unit Option Plan"), which currently authorizes the issuance of options (the "Unit Options") and Unit Appreciation Rights ("UARS") covering up to 300,000 Subordinated Units to certain officers and employees of the

Partnership. A total of 40,000 options were granted to key executives in December 1995. The Unit Options have the following characteristics: 1) an exercise price of $22 per unit, which is an estimate of the fair market value of the Subordinated Units at the time of grant, 2) vest over a five year period, 3) are exercisable after the subordination period has elapsed, and 4) expire on the tenth anniversary of the date of grant. No UARS have been granted pursuant to the plan.

As prescribed by SFAS No. 123, compensation expense is recognized by the Partnership for the unit option plan awards to executives who are not employees of the Partnership. The amount recorded is calculated by comparing the fair value of the options granted on the grant date based on the Black-Scholes model to the market price of the Partnership's units on that date and amortizing such difference over the vesting period. The amounts recorded in fiscal years 1996, 1997 and 1998 were not significant.

13) Lease Commitments

The Partnership has entered into certain operating leases for office space, trucks and other equipment.

Propane Segment

The future minimum rental commitments at September 30, 1998 under leases having an initial or remaining non-cancelable term of one year or more are as follows:

	(in thousands)
1999	$ 939
2000	808
2001	751
2002	638
2003	285
Thereafter	379
Total minimum lease payments	$3,800

Propane segment rent expense was $1.3 million and $1.2 million for the years ended 1997 and 1998 respectively.

Heating Oil segment

The heating oil segment leases office space and other equipment under noncancelable operating leases which expire at various times through 2017. Certain of the real property leases contain renewal options and require the heating oil segment to pay property taxes.

The future minimum rental commitments at December 31, 1998 for all heating oil segment operating leases having an initial or remaining noncancelable term of one year or more are as follows:

	(in thousands)
1999	$ 4,333
2000	3,763
2001	3,194
2002	3,437
2003	3,292
Thereafter	19,056
Total minimum lease payments	$37,075

Heating oil segment rental expense under operating leases for the twelve months ended December 31, 1997 and 1998 was $7.5 million, and $6.6 million respectively.

14) 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 Partnership.

15) Related Party Transactions

Prior to March 26, 1999, the Partnership was managed by the Star Gas Corporation, a wholly owned subsidiary of Petro. Pursuant to the Partnership Agreement that was in effect at the time, Star Gas Corporation was entitled to reimbursement for all direct and indirect expenses incurred or payments it made on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by Star Gas Corporation in connection with operating the Partnership's business. Indirect expenses were allocated to the Partnership on a basis consistent with the type of expense incurred. For example, services performed by employees of Star Gas Corporation on behalf of the Partnership were reimbursed on the basis of hours worked and rent expense was reimbursed on the proportion of the square footage leased by the Partnership. For the fiscal years ended September 30, 1997 and 1998, the Partnership reimbursed Star Gas Corporation and Petro $17.1 million and $19.6 million, respectively, representing salary, payroll tax and other compensation paid to the employees of the Star Gas Corporation, including $0.2 million and $0.1 million, respectively, paid to Petro for certain corporate functions such as finance and compliance. In addition, the Partnership reimbursed Petro $0.9 million and $0.8 million for the fiscal years ended September 30, 1997 and 1998, respectively, relating to the Partnership's share of the costs incurred by Petro in conducting the operations of a certain shared branch location which included managerial services. As a result of the Star Gas / Petro Transaction, Star Gas Corporation was replaced as the General Partner by Star Gas LLC.

16) Subsequent Events

Cash Distribution

On July 23, 1999 the Partnership announced that it would pay a cash distribution of $0.575 per common unit for the three months ended June 30, 1999. The distribution is payable on August 13, 1999 to holders of record as of August 3, 1999.

Acquisitions

On August 4, 1999 the Partnership acquired McBride Propane in Flint, Michigan with annual propane gallons of 2.8 million.

On August 10, 1999 the Partnership signed a purchase agreement to acquire a retail propane distributor located in its midwest operating area with sales of 7.0 million gallons of propane annually. The consummation of this transaction is subject to finalization of due diligence, financing and other normal closing conditions.

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

Overview

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

The results of operations for the three and nine month periods ended June 30, 1999 include the Petro acquisition from March 26, 1999. Refer to footnote 2 of the condensed consolidated financial statements for a description of the Star Gas / Petro Transaction.

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

Also, the propane and heating oil industries are seasonal in nature with peak activity occurring during the winter months. Since Petro was acquired after the heating season, the results for the three and nine months ended June 30, 1999 included anticipated third fiscal quarter losses but do not include the profits from the heating season. Accordingly, results of operations for the periods presented are not indicative of the results to be expected for a full year.

THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

Volume

For the three months ended June 30, 1999, retail volume of propane and home heating oil increased 44.7 million gallons to 56.9 million gallons, as compared to 12.2 million gallons for the three months ended June 30, 1998. This increase was due to 43.8 million gallons provided by the March 26, 1999 acquisition of Petro, the heating oil segment, and a 0.9 million gallon increase in the propane segment. The 0.9 million gallon increase in the propane segment was due to the additional volume provided by propane acquisitions and internal growth. In the Partnership's propane operating areas, temperatures were 3.8% warmer than in the prior year's comparable quarter and 20.5% warmer than normal.

For the three months ended June 30, 1999, wholesale propane volume decreased 3.1 million gallons, or 50.3%, to 3.1 million gallons, as compared to 6.3 million gallons for the three months ended June 30, 1998. This decrease was due to the lower summertime pre-season buying demand.

Sales

For the three months ended June 30, 1999, sales increased $62.8 million, or 386.9%, to $79.1 million, as compared to $16.2 million for the three months ended June 30, 1998. This increase was due to $63.5 million provided by the home heating oil segment partially offset by a $0.6 million reduction in the propane segment. Sales decreased in the propane segment due to lower wholesale volumes and lower selling prices, partially offset by the increased retail volume.

Cost of Product

For the three months ended June 30, 1999, cost of product increased $22.6 million, or 377.0%, to $28.6 million, as compared to $6.0 million for the three months ended June 30, 1998. Cost of product relating to heating oil sales accounted for $23.5 million of this increase. In the propane segment, cost of product decreased by $0.8 million, as the impact of higher retail volume sales was largely offset by lower propane supply cost and less wholesale volume. While both propane selling prices and propane supply costs declined on a per gallon basis, the decline in selling prices were greater than the decline in supply costs, which resulted in a decrease in per gallon margins.

Cost of Installation, Service and Appliances

For the three months ended June 30, 1999, cost of installation, service and appliances increased $23.5 million to $24.0 million, as compared to $0.5 million for the three months ended June 30, 1998. This increase was almost entirely due to the inclusion of $23.3 million of expenses relating to the heating oil segment's cost of installation and service.

Delivery and Branch Expenses

For the three months ended June 30, 1999, delivery and branch expenses increased $23.6 million, or 276.2%, to $32.1 million, as compared to $8.5 million for the three months ended June 30, 1998. Delivery and branch expenses at the heating oil segment accounted for $22.6 million of this change. The $1.0 million increase in operating expenses for the propane segment was due to additional operating cost of acquired propane companies and marketing expenses relating to the propane segment's tank set program, which has increased same store residential volume by approximately 4.0%.

Depreciation and Amortization Expenses

For the three months ended June 30, 1999, depreciation and amortization expenses increased $5.6 million, or 194.9%, to $8.5 million, as compared to $2.9 million for the three months ended June 30, 1998. This increase was largely due to $5.4 million of depreciation and amortization expenses for the heating oil segment with the difference attributable to the impact of propane acquisitions and other fixed asset additions.

General and Administrative Expenses

For the three months ended June 30, 1999, general and administrative expenses increased $2.5 million, or 154.1%, to $4.1 million, as compared to $1.6 million for the three months ended June 30, 1998. The increase was primarily due to the inclusion of $2.4 million of the heating oil segment's general and administrative expenses.

Interest Expense, net

For the three months ended June 30, 1999, net interest expense increased $3.3 million, or 178.7%, to $5.2 million, as compared to $1.9 million for the three months ended June 30, 1998. This change was primarily due to $3.3 million of interest expense incurred by the heating oil segment.

Income Tax Expense (Benefit)

For the three months ended June 30, 1999, the income tax benefit was $5.4 million, as compared to an income tax expense of $0.01 million for the three months ended June 30, 1998. This change was due to the heating oil segment's corporate net operating loss carryforwards, which generated $5.4 million in deferred tax benefits offsetting in part the deferred tax liability.

Net Loss

For the three months ended June 30, 1999, net loss increased $13.0 million to a loss of $18.2 million, as compared to a net loss of $5.2 million for the three months ended June 30, 1998. The anticipated increase in the net loss was largely the result of the inclusion of the heating oil segment's seasonally related loss of $11.8 million and $1.2 million less net income in the propane segment due to lower wholesale volumes, an increase in marketing expenses and lower per gallon propane margins.

Earnings before interest, taxes, depreciation and amortization, less net gain (loss) on sales of equipment (EBITDA)

Earnings before interest, taxes, depreciation and amortization, less net gain (loss) on sales of equipment (EBITDA) decreased $9.3 million, to a loss of $9.8 million, as compared to a loss of $0.4 million for the three months ended June 30, 1998. This change was due to the seasonally related EBITDA loss of $8.3 million incurred by the heating oil segment. In addition, the EBITDA loss in the propane division increased by $1.0 million due to lower wholesale volume, additional marketing expenses, and lower per gallon propane margins associated with the propane division's successful tank set program. 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. The definition of "EBITDA" set forth above may be different from that used by other companies.

NINE MONTHS ENDED JUNE 30, 1999
COMPARED TO NINE MONTHS ENDED JUNE 30, 1998

Volume

For the nine months ended June 30, 1999, retail volume of propane and heating oil increased 52.0 million gallons, or 61.3%, to 136.8 million gallons, as compared to 84.8 million gallons for the nine months ended June 30, 1998. This increase was due to 51.9 million gallons of additional volume provided by the heating oil segment from March 26, 1999 to June 30, 1999. For the period, retail propane was 84.9 million gallons, 0.1 million gallons less than the prior year's comparable period. While retail propane volume increased by 6.6 million gallons due to acquisitions, internal growth and slightly colder temperatures, these positive influences were offset by a 6.5 million decrease in agricultural volume. The abnormal weather conditions during the first fiscal quarter resulted in a very dry fall harvest, which caused propane demand for crop drying to be at its lowest level since 1991. In the Partnership's propane operating areas, temperatures for the nine months ending June 30, 1999, were 1.4% colder than in the prior year's comparable period and 10.8% warmer than normal.

For the nine months ended June 30 1999, wholesale propane volume decreased by 2.0 million gallons, or 8.9%, to 20.2 million gallons, as compared to 22.1 million gallons for the nine months ended June 30, 1998. This decrease was due to the lower summertime pre-season buying demand.

Sales

For the nine months ended June 30, 1999, sales increased $65.5 million, or 68.2%, to $161.4 million, as compared to $96.0 million for the nine months ended June 30, 1998. This increase was attributable to $71.6 million of additional sales provided by the heating oil segment, which were partially offset by a $6.1 million decline in the propane segment. Propane sales declined due to lower agricultural sales and lower selling prices in response to a decline in propane supply costs. This decline was partially offset by additional propane sales attributable to propane acquisitions, colder temperatures and propane segment internal growth.

Cost of Product

For the nine months ended June 30, 1999, cost of product increased $16.7 million, or 39.9%, to $58.5 million, as compared to $41.8 million for the nine months ended June 30, 1998. This increase was due to $27.2 million of costs attributable to the heating oil segment, partially offset by lower propane supply cost of $10.5 million. While both propane selling prices and propane supply costs declined on a per gallon basis, the decline in selling prices was less than the decline in supply costs, which resulted in an increase in per gallon margins across all propane market segments.

Cost of Installation, Service and Appliances

For the nine months ended June 30, 1999, cost of installation, service and appliances increased $24.7 million, to $26.7 million, as compared to $1.9 million for the nine months ended June 30, 1998. This increase was primarily due to $24.3 million of costs relating to the heating oil segment.

Delivery and Branch Expenses

For the nine months ended June 30, 1999, delivery and branch expenses increased $26.2 million, or 92.5%, to $54.4 million, as compared to $28.3 million for the nine months ended June 30, 1998. This increase was primarily due to the inclusion of $23.7 million of heating oil operating costs. In addition, propane operating expenses increased by $1.4 million due to $0.6 million of costs associated with the segment's marketing initiatives and normal expense increases of 2.8% or $0.8 million.

Depreciation and Amortization

For the nine months ended June 30, 1999, depreciation and amortization expenses increased $6.0 million, or 70.3%, to $14.5 million, as compared to $8.5 million for the nine months ended June 30, 1998. This increase was primarily due to $5.4 million of heating oil segment depreciation and amortization with the remainder attributable to the impact of propane acquisitions and other fixed asset additions.

General and Administrative Expenses

For the nine months ended June 30, 1999, general and administrative expenses increased $2.8 million, or 63.5%, to $7.2 million, as compared to $4.4 million for the nine months ended June 30, 1998. This increase was primarily due to the inclusion of $2.6 million of heating oil general and administrative expenses.

Interest Expense, net

For the nine months ended June 30, 1999, net interest expense increased $3.9 million, or 67.3%, to $9.8 million, as compared to $5.8 million for the nine months ended June 30, 1998. This change was primarily due to $3.5 million of interest expense at the heating oil segment and an increase in borrowings associated with propane acquisitions.

Income Tax Expense (Benefit)

For the nine months ended June 30, 1999, the income tax benefit was $5.3 million as compared to an income tax expense of $0.02 million for the nine months ended June 30, 1998. This change was due to the heating oil segment's corporate net operating loss carryforwards, which generated $5.4 million in deferred tax benefits offsetting in part the deferred tax liability.

Net Income

For the nine months ended June 30, 1999, the net loss was $4.6 million, as compared to net income of $4.8 million for the nine months ended June 30, 1998. This change was due to the $9.8 million seasonal related net loss from the heating oil segment, partially offset by $0.4 million of additional net income from the propane segment primarily due to acquisitions.

Earnings before interest, taxes, depreciation and amortization, less net gain (loss) on sales of equipment (EBITDA)

Earnings before interest, taxes, depreciation and amortization, less net gain (loss) on sales of equipment (EBITDA) decreased $4.9 million, or 25.1%, to $14.6 million for the nine months ended June 30, 1999, as compared to $19.3 million for the prior year's comparable period. This decrease was due to the seasonally related EBITDA loss of $6.2 million incurred by the heating oil segment, partially offset by $1.3 million of additional propane segment EBITDA. This increase in the propane segment was attributable to the impact of acquisitions, 1.4% colder weather conditions and higher per gallon propane gross profit margins. 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. The definition of "EBITDA" set forth above may be different from that used by other companies.

Liquidity and Capital Resources

As discussed in footnote 2 of the financial statements, an integral element of the Star Gas / Petro Transaction was the Partnership's March 1999 sale of 9.0 million common units (including 230,000 overallotment common units exercised in April 1999). The net proceeds from the offering, net of underwriter's discounts, commissions and offering expenses was $118.8 million. These funds, along with the net proceeds from Petro's $87.6 million concurrent private debt placement, totaled $206.4 million. To effect the Star Gas / Petro Transaction, these funds were used to repay $193.9 million of Petro's debt, to redeem $11.7 million of Petro's preferred stock, and to pay $0.6 million in transactional fees.

For the nine months ended June 30, 1999, net cash provided by operating activities was $34.0 million. This amount combined with $18.8 million of cash acquired from Petro in the acquisition, and $0.1 million of proceeds from the sale of fixed assets totaled $52.9 million. Such funds were utilized for capital expenditures of $4.9 million, acquisitions of $2.6 million, net credit facility repayments of $3.4 million, acquisition facility repayments of $7.0 million, non-Star Gas / Petro Transaction related debt repayments of $3.3 million, and Partnership distributions of $12.0 million. As a result of the above activity, the Partnership's cash increased by $19.7 million.

The Partnership's cash requirements for the remainder of fiscal 1999 include maintenance capital expenditures of approximately $1.5 million. In addition, the Partnership plans to pay cash distributions of $7.6 million and conclude its Year 2000 compliance expenditures of $0.2 million. Based on its current cash position, bank credit availability and net cash from operating activities, the Partnership expects to be able to meet all of these obligations for fiscal 1999, as well as all of its other current obligations as they become due. The Partnership also plans to continue with the acquisition approach of its business strategy by pursuing strategic acquisitions, and to prudently fund such acquisitions through a combination of internally generated cash, debt and equity.

Year 2000

The Year 2000 issue is the result of computer programs using only the last two digits to indicate the year. If uncorrected, such computer programs will not be able to interpret dates correctly beyond the year 1999 and, in some cases prior to that time (as some computer experts believe), which could cause computer system failures or other computer errors disrupting business operations. Recognizing the potentially severe consequences of the failure to be Year 2000 compliant, the Partnership's management has developed and implemented a Partnership-wide program to identify and remedy the Year 2000 issues.

The scope of the Partnership's Year 2000 readiness program includes the review and evaluation of the Partnership's information technology (IT) such as hardware and software utilized in the operation of the Partnership's business.

If needed modifications and conversions are not made on a timely basis, the Year 2000 issue could cause interruption in delivering product to customers or prevent the Partnership from fulfilling their service needs. The Partnership is currently using internal and external resources to identify and correct systems that are not Year 2000 compliant.

Since the Partnership does not internally develop software for its own use, software developed externally is being evaluated for Year 2000 compliance. This software is being upgraded or replaced if it is determined that it is not compliant. As part of this program, the Partnership's systems are being evaluated for meeting current and future business needs and the Partnership is using this process as an opportunity to upgrade and enhance its information systems. The Partnership anticipates completing such upgrades and replacements as needed by September 1999. The Partnership expects that most of these costs will be capitalized, as they are principally related to adding new hardware and software applications and functionality. Other costs will continue to be expensed as incurred. The Partnership's state of readiness to make each identified area Year 2000 compliant is at the implementation stage.

The Partnership has assessed a total cost of approximately $885,000 to make its computer systems Year 2000 compliant and to upgrade its internal messaging system. Through June 30, 1999 the Partnership has incurred approximately $645,000 in Year 2000 compliance related expenses for applications and hardware, and it expects to incur the remaining $240,000 through the summer of 1999 for additional applications and hardware.

The Partnership's current estimates of the amount of time and costs necessary to remediate and test its computer systems are based on the facts and circumstances existing at this time. The estimates were made using assumptions of future events including the continued availability of existing resources, Year 2000 modification plans, implementation success by third-parties and other factors.

New developments may occur that could affect the Partnership's estimates of the amount of time and costs necessary to modify and test its IT and non-IT systems for Year 2000 compliance.

Notwithstanding the substantive work involved in making all its systems Year 2000 compliant, the Partnership could still potentially experience disruptions to some aspects of its various activities and operations. The Partnership is developing contingency plans, primarily instituting manual backup systems, in the event that it experiences Year 2000 related disruptions.

In addition the Partnership has anticipated the possibility that not all of its vendors, suppliers and other third parties will have taken the necessary steps to adequately address their Year 2000 issues on a timely basis. In order to minimize the impact on the Partnership of non-compliance, the Partnership has been contacting all key suppliers to evaluate their Year 2000 readiness. The Partnership is preparing contingency plans for those suppliers whose non-compliance could have a material effect on the Partnership's business activities.

Accounting Principles Not Yet Adopted

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for all fiscal quarters for all fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that entities recognize all derivatives as either assets or liabilities and measure the instruments at fair value. The accounting for changes in fair value of a derivative depends upon the intended use of such derivative. The Partnership is still evaluating the effects of SFAS No. 133.

Statement Regarding Forward-Looking Disclosure

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which represent the Partnership's expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on the Partnership's financial performance, the price and supply of propane and / or heating oil, and the ability of the Partnership to obtain new accounts and retain existing accounts. All statements other than statements of historical facts included in this Report including, without limitation, the statements under "Management's Discussion and Analysis of Results of Operations and Financial Condition" and elsewhere herein, are forward-looking statements. Although the Partnership believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Partnership is exposed to interest rate risk primarily through its Bank Credit facilities. The Partnership utilizes these borrowings to meet its working capital needs and also to fund the short-term needs of its acquisition program.

At June 30, 1999, the Partnership had outstanding borrowings of approximately $3.4 million under its Bank Credit Facilities. In the event that interest rates associated with these facilities were to increase 100 basis points, the impact on future cash flows would be less than $0.1 million annually.

The Partnership also selectively uses derivative financial instruments to manage its exposure to market risk related to changes in the current and commodity market price of home heating oil for its heating oil segment. The Partnership does not hold derivatives for trading purposes. The value of market sensitive derivative instruments is subject to change as a result of movements in market prices. Consistent with the nature of hedging activity, associated unrealized gains and losses would be offset by corresponding decreases or increases in the purchase price the Partnership would pay for the home heating oil being hedged. Sensitivity analysis is a technique used to evaluate the impact of hypothetical market value changes. Based on a hypothetical ten percent increase in the cost of home heating oil at June 30, 1999, the potential unrealized gain on the Company's hedging activity would be increased by $2.6 million to a gain of $3.1 million; and conversely a hypothetical ten percent decrease would decrease the unrealized gain by $2.6 to a loss of $2.2 million.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Included Within:

(27) Financial Data Schedule

10.1 Seventh amendment dated June 18, 1999 to the Credit Agreement dated December 13, 1995, between Star Gas Propane, L.P. and BankBoston, N.A. and NationsBank, N.A.

SIGNATURE

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

Star Gas Partners, L.P.
By: Star Gas LLC (General Partner)

Signature	Title	Date
/s/ George Leibowitz George Leibowitz	Chief Financial Officer Star Gas LLC (Principal Financial Officer)	August 11, 1999
/s/ James J. Bottiglieri James J. Bottiglieri	Vice President Star Gas LLC	August 11, 1999

Exhibit 10.1

EXECUTION COPY

SEVENTH AMENDMENT dated as of June 18, 1999 (this "Seventh Amendment"), to the Credit Agreement dated as of December 13, 1995 (as amended prior to the date hereof, the "Credit Agreement"), among Star Gas Propane, L.P., a Delaware limited partnership (the "Borrower"), the lenders party thereto, The First National Bank of Boston (now known as BankBoston, N.A.), as Administrative Agent (the "Administrative Agent"), and NationsBank, N.A., as Documentation Agent (the "Documentation Agent", and together with the Administrative Agent, the "Agents").

The Borrower has requested the Agents and the Lenders to make certain changes to the Credit Agreement. The parties hereto have agreed, subject to the terms and conditions hereof, to amend the Credit Agreement as provided herein.

Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement (the Credit Agreement, as amended by, and together with, this Seventh Amendment, and as hereinafter amended, modified, extended or restated from time to time, being called the "Amended Agreement").

Accordingly, the parties hereto hereby agree as follows:

SECTION 1.01. Amendments to Section 1.01. (a) The definition of Tranche A Maturity Date in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu thereof:

""Tranche A Maturity Date" shall mean June 30, 2001."

(b) The definition of Tranche B Conversion Date in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu thereof:

""Tranche B Conversation Date" shall mean September 30, 2000."

(c) The definition of Tranche B Maturity Date in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu thereof:

""Tranche B Maturity Date" shall mean September 30, 2003."

SECTION 1.02. Amendment to Section 2.11(c). Section 2.11(c) of the Credit Agreement is hereby deleted in its entirety and the following is hereby substituted in lieu thereof:

last day of every third calendar month thereafter through September 30, 2003 (the due date of each such installment being called a "Tranche B Repayment Date"). The amount of any such installment payable on a Tranche B Repayment Date (other than September 30, 2003) shall be the lesser of (x) $2,000,000 or (y) the amount, if any, necessary (after giving effect to any reductions on account of the expiration after the Tranche B Conversion Date of any Tranche B Letters of Credit) to reduce the sum of (i) the aggregate principal amount of the Tranche B Term Loans outstanding immediately after the Tranche B Conversion Date and (ii) the Tranche B Letter of Credit Exposure outstanding immediately after the Tranche B Conversion Date by an aggregate percentage of such sum equal to the percentage set forth opposite such Repayment Date below:

December 31, 2000	69.23%
March 31, 2001	76.92%
June 30, 2001	84.62%
September 30, 2001	92.31%
December 31, 2001	100.00%
March 31, 2002	100.00%
June 30, 2002	100.00%
September 30, 2002	100.00%
December 31, 2002	100.00%
March 31, 2003	100.00%
June 30, 2003	100.00%
September 30, 2003	100.00%

On the Tranche B Repayment Date that is September 30, 2003, Borrower shall repay the remaining principal and interest owing on all outstanding Tranche B Term Loans and fully cash collateralize any then existing Tranche B Letter of Credit Exposure. All payments under this paragraph (c) shall be applied (I) first, to repay any outstanding Tranche B Term Loans and (II) second, after the Tranche B Term Loans have been paid in full, to reduce the Tranche B Letter of Credit Exposure. Any such payments so applied to reduce the Tranche B Letter of Credit Exposure shall be deposited with the Administrative Agent pursuant to the Cash Collateral Agreement as provided in Section 2.21(k)."

SECTION 1.03 Amendment to Section 4.03(a). Section 4.03(a) of the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu thereof:

"(a) At the time of and immediately after any Tranche B Revolving Credit Borrowing made or any Tranche B Letter of Credit issued (i) on or before June 30, 1999, the Leverage Ratio as of the date of such Borrowing or issuance (after giving effect to the acquisition or Growth-Related capital Expenditure for which such Borrowing or Letter of credit is being used) shall be no greater than 5.00:1.00, (ii) after June 30, 1999 and on or before September 30, 1999, the Leverage Ratio as of the date of such Borrowing or issuance (after giving effect to the acquisition or Growth-Related Capital

Expenditure for which such Borrowing or Letter of Credit is being used) shall be no greater than 5.25:1.00, (iii) after September 30, 1999 and on or before November 29, 1999, the Leverage Ratio as of the date of such Borrowing or issuance (after giving effect to the acquisition or Growth-Related Capital Expenditure for which such Borrowing or Letter of Credit is being used) shall be no greater than 5.25:1.00, (iv) after November 29, 1999 and on or before December 30, 1999, the Leverage Ratio as of the date of such Borrowing or issuance (after giving effect to the acquisition or Growth-Related Capital Expenditure for which such Borrowing or Letter of Credit is being used) shall be no greater than 4.90:1.00 and (v) after December 30, 1999, the Leverage Ratio as of the date of such Borrowing or issuance (after giving effect to the acquisition or Growth-Related Capital Expenditure for which such Borrowing or Letter of Credit is being used) shall be no greater than 4.50:1.00; and, in the case of each such Borrowing or issuance of each such Letter of Credit, the Borrower shall have prepared and furnished to the Agents prior to such Borrowing or issuance pro forma financial statements demonstrating the fulfillment of such condition to the satisfaction of the Agents. For purposes of calculating the Leverage Ratio as required by this Section 4.03(a), Consolidated Cash Flow for the

Reference Period shall mean the greater of (A) Consolidated Cash Flow for the most recent period of four consecutive fiscal quarters prior to the date of determination and (B) 50% of Consolidated Cash Flow for the most recent period of eight consecutive fiscal quarters prior to the date of determination."

SECTION 1.04. Amendment to Section 6.31(a). Section 6.31(a) of the Credit Agreement is hereby deleted in its entirety and the following is hereby substituted in lieu thereof:

"(a) The Borrower will not permit the ratio on any day (the "date of determination") of (i) Total Funded Debt as of the last day of the Reference Period with respect to such date of determination to (ii) Consolidated Cash Flow for such Reference Period to be greater than the ratio set forth below opposite the calendar period during which such date of determination occurs:

Calendar Period	Ratio
January 1, 1996 through June 30, 1997	5.00:1.00
July 1, 1997 through September 30, 1997	4.75:1.00
October 1, 1997 through December 31, 1997	4.95:1.00
January 1, 1998 through September 30, 1998	5.00:1.00
The period ending December 31, 1998	5.40:1.00
January 1, 1999 through June 30, 1999	5.00:1.00

July 1, 1999 through September 30, 1999	5.25:1.00
October 1, 1999 through November 29, 1999	5.25:1.00
November 30, 1999 through December 30, 1999	4.90:1.00
December 31, 1999 and thereafter	4.50:1.00"

SECTION 1.05. Amendment to Section 9.01. Section 9.01(c) of the Credit Agreement is hereby deleted in its entirety and the following is hereby substituted in lieu thereof:

"(c) if to the Documentation Agent, to it at Three Allen Center, 333 Clay Street, Suite 4550, Houston, Texas 77002-4103, Attention of Daryl Patterson (Telecopy no. (713) 651-4808), with a copy to McGuire Woods Battle & Boothe LLP at NationsBank Corporate Center, 100 North Tryon Street, Suite 2900, Charlotte, NC 28202-4011, Attention of Marvin L. Rogers (Telecopy No. (704) 373-8935); and "

SECTION 1.06. Representations and Warranties. The Borrower hereby represents and warrants to each of the Agents and the Lenders, as follows:

(a) The representations and warranties set forth in Article III of the Amended Agreement, and in each other Loan Document, are true and correct in all material respects on and as of the date hereof and on and as of the Seventh Amendment Effective Date (as hereinafter defined) with the same effect as if made on and as of the date hereof or the Seventh Amendment Effective Date, as the case may be, except to the extent such representations and warranties expressly relate solely to an earlier date.

(b) Each of the Borrower and the Subsidiaries is in compliance with all the terms and conditions of the Amended Agreement and the other Loan Documents on its part to be observed or performed and no Default or Event of Default has occurred or is continuing.

(c) The execution, delivery and performance by the Borrower of this Seventh Amendment have been duly authorized by the Borrower.

(d) This Seventh Amendment constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms.

(e) The execution, delivery and performance by the Borrower of this Seventh Amendment (i) will not violate (A) any provision of law, statute, rule or regulation, or of the agreement of limited partnership of the Borrower, (B) any order of

any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which the Borrower is a party or by which it or any of its property may be bound and (ii) do not require any consents under, result in a breach of or constitute (with notice or lapse of time or both) a default or give rise to increased, additional, accelerated or guaranteed rights of any Person under any such indenture, agreement or other instrument.

SECTION 1.07. Effectiveness. This Seventh Amendment shall become effective only upon satisfaction of the following conditions precedent (the first date upon which each such condition has been satisfied being herein called the "Seventh Amendment Effective Date"):

(a) the Administrative Agent shall have received duly executed counterparts of this Seventh Amendment which, when taken together, bear the authorized signatures of the Borrower and the Required Lenders.

(b) The Agents shall be satisfied that the representations and warranties set forth in Section 1.06 are true and correct on and as of the Seventh Amendment Effective Date.

(c) There shall not be any action pending or any judgment, order or decree in effect which, in the judgment of the Agents or the Lenders, is likely to restrain, prevent or impose materially adverse conditions upon performance by the Borrower of its obligations under the Amended Agreement.

(d) The Agents shall have received such other documents, legal opinions, instruments and certificates relating to this Seventh Amendment as they shall reasonably request and such other documents, legal opinions, instruments and certificates shall be satisfactory in form and substance to the Agents and the Lenders. All corporate and other proceedings taken or to be taken in connection with this Seventh Amendment and all documents incidental thereto, whether or not referred to herein, shall be satisfactory in form and substance to the Agents and the Lenders.

(e) The Borrower shall have paid all fees and expenses referred to in Section 1.09 of this Seventh Amendment.

SECTION 1.08. APPLICABLE LAW. THIS SEVENTH AMENDMENT SHALL BE GOVERNED BY,

AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT THAT THE FEDERAL LAWS OF THE UNITED STATES OF AMERICA MAY APPLY.

SECTION 1.09. Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Agents and the Lenders in connection with the preparation, negotiations execution, delivery and enforcement of this Seventh Amendment, including, but not limited to, the reasonable fees and disbursements of counsel and (ii) an amendment fee in the aggregate amount of $231,250 (the "Amendment Fee"), $138,750 of such Amendment Fee to be paid to BankBoston N.A. and $92,500 of such Amendment Fee to be paid to NationsBank, N.A.

SECTION 1.10. Counterparts. This Seventh Amendment may be executed in any number of counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement.

SECTION 1.11. Loan Documents. Except as expressly set forth herein, the amendments provided herein shall not by implication or otherwise limit, constitute a waiver of, or otherwise affect the rights and remedies of the Lenders, the Agents, the Trustee or the other Secured Parties under the Amended Agreement or any other Loan Document, nor shall they constitute a waiver of any Default or Event of Default, nor shall they alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Amended Agreement or any other Loan Document. Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Amended Agreement specifically referred to by such amendments. Except as expressly amended herein, the Amended Agreement and the other Loan Documents shall continue in full force and effect in accordance with the provisions thereof. As used in the Amended Agreement, the terms "Agreement", "herein", "hereinafter", "hereunder", "hereto" and words of similar import shall mean, from and after the date hereof, the Amended Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Seventh Amendment to be duly executed by duly authorized officers, all as of the date first above written.

STAR GAS PROPANE, L.P., as Borrower

By: Star Gas Corporation, its General Partner

by____
Name:
Title:

BANKBOSTON, N.A.,
as Administrative Agent and as a Lender

by____
Name:
Title:

NATIONSBANK, N.A., as Documentation Agent
and as a Lender

by____
Name:
Title:

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STAR GAS PARTNERS, L.P. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 1999 AND CONSOLIDATED STATEMENT OF OPERATIONS FOR THE INTERIM PERIOD OCTOBER 1, 1998 THROUGH JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<CIK> 0001002590
<NAME> STAR GAS PARTNERS, L.P.
<MULTIPLIER> 1,000

<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	SEP-30-1999
<PERIOD-START>	OCT-01-1998
<PERIOD-END>	JUN-30-1999
<CASH>	20,849
<SECURITIES>	0
<RECEIVABLES>	51,347
<ALLOWANCES>	1,759
<INVENTORY>	14,868
<CURRENT-ASSETS>	94,565
<PP&E>	182,536
<DEPRECIATION>	34,178
<TOTAL-ASSETS>	561,716
<CURRENT-LIABILITIES>	88,682
<BONDS>	265,407
<PREFERRED-MANDATORY>	0
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<COMMON>	165,748
<OTHER-SE>	0
<TOTAL-LIABILITY-AND-EQUITY>	561,716
<SALES>	135,925
<TOTAL-REVENUES>	161,430
<CGS>	58,471
<TOTAL-COSTS>	85,122
<OTHER-EXPENSES>	75,941
<LOSS-PROVISION>	343
<INTEREST-EXPENSE>	9,760
<INCOME-PRETAX>	(9,928)
<INCOME-TAX>	(5,324)
<INCOME-CONTINUING>	(4,604)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(4,604)
<EPS-BASIC>	(0.46)
<EPS-DILUTED>	(0.46)