UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ______ to ______

Commission File Number: 001-14129
Commission File Number: 333-103873

STAR GAS PARTNERS, L.P.
STAR GAS FINANCE COMPANY

(Exact name of registrants as specified in its charters)

Delaware Delaware (State or other jurisdiction of incorporation or organization)	06-1437793 75-3094991 (I.R.S. Employer Identification No.)
2187 Atlantic Street, Stamford, Connecticut (Address of principal executive office)	06902

(203) 328-7310
(Registrants' telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes ☐ No ☐

* The registrant has not yet been phased into the interactive data requirements.

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

At July 31, 2010, the registrants had units and shares of each issuer's classes of common stock outstanding as follows:

Star Gas Partners, L.P.	Common Units	68,274,306
Star Gas Partners, L.P.	General Partner Units	325,729
Star Gas Finance Company	Common Shares	100

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2010 (unaudited)	September 30, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 43,951	$ 195,160
Receivables, net of allowance of $8,446 and $6,267, respectively	106,074	58,854
Inventories	62,851	62,636
Fair asset value of derivative instruments	6,652	14,676
Current deferred tax asset, net	24,940	30,135
Prepaid expenses and other current assets	20,545	15,437
Total current assets	265,013	376,898
Property and equipment, net	43,971	37,494
Long-term portion of accounts receivables	662	504
Goodwill	202,803	182,942
Intangibles, net	59,552	20,468
Long-term deferred tax asset, net	1,300	36,265
Deferred charges and other assets, net	6,721	9,555
Total assets	$580,022	$ 664,126
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable	$ 15,788	$ 17,103
Fair liability value of derivative instruments	276	665
Accrued expenses and other current liabilities	70,061	64,446
Unearned service contract revenue	40,066	37,121
Customer credit balances	33,533	74,153
Total current liabilities	159,724	193,488
Long-term debt	82,797	133,112
Other long-term liabilities	30,821	31,192
Partners' capital		
Common unitholders	331,516	332,340
General partner	397	309
Accumulated other comprehensive income (loss), net of taxes	(25,233)	(26,315)
Total partners' capital	306,680	306,334
Total liabilities and partners' capital	$580,022	$ 664,126

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data - unaudited)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Sales:				
Product	$130,168	$126,404	$ 942,646	$ 959,433
Installations and service	46,593	41,265	134,666	131,586
Total sales	176,761	167,669	1,077,312	1,091,019
Cost and expenses:				
Cost of product	93,345	85,100	669,573	658,511
Cost of installations and service	40,066	37,447	128,255	130,790
(Increase) decrease in the fair value of derivative instruments	2,324	(9,656)	(5,770)	(15,064)
Delivery and branch expenses	45,076	44,776	169,770	180,903
Depreciation and amortization expenses	4,083	3,744	11,179	15,853
General and administrative expenses	5,748	5,302	16,447	15,556
Operating income (loss)	(13,881)	956	87,858	104,470
Interest expense	(3,103)	(4,119)	(11,258)	(13,487)
Interest income	1,421	1,305	2,750	3,593
Amortization of debt issuance costs	(660)	(564)	(1,988)	(1,732)
Gains (loss) on redemption of debt	—	—	(1,132)	9,740
Income (loss) before income taxes	(16,223)	(2,422)	76,230	102,584
Income tax expense (benefit)	(6,232)	(498)	33,681	3,852
Net income (loss)	$ (9,991)	$ (1,924)	$ 42,549	$ 98,732
General Partner's interest in net income (loss)	(47)	(8)	194	423
Limited Partners' interest in net income (loss)	$ (9,944)	$ (1,916)	$ 42,355	$ 98,309
Basic and Diluted income (loss) per Limited Partner Unit (1)	$ (0.14)	$ (0.03)	$ 0.53	$ 1.07
Weighted average number of Limited Partner units outstanding:				
Basic and Diluted	69,469	75,774	70,819	75,774

(1) See Note 2 Summary of Significant Accounting Policies - Net Income (Loss) per Limited Partner Unit.

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME

	Number of Units					
(in thousands)	Common	General Partner	Common	General Partner	Accum. Other Comprehensive Income (Loss)	Total Partners' Capital
Balance as of September 30, 2009	75,137	326	$332,340	$ 309	$ (26,315)	$306,334
Comprehensive income (unaudited):						
Net income	—	—	42,355	194	—	42,549
Unrealized gain on pension plan obligation	—	—	—	—	1,848	1,848
Tax affect of unrealized gain on pension plan	—	—	—	—	(766)	(766)
Total comprehensive income	—	—	42,355	194	1,082	43,631
Distributions	—	—	(15,251)	(106)	—	(15,357)
Retirement of units (1)	(6,863)	—	(27,928)	—	—	(27,928)
Balance as of June 30, 2010 (unaudited)	68,274	326	$331,516	$ 397	$ (25,233)	$306,680

(1) See Note 2 - Common Unit Repurchase and Retirement.

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands - unaudited)	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Cash flows provided by (used in) operating activities:		
Net income	$ 42,549	$ 98,732
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
(Increase) decrease in fair value of derivative instruments	(5,770)	(15,064)
Depreciation and amortization	13,167	17,585
(Gains) loss on redemption of debt	1,132	(9,740)
Provision for losses on accounts receivable	6,570	9,257
Change in deferred taxes	30,368	—
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(41,717)	4,350
(Increase) decrease in inventories	1,871	(10,595)
Decrease in other assets	13,624	9,191
Decrease in accounts payable	(2,622)	(752)
Decrease in customer credit balances	(44,425)	(24,806)
Increase (decrease) in other current and long-term liabilities	(500)	2,650
Net cash provided by operating activities	14,247	80,808
Cash flows provided by (used in) investing activities:		
Capital expenditures	(3,581)	(2,495)
Proceeds from sales of fixed assets	220	153
Acquisitions (net of cash acquired of $3,390 and $0, respectively)	(67,703)	(3,313)
Earnout	(123)	—
Net cash used in investing activities	(71,187)	(5,655)
Cash flows provided by (used in) financing activities:		
Revolving credit facility borrowings	36,754	—
Revolving credit facility repayments	(36,754)	—
Repayment of debt	(50,854)	(26,271)
Distributions	(15,357)	(10,274)
Unit repurchase	(27,928)	—
Deferred charges	(130)	—
Net cash used in financing activities	(94,269)	(36,545)
Net increase (decrease) in cash and cash equivalents	(151,209)	38,608
Cash and cash equivalents at beginning of period	195,160	178,808
Cash and cash equivalents at end of period	$ 43,951	$217,416

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," the "Partnership," "we," "us," or "our") is a home heating oil distributor and services provider with one reportable operating segment that principally provides services to residential and commercial customers to heat their homes and buildings. Star Gas Partners is a master limited partnership, which at June 30, 2010, had outstanding 68.3 million common units (NYSE: "SGU") representing 99.5% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing 0.5% general partner interest in Star Gas Partners.

The Partnership is organized as follows:

- The general partner of the Partnership is Kestrel Heat, LLC, a Delaware limited liability company ("Kestrel Heat" or the "general partner"). The Board of Directors of Kestrel Heat is appointed by its sole member, Kestrel Energy Partners, LLC, a Delaware limited liability company ("Kestrel").
- The Partnership's operations are conducted through Petro Holdings, Inc. and its subsidiaries ("Petro"). Petro is a Minnesota corporation that is an indirect wholly-owned subsidiary of the Partnership. Petro is a Northeast and Mid-Atlantic region retail distributor of home heating oil that at June 30, 2010 served approximately 410,000 full-service residential and commercial home heating oil customers, and 10,000 propane customers. Petro also sold home heating oil, gasoline and diesel fuel to approximately 35,000 customers on a delivery only basis. In addition, Petro installed, maintained, and repaired heating and air conditioning equipment for its customers, and provided ancillary home services, including home security and plumbing, to approximately 12,000 customers.
- Star Gas Finance Company is a 100% owned subsidiary of the Partnership. Star Gas Finance Company serves as the co-issuer, jointly and severally with the Partnership, of the Partnership's $82.5 million 10.25% Senior Notes (excluding discounts and premiums), which are due in 2013. The Partnership is dependent on distributions including inter-company interest payments from its subsidiaries to service the Partnership's debt obligations. The distributions from the Partnership's subsidiaries are not guaranteed and are subject to certain loan restrictions. Star Gas Finance Company has nominal assets and conducts no business operations. (See Note 6.—Long-Term Debt and Bank Facility Borrowings)

2) Common Unit Repurchase and Retirement

On July 21, 2009, the Board of Directors of the Partnership's General Partner authorized the repurchase of up to 7.5 million of the Partnership's common units ("Plan I"). As of June 30, 2010, all 7.5 million common units authorized for repurchase under the Plan I program were repurchased and retired. The Partnership's repurchase activities took into account SEC safe harbor rules and guidance for issuer repurchases.

On July 19, 2010, the Board of Directors of the Partnership's General Partner authorized the repurchase of up to 7.0 million of the Partnership's common units ("Plan II"). The authorized common unit repurchases may be made from time-to-time in the open market, in privately negotiated transactions or in such other manner deemed appropriate by management. In order to facilitate the repurchase program, the Partnership intends to enter into a prearranged unit repurchase plan under Rule 10b5-1 of the Securities Act of 1933, as amended for up to 4.0 million common units with a third party broker. There is no guarantee of the exact number of units that will be purchased under the program and the Partnership may discontinue purchases at any time. The program does not have a time limit. The Partnership's repurchase activities take into account SEC safe harbor rules and guidance for issuer repurchases. All of the common units purchased in the repurchase program will be retired.

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(in thousands, except per unit amounts)

Period	Total Number of Units Purchased as Part of a Publicly Announced Plan or Program	Average Price Paid per Unit (a)	Maximum Number of Units that May Yet Be Purchased Under the Plan I Program
Number of units authorized			7,500
Fiscal year 2009 total	637	$ 3.67	6,863
October 2009	3,072	$ 3.97	3,791
November 2009	350	$ 3.96	3,441
December 2009	834	$ 3.95	2,607
First quarter fiscal year 2010 total	4,256	$ 3.97	2,607
January 2010	—	$ —	2,607
February 2010	964	$ 4.03	1,643
March 2010	—	$ —	1,643
Second quarter fiscal year 2010 total	964	$ 4.03	1,643
April 2010	110	$ 4.30	1,533
May 2010	254	$ 4.36	1,279
June 2010	1,279	$ 4.36	—
Third quarter fiscal year 2010 total	1,643	$ 4.36	—
Total number of units repurchased under the Plan I program	7,500	$ 4.04	

(a) Amounts include repurchase costs.

3) Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of Star Gas Partners, L.P. and its subsidiaries. All material inter-company items and transactions have been eliminated in consolidation.

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair statement of financial condition and results for the interim periods. Due to the seasonal nature of the Partnership's business, the results of operations for the three and nine-month periods ended June 30, 2010 and June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

These interim financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission and should be read in conjunction with the Partnership's Annual Report on Form 10-K for the year ended September 30, 2009.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 heating oil and other fuels are recognized at the time of delivery of the product to the customer and sales of heating and air conditioning equipment are recognized at the time of 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. To the extent that the Partnership anticipates that future costs for fulfilling its contractual obligations under its service maintenance contracts will exceed the amount of deferred revenue currently attributable to these contracts, the Partnership recognizes a loss in current period earnings equal to the amount that anticipated future costs exceed related deferred revenues.

Cost of Product

Cost of product includes the cost of heating oil, diesel, kerosene, heavy oil, gasoline, throughput costs, barging costs, option costs, and realized gains/losses on closed derivative positions for product sales.

Cost of Installations and Service

Cost of installations and service includes equipment and material costs, wages and benefits for equipment technicians, dispatchers and other support personnel, subcontractor expenses, commissions and vehicle related costs.

Delivery and Branch Expenses

Delivery and branch expenses include insurance, wages and benefits and department related costs for drivers, dispatchers, mechanics, customer service, sales and marketing, compliance, credit and branch accounting, information technology and operational support.

General and Administrative Expenses

General and administrative expenses include wages and benefits and department related costs for human resources, finance and accounting, and administrative support.

Allowance for Doubtful Accounts

The Partnership periodically reviews current and past due customer accounts receivable balances. After giving consideration to economic conditions, overdue status and other factors, it establishes an allowance for doubtful accounts, representing the Partnership’s best estimate of amounts that may not be collectible.

Allocation of Net Income (Loss)

Net income (loss) for partners’ capital and statement of operations is allocated to the general partner and the limited partners in accordance with their respective ownership percentages, after giving effect to cash distributions paid to the general partner in excess of its ownership interest, if any.

Net Income (Loss) per Limited Partner Unit

Income per limited partner unit is computed in accordance with FASB ASC 260-10-45-60 Basic and Diluted Earnings per Share topic, Participating Securities and the Two-Class Method subtopic (EITF 03-06), by dividing the limited partners’ interest in net income by the weighted average number of limited partner units outstanding. The pro forma nature of the allocation required by this standard provides that in any accounting period where the Partnership’s aggregate net income exceeds its aggregate distribution for such period, the Partnership is required to present net income per limited partner unit as if all of the earnings for the periods were distributed, regardless of whether those earnings would actually be distributed during a particular period from an economic or practical perspective. This allocation does not impact the Partnership’s overall net income or other financial results. However, for periods in which the Partnership’s aggregate net income exceeds its aggregate distributions for such period, it will have the impact of reducing the earnings per limited partner unit, as the calculation according to this standard results in a theoretical increased allocation of undistributed earnings to the general partner. In accounting periods where aggregate net income does not exceed aggregate distributions for such period, this standard does not have any impact on the Partnership’s net income per limited partner unit calculation. A separate and independent calculation for each quarter and year-to-date period is required.

The following presents the net income allocation and per unit data using this method for the periods presented:

Basic and Diluted Earnings Per Limited Partner: (in thousands, except per unit data)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Net income (loss)	$ (9,991)	$ (1,924)	$42,549	$98,732
Less General Partners' interest in net income (loss)	(47)	(8)	194	423
Net income (loss) available to limited partners	(9,944)	(1,916)	42,355	98,309
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60	—	—	5,000	16,934
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	$ (9,944)	$ (1,916)	$37,355	$81,375
Per unit data:				
Basic and diluted net income (loss) available to limited partners	$ (0.14)	$ (0.03)	$ 0.60	$ 1.30
Less dilutive impact of theoretical distribution of earnings under FASB ASC 260-10-45-60	—	—	0.07	0.23
Limited Partner's interest in net income (loss) under FASB ASC 260-10-45-60	$ (0.14)	$ (0.03)	$ 0.53	$ 1.07
Weighted average number of Limited Partner units outstanding	69,469	75,774	70,819	75,774

Cash Equivalents

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

Inventories

The Partnership's inventory of heating oil and other fuels are stated at the lower of cost computed on the weighted average cost (WAC) method, or market. All other inventories, representing parts and equipment are stated at the lower of cost computed on the FIFO method, or market.

(in thousands)	June 30, 2010	September 30, 2009
Heating oil and other fuels	$47,515	$ 48,504
Fuel oil parts and equipment	15,336	14,132
	$62,851	$ 62,636

Derivatives and Hedging – Disclosures and Fair Value Measurements

The Partnership uses derivative instruments such as futures, options, and swap agreements, in order to mitigate exposure to market risk associated with the purchase of home heating oil for price-protected customers, physical inventory on hand, inventory in transit and priced purchase commitments.

To hedge a substantial majority of the purchase price associated with heating oil gallons anticipated to be sold to its price-protected customers as of June 30, 2010, the Partnership bought 0.9 million gallons of physical inventory and had 0.7 million gallons of swap contracts to buy heating oil; 37.2 million gallons of call options; 0.7 million gallons of put options and 18.3 million net gallons of synthetic calls (a swap combined with two or one offsetting puts, at different prices). To hedge the inter-month differentials for our price-protected customers, its physical inventory on hand, and inventory in transit, the Partnership as of June 30, 2010 had 14.2 million gallons of future contracts to buy heating oil; 20.8 million gallons of future contracts to sell heating oil; and 15.7 million gallons of swap contracts to sell heating oil. To hedge a portion of its internal fuel usage, the Partnership as of June 30, 2010, had 0.9 million gallons of swap contracts to buy gasoline and 1.0 million gallons of swap contracts to buy diesel.

To hedge a substantial majority of the purchase price associated with heating oil gallons anticipated to be sold to its price-protected customers as of June 30, 2009, the Partnership had 4.2 million gallons of swap contracts to buy heating oil;

0.3 million gallons of futures contracts to sell heating oil, along with 58.4 million gallons of call options and 2.9 million gallons of put options. The Partnership also had synthetic calls of 3.9 million net gallons. In addition, to hedge the inter-month differentials for our price-protected customers, its physical inventory on hand, and inventory in transit, the Partnership as of June 30, 2009 had 40.2 million gallons of futures contract to buy heating oil; 44.9 million gallons of future contracts to sell heating oil; and 21.5 million gallons of swap contracts to sell heating oil. To hedge a portion of its internal fuel usage, the Partnership as of June 30, 2009, had 0.4 million gallons of future contracts and 1.5 million gallons of swap contracts to buy gasoline and 1.4 million gallons of swap contracts to buy diesel.

The Partnership's derivative instruments are with the following counterparties: Newedge USA, LLC, JPMorgan Chase Bank, NA, Societe Generale, Key Bank National Association, Cargill, Inc., Wachovia Bank, NA, and Bank of America, N.A. The Partnership assesses counterparty credit risk and maintains master netting arrangements with its counterparties to help manage this risks and records its derivative positions on a net basis. Based on its assessment, the Partnership considers counterparty credit risk to be low. At June 30, 2010, the aggregate cash posted as collateral in the normal course of business at counterparties was $0.1 million.

FASB ASC 815-10-05 Derivatives and Hedging topic (SFAS 133), established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities, along with qualitative disclosures regarding the derivative activity. To the extent derivative instruments designated as cash flow hedges are effective and the standard's documentation requirements have been met, changes in fair value are recognized in other comprehensive income until the underlying hedged item is recognized in earnings. The Partnership has elected not to designate its derivative instruments as hedging instruments under this standard and the change in fair value of the derivative instruments is recognized in our statement of operations in the line item (increase) decrease in the fair value of derivative instruments. Realized gains and losses are recorded in cost of product.

FASB ASC 820-10 Fair Value Measurements and Disclosures topic (SFAS 157), established a three-tier fair value hierarchy, which classified the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Partnership's Level 1 derivative assets and liabilities represent the fair value of commodity contracts used in its hedging activities that are identical and traded in active markets. The Partnership's Level 2 derivative assets and liabilities represent the fair value of commodity contracts used in its hedging activities that are valued using either directly or indirectly observable inputs, whose nature, risk and class are similar. No significant transfers of assets or liabilities have been made into and out of the Level 1 or Level 2 tiers. All derivative instruments were non-trading positions. The market prices used to value the Partnership's derivatives have been determined using the New York Mercantile Exchange ("NYMEX") and independent third party prices that are reviewed for reasonableness.

The Partnership had no assets or liabilities that are measured at fair value on a nonrecurring basis subsequent to their initial recognition. The Partnership's financial assets and liabilities measured at fair value on a recurring basis are listed on the following table.

(In thousands)

Derivatives Not Designated as Hedging Instruments Under FASB ASC 815-10	Balance Sheet Location	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Asset Derivatives at June 30, 2010					
Commodity contracts	Fair asset and fair liability value of derivative instruments	$13,373	$ 3,493	$ 9,880	$ —
Commodity contracts	Long-term derivative assets included in the deferred charges and other assets, net balance	125	125		
Commodity contract assets at June 30, 2010		**$13,498**	**$ 3,618**	**$ 9,880**	**$ —**
Liability Derivatives at June 30, 2010					
Commodity contracts	Fair liability and fair asset value of derivative instruments	$ 6,997	$ 2,960	$ 4,037	$ —
Commodity contract liabilities at June 30, 2010		**$ 6,997**	**$ 2,960**	**$ 4,037**	**$ —**
Asset Derivatives at September 30, 2009					
Commodity contracts	Fair asset and fair liability value of derivative instruments	$23,867	$ 3,875	$ 19,992	$ —
Commodity contracts	Long-term derivative assets included in the deferred charges and other assets, net balance	389	133	256	
Commodity contract assets at September 30, 2009		**$24,256**	**$ 4,008**	**$ 20,248**	**$ —**
Liability Derivatives at September 30, 2009					
Commodity contracts	Fair liability and fair asset value of derivative instruments	$ (9,856)	$ (3,986)	$ (5,870)	$ —
Commodity contract liabilities at September 30, 2009		**$ (9,856)**	**$ (3,986)**	**$ (5,870)**	**$ —**

(In thousands)

The Effect of Derivative Instruments on the Statement of Operations

Derivatives Not Designated as Hedging Instruments Under FASB ASC 815-10	Location of (Gain) or Loss Recognized in Income on Derivative	Amount of (Gain) or Loss Recognized: Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Commodity contracts	Cost of product (a)	$ 1,001	$ 13,100	$ 22,005	$ 76,049
Commodity contracts	(Increase) / decrease in the fair value of derivative instruments	$ 2,324	$ (9,656)	$ (5,770)	$ (15,064)

(a) Represents realized closed positions and includes the cost of options as they expire.

Weather Hedge Contract

Weather hedge contract is recorded in accordance with the intrinsic value method defined by FASB ASC 815-45-15 Derivatives and Hedging topic, Weather Derivatives subtopic (EITF 99-2). The premium paid is amortized over the life of the contract and the intrinsic value method is applied at each interim period.

Property and Equipment

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

(in thousands)	June 30, 2010	September 30, 2009
Property and equipment	$144,935	$ 135,269
Less: accumulated depreciation	100,964	97,775
Property and equipment, net	$ 43,971	$ 37,494

Business Combinations

The Partnership uses the acquisition method of accounting in accordance to FASB ASC 805 Accounting for Business Combinations and Noncontrolling Interests (SFAS 141(R)). The acquisition method of accounting requires the Partnership to use significant estimates and assumptions, including fair value estimates, as of the business combination date, and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which the amounts recognized for a business combination may be adjusted). Each acquired company's operating results are included in the Partnership's consolidated financial statements starting on the date of acquisition. The purchase price is equivalent to the fair value of consideration transferred. Tangible and identifiable intangible assets acquired and liabilities assumed as of the date of acquisition, are recorded at the acquisition date fair value. The separately identifiable intangible assets generally are comprised of customer lists, trade names and covenants not to compete. Goodwill is recognized for the excess of the purchase price over the net fair value of assets acquired and liabilities assumed.

Costs that are incurred to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration transferred, and are charged to general and administrative expense as they are incurred. For any given acquisition, certain contingent consideration may be identified. Estimates of the fair value of liability or asset classified contingent consideration are included under the acquisition method as part of the assets acquired or liabilities assumed. At each reporting date, these estimates are remeasured to fair value, with changes recognized in earnings.

Goodwill and Intangible Assets

Goodwill and intangible assets include goodwill, customer lists and covenants not to compete.

Goodwill is the excess of cost over the fair value of net assets in the acquisition of a company. Under FASB ASC 350-10-05 Intangibles-Goodwill and Other topic (SFAS No. 142), a potential goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. If goodwill of a reporting unit is determined to be impaired, the amount of impairment is measured based on the excess of the net book value of the goodwill over the implied fair value of the goodwill.

The Partnership has selected August 31 of each year to perform its annual impairment review under this standard. The evaluations utilize an Income Approach and Market Approach (consisting of the Market Comparable and the Market Transaction Approach), which contain reasonable and supportable assumptions and projections reflecting management's best estimate in deriving the Partnership's total enterprise value. The Income Approach calculates over a discrete period the free cash flow generated by the Partnership to determine the enterprise value. The Market Comparable approach compares the Partnership to comparable companies in similar industries to determine the enterprise value. The Market Transaction approach uses exchange prices in actual sales and purchases of comparable businesses to determine the enterprise value.

The total enterprise value as indicated by these two approaches is compared to the Partnership's book value of net assets and reviewed in light of the Partnership's market capitalization.

Customer lists are the names and addresses of an acquired company's customers. Based on historical retention experience, these lists are amortized on a straight-line basis over seven to ten years.

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Trade names are the names of acquired companies. Based on the economic benefit expected and historical retention experience of customers, trade names are amortized on a straight-line basis over seven to ten years.

Covenants not to compete are agreements with the owners of acquired companies and are amortized over the respective lives of the covenants on a straight-line basis, which are generally five years.

Partners' Capital

Comprehensive income includes net income (loss), plus certain other items that are recorded directly to partners' capital. Accumulated other comprehensive income reported on the Partnerships' consolidated balance sheets consists of unrealized gains/losses on pension plan obligations and the tax affect. For the three months ended June 30, 2010, comprehensive loss was $(9.6) million, comprised of net loss of $(10.0) million, an unrealized gain on pension plan obligation of $0.6 million and the tax affect of $(0.2) million. For the three months ended June 30, 2009, comprehensive loss was $(1.6) million, comprised of net loss of $(2.0) million and an unrealized gain on pension plan obligation of $0.4 million.

For the nine months ended June 30, 2010, comprehensive income was $43.6 million, comprised of net income of $42.5 million, an unrealized gain on pension plan obligation of $1.8 million and the tax affect of $(0.7) million. For the nine months ended June 30, 2009, comprehensive income was $99.8 million, comprised of net income of $98.7 million and an unrealized gain on pension plan obligation of $1.0 million.

Income Taxes

The Partnership is a master limited partnership and is not subject to tax at the entity level for Federal and state income tax purposes. Rather, income and losses of the Partnership are allocated directly to the individual partners. While the Partnership will generate non-qualifying Master Limited Partnership revenue, distributions from the corporate subsidiaries to the Partnership are generally included in the determination of qualified Master Limited Partnership income. All or a portion of the distributions received by the Partnership from the corporate subsidiaries could be taxable as a dividend or capital gain to the partners.

The accompanying financial statements are reported on a fiscal year, however, the Partnership and its Corporate subsidiaries file Federal and state income tax returns on a calendar year.

As most of the Partnership's income is derived from its corporate subsidiaries, these financial statements reflect significant Federal and state income taxes. For corporate subsidiaries of the Partnership, a consolidated Federal income tax return is filed. 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 carry-forwards. 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. A valuation allowance is recognized if, based on the weight of available evidence including historical tax losses, it is more likely than not that some or all of deferred tax assets will not be realized.

Until September 30, 2009, the Partnership's deferred tax assets and liabilities related to its corporate subsidiaries were fully offset by a valuation allowance. Approximately $86.4 million of this valuation allowance was released as of September 30, 2009, resulting in net deferred tax assets being recorded on the balance sheet. As a result of this change, any comparison of the income tax expense (benefit) in the first three fiscal quarters of 2009 to the corresponding quarters of fiscal 2010 will be comparing current income tax expense (benefit) in the fiscal 2009 quarters to both current and deferred income tax expense (benefit) in fiscal 2010 quarters. The comparative current and deferred income tax expense for the three and nine months ended June 30, 2010, and 2009 is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in thousands)	2010	2009	2010	2009
Income (loss) before taxes	$(16,223)	$(2,422)	$76,230	$102,584
Current tax expense (benefit)	$ (810)	$ (498)	$ 3,316	$ 3,852
Deferred tax expense (benefit)	(5,422)	—	30,365	—
Total tax expense (benefit)	$ (6,232)	$ (498)	$33,681	$ 3,852

As of the calendar tax year ended December 31, 2009, Star Acquisitions, a wholly-owned subsidiary of the Partnership, had a Federal net operating loss carry forward ("NOL") of approximately $52 million. The NOLs, which will expire between 2018 and 2024, are generally available to offset any future taxable income. In the event that the Partnership experiences an "ownership change" for Federal income tax purposes under Internal Revenue Code Section 382 ("Section 382"), Star Acquisitions may be restricted annually in its ability to use its NOLs to reduce its Federal taxable income. In general, the Partnership would be deemed to have an "ownership change" under Section 382 if, immediately after any owner shift involving a 5% unitholder or any equity structure shift, the percentage of units of the Partnership owned by one or more 5% unitholder has increased by more than 50% over the lowest percentage of units of the Partnership (or any predecessor entity) owned by such unitholder at any time during the three-year testing period.

FASB ASC 740-10-05-6 Income Taxes topic, Tax Position subtopic (SFAS No. 109 and FIN 48), provides financial statement accounting guidance for uncertainty in income taxes and tax positions taken or expected to be taken in a tax return.

At June 30, 2010, we had unrecognized income tax benefits totaling $2.1 million including related accrued interest and penalties of $0.2 million. These unrecognized tax benefits are primarily the result of Federal tax uncertainties. If recognized, these tax benefits and related interest and penalties would reduce the effective tax rate.

We believe that the total liability for unrecognized tax benefits will decrease by $0.1 million during the next 12 months ending June 30, 2011. Our continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax expense.

We file U.S. Federal income tax returns and various state and local returns. A number of years may elapse before an uncertain tax position is audited and finally resolved. For our Federal income tax returns we have four tax years subject to examination. In our major state tax jurisdictions of New York, Pennsylvania, Connecticut, and New Jersey, we have four, four, five, and five tax years, respectively, that are subject to examination. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, based on our assessment of many factors including past experience and interpretation of tax law, we believe that our provision for income taxes reflect the most probable outcome. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

Sales, Use and Value Added Taxes

Taxes are assessed by various governmental authorities on many different types of transactions. Sales reported for product, installation and service exclude taxes.

Recent Accounting Pronouncements

In the first quarter of fiscal 2010, the Partnership adopted the provisions of FASB ASC 805-10 Business Combinations (SFAS No. 141R). This standard establishes in a business combination principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, goodwill acquired, liabilities assumed, and any noncontrolling interests.

4) Goodwill and Intangibles, net

Goodwill

A summary of changes in the Partnership's goodwill is as follows (in thousands):

Balance as of September 30, 2009	$182,942
Fiscal year 2010 activity and earnout	19,861
Balance as of June 30, 2010	$202,803

The Partnership performed its annual goodwill impairment valuation for the period ending August 31, 2009 and determined that there was no goodwill impairment. The preparation of this analysis (see Note 3. Summary of Significant Accounting Policies – Goodwill and Intangible Assets) was based upon management's estimates and assumptions, and future impairment calculations would be affected by actual results that are materially different from projected amounts. To provide for a sensitivity of the discount rates and transaction multiples used, ranges of high and low values are employed in the analysis, with the low values examined to ensure that a reasonably likely change in an assumption would not cause the Partnership to reach a different conclusion.

Intangibles, net

The gross carrying amount and accumulated amortization of intangible assets subject to amortization are as follows:

(in thousands)	June 30, 2010 Gross Carrying Amount	June 30, 2010 Accum. Amortization	June 30, 2010 Net	September 30, 2009 Gross Carrying Amount	September 30, 2009 Accum. Amortization	September 30, 2009 Net
Customer lists and other intangibles	$250,206	$ 190,654	$59,552	$204,426	$ 183,958	$ 20,468

Amortization expense for intangible assets was $6.7 million for the nine months ended June 30, 2010 compared to $10.9 million for the nine months ended June 30, 2009. Amortization expense was lower as acquisitions from 1999 with a 10 year life became fully amortized in fiscal 2009. Total estimated annual amortization expense related to intangible assets subject to amortization, for the fiscal year ending September 30, 2010 and the four succeeding fiscal years ending September 30, is as follows (in thousands):

	Estimated Annual Book Amortization Expense
2010	$ 9,469
2011	$ 10,007
2012	$ 5,640
2013	$ 5,638
2014	$ 5,562

5) Business Combinations

The Partnership acquired four heating oil dealers for the nine months ended June 30, 2010.

The following table summarizes the preliminary fair values and purchase price allocation at the acquisition dates, of the assets acquired and liabilities assumed related to acquisitions made as of June 30, 2010. These values are preliminary pending final valuation of intangibles, certain deferred tax assets and certain working capital items.

(in thousands)	As of Acquisition Date
Trade accounts receivable (a)	$ 12,231
Inventories	2,086
Other current assets	5,226
Furniture and equipment	4,522
Fleet	2,679
Customer lists and other intangibles	38,380
Trade names	7,400
Current liabilities	(15,531)
Long-term deferred tax liabilities	(9,029)
Total net identifiable assets acquired	$ 47,964
Total consideration transferred	$ 67,825
Less: Total net identifiable assets acquired	47,964
Goodwill	$ 19,861

(a) The gross contractual receivable amount is $14.8 million, and the best estimate at the acquisition date of the contractual cash flows not expected to be collected is $2.6 million.

The total costs related to these acquisitions were included in the Consolidated Statement of Operations under general and administrative expenses and were $0.6 million.

Of the $19.9 million of goodwill relating to these acquisitions, $2.8 million is deductible for income tax purposes. Goodwill is being derived from the ability of the businesses to regenerate customers and to a lesser extent, certain synergies.

Except for the acquisition of the Champion Energy Corporation ("Champion"), the other acquisitions noted above, individually and in the aggregate were not material to the Partnership.

Included in the figures above is the acquisition of Champion. On May 10, 2010, the Partnership entered into an Equity Purchase Agreement pursuant to which it acquired 100% of the capital stock of Champion for a purchase price of approximately $50.1 million plus working capital of approximately $7.5 million (net of cash acquired), payable in cash. The business reason for this acquisition is that Champion is an excellent fit for the Partnership, as it serves over 45,000 home heating oil customers in markets in which the Partnership currently operates, and sold 35.2 million gallons of residential home heating oil, 4.1 million gallons of commercial home heating oil and 8.9 million gallons of other petroleum products for the twelve months ending June 30, 2009.

A remediation liability of $4.1 million has been recognized as of the acquisition date in connection with Champion. The remediation liability was determined by management and primarily represents the costs to remediate a Champion facility. An estimated range of the remediation costs is expected to be between $1.8 million and $5.9 million, with $4.1 million representing the fair value of the expected total cost as of the acquisition date.

Sales and net loss of Champion for fiscal 2010 totaled $10.0 million and $(0.7) million, respectively for the period from the acquisition date through June 30, 2010.

The following table provides unaudited pro forma results of operations as if the Champion acquisition had occurred on October 1, 2008. The unaudited pro forma results were prepared using Champion's current and prior year financial information, reflecting certain adjustments related to the acquisition, such as the elimination of select nonrecurring charges, and changes to administrative, interest and depreciation and amortization expenses. These pro forma adjustments do not include any potential synergies related to combining the businesses. Accordingly, such pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisition been made as of October 1, 2008 or of results that may occur in the future.

	Three Months Ended June 30, (Unaudited)		Nine Months Ended June 30, (Unaudited)	
(in thousands)	2010	2009	2010	2009
Net sales	$186,295	$188,086	$1,193,322	$1,216,163
Net earnings	$ (10,337)	$ (2,633)	$ 48,038	$ 108,438

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6) Long-Term Debt and Bank Facility Borrowings

The Partnership's debt is as follows (in thousands):

	At June 30, 2010		At September 30, 2009	
	Carrying Amount	Estimated Fair Value (a)	Carrying Amount	Estimated Fair Value (a)
10.25% Senior Notes (b)	$82,797	$ 82,797	$133,112	$ 133,112
Revolving Credit Facility Borrowings (c)	—	—	—	—
Total debt	$82,797	$ 82,797	$133,112	$ 133,112
Total long-term portion of debt	$82,797	$ 82,797	$133,112	$ 133,112

(a) The Partnership's fair value estimates of long-term debt are made at a specific point in time, based on relevant market information, open market quotations and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(b) These notes mature in February 2013 and accrue interest at an annual rate of 10.25% requiring semi-annual interest payments on February 15 and August 15 of each year. The net premium on these notes included above were $0.3 million at June 30, 2010 and $0.6 million at September 30, 2009, respectively. These notes are redeemable at the option of the Partnership, in whole or in part, from time to time by payment of a premium. In February 2010, $50 million in principal amount of these notes were redeemed at a price equal to 101.708% of face value plus any accrued and unpaid interest.

Under the terms of the indenture these notes permit restricted payments of $22 million, allow the Partnership to incur acquisition related debt of up to $60 million without passing certain financial tests, and restrict the proceeds of asset sales from being invested in current assets for purposes of the "asset sale" covenant.

(c) In July 2009, the Partnership entered into an amended and restated asset based revolving credit facility agreement with a bank syndication comprised of nine banks. This amended facility, that extends to July 2012, provides the Partnership with the ability to borrow up to $240 million ($290 million during the heating season from November to April each year) for working capital purposes (subject to certain borrowing base limitations and coverage ratios), including the issuance of up to $100 million in letters of credit which reduce availability under this facility. The Partnership can increase the facility size by $50 million without the consent of the bank group. The bank group is not obligated to fund the $50 million increase. If the bank group elects not to fund the increase, the Partnership can add additional lenders to the group, with the consent of the Agent, which shall not be unreasonably withheld. The interest rate is LIBOR plus (i) 3.50% (if availability, as defined in the revolving credit facility agreement is greater than or equal to $150 million), or (ii) 3.75% (if availability is greater than $75 million but less than $150 million), or (iii) 4.00% (if availability is less than or equal to $75 million). The commitment fee on the unused portion of the facility is 0.75% per annum.

In January 2010, the Partnership entered into a first amendment to the amended and restated asset based revolving credit facility agreement that updated the consolidated fixed charges defined term.

At June 30, 2010, no amount was outstanding under the revolving credit facility and $42.3 million of letters of credit were issued. No amount was outstanding under the revolving credit facility at September 30, 2009, and $40.9 million of letters of credit were issued.

Obligations under the revolving credit facility are secured by liens on substantially all assets and are guaranteed by the Partnership. The revolving credit facility imposes certain restrictions on the Partnership, including restrictions on its ability to incur additional indebtedness, to pay distributions to its unitholders, to pay inter-company dividends or distributions, make investments, grant liens, sell assets, make acquisitions and engage in certain other activities. The revolving credit facility also requires the Partnership to maintain certain financial ratios, and contains borrowing conditions and customary events of default, including nonpayment of principal or interest, violation of covenants, inaccuracy of representations and warranties, cross-defaults to other indebtedness, bankruptcy and other insolvency events. The occurrence of an event of default or an acceleration under the revolving credit facility would result in the Partnership's inability to obtain further borrowings under that facility, which could adversely affect its results of

operations. Such a default may also restrict the ability of the Partnership to obtain funds from its subsidiaries in order to pay interest or paydown debt. An acceleration under the revolving credit facility would result in a default under the Partnership's other funded debt.

Under the terms of the revolving credit facility, the Partnership must maintain at all times either availability (borrowing base less amounts borrowed and letters of credit issued) of $43.5 million or a fixed charge coverage ratio (as defined in the credit agreement) of not less than 1.10x. In addition, the Partnership must maintain a fixed charge coverage ratio for the trailing twelve months of 1.15x in order to make its minimum quarterly distributions of $0.0675 per unit, and 1.25x to make any distributions in excess of the minimum quarterly distributions. No inter-company dividends or distributions can be made (including those needed to pay interest or principle on the 10.25% Senior Notes) if the relevant covenant described above has not been met.

As of June 30, 2010, availability was $112.8 million, and the Partnership was in compliance with the fixed charge coverage ratio. As of September 30, 2009, availability was $194.4 million, and the Partnership was in compliance with the fixed charge coverage ratio.

7) Employee Pension Plan

(in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Components of net periodic benefit cost:				
Service cost	$ —	$ —	$ —	$ —
Interest cost	812	935	2,435	2,805
Expected return on plan assets	(666)	(728)	(1,998)	(2,184)
Net amortization	616	340	1,848	1,020
Net periodic benefit cost	$ 762	$ 547	$ 2,285	$ 1,641

As of June 30, 2010, the Partnership contributed $1.3 million and expects to make an additional $11.9 million contribution to fund its pension obligation for fiscal 2010.

8) Supplemental Disclosure of Cash Flow Information

(in thousands)	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Cash paid during the period for:		
Income taxes, net	$1,478	$ 1,665
Interest	$9,690	$10,420
Debt redemption premium	$ 854	$ —
Non-cash financing activities:		
Decrease in interest expense—amortization of net debt premium	$ 104	$ 132
Decrease in net debt premium attributable to redemption of debt	$ 203	$ 199

9) Commitments and Contingencies

The Partnership's operations are subject to all operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing for use by consumers of combustible liquids such as home heating oil and propane. As a result, at any given time the Partnership is a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies with insurers in amounts and with coverages and deductibles we believe are reasonable and prudent. However, the Partnership cannot assure that this insurance will be adequate to protect it from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In the opinion of management 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's results of operations, financial position or liquidity.

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10) Subsequent Events

Quarterly Distribution Declared

On July 19, 2010, the Partnership declared a quarterly distribution of $0.0725 per common unit, payable on August 13, 2010, to holders of record on August 5, 2010.

Common Units Repurchase Program - Plan II

On July 19, 2010, the Board of Directors of the Partnership's General Partner authorized the repurchase of up to 7.0 million of the Partnership's common units ("Plan II"). The authorized common unit repurchases may be made from time-to-time in the open market, in privately negotiated transactions or in such other manner deemed appropriate by management. In order to facilitate the repurchase program, the Partnership intends to enter into a prearranged unit repurchase plan under Rule 10b5-1 of the Securities Act of 1933, as amended for up to 4.0 million common units with a third party broker. There is no guarantee of the exact number of units that will be purchased under the program and the Partnership may discontinue purchases at any time. The program does not have a time limit. The Partnership's repurchase activities take into account SEC safe harbor rules and guidance for issuer repurchases. All of the common units purchased in the repurchase program will be retired.

Item 2.

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

Statement Regarding Forward-Looking Disclosure

This Quarterly Report on Form 10-Q includes "forward-looking statements" which represent our expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on our financial performance, the price and supply of home heating oil, the consumption patterns of our customers, our ability to obtain satisfactory gross profit margins, our ability to obtain new accounts and retain existing accounts, our ability to make strategic acquisitions, the impact of litigation, our ability to contract for our current and future supply needs, natural gas conversions, future union relations and the outcome of current and future union negotiations, the impact of future environmental, health, and safety regulations, the ability to attract and retain employees, customer credit worthiness, counter party credit worthiness, marketing plans and general economic conditions. All statements other than statements of historical facts included in this Report including, without limitation, the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere herein, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct and actual results may differ materially from those projected as a result of certain risks and uncertainties. Important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements") include, but are not limited to, those set forth under the heading "Risk Factors" and "Business Initiatives and Strategy" in the Partnership's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended September 30, 2009 and under the heading "Risk Factors" in this Quarterly Report on Form 10-Q. Without limiting the foregoing, the words "believe," "anticipate," "plan," "expect," "seek," "estimate" and similar expressions are intended to identify forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. Unless otherwise required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Report.

Overview

The following is a discussion of the historical condition and results of operations of the Partnership and its subsidiaries, and should be read in conjunction with the description of our business in Item 1. "Business" of the Form 10-K and the historical Financial and Operating Data and Notes thereto included elsewhere in this Report.

Seasonality

The following matters should be considered in analyzing our financial results. Our fiscal year ends on September 30. All references to quarters and years respectively in this document are to fiscal quarters and years unless otherwise noted. The seasonal nature of our business results in the sale of approximately 30% of our volume of home heating oil in the first fiscal quarter and 45% of our volume in the second fiscal quarter of each fiscal year, the peak heating season. In addition, sales volume typically fluctuates from year to year in response to variations in weather, wholesale energy prices and other factors.

Degree Day

A "degree day" is an industry measurement of temperature designed to evaluate energy demand and consumption. Degree days are based on how far the average temperature departs from 65°F. Each degree of temperature above 65°F is counted as one cooling degree day, and each degree of temperature below 65°F is counted as one heating degree day. Degree days are accumulated each day over the course of a year and can be compared to a monthly or a long-term (multi-year) average, or normal, to see if a month or a year was warmer or cooler than usual. Degree days are officially observed by the National Weather Service and officially archived by the National Climatic Data Center. For purposes of evaluating our results of operations, we use the normal heating degree day amount as reported by the National Weather Service in our operating areas.

EBITDA and Adjusted EBITDA (Non-GAAP Financial Measures)

EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;
- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the retail distribution of refined petroleum products business, without regard to financing methods and capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

Adjusted EBITDA is calculated as earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, the (increase) decrease in the fair value of derivatives, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges. Management believes the presentation of this measure is relevant and useful because it allows investors to view the Partnership's performance in a manner similar to the method management uses, and makes it easier to compare its results with other companies that have different financing and capital structures. In addition, this measure is consistent with the manner in which the Partnership's debt covenants in its material debt agreements are calculated. Both the Partnership's 10.25% Senior Note agreement and its bank credit facility contain covenants that restrict equity distributions, acquisitions, and the amount of debt it can incur. Under the most restrictive of these covenants, which is found in the bank credit facility, the agent bank could step in and control all cash transactions for the Partnership if we failed to comply with the minimum "Availability" or the fixed charge coverage ratio. The Partnership is required to maintain either availability (borrowing base less amounts borrowed and letters of credit issued) of $43.5 million (15% of the maximum facility size) or a fixed charge coverage ratio of 1.10x (Adjusted EBITDA being a significant component of this calculation). This method of calculating Adjusted EBITDA may not be consistent with that of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP.

Each of EBITDA and Adjusted EBITDA has its limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of EBITDA and Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced, and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

Per Gallon Gross Profit Margins

We believe the change in home heating oil margins should be evaluated on a cents per gallon basis, before the effects of increases or decreases in the fair value of derivative instruments, as we believe that realized per gallon margins should not include the impact of non-cash changes in the market value of hedges before the settlement of the underlying transaction.

A significant portion of our home heating oil volume is sold to individual customers under an arrangement pre-establishing the ceiling sales price or a fixed price of home heating oil over a fixed period. When these price-protected customers agree to purchase home heating oil from us for the next heating season, we will purchase option contracts, swaps and futures contracts for a substantial majority of the heating oil that we expect to sell to these customers. The amount of home heating oil volume that we hedge per price-protected customer is based upon the estimated fuel consumption per average customer, per month. In the event that the actual usage exceeds the amount of the hedged volume on a monthly basis, we could be required to obtain additional volume at unfavorable margins. In addition, should actual usage in any month be less than the hedged volume, our hedging losses could be greater.

Derivatives

FASB ASC 815-10-05 Derivatives and Hedging topic (FAS 133), established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. To the extent derivative instruments designated as cash flow hedges are effective, as defined under this standard, changes in fair value are recognized in other comprehensive income until the forecasted hedged item is recognized in earnings. The Partnership has elected not to designate its derivative instruments as hedging instruments under this standard, and, as a result, the changes in fair value of the derivative instruments are recognized in our statement of operations. Therefore, we experience great volatility in earnings as outstanding home heating oil derivative instruments are marked to market and non-cash gains and losses are recorded prior to the sale of the commodity to the customer. To the extent that the Partnership continues this accounting treatment, the volatility in any given period related to unrealized non-cash gains or losses on derivative home heating oil instruments can be significant to the overall results of the Partnership. However, we ultimately expect those gains and losses to be offset by the cost of product when purchased.

Impact of Financial Reform Legislation on Derivatives

The U.S. Congress has recently passed comprehensive financial reform legislation that requires regulated banks with derivatives trading units to spin them off and that requires substantially all derivatives be traded through a central clearing house, subject to margin requirements. This legislation could substantially increase the Partnership's cost in using certain derivatives and could make such derivatives less available, which could subject the Partnership to additional risks to the extent it is not able to hedge the risks in another manner. The full impact of this legislation on the Partnership cannot be fully determinable until the required rules implementing this legislation have been drafted and adopted by various governmental agencies.

Income Taxes—Valuation Allowance and Net Operating Loss Carry Forward

Based upon a review of a number of factors, including historical operating performance and our expectation that we could generate sustainable consolidated taxable income for the foreseeable future, we concluded at the end of fiscal 2009 that the majority of the Partnership's net deferred tax assets should be recognized. Thus, pursuant to FASB ASC 740-10 Income Taxes topic (FAS 109), we recorded a tax benefit during fiscal 2009 reversing a majority of the opening valuation allowance, resulting in a non-cash increase in net income of $86.4 million. This benefit was partially offset by a current income tax expense of $3.8 million and deferred income tax expense of $25.0 million related to current year activity (including net operating loss carry forward utilization), resulting in a net income tax benefit of $57.6 million.

Most of the $86.4 million benefit relating to the valuation allowance release related to Federal and state loss carry forwards (NOLs), insurance reserves, and the net operating book versus tax timing of intangible amortization.

The release of the valuation allowance in 2009 will also affect the comparison of income tax expense (benefit) of fiscal 2009 quarters in fiscal 2010. The income tax expense in the first three quarters of fiscal 2009 consisted of current taxes only, as any deferred income tax expense or benefit for those periods were fully offset by movements in the valuation allowance.

At December 31, 2004, we had Federal NOLs of $170.6 million and at December 31, 2009, these NOLs were reduced to approximately $52 million. Over this five year period, we utilized approximately $24 million of Federal NOLs on average each year to offset our taxable income. We expect that over the next few years, we will utilize the majority of the remaining NOLs. After we exhaust the NOLs, the amount of cash taxes that we will pay will increase significantly and will reduce the annual amount of cash available for distribution to unitholders. For example, in calendar 2006, 2007, 2008 and 2009 we paid Federal cash taxes of $0.1 million, $1.0 million, $0.6 million and $0.6 million, respectively. If we did not have the NOLs available to us for calendar 2006, 2007, 2008 and 2009 our Federal cash taxes would have increased to $2.6 million, $17.2 million, $11.1 million and $10.1 million for calendar 2006, 2007, 2008 and 2009, respectively.

Income Taxes- Book Versus Tax Deductions

The amount of cash flow that we generate in any given year depends upon a variety of factors including the amount of cash income taxes that our corporate subsidiary will pay. The amount of depreciation and amortization that we deduct for book (i.e. financial reporting) purposes will differ from the amount that our corporate subsidiary can deduct for tax purposes. The table below compares the estimated depreciation and amortization for book purposes to the amount that our corporate subsidiary expects to deduct for tax purposes. (Our corporate subsidiary files its tax return based on a calendar year. The amounts below are based on our fiscal year.)

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Estimated Depreciation and Amortization Expense

(Amounts in 000's)

Fiscal Year	Book	Tax
2010	$17,954	$30,944
2011	18,324	29,842
2012	12,202	26,829
2013	9,162	23,799
2014	8,119	20,050

Income Taxes—Consideration of Election to be Taxed as an Association or "C Corporation"

Currently, the Partnership's main asset and source of income is an investment in Star Acquisitions, Inc. Our unitholders do not receive any of the tax benefits normally associated with owning units in a publicly traded partnership, as any cash coming from Star Acquisitions to the Partnership will generally have been taxed first at a corporate level and then may also be taxable to our unitholders as dividends, reported via annual Forms K-1. The production of the Forms K-1 themselves is an expensive and administratively intensive process. Thus, the Partnership has all the administrative issues and costs associated with being a large, publicly traded partnership, but our unitholders do not currently receive any material tax benefits from this structure.

To reduce these administrative expenses and to better rationalize our tax reporting structure, the Partnership is evaluating whether to make an election sometime in calendar 2010 or thereafter, to be treated as a corporation for Federal and state income tax purposes. While the Partnership would still remain a publicly traded partnership for legal and governance purposes, for income tax purposes its unitholders would be treated as owning stock in a corporation rather than being partners in a partnership. Subsequent to the year of election unitholders would receive Forms 1099-DIV annually for any dividends and would no longer receive K-1's. In the year of election unitholders would receive both, each form covering part of the year.

This election may have immediate short term tax implications as unitholders who own units during the calendar year of the election could receive taxable dividend income related to the deemed exchange of partnership units for stock and the "assumption" by the "new" corporation of the liabilities of the Partnership (primarily the Senior Notes).

Assuming that the Partnership's taxable earnings and profits are equal to or less than the amount of distributions/dividends paid out during the year by the Partnership and that the unitholder holds the units for the entire calendar year, (or at least long enough during the year to receive a distribution(s) at least equal to the tax resulting from a share of dividend income reported on Form K-1), then most unitholders should not have any material negative cash flow consequences as a result of the Partnership making this election. Note that nothing herein should be interpreted as a projection of any future earnings amount or a projection or guarantee of future distributions or dividends.

In addition, there are risks that the Partnership could make this election but:

- Not distribute or dividend enough cash to cover the taxes that may be due as a result of the dividend income generated by the election.
- Even if total distributions are made by the Partnership that are equal to its total taxable earnings in the year of election, any particular unit holder could buy or sell units in a time period such that they would receive an allocation on their K-1 of more taxable dividend income than they would receive in cash distributions.

The Partnership intends to make this election only if it believes that it will have no overall material adverse impact on its unitholders, of which there can be no assurance. Since determining this is a function of projecting taxable earnings, making assumptions regarding the payment of distributions, and trying to determine when, during any particular calendar year, making the election will have the least impact on the most number of unitholders, when or, even if, it will make this election is not determinable at this time. Unitholders are encouraged to consult their tax advisors with respect to these possible outcomes.

Acquisitions

From April 1 to June 30, 2010, the Partnership completed four acquisitions after the heating season and added approximately 55,600 home heating oil, propane and security accounts. While these acquisitions will provide additional revenues in fiscal 2010, the Partnership's profitability measures such as operating income and net income for fiscal 2010 will be adversely impacted as we expect that product costs and operating expenses from these acquisitions during the balance of fiscal 2010 will exceed revenues, which is normal for this period.

Customer Attrition

We measure net customer attrition for our full service residential and commercial home heating oil customers. Net customer attrition is the difference between gross customer losses and customers added through internal marketing efforts. Customers purchased in acquisitions are not included in the calculation of gross customer gains, but are factored on a pro-rata basis in the denominator when calculating the percentages of gross customer gains and losses. Gains and losses at acquisitions since the acquired date of the acquisition are included in the calculation of net customer attrition. Gross customer losses are the result of a number of factors, including price competition, move-outs, credit losses and conversions to natural gas. When a customer moves out of an existing home we count the "move out" as a loss and if we are successful in signing up the new homeowner, the "move in" is treated as a gain.

Gross customer gains and gross customer losses

	Fiscal Year					
	2010			2009		
	Gross Customer		Net	Gross Customer		Net
	Gains	Losses	Attrition	Gains	Losses	Attrition
First Quarter	19,000	21,600	(2,600)	26,300	31,800	(5,500)
Second Quarter	11,000	14,200	(3,200)	11,700	24,100	(12,400)
Third Quarter	5,300	12,600	(7,300)	5,900	12,300	(6,400)
	35,300	48,400	(13,100)	43,900	68,200	(24,300)

Net customer attrition as a percentage of the home heating oil customer base.

	Fiscal Year					
	2010			2009		
	Gross Customer		Net	Gross Customer		Net
	Gains	Losses	Attrition	Gains	Losses	Attrition
First Quarter	5.1%	5.8%	-0.7%	6.5%	7.9%	-1.4%
Second Quarter	3.0%	3.8%	-0.8%	2.9%	6.0%	-3.1%
Third Quarter	1.3%	3.1%	-1.8%	1.5%	3.1%	-1.6%
	9.4%	12.7%	-3.3%	10.9%	17.0%	-6.1%

We lost 13,100 accounts (net) during the nine months ended June 30, 2010, or 3.3% of our home heating oil customer base, as compared to the nine months ended June 30, 2009 in which we lost 24,300 accounts (net), or 6.1% of our home heating oil customers, as the decline in gross customer gains of 8,600 accounts was less than the reduction in gross customer losses of 19,800 accounts. As a result of the extreme price volatility in the summer and fall of 2008, the Partnership was able to take advantage of an unusually high number of consumers seeking an alternate supplier in the nine months ended June 30, 2009, which resulted in an increase in gross customer gains for the nine months ended June 30, 2009. These conditions did not reoccur in the nine months ended June 30, 2010 and gross customer gains were lower. The decrease in gross customer losses of 19,800 accounts was primarily due to the aforementioned market condition, as losses due to price declined by 10,100 accounts. In addition, our credit losses improved by 7,100 account and natural gas conversions declined by 1,700.

We believe that the continued adverse economic conditions and price volatility will adversely impact our ability to attract customers and retain existing customers in the future.

Protected Price Account Renewals

Approximately 77% of the Partnership's protected price customers have agreements with us that are subject to annual renewal in the period from April through November of each fiscal year. If a significant number of these customers elect not to renew their protected price agreements with us and do not continue as our customers under a variable price-plan, the Partnership's near term profitability, liquidity and cash flow will be adversely impacted. Based on the recent prices, these price-protected customers will be offered renewal contracts at higher prices than last year which may adversely impact the acceptance rate of these renewals.

Results of Operations

The following is a discussion of the results of operations of the Partnership and its subsidiaries, and should be read in conjunction with the historical Financial and Operating Data and Notes thereto included elsewhere in this Quarterly Report.

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Three Months Ended June 30, 2010
Compared to the Three Months Ended June 30, 2009

Volume

For the three months ended June 30, 2010, retail volume of home heating oil decreased by 8.1 million gallons, or 18.9%, to 34.9 million gallons, as compared to 43.0 million gallons for the three months ended June 30, 2009. An analysis of the change in the retail volume of home heating oil, which is based on management's estimates, sampling and other mathematical calculations, is found below:

(in millions of gallons)	Heating Oil
Volume - Three months ended June 30, 2009	43.0
Impact of warmer temperatures	(9.0)
Net customer attrition residential / commercial	(1.5)
Acquisitions	1.4
Other	1.0
Change	(8.1)
Volume - Three months ended June 30, 2010	34.9

Temperatures in our geographic areas of operations for the three months ended June 30, 2010 were 27.5% warmer than the three months ended June 30, 2009 and approximately 33.0% warmer than normal, as reported by the National Oceanic Atmospheric Administration ("NOAA"). Between July 1, 2009 and June 30, 2010, net customer attrition was 4.8%, and the above table reflects the lost volume related to this net customer attrition.

Volume of other petroleum products for the three months ended June 30, 2010 increased by 0.7 million gallons, or 9.1%, to 8.3 million gallons, as compared to 7.6 million gallons of other petroleum products sold during the three months ended June 30, 2009. While acquisitions added 1.4 million gallons of other petroleum products, we experienced a decline in the base business of 0.7 million gallons due to competitive pressures, selective reductions in our customer base due to increases in both our credit and profitability standards, as well as the downturn in the economy.

The percentage of heating oil volume sold to residential variable price customers increased to 41.9% for the three months ended June 30, 2010, as compared to 40% for the three months ended June 30, 2009. The percentage of heating oil volume sold to residential price-protected customers decreased to 43.8% for the three months ended June 30, 2010, as compared to 45.6% for the three months ended June 30, 2009. For the three months ended June 30, 2010, sales to commercial/industrial customers decreased to 14.3% of total heating oil volume sales, as compared to 14.5% for the three months ended June 30, 2009.

Product Sales

For the three months ended June 30, 2010, product sales increased $3.8 million, or 3.0%, to $130.2 million, as compared to $126.4 million for the three months ended June 30, 2009, due largely to an increase in other petroleum product sales of $6.1 million due to an increase in selling prices and an increase in volume. Home heating oil product sales declined by $2.3 million as the impact of higher home heating oil selling prices of 20.7% was more than offset by a decline in home heating oil volume of 18.9%, reflecting the aforementioned warmer weather. The Partnership increased home heating oil and other petroleum products selling prices in response to an increase in the wholesale cost of product.

Installation and Service Sales

For the three months ended June 30, 2010, service and installation sales increased $5.3 million, or 12.9%, to $46.6 million, as compared to $41.3 million for the three months ended June 30, 2009 due to additional service and installation revenue from stand alone acquisitions of $2.1 million and additional air conditioning installation and service revenue of $2.5 million resulting from the 27.5% warmer temperatures.

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Cost of Product

For the three months ended June 30, 2010, cost of product increased $8.2 million, or 9.7%, to $93.3 million, as compared to $85.1 million for the three months ended June 30, 2009, as an increase in the wholesale cost for all products and the additional volume sold of other petroleum products was partially reduced by the previously mentioned 18.9% decline in home heating oil volume.

Gross Profit—Product

The table below calculates the Partnership's per gallon margins and reconciles product gross profit for home heating oil and other petroleum products. We believe the change in home heating oil margins should be evaluated before the effects of increases or decreases in the fair value of derivative instruments, as we believe that realized per gallon margins should not include the impact of non-cash changes in the market value of hedges before the settlement of the underlying transaction. On that basis, home heating oil margins for the three months ended June 30, 2010 increased by $0.0792 per gallon, or 8.8%, to $0.9769 per gallon, from $0.8977 per gallon in the three months ended June 30, 2009. Product sales and cost of product include home heating oil, other petroleum products and liquidated damages billings.

	Three Months Ended			
	June 30, 2010		June 30, 2009	
	Amount (000)	Per Gallon	Amount (000)	Per Gallon
Home Heating Oil				
Volume (in gallons)	34,866		42,976	
Sales	$109,223	$3.1326	$111,532	$2.5952
Cost	75,161	2.1557	72,950	1.6975
Gross Profit	$ 34,062	$0.9769	$ 38,582	$0.8977
	Amount (000)	Per Gallon	Amount (000)	Per Gallon
Other Petroleum Products				
Volume (in gallons)	8,333		7,640	
Sales	$ 20,945	$2.5134	$ 14,872	$1.9465
Cost	18,184	2.1822	12,151	1.5904
Gross Profit	$ 2,761	$0.3312	$ 2,721	$0.3560
	Amount (000)		Amount (000)	Change
Total Product				
Sales	$130,168		$126,404	$ 3,765
Cost	$ 93,345		85,101	(8,245)
Gross Profit	$ 36,823		$ 41,303	$ (4,480)

For the three months ended June 30, 2010, total product gross profit decreased by $4.5 million to $36.8 million, as compared to $41.3 million for the three months ended June 30, 2009, as the impact of higher home heating oil per gallon margins ($2.8 million) was more than offset by lower home heating oil volume ($7.3 million).

(Increase) Decrease in the Fair Value of Derivative Instruments

During the three months ended June 30, 2010, the decrease in the fair value of derivative instruments resulted in the recording of a $2.3 million debit due to the expiration of certain hedged positions or their realization to cost of product ($1.2 million credit) and a decrease in the market value for unexpired hedges ($3.5 million charge).

During the three months ended June 30, 2009, the decrease in the fair value of derivative instruments resulted in the recording of a $9.7 million credit due to the expiration of certain hedged positions or their realization to cost of product ($7.9 million credit), and an increase in the market value for unexpired hedges ($1.8 million credit).

Cost of Installations and Service

During the three months ended June 30, 2010, the cost of installations and service increased $2.7 million, or 7.2%, to $40.1 million, as compared to $37.4 million for the three months ended June 30, 2009, as the additional costs from stand alone acquisitions of $1.6 million and the increase in installation costs due to the rise in installation sales was reduced by lower vehicle fuel costs of $0.8 million. Management views the service and installation department on a combined basis because many expenses cannot be separated or allocated to either service or installation billings. Many administrative functions and direct expenses such as service technician time cannot be precisely allocated.

Installation costs were $13.5 million, or 85.6% of installation sales during the three months ended June 30, 2010, versus $11.9 million, or 89.7% of installation sales during the three months ended June 30, 2009. The decline in installation costs as a percentage of sales was largely the result of reduced staffing levels, as the Partnership responded to the impact on sales of the economic downturn. In the three months ended June 30, 2009 the Partnership did not reduce staffing levels as quickly as the decline in installation revenues. Service expenses increased to $26.6 million, or 86.2% of service sales during the three months ended June 30, 2010, from $25.5 million in the three months ended June 30, 2009, or 91.2% of sales. This increase in service costs of $1.1 million was largely due to recent acquisitions. The decline in service costs as a percentage of service revenue was due to higher profitability of the increased air conditioning service, the decline in vehicle fuels, and the fact that our recent acquisitions have a lower cost as a percentage of service revenue. For the three months ended June 30, 2010, a net gross profit from service and installation of $6.5 million was generated, as compared to a gross profit of $3.8 million for the three months ended June 30, 2009.

Delivery and Branch Expenses

For the three months ended June 30, 2010, delivery and branch expenses increased $0.3 million, or 0.7%, to $45.1 million, as compared to $44.8 million for the three months ended June 30, 2009 as the additional expenses from stand alone acquisitions of $2.6 million and an increase in insurance expense of $0.4 million more than offset a decline in delivery and branch expenses in the base business of $2.7 million. Bad debt expense declined by $1.4 million as our account losses related to credit issues fell by 51.5%. Delivery and branch expenses were also favorably impacted by $0.8 million due to the decline in home heating oil volume of 18.9% and $0.5 million in lower vehicle fuel cost.

Depreciation and Amortization

For the three months ended June 30, 2010, depreciation and amortization expenses increased by $0.3 million or 9.1%, to $4.1 million as compared to $3.8 million for the three months ended June 30, 2009, due to additional amortization expense from acquisitions.

General and Administrative Expenses

For the three months ended June 30, 2010, general and administrative expenses increased by $0.5 million or 8.4%, to $5.8 million, from $5.3 million for the three months ended June 30, 2009 primarily due to legal and professional fees relating to acquisitions of $0.6 million.

Operating Income (Loss)

For the three months ended June 30, 2010, operating income decreased $14.8 million to an operating loss of $13.9 million, from an operating profit of $0.9 million for the three months ended June 30, 2009, as an unfavorable non-cash change in the fair value of derivative instruments of $12.0 million, a decline in product gross profit of $4.5 million and higher delivery and branch expenses of $0.3 million more than offset the improvement in installation and service gross profit of $2.7 million.

Interest Expense

For the three months ended June 30, 2010, interest expense decreased by $1.0 million, or 24.7% to $3.1 million as compared to $4.1 million for the three months ended June 30, 2009. Over the last fifteen months, the Partnership has repurchased $54.0 million face value of its 10.25% Senior Notes, which lowered the average long-term debt outstanding by $54 million and the corresponding interest expense by $1.4 million. Bank charges increased by $0.3 million largely due to an increase in letter of credit fees.

Interest Income

For the three months ended June 30, 2010, interest income increased $0.1 million, or 8.9%, to $1.4 million, as compared to $1.3 million for the three months ended June 30, 2009, due to an increase in finance charge income on past due accounts receivable balances.

Amortization of Debt Issuance Costs

For the three months ended June 30, 2010, amortization of debt issuance costs increased $0.1 million to $0.6 million, as compared to $0.5 million for the three months ended June 30, 2009.

Income Tax Expense (Benefit)

For the three months ended June 30, 2010 the Partnership's income tax benefit increased $5.7 million to $6.2 million, from $0.5 million for the three months ended June 30, 2009. This increase was due primarily to an increase in deferred income tax benefit of $5.4 million and an increase in the current tax benefit of $0.3 million. The Partnership had a full valuation allowance and any deferred tax benefits for the three months ended June 30, 2009 were fully offset by the valuation allowance, leaving only a current tax benefit. As much of the valuation allowance was released as of September 30, 2009, the tax benefit for the three months ended June 30, 2010 consisted of both a $0.8 million current tax benefit and a $5.4 million deferred tax benefit.

Net Income (Loss)

For the three months ended June 30, 2010, the Partnership generated a net loss of $10.0 million, as compared to net loss of $1.9 million for the three months ended June 30, 2009. This increase in the net loss of $8.1 million was primarily due to an increase on the loss before income taxes of $13.8 million reduced by an increase in deferred income tax benefit of $5.4 million and an increase in current tax benefit of $0.3 million.

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Adjusted EBITDA

For the three months ended June 30, 2010, the Adjusted EBITDA loss was $7.5 million, $2.5 million greater than the Adjusted EBITDA loss of $5.0 million generated during the three months ended June 30, 2009, as the impact of the decline in home heating oil volume more than offset the impact of higher per gallon margins. In addition, stand alone acquisitions and related expenses generated an Adjusted EBITDA loss of $0.9 million.

	Three Months Ended June 30,	
(in thousands)	2010	2009
Net loss	$ (9,991)	$ (1,924)
Plus:		
Income tax benefit	(6,232)	(498)
Amortization of debt issuance cost	660	564
Interest expense, net	1,682	2,814
Depreciation and amortization	4,083	3,744
EBITDA from continuing operations	(9,798)	4,700
(Increase) / decrease in the fair value of derivative instruments	2,324	(9,656)
Adjusted EBITDA	(7,474)	(4,956)
Add / (subtract)		
Income tax benefit	6,232	498
Interest expense, net	(1,682)	(2,814)
Provision for losses on accounts receivable	1,088	2,371
Decrease in accounts receivables	93,573	75,933
Increase in inventories	(565)	(15,993)
Increase in customer credit balances	8,673	11,586
Change in deferred taxes	(5,420)	—
Change in other operating assets and liabilities	(4,130)	(19,176)
Net cash provided by (used in) operating activities	$ 90,295	$ 47,449
Net cash used in investing activities	$(68,555)	$ (814)
Net cash used in financing activities	$(31,362)	$ (5,137)

(a) EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;
- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the retail distribution of refined petroleum products business, without regard to financing methods and capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

Adjusted EBITDA is calculated as earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, the (increase) decrease in the fair value of derivatives, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges. Management believes the presentation of this measure

is relevant and useful because it allows investors to view the Partnership's performance in a manner similar to the method management uses, and makes it easier to compare its results with other companies that have different financing and capital structures. In addition, this measure is consistent with the manner in which the Partnership's debt covenants in its material debt agreements are calculated. Both the Partnership's 10.25% Senior Note agreement and its bank credit facility contain covenants that restrict equity distributions, acquisitions, and the amount of debt it can incur. Under the most restrictive of these covenants, which is found in the bank credit facility, the agent bank could step in and control all cash transactions for the Partnership if we failed to comply with the minimum "Availability" or the fixed charge coverage ratio. The Partnership is required to maintain either availability (borrowing base less amounts borrowed and letters of credit issued) of $43.5 million (15% of the maximum facility size) or a fixed charge coverage ratio of 1.1x (Adjusted EBITDA being a significant component of this calculation). This method of calculating Adjusted EBITDA may not be consistent with that of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP.

Each of EBITDA and Adjusted EBITDA has its limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of EBITDA and

Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced, and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

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Nine Months Ended June 30, 2010
Compared to the Nine Months Ended June 30, 2009

Volume

(in millions of gallons)	Heating Oil
Volume - Nine months ended June 30, 2009	328.5
Impact of warmer temperatures	(29.8)
Net customer attrition - residential / commercial	(13.2)
Acquisitions	1.4
Other	0.2
Change	(41.4)
Volume - Nine months ended June 30, 2010	287.1

For the nine months ended June 30, 2010, retail volume of home heating oil decreased by 41.4 million gallons, or 12.6%, to 287.1 million gallons, as compared to 328.5 million gallons for the nine months ended June 30, 2009. An analysis of the change in the retail volume of home heating oil, which is based on management's estimates, sampling and other mathematical calculations, is found below:

Temperatures in our geographic areas of operations for the nine months ended June 30, 2010 were 9.1% warmer than the nine months ended June 30, 2009 and approximately 7.9% warmer than normal, as reported by the NOAA. Between July 1, 2009 and June 30, 2010, net customer attrition was 4.8%, and the above table reflects the lost volume related to this net customer attrition. Due to the significant increase in the price per gallon of home heating oil over the last several years, we believe that customers are using less home heating oil given similar temperatures when compared to prior periods.

Volume of other petroleum products for the nine months ended June 30, 2010 decreased by 2.9 million gallons, or 8.8%, to 29.5 million gallons, as compared to 32.4 million gallons of other petroleum products sold during the nine months ended June 30, 2009. While volume of other petroleum products sold by our stand alone acquisitions did increase by 1.4 million gallons, the effect of competitive pressures, selective reductions in our customer base due to increases in both our credit and profitability standards and the downturn in the economy resulted in a decline in other product volume sales of 4.3 million gallons.

The percentage of heating oil volume sold to residential variable price customers increased to 42.1% for the nine months ended June 30, 2010, as compared to 40.3% for the nine months ended June 30, 2009. The percentage of heating oil volume sold to residential price-protected customers decreased to 44.2% for the nine months ended June 30, 2010, as compared to 45.5% for the nine months ended June 30, 2009. For the nine months ended June 30, 2010, sales to commercial/industrial customers decreased to 13.7% of total heating oil volume sales, as compared to 14.2% for the nine months ended June 30, 2009.

Product Sales

For the nine months ended June 30, 2010, product sales decreased $16.8 million, or 1.7%, to $942.6 million, as compared to $959.4 million for the nine months ended June 30, 2009, as the reduction in volume of home heating oil and other petroleum products sold was largely offset by higher selling prices. Selling prices rose in response to an increase in per gallon wholesale product costs.

Installation and Service Sales

For the nine months ended June 30, 2010, service and installation sales increased $3.1 million, or 2.3%, to $134.7 million, as compared to $131.6 million for the nine months ended June 30, 2009, as the additional service and installation revenue from acquisitions of $2.1 million and higher air conditioning installation and service revenue of $2.5 million was slightly offset by a $0.3 million reduction in heating installations. Heating service contract revenue also declined by $1.0 million due to the impact of net customer attrition.

Cost of Product

For the nine months ended June 30, 2010, cost of product increased $11.1 million, or 1.7%, to $669.6 million, as compared to $658.5 million for the nine months ended June 30, 2009, as the increase in per gallon wholesale product cost for all products exceeded the decline in volume.

Gross Profit—Product

The table below calculates the Partnership's per gallon margins and reconciles product gross profit for home heating oil and other petroleum products. We believe the change in home heating oil margins should be evaluated before the effects of increases or decreases in the fair value of derivative instruments, as we believe that realized per gallon margins should not include the impact of non-cash changes in the market value of hedges before the settlement of the underlying transaction. On that basis, home heating oil margins for the nine months ended June 30, 2010 increased by $0.0328 per gallon, or 3.7%, to $0.9185 per gallon, from $0.8857 per gallon in the nine months ended June 30, 2009. Product sales and cost of product include home heating oil, other petroleum products and liquidated damages billings.

	Nine Months Ended			
	June 30, 2010		June 30, 2009	
	Amount (000)	Per Gallon	Amount (000)	Per Gallon
Home Heating Oil				
Volume (in gallons)	287,090		328,507	
Sales	$871,978	$3.0373	$896,604	$ 2.7293
Cost	608,294	2.1188	605,649	1.8436
Gross Profit	$263,684	$0.9185	$290,955	$ 0.8857
	Amount (000)	Per Gallon	Amount (000)	Per Gallon
Other Petroleum Products				
Volume (in gallons)	29,527		32,380	
Sales	$ 70,668	$2.3933	$ 62,829	$ 1.9404
Cost	61,279	2.0754	52,862	1.6326
Gross Profit	$ 9,389	$0.3180	$ 9,967	$ 0.3077
	Amount (000)		Amount (000)	Change
Total Product				
Sales	$942,646		$959,433	$(16,787)
Cost	$669,573		658,511	(11,060)
Gross Profit	$273,073		$300,922	$(27,847)

For the nine months ended June 30, 2010, total product gross profit decreased by $27.8 million to $273.1 million, as compared to $300.9 million for the nine months ended June 30, 2009, as the impact of lower home heating oil volume ($36.7 million) was partially offset by higher home heating oil per gallon margins ($9.4 million). In addition, gross profit attributable to the sales of other petroleum products declined by $0.5 million.

(Increase) Decrease in the Fair Value of Derivative Instruments

During the nine months ended June 30, 2010, the increase in the fair value of derivative instruments resulted in the recording of a $5.8 million credit due to the expiration of certain hedged positions or their realization to cost of product ($6.5 million credit) and a decrease in the market value for unexpired hedges ($0.7 million debit).

During the nine months ended June 30, 2009, the decrease in the fair value of derivative instruments resulted in the recording of a $15.1 million credit due to the expiration of certain hedged positions or their realization to cost of product ($19.9 million credit), and an increase in the market value for unexpired hedges ($4.8 million charge).

Cost of Installations and Service

During the nine months ended June 30, 2010, cost of installations and service decreased $2.5 million, or 1.9%, to $128.3 million, as compared to $130.8 million for the nine months ended June 30, 2009 as the additional expenses from the stand alone acquisitions of $1.6 million was more than offset by lower vehicle fuel expense of $2.9 million and management's efforts to reduce costs in line with net customer attrition. Management views the service and installation department on a combined basis because many expenses cannot be separated or allocated to either service or installation billings. Many overhead functions and direct expenses such as service technician time cannot be precisely allocated.

Installation costs were $40.2 million, or 85.2% of installation sales during the nine months ended June 30, 2010, and were $40.4 million, or 89.0% of installation sales during the nine months ended June 30, 2009. The decline in installation costs as a percentage of sales was largely the result of reduced staffing levels as the Partnership responded to the impact on installation sales of the current economic downturn. In the nine months ended June 30, 2009, the Partnership did not reduce staffing levels as quickly as the decline in installation revenue. Service expenses decreased to $88.1 million, or 100.7% of service sales during the nine months ended June 30, 2010, from $90.4 million in the nine months ended June 30, 2009, or 104.8% of sales. The decrease in service expenses of $2.3 million was largely due to the $2.9 million decline in vehicle fuel costs partially offset by additional service costs for acquisitions of $0.9 million. The decline in service costs as a percentage of service revenue was due to higher profitability of the increased air conditioning service, the decline in vehicle fuels, and the fact that our recent acquisitions have a lower cost as a percentage of service revenue. For the nine months ended June 30, 2010, a net gross profit from service and installation of $6.4 million was generated, as compared to a net gross profit of $0.8 million for the nine months ended June 30, 2009.

Delivery and Branch Expenses

For the nine months ended June 30, 2010, delivery and branch expenses decreased $11.1 million, or 6.2%, to $169.8 million, as compared to $180.9 million for the nine months ended June 30, 2009. Account losses due to credit declined by 51.5% which drove a decline in bad debt expense of $2.8 million, while vehicle fuel expenses fell by $3.3 million due to a decline in fuel costs. Insurance expense was lower by $3.6 million due to a decline in the cost of the Partnership's weather hedge ($1.8 million) and lower premium and estimated claims experience ($1.4 million). Delivery and branch expenses were also favorably impacted by $4.1 million due to the decline in home heating oil volume which mitigated the impact of inflationary pressures on operating expenses. The operations of stand alone acquisitions added $2.6 million in delivery and branch expenses. On a cents per gallon basis, delivery and branch expenses increased 4.0 cents per gallon or 7.4%, from 55.1 cents for the nine months ended June 30, 2009 to 59.1 cents for the nine months ended June 30, 2010 due to the fixed nature of certain operating expenses that could not be adjusted due to the 12.6% decline in home heating oil volume.

Depreciation and Amortization

For the nine months ended June 30, 2010, depreciation and amortization expenses declined by $4.7 million, or 29.5%, to $11.2 million, as compared to $15.9 million for the nine months ended June 30, 2009. Amortization expense was lower by $4.2 million, as acquisitions from 1999 with a 10 year life became fully amortized in fiscal 2009.

General and Administrative Expenses

For the nine months ended June 30, 2010, general and administrative expenses increased $0.8 million to $16.4 million, as compared to $15.6 million for the nine months ended June 30, 2009. Legal and professional expenses relating to acquisitions increased by $0.6 million and pension expense relating to the Partnership's frozen pension plan increased by $0.6 million as well.

Operating Income (Loss)

For the nine months ended June 30, 2010, operating income decreased $16.6 million to $87.9 million, from income of $104.5 million for the nine months ended June 30, 2009, as a decrease in product gross profit of $27.8 million and an unfavorable change in the fair value of derivative instruments of $9.3 million were somewhat offset by lower operating costs (net service, delivery, general and administrative and depreciation and amortization) of $20.5 million.

Interest Expense

For the nine months ended June 30, 2010, interest expense decreased by $2.2 million, or 16.5 % to $11.3 million as compared to $13.5 million for the nine months ended June 30, 2009. Over the last twenty-one months, the Partnership repurchased $90.3 million face value of its 10.25% Senior Notes lowering the average long-term debt outstanding for these notes by $41.9 million and corresponding interest expense by $3.2 million. Bank charges increased by $0.8 million due to an increase in letter of credit fees.

During the nine months ended June 30, 2010, average bank borrowings were $4.8 million and corresponding interest expense increased by $0.2 million.

During the nine months ended June 30, 2009, the Partnership did not borrow under its bank facility.

Interest Income

For the nine months ended June 30, 2010, interest income decreased $0.8 million, or 23.5%, to $2.8 million, as compared to $3.6 million for the nine months ended June 30, 2009, due to lower invested cash balances and lower finance charge income on past due accounts receivables balances.

Amortization of Debt Issuance Costs

For the nine months ended June 30, 2010, amortization of debt issuance costs increased $0.3 million, or 14.8% to $2.0 million, as compared to $1.7 million for the nine months ended June 30, 2009.

Gains (Loss) on Bond Repurchase

During the nine months ended June 30, 2010, the Partnership purchased $50.0 million face value of its 10.25% Senior Notes due February 2013 at an average price of $101.7 per $100 of principal plus accrued interest. The Partnership recorded a loss of $1.1 million.

During the nine months ended June 30, 2009, the Partnership repurchased $36.3 million face value of its 10.25% Senior Notes due February 2013 at an average price of $72.4 per $100 of principal plus accrued interest. The Partnership recorded a gain of $9.7 million.

Income Tax Expense (Benefit)

For the nine months ended June 30, 2010, income tax expense increased $29.8 million, to $33.7 million, from $3.9 million for the nine months ended June 30, 2009. This increase is due to an increase in deferred tax expense of $30.4 million. Due to the Partnership having a full valuation allowance as of June 30, 2009, any deferred tax benefits as of June 30, 2009 were fully offset by the valuation allowance, leaving only a current tax expense. As much of the valuation allowance was released as of September 30, 2009, the tax expense for the nine months ended June 30, 2010 consists of both a $3.3 million current tax expense and a $30.4 million deferred tax expense.

Net Income

For the nine months ended June 30, 2010, the Partnership generated net income of $42.5 million, as compared to net income of $98.7 million for the nine months ended June 30, 2009. This decrease in net income of $56.2 million was attributable to a decrease in income before income taxes of $26.4 million, an increase in deferred income tax of $30.4 million and a decrease in current income tax expense of $0.6 million.

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Adjusted EBITDA

For the nine months ended June 30, 2010, Adjusted EBITDA decreased by $12.0 million to $93.3 million, as compared to $105.3 million for the nine months ended June 30, 2009, as the impact of warmer temperatures and net customer attrition on home heating oil volume more than offset the effects of higher per gallon margins and lower operating costs. In addition, Adjusted EBITDA was reduced by $0.9 million due to stand alone acquisitions and related expenses.

	Nine Months Ended June 30,	
(in thousands)	2010	2009
Net income	$ 42,549	$ 98,732
Plus:		
Income tax expense	33,681	3,852
Amortization of debt issuance cost	1,988	1,732
Interest expense, net	8,508	9,894
Depreciation and amortization	11,179	15,853
EBITDA from continuing operations	97,905	130,063
(Increase) / decrease in the fair value of derivative instruments	(5,770)	(15,064)
(Gains) / loss on redemption of debt	1,132	(9,740)
Adjusted EBITDA	93,267	105,259
Add / (subtract)		
Income tax expense	(33,681)	(3,852)
Interest expense, net	(8,508)	(9,894)
Provision for losses on accounts receivable	6,570	9,257
(Increase) decrease in accounts receivables	(41,717)	4,350
(Increase) decrease in inventories	1,871	(10,595)
Decrease in customer credit balances	(44,425)	(24,806)
Change in deferred taxes	30,368	—
Change in other operating assets and liabilities	10,502	11,089
Net cash provided by operating activities	$ 14,247	$ 80,808
Net cash used in investing activities	$(71,187)	$ (5,655)
Net cash used in financing activities	$(94,269)	$ (36,545)

(a) EBITDA (Earnings from continuing operations before net interest expense, income taxes, depreciation and amortization) and Adjusted EBITDA are non-GAAP financial measures that are used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks and research analysts, to assess:

- our compliance with certain financial covenants included in our debt agreements;
- our financial performance without regard to financing methods, capital structure, income taxes or historical cost basis;
- our ability to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the retail distribution of refined petroleum products business, without regard to financing methods and capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return of alternative investment opportunities.

Adjusted EBITDA is calculated as earnings from continuing operations before net interest expense, income taxes, depreciation and amortization, the (increase) decrease in the fair value of derivatives, gain or loss on debt redemption, goodwill impairment, and other non-cash and non-operating charges. Management believes the presentation of this measure

is relevant and useful because it allows investors to view the Partnership's performance in a manner similar to the method management uses, and makes it easier to compare its results with other companies that have different financing and capital structures. In addition, this measure is consistent with the manner in which the Partnership's debt covenants in its material debt agreements are calculated. Both the Partnership's 10.25% Senior Note agreement and its bank credit facility contain covenants that restrict equity distributions, acquisitions, and the amount of debt it can incur. Under the most restrictive of these covenants, which is found in the bank credit facility, the agent bank could step in and control all cash transactions for the Partnership if we failed to comply with the minimum "Availability" or the fixed charge coverage ratio. The Partnership is required to maintain either availability (borrowing base less amounts borrowed and letters of credit issued) of $43.5 million (15% of the maximum facility size) or a fixed charge coverage ratio of 1.1x (Adjusted EBITDA being a significant component of this calculation). This method of calculating Adjusted EBITDA may not be consistent with that of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP.

Each of EBITDA and Adjusted EBITDA has its limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of EBITDA and

Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced, and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect the cash required to pay taxes.

DISCUSSION OF CASH FLOWS

We use the indirect method to prepare our Consolidated Statements of Cash Flows. Under this method, we reconcile net income to cash flows provided by operating activities by adjusting net income for those items that impact net income but may not result in actual cash receipts or payment during the period.

Operating Activities

Due to the seasonal nature of the home heating oil business, cash is generally used in operations during the winter (our first and second fiscal quarters) as customers receive deliveries and pay for products purchased within our payment terms, and cash is generally provided by operating activities during the spring and summer (our third and fourth quarters) when customer payments exceed deliveries. For the nine months ended June 30, 2010, cash provided by operating activities was $14.2 million, as compared to $80.8 million of cash provided by operating activities during the nine months ended June 30, 2009. This change of $66.6 million was largely due to a decline in cash received from budget payment plan customers of $38.1 million. Approximately 34% of our customers are on a budget payment plan and these customers pay their annual estimated heating bill in 12 monthly installments. Typically, these plans begin before the heating season and a liability is created as payments exceed deliveries. During the nine months ended June 30, 2009, cash received from these customers benefited from a declining home heating oil market as payment plans for these customers had been set prior to the precipitous drop in the cost of home heating oil. This resulted in an increase in collections from budget payment plan customers versus expected deliveries for the nine months ended June 30, 2009. The Partnerships' accounts receivables for non-budget customers also rose by $27.6 million more in the nine months ended June 30, 2010, versus the nine months ended June 30, 2009, due to the above described market conditions as amounts due from customers rose with the increase in heating oil prices. Day's sales outstanding increased to 57 days as of June 30, 2010 as compared to 48 days as of June 30, 2009 and 57 days as of June 30, 2008. During the nine months ended June 30, 2010, the Partnership bought 24.3 million gallons less of home heating oil for inventory than the nine months ended June 30, 2009, which drove a favorable change in cash flows of $12.4 million. At the beginning of fiscal 2009, the Partnership's physical inventory of home heating oil was relatively low because the Partnership did not prebuy physical inventory due to the relatively high cost at the time. The change in inventory was also impacted by price. During the nine months ended June 30, 2010 inventory costs increased by $0.41 per gallon as compared to the prior period which experienced a reduction in inventory cost of $1.72 per gallon. In addition, cash flow generated from operations declined by $12.5 million for the nine months ended June 30, 2010, when compared to the nine months ended June 30, 2009.

Investing Activities

During the nine months ended June 30, 2010, we completed acquisitions for $67.8 million, including working capital of $4.0 million. We allocated $65.6 million of the gross purchase price to intangible assets and $7.2 million to fixed assets and recorded a deferred tax liability of $9.0 million. In addition, capital expenditures totaled $3.6 million, as we invested in computer hardware and software ($1.6 million), refurbished certain physical plants ($0.4 million) and made additions to our fleet and other equipment ($1.6 million).

During the nine months ended June 30, 2009, our capital expenditures totaled $2.5 million, as we invested in computer hardware and software ($0.8 million), refurbished certain physical plants ($0.4 million) and made additions to our fleet ($1.3 million). We also completed one acquisition for $3.3 million, net of working capital credits of $0.7 million. We allocated $3.4 million of the gross purchase to intangible assets and $0.6 million to fleet.

Financing Activities

During the nine months of fiscal 2010, the Partnership repurchased 6.9 million common units for $27.9 million in connection with the unit repurchase plan program and paid distributions to the unit holders of $15.4 million. During the nine months ended June 30, 2010, we borrowed and repaid $36.8 million under our revolving credit facility. In February 2010, the Partnership redeemed $50.0 million face value of its outstanding 10.25% Senior Notes due in 2013 at a price equal to 101.708% of face value.

During the nine months ended June 30, 2009, the Partnership repurchased $36.3 million face value of its outstanding 10.25% Senior Notes due February 2013 for $26.3 million. In addition, we commenced distributions in February, 2009 at a rate of $0.0675 per unit (subsequently raised to $0.0725 in January 2010) and paid $10.3 million in distributions during the nine months ended June 30, 2009.

Liquidity and Capital Resources

Our ability to satisfy our financial obligations depends on our future performance, which will be subject to prevailing economic, financial, business and weather conditions, the ability to pass on the full impact of high wholesale heating oil prices to customers, the effects of high net customer attrition, conservation and other economic and geo-political factors, most of which are beyond our control. Approximately 77% of the Partnership's protected price customers have agreements with us that are subject to annual renewal in the period from April through November of each fiscal year. If a significant number of these customers elect not to renew their protected price agreements with us and do not continue as our customers under a variable price-plan, the Partnership's near term liquidity and cash flow will be adversely impacted. Based on the recent prices, these price-protected customers will be offered renewal contracts at higher prices than last year which may adversely impact the acceptance rate of these renewals.

In the near term, our capital requirements are expected to be provided by cash flows from operating activities, cash on hand as of June 30, 2010, or a combination thereof. To the extent future capital requirements exceed cash on hand plus cash flows from operating activities, we anticipate that working capital will be financed by our revolving credit facility.

Our asset based revolving credit facility provides us with the ability to borrow up to $240.0 million ($290.0 million during the heating season from November through April of each year) for working capital purposes (subject to certain borrowing base limitations and coverage ratios), including the issuance of up to $100.0 million in letters of credit which reduce availability under this facility. The Partnership can increase the facility size by $50.0 million without the consent of the bank group. However, the bank group is not obligated to fund the $50.0 million increase. If the bank group elects not to fund the increase, the Partnership can add additional lenders to the group, with the consent of the Agent, which shall not be unreasonably withheld. Obligations under the revolving credit facility are secured by liens on substantially all of our assets including accounts receivable, inventory, general intangibles, real property, fixtures and equipment. As of June 30, 2010 $42.3 million in letters of credit were outstanding, of which $42.1 million are for current and future insurance reserves and bonds. We have reduced our reliance on letters of credit for inventory purchases as we have increased our trade credit to over $37.4 million.

Under the terms of the credit facility, we must maintain at all times either availability (borrowing base less amounts borrowed and letters of credit issued) of $43.5 million (15% of the maximum facility size) or a fixed charge coverage ratio (as defined in the credit agreement) of not less than 1.10x. As of June 30, 2010, availability, as defined in the amended and restated credit agreement, was $112.8 million and the Partnership was in compliance with the fixed charge coverage ratio. The fixed charge coverage ratio is calculated based upon Adjusted EBITDA. In the event that the Partnership is not able to comply with these covenants it could have a material adverse effect on the Partnership's liquidity and results of its operations.

The Partnership's scheduled interest payments on our 10.25% Senior Notes for the remainder of fiscal 2010 are $4.2 million and maintenance capital expenditures for fixed assets for the balance of fiscal 2010 are estimated to be approximately $0.5 to $1.0 million, excluding the capital requirements for leased fleet. We estimate that the Partnership will make cash contributions to fund its frozen defined benefit pension obligations of approximately $11.9 million for the balance of fiscal 2010. We recently announced that we will pay a distribution of approximately $5.0 million in August 2010.

The Partnership intends to continue to make additional business acquisitions during the balance of fiscal 2010 and in fiscal 2011 of home heating oil and other businesses that meet the Partnership's acquisition criteria, subject to the availability of financing, either internally generated or from other sources, for such acquisitions.

Partnership Distribution Provisions

We are required to make distributions in an amount equal to our Available Cash, as defined in our Partnership Agreement, no more than 45 days after the end of each fiscal quarter, to holders of record on the applicable record dates. Available Cash, as defined in our Partnership Agreement, generally means all cash on hand at the end of the relevant fiscal quarter less the amount of cash reserves established by the Board of Directors of our general partner in its reasonable discretion for future cash requirements. These reserves are established for the proper conduct of our business, including acquisitions, the payment of debt principal and interest and for distributions during the next four quarters and to comply with applicable laws and the terms of any debt agreements or other agreements to which we are subject. Under the terms of our credit facility, the Partnership must have a fixed charge coverage ratio for the trailing twelve months of 1.15x to pay the minimum quarterly distribution of $0.0675. Any distribution in excess of the minimum quarterly distribution requires the Partnership to have a fixed charge coverage ratio of 1.25x. These tests restrict the amount of cash that the Partnership can use to pay distributions with respect to any fiscal quarter. The Board of Directors of our general partner reviews the level of Available Cash each quarter based upon information provided by management.

On July 19, 2010, the Partnership declared a quarterly distribution of $0.0725 on all of its common units, payable on August 13 to holders of record on August 5, 2010.

Contractual Obligations and Off-Balance Sheet Arrangements

There has been no material change to Contractual Obligations and Off-Balance Sheet Arrangements since September 30, 2009, and therefore, the table has not been included in this Form 10-Q.

Recent Accounting Pronouncements

In the first quarter of fiscal 2010, the Partnership adopted the provisions of FASB ASC 805-10 Business Combinations (SFAS No. 141R). This standard establishes in a business combination principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, goodwill acquired, liabilities assumed, and any noncontrolling interests.

Item 3.
Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk primarily through our bank credit facilities. We utilize these borrowings to meet our working capital needs.

At June 30, 2010, we had outstanding borrowings totaling $82.5 million (excluding discounts and premiums), none of which is subject to variable interest rates.

We also selectively use derivative financial instruments to manage our exposure to market risk related to changes in the current and future market price of home heating oil. The value of market sensitive derivative instruments is subject to change as a result of movements in market prices. 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 product at June 30, 2010, the potential impact on our hedging activity would be to increase the fair market value of these outstanding derivatives by $2.2 million to a fair market value of $8.7 million; and conversely a hypothetical ten percent decrease in the cost of product would decrease the fair market value of these outstanding derivatives by $(0.4) million to a fair market value of $6.1 million.

Item 4.
Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The General Partner's principal executive officer and its principal financial officer evaluated the effectiveness of the Partnership's disclosure controls and procedures (as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of June 30, 2010. Based on that evaluation, such principal executive officer and principal financial officer concluded that the Partnership's disclosure controls and procedures were effective as of June 30, 2010 at the reasonable level of assurance. For purposes of Rule 13a-15(e), the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting.

On May 10, 2010, the Company completed the acquisition of Champion Energy Corporation (CEC). The Company is in the early stages of integrating CEC. The Company is analyzing, evaluating and, where necessary, will implement changes in controls and procedures relating to the CEC business as integration proceeds. As a result, this process may result in additions or changes to our internal control over financial reporting. Otherwise, there was no change in the Partnership's internal control over financial reporting during the Partnership's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the Partnership's internal control over financial reporting.

(c) The General Partner and the Partnership believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Therefore, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our disclosure controls and procedures are designed to provide such reasonable assurances of achieving our desired control objectives, and the principal executive officer and principal financial officer of our general partner have concluded, as of June 30, 2010, that our disclosure controls and procedures were effective in achieving that level of reasonable assurance.

PART II OTHER INFORMATION

Item 1

Legal Proceedings

In the opinion of management, we are not a party to any litigation, which individually or in the aggregate could reasonably be expected to have a material adverse effect on our results of operations, financial position or liquidity.

Item 1A

Risk Factors

An investment in the Partnership involves a high degree of risk, including the following factors:

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009, which could

materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Partnership. Other unknown or unpredictable factors could also have material adverse effects on future results.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

See Note 2. to the Consolidated Financial Statements for information concerning the Partnership's repurchase of common units in the nine months ended June 30, 2010.

Item 6.

Exhibits

(a) *Exhibits Included Within:*

10.1 Equity Purchase Agreement dated as of May 10, 2010 among Petro Holdings, Inc., PJC InterCapital LP, A. Silecchia Corporation, and PJC Group of New England Co.

31.1 Rule 13a-14(a) Certification, Star Gas Partners, L.P.

31.2 Rule 13a-14(a) Certification, Star Gas Finance Company

31.3 Rule 13a-14(a) Certification, Star Gas Partners, L.P.

31.4 Rule 13a-14(a) Certification, Star Gas Finance Company

32.1 Section 906 Certification.

32.2 Section 906 Certification.

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SIGNATURE

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

Star Gas Partners, L.P.
(Registrant)

By: Kestrel Heat LLC AS GENERAL PARTNER

Signature	Title	Date
/S/ RICHARD F. AMBURY **Richard F. Ambury**	Executive Vice President, Chief Financial Officer, Treasurer and Secretary Kestrel Heat LLC (Principal Financial Officer)	August 3, 2010

Signature	Title	Date
/S/ RICHARD G. OAKLEY **Richard G. Oakley**	Vice President - Controller Kestrel Heat LLC (Principal Accounting Officer)	August 3, 2010

Star Gas Finance Company
(Registrant)

Signature	Title	Date
/S/ RICHARD F. AMBURY **Richard F. Ambury**	Executive Vice President Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer)	August 3, 2010

Signature	Title	Date
/S/ RICHARD G. OAKLEY **Richard G. Oakley**	Vice President - Controller (Principal Accounting Officer)	August 3, 2010

EXHIBIT 10.1

EQUITY PURCHASE AGREEMENT

BY AND

AMONG

PETRO HOLDINGS, INC.

(BUYER),

AND THE SELLERS SIGNATORY HERETO,

(SELLERS)

DATED

MAY 10, 2010

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EQUITY PURCHASE AGREEMENT

EQUITY PURCHASE AGREEMENT ("Agreement") dated as of May 10, 2010, by and among PETRO HOLDINGS, INC., a Minnesota corporation ("Buyer"), PJC InterCapital LP ("PJC/InterCapital"), A. Silecchia Corporation ("ASC") and PJC Group of New England Co., a Delaware Corporation ("PJC/New England"). Each is referred to individually as a "Seller" and collectively as the "Sellers".

Preamble

This Agreement sets forth the terms and conditions upon which Sellers will sell to Buyer, and Buyer will purchase from Sellers, the equity interests in Champion Energy Corporation ("Champion Energy") and its wholly owned subsidiaries, Champion Oil Company, Hoffman Fuel Company of Danbury, Hoffman Fuel Company of Bridgeport ("Hoffman/Bridgeport"), Hoffman Fuel Company of Stamford, JJ Skelton Oil Company, C. Hoffberger Company, Lewis Oil Company, Inc. and Rye Fuel Company (collectively, the "Companies"). As used in this Agreement, capitalized terms have the meaning ascribed them in Article I of this Agreement or as otherwise set forth herein.

In consideration of the mutual agreements contained herein, intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1. **Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:**

(a) **"Accountants" shall have the meaning set forth in Section 2.3(b).**

(b) **"Active Customer" means a Customer who has not terminated, nor with respect to whom the Sellers have any Knowledge of such Customer's intention to terminate, its normal business relationship with the Companies and their Subsidiaries, and with respect to whom the Companies and their Subsidiaries have not cancelled and, based upon facts known to the Companies and the Sellers, do not intend to cancel such relationship. Except for Customers with tanks with a capacity of 1,000 gallons or more, a Customer is not active if it has not taken a delivery of Petroleum Products since January 31, 2010.**

(c) **The term "Affiliate" means with respect to a Person (i) another Person that directly or indirectly through one or more intermediaries controls such Person or is controlled by or is under common control with such Person, (ii) any trust or estate in which such Person has more than a 5% beneficial interest or as to which such Person is trustee and (iii) any relative or spouse of such Person or any relative of such spouse.**

(d) **"Applicable Contract" means any Contract (i) under which the Companies and their Subsidiaries have any rights, (ii) under which the Companies and their Subsidiaries have or are subject to any obligation or liability or (iii) by which the Companies and their Subsidiaries or any of the Assets are bound, including each amendment, supplement and modification (whether oral or written) in respect of any of the foregoing.**

(e) **"Assets" means all of the assets, property, goodwill and business of every kind, nature and description, real, personal or mixed, tangible or intangible, wherever situated, whether or not reflected on the Interim Balance Sheet, owned or leased by the Companies and their Subsidiaries as of the Closing Date, including, without limitation, all of the Intellectual Property Assets and all rights under Applicable Contracts constituting or held or used or useful in connection with, or related to, the Business.**

(f) **"Bid" means that the Customer has the right to purchase Petroleum Products for a stipulated period at a stated price or based upon a stated pricing formula, but does not include Fixed Price Customers or Capped Price Customers.**

(g) **"Business" shall mean the business conducted by the Companies and their Subsidiaries as of the date hereof.**

(h) **"Capped Price Customers" means any Residential/Commercial Customer which has purchased home heating oil from the Companies and their Subsidiaries pursuant to an agreement which requires the Companies and their Subsidiaries to sell either a specified quantity of home heating oil or home heating oil for a specified period to such Customers at a maximum price.**

(i) **"Cash Amount" means $50,150,000 (which includes $1,450,000 in early payment penalties to lenders) plus an amount equal to the Estimated Working Capital.**

(j) **"Champion Energy" shall have the meaning ascribed to such term in the Preamble.**

(k) **"Closing" and "Closing Date" shall have the meaning ascribed to such term in Section 2.1.**

(l) **"Code" means the Internal Revenue Code of 1986, as amended, and any successor thereto.**

(m) **"Commercial Customer" means any Customer purchasing home heating oil which is not a Residential Customer.**

(n) **"Companies" shall have the meaning ascribed to such term in the Preamble.**

(o) **"Connecticut Division" means all operations of Hoffman Fuel Company of Bridgeport and Connecticut Division II means all operations of Hoffman Fuel Company of Danbury.**

(p) **"Contemplated Transactions" means the transactions contemplated by this Agreement.**

(q) **"Contract" means any agreement, contract, lease, license, sublicense, or other undertaking (whether written or oral and whether express or implied) that is legally binding.**

(r) **"Copyrights" means all registered and unregistered copyrights in both published works and unpublished works (including those in computer software and databases), that are owned, licensed, used or held for use by the Companies and their Subsidiaries.**

(s) **"Customer" means any Person who has been a customer of the Business since April 1, 2009.**

(t) **"Damages" means any loss, liability, obligation, cost of mitigation, diminution in value claim, damage, expense (including costs of investigation, defense and settlement and reasonable attorneys' fees), whether or not involving a third-party claim. Damages do not include any liability up to the amount reflected as a liability in the Post-Closing Net Working Capital Calculation, including, without limitation, the Bridgeport Terminal Liability.**

(u) **"Documents" means this Agreement, the Environmental Escrow Agreement and the Indemnification Escrow Agreement.**

(v) **"Encumbrance" means any charge, claim, community property interest, condition, equitable interest, mortgage, lien, option, pledge, security interest, right of first refusal, whether arising by law, by agreement or otherwise, including (without limitation) in the case of real estate, real estate covenants, rights of way, easements, activity or use restrictions, encroachments, building use restrictions, variances, special use permits, or reservations.**

(w) **"Environment" means soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins and inland wetlands and water courses), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.**

(x) **"Environmental Compliance Liability" means any and all liabilities, costs and expenses arising under, or related to, compliance with any Environmental Laws applicable to the Facilities or the Business or operations or assets used in the Business, that would reasonably be expected to result in claims and/or demands under Environmental Laws and/or liabilities to third parties, including but not limited to, Governmental Bodies.**

(y) **"Environmental Escrow Agreement" means an escrow agreement in the form of Exhibit 2.2(ii).**

(z) **"Environmental Conditions" means all conditions with respect to soil, surface waters, groundwaters, ponds, stream sediment, air and similar environmental media and building materials, both on-site and off-site of the property owned and/or operated and/or occupied by the Companies or their Subsidiaries or any Predecessor at the Facilities, and all improvements thereto upon or in which the Business is now or was formerly operated that would reasonably be expected to require remedial action and/or that would reasonably be expected to result in claims and/or demands by and/or liabilities to third parties including, but not limited to, Governmental Bodies. This term shall expressly include on and off-site liabilities asserted under the Comprehensive Environmental Response Compensation and Liability Act, as amended, ("CERCLA") or analogous State or foreign statutes.**

(aa) **"Environmental Laws" means all applicable Legal Requirements relating to pollution or protection of human health (as relating to Materials of Environmental Concern) or the Environment, including (without limitation), (i) emissions, discharges, releases or threatened releases of Materials of Environmental Concern, (ii) the manufacture, generation, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern, (iii) the preservation of the Environment or mitigation of adverse effects thereon, (iv) health and safety of employees, community right-to-know, hazard communication and noise concerns or (v) record keeping, notification, disclosure and reporting requirements respecting Materials of Environmental Concern.**

(bb) **"Environmental Notice" means any summons, citation, directive, order, claim, pleading, proceeding, judgment, request for information, letter or any other written communication from the United States Environmental Protection Agency ("USEPA"), or any other federal, state or local agency or authority, or any other entity or any individual, concerning any intentional or unintentional act or omission which has resulted in or which would reasonably be expected to result in the Release of any Materials of Environmental Concern into the Environment or building material, or compliance with Environmental Laws.**

(cc) **"Equity Interests" means, collectively, all of the stock of Champion Energy held by the Sellers.**

(dd) **"ERISA" means the Employee Retirement Income Security Act of 1974 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.**

(ee) **"ERISA Affiliate" means any other Person that, together with Sellers, would be treated as a single employer under § 414 of the Code.**

(ff) **"Estimated Working Capital" means the amount of $10,689,000.**

(gg) **"Exchange Act" means the Securities Exchange Act of 1934, as amended.**

(hh) **"Facilities" means the facilities of the Companies and their Subsidiaries located at the Real Property, or any other real property currently or formerly owned and/or operated and/or leased by the Companies or their Subsidiaries or any Predecessor, and all improvements thereon.**

(ii) **"Fixed Price Customer" means any Residential/Commercial Customer which has purchased or agreed to purchase in the future home heating oil from the Business pursuant to an agreement which requires the Business to sell a specified quantity of home heating oil or to sell home heating oil for a specified period of time, to such Residential/Commercial Customer at a fixed price and period of time.**

(jj) **"GAAP" means generally accepted accounting principles as from time to time in effect.**

(kk) **"Governmental Authorization" means any approval, consent, license, permit, order, consent order, consent decree, waiver or other authorization issued, granted, given or otherwise made available or applied for by or under the authority of any Governmental Body or pursuant to any Legal Requirement.**

(ll) **"Governmental Body" means any (i) nation, state, county, city, town, village, district or other jurisdiction of any nature, (ii) federal, state, local, municipal, foreign or other government, (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official or entity and any court or other tribunal), (iv) multi-national organization or body or (v) federal, state, local, municipal, foreign or other body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.**

(mm) **"Hardware" means any computer, modem, server, processing unit, communication equipment or connection, embedded chips and any other device or equipment of any kind and all parts and components thereto used in or on behalf of the Business that are owned by the Companies and their Subsidiaries, leased by the Companies and their Subsidiaries and/or used by the Companies and their Subsidiaries under a license.**

(nn) **"Heat USA Customers" means Customers who are members of the Heat USA buying group and serviced by the Companies pursuant to an agreement with Heaney Energy Corporation.**

(oo) **"Hold Back Amount" means $4,900,000.**

(pp) **"Indemnification Escrow Agreement" means an escrow agreement substantially in the form of Exhibit 2.2(iii).**

(qq) **"Indemnity Percentage" means for each Seller, the amount, shown as a percentage, calculated in accordance with Section 2.2(a) of Sellers' Disclosure Letter.**

(rr) **"Intellectual Property Assets" means all Marks, Patents, Copyrights and Trade Secrets and all websites and domain names used in connection with the Business.**

(ss) **"Interim Balance Sheet" has the meaning set forth in Section 3.5 of this Agreement.**

(tt) **"Knowledge" means, in the case of an individual, such Person's knowledge, and in the case of the Sellers such matters as they should reasonably have known after investigation, including discussion with the officer or employee of the Companies and their Subsidiaries who is primarily responsible for the applicable subject and failing such discussion, the actual knowledge of such officer or employee. A Person (other than an individual) will be deemed to have the actual knowledge of any officer, director or general partner of such Person.**

(uu) **"Legal Requirement" means any federal, state, local, municipal, foreign, international, multinational or other administrative order, consent order, judgment, injunction, constitution, law, ordinance, regulation, published policy, statute or treaty. As used herein, unless the context otherwise requires, the term "Legal Requirement" refers only to any Legal Requirement applicable to the Companies and their Subsidiaries, the Business and any Facilities currently owned and operated by the Companies or their Subsidiaries.**

(vv) **"Long-Term and Bank Debt and Other Long-Term Indebtedness" means long-term indebtedness of the Companies and their Subsidiaries for borrowed money and, without duplication, the short-term indebtedness of the Companies and their Subsidiaries to banking institutions and other Long-Term Indebtedness (including the short-term amount included in current liabilities) required to be shown on a balance sheet in accordance with GAAP as of the Closing Date** and (ii) the sum of $696,000 due to Anthony Silecchia under the Employment Agreement dated July 1, 1993, as amended. For clarity, none of the foregoing amount due to Mr. Silecchia shall be included as a current liability in Net Working Capital

(ww) **"Marks" means the names "Champion", "Hoffman", "JJ Skelton", "Hoffberger", "Lewis Oil" and all fictional business names, tradenames, registered and unregistered federal and state trademarks, service marks, slogans, trade dress, logos and all applications to register the same, domestic and foreign, that are owned, licensed, used or held for use by the Companies and their Subsidiaries.**

(xx) **"Maryland Division" means all operations of the C. Hoffberger Company.**

(yy) **"Material Adverse Effect" means any occurrence, circumstance or condition (excluding general economic trends or conditions and trends or conditions affecting the industry in which the Companies and their Subsidiaries operate) which individually or in the aggregate, together with all other**

occurrences, circumstances and conditions, has resulted in, or is reasonably likely to result in, a material adverse effect on the results of operations or financial condition of any of the Operating Divisions or all of the Operating Divisions as a whole.

(zz) **"Material Contracts" means the Contracts identified or required to be identified in Section 3.12(a) of Sellers' Disclosure Letter.**

(aaa) **"Materials of Environmental Concern" means, to the extent regulated under any Environmental Laws, any petroleum or fraction thereof, petroleum product, petroleum by-product, fuel oil, waste oil, explosive, reactive material, ignitable material, corrosive material, hazardous chemical, hazardous waste, hazardous substance, extremely hazardous substance, toxic substance, toxic chemical, radioactive material, medical waste, biomedical waste, infectious material, pollutant, toxic pollutant, herbicide, fungicide, rodenticide, insecticide, contaminant or pesticide and including, but not limited to, any other element, compound, mixture, solution or substance which poses a present or potential hazard to human health or the environment.**

(bbb) **"Net Dollar Sales" means gross sales less all allowances, rebates, discounts, taxes and other credits, other than oil coupons.**

(ccc) **"Net Working Capital" means as of April 30, 2010 the excess of (i) current assets excluding intercompany receivables, over (ii) current liabilities excluding intercompany payables and excluding the short term indebtedness of the Companies and their Subsidiaries to banking institutions and Other Long-Term Indebtedness to the extent it is included in the calculation of Long-Term and Bank Debt and Other Long-Term Indebtedness and Other Long-Term Indebtedness, (i) and (ii) as calculated in accordance with GAAP (excluding any unrealized assets or liabilities created by the implementation of SFAS No. 133 as long as all transactions included therein are entered into in the Ordinary Course of Business). Notwithstanding the foregoing, (i) the reserve for doubtful accounts shall be $908,000, (ii) deferred tax assets will be valued at $312,000, (iii) there shall be included in current liabilities (a) in the amount of $1,500,000 (the "Bridgeport Terminal Liability") relating to environmental remediation with respect to the petroleum storage facility owned by Hoffman/Bridgeport and located in Bridgeport, Connecticut (the "Bridgeport Terminal") and (b) in the amount of $200,000 with respect to state income taxes, and (iv) there will be deducted any payments or distributions by Champion Energy made after April 30, 2010 either (i) not in the Ordinary Course of Business or (ii) to any Affiliate of the Companies and their Subsidiaries and/or the Sellers other than payment of current compensation in the Ordinary Course of Business.**

(ddd) **"New York Division" means Lewis Oil Company.**

(eee) **"New Hampshire Division" means Rye Fuel Company.**

(fff) **"Operating Divisions" individually refers to each of the New York State Division, the Maryland Division, the New Hampshire Division, the Connecticut I Division, the Connecticut II Division and the Pennsylvania Division and collectively to all of them.**

(ggg) **"Order" means any award, decision, decree, injunction, judgment, order, consent order, ruling, or verdict entered, issued, made or rendered by any court, administrative agency or other Governmental Body.**

(hhh) **"Ordinary Course of Business" means an action taken by a Person only if such action is taken in the ordinary course of the normal operations of such Person consistent with the past practices of such Person.**

(iii) **"Organizational Documents" means each of the following as currently in effect, as applicable: (i) the charter, memorandum, articles or certificate of incorporation and the by-laws of a corporation, (ii) the partnership agreement and any statement of partnership of a general partnership, (iii) the limited partnership agreement and the certificate of limited partnership or formation of a limited partnership, (iv) the certificate of formation or articles of organization and operating agreement of a limited liability company, (v) any similar document adopted or filed in connection with the creation, formation or organization of a Person and (vi) any amendment to any of the foregoing.**

(jjj) **"Other Customer" shall mean a Customer purchasing diesel, gasoline and/or kerosene.**

(kkk) **"Patents" means all patents, patent applications, provisional patent applications, divisionals, continuations, continuations-in-part, reissues, reexaminations, extensions, invention registrations, patentable invention disclosures and inventions and discoveries that may be patentable, domestic and foreign, that are owned, licensed, used or held for use by the Companies and their Subsidiaries.**

(lll) **“Pennsylvania Division” means all operations of JJ Skelton Oil Company.**

(mmm) **“Permitted Encumbrances” means (i) matters set forth in Section 3.9(b) of Sellers’ Disclosure Letter; (ii) as disclosed in the Financial Statements described in Section 3.5; (iii) liens for taxes, assessments and other governmental charges not yet due and payable or, if due, (A) not delinquent or (B) being contested in good faith by appropriate proceedings; (iv) mechanics’, workmen’s, repairmen’s, warehousemen’s, carriers’ or other like liens arising or incurred in the Ordinary Course of Business if the underlying obligations are not more than 30 days past due or are being contested in good faith; (v) liens or title-retention arrangements arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the Ordinary Course of Business; and (vi) with respect to real property, (A) easements, licenses, covenants, rights-of-way and other similar restrictions, including, without limitation, any other agreements or restrictions which would be shown by a current title report or other similar report or listing, (B) any conditions that may be shown by a current survey, title report or physical inspection and (C) zoning, building and other similar restrictions, so long as the matters referred to in (A) or (B) or (C) neither individually nor in the aggregate, render the title of such real property unmarketable or interfere with the use of such real property substantially as currently used or materially reduce its value.**

(nnn) **“Person” means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union or other entity or Governmental Body.**

(ooo) **“Petroleum Products” means #2 heating oil, diesel, kerosene and gasoline.**

(ppp) **“Plans” means each (i) deferred compensation, bonus, incentive compensation, stock purchase, stock option and other equity compensation plan, program, Contract or arrangement, (ii) severance or termination pay, medical, surgical, hospitalization, life or group insurance and other “welfare” plan, fund or program (within the meaning of Section 3(1) of ERISA), (iii) profit-sharing, stock bonus or other “pension” plan, fund or program (within the meaning of Section 3(2) of ERISA), (iv) multi-employer plan (within the meaning of Section 3(37) of ERISA), (v) employment, termination or severance Contract and (vi) other employee benefit plan, fund, program, Contract or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by any of the Companies and their Subsidiaries or by any ERISA Affiliate, or to which any of the Companies and their Subsidiaries or an ERISA Affiliate is party, for the benefit of any employee, former employee, retiree, consultant, officer or director of any of the Companies and their Subsidiaries or an ERISA Affiliate (the “Employees”).**

(qqq) **“Predecessor” means any Person which was merged into any of the Companies and their Subsidiaries or which transferred all or substantially all of its assets to any of the Companies and their Subsidiaries.**

(rrr) **“Proceeding” means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal or administrative) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Body or arbitrator, and any appeal of any such Proceeding.**

(sss) **“Real Property” means the operating locations of the Business owned by any of the Companies and their Subsidiaries as set forth on Schedule 3.10(c) of the Seller’s Disclosure Letter.**

(ttt) **“Release” means releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, ejecting, escaping, leaching, disposing, seeping, infiltrating, draining or dumping, or as otherwise defined under Environmental Laws. This term shall be interpreted to include the present, past and future tense, as appropriate.**

(uuu) **“Representative” means, with respect to any Person, any director, officer, employee, agent, consultant, advisor or other representative of such Person, including legal counsel, accountants and financial advisors.**

(vvv) **“Residential Customer” shall mean one, two or three family residences.**

(www) **“Sellers’ Disclosure Letter” means the disclosure letter delivered by Sellers to Buyer concurrently with the execution and delivery of this Agreement.**

(xxx) **“Sharing Percentage” means, for each Seller, the following:**

Seller	Percentage
PJC/InterCapital	80.323
PJC/New England	8.333
ASC	11.344

(yyy) **“Software” means any code, both in source and object form, including all interfaces, navigational devices, menus, menu structures or arrangements, icons and other instructions directing Hardware to perform a function, including computer software programs, databases and all documentation relating thereto, that are owned by the Companies or their Subsidiaries and/or used by the Companies or their Subsidiaries.**

(zzz) **“Subsidiary” means, as to any Person, (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (ii) any partnership, limited liability company, association, joint venture or other entity in which such Person and/or one or more Subsidiaries of such Person has more than a 50% equity interest at the time.**

(aaaa) **“Tax” means any federal, state, local or foreign income tax; gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Sec. 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value-added, alternative or add-on minimum or estimated tax; or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not. The term “Tax” shall not include abandoned property amounts owed to any Governmental Body.**

(bbbb) **“Tax Audit” means any audit or assessment of Taxes or other examination by any Governmental Body or Proceeding relating to Taxes.**

(cccc) **“Tax Return” means any return (including any information or amended return), report, statement, schedule, notice, form or other document or information filed with, delivered or submitted to, or required to be filed with, delivered or submitted to, any Governmental Body or Person in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Legal Requirement relating to any Tax.**

(dddd) **“Threatened” means, with respect to any claim, Proceeding, dispute or action threatened against a Person, that a demand has been made (orally with specificity or in writing) or a notice has been given (orally with specificity or in writing), in respect thereof, which in any event would lead a reasonable person to believe that a claim, Proceeding, dispute or action had been threatened.**

(eeee) **“Title IV Plan” means each Plan that is subject to Section 302 or Title IV of ERISA or Section 412 of the Code.**

(ffff) **“Trade Secrets” means all technology, know-how, trade secrets, confidential information, proprietary processes and formulas, customer lists, Software, technical information, data, process technology, plans, drawings and blue prints owned, used, held for use or licensed by the Companies and their Subsidiaries as licensees or licensors in or on behalf of the Business.**

(gggg) **“Transfer Taxes” means all sales (including, without limitation, bulk sales), use, transfer, stamp, recording, ad valorem and other similar Taxes and fees.**

(hhhh) **“Unknown Liabilities” means each and every liability or obligation (including, without limitation, environmental liabilities) of the Companies and their Subsidiaries (whether known or unknown and whether accrued or contingent) arising out of any event, occurrence or condition prior to the Closing, but only to the extent the amount of such liability or obligation (A) is attributable to the period prior to the Closing Date and (B) is not (i) included in the Post-Closing Long-Term Debt Calculation or Post-Closing Net Working Capital Calculation, or (ii) disclosed in the representations and warranties of the Sellers, the Schedules hereto or Sellers’ Disclosure Letter.**

(iiii) **"Variable Price Customer" means a Residential/Commercial Customer which is not a Fixed Price Customer or a Capped Price Customer.**

(jjjj) **"Wholesale Customer" shall mean a Customer which purchases for re-sale.**

ARTICLE II

SALE AND TRANSFER OF ASSETS; CLOSING

2.1. <u>Closing</u>**. Subject to the terms and conditions of this Agreement, the closing of the purchase and sale of the Equity Interests will be simultaneously with the execution and delivery of the Agreement (the "Closing" or "Closing Date"), at the offices of Phillips Nizer LLP, 666 Fifth Avenue, New York, New York 10103, or at another location mutually agreed upon by the parties hereto.**

2.2. <u>Purchase Price</u>**. At the Closing, the Buyer will purchase and accept from Sellers, and the Sellers will sell, assign, transfer and deliver, free and clear of all Encumbrances, the Equity Interests to Buyer. The aggregate purchase price (the "Purchase Price") for the Equity Interests to be acquired from Sellers will be the Cash Amount, subject to adjustment as provided in Section 2.3. At Closing, Buyer shall pay:**

(a) **to the Sellers (to be apportioned amongst such Sellers** ***pro rata*** **in accordance with each Principal Seller's Sharing Percentage) an amount of cash equal to the sum of the Sellers' Sharing Percentage of (A) the Cash Amount, minus (B) the Hold Back Amount, minus (C) the amount of Long-Term and Bank Debt and Other Long-Term Indebtedness,**

(b) **to the holders of the Long-Term and Bank Debt and Other Long Term Indebtedness the amount of $32,146,000 (which includes early termination charges of $1,450,000) payable as follows: $31,200,000 to Black Rock Kelso Capital Corporation and $250,000 to the CIT Group/Business Credit Inc. and $696,000 to Anthony Silecchia**

(c) **to the escrow agent under the Environmental Escrow Agreement to be held in escrow, subject to the terms of this Agreement and the Environmental Escrow Agreement an amount of cash equal to $2,500,000, and**

(d) **to the escrow agent under the Indemnification Escrow Agreement an amount of cash equal to $2,400,000 to be held in escrow pursuant to this Agreement and the Indemnification Escrow Agreement.**

2.3. <u>Adjustments to Purchase Price</u>**.**

(a) **The Purchase Price for the Equity Interests has been agreed upon based upon the assumptions that (i) the Net Working Capital will be equal to the Estimated Working Capital and (ii) the Long-Term and Bank Debt and Other Long-Term Indebtedness will be zero.**

(b) **Subject to the provisions of subparagraph (e), Sellers shall engage BDO Seidman LLP (the "Accountants") to prepare a calculation of Net Working Capital and the Long-Term and**

Bank Debt and Other Long-Term Indebtedness ("Post-Closing Net Working Capital Calculation" and the "Post-Closing Long-Term and Bank Debt and Other Long-Term Indebtedness Calculation," respectively). The cost of the accountants shall be paid by Sellers for their own account. Buyer and its Representative shall be permitted to communicate with the Accountants personnel and observe all aspects of their work with respect to the conduct of their engagement. In the event the Net Working Capital is (i) less than the Estimated Working Capital, the Purchase Price shall be decreased by $1.00 for each $1.00 the Net Working Capital (as reflected in the Post-Closing Net Working Capital Calculation) is less than the Estimated Working Capital or (ii) greater than the Estimated Working Capital, the Purchase Price shall be increased by $1.00 for each $1.00 the Net Working Capital (as reflected in the Post-Closing Net Working Capital Calculation) is greater than the Estimated Working Capital. In the event the Long-Term and Bank Debt and Other Long-Term Indebtedness after application of the payment to the holders of Long-Term and Bank Debt and Other Long-Term Indebtedness under Section 2.2(ii) above, is greater than zero, the Purchase Price shall be decreased by $1.00 for each $1.00 the Long-Term and Bank Debt and Other Long-Term Indebtedness (as reflected in the Post-Closing Long-Term and Bank Debt and Other Long-Term Indebtedness Calculation) is greater than zero.

(c) **The engagement letter with the Accountants shall provide that such firm shall deliver to Buyer and Sellers (i) the Post-Closing Net Working Capital Calculation and the Post-Closing Long-Term Debt Calculation, each of which shall state that such calculations have been prepared in accordance with the definitions of Net Working Capital and Long-Term and Bank Debt and Other Long-Term Indebtedness and (ii) a closing certificate ("Post-Closing Certificate") showing the calculation of the adjustment to the purchase price ("Post-Closing Adjustment"). A copy of the Post-Closing Net Working Capital Calculation, Post-Closing Long-Term Debt and other Long Term Indebtedness Calculation and the Post-Closing Certificate (collectively, "Post-Closing Documents") shall be delivered to the Buyer and Sellers Representative each as soon as practicable after the calculation thereof. Unless Buyer or Sellers Representative within ten (10) days after receipt of the copy of the Post-Closing Documents notifies such other parties of any disagreement with the Post-Closing Adjustment and such disagreement reflects a difference in excess of $50,000, the Post-Closing Documents shall be final and shall be accepted by and be binding upon both Buyer and the Sellers. If any party so notifies such other party of any such disagreement in an amount in excess of $50,000 within such 10-day period and such disagreement cannot be amicably resolved within an additional period of thirty (30) days, the disagreement as to the Post-Closing Adjustment shall be submitted for final determination to an accounting firm selected by the Buyer and Sellers Representative ("Appeal Accountants"). Each party shall be bound by the determination of the Appeal Accountants and the cost of such expenses shall be shared equally between Sellers (to be apportioned pro rata in accordance with each Seller's Sharing Percentage), on the one hand, and Buyer, on the other. The Appeal Accountants shall render their final determination with respect to the resolution of such disputes which shall be binding on the parties and deliver copies thereof to Buyer and Sellers.**

(d) **If the Post-Closing Adjustment changes the Purchase Price, the increase, if any, shall be paid by Buyer or the decrease, if any, shall be paid by Sellers (to be apportioned *pro rata* in accordance with each Seller's Sharing Percentage), within five (5) days after such final agreement or determination.**

(e) **Notwithstanding the foregoing, it is contemplated that the Buyer and the Sellers' Representative will cooperate following the Closing to determine the amount of the Post Closing Adjustment without requiring the Seller to retain the Accountants for this purpose; provided, however, that at any time either the Buyer or the Sellers' Representative may terminate such process, in which event the provisions of subsection (b) will apply.**

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLERS

Sellers represent, covenant and warrant to Buyer, jointly and severally, as follows:

3.1. **<u>Corporate Organization; Etc</u>. Each of the Companies is a limited partnership, limited liability company or corporation, as the case may be, duly formed or organized, validly existing and in good standing under**

the laws of its state of formation or organization and has full corporate limited liability company or limited partnership power and authority, as applicable, to carry on its business as it is now being conducted and to own the properties and assets it now owns. Each of the Companies is duly qualified or licensed to do business as a foreign corporation, limited liability company or limited partnership in good standing in the jurisdictions listed in Section 3.1 of Sellers' Disclosure Letter, which are all the jurisdictions where such qualification is required except where the failure to be so qualified would not reasonably be expected to materially interfere with the business activities of any Operating Division. The copies of the Organizational Documents and all amendments thereto of the Companies and their Subsidiaries heretofore delivered to Buyer are complete and correct copies of such instruments as presently in effect.

3.2. <u>**Capitalization of Companies**</u>**. Sellers own in the aggregate all of the issued and outstanding equity interests of Champion Energy free and clear of all Encumbrances, other than Encumbrances which will be extinguished on or prior to the Closing Date. There are no options, securities or any agreement which would give any Person the right to acquire any equity securities in Champion Energy or any of the Companies.**

3.3. <u>**Subsidiaries**</u>**. Except for the Companies or as set forth in Section 3.3 of Sellers' Disclosure Letter, the Companies do not have any Subsidiaries.**

3.4. <u>**No Conflict**</u>**. Neither the execution and delivery of this Agreement or any of the Documents nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):**

(a) **contravene, conflict with or result in a violation of, or give any Person the right to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which any of the Companies or any of their Subsidiaries is subject;**

(b) **contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorization that is held by any of the Companies and their Subsidiaries;**

(c) **except as set forth in Section 3.4(c) of Sellers' Disclosure Letter, contravene, conflict with or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify, any Material Contract; or**

(d) **result in the imposition or creation of any Encumbrance upon or with respect to any of the Assets, except Permitted Encumbrances;**

except, in the case of clauses (a) through (c), for any contravention, violation, conflict, breach, default, charge or action which would not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect.

3.5. **<u>Financial Statements</u>. The Sellers have heretofore delivered to Buyer and attached hereto as Section 3.5 of Sellers' Disclosure Letter: (i) a consolidated balance sheet of Champion Energy and its consolidated Subsidiaries as of June 30, for each of the years 2008 and 2009; and the related consolidated statements of income (loss) and cash flows and stockholders equity for each of the years then ended, together with the independent auditors' report of the Accountants, (ii) an unaudited consolidated balance sheet of Champion Energy and its consolidated Subsidiaries as of March 31, 2010 (the "Interim Balance Sheet"), and unaudited statements of income (loss) and cash flows and stockholders equity for the nine (9) months then ended with comparable statements for the nine (9) months ended March 31, 2009 (the "Interim Financials"), (all such financial statements, collectively the "Financial Statements"). Such balance sheets and the notes thereto fairly present in all material respects the consolidated financial condition of Champion Energy and its consolidated Subsidiaries as at the respective dates thereof, and such statements and accumulated earnings and cash flows and the notes thereto fairly present in all material respects the results of operations for the periods therein referred**

to, all in accordance with GAAP (except as disclosed in Section 3.5 of the Sellers' Disclosure Letter and subject, in the case of the Interim Financials, to normal year end adjustments).

3.6. **No Unknown Liabilities, Etc. Except as set forth in Section 3.6 of Sellers Disclosure Schedule, as of the date of the Interim Balance Sheet, Champion Oil Company and its consolidated Subsidiaries had no liability or obligation of any nature (absolute, accrued, contingent or otherwise) not otherwise disclosed herein which is not fully reflected or reserved against in the Interim Balance Sheet, which, in accordance with GAAP, should have been shown or reflected in the Interim Balance Sheet ("GAAP Liabilities"). There has been no material change in the assets (other than cash) or liabilities (other than tax liabilities calculated in accordance with GAAP) of Champion Energy and its consolidated subsidiaries since March 31, 2010, other than changes that arise in the Ordinary Course of Business.**

3.7. **Reserved.**

3.8. **Absence of Certain Changes. Except as, and to the extent, set forth in Section 3.8 of Sellers' Disclosure Letter, since March 31, 2010, the Companies and their Subsidiaries have conducted the Business in the Ordinary Course of Business and there has not been a Material Adverse Effect on the Companies and their Subsidiaries.**

3.9. **Title to Properties; Encumbrances. Except as set forth in Section 3.9(a) of Sellers' Disclosure Letter, each of the Companies and their Subsidiaries has good title to, or in the case of assets held pursuant to a lease or a license, valid and binding leasehold interests or licenses in, the Assets (whether real, personal and mixed, tangible and intangible) which it purports to own including, without limitation, all the properties and assets reflected in the Interim Balance Sheet (except for accounts receivable collected, and**

properties and assets sold, since the date of the Interim Balance Sheet in the Ordinary Course of Business) and except as would not reasonably be expected to result in a Material Adverse Effect. Except as set forth in Section 3.9(b) of Sellers' Disclosure Letter, all such owned Assets are free and clear of all Encumbrances other than Permitted Encumbrances. The rights, properties and other Assets presently owned, leased or licensed by the Companies and their Subsidiaries and described elsewhere in this Agreement include all rights, properties and other Assets necessary to permit the Companies and their Subsidiaries to conduct the Business in all material respects in the same manner as conducted by the Companies and their Subsidiaries prior to the date hereof.

3.10. **Property, Plant and Equipment. To the Knowledge of the Sellers, except as set forth in Section 3.10(a) of the Sellers' Disclosure Letter, the property, plant and equipment of the Companies and their Subsidiaries are in reasonably good operating condition and repair (normal wear and tear excepted) and are reasonably adequate for the uses to which they are being put, and none of such equipment is in need of material maintenance or repairs except for ordinary, routine maintenance and repairs. Except as set forth in Section 3.10(b) of Sellers' Disclosure Letter to the Knowledge of the Sellers, none of the Companies and their Subsidiaries has received any written recommendation from any consultants hired by the Companies or their Subsidiaries relating to modifications or improvements to, or replacement of, equipment, which modifications, improvements or replacements would cost more than $100,000. Section 3.10(c) of the Seller's Disclosure Schedule sets forth each parcel of real property owned by the Companies.**

3.11. **Intellectual Property.**

(a) **Except as set forth in Section 3.11(a) of Sellers' Disclosure Letter, the Intellectual Property Assets and Software are all those necessary for the operation of the Business as it is currently conducted or as currently proposed to be conducted. The Companies and their Subsidiaries own or have the right to use, all of the Intellectual Property Assets and Software, free and clear of all Encumbrances (except Permitted Encumbrances and such other Encumbrances that will be extinguished on or prior to the Closing Date). Except as set forth in Section 3.11(a) of Sellers' Disclosure Letter, the Companies and their Subsidiaries are not obligated to make any material payment to any Person for the use or exploitation of the material Intellectual Property Assets and Software.**

(b) **Section 3.11(b) of Sellers' Disclosure Letter contains a complete and accurate list of all material registrations and applications within the Marks, Patents and Copyrights and all websites and domain names of the Companies. All such registrations and applications are currently unexpired and are not subject to any maintenance fees or actions falling due within ninety (90) days after the date of Closing. Except as disclosed on Section 3.11(b) of Sellers' Disclosure Letter, to the Knowledge of the Sellers, (i) no material Mark, Patent or Copyright is being infringed by a third party, and (ii) no Intellectual Property Assets are alleged to infringe any proprietary right of any other Person.**

(c) **The Companies and their Subsidiaries have taken all commercially reasonable precautions to protect the secrecy of their material Trade Secrets. To the Knowledge of the Sellers, the material Trade Secrets currently used by the Companies and their Subsidiaries have not been disclosed to any third party or misappropriated by any Person.**

3.12. **Contracts; No Defaults**.

(a) **Section 3.12(a) of Sellers' Disclosure Letter contains a complete and accurate list of each of the following Contracts which shall be deemed Material Contracts for purposes of this Agreement:**

(i) each Applicable Contract that involves performance of services or delivery of goods or materials by the Companies and their Subsidiaries in an amount or value in excess of $250,000 per year.

(ii) each Applicable Contract relating to the borrowing of money of the Companies and their Subsidiaries and other agreements with the holders of such indebtedness relating thereto;

(iii) each lease, rental or occupancy agreement, license, installment and conditional sales agreement and other Applicable Contract affecting the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except personal property leases and installment and conditional sales agreements requiring expenditures of $25,000 or less for any single item in any year or aggregate payments of less than $50,000 over the term thereof, and with terms of less than three (3) years);

(iv) each collective bargaining agreement and other Applicable Contract to or with any labor union or other employee representative of a group of employees;

(v) each material joint venture, partnership and other Applicable Contract (however named) involving a sharing of profits, losses, costs or liabilities by the Companies and their Subsidiaries with any other Person;

(vi) each Applicable Contract containing covenants that in any way purport to restrict in any material respect the business activity of the Companies or their Subsidiaries (or any Affiliate thereof) or limit the freedom of the Companies and their Subsidiaries (or any Affiliate thereof) to engage in any line of business or to compete with any Person; and

(vii) each other material Applicable Contract.

(b) **Except as set forth in Section 3.12(b) of Sellers' Disclosure Letter, to the Knowledge of the Sellers, each Material Contract is in full force and effect and is valid and enforceable in accordance with its terms, except as may be limited by bankruptcy, moratorium and insolvency laws and other laws affecting the rights of creditors generally and except as may be limited by the general principles of equity.**

(c) **Except as set forth in Section 3.12(c) of Sellers' Disclosure Letter:**

(i) each of the Companies and Subsidiaries is in compliance in all material respects with all applicable terms and requirements of each Material Contract to which it is a party;

(ii) to the Knowledge of the Sellers, each other Person which is a party to any Material Contract, is in material compliance with all applicable terms and requirements of such Material Contract;

(iii) no event has occurred and is continuing or circumstance exists on the part of the Companies and their Subsidiaries or, to the Knowledge of the Sellers, on the part of any other party to a Material Contract, that (with or without notice or lapse of time) would reasonably be expected to contravene, conflict with or result in a material violation or breach of, or give any of the Companies or their Subsidiaries or any other Person the right to declare a default or exercise any material remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify, any Material Contract; and

(iv) to the Knowledge of the Sellers, none of the Companies or their Subsidiaries has given to or received from any other Person, any notice or other communication (whether orally with specificity or written) which a reasonable person would understand as asserting any actual or alleged violation or breach of, or default under, any Material Contract.

(d) **To the Knowledge of the Sellers, the Companies and their Subsidiaries are not currently renegotiating any material amounts paid or payable to the Companies or their Subsidiaries under current or completed Material Contracts with any Person.**

(e) **The copies of the Material Contracts which have been delivered to Buyer are, except as redacted, true and correct copies of such Material Contracts as presently in effect.**

3.13. **Operating Matters.**

(a) **(i) Section 3.13(a)(i) of the Sellers' Disclosure Letter sets forth as of April 15, 2010 for each of the Operating Divisions the following information relating to Customers which purchase #2 heating oil:**

Customer Classification	# of Active Customers	# of Customers on Sellers Automatic Delivery System	Fixed Price # of Customers	# of Capped Price Customers
***Residential**				
Commercial		SEE SCHEDULES		
Heat USA				

***Not including Heat USA.**

(ii) Section 13(a)(ii) of the Sellers' Disclosure Schedule sets forth as of April 15, 2010 for each of the Operating Divisions the following information relating to Customers which purchase Petroleum Products other than #2 heating oil:

Customer Classification	# of Active Customers	Product Purchased
Other	**SEE SCHEDULES**	

(iii) During the 12 months ended March 31, 2010, the Operating Divisions sold (i) no petroleum products to Customers other than the Petroleum Products (ii) sold no Petroleum Products to Wholesale Customers and (iii) sold Petroleum Products only on a delivered basis.

(iv) Section 3.13(a)(iv) of the Sellers' Disclosure Letter sets forth for each of the 12 months ended March 31, 2010 for each of the Operating Divisions, with respect to Customers receiving deliveries of home heating oil, the total number of gallons sold and the Net Dollar Sales; showing separately the total of the gallons and Net Dollar Sales for Commercial Customers and Heat USA Customers.

(v) Section 3.13(a)(v) of the Sellers Disclosure Letter set forth for each of the 12 months ended March 31, 2010 for each of the Operating Divisions with respect to other Customers the number of gallons of diesel, gasoline and kerosene sold (shown separately) and the Net Dollar Sales.

(vi) Section 3.13(a)(vi) of the Sellers' Disclosure Letter sets forth certain information concerning account gain (loss) for the Customers by Operating Division for the 12 months ended March 30, 2009 and March 30, 2010.

(vii) Section 3.13(a)(vii) of the Sellers' Disclosure Letter sets forth for each of the Operating Divisions for the 12 months ended March 31, 2010, its Net Dollar Sales for service contracts, parts and labor and installations.

(b) **Section 3.13(b) of the Sellers' Disclosure Letter sets forth for each Operating Division (a) home heating oil volumes and Net Dollar Sales for gallons sold to Fixed Price Customers and Capped Price Customers (b) the home heating volumes and Net Dollar Sales for gallons sold to Variable Price Customers and (c) the cost of product, during the 12 month period ended March 31, 2010.**

(c) **Section 3.13(c) of the Sellers' Disclosure Letter sets forth for each of the Operating Divisions (i) the number of Fixed Priced Customers as of April 30, 2010, the number of gallons of home heating oil committed to be sold to such Fixed Price Customers per month after April 30, 2010 and the anticipated weighted average fixed price of such gallons of home heating oil and (ii) the number of Capped Price Customers as of April 30, 2010 and the weighted average capped price and the number of gallons committed to be sold to such Customers after March 31, 2010. The Companies and their Subsidiaries have certain inventory and futures contracts relating to the gallons to be delivered to Fixed Price Customers and Capped Price Customers, a complete list of which, as of the date hereof, including gallons and cost over, is set forth in Section 3.13(c) of the Sellers' Disclosure Letter.**

(d) **Schedule 3.13(d) of the Sellers' Disclosure Letter lists all agreements with Bid Customers over 50,000 gallons per annum.**

(e) **Except as disclosed in Section 3.13(e) of Sellers' Disclosure Letter, the Companies and their Subsidiaries have no material agreements to sell Petroleum Products to or through cooperatives, buying groups or other similar arrangements.**

(f) **Section 3.13(f) of Sellers' Disclosure Letter, identifies Customers of the Companies and their Subsidiaries which purchased more than 25,000 gallons of Petroleum Products during the period from April 1, 2009 to March 31, 2010 and such section sets forth the estimated number of gallons purchased and the current pricing arrangement.**

(g) **Section 3.13(g) of Sellers' Disclosure Letter contains certain information relating to material programs or policies of Companies or their Subsidiaries pursuant to which they provide discounts, free gallonage, free service, the extension of credit or other accommodations to customers based upon volume purchased, prompt payments, participation in budget programs, age attained or otherwise.**

(h) **Section 3.13(h) of Sellers' Disclosure Letter contains an aging of the accounts receivable (totals only) for the Customers for each of the Operating Divisions as of December 31, 2009 and March 31, 2010.**

(i) **Section 3.13(i) of the Sellers' Disclosure Letter describes each of the acquisitions of another business made by the Companies and their Subsidiaries with respect to the Business since January 1, 1996, including the name of each such acquisition and the number of Customers acquired.**

3.14. **Insurance. Section 3.14(a) of Sellers' Disclosure Letter contains an accurate and complete list of all policies and binders of fire, liability, workers' compensation, products liability and all material forms of insurance (showing as to each policy or binder the carrier, policy number, coverage limits, expiration dates, annual premiums and a general description of the type of coverage) currently maintained by the Companies and their Subsidiaries relating to the Business. All such policies are in full force and effect, all premiums with respect thereto covering all periods up to and including the date hereof have been paid or shall be paid in the Ordinary Course of Business, and no notice of cancellation or termination has been received with respect to any such policy. Except as set forth in Section 3.14(b)**

of the Sellers' Disclosure Letter, all policies are written on a claims made basis and to the Knowledge of the Sellers, such policies are reasonably adequate insurance coverage to insure against risks to which the Companies and their Subsidiaries are normally exposed, and will remain in full force and effect following the Closing with respect to pre-Closing occurrences.

To the Knowledge of Sellers, Section 3.14(c) of Sellers' Disclosure Letter sets forth all written recommendations received by the Companies and their Subsidiaries in the fifteen months prior to the date hereof from any insurance carrier regarding the manner in which the Companies and their Subsidiaries conduct the Business or recommending changes in relation thereto.

3.15. **Labor Difficulties. Except to the extent set forth in Section 3.15 of Sellers' Disclosure Letter, (a) to the Knowledge of the Sellers, each of the Companies and their Subsidiaries is in compliance in all material respects with all Legal Requirements respecting employment and employment practices, terms and conditions of employment and wages and hours, and is not engaged in any unfair labor practice; (b) to the Knowledge of Sellers there is no unfair labor practice complaint against any of the Companies or their Subsidiaries pending before the National Labor Relations Board; (c) there is no labor strike, dispute, slowdown or stoppage actually pending or, to the Knowledge of Sellers, Threatened against or affecting any of the Companies or their Subsidiaries; (d) no material grievance proceeding or arbitration proceeding arising out of or under any collective bargaining agreements to which any Company or Subsidiary is a party is pending and to the Knowledge of the Sellers, no material claim therefor exists; (e) there is no collective bargaining agreement binding on Companies or their Subsidiaries; (f) none of the Companies or their Subsidiaries has experienced any material work stoppage or other organized labor difficulty or, to the Knowledge of the Sellers, attempts to organize employees by organized labor in the past five (5) years and (g) there is no litigation pending between the Companies or their Subsidiaries and any employees nor to the Knowledge of Sellers is any such litigation Threatened.**

3.16. **Employee Benefits**.

(a) **Except as set forth in Section 3.16(a) of Sellers' Disclosure Letter, neither the Companies nor any of its ERISA Affiliates (i) sponsors, maintains or contributes to, or has in the past sponsored, maintained or contributed to, any Plan, or (ii) has promised or is otherwise committed or required to sponsor, maintain, modify or contribute to any material Plan, except as may be required by applicable law or any collective bargaining agreement.**

(b) **Except as set forth in Section 3.16(b) of the Sellers' Disclosure Letter, no Plan is subject to Section 412 of the Code or Section 302 of ERISA or Title IV of ERISA or is a defined benefit plan.**

(c) **With respect to each Plan, the Sellers have provided the Buyer with, or made available to Buyer, complete and correct copies of (i) each Plan, including all amendments thereto, (ii) the most recent summary plan description (if any) and all other documents pursuant to which the Plans are maintained, (iii) the most recent annual report (Form 5500 series) filed with the IRS (with attachments) and (iv) all IRS determination letters, rulings and opinions received by the Companies , in respect of any applicable Plans.**

(d) **With respect to each Plan which is subject to Title I of ERISA, neither the Companies nor any of its ERISA Affiliates has failed to comply with any of the applicable reporting, disclosure or other requirements of, and both the Companies and any of its ERISA Affiliates have been operated substantially in compliance with, ERISA and the Code. None of the Plans or any trusts relating thereto have engaged in any transaction in connection with which the Companies or any of their ERISA Affiliates or any "fiduciaries," as such term is defined in Section 3(21) of ERISA, of any Plans or related trusts are or would reasonably be expected to be subject to either a civil penalty or other liability under Section 502(i), Section 406 or Section 409 of ERISA or a tax imposed by Section 4975 of the Code.**

(e) **With respect to each Plan which is intended to be a qualified plan under Section 401(a) of the Code as currently in effect, a favorable determination letter has been received from the IRS as to its qualification under Section 401(a) of the Code, each such Plan has been operated and administered in accordance with its terms and all such Plans comply in all material respects with the applicable requirements of ERISA, the Code and any other applicable Legal Requirement governing such Plans.**

(f) **Except as otherwise required by Section 4980B of the Code or Part 6 of Title I of ERISA, no Plans provide medical, life insurance or other employee benefits to current or future retirees or other former employees and the Companies have never represented or promised that such benefits would be provided.**

(g) **Except as set forth in Section 3.16(g) of Sellers' Disclosure Letter, there is no pending or, to the Knowledge of the Sellers, Threatened, Proceeding before the Internal Revenue Service, the Department of Labor, the Pension Benefit Guaranty Corporation or otherwise, against or involving any Plan (other than routine claims for benefits) and, to the Knowledge of Sellers, there is no basis for, and Sellers have no Knowledge of any facts that would reasonably be expected to give rise to, any such Proceeding.**

(h) **Except as set forth in Section 3.16(h) of Sellers' Disclosure Letter, the consummation of the Contemplated Transactions will not, either alone or in combination with any other event expressly contemplated hereby or in the Documents; (i) entitle any current or former employee or officer of the Companies or any ERISA Affiliate to severance pay, or any other payment, except as expressly provided in this Agreement; (ii) accelerate the time of payment or increase the amount of or vesting of compensation or benefits due any such employee or officer; (iii) result in termination or forgiveness of indebtedness or (iv) otherwise give rise to a benefit that is reasonably expected to be treated as a parachute payment under Section 280G of the Code.**

(i) **With respect to each Plan which is intended or deemed to be a "non qualified deferred compensation plan", the Companies have operated such Plan and such Plan is in compliance with the Code Section 409A and any treasury regulations, IRS notices and other applicable guidance issued by the IRS.**

3.17. **Legal Proceedings; Orders**.

(a) **Except as set forth in Section 3.17(a) of Sellers' Disclosure Letter, there is no pending, or to the Knowledge of the Sellers, Threatened, Proceeding:**

(i) that is by or against the Companies or their Subsidiaries or, to the Knowledge of Sellers, by or against any third party; or

(ii) by or against the Companies or their Subsidiaries that challenges, or that would have the effect of materially preventing, delaying, making illegal or otherwise materially interfering with, the Contemplated Transactions.

(b) **Except as set forth in Section 3.17(b) of Sellers' Disclosure Letter:**

(i) Sellers are not subject to any Order that relates to the Business or the Assets, taken as a whole;

(ii) To the Knowledge of the Sellers, the Companies and their Subsidiaries are in full compliance in all material respects with all of the terms and requirements of each Order to which it is subject;

(iii) The Companies and their Subsidiaries have not received any notice or other communication (written or orally with specificity) from any other Person which a reasonable person would understand as asserting any actual or alleged material violation of, or material failure to comply with, any term or requirement of any Order to which Sellers, the Business or any of the Assets, is subject.

3.18. **No Condemnation or Expropriation. Neither the whole nor any portion of the Real Property, the leaseholds or any other material assets of the Companies and their Subsidiaries are subject to any Order to be sold or are being condemned, expropriated or otherwise taken by any Governmental Body with or without payment of compensation therefor, nor, to the Knowledge of Sellers, has any such condemnation, expropriation or taking been Threatened.**

3.19. **Legal Requirements; Governmental Authorizations**.

(a) **Except as set forth in Section 3.19(a) of Sellers' Disclosure Letter:**

(i) To the Knowledge of the Sellers, the Companies and their Subsidiaries are in compliance in all material respects with all applicable Legal Requirements;

(ii) To the Knowledge of the Sellers, no event has occurred nor does there exist any circumstance that (with or without notice or lapse of time) (A) would reasonably be expected to constitute or result in a material violation by the Companies and their Subsidiaries of, or a material failure on the part of the Companies and their Subsidiaries to comply with, any Legal Requirement; and

(iii) The Companies and their Subsidiaries have received no notice or other communication (whether written or orally with specificity) from any Person which a reasonable person would understand as asserting any actual or alleged material violation of, or material failure to comply with, any Legal Requirement.

(b) **The material Governmental Authorizations held by the Company and their Subsidiaries (the "Designated Governmental Authorizations") constitute all of the Governmental Authorizations necessary to permit the Companies and their Subsidiaries to lawfully conduct and operate in all material respects the Business in the manner they currently conduct and operate the Business. Except as set forth in Section 3.19(b) of Sellers' Disclosure Letter, to the Knowledge of the Sellers, the Companies and their Subsidiaries are in compliance in all material respects with all of the terms and requirements of each Designated Governmental Authorization and no appeal or action is pending or, to the Knowledge of the Sellers, Threatened to revoke any such Designated Governmental Authorization.**

3.20. **Material Consents. Section 3.20 of Sellers' Disclosure Letter sets forth and identifies all material consents, assignments, releases, waivers and approvals required of any Person, including the name of the party necessary to the consummation of the Contemplated Transactions by the Sellers.**

3.21. **Environmental Matters. Except as set forth in Section 3.21 of the Sellers' Disclosure Letter:**

(a) **The Companies and their Subsidiaries are in compliance in all material respects with all Environmental Laws including, without limitation, all restrictions, conditions, standards, limitations, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws or contained in any Governmental Authorization.**

(b) **The Sellers have provided to Buyer all material assessments, reports, data, results of investigations or audits and other information that are in the possession of the Companies and their Subsidiaries or reasonably available to the Sellers regarding environmental matters pertaining to any Environmental Conditions related to the Facilities or the Companies and their Subsidiaries, or Environmental Compliance Liability or other compliance (or noncompliance) by the Companies and their Subsidiaries with respect to any Environmental Laws.**

(c) **There is no Proceeding pending or to the Knowledge of Sellers Threatened, alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (i) the presence or Release of any Material of Environmental Concern at any Facility or (ii) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law, that in either case is pending or Threatened against Companies and their Subsidiaries or to the Knowledge of the Sellers against any Predecessor whose potential liability for any Environmental Condition or Environmental Compliance Liability the Companies and their Subsidiaries have retained or assumed either contractually or by operation of law.**

(d) **To the Knowledge of Sellers, there are no actions, activities, circumstances, conditions, events or incidents, including, without limitation, the Release or presence of any Materials of Environmental Concern at any Facility that would reasonably be expected to result in Environmental Conditions or form the basis of any Environmental Compliance Liability or any Proceeding against the Companies and their Subsidiaries or against any Predecessor.**

(e) **Without in any way limiting the generality of the foregoing, to the Knowledge of the Sellers (i) all on-site and off-site locations where the Companies and their Subsidiaries or any Predecessor have stored, disposed or arranged for the disposal of Materials of Environmental Concern are identified in Section 3.21(e) of Sellers' Disclosure Letter; (ii) all underground storage tanks and above ground storage tanks owned or operated by the Companies and their Subsidiaries, and the capacity and contents of such tanks, located on any property owned, leased or operated by the Companies and their Subsidiaries are identified in Section 3.21(e) of Sellers' Disclosure Letter; (iii) except as set forth in Section 3.21(e) of Sellers' Disclosure Letter, there is no friable asbestos contained in or forming part of any building, building**

component, structure or office space owned, leased, operated or controlled by the Companies and their Subsidiaries or the Business; and (iv) except as set forth in Section 3.21(e) of Sellers' Disclosure Letter, no PCBs or PCB-containing items are used or stored at any property owned, leased, operated or controlled by the Companies and their Subsidiaries.

(f) **The Companies and their Subsidiaries have not received any Environmental Notice that alleges that the Companies and their Subsidiaries or any Predecessor are in violation of any Environmental Laws and, to the Knowledge of Sellers, there are no circumstances that would reasonably be expected to give rise to such violation. The Companies and their Subsidiaries have not received any Environmental Notice from any Governmental Body or private or public entity advising it that it is responsible for or potentially responsible for Damages or Environmental Conditions or Environmental Compliance Liability with respect to any Facility and no legally binding agreements have been entered into concerning such Damages or Environmental Conditions or Environmental Compliance Liability. No Facility is on any federal, state or local list of hazardous sites, such as the Environmental Protection Agency's Comprehensive Response, Compensation and Liability Information System List.**

(g) **Except pursuant to the Connecticut Transfer Act (as defined below), the Companies and their Subsidiaries are not subject to any Environmental Laws requiring (i) the performance of a site assessment for Materials of Environmental Concern or an audit for any potential Environmental Compliance Liability, (ii) the removal or remediation of Materials of Environmental Concern, (iii) the giving of notice to or receiving the approval of any Governmental Body, (iv) the recording or delivery of any disclosure document or statement pertaining to environmental matters regarding each of the foregoing by virtue of the Contemplated Transactions or as a condition to the effectiveness of any Contemplated Transactions or (v) corrective or other remedial measures pursuant to Environmental Laws.**

3.22. **No Other Agreements. Sellers have no commitment or legal obligation, absolute or contingent, to any other Person or firm to sell or effect a sale of any of the Equity Interests.**

3.23. **Brokers and Finders. Sellers have employed no brokers in connection with the Contemplated Transactions.**

3.24. **Personnel. (a) Section 3.24 of Sellers' Disclosure Letter sets forth separately with respect to each Operating Division a true and complete list of:**

(i) Each office, sales, supervisory and managerial personnel whose total compensation as reported on his Form W-2 exceeds $50,000 in 2009 or $36,000 for the nine months ended March 31, 2010; and

(ii) subcontractors who were paid more than $25,000 by an Operating Division during the 12 months ended March 30, 2010 and the amounts paid and payable to each such subcontractor.

(b) **Since July 30, 2009, except as set forth in Section 3.24 of the Sellers' Disclosure Letter, the Companies and their Subsidiaries have not granted or committed to make any increase in the compensation of any employees (including any such increase pursuant to any bonus, profit sharing or other plan or commitment) or make any bonus, severance, termination or similar payments or to establish or amend any employee retirement or benefit plan or program other than in the Ordinary Course of Business and any increase since July 30, 2009 is reflected in the amounts disclosed in Section 3.24 of the Seller's Disclosure Letter.**

3.25. **<u>Taxes</u>. Except as set forth in Schedule 3.25 of Sellers' Disclosure Letter:**

(a) **Each of the Companies and their Subsidiaries has timely filed or caused to be timely filed all Tax Returns that are or were required to be filed by it on or prior to the date hereof, either separately or as a member of a group of entities, pursuant to applicable Legal Requirements. All such Tax Returns are complete and correct in all material respects.**

(b) **Each of the Companies and their Subsidiaries has paid or, where payment is not yet due, has established (or has had established on its behalf and for its sole benefit and recourse) an adequate accrual in accordance with GAAP for the payment of all Taxes shown on the Tax Returns required to be filed prior to or on the date hereof.**

(c) **There are no Encumbrances for Taxes upon any property or assets of the Companies or their Subsidiaries, except for Permitted Encumbrances for Taxes not yet due and for which adequate reserves have been established in accordance with GAAP.**

(d) **No Tax Audit is pending with regard to any Taxes or Tax Returns of the Companies or their Subsidiaries as of the date hereof and, to the Knowledge of Sellers, no Tax Audit is Threatened.**

(e) **There are no outstanding requests, Contracts, consents or waivers to extend the statutory period of limitations applicable to the assessment of any Taxes or deficiencies against the Companies or their Subsidiaries as of the date hereof, and no power of attorney granted by the Companies or their Subsidiaries with respect to any Taxes is currently in force.**

(f) **The Companies and their Subsidiaries are not bound by nor are they party to any Contract providing for the allocation, indemnification, or sharing of Taxes as of the date hereof.**

(g) **None of the Companies or their Subsidiaries (i) has been a member of an "affiliated group" (within the meaning of the Code) filing a consolidated Federal tax return (other than a group the common parent of which was the Company) or (ii) has any material liability for any Tax of any Person under Treasury regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor by contract or otherwise.**

(h) **None of the Companies or any of their Subsidiaries has any Tax liability relating to any period prior to the date hereof, except those Tax liabilities included as liabilities on the Interim Balance Sheet and tax liabilities accrued in the Ordinary Course of Business since the date of the Interim Balance Sheet.**

(i) **None of the Companies or their Subsidiaries has in the past ten years (A) acquired assets from another corporation in a transaction in which their tax basis for the acquired assets was determined, in whole or in part, by reference to the tax basis of the acquired assets in the hands of the transferor or (B) acquired any stock of any corporation which is a qualified subchapter S subsidiary.**

3.26. **<u>Relationships With Related Persons</u>. Except as set forth in Section 3.26 of Sellers' Disclosure Letter, and except through or related to its ownership, directly or indirectly, of the Equity Interests, neither the Sellers nor any Affiliate of a Principal Seller (other than the Companies) has any outstanding Contract with the Companies or their Subsidiaries.**

ARTICLE IV

FURTHER REPRESENTATIONS AND WARRANTIES OF SELLERS

Each Seller, severally and not jointly, represents and warrants to Buyer as follows:

4.1. **<u>Title</u>. Such Seller owns, either directly or indirectly, the capital stock interests of Champion Energy it purports to transfer hereby free and clear of all Encumbrances.**

4.2. **<u>Authority; No Conflict</u>.**

(a) **This Agreement constitutes the legal, valid and binding obligation of such Seller, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, moratorium and insolvency laws and other laws affecting the rights of creditors generally and except as may be limited by general principles of equity. Upon the execution and delivery by it of the Documents to which such Seller is a party and the execution and delivery thereof by each other party thereto, such Documents will constitute the legal, valid and binding obligations of such Seller, enforceable in accordance with their respective terms, except as may be limited by bankruptcy, moratorium and insolvency laws and other laws affecting the rights of creditors generally and except as may be limited by general principles of equity. Such Seller has the power, authority and capacity to execute and deliver this Agreement and the Documents to which it is a party and to perform its respective obligations under this Agreement and such Documents.**

(b) **Neither the execution and delivery of this Agreement or any of the Documents to which such Seller is a party, nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):**

(i) contravene, conflict with or result in a violation of any Legal Requirement or any Order to which such Seller is subject; or

(ii) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorization that is held by such Seller;

except for any such contravention, conflict or violation which would not reasonably be expected to make illegal or materially delay or impair the consummation of the Contemplated Transactions.

(c) **Except as set forth in Section 3.20(c) of Sellers' Disclosure Letter, such Seller is not and will not be required to give any notice to, or obtain any Consent from, any Person in connection with the execution and delivery of this Agreement or any of the Documents to which such Seller is a party or the consummation or performance of any of the Contemplated Transactions, except where the failure to give any such notice or obtain any consent would not reasonably be expected to make illegal or materially delay or impair the consummation of the Contemplated Transactions.**

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents, warrants and covenants to Sellers as follows:

5.1. **<u>Buyer Organization; Etc</u>. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of**

Minnesota and has full power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns. As of the Closing, the Buyer will be authorized to do business in all jurisdictions where qualification shall become necessary as a result of the Contemplated Transactions.

5.2. **Authority; No Conflict**.

(a) **This Agreement constitutes the legal, valid and binding obligation of Buyer, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, moratorium and insolvency laws and other laws affecting the rights of creditors generally and except as may be limited by general principles of equity. Upon the execution and delivery by it of the Documents to which Buyer is a party and the execution and delivery thereof by each other party thereto, such Documents will constitute the legal, valid and binding obligations of Buyer, enforceable in accordance with their respective terms, except as may be limited by bankruptcy, moratorium and insolvency laws and other laws affecting the rights of creditors generally and except as may be limited by general principles of equity. Buyer has the power, authority and capacity to execute and deliver this Agreement and the Documents to which it is a party and to perform its obligations under this Agreement and such Documents.**

(b) **Neither the execution and delivery of this Agreement or any of the Documents, nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):**

(i) contravene, conflict with or result in a violation of any Legal Requirement or any Order to which Buyer is subject; or

(ii) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorization that is held by Buyer.

(c) **Buyer is not and will not be required to give any notice to, or obtain any Consent from, any Person in connection with the execution and delivery of this Agreement or any of the Documents or the consummation or performance of any of the Contemplated Transactions.**

5.3. **Brokers and Finders. Neither Buyer nor any of its Affiliates has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Contemplated Transactions.**

ARTICLE VI

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

6.1. **Survival of Representations and Warranties. Subject to the following two sentences, the representations, warranties, covenants, agreements and indemnities of Sellers and the Buyer contained herein shall**

survive the consummation of the Contemplated Transactions and the Closing Date, without regard to any investigation made by any of the parties hereto. All representations and warranties, covenants, agreements and indemnities and all claims and causes of action with respect thereto shall terminate on the eighteen-month anniversary of the Closing, provided, however, that the representations and warranties made pursuant to Sections 3.1, 3.2, 3.25, 4.1, 4.2(a), 5.1 and 5.2(a) shall survive until the expiration of applicable statutes of limitation. The termination of the representations and warranties, covenants, agreements and indemnities provided herein shall not affect the rights of a party in respect of any Claim (as hereinafter defined) made by such party in a writing received by the other party prior to the expiration of the applicable survival period provided herein.

6.2. **Indemnifications. Subject to Section 6.6:**

(a) **By Sellers. Subject to the limitations on the several liability of Sellers set forth in Section 6.3(a), Sellers shall, jointly and severally, indemnify and save and hold harmless Buyer, its Affiliates and Subsidiaries, and their respective Representative, from and against any and all Damages incurred in connection with, arising out of, resulting from or incident to: (i) any material breach of any surviving representation or warranty, made by Sellers in this Agreement (reading such representations and warranties as if they did not contain any materiality or Material Adverse Effect qualifiers, but such representations and warranties shall not be read to exclude dollar thresholds contained therein), (ii) any breach of any surviving covenant or agreement made by Sellers in or pursuant to this Agreement, or (iii) any third-party Claim against Buyer arising out of or relating to the Unknown Liabilities; provided, however, that any Claim arising under subsection (a)(iii) and also under subsection (a)(i) and (a) (ii) shall be deemed to arise under subsection (a)(iii). Notwithstanding the foregoing, Buyer may not seek indemnification against Sellers for any Claim in which the Damages are less than $50,000 ("Small Claim") until the aggregate of all Small Claims for indemnification or any individual Claim exceeds $500,000, in which event indemnification will apply only to Claims in excess of $500,000; provided, however, (i) that this sentence shall apply solely to Claims asserted under Fund G of the Indemnity Escrow Agreement and (ii) shall not apply to any Claim which was known to Seller prior to Closing but not set forth in Seller's Disclosure Letter. For the avoidance of doubt, the parties agree that the Sellers shall have no liability or obligation to provide indemnification in respect of any liability up to the amount reflected in Net Working Capital, including the Bridgeport Terminal Liability.**

(b) **By Buyer. Buyer shall indemnify and save and hold harmless Sellers from and against any and all Damages incurred in connection with, arising out of, resulting from or incident to (i) any breach of any representation or warranty or the inaccuracy of any representation made by Buyer in this Agreement (reading such representations and warranties without regard to any materiality qualifiers); and (ii) any breach of any covenant or agreement made by Buyer in or pursuant to this Agreement.**

(c) **Cooperation. The indemnified party shall reasonably cooperate in all respects with the indemnifying party and its attorneys in the investigation, trial and defense of such lawsuit or action and any appeal arising therefrom; provided, however, that the indemnified party may, at its own cost, participate in the investigation, trial and defense of such lawsuit or action and any appeal arising therefrom. The parties shall cooperate with each other in any notifications to insurers.**

(d) **Defense of Claims.**

(i) Subject to the provisions of subparagraph (d)(ii), if a claim for Damages (a "Claim") is to be made by a party entitled to indemnification hereunder against the indemnifying party, the party claiming such indemnification shall give written notice (a "Claim Notice") to the indemnifying party as soon as practicable after the party entitled to indemnification becomes aware of any fact, condition or event which may give rise to Damages for which indemnification may be sought under this Section 6.2. If any lawsuit or enforcement action is filed against any party entitled to the benefit of indemnity hereunder, written notice thereof shall be given to the indemnifying party as promptly as practicable (and in any event within five (5) calendar days after the service or the citation or summons). The failure of any indemnified party to give timely notice hereunder shall not affect rights to indemnification hereunder, except to the extent that the indemnifying party demonstrates actual prejudice caused by such failure. After such notice, if the indemnifying party shall acknowledge in writing to the indemnified party that the indemnifying party shall be obligated under the terms of its indemnity hereunder in connection with such lawsuit or action, then the indemnifying party shall be entitled, if it so elects, (i) to participate in or, if it so elects, to take control of the defense and investigation of such lawsuit or action; (ii) to employ and engage attorneys of its own choice to handle and defend the same, at the indemnifying party's cost, risk and expense unless the named parties to such action or proceeding include both the indemnifying party and the indemnified party and the indemnified party has been advised in writing by counsel that a conflict of interest between the indemnified party and indemnifying party exists, in which event the indemnified party may in its discretion engage separate counsel to participate in the Proceedings; and (iii) to compromise or settle such Claim, provided that, if any such settlement or compromise entails material non-monetary affirmative obligations on the part of the indemnified party, such compromise or settlement shall be made only with the written consent of the indemnified party, such consent not to be unreasonably withheld or delayed. If the indemnifying party fails to assume the defense of such Claim within forty-five (45) calendar days after receipt of the Claim Notice, the indemnified party against which such Claim has been asserted will (upon delivering notice to such effect to the indemnifying party) have the right to undertake, at the indemnifying party's reasonable cost and expense, the defense, compromise or settlement of such Claim on behalf of and for the account and risk of the indemnifying party; provided, however, that such Claim shall not be compromised or settled without the written consent of the indemnifying party. Such consent not to be unreasonably withheld or delayed. In the event the indemnified party assumes the defense of the Claim, the indemnified party will keep the indemnifying party reasonably informed of the progress of, and allow full participation in, any such defense, compromise or settlement.

(ii) With respect to any Tax Audit relating to tax years ending on or prior to the Closing Date or with respect to any previous year for which the Sellers could have an indemnification obligation under Section 6.2 hereof, the Sellers or their designated Representative shall have the sole right, at their sole cost and expense, to control and settle any Tax Audit by any taxing authority and contest and defend against any assessment, notice of deficiency or other adjustment or proposed adjustment ("Tax Adjustment"), provided, (i) if the Sellers do not agree in writing to undertake the control of a Tax Audit within ten (10) business days after they have been afforded the opportunity in writing in the manner provided by this Agreement for the giving of notices, Buyer shall have exclusive control of such Tax Audit and (ii) if the resolution of any issue arising with respect to any Tax Audit or Tax Adjustment could have a material adverse effect on the amount or timing of the Tax liability of the Companies or their Subsidiaries in any period ending after the Closing Date, the Sellers shall promptly notify the Buyer in writing and shall afford to the Buyer the opportunity to control jointly the conduct

and resolution of the portion of such Tax Audit or Tax Adjustment that could have the effect of increasing or accelerating the tax liabilities of the Company in any post-closing. If the Buyer shall decline to participate in the contest or conduct of such Tax Audit or Tax Adjustment, the Sellers shall have the right to control the conduct of such Tax Audit or Tax Adjustment, provided that the Sellers shall not resolve such Tax Audit or Tax Adjustment without the Buyer's consent which shall not be unreasonably withheld or delayed. In the event of a dispute between the Sellers and the Buyer regarding the conduct or resolution of any Tax Audit or Tax Adjustment hereof in which they share joint control of the conduct and resolution, the parties will consult with each other on, and attempt to resolve, their dispute. If such dispute cannot be resolved, it shall be referred to a nationally recognized accounting firm that is designated by the parties ("Tax Arbitrator"). Each of the Buyer and the Sellers shall present its position to the Tax Arbitrator which shall decide which position shall be adopted. The Tax Arbitrator shall not be entitled to adopt any other position, unless the Sellers and the Buyer so agree in writing. The decision of the Tax Arbitrator shall be final and binding. The fees and costs of the Tax Arbitrator shall be paid by the party or parties whose position(s) is not adopted by the Tax Arbitrator. Each party shall bear its own legal and other advisory expenses incurred in connection with such procedure. Buyer covenants that, except as specifically provided above in relation to an ongoing Tax Audit of a Tax Return by a Governmental Body, it will not, and will cause each and all of the Companies to not, amend any Tax Return of any of the Companies (including any consolidated return including one or more or all of the Companies) filed on or before the date hereof, or make any additional Tax filing with respect to any Tax period for which a Past Tax Return has been filed, if such amended return or additional filing would have any Adverse Impact, without the written consent of the Sellers Representative, which consent shall not unreasonably be withheld or delayed. For this purpose, an amended return or an additional filing has an "Adverse Impact" if it results in (i) an increase in Tax liability of the Company for any Tax year or part thereof prior to the Closing Date or (ii) a position on such amended Tax Return or filing that implies a correspondingly higher Tax liability for any Seller or the owner of any Seller. Sellers and Buyer will jointly prepare the Tax Returns of the Companies for the Tax period from July 1, 2009 to the Closing Date. For purposes of clarification, this covenant shall not apply to action taken by the Companies as a result of a tax audit not involving an amended return or other filing.

6.3. **Limitation on Liability. Any provision herein to the contrary notwithstanding:**

(a) **Subject to the limitation on indemnifications set forth in Section 6.2(a), each Seller shall be liable in the aggregate for all Claims up to, but not in an amount exceeding, such Seller's Indemnity Percentage; provided, however, that this subsection (a) shall not apply to Claims known to any Seller prior to the Closing and not set forth in Seller's Disclosure Letter.**

(b) **The limitations on liability set forth in Section 6.3(a) shall not apply to any Claim based upon the breach of any representation and warranty which pursuant to the provision 6.2(a)(i) survives the 18-month anniversary of the Closing; provided, however, that the liability of each Seller for any Claim described in this subsection (b) shall be limited to such Seller's Indemnity Percentage of such Claim.**

(c) **In no event shall any Seller be liable (including under the Environmental Escrow Agreement and the Indemnification Escrow Agreement) to Buyer or its affiliates for any Damages with respect to any Claim for any amount in excess of such Seller's Indemnity Percentage of the total Damages with respect to such Claim.**

6.4. **Subrogation. Upon making an indemnity payment pursuant to this Agreement, the indemnifying party will, to the extent of such payment, be subrogated to all rights of the indemnified party against any**

third party in respect of the damages to which the payment related. Without limiting the generality of any other provision hereof, each such indemnified party and indemnifying party will duly execute upon request all instruments reasonably necessary to evidence and perfect the above described subrogation and subordination rights.

6.5. **No Double Recovery; Use of Insurance. Notwithstanding anything herein to the contrary, no party shall be entitled to indemnification or reimbursement under any provision of this Agreement for any amount to the extent such party or its Affiliate has been indemnified or reimbursed for such amount under any other provision of this Agreement, the Exhibits or Schedules attached hereto, Sellers' Disclosure Letter, or any document executed in connection with this Agreement or otherwise. Furthermore, in the event any Damages related to a claim by Buyer are covered by insurance, except insurance obtained by the Buyer or the Companies and their Subsidiaries after the Closing Date to the extent and only to the extent it provides coverage or limits not offered by insurance policies maintained by the Companies and their Subsidiaries immediately prior to the Closing Date, Buyer agrees to use commercially reasonable efforts to seek recovery under such insurance and Buyer shall not be entitled to recover from the Sellers (and shall refund amounts received up to the amount of indemnification actually received) with respect to such Damages to the extent, and only to the extent, any of Buyer, the Companies and their Subsidiaries recovers under any such insurance policy.**

6.6. **Treatment of Indemnity Payments Between the Parties. All indemnification payments shall constitute adjustments to the Purchase Price for all tax purposes, and no party shall take any position inconsistent with such characterization.**

6.7. **Connecticut Transfer Act**

(a) **Sellers shall prepare Property Transfer Form III's in accordance with the Connecticut General Statutes Sec. 22a-134 ("Transfer Act") for both the Hoffman/Bridgeport Terminal property and the Hoffman Fuel Company of Danbury property. Hoffman/Bridgeport and Hoffman Fuel Company of Danbury will be the "Certifying Party" (as defined in Section 22a-134(6) of the Connecticut General Statutes) for their respective properties. Sellers shall also direct their current Licensed Environmental Professional ("LEP") to prepare Environmental Condition Assessment Forms ("ECAFs") for both the Hoffman/Bridgeport and the Danbury properties to be filed with the Connecticut Department of Environmental Protection ("CTDEP") in connection with the transaction contemplated by this Agreement.**

(b) **At the Closing, the Property Transfer Form III's shall be signed by the Buyer as the transferee, by the Sellers as the transferors, and by Hoffman/Bridgeport and Hoffman Fuel Company of Danbury as the Certifying Parties for their respective properties. No later than ten (10) days after Closing, Hoffman/Bridgeport and Hoffman Fuel Company of Danbury shall file the fully executed Property Transfer Forms with the CTDEP and pay all required Transfer Act filing fees.**

6.8. **Environmental Indemnification.**

ARTICLE VII

RESTRICTIVE COVENANTS

7.1. **Restrictive Covenants.**

Each of the Sellers, individually and not jointly, agrees as follows:

(a) **For a period of five (5) years from the date hereof, Seller shall not, in any state in which the Companies or their Subsidiaries are conducting the Business on the Closing Date (the "Territory"), directly or indirectly, sell or distribute, or solicit or accept orders for the sale or distribution of, or assist or advise any person in connection with the sale or distribution of, or the solicitation or acceptance of orders for the retail sale of, Petroleum Products, biofuels, natural gas, hvac equipment or hvac equipment installation or maintenance services of any type in the Territory.**

(b) **For a period of ten (10) years from the date hereof, Seller shall not, anywhere in the Territory, directly or indirectly (a) sell or distribute, or solicit or accept orders for the retail sale or distribution of, or assist or advise any person in connection with the retail sale or distribution of, or the solicitation or acceptance of orders for the retail sale of, Petroleum Products, biofuels, natural gas, hvac equipment or hvac equipment installation or maintenance services of any type to the Customers or interfere or seek to interfere with the patronage of the Customers with the Buyer or (b) except as requested by Buyer, communicate with any of the Customers or assist any person to communicate with any of the Customers relating to the activities in which it is prohibited from engaging in except at the prior written request of Buyer.**

(c) **For a period of five (5) years from the date hereof the Seller will not solicit any employee of the Companies and their Subsidiaries to leave their employment and will not hire or retain any such employee whether, as an employee, consultant or otherwise; provided, however, that advertising in newspapers and other media will not be deemed to be a solicitation unless specifically targeted at any such employee.**

(d) **The Seller acknowledges that if it should breach a covenant contained herein, Buyer's remedy at law will be inadequate. Therefore, in addition to any remedy otherwise available to the Buyer, and notwithstanding the provisions herein for arbitration, the Seller agrees that Buyer shall be entitled to an injunction restraining it from any such violation. Moreover, if it shall be determined by any arbitration panel or court, that any covenant herein is not enforceable due to its geographic area or duration, then it is the intention of the parties that such covenant shall be enforceable to the greatest extent possible, and will be deemed amended so as to reduce the geographic area or duration, as the case may be, to the extent necessary to secure enforceability.**

(e) **For the purposes of this Section 7.1, a Seller will be deemed directly or indirectly engaged in a business if it participates in such business as partner, joint venturer, shareholder, consultant, advisor or agent or if it controls such business. Such Seller shall not, for purposes of this Article, be deemed a shareholder or lender if it holds less than two percent (2%) of the outstanding equity or debt of any publicly owned corporation engaged in the same or similar business to that of the Seller, provided that Seller shall not be in a control position with regard to such corporation.**

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1. **Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified and supplemented by written agreement of Buyer and Sellers any time prior to the Closing with respect to any terms contained herein.**

8.2. **Waiver of Compliance. Any failure of Sellers, on the one hand, or Buyer, on the other, to comply with any obligation, covenant, agreement or condition herein may be expressly waived in writing by the President or a Vice President of any such party, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.**

8.3. **Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as duly given on (a) the date of delivery, if delivered in person or if sent by telecopier and also as provided in clause (b), or (b) two days after mailing, if sent by Federal Express or other similar overnight delivery service, or (c) three days after mailing if mailed from within the continental Untied States by registered or certified mail, return receipt requested, to the party entitled to receive the same, at the address provided in this Section 8.3.**

Any party hereto may change its address by giving notice to the other stating its new address, all in the manner provided herein. Such newly designated address shall thereafter be such party's address for the purpose of all notices or other communications required or permitted to be given pursuant to this Agreement.

(a) **If to Sellers or Sellers Representative, to:**

A. Silecchia Corporation

Attn: Anthony Silecchia
14 Rockaway Avenue
Rockville Centre, NY 11570

with a copy to:

Ellenoff Grossman & Schole LLP
150 East 42nd Street
New York, New York 10017
Attn: Geoffrey W. Parnass, Esq.
Fax: (212) 370-7889

(b) **If to Buyer, to**:
Petro Holdings, Inc.
2187 Atlantic Street
Stamford, CT 06904
Attn: President
Fax: 203-328-7421,

with a copy to:

Phillips Nizer LLP
666 Fifth Avenue
New York, New York 10103
Attn: Alan Shapiro, Esq.
Fax: 212-262-5152.

8.4. **Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties.**

8.5. **Dispute Resolution. In the event that there shall be a dispute between the parties after the Closing Date arising out of or relating to this Agreement, including, without limitation, the indemnities provided in Article IX or the breach thereof, the parties agree that such dispute shall be resolved by final and binding arbitration in the State of New York**

administered by the American Arbitration Association (the "AAA"), in accordance with the AAA's rules of practice then in effect or such other procedures as the parties may agree. Unless the parties agree otherwise, the arbitration shall be conducted by a single arbitrator appointed by the AAA, which arbitrator shall be a partner at an internationally-recognized accounting firm. Any award issued as a result of such arbitration shall be final and binding between the parties thereto, and shall be enforceable by any court having jurisdiction over the party against whom enforcement is sought. The arbitrator shall have the authority in his or her discretion to award to the prevailing party the fees and expenses of such arbitration (including reasonable attorneys' fees) or any action to enforce an arbitration award. For the purposes of an action to enforce an arbitration award under this Section 8.5, Sellers and Buyer each agree to consent to the jurisdiction of the Supreme Court of the State of New York, or if such court declines the exercise of jurisdiction, the jurisdiction of the courts of the United States of America located in the Southern District of New York, and the service of process therein.

8.6. **Schedules and Exhibits. All exhibits and schedules hereto and Sellers' Disclosure Letter are hereby incorporated by reference and made a part of this Agreement.**

8.7. **Sellers' Representative.**

(a) **By the execution and delivery of this Agreement, including counterparts hereof, each Seller hereby irrevocably constitutes and appoints Anthony Silecchia as the true and lawful agents and attorneys-in-fact (the "Sellers Representative") of such Seller with full powers of substitution to act in the name, place and stead of such Seller with respect to the performance on behalf of such Seller under the terms and provisions of this Agreement, as the same may be from time to time amended, and to do or refrain from doing all such further acts and things, and to execute all such documents on such Seller's behalf, as the Sellers Representative shall deem necessary or appropriate in connection with any of the transactions contemplated under this Agreement, including:**

(i) to receive on behalf of the Sellers all payments made by the Buyer to the Sellers under this Agreement;

(ii) to agree upon or compromise any matter related to the calculation of any adjustments to the Purchase Price pursuant to Section 2.3 or otherwise or other payments to be made;

(iii) to act for the Sellers with respect to all indemnification matters referred to in this Agreement, including the right to compromise on behalf of the Sellers any indemnification claim made by or against the Sellers;

(iv) to terminate, amend, or waive any provision of this Agreement; provided that any such action, if material to the rights and obligations of the Sellers in the reasonable judgment of the Sellers Representative, shall be taken in the same manner with respect to all Sellers, unless otherwise agreed by each Seller who is subject to any disparate treatment of a potentially adverse nature;

(v) to employ and obtain the advice of legal counsel, accountants and other professional advisors as the Sellers Representative, in their sole discretion, deems necessary or advisable in the performance of their duties as Sellers Representative and to rely on their advice and counsel;

(vi) to incur and pay out of the Purchase Price expenses, including fees of brokers, attorneys and accountants incurred pursuant to the transactions contemplated hereby, and any other fees and expenses allocable or in any way relating to such transaction or any indemnification claim, whether incurred prior or subsequent to Closing;

(vii) to administer and disburse funds from, and execute and deliver on behalf of such Seller agreements related to, the escrow account created by the Environmental Agreement and the Indemnification Escrow Agreement; and

(viii) to do or refrain from doing any further act or deed on behalf of the Sellers which the Sellers Representative deem necessary or appropriate in their sole discretion relating to the subject matter of this Agreement as fully and completely as any of the Sellers could do if personally present and acting.

(b) **The appointment of the Sellers Representative shall be deemed coupled with an interest and shall be irrevocable, and any other person may conclusively and absolutely rely, without inquiry, upon any actions of the Sellers Representative as the acts of the Sellers in all matters referred to in this Agreement. Each of the Sellers hereby ratifies and confirms all that the Sellers Representative shall do or cause to be done by virtue of such Sellers Representative' appointment as Sellers Representative of such Seller. The Sellers Representative shall act for the Sellers on all of the matters set forth in this Agreement in the manner the Sellers Representative believes to be in the best interest of the Sellers, but the Sellers Representative shall not be responsible to any Sellers for any loss or damage any Sellers may suffer by reason of the performance by the Sellers Representative of such Sellers Representative' duties under this Agreement, other than loss or damage arising from willful misconduct in the performance of such Sellers Representative' duties under this Agreement.**

(c) **Each of the Sellers hereby expressly acknowledges and agrees that the Sellers Representative is authorized to act on behalf of such Seller notwithstanding any dispute or disagreement among the Sellers, and that any person shall be entitled to rely on any and all action taken by the Sellers Representative under this Agreement without liability to, or obligation to inquire of, any of the Sellers. If any Sellers Representative resigns or ceases to function in such capacity for any reason whatsoever, then the successor Sellers Representative shall be the person which the Sellers with a majority of the Sharing Percentages appoint; provided, however, that if for any reason no successor has been appointed within thirty (30) days, then any Seller shall have the right to petition a court of competent jurisdiction for**

appointment of a successor Sellers Representative. The Sellers do hereby jointly and severally agree to indemnify and hold the Sellers Representative harmless from and against any and all liability, loss, cost, damage or expense (including without limitation attorneys' fees) reasonably incurred or suffered as a result of the performance of such Sellers Representative's duties under this Agreement except for any such liability arising out of the willful misconduct of such Sellers Representative.

(d) **In each event where action, decision or approval of the Sellers Representative is required, unless otherwise specified any such action, decision or approval shall require action, decision or approval by any two of the three of the Sellers Representative.**

8.8. **Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.**

8.9. **Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimiles of any such counterpart shall have the same force and effect as an original signature.**

8.10. **Headings. The headings of the Sections and Articles of this Agreement are inserted for convenience only and shall not constitute a part hereof or affect in any way the meaning or interpretation of this Agreement.**

8.11. **Entire Agreement. This Agreement, including the Exhibits and Sellers' Disclosure Letter hereto, and all documents required to be delivered hereunder and any other documents and certificates delivered pursuant to the terms hereof or thereof, set forth the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein, and supersede all prior negotiations, understandings, discussions, agreements (other than the confidentiality provisions of the Confidentiality Letter), promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto whether written or oral.**

8.12. **Third Parties. Except as specifically set forth or referred to herein, nothing herein expressed or implied is intended or shall be construed to confer upon or give to any person or corporation other than the parties hereto and their successors or assigns, any rights or remedies under or by reason of this Agreement.**

8.13. **Further Cooperation.**

(i) The parties hereto agree that they will, at the expense of the requesting party, from time to time execute and deliver any and all additional and supplemental instruments, and do such other reasonable acts and things which may be necessary or desirable to effect the purpose of this Agreement, and the consummation of the transactions contemplated hereby.

(ii) Buyer, Companies and their Subsidiaries, and Sellers shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns and any audit, litigation or, other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other. proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Buyer, Companies and their Subsidiaries and Sellers agree (A) to retain all books and records with respect to Tax matters pertinent to Companies and their Subsidiaries relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or Sellers, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, Companies and their Subsidiaries or Sellers, as the case may be, shall allow the other party to take possession of such books and records. Buyer and Sellers further agree, upon request, to use their reasonable best efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

[Signature Page Follows**]**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be affixed hereto, all as of the day and year first above written.

Buyer:

PETRO HOLDINGS, INC.

By: ______________________________

Name: Dan Donovan
Title: President and Chief Executive Officer

SELLERS:

PJC INTERCAPITAL LP
By: Silecchia Holdings LLC, its General Partner

By: ______________________________

Anthony Silecchia
President

A. SILECCHIA CORPORATION

By: ______________________________

Anthony Silecchia
President

PJC GROUP OF NEW ENGLAND CO.,
a Delaware Corporation

By: ______________________________

Peter Carini
President

Exhibit 31.1

CERTIFICATIONS

I, Daniel P. Donovan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Gas Partners, L.P. ("Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information and;
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2010

/s/ DANIEL P. DONOVAN

Daniel P. Donovan
President and Chief Executive Officer
Star Gas Partners, L.P.

Exhibit 31.2

CERTIFICATIONS

I, Daniel P. Donovan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Gas Finance Company ("Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information and;

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2010

/s/ DANIEL P. DONOVAN

Daniel P. Donovan
President and Chief Executive Officer
Star Gas Finance Company

Exhibit 31.3

CERTIFICATIONS

I, Richard F. Ambury, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Gas Partners, L.P. ("Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information and;

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2010

/s/ RICHARD F. AMBURY

Richard F. Ambury
Executive Vice President, Chief Financial Officer,
Treasurer and Secretary
Star Gas Partners, L.P.

Exhibit 31.4

CERTIFICATIONS

I, Richard F. Ambury, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Gas Finance Company ("Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information and;
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2010

/s/ RICHARD F. AMBURY

Richard F. Ambury
Executive Vice President, Chief Financial Officer,
Treasurer and Secretary
Star Gas Finance Company

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Star Gas Partners, L.P. (the “Partnership”) and Star Gas Finance Company on Form 10-Q for the quarterly period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel P. Donovan, President and Chief Executive Officer of the Partnership and Star Gas Finance Company, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership and Star Gas Finance Company.

STAR GAS PARTNERS, L.P.
STAR GAS FINANCE COMPANY

By: KESTREL HEAT LLC (General Partner)

August 3, 2010

By: /s/ DANIEL P. DONOVAN

Daniel P. Donovan
President and Chief Executive Officer
Star Gas Partners, L.P.
Star Gas Finance Company

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Star Gas Partners, L.P. (the "Partnership") and Star Gas Finance Company on Form 10-Q for the quarterly period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard F. Ambury, Chief Financial Officer of the Partnership and Star Gas Finance Company, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership and Star Gas Finance Company.

STAR GAS PARTNERS, L.P.
STAR GAS FINANCE COMPANY

By: KESTREL HEAT LLC (General Partner)

August 3, 2010

By: /S/ RICHARD F. AMBURY

Richard F. Ambury
Executive Vice President Chief Financial Officer,
Treasurer and Secretary
Star Gas Partners, L.P.
Star Gas Finance Company