STAR GAS PARTNERS LP
Form S-3/A
March 20, 2006
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As filed with the Securities and Exchange Commission on March 17, 2006

Registration No. 333-131098

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

To

FORM S-3

REGISTRATION STATEMENT

Under

The Securities Act of 1933

STAR GAS PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**5984**	**06-1437793**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

Star Gas Partners, L.P.

2187 Atlantic Street

P.O. Box 120011

Stamford, Connecticut 06902

(203) 328-7310

(Address, including zip code, and telephone number, including area code, of registrant s principal executive office)

Richard F. Ambury

Chief Financial Officer, Star Gas LLC

2187 Atlantic Street

P.O. Box 120011

Stamford, Connecticut 06902

(203) 328-7310

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Phillips Nizer LLP

666 Fifth Avenue, 28th Floor

New York, New York 10103-0084

(212) 977-9700

Attn: Brian Brodrick, Esq.

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (1)
Common Units representing limited partnership interests (3)	17,500,000	$2.25	$39,375,000	$ 4,214
Rights to purchase Common Units representing limited partnership interests	17,500,000		(2)	(2)
Total	17,500,000		$39,375,000	$ 4,214*

* $3,745 of the filing fee was previously paid in connection with the filing of the registration statement.

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g).

(2) Pursuant to Rule 457(g), no separate registration fee is payable with respect to the rights being offered hereby since the rights are being registered in the same registration statement as the securities to be offered pursuant thereto.

(3) The Common Units include unit purchase rights of one right per unit, which are issuable pursuant to a unit purchase rights agreement dated as of April 17, 2001, as amended by a first amendment to unit purchase rights agreement dated as of December 2, 2005. No additional fee is required in respect of unit purchase rights associated with the Common Units.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment specifically stating that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to purchase these securities in any state where the offer or sale is prohibited.

Subject to Completion

Preliminary Prospectus dated March 17, 2006

PROSPECTUS

STAR GAS PARTNERS, L.P.

Rights Offering For

17,500,000 Common Units

We are distributing to our common unitholders non-transferable subscription rights to purchase our common units. The holder of record of each common unit held at the close of business on March 28, 2006, the record date for the distribution, is being issued .5441 rights to purchase one common unit. Each full right is exercisable to purchase one common unit at $2.25 per unit.

If all rights are exercised, we will receive approximately $39.375 million from the rights offering, before paying estimated expenses of approximately $6.5 million in connection with the strategic recapitalization of Star Gas Partners described below. We will not issue fractional units or pay cash in lieu thereof. Instead, we will round the total number of units each rightsholder is entitled to acquire upward to the nearest whole unit, provided that such rounding shall not cause the total purchase price of the common units issuable upon exercise of the rights to exceed $39,375,000. The subscription price for units may be paid only in cash. All exercises of rights are irrevocable. No rightsholder will have the right to oversubscribe.

On December 5, 2005, we entered into a unit purchase agreement with Kestrel Energy Partners, LLC (Kestrel) and its wholly owned subsidiaries, KM2, LLC (M2) and Kestrel Heat, LLC (Kestrel Heat). Pursuant to the unit purchase agreement, M2 agreed to purchase 7,000,000 common units and Kestrel Heat agreed to purchase 500,000 common units, at a purchase price of $2.00 per unit for an aggregate purchase price of $15 million. M2 also agreed to provide a standby commitment to purchase an additional number of common units equal to the number of common units not purchased in the rights offering, also at a purchase price of $2.00 per unit. Upon the closing of the transactions contemplated by the unit purchase agreement, Star Gas LLC, our current general partner (Star Gas), will withdraw and, subject to approval by our unitholders, Kestrel Heat will replace Star Gas as our new general partner. On March 12, 2006, the parties to the unit purchase agreement entered into a contingent amendment thereto that provides for an increase in the purchase price of the common units to $2.25 per unit and an increase in the exercise price of the rights to $2.25 per unit. The contingent amendment became effective on March 15, 2006. See Summary The Recapitalization Contingent Amendment. Unless otherwise indicated herein, the information in this prospectus gives effect to the contingent amendment.

The rights offering, together with M2 s standby commitment, are part of a strategic recapitalization of Star Gas Partners that, if approved by our unitholders and completed, would result in a reduction in the outstanding amount of our 10.25% senior notes due 2013 (senior notes) of up to $100 million (assuming full noteholder participation in the senior notes tender offer described below) and the issuance of approximately 42,171,308 new common units.

The rights offering will expire at 5:00 p.m., New York City time, on , 2006, or such later date and time to which the rights offering is extended (the Expiration Time). NO EXERCISES OF RIGHTS WILL BE ACCEPTED FOLLOWING THE EXPIRATION TIME. Unitholders who have exercised their rights pursuant to the rights offering may NOT revoke or withdraw their exercise of their rights. We may terminate the rights offering for any reason before the Expiration Time. Unless we terminate the rights offering, we will issue the units purchased by you in the rights offering as soon as practicable following the Expiration Time. LaSalle Bank National Association is the subscription agent for the rights offering. We have not employed any brokers, dealers or underwriters in connection with the rights offering.

Our common units are listed under the symbol SGU on The New York Stock Exchange. On March 16, 2006, the closing sales price per common unit was $2.78. The rights are non-transferable and will not be listed on any exchange.

This investment involves risks. Before making an investment, carefully consider the Risk Factors beginning on page 28 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Statements in this prospectus assume the approval by our unitholders of proposals necessary to implement the recapitalization transaction and the completion thereof. We refer you to our proxy statement dated January 24, 2006, supplements thereto dated March 1, 2006 and March 17, 2006 and an amended notice of meeting dated March 13, 2006 for a description of each of the proposals to be acted on by our unitholders at a special meeting to be held on March 24, 2006, which shall be convened solely to adjourn the special meeting to March 28, 2006. The recapitalization, including this rights offering, are conditioned upon unitholder approval of each of the recapitalization proposals.

Neither we nor the board of directors of our general partner has made any recommendation as to whether you should exercise your rights. You should decide whether to subscribe for common units or simply take no action with respect to your rights, based upon your own assessment of the risks in making an additional investment in us. See Risk Factors, The Rights Offering No Recommendations to Rightsholders, Information Regarding Kestrel Heat Interests of the Proposed Executive Officers and Directors in the Recapitalization and Conflicts of Interest.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read this entire prospectus and any amendments or supplements to this prospectus carefully before making your investment decision.

The date of this prospectus is , 2006.

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GUIDE TO READING THIS PROSPECTUS

Certain of the information contained in this prospectus was obtained from other sources. This prospectus also incorporates by reference important business and financial information about us that is not included in or delivered with this prospectus.

You should rely only on the information contained in this prospectus or any supplement and any information incorporated by reference in this prospectus or any supplement. We have not authorized anyone to provide you with any information that is different from such information. If you receive any unauthorized information, you should not rely on it. You should disregard anything we said in an earlier document that is inconsistent with what is included or incorporated by reference in this prospectus or any supplement.

You should not assume that the information in this prospectus or any supplement is current as of any date other than the date on the front page of this prospectus or on the date of any supplement as to information contained in it. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

We include cross references to captions in this prospectus where you can find further related discussions. The above table of contents tells you where to find these captions.

Throughout this prospectus, we refer to ourselves, Star Gas Partners, L.P. together with our subsidiaries, as we or us or Star Gas Partners. We sometimes refer to the board of directors of our current general partner, Star Gas, as our board of directors, our board, the board, Star Gas board or Star Gas Partners board.

For ease of reference, a glossary of some terms used in this prospectus is included as Annex B to this prospectus. Capitalized terms not otherwise defined in this prospectus have the meanings given in the glossary.

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FORWARD-LOOKING STATEMENTS

Many of the statements contained in this prospectus, including, without limitation, statements regarding our business strategy, plans and objectives of our management for future operations are forward-looking within the meaning of the federal securities laws. These statements use forward-looking words, such as anticipate, continue, expect, may, will, estimate, believe or other similar words. These statements, incl those contained in Prospectus Summary 2006 Forecast of Star Gas Partners, discuss future expectations or contain projections. Although we believe that the expectations reflected in the forward-looking statements are reasonable, actual results may differ from those suggested by the forward-looking statements for various reasons, including:

- the approval of the recapitalization;
- the effect of weather conditions on our financial performance;
- anticipated proceeds from weather insurance;
- 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 customers and retain existing customers;
- our ability to effect strategic acquisitions or redeploy underperforming assets;
- the ultimate disposition of excess proceeds from the sale of the propane segment should the recapitalization not be consummated;
- the impact of litigation;
- the ongoing impact of the business process redesign project at the heating oil segment and our ability to address issues related to that project;
- natural gas conversions;
- future union relations and the outcome of current and future union negotiations;

- the impact of current and future environmental, health and safety regulations;
- customer creditworthiness; and
- marketing plans.

The above factors, as well as the factors set forth below under Risk Factors, could cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

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PROSPECTUS SUMMARY

This summary information is to help you understand our company and the rights offering. It may not contain all the information that may be important to you. You should carefully read this prospectus and the documents incorporated by reference to understand fully our common units, as well as the tax and other considerations that are important to you in making your investment decision. You should pay special attention to the Risk Factors section beginning on page 28 of this prospectus to determine whether an investment in our common units is appropriate for you.

Who We Are

Star Gas Partners, L.P.

We are the largest retail distributor of home heating oil in the United States, based on volume as reported by the National Oilheat Research Alliance Organization, March 2003. Our home heating oil operations serve approximately 480,000 customers in the Northeast and Mid-Atlantic regions. For the twelve months ended December 31, 2005, our home heating oil segment sold 476.3 million gallons of home heating oil. We were also formerly engaged as a retail distributor of propane until December 17, 2004, when we sold our propane segment.

For the twelve months ended December 31, 2005, approximately 76% of total sales from our heating oil operations were from sales of home heating oil, approximately 14% were from the installation and repair of heating and air conditioning equipment and approximately 10% were from the sale of other petroleum products, including diesel fuel and gasoline, primarily to commercial customers for fleet fuel service. During this period, our home heating oil operations generated total sales of approximately $1.3 billion.

Our executive offices are located at 2187 Atlantic Street, Stamford, Connecticut 06902. The telephone number is (203) 328-7310.

Recent Results

The following is a summary of our results of operations for the three months ended December 31, 2005. For a more detailed discussion of our results of operations for this period, see our Quarterly Report on Form 10-Q for the three months ended December 31, 2005, as amended by Form 10-Q/A (the Quarterly Report on Form 10-Q/A), which is incorporated by reference in this prospectus.

Volume: For the three months ended December 31, 2005, retail volume of home heating oil declined by 11.0 million gallons, or 7.7%, to 131.3 million gallons, as compared to 142.3 million gallons for the three months ended December 31, 2004. We believe that this 11.0 million gallon home heating oil decline was due almost entirely to net customer attrition, which occurred in fiscal 2005 and continued through the fiscal first quarter of 2006. Net customer attrition is the difference between gross customer losses and customers added through internal marketing efforts. Customers added through acquisitions do not impact the calculation of net customer attrition. For both fiscal 2005 and the twelve months ended December 31, 2005, the heating oil segment experienced net customer attrition of approximately 7.1% and 8.3%, respectively. Temperatures in our geographic areas of operations for the three months ended December 31, 2005 were approximately equal to the three months ended December 31, 2004 and approximately 2.4% warmer than normal, as reported by the National Oceanic Atmospheric

Administration (NOAA). Due to the significant increase in the price per gallon of home heating oil, we believe that customers are using less home heating oil given similar temperatures when compared to prior periods. Indications based on internal studies suggested that in fiscal 2005, customers reduced their consumption by approximately 4.4%. We cannot determine if conservation is a permanent or temporary phenomenon. Temperatures in our geographic areas of operations for January 2006 were 29.3% warmer than January 2005 as a result of significantly warmer than average temperatures in our locations. For January 2006, retail volume of home heating oil declined by 28.7 million gallons, or 32.4%, to 59.9 million gallons as

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compared to 88.5 million gallons for January 2005. We expect that home heating oil volume sold for the remainder of the fiscal quarter ended March 31, 2006 and for the balance of fiscal 2006 will be substantially less than in the comparable period in fiscal 2005 due to warmer weather (at least through January 31, 2006), net customer attrition, conservation and other factors such as delivery scheduling.

Operating Income (Loss): For the three months ended December 31, 2005, operating income increased $41.4 million to $20.4 million, as compared to a loss of $21.0 million in operating income for the three months ended December 31, 2004. This increase was due to an increase in product gross profit margin of $22.7 million, improvements in net service and installation profitability of $2.6 million, lower bridge and financing expenses of $10.4 million and a reduction in marketing expenses of $3.7 million.

Income (Loss) From Continuing Operations: For the three months ended December 31, 2005, income (loss) from continuing operations increased $87.5 million to $12.9 million, as compared to a loss of $74.6 million for the three months ended December 31, 2004. This increase was due to the $41.4 million increase in operating income, lower interest expense of $3.3 million and higher interest income of $0.5 million. The quarter-to-quarter comparison was also favorably impacted by the $42.1 million loss on redemption of debt recorded in the three months ended December 31, 2004.

Net Income: For the three months ended December 31, 2005, net income declined by $61.9 million, to $12.5 million, as compared to $74.4 million in net income for the three months ended December 31, 2004, as an $87.5 million increase in income from continuing operations and a $4.6 million increase in income from discontinued operations in the 2006 first fiscal quarter was offset by a $153.6 million gain on the sale of the propane segment recorded in the year ago period.

2006 Business Outlook

We expect our business to continue to be affected by the following key trends. Our expectations are based on assumptions made by us, and information currently available to us. To the extent our underlying assumptions about, or interpretations of, available information prove to be incorrect, our actual results may vary materially from our expected results. See Risk Factors.

We face numerous challenges in fiscal 2006. In particular, it will be difficult to stem the high attrition rates that we are currently experiencing, primarily as a result of a volatile and consistently high heating oil prices in the commodity markets.

We believe global demand for oil and gas is expected to increase in 2006, particularly as a result of emerging energy consumers such as China and India. This resultant increase in demand would likely continue to support relatively high commodity prices.

We believe that our efforts to decentralize a portion of our current service operations by redirecting a portion of our customer calls and empowering our local branches will provide benefits in stemming attrition rates in 2006. In addition, we believe our cost control programs, coupled with our discipline in hedging rising commodity price risk for our price protected customer contracts and continued philosophy of maintaining reasonable margins in spite of competitors aggressive price tactics, should mitigate the effect of the attrition associated with the continued high heating oil prices in fiscal 2006. As a result we anticipate that our per-gallon margin will improve over our margins earned in fiscal 2005.

Our ability to satisfy our liquidity and capital requirements will depend on our future performance, which will be subject to prevailing economic, financial, business and weather conditions, the ability to pass on the full

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impact of high wholesale heating oil prices to customers, the effects of high customer attrition, conservation and other factors, most of which are beyond our control. See Risk Factors. Capital requirements, at least in the near term, are expected to be provided by cash flows from operating activities, cash on hand at December 31, 2005 or a combination thereof. To the extent future capital requirements exceed cash flows from operating activities, we anticipate that working capital will be financed by our revolving credit facility as discussed below and repaid from subsequent seasonal reductions in inventory and accounts receivable. We believe the proposed recapitalization, as described below, if approved by our unitholders and completed, will substantially strengthen our balance sheet and thereby assist us in meeting our liquidity and capital requirements. We also believe we will be able to operate more efficiently going forward with less long-term debt.

In the latter part of fiscal 2006, we intend to pursue asset acquisitions, to the extent permitted in our credit facility, in geographic areas that will enable us to realize margins we consider reasonable in the face of aggressive localized price competition as one way to replace volume lost through attrition. In addition, we may dispose of operations in markets where we are not able to effectively employ our strategy of maintaining reasonable margins. We anticipate using internally generated cash flow, in part, to the extent permitted under our credit facility and senior note indenture, to fund acquisitions.

The Recapitalization

The rights offering is an integral part of a strategic recapitalization of Star Gas Partners approved by our board of directors. If approved by unitholders and completed, the recapitalization would result in a reduction in the outstanding amount of our senior notes of up to $100 million (assuming full noteholder participation in the senior notes tender offer described below under Noteholder Agreements) and the issuance of approximately 42,171,308 new common units.

The board of directors of Star Gas has scheduled a special meeting of unitholders for March 24, 2006, which shall be convened solely to adjourn the special meeting to March 28, 2006, at which unitholders of record at the close of business on January 24, 2006 will be asked to approve proposals necessary to implement the recapitalization. The closing of the rights offering is conditioned upon the simultaneous closing of the transactions that comprise the recapitalization, which are discussed below.

The recapitalization includes a commitment by Kestrel and its affiliates to purchase $16.875 million of new equity capital and provide a standby commitment in this $39.375 million rights offering to our common unitholders, each at a price of $2.25 per common unit. We would utilize the $56.25 million in new equity financing (less expenses of approximately $6.5 million), together with additional funds from operations, to repurchase at least $60 million in face amount of our senior notes and, at our option, up to approximately $73.1 million of senior notes (less any principal, interest and premium payments required to be reserved for non-tendering noteholders in the senior notes tender offer). In addition, certain noteholders have agreed to convert approximately $26.9 million in face amount of such senior notes into 13,433,962 (subject to adjustment based on rounding) new common units at a conversion price of $2.00 per unit in connection with the closing of the recapitalization.

Unit Purchase Agreement. We originally entered into a unit purchase agreement with Kestrel and its affiliates, which provided for, among other things: the receipt by us of $50 million in new equity financing through the issuance to Kestrel s affiliates of 7,500,000 common units at $2.00 per unit for an aggregate of $15 million and the issuance of an additional 17,500,000 common units in the rights offering to our common unitholders at an exercise price of $2.00 per unit for an aggregate of $35 million. The rights will be non-transferable, and an affiliate of Kestrel has agreed to buy any common units not subscribed for in the rights offering. Under the terms of the unit purchase agreement, and subject to unitholder approval, Kestrel Heat will become our new general partner and Star Gas, our current general partner, will receive no consideration for its withdrawal as general partner.

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Contingent Amendment. On March 12, 2006, the parties to the Kestrel unit purchase agreement entered into a contingent amendment (the contingent amendment) thereto which provides for:

- an increase in Kestrel s equity investment to $16.875 million (compared to $15 million under the original unit purchase agreement) in which Kestrel Heat and M2 will purchase an aggregate of 7,500,000 common units from Star Gas Partners at $2.25 per unit (compared to $2.00 per unit under the original unit purchase agreement); and

- an increase in the size of the rights offering to Star Gas Partners common unitholders to $39.375 million (compared to $35 million per unit under the original unit purchase agreement) at an exercise price of $2.25 per common unit (compared to $2.00 per unit under the original unit purchase agreement), with a standby commitment from M2 to purchase all units that are not subscribed for in the rights offering.

The contingent amendment provided that it would only become effective, and amend the existing unit purchase agreement, upon the satisfaction of either of the following conditions: (1) if Star Gas Partners received the consent to the contingent amendment from the holders of 2/3 of Star Gas Partners outstanding senior notes prior to the close of business on Tuesday, March 28, 2006; or (2) if Kestrel and Star Gas Partners mutually agreed in writing to such effectiveness. On March 15, 2006, the contingent amendment, by its terms, became effective upon the receipt by Star Gas Partners of consents from the holders of more than 2/3 of Star Gas Partners outstanding senior notes. Unless otherwise indicated herein, the information in this prospectus gives effect to the contingent amendment.

Noteholder Agreements. We have entered into agreements with an unaffiliated group of investors who hold approximately 94% of the principal amount of our senior notes (sometimes referred to in this prospectus as the consenting noteholders) that provide that these noteholders will tender their senior notes to us at par for:

- a pro rata portion of $60 million or, at our option, up to approximately $73.1 million in cash (less any principal, interest and premium payments required to be reserved for non-tendering noteholders in the senior notes tender offer);

- 13,433,962 (subject to adjustment based on rounding) new common units at a conversion price of $2.00 per unit (which new units would be acquired by certain noteholders exchanging approximately $26.9 million in face amount of senior notes); and

- new notes representing the remaining face amount of the tendered notes.

The closing of the tender offer for the senior notes is conditioned upon the simultaneous closing of the transactions under the Kestrel unit purchase agreement.

The closing of the recapitalization will be deemed a change of control under the indenture for our senior notes. Consequently, we will be required to make an offer to repurchase any senior notes that are not otherwise tendered in the senior notes tender offer at a purchase price equal to 101% of their face value. As of the date of this prospectus, the holders of an aggregate of approximately $15.3 million in senior notes have not yet agreed to tender their notes in the tender offer. The principal amount of any senior notes, plus any interest and premium payments that we are required to make in respect of senior notes tendered for repurchase in the change of control repurchase offer, will reduce on a dollar-for-dollar basis the amount of senior notes that we shall repurchase for cash in connection with the closing of the recapitalization.

Subject to and until the closing of the recapitalization, these noteholders have agreed not to accelerate indebtedness due under the senior notes or initiate any litigation or proceeding with respect to the senior notes. The consenting noteholders have further agreed:

- to waive certain potential defaults under the indenture;
- not to tender their senior notes in the change of control offer which will be required to be made by us following the closing of the transactions under the unit purchase agreement with Kestrel; and
- to consent to certain amendments to the existing indenture.

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The agreements with the consenting noteholders further provide for the termination of their provisions in the event that the Kestrel unit purchase agreement is no longer in effect. The understandings and agreements contemplated by these transactions will terminate if the recapitalization does not close prior to April 30, 2006.

Amendments to Partnership Agreement. The unit purchase agreement provides for the adoption of a second amended and restated agreement of limited partnership that will, among other things, provide for the following:

Conversion of Senior Subordinated Units and Junior Subordinated Units into Common Units. The proposed amendments will provide for the mandatory conversion of each outstanding senior subordinated unit and each junior subordinated unit into one common unit, as a result of which the subordination period (as defined in our partnership agreement) will end.

Reduction of the Minimum Quarterly Distribution. The proposed amendments will reduce the minimum quarterly distribution on the common units from $0.575 per unit per quarter, or $2.30 per unit per year, to $0.0 per unit through September 30, 2008, or, if we elect to commence making distributions sooner, the quarter in which any distribution of available cash is made, and to $0.0675 per unit per quarter, or $0.27 per unit per year, thereafter. The amendment will also eliminate all previously accrued cumulative distribution arrearages on our common units, which aggregated $92.5 million at November 30, 2005. We believe that this amendment will more closely align the minimum quarterly distribution with the levels of available cash that we may be expected to generate in the future.

Reduction of Incentive Distribution Levels. The proposed amendments will reduce the target distribution levels for the incentive distribution rights so that, commencing with the quarter beginning October 1, 2008, or, if we elect to commence making distributions sooner, the quarter in which any distribution of available cash is made, the new general partner units in the aggregate will be entitled to receive 10% of the cash distributions in a quarter once each common unit and general partner unit has received $.0675 for that quarter, plus any arrearages on the common units from prior quarters, and 20% of the cash distributions in a quarter once each common unit and general partner unit has received $.1125 for that quarter, plus any arrearages on the common units from prior quarters. Under the partnership agreement as currently in effect, the senior subordinated units, junior subordinated units and general partner units are not entitled to receive incentive distributions until $0.604 has been distributed on each common unit for a quarter, plus any arrearages on the common units for prior quarters.

Suspension of Mandatory Distribution of Available Cash. We suspended distributions on our senior subordinated units, junior subordinated units and general partner units on July 29, 2004 and on our common units on October 18, 2004. The proposed amendments will provide that we are not required to distribute available cash through the quarter ending September 30, 2008. We currently do not intend to make distributions of available cash during this period, even if we have available cash to distribute.

Reasons for the Recapitalization

During fiscal 2004, we experienced difficult operating and financial conditions as a result of our inability to pass on the full impact of record wholesale heating oil prices to customers and the effects of unusually high net customer attrition principally related to our heating oil segment s operational restructuring. Prior to the 2004 winter heating season, our heating oil segment attempted to develop a competitive advantage in customer service, and as part of that effort, centralized its heating equipment service dispatch and engaged a centralized call center to fulfill its telephone requirements for the majority of its home heating oil customers. We experienced difficulties in advancing this initiative during the fiscal year ended September 30, 2004, which adversely impacted our customer base, product sales and costs. These conditions led to the suspension of distributions on our senior subordinated units, junior subordinated units and general partner units on July 29, 2004 and to the suspension of distributions on the common units on October 18, 2004. We continued to experience difficult

operating and financial conditions in fiscal 2005. As indicated below, we believe that the recapitalization would permit us to address the problems resulting from these difficult operating and financial conditions in a manner that would be beneficial to our unitholders.

Certain Potential Advantages of the Proposed Recapitalization to Common Unitholders:

Reduce Liquidity Concerns. The use of the $56.25 million in new equity financing (including from this rights offering) (less estimated expenses of $6.5 million), together with additional funds from operations, to repurchase up to approximately $73.1 million in face amount of our senior notes (assuming full noteholder participation in the senior notes tender offer), and the conversion of an additional $26.9 million in face amount of senior notes into equity in connection with the closing of the recapitalization would substantially strengthen our balance sheet and thereby reduce our concerns about liquidity and a shortage of capital. We believe this would provide us with the financial flexibility to better manage this period of high oil prices and to continue our program to improve operating results. As of the date of this prospectus, the holders of an aggregate of approximately $15.3 million in senior notes have not yet agreed to tender their notes in the tender offer. The principal amount of any senior notes, plus any interest and premium payments that we are required to make in respect of senior notes tendered for repurchase in the change of control repurchase offer, will reduce on a dollar-for-dollar basis the amount of senior notes that we shall repurchase for cash in connection with the closing of the recapitalization.

Facilitate Future Acquisitions. The repayment or conversion into equity of senior notes pursuant to the senior notes tender offer would significantly reduce our indebtedness, which should help to facilitate our access to the capital markets to obtain equity capital and debt financing for acquisitions. If we are unable to access additional capital to grow our business, we may be adversely affected in our ability to maintain or increase our customer base, which could further erode our ability to generate available cash. Reducing our indebtedness should enhance our ability to make acquisitions.

Simplify Capital Structure. The elimination of the cumulative common unit arrearages and the conversion of the senior subordinated units and junior subordinated units into common units would simplify our capital structure, which should help to facilitate our access to the capital markets. We believe that it would be difficult to issue new common or subordinated units while our existing common units are subject to significant arrearages for past distributions, which could adversely affect our ability to obtain debt financing for acquisitions since an important element of obtaining debt financing is our ability to access equity markets to repay debt. If we are limited in our ability to access capital to grow the business, we may be adversely affected in our ability to maintain or increase our customer base. Such reduction of activity could further erode our ability to generate available cash.

Experience of Kestrel Representatives. Subject to the closing of the transactions contemplated by the unit purchase agreement, Star Gas will withdraw as general partner and Kestrel Heat will become our new general partner. Kestrel will be entitled to elect the board of directors of the general partner. We expect to benefit from the ability of the Kestrel representatives who have substantial experience in the energy markets. Paul A. Vermylen, Jr., the President of Kestrel, served as an executive officer of Meenan Oil Co., L.P., a heating oil company, for 18 years before it was sold to Star Gas Partners in 2001. See Information Regarding Kestrel Heat.

Agreements with Senior Noteholders. The agreements with the holders of 94% of our senior notes would largely eliminate the costs and significant risks associated with the potential for litigation and alleged defaults under the indenture for our senior notes involving, among other matters, our use of proceeds from the sale of our propane segment. If this matter were not resolved and we were unsuccessful in defending our position in any future claim that might be brought by noteholders, this would constitute an event of default if declared by either of the holders of 25% in principal amount of the senior notes or by the trustee and in such event all amounts due under the senior notes would become immediately due and payable. An acceleration of our senior notes would

have a material adverse effect on our ability to continue as a going concern. The report of our independent registered public accounting firm on our consolidated financial statements as of September 30, 2005 and 2004, and for the three years ended September 30, 2005, includes an explanatory paragraph with respect to the impact of this matter on our ability to continue as a going concern if this matter is resolved adversely to us.

Certain potential disadvantages of the proposed recapitalization to common unitholders:

Elimination of Previously Accrued Cumulative Distribution Arrearages. Arrearages on the common units that have accrued through the date of the closing of the recapitalization proposal would be eliminated. As of February 14, 2006, cumulative distribution arrearages on all outstanding common units aggregated $110.0 million, or $3.45 per common unit.

Reduction and Postponement of Minimum Quarterly Distributions. The approval of the proposals would result in a reduction of the minimum quarterly distribution from the current $0.575 per common unit to $0.0675 per common unit. Also there would be no mandatory distributions on the common units until at least fiscal 2009. However, regardless of whether the minimum quarterly distribution is reduced, our board of directors of our general partner has concluded that (absent the proposed recapitalization) we are not generating enough available cash to pay any quarterly distributions and/or arrearages at the present time or in the foreseeable future.

Increased Distributions to General Partner. If the proposals are approved, the general partner would be entitled to receive a substantially higher percentage of cash distributed above $0.0675 per unit than under the existing partnership agreement as a result of the revisions to the incentive distribution payments to allocate all incentive distributions to the holders of the general partner units. The reduction of the minimum quarterly distribution would mean that the general partner would be able to receive incentive distributions sooner. See Amendments to the Partnership Agreement Comparison of the Star Gas Partnership Agreement Before and After the Recapitalization.

Depressed Purchase Price. The price per common unit that we would receive from Kestrel Heat and M2 and in connection with the rights offering is close to the bottom of the trading range for our common units since we became a public partnership, but such price represents a 34% premium to the closing sales price of the common units on the last trading day prior to the public announcement of the recapitalization transaction.

Substantial Dilution. The number of common units outstanding would increase from 32,165,528 to approximately 74,336,836, representing a significant dilution to existing unitholders. However, common unitholders who participate in the rights offering would be able to reduce the dilution in their unit holdings. Prior to the recapitalization, the common units represented approximately 88.8% of the total number of units outstanding. Following the recapitalization, if all rightsholders exercise their rights in this rights offering, our existing common unitholders would own common units representing approximately 66.5% of the total number of units outstanding. However, if none of the rightsholders exercise their rights in this rights offering and M2 is issued the 17,500,000 common units offered to the rightsholders hereunder pursuant to its standby commitment, our existing common unitholders would own common units representing approximately 43.1% of the total number of units outstanding.

Termination of Subordination Period. The termination of the subordination period would eliminate the priority of payment to the common unitholders in preference to the senior subordinated units and junior subordinated units. In addition, the termination of the subordination period would eliminate the requirement that the general partner receive unitholder approval for issuance of more than a specified number of additional common units during the subordination period. However, the rules of the NYSE generally would require prior unitholder approval before we could issue common units in excess of 20% of the then currently issued and outstanding common units in a single or series of related

transactions other than a public offering for cash.

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Restriction on Use of NOLs. We believe that the issuance of units in our recapitalization will likely result in an ownership change of our corporate subsidiary, Star/Petro, Inc. (Star/Petro) under the Internal Revenue Code of 1986, as amended (Tax Code). As a result of this ownership change, Star/Petro will be materially restricted in its ability to use its net operating loss carryforwards to reduce its future taxable income. As of December 31, 2005, Star/Petro had a federal net operating loss carryforward of approximately $166.4 million. The net operating loss carryforwards (prior to an ownership change) will begin to expire in 2025 and are generally available to reduce future taxable income that would otherwise be subject to federal income taxes. As a result of the ownership change, Star/Petro will be restricted annually in its ability to use its net operating loss carryforwards to reduce its federal taxable income. We believe that the restriction may entirely eliminate Star/Petro s ability to use its net operating loss carryforwards. The restriction on Star/Petro s ability to use net operating loss carryforwards to reduce its federal tax liability will reduce the amount of cash Star/Petro has available to make distributions to us. Consequently, the restriction will reduce the amount of cash we have available to distribute to our unitholders.

Soros Proposal

Original Soros Group Proposal. On February 15, 2006, a consortium (the Soros Group) consisting of Soros Fund Management, LLC (Soros), Atticus Capital LP (Atticus) and Almeida Oil Co., Inc. (Almeida) submitted an unsolicited proposal for the recapitalization of Star Gas Partners (the original Soros Group proposal). The original Soros Group proposal contemplated a similar structure to the recapitalization which Star Gas Partners entered into on December 5, 2005 with Kestrel, except the original Soros Group proposal contemplated that the rights offering to common unitholders would be made at $2.60 instead of $2.00 per unit and that Soros Group s equity investment would also be made at $2.60 per unit instead of $2.00 per unit as provided under the original Kestrel transaction. The original Soros Group proposal would have provided Star Gas Partners with an additional $15 million of equity capital for Star before considering certain termination fee, expense reimbursement, incremental transaction expenses and interest costs which are estimated to aggregate approximately $9.5 million, resulting in additional available cash of approximately $5.5 million.

The Board of Directors of Star Gas met later in the day on February 15, 2006 with Star Gas Partners legal and financial advisors to discuss the original Soros Group proposal. At this meeting, Star Gas Partners legal advisors reviewed with the Board the provisions of the Kestrel unit purchase agreement that govern the manner in which Star Gas Partners may respond to a competing recapitalization proposal. After discussion, the Board requested that Star Gas Partners legal advisors seek written clarification from the Soros Group concerning the terms of its proposal in order to permit the Board to determine whether the original Soros Group proposal constituted a superior proposal to the Kestrel transaction in accordance with the requirements of the Kestrel unit purchase agreement. The Board also requested that Jefferies & Company, Inc. (Jefferies), Star Gas Partners financial advisor, evaluate the original Soros Group proposal in order to assist the Board in the Board s determination as to whether the Soros Group proposal may reasonably be expected to be more favorable to Star Gas Partners or its unitholders or partners from a financial point of view than the Kestrel transaction.

On February 16, 2006, Star Gas Partners issued a press release with respect to the receipt of the original Soros Group proposal.

In addition, on February 16, 2006, counsel for Star Gas Partners sent a letter to counsel to the Soros Group seeking clarification of certain terms of the original Soros Group proposal. Counsel to the Soros Group responded to this letter on February 17, 2006. and confirmed certain aspects of the original Soros Group proposal, including, among other things, that the senior subordinated units and junior subordinated units would be converted into common units on a one-for-one basis, Star Gas Partners (rather than the Soros Group) would pay any termination fee and expense reimbursement due under the Kestrel unit purchase agreement and that certain of the ancillary agreements, such as the amended and restated partnership agreement and the form of indentures, would be the same under the Soros Group proposal as under the Kestrel transaction. Counsel to Star

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Gas Partners sent a follow-up letter to counsel to the Soros Group on February 20, 2006 seeking additional information concerning the original Soros Group proposal and Almeida s role in the transaction. Counsel to the Soros Group responded to this request on February 21, 2006.

The Board of Directors of Star Gas met on February 23, 2006 to review the original Soros Group proposal. At this meeting, the Board received a presentation from Jefferies comparing the financial terms and other aspects of the original Soros Group proposal and the Kestrel transaction.

After carefully reviewing and considering the financial terms, timing considerations, market risks and potential benefits and detriments of the original Soros Group proposal, and after consulting with its financial advisors and outside legal counsel, the Board of Directors of Star Gas (with Mr. Sevin abstaining) concluded that the original Soros Group proposal was not a superior proposal under the terms of the original Kestrel unit purchase agreement.

The original Soros Group proposal was determined not to be superior for a number of reasons. First, under the Soros Group proposal, existing common unitholders would pay $2.60 per unit to purchase additional units offered in the rights offering. However, under the original Kestrel transaction, existing common unitholders would pay $2.00 to participate. Because the dollar amount being raised in the rights offering is the same in both proposals, this means that, under the original Soros Group proposal, existing common unitholders are afforded rights to purchase approximately 0.42 units for each existing common unit while the original Kestrel transaction provides the right to purchase approximately 0.54 units for each existing common unit. As a result, existing common unitholders ownership would be diluted to approximately 61.4% of the outstanding common units under the original Soros Group proposal compared to approximately 66.8% of the outstanding common units under the original Kestrel transaction, in each case assuming the rights offering is fully subscribed by common unitholders. Second, while the Board recognized that the original Soros Group proposal would provide additional equity capital to Star Gas Partners, after deducting the $4 million termination fee and $0.5 million expense reimbursement due under the Kestrel agreement (which would be required to be paid by Star Gas Partners) and the estimated $3.3 million in incremental transaction expenses and $1.7 million in interest that would accrue on the senior notes during an assumed two month period of delay which otherwise would have been repaid or converted to common units, the amount of additional capital provided to Star would only be approximately $5.5 million.

In comparing the two alternative transactions, the Board concluded, based upon the factors discussed above and the analyses performed by Star Gas Partners financial advisor, that, from a financial point of view, the two proposals were in many respects substantially equivalent. While certain of the financial analyses indicated the original Soros Group proposal was very slightly accretive on a pro forma basis per unit as compared to the original Kestrel transaction, the additional ownership dilution to existing common unitholders outweighed any such marginal benefit. The original Soros Group proposal also assumed that the existing transactions with Star Gas Partners senior note holders would remain the same and would be an integral part of the transactions contemplated by the original Soros Group proposal. However, the lockup agreements with the senior noteholders terminate upon the termination of the Kestrel unit purchase agreement, and the original Soros Group proposal provided no assurances that similar lockup agreements would be entered into with Star Gas Partners senior noteholders and that Star would be able to resolve the pending dispute with its noteholders in a manner similar to the resolution provided in the existing agreements with the noteholders. The Board also noted that the original Soros Group proposal would require Star Gas Partners to obtain a new consent from Star Gas Partners existing secured lenders under its credit facility, since on February 3, 2006, Star Gas Partners obtained such a consent in connection with the Kestrel unit purchase agreement.

The Board also considered the impact on Star Gas Partners business and employees in light of the additional uncertainty about the original Soros Group proposal, the time required to consummate a transaction with the Soros Group, and the related additional uncertainty associated with the due diligence review required to be undertaken by the Soros Group, and concluded that these factors could pose additional risks to Star Gas

Partners under the original Soros Group proposal. The Board also was concerned about potential conflicts of interest and potential antitrust issues under the Clayton Act presented by the original Soros Group proposal which contemplates having Robert Almeida, who is affiliated with a competitor of Star Gas Partners, become one of the directors of the board of the new general partner of Star Gas Partners. The Board was also aware of the fact that if the original Soros Group proposal was determined to be a superior proposal under the Kestrel unit purchase agreement and subsequently such unit purchase agreement was terminated for any reason (including the failure to obtain approval of unitholders at the special meeting), other than a breach by Kestrel, Star Gas Partners would owe Kestrel the termination fee and expense reimbursement.

The Board of Directors of Star Gas weighed the relative timing, certainty and financial aspects of the two proposals and concluded that the incremental cash to Star Gas Partners of the original Soros Group proposal was outweighed by the dilution to existing common unitholders, incremental expenses, timing, uncertainty, antitrust, conflicts and employee-related issues associated with such proposal, and accordingly, the Board concluded that the original Soros Group proposal was not a superior proposal.

During the course of the February 23, 2006 Board meeting, Joseph Cavanaugh, Star Gas Partners chief executive officer, advised the Board that he would be reluctant to continue in such role if the original Soros Group proposal were consummated.

On February 24, 2006, Star Gas Partners issued a press release announcing the Board s determination with respect to the original Soros Group proposal.

Revised Soros Group Proposal. On March 3, 2006, Star Gas Partners received a revised recapitalization proposal (the revised Soros Group proposal) from the Soros Group which includes, among other things, a proposed commitment by the Soros Group of $32.5 million of new equity capital (compared to their prior proposal of $30 million) in which they would purchase 10 million common units at a price of $3.25 per unit. The revised Soros Group proposal contemplates a standby commitment in a $37.5 million (compared to the prior proposal of $35 million) rights offering to Star Gas Partners common unitholders, at a price of $2.50 (compared to the prior proposal of $2.60) per common unit. The revised Soros Group proposal would result in the aggregate issuance of 25 million new common units (exclusive of new common units to be issued to noteholders in the notes for units exchange and new common units to be issued to existing holders of Star Gas Partners senior subordinated and junior subordinated units upon the conversion of such units into common units) and cash to Star Gas Partners of $70 million (compared to the prior proposal of $65 million) prior to the payment of fees, expenses and other costs. Pursuant to the Soros Group proposal, the Soros Group would become the new general partner of Star Gas Partners.

The revised Soros Group proposal contemplates maintaining the current arrangements with the holders of approximately 94% in principal amount of Star Gas Partners senior notes, including the conversion of $26.9 million of senior notes into common units at $2.00 per common unit. The revised Soros Group proposal also indicated that while it is not conditioned on any change to the arrangements with Star Gas Partners senior noteholders, the Soros Group would be prepared to explore a revised arrangement between Star Gas Partners and its noteholders, which would include a bridge financing facility, provided by the Soros Group, to permit Star Gas Partners to make an asset sales proceeds offer to the senior noteholders under the terms of their indenture. The revised Soros Group proposal, like the original proposal, is subject to completion of a confirmatory due diligence review and negotiation and execution of definitive agreements.

On March 6, 2006, counsel for Star Gas Partners sent a letter to counsel to the Soros Group seeking clarification of certain terms of the revised Soros Group proposal, including the terms and amount of the bridge financing facility. Counsel to the Soros Group responded to this letter on March 7, 2006 and declined to provide the information requested by our counsel until such time as Star Gas Partners confirmed that it was ready to discuss the revised Soros Group proposal with the Soros Group.

On March 6, 2006, Star Gas Partners issued a press release announcing the Board s receipt of the revised Soros Group proposal.

The Board of Directors of Star Gas met on March 6, 2006 with Star Gas Partners legal and financial advisors to discuss the revised Soros Group proposal. After discussion, the Board requested that Jefferies evaluate the revised Soros Group proposal in order to assist the Board in the Board s determination as to whether the revised Soros Group proposal may reasonably be expected to be more favorable to Star Gas Partners or its unitholders or partners from a financial point of view than the original Kestrel transaction.

Kestrel Proposal and Revised Kestrel Proposal. On March 8, 2006, Star Gas Partners received a proposal from Kestrel to amend the existing unit purchase agreement (the Kestrel proposal) as well as a subsequent revised proposal from Kestrel (the revised Kestrel proposal).

The Kestrel proposal included, among other things, an increased commitment by Kestrel to $19.5 million of new equity capital (increased from the original unit purchase agreement which provided for a $15 million equity investment) in which they would purchase 7.5 million common units at a price of $2.60 per unit. The Kestrel proposal also contemplated increasing to $41.125 million the rights offering to Star Gas Partners common unitholders, at a price of $2.35 per common unit (compared to the terms of the original unit purchase agreement which provided for a $35 million rights offering at a price of $2.00 per common unit), which Kestrel would continue to backstop. The Kestrel proposal would result in the same aggregate issuance of 25 million new common units (exclusive of new common units to be issued to noteholders in the notes for units exchange and new common units to be issued to existing holders of Star Gas Partners senior subordinated and junior subordinated units upon the conversion of such units into common units) as under the existing Kestrel transaction and cash to Star Gas Partners of $60.625 million (compared to the original commitment by Kestrel of $50 million) prior to the payment of other costs.

The Kestrel proposal was conditioned on the elimination of the fiduciary out provisions set forth in Section 5.11 of the Kestrel unit purchase agreement, which provisions, among other things, allow the Board to consider and approve proposals by third parties which may increase the value to Star Gas Partners and its unitholders.

The Kestrel proposal indicated that, other than the terms set forth above, the terms and provisions of the original unit purchase agreement with Kestrel would remain in full force and effect.

The Kestrel proposal also indicated that it would, by its terms, expire and be of no further force and effect, if not previously accepted by Star Gas Partners, at the earlier of (i) 4:00 p.m. Eastern Time on March 9, 2006 or (ii) such time as Star Gas Partners makes a public announcement with respect to its determination of whether the previously announced revised Soros Group proposal constitutes a superior proposal under the terms of the Kestrel unit purchase agreement.

The Board of Directors of Star Gas met on March 8, 2006 to review the revised Soros Group proposal and the Kestrel proposal. At this meeting, the Board received a presentation from Jefferies comparing the financial terms and other aspects of the revised Soros Group proposal and the original Kestrel transaction. The Board also requested that Jefferies evaluate the Kestrel proposal in order to assist the Board in the Board s

determination as to whether the revised Soros Group proposal was more favorable from a financial point of view than the Kestrel proposal.

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It was the sense of the Board that while no final decision would be made regarding the Kestrel proposal until the Board had the opportunity to review Jefferies further analysis, it was not inclined, under current circumstances, to accept a proposal that would prematurely eliminate the fiduciary out provision of its existing agreement with Kestrel, which would effectively foreclose the Board s ability to entertain superior proposals and engage in discussions to secure additional value for Star Gas Partners and its unitholders.

The Board requested that Star Gas Partners legal advisors contact Kestrel to determine if Kestrel would be willing to eliminate the fiduciary out provision of its revised proposal.

In response to the Board s concerns regarding the elimination of the fiduciary out provision in the Kestrel proposal, Kestrel subsequently advised Star Gas Partners that if the Board rejected the Kestrel proposal, Kestrel would make a revised proposal (the revised Kestrel proposal), which would provide for an increase in Kestrel s equity investment to $16.875 million of new equity capital in which they would purchase 7.5 million common units at a price of $2.25 per common unit, and an increased $39.375 million rights offering to Star Gas Partners holders of common units at a price of $2.25 per common unit. The revised Kestrel proposal would result in the same aggregate issuance of 25 million new common units (exclusive of new common units to be issued to noteholders in the notes for units exchange and new common units to be issued to existing holders of Star Gas Partners senior subordinated and junior subordinated units upon the conversion of such units into common units) as under the original Kestrel transaction and cash to Star Gas Partners of $56.25 million prior to the payment of certain costs and expenses.