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STAR GAS PARTNERS LP
Form S-3
November 04, 2002

As filed with the Securities and Exchange Commission on November 4, 2002

Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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
(State or Other Jurisdiction
of Incorporation or Organization)

5984
(Primary Standard Industrial
Classification Code)

06-1437793
(I.R.S. Employer
Identification Number)

2187 Atlantic Street
P.O. Box 120011
Stamford, Connecticut 06912-0011
(203) 328-7300
(Address, Including Zip Code, and
Telephone Number, Including Area Code, of
Registrant's Principal Executive Offices)

Richard F. Ambury
Vice President and Treasurer
Star Gas LLC
2187 Atlantic Street
P.O. Box 120011
Stamford, Connecticut 06912-0011
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Telephone Number, Including Area Code, of
Agent For Service)

Copy to:

Phillips Nizer LLP
666 Fifth Avenue, 28th Floor
New York, New York 10103
(212) 977-9700
Attn: Alan Shapiro, Esq.

Approximate date of commencement of proposed sale to the public:

From time to time after the effective date of this Registration

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Statement, as determined by market conditions.

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.

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 delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offerin Price(1)	Amount of Registration Fee
Common Units(2)		
Partnership Securities(2)		
Debt Securities(2) (3)		
Total	\$200,000,000	\$18,400

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o). In no event will the aggregate initial offering price of all securities offered from time to time pursuant to this Registration Statement exceed \$200,000,000. To the extent applicable, the aggregate amount of common units registered is further limited to that which is permissible under Rule 415(a) (4) under the Securities Act. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder.
- (2) There are being registered hereunder a presently indeterminate number of common units and partnership securities and an indeterminate principal amount of debt securities. The common units and other partnership securities consisting of units of partnership interest include unit purchase rights of one Right per unit of partnership interest.
- (3) If any debt securities are issued at an original issue discount, then the offering price of those debt securities shall be in an amount that will result in an aggregate initial offering price not to exceed \$200,000,000 less the dollar amount of any registered securities previously issued.

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 which specifically states that this 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, DATED NOVEMBER 4, 2002

PROSPECTUS

Star Gas Partners, L.P.

\$200,000,000

[LOGO]

Common Units
Partnership Securities
Debt Securities

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any supplement carefully before you invest.

The common units are listed on the New York Stock Exchange under the symbol "SGU." The last reported sale price of common units on the NYSE on November 1, 2002 was \$18.75 per common unit. We will provide information in the prospectus supplement for the trading market, if any, for the debt securities and partnership securities.

You should read "Risk Factors" beginning on page 2 of this prospectus for a discussion of the material risks relating to an investment in the securities.

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.

The date of this prospectus is _____

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You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We

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have not authorized anyone else to give you different information. We are not offering these securities in any state where they do not permit the offer. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the SEC incorporated by reference in this prospectus.

GUIDE TO READING THIS PROSPECTUS

The following information should help you understand some of the conventions used in this prospectus.

- .. Throughout this prospectus, we refer to ourselves, Star Gas Partners, L.P., as "we" or "us" or "Star Gas Partners." Generally we refer to ourselves as "we" or "us" when discussing operations (such as "We are the seventh largest retail distributor of propane ..."), and as "Star Gas Partners" when discussing our entity or its structure (such as "Star Gas Partners conducts its operations through Star Gas Propane, L.P.").
 - .. Except as the context otherwise requires, references to:
 - (1) the "Petro transaction" refers to our acquisition of Petroleum Heat and Power Co., Inc. ("Petroleum Heat") and certain related transactions that closed on March 26, 1999;
 - (2) "Petro" refers to Petro Holdings, Inc. and its home heating oil and related operations and those of its subsidiaries;
 - (3) our operations prior to the completion of the Petro transaction included the operations of Star Gas Propane, L.P., referred to in this prospectus as "Star Gas Propane" and its subsidiary; and
 - (4) our operations from the time of completion of the Petro transaction include all of the operations cited above together with Petro's home heating oil operations.
 - .. When we refer to a fiscal year, we are referring to Star Gas Partners' fiscal year that ends September 30. Historically, Petro has operated on a calendar year basis.
 - .. This prospectus generally treats Petro's home heating oil operations as if they had historically been owned and operated by Star Gas Partners. Prior to the Petro transaction, the home heating oil business and operations referred to in this prospectus were owned and operated by Petroleum Heat, which is the parent of our former general partner, except for the home heating oil business and operations of Meenan Oil Co., L.P. ("Meenan"), which was acquired by Petro in August 2001. Following the Petro transaction, the home heating oil business and operations have been operated by Petro and Petro's wholly-owned subsidiaries, including Petroleum Heat.
 - .. As part of the Petro transaction, we appointed a new general partner, Star Gas LLC. References to the "general partner" generally refer to Star Gas LLC unless the context refers to the period prior to the Petro transaction, in which case we are referring to Star Gas Corporation.
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- .. In April 2000, we acquired a 72.7% interest in Total Gas & Electric, Inc., referred to in this prospectus as Total Gas & Electric. In June 2002, we acquired all minority interests in Total Gas & Electric bringing our

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ownership interest in Total Gas & Electric to 100%.

.. 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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WHO WE ARE

General

We are the seventh largest retail distributor of propane and the largest retail distributor of home heating oil in the United States. Our propane operations serve customers in the Midwest and Northeast regions, Florida, and Georgia, and our home heating oil operations serve customers in the Northeast and Mid-Atlantic regions. Through our subsidiary, Total Gas & Electric, we are an independent reseller of natural gas and electricity to residential homeowners in deregulated energy markets primarily in the Northeast and Mid-Atlantic regions.

Propane Operations

Our propane operations are primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. We serve our approximately 290,000 propane customers from 116 branch locations and 61 satellite storage facilities in the Midwest and the Northeast regions, Florida and Georgia. In addition to our retail business, we also serve wholesale customers from our facilities in southern Indiana.

For the twelve months ended June 30, 2002, approximately 94% of the total sales from our propane operations were to retail customers and approximately 6% were to wholesale customers. Our retail sales have historically had a greater profit margin, more stable customer base and less price sensitivity than our wholesale business. During this period, sales to residential customers represented 66% of the retail propane gallons sold and 75% of propane gross profits.

Home Heating Oil Operations

We are a leading consolidator in the highly fragmented home heating oil industry. We serve approximately 515,000 home heating oil customers from 35 branch locations in the Northeast and Mid-Atlantic regions. We also install and repair heating equipment 24 hours a day, seven days a week, 52 weeks a year. These services are an integral part of our basic home heating oil service, and are designed to maximize customer satisfaction and loyalty.

For the twelve months ended June 30, 2002, approximately 73% of our total sales from the heating oil operations were from sales of home heating oil, approximately 19% were from the installation and repair of heating and air conditioning equipment and approximately 8% were from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers. During this period, sales to residential customers represented 82% of the retail heating oil gallons sold and 92% of heating oil gross profits.

In order to increase operating efficiencies and reduce operating costs at our home heating oil division, we have commenced a business process redesign program. Under this program, we will install on-board computers in all of our heating oil delivery trucks, improve telephone and computer systems, and provide

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all of our service technicians with hand-held computers.

Electricity and Natural Gas Operations

Through our subsidiary, Total Gas & Electric, we are an independent reseller of natural gas and electricity to approximately 50,000 residential customers in deregulated energy markets primarily in New York, New Jersey, Florida and Maryland. In deregulated energy markets, customers have a choice in selecting energy suppliers to power and/or heat their homes. Competitors range from independent resellers, similar to Total Gas & Electric, to large public utilities.

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Recent Developments

Rating of Home Heating Oil Subsidiary's Debt Affirmed

On August 9, 2002, Fitch Rating Service affirmed the `BBB' rating on the outstanding Senior Secured Notes of our home heating oil subsidiary. The Senior Secured Notes were removed from Fitch's Rating Watch Negative where they were placed on June 6, 2002. Fitch's Rating Outlook is "Negative" pending Petro's performance during the upcoming heating season.

Weather Insurance

We purchased \$20.0 million of weather insurance for the upcoming 2002/2003 winter heating season in order to help minimize the potential impact of weather volatility on our future cash flows. The insurance is based on weather conditions over the past ten years, and it covers weather that is up to approximately 20% warmer than the historical norms during this period. In addition, we acquired \$12.5 million of weather insurance to help stabilize the cash flows for the four winters following 2002/2003. We cannot assure you that our weather insurance will be sufficient to offset the adverse effects of warm weather on our operations.

Principal Executive Offices

Our principal executive offices are located at 2187 Atlantic Street, P.O. Box 120011, Stamford, Connecticut 06912, and our telephone number there is (203) 328-7300.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf registration process, we may sell up to \$200 million in aggregate offering price of the common units, partnership securities and debt securities described in this prospectus in one or more offerings. The common units, partnership securities and debt securities are sometimes referred to in this prospectus as the "securities." Holders of common units and partnership securities are referred to as "unitholders" and holders of debt securities are referred to as "holders." This prospectus provides you with a general description of us and the securities. Each time we sell securities with this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information in this prospectus. The information in this prospectus is accurate as of its date. You should carefully read this prospectus, the prospectus supplement and the documents we have incorporated by reference under the heading "Incorporation of Certain Documents by Reference."

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RISK FACTORS

Before you invest in the securities, you should be aware that there are risks in doing so, including those described below. You should consider carefully these risk factors together with all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference.

If any of the following risks actually occurs, then our business, financial condition or results of operations could be materially adversely affected. In such event, we may be unable to make distributions to our unitholders or pay interest on or the principal of any debt securities, the trading price of our securities could decline and you may lose all or part of your investment.

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Risks Inherent in Our Businesses

Since Weather Conditions May Adversely Affect the Demand for Propane, Home Heating Oil, Natural Gas and Electricity, Our Financial Condition Is Vulnerable to Warm Winters

Weather conditions have a significant impact on the demand for both propane and home heating oil because our customers depend on these products principally for space heating purposes. As a result, weather conditions may materially adversely impact our operating results and financial condition. During the peak heating season of October through March, sales of propane represent approximately 70% to 75% of our annual retail propane volume and sales of home heating oil represent approximately 75% to 80% of our annual home heating oil volume. Actual weather conditions can vary substantially from year to year, significantly affecting our financial performance. Furthermore, warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume we sell and the gross profit realized on those sales and, consequently, our results of operations. For example, in fiscal 2000 and fiscal 2002, temperatures were significantly warmer than normal for the areas in which we sell propane and home heating oil, which adversely affected the amount of Available Cash from Operating Surplus and EBITDA that we generated during these periods. Weather variations also affect demand for propane from agricultural customers, because dry weather during the harvest season reduces demand for propane used in crop drying. Weather conditions also have a significant impact on the demand for both natural gas and electricity because Total Gas & Electric's customers depend on these products in part for space heating purposes.

Petro's Operating Results Will Be Adversely Affected If It Experiences Significant Customer Losses That Are Not Offset or Reduced by Customer Gains

Petro's net attrition of home heating oil customers averaged approximately 5% per year over the five years through 1998. This rate represents the net of its annual gross customer loss rate of approximately 15% offset by customer gains of approximately 10% per year. In fiscal 1999, Petro had net customer attrition equal to approximately 2.2%, representing gains of approximately 11.9% and gross losses of approximately 14.1%; in fiscal 2000, Petro had net customer gains of approximately 1.3%, representing gains of approximately 14.3% and gross losses of approximately 13.0%; and in fiscal 2001, Petro had net customer attrition of approximately 0.7%, representing gains of approximately 13.1% and gross losses of approximately 13.8%. Customer losses are the result of various

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factors, including:

- . customer relocations;
- . supplier changes based primarily on price and service;
- . natural gas conversions; and
- . credit problems.

Petro may not be able to achieve net gains of home heating oil customers and may continue to experience customer attrition in the future.

Sudden and Sharp Oil and Propane Price Increases and Substantial Fluctuations in Natural Gas and Electricity Commodity Prices or the Cost of Transmitting and Distributing These Commodities That Cannot Be Passed on to Customers May Adversely Affect Our Operating Results

The retail propane and home heating oil industries are "margin-based" businesses in which gross profits depend on the excess of retail sales prices over supply costs. Consequently, our profitability is sensitive to changes in wholesale prices of propane and heating oil caused by changes in supply or other market conditions. Many of these factors are beyond our control and thus, when there are sudden and sharp increases in the wholesale costs of propane and heating oil, we may not be able to pass on these increases to our customers through retail sales prices. In addition, the timing of cost pass-throughs can significantly affect margins. Wholesale price increases could reduce our gross profits and could, if continuing over an extended period of time, reduce demand by encouraging conservation or conversion to alternative energy sources.

Our home heating oil business also competes for customers with suppliers of alternative energy products, principally natural gas. We could face additional price competition from alternative heating sources such as electricity and natural gas as a result of deregulation in those industries. Over the past five years, conversions by Petro's customers from heating oil to other sources have averaged approximately 1% per year of the homes it serves.

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Substantial fluctuations in energy commodity prices or the cost of transmitting and distributing those energy commodities could increase Total Gas & Electric's costs of operations.

A Significant Portion of Our Home Heating Oil Volume Is Sold to Capped-Price Customers and Our Operating Results Could Be Adversely Affected By Changes in the Cost of Supply That We Cannot Pass on to These Customers or Otherwise Protect Against

A significant portion of our home heating oil volume is sold to individual customers under an agreement pre-establishing the maximum sales price of home heating oil over a twelve-month period. The maximum price at which home heating oil is sold to these capped-price customers is generally renegotiated prior to the heating season of each year based on current market conditions. We currently enter into forward purchase contracts, futures contracts and option contracts for a substantial majority of the heating oil we sell to these capped-price customers in advance and at a fixed cost. Should events occur after a capped-sales price is established that increases the cost of home heating oil above the amount anticipated, margins for the capped-price customers whose heating oil was not purchased in advance would be lower than expected, while those customers whose heating oil was purchased in advance would be unaffected.

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Conversely, should events occur during this period that decrease the cost of heating oil below the amount anticipated, margins for the capped-price customers whose heating oil was purchased in advance could be lower than expected, while margins for those customers whose heating oil was not purchased in advance would be unaffected or higher than expected.

Market Volatility and/or Inflation May Cause Us to Sell Inventory at Less Than the Price That We Purchased It, Which Would Adversely Affect Operating Results

Because of the potential volatility of propane prices, the market price for propane could fall below the price at which we purchased it, which could adversely affect gross margin or render sales from inventory unprofitable. Propane is available from numerous sources, including integrated international oil companies, independent refiners and independent wholesalers. We purchase propane from a variety of suppliers under supply contracts and on the spot market. The major portion of propane purchased by us is produced domestically representing approximately 94% in fiscal 2001. To the extent that we purchase propane from Canadian sources, approximately 6% in fiscal 2001, our propane business will be subject to risks of disruption in foreign supply. We attempt to minimize inventory risks by purchasing propane on a short-term basis. During periods of low demand for propane, which generally occur during the summer months, we have on occasion purchased, and may purchase in the future, large volumes of propane at relatively attractive prices for storage in our 21 million gallon Indiana underground storage facility for future resale. We may from time to time engage in transactions, such as options or fixed price contracts to purchase propane, to hedge product costs in an attempt to reduce cost volatility. To date, however, the level of these activities has not been significant and we are currently engaged to only a minor extent in these transactions.

Inflation increases our operating and administrative costs. We attempt to limit the effects of inflation on our operations through cost control efforts, productivity improvement and increases in gross profit margins, however, we cannot assure you that our efforts will be successful.

If We Do Not Make Acquisitions on Economically Acceptable Terms, Our Future Financial Performance Will Be Limited

Neither the propane nor the home heating oil industry is a growth industry because of increased competition from alternative energy sources. A significant portion of our growth in the past decade has been directly tied to the success of our acquisition programs. Accordingly, our future financial performance will depend on our ability to continue to make acquisitions at attractive prices. We cannot assure you that we will be able to identify attractive acquisition candidates, whether in the home heating oil or propane sector, in the future or that we will be able to acquire businesses on economically acceptable terms. In particular, competition for acquisitions in the propane business has intensified and become more costly. Factors that may adversely affect our propane and home heating

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oil operating and financial results, such as warm weather patterns, may limit our access to capital and adversely affect our ability to make acquisitions. Any acquisition may involve potential risks, including:

- . an increase in our indebtedness;
- . the inability to integrate the operations of the acquired business;

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- . the inability to successfully expand our operations into new territories;
- . the diversion of management's attention from other business concerns; and
- . an excess of customer loss or loss of key employees from the acquired business.

In addition, acquisitions may be dilutive to earnings and distributions to the unitholders and any additional debt incurred to finance acquisitions may affect our ability to make distributions to the unitholders.

Because of the Highly Competitive Nature of the Retail Propane and Home Heating Oil Businesses, We May Not Be Able to Retain Existing Customers or Acquire New Customers, Which Would Have an Adverse Impact on Our Operating Results and Financial Condition

In both our propane and home heating oil businesses, if we are unable to compete effectively, we may lose existing customers or fail to acquire new customers, which would have a material adverse effect on our results of operations and financial condition.

Many of our propane competitors and potential competitors are larger or have substantially greater financial resources than we do, which may provide them with some advantages. Generally, competition in the past few years has intensified, partly as a result of warmer-than-normal weather and general economic conditions. Most of our propane retail branch locations compete with five or more marketers or distributors. The principal factors influencing competition with other retail marketers are:

- . price;
- . reliability and quality of service;
- . responsiveness to customer needs;
- . safety concerns;
- . long-standing customer relationships;
- . the inconvenience of switching tanks and suppliers; and
- . the lack of growth in the industry.

We can make no assurances that we will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, our operating results and financial condition could be materially and adversely affected. In addition, competition from alternative energy sources has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity.

Our home heating oil business competes with heating oil distributors offering a broad range of services and prices, from full service distributors, like Petro, to those offering delivery only. Competition with other companies in the home heating oil industry is based primarily on customer service and price. Long-standing customer relationships are typical in the industry. It is customary for companies to deliver home heating oil to their customers

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based upon weather conditions and historical consumption patterns, without the customer making an affirmative purchase decision. Most companies provide home heating equipment repair service on a 24-hour per day basis. In some cases, homeowners have formed buying cooperatives to purchase fuel oil from distributors at a price lower than individual customers are otherwise able to obtain. As a result of these factors, it may be difficult for Petro to acquire new customers.

Total Gas & Electric Faces Strong Competition From Incumbent Utilities and Other Competitors With Greater Resources and Is Required To Rely on Utilities, With Which It Competes, To Perform Some Functions for Its Customers

Total Gas & Electric faces strong competition from incumbent utilities and other competitors with greater resources, which may limit its ability to acquire customers and materially adversely affect its financial results. Total Gas & Electric is required to rely on utilities, with which it competes, to perform some functions for its customers. Because of this reliance, service failures that are beyond Total Gas & Electric's control may still lead to poor customer satisfaction and unforeseen costs of operation.

We Are Subject to Operating and Litigation Risks That Could Adversely Affect Our Operating Results to the Extent Not Covered by Insurance

Our operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing customers with combustible liquids such as propane and home heating oil. As a result, we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in amounts and with coverages and deductibles as we believe are reasonable. However, there can be no assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of an explosion, whether or not we are involved, may have an adverse effect on the public's desire to use our products.

We Are Dependent on Principal Suppliers and Carriers, Increasing the Risk of an Interruption in Supply That Might Result in a Loss of Revenues and/or Customers

During fiscal year 2001, 37% of our propane purchases in the Midwest were purchased on the spot market from various Mont Belvieu, Texas sources, 21% of our propane purchases were from a refinery in Kentucky owned by MarkWest Hydrocarbon, Inc. and 9% were purchased from a refinery in Illinois owned by BP Canada Energy Marketing Corporation. Collectively, our fiscal 2001 propane purchases were purchased from over 20 sources. Although we believe that alternative sources of propane are readily available, if we are unable to purchase propane from our usual sources, the failure to obtain alternate sources at competitive prices and on a timely basis could have a material adverse effect on our business.

Historically, a substantial portion of the propane we purchase has originated in Mont Belvieu, Texas and has been shipped to us through a major common carrier pipeline. Any significant interruption in the service at Mont Belvieu or on the common carrier pipeline could have a material adverse effect on our business.

Our Results of Operations and Financial Condition May Be Adversely Affected by Governmental Regulation and Associated Environmental and Regulatory Costs

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Our home heating oil business is subject to a wide range of federal and state laws and regulations related to environmental and other regulated matters. Petro has implemented environmental programs and policies designed to avoid potential liability and costs under applicable environmental laws. It is possible, however, that Petro will have increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with

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operating or other regulatory permits. New environmental regulations might adversely impact Petro's operations, including underground storage and transportation of home heating oil. In addition, the environmental risks inherently associated with our home heating oil operations, such as the risks of accidental release or spill, are greater than those associated with our propane operations. It is possible that material costs and liabilities will be incurred, including those relating to claims for damages to property and persons.

In Our Acquisition of Meenan, We Assumed All of Meenan's Environmental Liabilities

In our acquisition of Meenan in August 2001, we assumed all of Meenan's environmental liabilities, including those related to the cleanup of contaminated properties, in consideration of a reduction of the purchase price. We established a reserve of \$2.8 million upon the closing of the acquisition to cover potential costs associated with remediating known environmental liabilities. While we believe this reserve will be adequate, it is possible that the extent of the contamination at issue or the expense of addressing it could exceed our estimates and thus the costs of remediating these known liabilities could materially exceed the amounts reserved.

If Total Gas & Electric Fails To Comply With State Consumer Protection Laws and Other State Laws and Regulations To Which It Is Subject, It May Have a Material Adverse Effect on Total Gas & Electric's Operations

Total Gas & Electric is subject to state consumer protection laws and other state laws and regulations. From time to time, Total Gas & Electric has been subject to investigations by the authorities in various jurisdictions into its practices for soliciting customers. To date, Total Gas & Electric has been able to resolve these investigations on a satisfactory basis. Total Gas & Electric has adopted a comprehensive sales compliance program to comply with applicable regulations. However, if Total Gas & Electric fails to comply with these regulations in the future, it may have a material adverse effect on Total Gas & Electric's operations.

A Reversal of or Delay in the Trend Towards Competitive Restructuring of the Electric and Natural Gas Markets Could Materially Adversely Affect Total Gas & Electric's Business Prospects and Financial Condition

If the trend towards competitive restructuring of the electric and natural gas markets is delayed or reversed, Total Gas & Electric's business prospects and financial condition could be materially adversely affected.

Total Gas & Electric Has Experienced Significant Customer Credit Deficiencies That Have Adversely Affected Its Operations

Since our acquisition of Total Gas & Electric in April 2000, Total Gas & Electric has experienced significant customer credit deficiencies and problems collecting its receivables that we believe were primarily due to the customer solicitation and credit approval policies adopted by prior management. As a result, during the fiscal year ended September 30, 2001, Total Gas & Electric

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increased its reserve for bad debts by \$6.4 million, of which \$5.7 million related to terminated accounts. An additional \$3.5 million of reserve was provided during the nine months ended June 30, 2002, of which \$0.9 million was for those terminated accounts, leaving an unreserved accounts receivable balance for the terminated accounts of approximately \$2.4 million as of June 30, 2002. While we believe that Total Gas & Electric's delinquency and bad debt levels will improve and will ultimately approximate those at our home heating oil and propane segments as a result of our institution of new credit policies and information systems, we cannot assure you that these new initiatives will be successful.

Risks Inherent in an Investment in Star Gas Partners

Cash Distributions Are Not Guaranteed and May Fluctuate with Our Performance and Reserve Requirements

Because distributions on the common units and partnership securities are dependent on the amount of cash generated, distributions may fluctuate based on our performance. The actual amount of cash that is available will depend upon numerous factors, including:

- . profitability of operations;
- . required principal and interest payments on debt;
- . cost of acquisitions;
- . issuance of debt and equity securities;
- . fluctuations in working capital;
- . capital expenditures;
- . adjustments in reserves;
- . prevailing economic conditions; and
- . financial, business and other factors.

Some of these factors are beyond the control of the general partner.

The partnership agreement gives the general partner discretion in establishing reserves for the proper conduct of our business. These reserves will also affect the amount of cash available for distribution. The general partner may establish reserves for distributions on the senior subordinated units only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters.

The amount of cash needed to pay the minimum quarterly distribution for the next four quarters on units outstanding on the date of this prospectus is approximately \$75.4 million. This figure represents \$66.6 million for the common units, \$7.2 million for the senior subordinated units, \$0.8 million for the junior subordinated units and \$0.8 million for the general partner units. The amount of distributable cash flow generated in the twelve months ended June 30, 2002 was \$39.0 million. This amount does not reflect the full impact of the results of operations of the businesses that we acquired during the twelve-month period (only the results commencing from the date that we acquired the

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businesses) and does not reflect the results of businesses that we have acquired since June 30, 2002. In addition, we believe that the overall levels of available cash were adversely affected during the twelve months ended June 30, 2002 due to temperatures that were significantly warmer than normal. We have taken measures to reduce the impact of warmer than normal temperatures, such as purchasing weather insurance and reducing operating expenses. However, we cannot assure you that these measures will be sufficient to adequately mitigate the impact of warm weather in the future.

Our Indebtedness May Limit Our Ability to Make Distributions and Affect our Operations

We have debt that is substantial compared to our partners' capital. Principal and interest payable on this debt will reduce cash available to make distributions on the common units and partnership securities. Under specified circumstances, the terms of our debt instruments, including the guarantee of Petro's credit facility and its senior secured notes, will limit our ability to distribute cash to our unitholders and to borrow additional funds. The limitations and restrictions in new debt that we and our subsidiaries issue may be more restrictive than those in current debt. In addition, some of our debt is secured by our assets. If we defaulted on this secured debt, the lenders could institute foreclosure proceedings to seize our assets. Any attempt to stay these foreclosure actions by seeking to reorganize under the federal Bankruptcy Code would have a material adverse effect on us and our unitholders.

Provisions Concerning Change of Control, Default and Preclusion From Paying Distributions in Our Debt Instruments May Affect Distributions

Our debt instruments contain provisions relating to a "change of control." As of June 30, 2002, a change of control of Star Gas Partners would result in approximately \$278.3 million of Petro debt becoming immediately due

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and payable, and would result in the re-rating of approximately \$147.7 million of Star Gas Propane debt which could lead to an increase in the interest rate of such debt. A change of control at the Petro level would accelerate the Petro debt but not the Star Gas Propane debt. In either case, this would necessarily affect our ability to make distributions to unitholders. Neither Star Gas Partners nor Petro is restricted from entering into a transaction that would trigger the change of control provisions. If these change of control provisions are triggered, some of the outstanding debt may become due. It is possible that Star Gas Partners or Petro would not have sufficient funds at the time of any change of control to make the required debt payments or that restrictions in its other debt instruments would not permit those payments. In some instances, lenders would have the right to foreclose on Star Gas Partners' or Petro's assets if debt payments were not made upon a change of control.

Our Holding Company Structure May Limit Our Ability Repay Debt Securities

We are a holding company and have no material operations and only limited assets. Accordingly, our ability to service our debt obligations will be entirely dependent upon the receipt of distributions from Star Gas Propane and Total Gas & Electric.

Our holding company structure results in two principal risks:

- . Star Gas Propane and Total Gas & Electric may be restricted by contractual provisions or applicable laws from providing us the cash that we need to pay our debt service obligations, including payments

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on any debt securities we offer under this prospectus; and

- . In any liquidation, reorganization or insolvency proceeding involving Star Gas Partners or in any other proceeding involving claims of creditors (other than Star Gas Partners) of Star Gas Propane and Total Gas & Electric (including trade creditors, secured creditors, taxing authorities and creditors holding guarantees), your claim as a holder of any debt securities we offer under this prospectus will be effectively subordinated and junior to the claims of holders of any indebtedness of Star Gas Propane and Total Gas & Electric. As of June 30, 2002, there was \$461.5 million of such indebtedness to financial institutions and \$184.6 million of such indebtedness to trade creditors and others.

We Have a Significant Amount of Indebtedness Due in Fiscal 2003 and in Subsequent Fiscal Years

At June 30, 2002, we had \$461.5 million of outstanding indebtedness to financial institutions, of which \$74.4 million is due to be repaid in fiscal 2003, excluding amounts due under our working capital revolving credit facilities. Of this \$74.4 million, \$45.3 million was due on October 1, 2002 and was paid from our cash balances on hand. We expect that funding for the remainder of the indebtedness due in fiscal 2003 will be provided by a portion of the proceeds from our September 2002 public offering of common units, funds from indebtedness refinancing and operating cash flow. Although we believe these amounts will be sufficient to fund the balance of our indebtedness due in fiscal 2003, if they are not, it could have a material adverse impact on us and our unitholders. In addition, to the extent that the amounts available to us from these and similar sources are not sufficient to fund indebtedness maturing subsequent to fiscal 2003, this will have a material adverse impact on us and our unitholders.

We May Sell Additional Limited Partner Interests, Diluting Existing Interests of Unitholders

Our partnership agreement generally allows us to issue additional common units and partnership securities. During the subordinated period, however, the number of common units that we may issue is subject to certain limitations that substantially limit our ability to issue additional common units at the present time. These limitations do not apply to issuances in connection with acquisitions and growth capital expenditures that are accretive. When we issue additional equity securities, your proportionate partnership interest will decrease. Such an issuance could negatively affect the amount of cash distributed to unitholders and the market price of common units and partnership securities. Issuance of additional common units will also diminish the relative voting strength of the previously outstanding units. Following the end of the subordination period, there are no limits on the total number of common units or partnership securities that we may issue.

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The Partnership Agreement Contains Provisions Intended to Discourage a Change of Management That May Diminish Trading Value

The partnership agreement contains specific provisions that may discourage attempts to remove an incumbent general partner or otherwise change the management of Star Gas Partners. These provisions may diminish the trading price of the units under some circumstances.

Unitholders Have Limited Voting Rights and Do Not Control the General

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Partner

Unitholders have no right to elect the general partner on an annual or other continuing basis. The general partner manages and operates Star Gas Partners and Star Gas Propane. Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business. The general partner generally may not be removed unless approved by the holders of 66 2/3% of the outstanding units, voting together as a single class but excluding those units held by the general partner and its affiliates. As a result, unitholders have only limited influence on matters affecting our operation, and it would be difficult for third parties to control or influence us. Although the partnership agreement provides that the general partner may not, with specified exceptions, transfer its general partner units to another person before December 31, 2005 unless approved by a unit majority, the members of Star Gas LLC may transfer their limited liability company interests in Star Gas LLC to a third party at any time without the approval of the unitholders.

There Is a Limited Call Right That May Require Unitholders to Sell Their Units at an Undesirable Time or Price

If at any time less than 20% of the outstanding units of any class are held by persons other than the general partner and its affiliates, the general partner has the right to acquire all, but not less than all, of those units held by the unaffiliated persons. The price for these units will generally equal the then-current market price of the units. As a consequence, a unitholder may be required to sell his units at an undesirable time or price. The general partner may assign this acquisition right to any of its affiliates or Star Gas Partners. After the subordination period ends, if we acquire more than 66 2/3% of the Class B common units in a twelve-month period, then we will have a similar call right.

Our Ability to Make Distributions May Be Adversely Affected by Our Obligation to First Reimburse the General Partner

Before we make any distributions on the units, we will reimburse the general partner for all expenses it has incurred on our behalf. The reimbursement of those expenses and the payment of reasonable fees charged by the general partner for services could adversely affect our ability to make distributions. Reimbursable expenses and fees are determined by the general partner in its sole discretion.

Unitholders May Not Have Limited Liability in Some Circumstances

A number of states have not clearly established limitations on the liability of limited partners for the obligations of a limited partnership. If it were determined that we had been conducting business in any state and had failed to comply with the applicable limited partnership statute, or that the rights or exercise of the rights by the limited partners as a group under the partnership agreement constituted participation in the "control" of Star Gas Partners, then a unitholder might be held liable to the same extent as the general partner for our obligations.

The General Partner Has Conflicts of Interest and Limited Fiduciary Responsibilities, Which May Permit the General Partner to Favor Its Own Interests to the Detriment of Unitholders

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and Star Gas Partners or any of the limited partners, on the other hand. As a result of these conflicts the general partner may favor its own interests and those of its affiliates over the interests of the unitholders. The nature of these conflicts is ongoing and includes the following considerations:

- . The general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.
- . The general partner is allowed to take into account the interests of parties in addition to Star Gas Partners in resolving conflicts of interest, thereby limiting its fiduciary duty to the unitholders.
- . Except for Irik P. Sevin, who is subject to a non-competition agreement, the general partner's affiliates are not prohibited from engaging in other business or activities, including direct competition with us.
- . The general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings and reserves, each of which can impact the amount of cash that is distributed to unitholders.
- . The general partner determines whether to issue additional units or other securities of Star Gas Partners.
- . The general partner determines which costs are reimbursable by us.
- . The general partner controls the enforcement of obligations owed to us by the general partner.
- . The general partner decides whether to retain separate counsel, accountants or others to perform services for us.
- . Some officers of the general partner, who will provide services to us, may also devote significant time to the businesses of the general partner's affiliates and will be compensated by these affiliates for the services rendered to them.
- . The general partner is not restricted from causing us to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.
- . In some instances the general partner may borrow funds in order to permit the payment of distributions.

Our Unit Purchase Rights Agreement and Provisions in Our Partnership Agreement May Inhibit a Takeover, Which Could Adversely Affect the Value of Our Partnership Securities.

Our unit purchase rights agreement and partnership agreement contain provisions that could delay or prevent a change in control of our management. These provisions apply even if the offer may be considered beneficial by some of our unitholders. If a change of control is delayed or prevented, the market price of our partnership securities could decline.

Tax Risks to Common Unitholders

The Increase in Taxes Payable By Petro in the Future Will Reduce Dividends to

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Star Gas Partners, Which May Reduce Distributions to Unitholders

Petro and its corporate affiliates do not expect to pay significant federal income tax for 2002 and for several years thereafter. However, over time the amount of federal income taxes paid by Petro and its corporate affiliates will increase. In addition, a successful IRS challenge to the deductions of Petro, including depreciation or interest, will increase Petro's and its corporate affiliates' tax liability. This will reduce the amount of cash that Petro can distribute to us, which in turn will reduce the amount of cash that we can distribute to our unitholders. In addition, Petro and its corporate affiliates do expect to generate earnings and profits, which will make part of the distributions

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from these entities to Star Gas Partners taxable dividend income to the unitholders. This dividend income cannot be offset by past or future losses generated by our propane activities.

The Petro transaction resulted in income to Petro equal to the difference in the value of the Star Gas Partners units distributed in the merger, including the amount of any debt of which Petro was relieved, and the federal income tax basis Petro had in those units. Petro's net operating losses generally offset this income and it incurred only nominal tax. The IRS could challenge the amount of Petro's net operating losses and the use of the net operating losses to offset income realized in the Petro transaction. A successful challenge could reduce the cash we have available for distribution.

The IRS Could Classify Us as an Association Taxable as a Corporation, Which Could Result in Our Paying Tax as an Entity Which Would Substantially Reduce the Cash Available for Distribution to Unitholders

The federal income tax benefit of an investment in Star Gas Partners depends largely on Star Gas Partners' classification as a partnership for federal income tax purposes. Assuming the accuracy of factual matters represented as true by the general partner and Star Gas Partners, counsel is of the opinion that, as of November 4, 2002, Star Gas Partners has been and will be classified as a partnership for federal income tax purposes. No ruling from the IRS as to classification has been or is expected to be requested. Instead, we intend to rely on the opinion of counsel, which is not binding on the IRS. Based on the representations of Star Gas Partners and the general partner and a review of applicable legal authorities, counsel is also of the opinion that, as of November 4, 2002, at least 90% of our gross income is "qualifying income," within the meaning of Section 7704 of the Internal Revenue Code. This means that our income is derived from the exploration, development, mining or production, processing, refining, transportation or marketing of any mineral or natural resource or other items. Whether we will continue to be classified as a partnership depends, at least partly, on our ability to continue to meet this qualifying income test in the future.

If we were classified as an association taxable as a corporation for federal income tax purposes, we would pay tax on our income at corporate rates, which top federal tax rate is currently 35%. If this were to occur, distributions to the unitholders would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to the unitholders. Because a tax would be imposed upon Star Gas Partners as an entity, the cash available for distribution to unitholders would be substantially reduced. Treatment of Star Gas Partners as an association that is taxable as a corporation or otherwise as a taxable entity would result in a material reduction in the anticipated cash flow and after-tax return to the

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unitholders, likely causing a substantial reduction in the market value of the units.

There can be no assurance that the law will not change so as to cause Star Gas Partners to be treated as an association taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects Star Gas Partners to taxation as a corporation or otherwise subjects Star Gas Partners to entity-level taxation for income tax purposes, then specified provisions of the partnership agreement are subject to change, including a decrease in distributions to reflect the impact of that law on us.

A Unitholder May Be Required to Pay Taxes on Income From Star Gas Partners Even if He Receives No Cash Distributions

A unitholder will be required to pay federal income taxes and, in some cases, state and local income taxes on his allocable share of our income, whether or not he receives cash distributions from us. No assurance can be given that a unitholder will receive cash distributions equal to his allocable share of our taxable income or even equal to the actual tax liability that results from this allocable share of income. Further, upon the sale of his units, a unitholder may incur a tax liability in excess of the amount of cash he receives.

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Investors, Other Than Individuals That Are U.S. Residents, May Have Adverse Tax Consequences From Owning Units

Investment in units by specific tax-exempt entities, regulated investment companies and foreign persons raises issues unique to these persons. For example, for any unitholder that is an organization exempt from federal income tax, including IRAs and other retirement plans, virtually all of the unitholder's allocable share of taxable income in the first few years will constitute unrelated business taxable income and thus will be taxable to this unitholder.

Because We Are a Registered Tax Shelter, a Unitholder or Star Gas Partners Faces an Increased Risk of an IRS Audit Resulting in Taxes Payable on Star Gas Partners' and Non-Star Gas Partners' Income

We are registered with the Secretary of the Treasury as a "tax shelter." The IRS has issued the following tax shelter registration number to Star Gas Partners: 96026000016. We cannot assure unitholders that we will not be audited by the IRS or that adjustments to our income or losses will not be made. Any unitholder owning less than a 1% profit interest in Star Gas Partners has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in the unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. Each unitholder is responsible for any tax owed as the result of an examination of his personal tax return.

There Is a Possibility of Loss of Tax Benefits Relating to Nonuniformity of Common Units and Nonconforming Depreciation Conventions

Because we cannot match transferors and transferees of common units, uniformity of the economic and tax characteristics of the common units to a purchaser of common units of the same class must be maintained. To maintain

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uniformity and for other reasons, we have adopted certain depreciation and amortization conventions that to a certain extent may arguably not conform to Treasury regulations. In addition, under our partnership agreement, the general partner is authorized to adopt a convention to preserve the uniformity of units even if that convention is not consistent with Treasury regulations. A successful challenge to those conventions by the IRS could adversely affect the amount of tax benefits available to a purchaser of common units and could have a negative impact on the value of the common units.

There Are State, Local and Other Taxes To Which Unitholders Will Probably Be Subject Solely Because of an Investment in the Units

In addition to federal income taxes, unitholders will likely be subject to other taxes, such as state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. A unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. We anticipate that substantially all of our income will be generated in the following states: Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and West Virginia and Wisconsin. Each of these states currently imposes a personal income tax; however, New Hampshire's tax applies only to interest and dividend income. It is the responsibility of each unitholder to file all United States federal, state and local tax returns that may be required of him. Counsel has not rendered an opinion on the state or local tax consequences of ownership or sale of units.

USE OF PROCEEDS

Except as we may otherwise disclose in a prospectus supplement relating to an offering of securities, we will use the net proceeds from the sale of the securities for general partnership purposes. If we decide to allocate the net proceeds of an offering of securities to a specific purpose, we will make this decision at the time of the offering and we will describe this allocation in the related prospectus supplement.

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RATIO OF EARNINGS TO FIXED CHARGES

The table below sets forth the ratio of earnings to fixed charges of Star Gas Partners for the periods indicated.

	Fiscal Year Ended September 30,				Nine
	1997	1998	1999	2000	2001
	----	----	----	----	----
Ratio of earnings to fixed charges	1.27x	--	--	1.06x	--

For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness, the amortization of deferred debt issuance costs and the portion

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of operating rental expense that is representative of the interest factor. Earnings were inadequate to cover fixed charges by \$0.9 million for the fiscal year ended September 30, 1998; and \$44.3 million for the fiscal year ended September 30, 1999. On a pro forma basis after giving effect to the Petro transaction, the ratio of earnings to fixed charges was 1.07x for the fiscal year ended September 30, 1999. Earnings were inadequate to cover fixed charges by \$5.2 million for the fiscal year ended September 30, 2001.

CASH DISTRIBUTION POLICY

General Description of Cash Distribution

In general, we distribute to our partners on a quarterly basis, all of our Available Cash in the manner described below. Available Cash is defined in the glossary and generally means, for any of our fiscal quarters, all cash on hand at the end of that quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to:

- (1) provide for the proper conduct of our business;
- (2) comply with applicable law, any of our debt instruments or other agreements; or
- (3) provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters, in some circumstances.

The general partner may not establish cash reserves for distributions to the senior subordinated units unless the general partner has determined that the establishment of reserves will not prevent us from distributing the minimum quarterly distribution on all common units and any common unit arrearages for the next four quarters. As discussed below, the restrictions on distributions to senior subordinated units, junior subordinated units and general partner units could result in cash that would otherwise be Available Cash being reserved for other purposes.

Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus. This distinction affects the amounts distributed among different classes of units. See "--Quarterly Distributions of Available Cash."

Operating Surplus is defined in the glossary and generally means:

- (1) the cash balance of Star Gas Partners on the date we began operations, plus approximately \$20.3 million, plus all of our cash receipts, excluding cash receipts that constitute Capital Surplus; less
- (2) all of our operating expenses, debt service payments, maintenance capital expenditures and reserves established for future operations; provided, however, that Operating Surplus is calculated without any reduction for costs or expenses incurred in the Petro transaction.

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

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All Available Cash distributed from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since our commencement equals the Operating Surplus as of the end of the quarter before that distribution. This method of cash distribution avoids the difficulty of trying to determine whether Available Cash is distributed from Operating Surplus or Capital Surplus. Any excess Available Cash, irrespective of its source, will be deemed to be Capital Surplus and distributed accordingly.

If Capital Surplus is distributed on each common unit issued in our initial public offering in an aggregate amount per unit equal to \$22.00 per common unit, the distinction between Operating Surplus and Capital Surplus will cease. All distributions after that date will be treated as from Operating Surplus. The general partner does not expect that there will be significant distributions from Capital Surplus.

The senior subordinated units and the junior subordinated units are each a separate class of interests in Star Gas Partners, and the rights of holders of those interests to participate in distributions differ from the rights of the holders of common units. When issued, the Class B common units will also be a separate class of interests in Star Gas Partners.

Quarterly Distributions of Available Cash

Except for the limitations and prohibitions on distributions discussed below, we will make distributions to our partners for each of our fiscal quarters before liquidation in an amount equal to all of our Available Cash for that quarter. Distributions will be made approximately 45 days after each March 31, June 30, September 30 and December 31, to holders of record on the applicable record date. For a discussion of the restrictions on distributions to the holders of subordinated interests, see "--Limitations and Prohibitions on Distributions on Subordinated Interests."

Upon expiration of the subordination period, all senior subordinated units and junior subordinated units will be converted, on a one-for-one basis, into Class B common units, and distributions on the general partner units will no longer be subordinated to distributions on the common units. All references to common units after the expiration of the subordination period are references to Class A common units and Class B common units, collectively, unless otherwise indicated. Neither Class A common units nor Class B common units will accrue arrearages for any quarter after the subordination period, and senior subordinated units, junior subordinated units and general partner units will not accrue any arrearages on distributions for any quarter.

Distributions of Available Cash from Operating Surplus During the Subordination Period

The subordination period is defined in the glossary and will generally extend until the first day of any quarter beginning on or after October 1, 2002 that each of the following three events occur:

- (1) distributions of Available Cash from Operating Surplus on the common units, senior subordinated units, junior subordinated units and general partner units equal or exceed the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior subordinated units and general partner units for each of the three non-overlapping four-quarter periods immediately preceding that date;
- (2) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior

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subordinated units and general partner units during those periods on a fully diluted basis for employee options or other employee incentive compensation. This includes all outstanding units and all common units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest before the end of the quarter immediately following the quarter for which the determination is made. It also includes all units that have as of the date of determination been earned by but not yet issued to our management for incentive compensation; and

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- (3) there are no arrearages in payment of the minimum quarterly distribution on the common units.

In specific circumstances, if the general partner is removed without cause, the subordination period will end, any existing arrearages on the common units will be extinguished, the senior subordinated units and junior subordinated units will immediately convert into Class B common units and distributions on the general partner units will no longer be subordinated.

Distributions of Available Cash from Operating Surplus for any quarter during the subordination period will be made in the following manner:

- . First, 100% to the common units, pro rata, until there has been distributed for each common unit an amount equal to the minimum quarterly distribution for that quarter.
- . Second, 100% to the common units, pro rata, until there has been distributed for each common unit an amount equal to any cumulative common unit arrearages on each common unit for any prior quarter.
- . Third, 100% to the senior subordinated units, pro rata, until there has been distributed for each senior subordinated unit an amount equal to the minimum quarterly distribution for that quarter.
- . Fourth, 100% to the junior subordinated units and general partner units, pro rata, until there has been distributed for each junior subordinated unit and general partner unit an amount equal to the minimum quarterly distribution for that quarter.
- . Thereafter, in the manner described in "--Incentive Distributions During the Subordination Period" below.

The general partner has a 1.85% general partner interest in Star Gas Partners in the form of general partner units and a 0.01% general partner interest in Star Gas Propane. References in this prospectus to distributions on the general partner units disregard the general partner's 0.01% general partner interest in Star Gas Propane.

Distributions of Available Cash from Operating Surplus After the Subordination Period

Distributions of Available Cash from Operating Surplus for any quarter after the subordination period will be made in the following manner:

- (1) First, 100% to all units, pro rata, until there has been distributed to each unit an amount equal to the minimum quarterly distribution for that quarter.

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- (2) Thereafter, in the manner described in "--Incentive Distributions After the Subordination Period" below.

Incentive Distributions During the Subordination Period

For any quarter that both (1) and (2) below occur, holders of the senior subordinated units, junior subordinated units and general partner units will receive incentive distributions as described below.

- (1) Available Cash from Operating Surplus is distributed to each of the common units, senior subordinated units, junior subordinated units and general partner units in an amount equal to the minimum quarterly distribution.
- (2) Available Cash has been distributed on outstanding common units in the amount as may be necessary to eliminate any cumulative common unit arrearages.

After the distributions described in (1) and (2) above are met, additional Available Cash from Operating Surplus for that quarter will be distributed among the units in the following manner:

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- . First, 100% to all units, until each unit has received, in addition to any distributions to the common units to eliminate any cumulative common unit arrearages, a total of \$0.604 per unit for that quarter (the "First Target Distribution").
- . Second, 86.7% to all units, pro rata, and 13.3% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until each common unit has received, in addition to any distributions to eliminate any cumulative common unit arrearages, a total of \$0.711 per unit for that quarter (the "Second Target Distribution").
- . Third, 76.5% to all units, pro rata, and 23.5% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until each common unit has received, in addition to any distributions to eliminate any cumulative common unit arrearages, a total of \$0.926 per unit for that quarter (the "Third Target Distribution").
- . Thereafter, 51.0% to all units, pro rata, and 49.0% to all senior subordinated units, junior subordinated units and general partner units, pro rata.

The partnership agreement may not be amended, including the issuance of additional Star Gas Partners securities, in any manner that would increase the aggregate amount of incentive distributions without the approval of a majority of the outstanding units of the classes, each class voting separately, that would be adversely affected.

The following table illustrates the amount of Available Cash from Operating Surplus distributed pro rata as the base distribution to all unitholders pro rata and the percentage of Available Cash distributed as incentive distributions to the holders of senior subordinated units, junior subordinated units and general partner units only at the target distribution levels. The percentages in the table below are the percentage interests of the unitholders in Available Cash from Operating Surplus distributed as base distributions to all unitholders

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and distributed as incentive distributions based on the number of units outstanding on the date of this prospectus.

	Quarterly Distribution Amount per Common Unit ----	Percentage of Available Cash Distributed as Base Distributions -----	Percentage of Available Cash Distributed as Incentive Distributions -----	Percentage Distributed as the S ----- Senior Subordinated S Units -----
Minimum Quarterly Distribution	\$ 0.575	100.0%	--	--
First Target Distribution	0.604	100.0	--	--
Second Target Distribution ...	0.711	86.7	13.3%	11.0%
Third Target Distribution	0.926	76.5	23.5	19.4
Thereafter	--	51.0	49.0	40.4

The percentage allocation of incentive distributions among senior subordinated units, junior subordinated units and general partner units will change in the future if there are additional non-proportional issuances of units.

Incentive Distributions After the Subordination Period

For any quarter for which Available Cash from Operating Surplus is distributed to each of the Class A common units, the Class B common units and general partner units in an amount equal to the minimum quarterly distribution, then any additional Available Cash from Operating Surplus for that quarter will be distributed among the unitholders in the following manner:

- . First, 100% to all units, pro rata, until each unit has received the First Target Distribution.

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- . Second, 86.7% to all units, pro rata, and 13.3% to all Class B common units and general partner units, pro rata, until each Class A common unit has received the Second Target Distribution.
- . Third, 76.5% to all units, pro rata, and 23.5% to all Class B common units and general partner units, pro rata, until each Class A common unit has received the Third Target Distribution.
- . Thereafter, 51% to all units, pro rata, and 49% to all Class B common units and general partner units, pro rata.

Distributions from Capital Surplus

Distributions of Available Cash from Capital Surplus will be made 100% on all units, pro rata, until each common unit that was issued in our initial public offering has received distributions equal to \$22.00. This was the unit price from the initial public offering. Thereafter, all distributions from Capital Surplus will be distributed as if they were from Operating Surplus.

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When a distribution is made from Capital Surplus, it is treated as if it were a repayment of the unit price from the initial public offering. To reflect repayment, the minimum quarterly distribution and the target distribution levels will be adjusted downward by multiplying each amount by a fraction. This fraction is determined as follows: the numerator is the unrecovered initial unit price immediately after giving effect to the repayment and the denominator is the unrecovered initial unit price immediately before the repayment. For example, based on the unrecovered initial unit price of \$22.00 per unit and assuming Available Cash from Capital Surplus of \$11.00 per unit is distributed on all common units issued in the initial public offering, then the amount of the minimum quarterly distribution and the target distribution levels would each be reduced to 50% of its initial level.

A "payback" of the unit price from the initial public offering occurs when the unrecovered initial unit price is zero. At that time, the minimum quarterly distribution and the target distribution levels each will have been reduced to zero. All distributions of Available Cash from all sources after that time will be treated as if they were from Operating Surplus. Because the minimum quarterly distribution and the target distribution levels will have been reduced to zero, the holders of the rights to incentive distributions will then be entitled to receive 49% of all distributions of Available Cash, after distributions for cumulative common unit arrearages.

Distributions from Capital Surplus will not reduce the minimum quarterly distribution or any of the target distribution levels for the quarter in which they are distributed.

Limitations and Prohibitions on Distributions on Subordinated Interests

Distributions on the senior subordinated units, junior subordinated units and general partner units were prohibited during our fiscal year 1999 following the completion of the Petro transaction. There was no prohibition on distributions to common units during this time and all minimum quarterly distributions were paid to common unitholders.

Beginning with the first quarter of our fiscal year 2000, which began on October 1, 1999, no distributions will be made on the senior subordinated units, junior subordinated units or general partner units, unless the aggregate amount of distributions on all units for all quarters, beginning with the first quarter of our fiscal year 2000, is equal to or less than the total Operating Surplus generated by us since October 1, 1999. Solely for purposes of this limitation, Operating Surplus does not include our cash balance on the date we began operations, plus approximately \$20.3 million.

The holders of the senior subordinated units, junior subordinated units and general partner units are not prohibited from receiving distributions from Capital Surplus in a partial liquidation during the subordination period.

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Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjustments made upon a distribution of Available Cash from Capital Surplus, the following will each be proportionately adjusted upward or downward, as appropriate, if any combination or subdivision of units should occur:

- (1) the minimum quarterly distribution;

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- (2) the target distribution levels;
- (3) the unrecovered initial unit price;
- (4) the number of additional common units issuable during the subordination period without a unitholder vote;
- (5) the number of Class B common units issuable upon conversion of the senior subordinated units and the junior subordinated units; and
- (6) other amounts calculated on a per unit basis.

However, no adjustment will be made by reason of the issuance of additional units for cash or property. For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level.

The minimum quarterly distribution and target distribution levels may also be adjusted if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes. In this event, the minimum quarterly distribution and target distribution levels for each quarter after that time would be reduced to amounts equal to the product of:

- (1) the minimum quarterly distribution or target distribution level; multiplied by
- (2) one minus the sum of:
 - (x) the highest marginal federal corporate income tax rate to which we are then subject as an entity; plus
 - (y) any increase in the effective overall state and local income tax rate to which we are subject as a result of the new imposition of the entity level tax, after taking into account the benefit of any deduction allowable for federal income tax purposes for the payment of state and local income taxes, but only to the extent of the increase in rates resulting from that legislation or interpretation.

For example, assuming we are not previously subject to state and local income tax, if we were to become taxable as an entity for federal income tax purposes and we became subject to a maximum marginal federal, and effective state and local, income tax rate of 38%, then the minimum quarterly distribution and the target distribution levels would each be reduced to 62% of the amount thereof immediately before the adjustment.

The minimum quarterly distributions and target level distributions may also be adjusted in connection with the occurrence of certain events under our unit purchase rights agreement.

Issuance of Additional Senior Subordinated Units

The partnership agreement provides for the issuance of up to 909,000 additional senior subordinated units if Petro meets specified financial tests.

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Specifically, if the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds \$2.90 for any four-quarter period that occurs between the first and fifth anniversaries of the Petro transaction, we will issue 303,000 senior subordinated units to the holders of the senior subordinated units, junior subordinated units and general partner units of record for the final quarter of that four-quarter period. After the end of the subordination period, we would instead issue 303,000 Class B common units to the holders of the Class B common units and the general partner units. In any case, we may not issue more than 303,000 senior subordinated units or Class B common units in any 365-day period. Furthermore, we may not issue more than 909,000 senior subordinated units or Class B common units under this provision in the aggregate. We will not issue any fractional units in the issuance of these additional units but will pay to each holder who would otherwise be entitled to a fractional unit an amount in cash in lieu of those fractional units. The amount of cash to be paid will be determined by multiplying the fraction by the current market price of a senior subordinated unit or a Class B common unit, as the case may be. For this purpose, the current market price is set as of the date three days prior to issuance of the additional units. On the first day after the record date for distributions for the first quarter ending on or after the fifth anniversary of completion of the Petro transaction, the right to receive the additional units shall lapse and all conversion rights shall cease to exist. On November 14, 2001, we distributed 303,000 senior subordinated units, pro rata, to the holders of record on November 5, 2001 of the senior subordinated units, junior subordinated units and general partner units, following our announcement that the partnership had achieved the specified financial test for the four quarter period ended September 30, 2001.

In addition, in lieu of a portion of the cash purchase price that would otherwise be due to the holders of the Petro 12 7/8% preferred stock, we may in the future issue an additional 175,000 senior subordinated units.

"Petro Adjusted Operating Surplus" means, for any four-quarter period, the Adjusted Operating Surplus generated by Petro, which includes all subsidiaries of Star Gas Partners primarily engaged in the home heating oil business, during that four quarter period. The determination of this amount is made in good faith by a majority of the members of the board of directors of the general partner acting with the concurrence of the audit committee. In calculating Petro Adjusted Operating Surplus:

- (1) debt service, including the payment of principal, interest and premium on all debt incurred or assumed by Petro or any of its affiliates, the proceeds of which are used by or for the benefit of Petro, including the proceeds from the debt offering, shall be included to the extent that debt service is included in the calculation of Operating Surplus; and
- (2) debt service, including the payment of principal, interest and premium, on all debt incurred or assumed by Petro or any of its affiliates, the proceeds of which are not used by or for the benefit of Petro, shall be excluded.

"Petro Units," for any date, means the sum of:

- (1) the excess of the number of units outstanding at completion of the Petro transaction over the number of units outstanding immediately before the completion of the Petro transaction;
- (2) the number of units issued by Star Gas Partners after the transaction to the extent the net proceeds of which are contributed to Petro, which for these purposes includes all subsidiaries of Star Gas Partners primarily engaged in the home heating oil business;

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- (3) the number of senior subordinated units or Class B common units issued under the partnership agreement based on the performance of Petro; and

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- (4) the deemed number of units outstanding based upon a contribution of capital to Petro by Star Gas Partners or any of its affiliates after completion of the transaction, which contribution is not covered by (2) above or traceable to debt proceeds, which number of deemed units is obtained by dividing:

- (A) the amount of that Star Gas Partners' contribution; by
- (B) the Current Market Price of a common unit, or of a Class A common unit after the termination of the subordination period.

For purposes of (4) above, the amount used to pay down the Petro debt discussed below will be treated as if it were contributed to Petro by Star Gas Partners. Specifically, Petro debt paid or debt allocated to Petro from internally generated funds that exist at Petro only because Petro has not paid dividends up to Star Gas Partners in an amount equal to the distributions that would have been paid on the Petro Units had they been actual outstanding units of Star Gas Partners will fall within (4) above. The distribution per senior subordinated unit of Star Gas Partners shall be the amount that Star Gas Partners would have been deemed to have distributed per Petro Unit had they been actual outstanding units of Star Gas Partners. For purposes of the number of deemed outstanding units in (4) above, those units shall be deemed to be issued on the date of the capital contribution. For purposes of determining the number of outstanding Petro Units for any period of time, the number of units issued under (2), (3) and (4) above shall be determined on a weighted average basis based on the amount of time they have been outstanding. For this purpose, common unit means Class A common unit upon expiration of the subordination period. Petro Units are not "units" as such term is used in this prospectus.

The terms upon which any of the said additional units may be issued may not be amended in a manner that would materially adversely affect the rights of the holders of those units without the affirmative vote of the holders of a majority of the outstanding senior subordinated units, junior subordinated units and general partner units, voting together as a single class.

Distributions of Cash upon Liquidation During the Subordination Period

Following the beginning of the dissolution and liquidation, assets will be sold or otherwise disposed of and the partners' capital account balances will be adjusted to reflect any resulting gain or loss. The proceeds of liquidation will first be applied to the payment of our creditors in the order of priority provided in the partnership agreement and by law and, thereafter, be distributed on the units in accordance with respective capital account balances, as so adjusted.

Partners are entitled to liquidation distributions in accordance with capital account balances. Although operating losses are allocated on all units pro rata, the allocations of gains and losses attributable to liquidation are intended to favor the holders of outstanding common units over the holders of all other outstanding units, to the extent of the unrecovered initial unit price plus any cumulative common unit arrearages. However, no assurance can be given that there will be sufficient gain upon liquidation of Star Gas Partners to

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enable the holders of common units to fully recover their unrecovered initial unit price and arrearages, even though there may be cash available for distribution to the holders of senior subordinated units and junior subordinated units. The manner of the adjustment is provided in the partnership agreement. If our liquidation occurs before the end of the subordination period, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- . First, to the partners that have negative balances in their capital accounts, to the extent of and in proportion to, those negative balances.
 - . Second, 100% to the common units, pro rata, until the capital account for each common unit is equal to the unrecovered initial unit price for that common unit plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs, plus any cumulative common unit arrearages on those common units.
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- . Third, 100% to the senior subordinated units, pro rata, until the capital account for each senior subordinated unit is equal to the unrecovered initial unit price plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.
 - . Fourth, 100% to the junior subordinated units and general partner units, pro rata, until the capital account for each junior subordinated unit is equal to the unrecovered initial unit price plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.
 - . Fifth, 100% to all units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the First Target Distribution per unit over the then effective minimum quarterly distribution per unit for each quarter of Star Gas Partners' existence, less (b) the amount per common unit of any distributions of Available Cash from Operating Surplus in excess of the then effective minimum quarterly distribution per unit that was distributed 100% to all units, pro rata, for each quarter of Star Gas Partners' existence.
 - . Sixth, 86.7% to all units, pro rata, 13.3% to senior subordinated units, junior subordinated units and general partner units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the Second Target Distribution per common unit over the First Target Distribution per common unit for each quarter of Star Gas Partners' existence, less (b) the amount per common unit of any distributions of Available Cash from Operating Surplus in excess of the First Target Distribution per common unit but not in excess of the Second Target Distribution for each quarter of Star Gas Partners' existence.
 - . Seventh, 76.5% to all units, pro rata, and 23.5% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the Third Target Distribution per common unit over the Second Target Distribution but not in excess of the Third Target Distribution for each quarter of Star Gas Partners' existence.

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- . Thereafter, 51.0% to all units, pro rata, and 49.0% to all senior subordinated units, junior subordinated units and general partner units, pro rata.

Any loss or unrealized loss will be allocated to the unitholders in the following manner:

- . First, 100% to the junior subordinated units and general partner units, pro rata, in proportion to the positive balances in their capital accounts until the positive balances in their capital accounts have been reduced to zero.
- . Second, 100% to the senior subordinated units in proportion to the positive balances in their capital accounts until the positive balances in their capital accounts have been reduced to zero.
- . Third, 100% to the common units in proportion to the positive balances in their capital accounts until the positive balances in their capital accounts have been reduced to zero.
- . Thereafter, to the general partner units.

Distributions of Cash upon Liquidation After the Subordination Period

If our liquidation occurs after the end of the subordination period, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- . First, to the partners that have negative balances in their capital accounts to the extent of and in proportion to those negative balances.

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- . Second, 100% to all Class A common units and Class B common units, until the capital account for each Class A common unit and Class B common unit is equal to the unrecovered initial unit price, plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.
- . Third, 100% to all units, pro rata, until there has been allocated under this clause an amount per Class A common unit equal to (a) the excess of the First Target Distribution per Class A common unit over the then effective minimum quarterly distribution for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the then effective minimum quarterly distribution per Class A common unit that was distributed 100% to units, pro rata, for each quarter of our existence.
- . Fourth, 86.7% to all units, pro rata, and 13.3% to Class B common units and general partner units, pro rata, until there has been allocated under this clause an amount per Class A common unit equal to (a) the excess of the Second Target Distribution per Class A common unit over the First Target Distribution per Class A common unit for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the First Target Distribution but not in excess of the Second Target Distribution for each quarter of our existence.

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- . Fifth, 76.5% to all units, pro rata, and 23.5% to Class B common units and general partner units, pro rata, until there has been allocated under this clause an amount per Class A common unit equal to (a) the excess of the Third Target Distribution per Class A common unit over the Second Target Distribution per Class A common unit for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the Second Target Distribution but not in excess of the Third Target Distribution for each quarter of our existence.
- . Thereafter, 51.0% to all units, pro rata, and 49.0% to all Class B common units and general partner units, pro rata.

Any loss or unrealized loss will be allocated to the general partner units, the Class A common units and the Class B common units, pro rata, in proportion to the positive balances in their capital accounts, until the positive balances in those capital accounts have been reduced to zero.

Interim adjustments to capital accounts will be made at the time we issue additional interests or make distributions of property. These adjustments will be based on the fair market value of the interests issued or the property distributed and any gain or loss resulting from the adjustments will be allocated to the unitholders in the same manner as gain or loss is allocated upon liquidation.

DESCRIPTION OF THE COMMON UNITS

The common units have been registered under the Exchange Act and we are subject to the reporting and certain other requirements of the Exchange Act. We are required to file periodic reports containing financial and other information with the SEC.

Purchasers of common units in this offering and later transferees of common units, or their brokers, agents or nominees on their behalf, will be required to execute transfer applications. The form of transfer application is included as Annex A to this prospectus and is also shown on the reverse side of the certificate representing common units. Purchasers may hold common units in nominee accounts, provided that the broker, or other nominee, executes and delivers a transfer application and becomes a limited partner. We will be entitled to treat the nominee holder of a common unit as the absolute owner of that unit, and the beneficial owner's rights will be limited solely to those that it has against the nominee holder.

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The Rights of Unitholders

Generally, the common units represent limited partner interests, which entitle the holders of those units to participate in our distributions and exercise the rights or privileges available to limited partners under the partnership agreement. For a description of the relative rights and preferences of holders of common units in and to our distributions, see "Cash Distribution Policy."

Transfer Agent and Registrar

We have retained Equiserve as registrar and transfer agent for the common units. The transfer agent receives a fee from us for serving in these capacities. All fees charged by the transfer agent for transfers of common units

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will be borne by us and not by the holders of common units, except that fees similar to those customarily paid by stockholders for surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges, special charges for services requested by a holder of a common unit and other similar fees or charges will be borne by the unitholder. There will be no charge to holders for disbursements of cash distributions. We will indemnify the transfer agent, its agents and each of their shareholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities as transfer agent, except for any liability due to any negligence, gross negligence, bad faith or intentional misconduct of the indemnified person or entity.

The transfer agent may resign, or be removed by us. If no successor is appointed within 30 days, the general partner may act as the transfer agent and registrar until a successor is appointed.

Obligations and Procedures for the Transfer of Units

Until a common unit has been transferred on our books, we and the transfer agent, notwithstanding any notice to the contrary, may treat the record holder as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations. The transfer of the common units to persons that purchase directly from underwriters will be accomplished through the completion, execution and delivery of a transfer application by that purchaser for that purchase. Any later transfers of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units does the following:

- . becomes the record holder of those units and shall be constituted as an assignee until admitted into Star Gas Partners as a substituted limited partner;
- . automatically requests admission as a substituted limited partner in Star Gas Partners;
- . agrees to be bound by the terms and conditions of, and executes, the partnership agreement;
- . represents that the transferee has the capacity, power and authority to enter into the partnership agreement;
- . grants powers of attorney to the general partner and any liquidator of Star Gas Partners as specified in the partnership agreement; and
- . makes the consents and waivers contained in the partnership agreement.

An assignee will become a substituted limited partner of Star Gas Partners for the transferred common units upon satisfaction of the following two conditions:

- . the consent of the general partner, which may be withheld for any reason in its sole discretion; and
- . the recording of the name of the assignee on the books and records of Star Gas Partners.

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governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in Star Gas Partners for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a transfer application obtains only the following rights:

- . the right to assign the common unit to a purchaser or other transferee; and
- . the right to transfer the right to seek admission as a substituted limited partner in Star Gas Partners for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application will not receive cash distributions, unless the common units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a transfer application for those common units. In addition, such purchaser or transferee may not receive some federal income tax information or reports furnished to record holders of common units. The transferor of common units will have a duty to provide the transferee with all information that may be necessary to obtain registration of the transfer of the common units, but a transferee agrees, by acceptance of the certificate representing common units, that the transferor will not have a duty to insure the execution of the transfer application by the transferee and will have no liability or responsibility if the transferee neglects or fails to execute and forward the transfer application to the transfer agent.

DESCRIPTION OF PARTNERSHIP SECURITIES

Limitation on Issuance of Additional Partnership Securities

Except as discussed below, the general partner is authorized to cause us to issue an unlimited number of additional partnership securities for the consideration and on the terms and conditions established in its sole discretion, without the approval of any limited partners. Partnership securities means any class or series of units of limited partner interest other than common units, any option, right, warrant or appreciation rights relating to these securities or any other type of equity interest or rights to acquire any equity interest that Start Gas Partners may issue according to its partnership agreement.

Except as described in (1) through (3) below, during the subordination period, we may not issue an aggregate of more than 2,500,000 additional common units or units on a parity with the common units without the prior approval of at least a majority of the outstanding common units, other than those held by the general partner and its affiliates.

(1) If the issuance occurs:

- (a) for an acquisition or a capital improvement; or
- (b) to repay debt incurred for an acquisition or a capital improvement;

in each case, where the acquisition or capital improvement involves assets that would have, on a pro forma basis, resulted in an increase in the amount of Adjusted Operating Surplus calculated on a per units basis for all outstanding units for each of the four most recently completed quarters.

(2) If the proceeds from the issuance are used exclusively to repay up to \$20 million of indebtedness of Star Gas Partners, Star Gas Propane or any of its subsidiaries.

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- (3) The issuance of Class B common units upon the conversion of the senior subordinated units and junior subordinated units at the end of the subordination period.

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Also, the partnership agreement may not be amended, including to permit the issuance of additional partnership securities, in any manner that would increase the aggregate amount of incentive distributions without the approval of a majority of the outstanding units of the classes, each class voting separately, that would be adversely affected.

Issuance of Additional Partnership Securities

The following is a description of the general terms and provisions of the partnership securities. The particular terms of any series of partnership securities will be described in the applicable prospectus supplement and the amendment to the partnership agreement relating to that series of partnership securities, which will be filed as an exhibit to or incorporated by reference in this prospectus at or prior to the time of issuance of any such series of partnership securities. If so indicated in a prospectus supplement, the terms of any such series may differ from the terms set forth below.

Subject to the limitations described above, the general partner is authorized to approve the issuance of one or more series of partnership securities without further authorization of the limited partners and to fix the number of securities, the designations, rights, privileges, restrictions and conditions of any such series.

The applicable prospectus supplement will set forth the number of securities, particular designation, relative rights and preferences and the limitations of any series of partnership securities in respect of which this prospectus is delivered. The particular terms of any such series will including the following:

- . the maximum number of securities to constitute the series and the designation and ranking thereof;
- . the annual distribution rate, if any, on securities of the series, whether such rate is fixed or variable or both, the dates from which distributions will begin to accrue or accumulate, whether distributions will be cumulative and whether such distributions shall be paid in cash, securities or otherwise;
- . whether the securities of the series will be redeemable and, if so, the price at the terms and conditions on which the securities of the series may be redeemed, including the time during which securities of the series may be redeemed and any accumulated distributions thereof that the holders of the securities of the series shall be entitled to receive upon the redemption thereof;
- . the liquidation preference, if any, applicable to securities of the series;
- . the terms and conditions, if any, on which the securities of the series shall be convertible into, or exchangeable for, securities of any other class or classes of partnership

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securities, including the price or prices or the rate or rates of conversion or exchange and the method, is any, of adjusting the same; and

- . the voting rights, if any, of the securities of the series.

The holders of partnership securities will have no preemptive rights. Partnership securities will be fully paid and nonassessable when issued upon full payment of the purchase price therefor. The prospectus supplement will contain, if applicable, a description of the material United States federal income tax consequences relating to the purchase and ownership of the series of partnership securities offered by the prospectus supplement. The transfer agent, registrar and distributions disbursement agent for the partnership securities will be designated in the applicable prospectus supplement.

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Unit Purchase Rights

Each common unit and each other partnership security consisting of a unit of limited or general partnership interest includes a right to purchase from us a Class A common unit at a purchase price of \$80.00 per unit, subject to adjustment. The rights are issued pursuant to a rights agreement between us and American Stock Transfer & Trust Company as rights agent. We have summarized selected portions of the rights agreement and the rights below. For a complete description of the rights, we encourage you to read the summary below and the rights agreement, which we have filed as an exhibit to the registration statement of which this prospectus is a part.

Detachment of Rights; Exercisability

The rights are attached to all certificates representing our currently outstanding units and will attach to all unit certificates we issue prior to the "distribution date." That date will occur, except in some cases, on the earlier of:

- . ten days following a public announcement that a person or group of affiliated or associated persons, who we refer to collectively as an "acquiring person," has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of either our outstanding common units or the aggregate of our outstanding senior subordinated units and junior subordinated units, or
- . ten business days following the start of a tender offer or exchange offer that would result in a person becoming an acquiring person.

Our general partner may defer the distribution date in some circumstances. Also, some inadvertent acquisitions of our units will not result in a person becoming an acquiring person if the person promptly divests itself of sufficient units.

Until the distribution date:

- . unit certificates will evidence the rights,
- . the rights will be transferable only with those certificates,
- . new unit certificates will contain a notation incorporating

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the rights agreement by reference, and

- . the surrender for transfer of any unit certificate will also constitute the transfer of the rights associated with the units represented by the certificate.

The rights are not exercisable until the distribution date and will expire at the close of business on April 16, 2011, unless we redeem or exchange them at an earlier date as described below.

As soon as practicable after the distribution date, the rights agent will mail certificates representing the rights to holders of record of units as of the close of business on the distribution date. From that date on, only separate rights certificates will represent the rights. We will issue rights with all units issued prior to the distribution date. We will also issue rights with units issued after the distribution date in connection with some employee benefit plans or upon conversion of some securities. Except as otherwise determined by our board of directors, we will not issue rights with any other units issued after the distribution date.

Flip-In Event

A "flip-in event" will occur under the rights agreement when a person becomes an acquiring person otherwise than pursuant to a "permitted offer." The rights agreement defines "permitted offer" as a tender or exchange offer for all outstanding units at a price and on terms that our general partner determines to be fair to and otherwise in the best interests of our unitholders.

If a flip-in event occurs, each right, other than any right that has become null and void as described below, will become exercisable following the end of the subordination period to receive the number of Class A common units,

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or in some specified circumstances, cash, property or other securities, which has a "current per unit market price" equal to two times the exercise price of the right. Please refer to the rights agreement for the definition of "current per unit market price."

Flip-Over Event

A "flip-over event" will occur under the rights agreement when, at any time from and after the time a person becomes an acquiring person:

- . we are acquired or we acquire such person in a merger or other business combination transaction, other than specified mergers that follow a permitted offer, or
- . 50% or more of our assets, cash flow or earning power is sold, leased or transferred.

If a flip-over event occurs, each holder of a right, except rights that are voided as described below, will thereafter have the right to receive, on exercise of the right, a number of common units or equivalent securities of the acquiring company that has a current market price equal to two times the exercise price of the right.

When a flip-in event or a flip-over event occurs, all rights that then are, or under the circumstances the rights agreement specifies previously were, beneficially owned by an acquiring person or specified related parties will

become null and void in the