

STAR GAS PARTNERS LP  
Form 424B3  
July 18, 2005  
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Filed pursuant to Rule 424(b)(3)

Registration Statement No. 333-126272

**Final Prospectus dated July 18, 2005**

**PROSPECTUS**

**STAR GAS PARTNERS, L.P.**

**STAR GAS FINANCE COMPANY**

**Offer to Exchange**

**10<sup>1</sup>/<sub>4</sub>% Senior Notes due 2013**

**For Any and All Outstanding**

**10<sup>1</sup>/<sub>4</sub>% Senior Notes due 2013**

This prospectus, the accompanying letter of transmittal and notice of guaranteed delivery relate to our proposed offer to exchange up to \$30,000,000 aggregate principal amount of new 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013, which we call the Series B notes in this prospectus, which will be freely transferable, for any and all outstanding 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013, which we call the Series A notes in this prospectus, issued in a private offering on July 15, 2004, and which have certain transfer restrictions. In this prospectus we sometimes refer to the Series A notes and the Series B notes collectively as the notes.

The notes are the senior unsecured obligations of us and Star Gas Finance Company, our wholly owned subsidiary that has no material assets and was formed for the sole purpose of being a corporate co-issuer of some of our indebtedness, including the notes.

The exchange offer expires at 12:00 midnight, New York City time, on August 18, 2005 unless extended.

The terms of the Series B notes are substantially identical to the terms of the Series A notes, except that the Series B notes will be freely transferable and issued free of any covenants regarding exchange and registration rights.

Interest on the notes is paid semi-annually on each February 15 and August 15 commencing on August 15, 2004.

The Series B notes will be issued under an Indenture dated as of February 6, 2003, as supplemented, pursuant to which we previously issued the Series A notes and the existing \$235 million of Series B 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013. Following the completion of this proposed offer to exchange, the Series B notes and our existing \$235 million of Series B 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013 will be a single series of notes.

All Series A notes that are validly tendered and not validly withdrawn will be exchanged.

Tenders of Series A notes may be withdrawn at any time prior to expiration of the exchange offer.

We will not receive any proceeds from the exchange offer.

The exchange of Series A notes for Series B notes will not be a taxable event for U.S. federal income tax purposes.

Holder of Series A notes do not have any appraisal or dissenters' rights in connection with the exchange offer.

Series A notes not exchanged in the exchange offer will remain outstanding and be entitled to the benefits of the Indenture, but, except under certain circumstances, will have no further exchange or registration rights under the registration rights agreement discussed in this prospectus.

The Series B notes will rank structurally junior to indebtedness and other liabilities of our subsidiaries which, at March 31, 2005, aggregated \$292.4 million.

There is no active trading market for the Series A notes or Series B notes and we do not intend to list the Series B notes on any securities exchange or to seek approval for quotations through any automated quotation system.

Each broker-dealer who receives Series B notes pursuant to the exchange offer in exchange for Series A notes that the broker-dealer acquired for its own account as a result of market-making activities or other trading activities, other than Series A notes acquired directly from us or our affiliates, must acknowledge that it will deliver a prospectus in connection with any resale of the Series B notes. The letter of transmittal that accompanies this prospectus states that by acknowledging and delivering a prospectus, a broker-dealer will not be deemed to have admitted that it is an underwriter within the meaning of the Securities Act.

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**The exchange offer involves risks. Before participating in this exchange offer, carefully consider the Risk Factors beginning on page 12 of this prospectus.**

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

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read this entire prospectus, the accompanying letter of transmittal and related documents and any amendments or supplements to this prospectus carefully before making your investment decision.

**The date of this prospectus is July 18, 2005.**

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

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

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

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

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### **SUMMARY**

*This summary information is to help you understand the notes, our business and the exchange offer. It may not contain all the information that may be important to you. You should carefully read this prospectus and the documents incorporated by reference to understand fully the terms of the notes, as well as the tax and other considerations that are important to you in making your investment decision. You should pay special attention to the Risk Factors section beginning on page 12 of this prospectus to determine whether an investment in the notes is appropriate for you. For purposes of this prospectus, unless the context otherwise indicates, when we refer to us, we, our, or ours, we are describing Star Gas Partners, L.P., together with its subsidiaries, including Star Gas Finance Company. We sometimes refer to our heating oil business as our heating oil operations or our heating oil segment.*

The exchange offer is intended to satisfy our obligations under the registration rights agreement, and we will not receive any cash proceeds from the issuance of the Series B notes offered by this prospectus. For further details, please read Use of Proceeds on page 26 of this prospectus.

### **Who We Are**

#### **General**

We are the largest retail distributor of home heating oil in the United States, based on volume as reported by the National Oilheat Research Alliance Organization, March 2003. Our home heating oil operations serve approximately 500,000 customers in the Northeast and Mid-Atlantic regions. For the 12 months ended March 31, 2005, our home heating oil segment sold 505.2 million gallons of home heating oil.

We were also formerly engaged as a retail distributor of propane until December 17, 2004, when we sold our propane segment. See Sale of the Propane Segment; Prepayment of Subsidiaries Secured Notes.

#### **Home Heating Oil Operations**

Through our subsidiary, Petro Holdings, Inc., or Petro, we are engaged in delivering heating oil and providing heating equipment repair and maintenance services to approximately 500,000 home heating oil customers from 35 branch locations in eight states and the District of Columbia as of March 31, 2005. Our heating oil operations are concentrated in the Northeast and Mid-Atlantic regions.

Heating oil is almost exclusively used for space heating by residential and commercial customers. We believe that the sale of heating oil is a stable business due to three factors. First, home heating oil is an essential, non-discretionary product and sales are typically not impacted by general economic conditions. Second, the majority of our customers receive deliveries automatically without making affirmative purchase decisions. We seek to enhance customer loyalty with our responsive at-home heating equipment repair and maintenance service, which we make available 24 hours per day, 7 days a week. Third, since we sell heating oil with a pass-through pricing mechanism and maintain relatively low levels of inventory, or use forward contracts or market hedges in the case of a substantial majority of our price-protected customers, historically we have not been affected by changes in the level of oil prices. However, during periods of rapid supply cost increases, including the recent

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unprecedented rise in heating oil prices, we may not be able to pass on all of the increases to our customers and may have increased difficulty in reducing customer attrition. See Recent Events.

Prior to the 2004 winter heating season, our heating oil segment attempted to develop a comprehensive advantage in customer service, and as part of that effort, centralized its heating equipment service dispatch and engaged a centralized call center to fulfill its telephone requirements for the majority of its home heating oil customers. We experienced difficulties in advancing this initiative during the fiscal year ended September 30, 2004, or fiscal 2004, which adversely impacted the customer base, product sales and our costs. See Risk Factors.

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For the 12 months ended March 31, 2005, approximately 76% of total sales from our heating oil operations were from sales of home heating oil, approximately 15% were from the installation and repair of heating and air conditioning equipment and approximately 9% were from the sale of other petroleum products, including diesel fuel and gasoline, primarily to commercial customers for fleet fuel service. During this period, our home heating oil operations generated total sales of \$1.2 billion.

## **Recent Results**

The following is a summary of our results of operations for the six months ended March 31, 2005. For a more detailed discussion of our results of operations for this period, see our Quarterly Report on Form 10-Q for the fiscal quarter and six months ended March 31, 2005, which is incorporated by reference into this prospectus.

*Volume.* For the six months ended March 31, 2005, our retail volume of home heating oil declined by 46.3 million gallons or 10.7% to 387.3 million gallons, compared to 433.6 million gallons for the six months ended March 31, 2004. Volume of other petroleum products declined by 5.9 million gallons or 11.6% to 45.1 million gallons for the six months ended March 31, 2005, as compared to 51.0 million gallons for the six months ended March 31, 2004. We believe that the 46.3 million gallon home heating oil decline at the heating oil segment was due to net customer attrition, which occurred during the 12 months ended March 31, 2005, conservation and delivery scheduling, and other factors partially offset by acquisitions. Temperatures in the heating oil segment's geographic areas of operations were approximately 1.2% warmer in the six months ended March 31, 2005 than in the six months ended March 31, 2004 and approximately 1.0% colder than normal, as reported by the National Oceanic Atmospheric Administration. Due to the significant increase in the price per gallon of home heating oil, we believe that customers are using less home heating oil given similar temperatures. Preliminary indications based on internal studies suggest that the heating oil segment's customers are reducing their consumption by approximately 3.5%. We cannot determine if conservation is a permanent or temporary phenomenon. We estimate that during the six months ended March 31, 2005, home heating oil volume was positively impacted by approximately 4.9 million gallons, due to a change in delivery scheduling patterns which offset a 4.6 million gallons reduction due to a delivery scheduling variance from the first fiscal quarter, as the heating oil segment attempted to deliver budget volume in the quarter ended September 30, 2004 that exceeded deliveries under historic patterns. We believe that home heating oil volume sold for the remainder of the fiscal year ending September 30, 2005, or fiscal 2005, will be substantially less than the comparable period in fiscal 2004 due to customer attrition, conservation and other factors such as delivery scheduling and warmer temperatures.

*Operating Income.* For the six months ended March 31, 2005, our operating income decreased \$117.0 million to a loss of \$38.4 million, compared to \$78.6 million in operating income for the six months ended March 31, 2004. This decline was due to a non-cash goodwill impairment charge of \$67.0 million, lower sales volume, a decrease in home heating oil margins of 2.8 cents per gallon, \$13.7 million in bridge facility, legal and bank amendment fees, \$3.1 million in compensation expense relating to a severance agreement entered into with one of our former executives, \$1.6 million for compliance with Sarbanes-Oxley, and an increase in delivery and branch expenses of \$3.4 million. Lower depreciation and amortization expense of \$0.9 million and lower net service expense of \$5.0 million favorably impacted operating income.

*Income (Loss) From Continuing Operations.* For the six months ended March 31, 2005, our income (loss) from continuing operations decreased \$158.8 million, to a loss of \$101.3 million, compared to income of \$57.6 million for the six months ended March 31, 2004 as a result of a decline in operating income of \$117.0 million and the loss on the redemption of debt of \$42.1 million.

*Net Income.* For the six months ended March 31, 2005, our net income decreased \$49.6 million, to \$50.3 million, as compared to \$100.0 million in net income for the six months ended March 31, 2004 as the decline in operating income (loss) from continuing operations of \$117.0 million, the loss on redemption of debt of \$42.1 million and the reduction in income from discontinued operations of \$46.7 million was partially offset by the gain on the sale of the propane segment of \$155.4 million.



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*Liquidity and Capital Resources.* Our ability to satisfy our obligations will depend on our future performance, which will be subject to prevailing economic, financial, business and weather conditions, the ability to pass on the full impact of high wholesale heating oil prices to customers, the effects of high customer attrition, conservation and other factors, most of which are beyond our control. See Risk Factors. Our further capital requirements, at least in the near term, are expected to be provided by cash flows from operating activities, cash on hand at March 31, 2005 or a combination thereof. To the extent future capital requirements exceed cash flows from operating activities, we anticipate that working capital will be financed by our revolving credit facility and repaid from subsequent seasonal reductions in inventory and accounts receivable. In addition, at any time before December 12, 2005, we may use the proceeds from the sale of the propane segment for any purpose permitted by our debt instruments.

## **Notes Offering**

In July 2004, we completed a Rule 144A offering of \$30 million in aggregate principal amount of Series A notes, which we refer to in this prospectus as the notes offering. The notes were priced at 106.25% for total gross proceeds of \$31.8 million plus \$1.3 million in accrued interest. We have used \$29.7 million of the net proceeds to repay working capital borrowings under our home heating oil and propane lines of credit in existence at the time of the notes offering and the balance was used to increase cash. See Use of Proceeds.

## **Recent Events**

On October 18, 2004, we announced that we had advised the heating oil segment's bank lenders that this segment would not be able to make the required representations included in the borrowing certificate under its working capital line. In addition, we notified such lenders that, for the quarter ended December 31, 2004 and for the foreseeable future thereafter, the heating oil segment would be unlikely to satisfy the drawing condition that requires that our consolidated funded debt not exceed 5.00 times our consolidated operating cash flow. Further, we advised the lenders that the heating oil segment may not be able to maintain a zero balance under the working capital facility (except for letter of credit obligations) for 45 consecutive days from April 1, 2005 to September 30, 2005, as required by its bank credit agreement. We indicated that the source of the problem was a combination of (a) the inability to pass on the full impact of record wholesale heating oil prices to customers and (b) the effects of unusually high net customer attrition principally related to the heating oil segment's operational restructuring undertaken in the past 18 months.

We also announced that we anticipated that because of the requirements of our current and potential bank lenders, we would not be permitted to make any distributions on our common units.

In addition, we announced that the heating oil segment's bank lenders had agreed to permit the heating oil segment to request new working capital advances daily while we were in discussions with such bank lenders about modifying the terms and conditions of the heating oil segment's bank credit agreement. In connection with that arrangement, the bank lenders requested that we allow an independent financial advisor to review the heating oil segment's operations and performance on their behalf.

On November 5, 2004, we announced that the heating oil segment had entered into a letter amendment and waiver under its credit agreement with Wachovia Bank, N.A. The amendment provided for the waiver, through December 17, 2004, of various terms under the credit agreement. As a result of the amendment, the heating oil segment was able to continue to borrow funds under the credit agreement to support its working capital requirements for the near term. The amendment also amended for the waiver period the financial covenant regarding our consolidated funded debt to cash flow ratio and the financial covenant regarding our cash flow to interest expense ratio.





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We also announced that we had entered into a commitment letter with JPMorgan Securities Inc. and JPMorgan Chase Bank. Under the commitment letter, as amended, JP Morgan Chase Bank committed to provide a \$350 million (\$260 million if the propane segment was sold, as discussed below) asset-based senior secured revolving credit facility referred to herein as the revolving credit facility and a \$300,000,000 senior secured bridge facility referred to herein as the bridge facility to refinance (referred to in this prospectus as the refinancing transactions) all of the heating oil segment's and the propane segment's (if the propane segment was not sold) working capital facilities and senior secured notes.

On November 18, 2004, we announced that we had signed an agreement to sell our propane segment, held largely through Star Gas Propane L.P., or Star Gas Propane, to Inergy Propane LLC, or Inergy, the operating subsidiary of Inergy, L.P., for \$475 million subject to certain adjustments. In addition, we gave notice to holders of the heating oil segment's secured notes of our optional election to prepay such secured notes, representing an aggregate payment, including principal, interest and estimated premium, of approximately \$182 million. We subsequently gave notice of our optional election to prepay our propane segment's secured notes involving an aggregate payment including principal, interest and estimated premium, of approximately \$114 million. The aggregate amount payable with regard to both sets of secured notes was approximately \$296 million.

On December 17, 2004, the heating oil segment signed a new \$260 million revolving credit facility agreement with a group of lenders led by JP Morgan Chase Bank, as administrative agent. See *Description of Other Indebtedness*. At the same time, we completed the sale of our propane segment.

The heating oil segment borrowed an initial \$119 million under the revolving credit facility on the closing date, which the heating oil segment used to repay amounts outstanding under its existing credit facilities.

## **Sale of the Propane Segment; Prepayment of Subsidiaries' Secured Notes**

### *Terms of the Agreement*

*General description.* On December 17, 2004, we completed the sale of our propane segment to Inergy for a purchase price of \$481.3 million, without assumption of the propane segment's indebtedness for borrowed money at the time of sale. We recorded a gain of approximately \$155.4 million from the sale of the propane segment after repayment of certain debt, transaction expenses and estimated taxes. For purposes of economic effect, the transaction was effective as of November 30, 2004 and Inergy assumed all profits subsequent to that date.

*Partnership status.* We continue to be classified as a partnership for federal income tax purposes after the sale of the propane segment. Nonetheless, because the heating oil business is conducted through a corporate subsidiary, nearly all of our earnings will be subject to corporate-level income taxes, whereas prior to the sale, most of the earnings from the propane business were not subject to entity-level taxation. By virtue of net operating loss, or NOL, carryforwards, we do not anticipate that the corporate subsidiary will pay substantial federal income taxes for several years. However, we may be limited in our use of our NOL carryforwards. See *Risk Factors* *Risks Related to the Notes*.

### *Use of Proceeds from the Sale of the Propane Segment*

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We used \$311 million of the proceeds from the sale of the propane segment to repay \$296 million that was owing with respect to the secured notes at our subsidiaries and to repay outstanding borrowings under the propane segment's credit facilities. We recognized a loss of \$42.1 million on the early redemption of the senior secured notes and first mortgage notes of the heating oil segment and propane segment in the three months ended December 31, 2004.

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Pursuant to the terms of the indenture relating to our notes, we are obligated, within 360 days of the sale, to apply the net proceeds of the sale of the propane segment either to reduce our indebtedness or the indebtedness of a restricted subsidiary, or to make an investment in assets or capital expenditures useful to our or any subsidiary's business. To the extent any net proceeds that are not so applied exceed \$10 million (referred to in this prospectus as excess proceeds), the indenture requires us to make an offer to all holders of notes to purchase for cash that number of notes that may be purchased with excess proceeds at a purchase price equal to 100% of the principal amount of notes plus accrued and unpaid interest to the date of purchase. After repayment of certain debt and transaction expenses and estimated taxes to be paid of \$3.0 million, the net proceeds from the propane segment sale were approximately \$156.3 million. As of the closing of the propane sale and application of the proceeds, the amount of net proceeds not applied in excess of \$10 million was \$146.3 million. As of March 31, 2005, the heating oil segment had utilized \$53.1 million of the proceeds to invest in working capital assets, purchase capital assets and repay long-term debt, which reduced the amount available to repurchase notes to \$93.2 million. We anticipate that we will pay an additional \$1.5 million in taxes which will reduce the excess proceeds to \$91.7 million. We expect that we may utilize all or a portion of the remaining excess proceeds to invest in working capital assets. As of March 31, 2005, we had cash balances of approximately \$105.0 million.

## **Management Changes**

Effective as of March 7, 2005 and pursuant to an agreement, or the Separation Agreement, between Mr. Irik Sevin and our general partner, Mr. Sevin resigned as the Chairman of the Board of our general partner and as our Chief Executive Officer and President and the Chief Executive Officer and President of our subsidiaries. Mr. Sevin continues to be a director of the general partner and will provide consulting services to us through March 6, 2010. As compensation for consulting services to be rendered, Mr. Sevin will be paid an annual consulting fee of \$395,000. In addition, we will pay Mr. Sevin an annual retirement benefit totaling \$350,000 for a 13-year period beginning in the year 2010. In accordance with the agreement between Mr. Sevin and our general partner, Mr. Sevin transferred his member interests in the general partner to a voting trust of which Mr. Sevin is one of three trustees. The remaining trustees are Joseph P. Cavanaugh and Stephen Russell. Under the terms of the voting trust, those interests will be voted in accordance with the decision of a majority of the trustees. We recorded a charge of \$3.1 million in the three months ended March 31, 2005, in connection with the Separation Agreement. Also effective as of March 7, 2005 and pursuant to an agreement between Mrs. Audrey L. Sevin and our general partner, Mrs. Sevin resigned as a member of the Board of Directors and as Secretary of the general partner.

Simultaneously with the resignations of Mr. Sevin and Mrs. Sevin, Joseph P. Cavanaugh was named Chief Executive Officer and Daniel P. Donovan was named President and Chief Operating Officer of the general partner. In addition, Mr. Cavanaugh was named to the general partner's Board of Directors and William P. Nicoletti, a member of the general partner's Board of Directors, was named non-executive Chairman of the Board. Stephen Russell continues to serve as a member of the general partner's Board of Directors.

Mr. Cavanaugh has held various financial and management positions with us and our heating oil division, and served as Chief Executive Officer of our propane segment from November 1997 through the sale of the propane segment on December 17, 2004. Mr. Donovan has held various management positions, including Vice President and General Manager, with Meenan Oil Co., L.P., or Meenan, which we acquired in 2001. In May 2004, Mr. Donovan was appointed President and Chief Operating Officer of our heating oil segment.

Effective as of May 3, 2005, Richard Ambury, formerly our Vice President and Treasurer, was named the Chief Financial Officer, Treasurer and Secretary of us and our heating oil segment. Mr. Ambury replaces Mr. Ami Trauber who has served as Executive Vice President and Chief Financial Officer since 2001. Effective as of May 3, 2005, Mr. David Shinnebarger's employment as our Executive Vice President and Chief Marketing Officer was terminated in connection with the elimination of this position.

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### **Income Tax Matters**

In November 2004, we experienced a technical termination of the Partnership in accordance with Section 708(b)(1)(B) of the Internal Revenue Code of 1986, as amended (referred to as the IRC), due to the fact that greater than 50% of our units were sold or exchanged during the 12 months ended November 30, 2004. As a result of this technical termination, our depreciable assets begin a new depreciable life for tax purposes with the new basis being equal to the remaining basis of the previous partnership. We do not anticipate that this technical termination will have a significant impact on our operating results.

As a result of the technical termination of the partnership described above, we are currently assessing the possibility that the technical termination triggered an ownership change at our subsidiary Star/Petro, Inc. in accordance with IRC Section 382. An ownership change occurs for purposes of IRC Section 382 when there is a direct or indirect sale or exchange of 50% or more of stock of a corporation by 1 or more 5% shareholders. If an ownership change has occurred in accordance with Section 382, future limitations in the utilization of NOLs could be significant. We have provided a full valuation allowance against our deferred tax asset pertaining to our NOL carryforwards as we believe it is more likely than not that the current deferred tax assets will not be realized, regardless of the aforementioned Section 382 limitation. Given the complexity involved in determining whether or not and to what extent a Section 382 limitation has been triggered, computing the effect and limitations of future NOL carryforwards is not practically determinable at this time. We expect to complete our evaluation and reach a conclusion during our next fiscal quarter.

### **Structure**

We are a Delaware limited partnership that was formed in October 1995 in connection with our initial public offering.

Our heating oil operations are conducted through Petro and its direct and indirect subsidiaries. Petro is a Minnesota corporation that is a wholly owned subsidiary of Star/Petro, Inc., which is our 99.99% subsidiary.

Our general partner is Star Gas LLC, a Delaware limited liability company. Star Gas LLC owns an approximate 1% general partner interest in Star Gas Partners, L.P., or Star Gas Partners, and also owns an approximate .01% interest in our subsidiary, Star/Petro, Inc.

Star Gas Finance Company is a Delaware corporation that is wholly owned by Star Gas Partners. Star Gas Finance Company has no material assets and was formed in January 2003 for the sole purpose of being a corporate co-issuer of some of Star Gas Partners' indebtedness, including the notes.

Our common units (SGU) and senior subordinated units (SGH) are traded on the New York Stock Exchange.

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### Summary of the Exchange Offer

You are entitled to exchange in the exchange offer your outstanding Series A notes for Series B notes having substantially identical terms. You should read the discussion under the heading **Description of Notes** beginning on page 41 of this prospectus for a more detailed description of the Series B notes.

We summarize the principal terms of the exchange offer below. You should read the discussion under the heading **The Exchange Offer** beginning on page 26 of this prospectus for a more detailed description of the exchange offer and resale of the Series B notes.

#### The Exchange Offer

We are offering to exchange \$1,000 principal amount of Series B notes, which have been registered under the Securities Act of 1933, as amended, or the Securities Act, in exchange for each \$1,000 principal amount of Series A notes, which have not been registered under the Securities Act. As of the date of this prospectus, \$30 million aggregate principal amount of the Series A notes are outstanding. We will issue Series B notes to holders of Series A notes promptly following the Expiration Date (as that term is defined below).

The Series B notes will be issued under an Indenture dated as of February 6, 2003, as supplemented by a First Supplemental Indenture dated as of January 22, 2004, pursuant to which we previously issued the Series A notes and the existing \$235 million of Series B 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013. Following the completion of this proposed offer to exchange, the Series B notes and our existing \$235 million of Series B 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013 will be a single series of notes.

#### Registration Rights Agreement

We sold \$30 million in aggregate principal amount of Series A notes to Wachovia Capital Markets, LLC as initial purchaser on July 15, 2004 in a transaction exempt from the registration requirements of the Securities Act. We entered into a registration rights agreement dated as of July 15, 2004 with the initial purchaser which grants the holders of the Series A notes certain exchange rights and registration rights. This exchange offer satisfies those exchange rights.

#### Resales of the Series B Notes

Based on interpretations by the staff of the Securities and Exchange Commission, or the SEC, set forth in no-action letters issued to third parties, we believe that, except as described below, the Series B notes issued pursuant to the exchange offer may be offered for resale, resold and otherwise transferred by holders of the Series B notes, other than a holder that is an affiliate of ours, within the meaning of Rule 405 under the Securities Act, without compliance with the registration and prospectus delivery requirements of the Securities Act, so long as the Series B notes are acquired in the ordinary course of the noteholder's business and the noteholder has no arrangement or understanding with any person to participate in the distribution of the Series B notes.

Each broker-dealer who receives Series B notes pursuant to the exchange offer in exchange for Series A notes that the broker-dealer acquired for its own account as a result of market-making activities or other trading activities, other than Series A notes acquired directly from us or our affiliates, must acknowledge that it will deliver a prospectus in connection with any resale of the Series B notes. The



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letter of transmittal that accompanies this prospectus as Annex A states that by acknowledging and delivering a prospectus, a broker-dealer will not be deemed to have admitted that it is an underwriter within the meaning of the Securities Act.

If we receive notices in the letter of transmittal, this prospectus (as it may be amended or supplemented from time to time) may be used by a broker-dealer in connection with resales of Series B notes received in exchange for Series A notes where the Series A notes were acquired by the broker-dealer as a result of market-making activities or other trading activities and not acquired directly from us.

The letter of transmittal requires broker-dealers tendering Series A notes in the exchange offer to indicate whether the broker-dealer acquired the Series A notes for its own account as a result of market-making activities or other trading activities, other than Series A notes acquired directly from us or any of our affiliates. If no broker-dealer indicates that the Series A notes were so acquired, we have no obligation under the registration rights agreement to maintain the effectiveness of the registration statement past the consummation of the exchange offer or to allow the use of this prospectus for such resales. See The Exchange Offer Registration Rights and Resale of the Series B Notes; Plan of Distribution.

Expiration Date

The exchange offer expires at 12:00 midnight, New York City time, on August 18, 2005, unless we extend the exchange offer in our sole discretion, in which case the term Expiration Date means the latest date and time to which the exchange offer is extended.

Conditions to the Exchange Offer

We will complete the exchange offer only if it will not violate applicable law or any applicable interpretation of the Staff of the SEC and no injunction, order or decree has been issued and no material disruption in the U.S. financial markets has occurred that would prohibit, prevent or materially impair our ability to proceed with the exchange offer. See The Exchange Offer Conditions to the Exchange Offer.

Procedures for Tendering the Series A Notes

Each holder of Series A notes wishing to accept the exchange offer must complete, sign and date the accompanying letter of transmittal in accordance with the instructions, and mail or otherwise deliver the letter of transmittal together with the Series A notes and any other required documentation to the exchange agent identified below under Exchange Agent at the address set forth in this prospectus. Please do not send your letter of transmittal or Series A notes to us. By executing the letter of transmittal, a holder of Series A notes will make certain representations to us. Specified brokers, dealers, commercial banks, trust companies and other nominees may also make tenders by book-entry transfer. See The Exchange Offer Registration Rights and Procedures for Tendering Series A Notes.



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Special Procedures for Beneficial Owners	Any beneficial owner whose Series A notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact the registered holder promptly and instruct the registered holder to tender the notes on behalf of the beneficial owner. See <a href="#">The Exchange Offer</a> <a href="#">Procedures for Tendering Series A Notes</a> .
Guaranteed Delivery Procedures	A holder of Series A notes who desires to tender the Series A notes at a time when those securities are not immediately available or a holder who cannot deliver the Series A notes, the letter of transmittal or any other documents required by the letter of transmittal to the exchange agent prior to the Expiration Date, must tender the Series A notes to be exchanged according to the guaranteed delivery procedures set forth in <a href="#">The Exchange Offer</a> <a href="#">Procedures for Tendering Series A Notes</a> <a href="#">Guaranteed Delivery</a> .
Withdrawal Rights	Holders who have tendered any Series A notes pursuant to the exchange offer may withdraw any of the notes so tendered at any time prior to the Expiration Date. To do this, you should deliver a written notice to the exchange agent according to the withdrawal procedures set forth in <a href="#">The Exchange Offer</a> <a href="#">Withdrawal of Tenders</a> .
Acceptance of Series A Notes and Delivery of Series B Notes	We will accept for exchange any and all Series A notes that are properly tendered in the exchange offer, and not withdrawn, prior to the Expiration Date. The Series B notes issued pursuant to the exchange offer will be issued promptly following our acceptance for exchange of Series A notes. See <a href="#">The Exchange Offer</a> <a href="#">Terms of the Exchange Offer</a> .
Exchange Agent	Union Bank of California, N.A. is serving as exchange agent in connection with the exchange offer. See <a href="#">The Exchange Offer</a> <a href="#">Exchange Agent</a> .
U.S. Federal Income Tax Considerations	The exchange of Series A notes for Series B notes pursuant to the exchange offer will not be treated as a taxable exchange for federal income tax purposes. See <a href="#">Certain U.S. Federal Income Tax Considerations</a> .

**Table of Contents****Summary Consolidated Historical Financial and Operating Data**

The following table sets forth our summary consolidated financial information that has been derived from (i) our audited consolidated statements of operations and cash flows for our business for each of the years ended September 30, 2002, 2003 and 2004 included in our current report on Form 8-K incorporated by reference in this prospectus and (ii) the unaudited condensed consolidated statements of operations and cash flows for our business for the six months ended March 31, 2004 and 2005 and balance sheet data as of March 31, 2005 included in our quarterly report on Form 10-Q for the quarter ended March 31, 2005 incorporated by reference in this prospectus. You should read this financial information in conjunction with Selected Historical Financial and Operating Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and notes incorporated by reference in this prospectus. The information set forth below is not necessarily indicative of our future results.

				Six Months Ended March 31,	Six Months Ended March 31,
	2002(a)(b)	2003(b)	2004(b)	2004(b)	2005(b)
	(in thousands)				
<b>Statement of Operations Data:</b>					
Sales	\$ 790,378	\$ 1,102,968	\$ 1,105,091	\$ 797,838	\$ 906,011
Cost and expenses:					
Cost of sales	546,495	793,543	799,055	553,719	694,354
Delivery and branch expenses	174,030	217,244	232,985	132,688	136,123
General and administrative expenses	17,745	39,763	19,937	13,745	28,760
Depreciation and amortization expense	40,444	35,535	37,313	19,039	18,143
Goodwill impairment charge					67,000
Operating income	11,664	16,883	15,801	78,647	(38,369)
Interest expense, net	(23,843)	(29,530)	(36,682)	(18,137)	(18,511)
Amortization of debt issuance costs	(1,197)	(2,038)	(3,480)	(1,960)	(1,305)
Gain (loss) on redemption of debt		212			(42,082)
Income (loss) from continuing operations before income taxes	(13,376)	(14,473)	(24,361)	58,550	(100,267)
Income tax (expense) benefit	1,700	(1,200)	(1,240)	(1,000)	(1,000)
Income from continuing operations	(11,676)	(15,673)	(25,601)	57,550	(101,267)
Income (loss) from discontinued operations before gain on sale of TG&E and propane segment and cumulative effect of change in accounting principles, net of income taxes (b)	507	19,786	20,276	42,185	(4,552)
Cumulative effects of changes in accounting principles for discontinued operations, net of income taxes:					
Adoption of SFAS No. 142		(3,901)			
Loss on sale of TG&E segment, net of income taxes (b)					
Gain on sale of discontinued operations, net of income taxes (b)				230	156,164
Net income (loss)	\$ (11,169)	\$ 212	\$ (5,863)	\$ 99,965	\$ (50,345)

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**Summary cash flow data:**

Net cash provided by (used in) operating activities	\$ 18,773	\$ 15,365	\$ 13,669	\$ (71,176)	\$ (177,813)
Net cash provided by (used in) investing activities	(12,381)	(48,395)	6,447	10,100	469,191
Net cash provided by (used in) financing activities	28,135	48,049	(19,874)	66,549	(179,728)

**Other data:**

Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) (c)	\$ 52,108	\$ 52,630	\$ 53,114	\$ 97,686	\$ (62,308)
Retail gallons sold through heating oil segment	457,749	567,024	551,612	433,631	387,251
Capital expenditures (d)	\$ 9,105	\$ 12,851	\$ 3,984	\$ 1,684	\$ 1,432

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	As of March 31, 2005
	(in thousands)
<b>Balance sheet data at end of period:</b>	
Cash and cash equivalents	\$ 104,976
Current assets	445,148
Total assets	781,277
Total long-term debt (e)	174,473
Working capital borrowings	133,145
Partners capital	209,760

- (a) Our results for the fiscal year ended September 30, 2002 do not reflect the impact of the provisions of SFAS No. 142.
- (b) Our results for fiscal years ended September 30, 2002, 2003 and 2004 and for the six months ended March 31, 2004 and 2005 have been restated to reflect the results of the TG&E segment and the propane segment as a component of discontinued operations in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The TG&E segment was our energy reseller that marketed natural gas and electricity to residential households in deregulated energy markets in New York, New Jersey, Florida and Maryland. Effective March 31, 2004, we sold the stock and business of TG&E in an all-cash transaction. We received \$13.5 million of net proceeds and recorded a gain of approximately \$0.5 million from the sale of TG&E. The propane segment primarily marketed and distributed propane gas, heating oil and other petroleum fuels and related products to approximately 334,000 customers located primarily in the Midwest and Northeast regions, Florida and Georgia. Effective November 30, 2004, the Partnership sold all of its interests in the propane segment in an all-cash transaction. We received proceeds of approximately \$483.1 million and recorded a gain of approximately \$155.4 million from the sale of the propane segment.
- (c) We define EBITDA as income (loss) from continuing operations plus income tax expense (benefit), amortization of debt issuance costs, interest expense, net and depreciation and amortization. You should not consider EBITDA as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations). Our EBITDA may not be comparable to EBITDA or similarly titled measures of other entities as other entities may not calculate EBITDA in the same manner we do. EBITDA provides additional information for evaluating our ability to make the minimum quarterly distributions required under the terms of our partnership agreement.

We calculate EBITDA as follows:

	Fiscal year ended September 30,			Six Months Ended	Six Months Ended
	2002	2003	2004	March 31, 2004	March 31, 2005
	(in thousands)				
Income/(loss) from continuing operations	\$ (11,676)	\$ (15,673)	\$ (25,601)	\$ 57,550	\$ (101,267)
Plus:					
Income tax expense (benefit)	(1,700)	1,200	1,240	1,000	1,000
Amortization of debt issuance costs	1,197	2,038	3,480	1,960	1,305
Interest expense, net	23,843	29,530	36,682	18,137	18,511
Depreciation and amortization	40,444	35,535	37,313	19,039	18,143
<b>EBITDA</b>	<b>\$ 52,108</b>	<b>\$ 52,630</b>	<b>\$ 53,114</b>	<b>\$ 97,686</b>	<b>\$ (62,308)(f)</b>

- (d) Includes investment by the heating oil segment in technology to reduce operating expenditures.
- (e) We have reclassified \$93.2 million of notes from long-term debt to current maturities of long-term debt, which is the amount of excess proceeds from the sale of the propane segment that was available as of March 31, 2005. See Capitalization.
- (f) Includes expenses of \$42.1 million related to early debt redemption, and a non-cash goodwill impairment charge of \$67.0 million.



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**RISK FACTORS**

*You should consider carefully the risk factors discussed below, as well as all other information in this prospectus and the documents incorporated herein by reference before you decide to exchange the notes. Investing in the notes is speculative and involves significant risk. Any of the risks described in this prospectus could impair our business, financial condition and operating results, could cause the trading price, if any, of the notes to decline or could result in a partial or total loss of your investment.*

**Risks Related to the Exchange Offer**

***The Market Value of Your Series A Notes May Be Lower if You Do Not Exchange Your Series A Notes or Fail to Properly Tender Your Series A Notes for Exchange.***

*Consequences of Failure to Exchange.* To the extent that Series A notes are tendered and accepted for exchange pursuant to the exchange offer, the trading market for Series A notes that remain outstanding may be significantly more limited, which might adversely affect the liquidity of the Series A notes not tendered for exchange. The extent of the market and the availability of price quotations for Series A notes would depend upon a number of factors, including the number of holders of Series A notes remaining at such time and the interest in maintaining a market in such Series A notes on the part of securities firms. An issue of securities with a smaller outstanding market value available for trading, or float, may command a lower price than would a comparable issue of securities with a greater float. Therefore, the market price for Series A notes that are not exchanged in the exchange offer may be affected adversely to the extent that the amount of Series A notes exchanged pursuant to the exchange offer reduces the float. The reduced float also may tend to make the trading price of the Series A notes that are not exchanged more volatile.

*Consequences of Failure to Properly Tender.* Issuance of the Series B notes in exchange for the Series A notes pursuant to the exchange offer will be made following the prior satisfaction, or waiver, of the conditions set forth in The Exchange Offer Conditions to the Exchange Offer and only after timely receipt by the exchange agent of the Series A notes, a properly completed and duly executed letter of transmittal and all other required documents. Therefore, holders of Series A notes desiring to tender Series A notes in exchange for Series B notes should allow sufficient time to ensure timely delivery of all required documentation. Neither we, the exchange agent nor any other person is under any duty to give notification of defects or irregularities with respect to the tenders of Series A notes for exchange. Series B notes that may be tendered in the exchange offer but which are not validly tendered will, following the consummation of the exchange offer, remain outstanding and will continue to be subject to the same transfer restrictions currently applicable to the Series A notes.

***We Cannot Assure You that an Active Trading Market for Either the Series A Notes or the Series B Notes Will Develop.***

The Series A notes have not been registered under the Securities Act, and may not be resold by purchasers thereof unless the Series A notes are subsequently registered or an exemption from the registration requirements of the Securities Act is available. However, we cannot assure you that, even following registration or exchange of the Series A notes for Series B notes, that an active trading market for the Series A notes or the Series B notes will exist, and we will have no obligation to create such a market. At the time of the private placement of the Series A notes, the initial purchaser advised us that it intended to make a market in the Series A notes and, if issued, the Series B notes. The initial purchaser is not obligated, however, to make a market in the Series A notes or the Series B notes and any market-making may be discontinued at any time at its sole discretion. No assurance can be given as to the liquidity of or trading market for the Series A notes or the Series B notes.

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The liquidity of any trading market for the notes and the market price quoted for the notes will depend upon the number of holders of the notes, the overall market for high yield securities, our financial performance or prospects, the prospects for companies in our industry generally, the interest of securities dealers in making a market in the notes and other factors.

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***We May Not Be Required to Complete the Exchange Offer if There Is an Outbreak of Hostilities or Escalation Thereof or Other Calamity that in Our Reasonable Judgment Materially Impairs Our Ability to Proceed with the Exchange Offer.***

One of the conditions of the exchange offer is that there shall not have occurred any material change in the financial markets of the United States or any outbreak of hostilities or escalation thereof or other calamity or crisis the effect of which on the financial markets of the United States in our reasonable judgment would materially impair our ability to proceed with the exchange offer. Terrorist attacks, such as the attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and the current U.S. military action in Iraq increase the risk that other such developments may occur prior to the completion of the exchange offer which could cause us to terminate the exchange offer prior to its completion.

## **Risks Related to the Notes**

***Our Heating Oil Segment Recently Had Liquidity Issues That Raised Questions Concerning Our Ability to Continue as a Going Concern.***

In 2004, our heating oil segment had liquidity issues relating to the heating oil segment's inability to comply with the borrowing conditions under its former credit agreement that raised questions concerning our ability to continue as a going concern. The report of our independent registered public accounting firm on our consolidated financial statements as of September 30, 2004 and 2003, and for the three years ended September 30, 2004, includes an explanatory paragraph with respect to these liquidity issues. We believe that the closing of the refinancing transactions discussed above, and the sale of the propane segment, have satisfactorily addressed the liquidity issues that we experienced in 2004. However, there can be no assurance that we will not experience liquidity issues in the future.

***The Continuation of High Wholesale Energy Costs May Adversely Affect Our Liquidity.***

Under its revolving credit facility, the heating oil segment may borrow up to \$260 million (subject to borrowing base limitations) for working capital purposes subject to maintaining availability (as defined) of \$25 million or a fixed charge coverage ratio of not less than 1.10 to 1.00.

Recent dynamics of the heating oil industry and the heating oil segment's business, in particular, have impacted working capital requirements, principally as follows:

elevated selling prices require additional borrowing to finance accounts receivable; however, (i) the heating oil segment may borrow only approximately 80% against accounts receivable and (ii) customers are paying slower than normal and accounts over 60 days are not counted in the borrowing base;

at present, suppliers are not providing credit terms to the heating oil segment, requiring it to pay in advance for product. Historically, the heating oil segment has enjoyed two- to three- day credit terms providing additional credit support during the heating season;



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many hedging arrangements require the heating oil segment to market adjust its heating oil positions on a daily basis which may reduce availability and, although the amount of the adjustment is usually recaptured with the actual purchase of product, there is a lag factor; and

in addition to the foregoing, there is a risk that accounts receivable collection experience will not equal that of prior periods since customers are owing larger amounts which are outstanding for longer periods of time.

If the heating oil segment's credit requirement should exceed the amounts available under its revolving credit facility or should the heating oil segment fail to maintain the required availability, it would not have sufficient working capital to operate its business, which could have a material adverse effect on our financial position and results of operations.

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***The Sale of the Propane Segment May Adversely Affect Our Future Operating Results.***

On December 17, 2004, we completed the sale of our propane segment for a purchase price of \$483.1 million, subject to certain adjustments. For the fiscal year ended September 30, 2004, the propane segment generated \$349 million in sales and \$29 million of operating income. The loss of the propane segment's operating income could adversely affect our future operating results.

***Our Substantial Debt and Other Financial Obligations Could Impair Our Financial Condition and Our Ability to Fulfill Our Debt Obligations.***

We had total debt of approximately \$268.5 million as of March 31, 2005 (which amount does not include working capital borrowings of \$133.1 million). Our substantial indebtedness and other financial obligations could:

impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;

result in higher interest expense in the event of increases in interest rates since some of our debt is, and will continue to be, at variable rates of interest;

have a material adverse effect on us if we fail to comply with financial and affirmative and restrictive covenants in our debt agreements and an event of default occurs as a result of a failure that is not cured or waived;

require us to dedicate a substantial portion of our cash flow for interest payments on our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital and capital expenditures;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

place us at a competitive disadvantage compared to our competitors that have proportionately less debt.

If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional equity capital or sell our assets. We may then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all.

***We Are a Holding Company and Have No Material Operations or Assets. Accordingly, We are Dependent on Distributions from the Heating Oil Segment to Service Our Debt Obligations. These Distributions are Not Guaranteed and May Be Restricted. In Addition, the Notes Will be Non-Recourse to the Heating Oil Segment.***

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We are a holding company for our direct and indirect subsidiaries, including Petro and the other companies that comprise the heating oil segment. We have no material operations and only limited assets. Accordingly, we are dependent on cash distributions from Petro and its subsidiaries to service our debt obligations. Noteholders will not receive payments required by the notes unless Petro is able to make distributions to us after it first complies with the restrictions on distributions under the terms of its own borrowing arrangements and reserve any necessary amounts to meet its own financial obligations.

Under the most restrictive provisions of its revolving credit facility (which do not apply to distributions to make interest payments on the notes), Petro is restricted from making distributions to us (i) if availability (essentially borrowing base availability less borrowings and letters of credit issued) is less than \$40,000,000 and (ii) the consolidated fixed charge coverage ratio under the Indenture is less than 1.75 to 1.00 after giving effect to such distributions. With respect only to distributions to pay interest on the notes, after giving pro forma effect thereto, availability must be at least \$25,000,000 or the fixed charge coverage ratio under Petro's credit agreement must be at least 1.25 to 1.00. As of March 31, 2005, availability at Petro was \$57.6 million and the fixed charge coverage ratio under Petro's credit agreement was 0.48 to 1.00.

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In addition, Petro's revolving credit facility agreement permits distributions only so long as no default exists or would result from such distributions. This agreement contains various negative and affirmative covenants applicable to Petro. If Petro violates any of these covenants or requirements, a default under the bank credit facility could result and distributions to us would be limited. These covenants limit Petro's ability to, among other things:

make acquisitions;

incur additional indebtedness;

engage in transactions with affiliates;

incur liens;

sell assets;

make restricted payments, loans and investments, including from the net proceeds of the sale of the propane segment;

enter into business combinations and asset sale transactions; and

engage in other lines of business.

Petro's revolving credit facility also requires it to maintain a fixed charge coverage ratio of 1.1 to 1.0 in the event that availability is less than \$25 million. The violation of such covenant could result in a default under the bank credit facility and distributions to us would be limited or eliminated. See [Description of Other Indebtedness](#) Petro revolving credit facility.

Additionally, our obligations under the notes will be non-recourse to Petro. Therefore, if we should fail to pay interest or principal on the notes or breach any of our other obligations under the notes or the indenture, you would not be able to obtain any such payments or obtain any other remedy from Petro or its subsidiaries, which would not be liable for any of our obligations under the indenture or the notes.

***We Are Required to Distribute All of Our Available Cash to Our Unitholders and We Are Not Required to Accumulate Cash for the Purpose of Meeting Our Future Obligations to Our Noteholders, Which May Limit the Cash Available to Service the Notes.***

Subject to the limitations on restricted payments contained in the indenture governing the notes, our partnership agreement requires us to distribute all of our available cash each quarter to our limited partners and our general partner. As a result of these distribution requirements, we do not expect to accumulate significant amounts of cash. Our general partner will determine the timing and amount of our distributions and has broad discretion to establish and make additions to our reserves for any proper purpose, including, but not limited to, reserves:

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to comply with the terms of any of our agreements or obligations (including the establishment of reserves to fund the payment of interest and principal in the future);

to provide for level distributions of cash notwithstanding the seasonality of our business; and

to provide for future capital expenditures and other payments deemed by our general partner to be necessary or advisable.

Depending on the timing and amount of our cash distributions, these distributions could significantly reduce the cash available to us in subsequent periods to make payments on the notes.

*The Notes are Structurally Subordinated to All Indebtedness and Other Liabilities of Petro and Its Subsidiaries.*

The notes are structurally subordinated to all existing and future claims of creditors of Petro and its subsidiaries, including the lenders under Petro's indebtedness and all possible future creditors of Petro and its

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subsidiaries. This is because these creditors will have priority as to the assets of Petro and its subsidiaries over our claims as an indirect equity holder in Petro and, thereby, indirectly, your claims as holders of the notes. As a result, upon any distribution to these creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our property, these creditors will be entitled to be paid in full before any payment may be made with respect to the notes. Thereafter, the holders of the notes will participate with our trade creditors and all other holders of senior indebtedness in the assets remaining, if any. In any of these cases, we may have insufficient funds to pay all of our creditors and noteholders may therefore receive less, ratably, than creditors of Petro and its subsidiaries. As of March 31, 2005, the notes would have ranked structurally junior to \$292.4 million of Petro's indebtedness and other liabilities.

***Restrictive Covenants in the Agreements Governing Our Indebtedness and Other Financial Obligations of Petro May Reduce Our Operating Flexibility.***

The indenture governing the notes and the agreement governing Petro's revolving credit facility contain various covenants that limit our ability and the ability of specified subsidiaries of ours to, among other things:

incur additional indebtedness;

make distributions to our unitholders;

purchase or redeem our outstanding equity interests or subordinated debt;

make specified investments;

create liens;

sell assets;

make acquisitions;

engage in specified transactions with affiliates;

restrict the ability of our subsidiaries to make specified payments, loans, guarantees and transfers of assets or interests in assets;

engage in sale-leaseback transactions;

effect a merger or consolidation with or into other companies or a sale of all or substantially all of our properties or assets; and

engage in other lines of business.

These restrictions could limit our ability and the ability of Petro and its subsidiaries to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. The agreement governing Petro's revolving credit facility also requires it to maintain a fixed charge coverage ratio of 1.1 to 1.0 if availability is less than \$25 million and satisfy other financial conditions. The ability of Petro to meet this financial ratio and other conditions can be affected by events beyond its control, such as weather conditions, oil prices and general economic conditions. Accordingly, it may be unable to meet those ratios and conditions.

However, any future breach of any of these covenants or Petro's failure to meet this ratio or other conditions could result in a default under the terms of the relevant indebtedness or other financial obligations, which could cause such indebtedness or other financial obligations, and by reason of cross-default provisions, the notes, to become immediately due and payable. If we were unable to repay those amounts, the lenders could initiate a bankruptcy proceeding or liquidation proceeding or proceed against the collateral, if any. If the lenders of Petro's indebtedness accelerate the repayment of borrowings or other amounts owed, we may not have sufficient assets to repay our indebtedness or other financial obligations, including the notes.

**Table of Contents*****We May be Unable to Repurchase the Notes Upon a Change of Control and It May be Difficult to Determine if a Change of Control Has Occurred.***

Upon the occurrence of change of control events specified in the section entitled Description of Notes Change of Control, we or a third party will be required to make a change of control offer to repurchase your notes at 101% of their principal amount, plus accrued and unpaid interest. The terms of Petro's revolving credit facility limit our ability to repurchase your notes in those circumstances. Any of our future debt agreements may contain similar restrictions and provisions. Accordingly, we may be unable to satisfy our obligations to purchase your notes unless we are able to refinance or obtain waivers under our indebtedness and that of Petro with similar restrictions. We may not have the financial resources to purchase your notes, particularly if a change of control event triggers a similar repurchase requirement for, or results in the acceleration of, other indebtedness. Our failure to make or consummate a change of control repurchase offer or pay the change of control purchase price when due will give the trustee and the holders of the notes the rights described under the section entitled Description of Notes Events of Default.

The revolving credit facility contains change of control provisions at least as restrictive as the change of control provisions under the notes. Accordingly, any event which would be a change of control under the notes would also be a change in control under Petro's revolving credit facility constituting a default under the revolving credit facility which would give the lenders the right to require Petro to repay the amount outstanding under the revolving credit facility. The obligations of Petro to repay its lenders are structurally senior to our obligation to repurchase the notes upon a change of control. If Petro was unable to satisfy such repayment obligation under its revolving credit facility, there would be an event of default under such facility which would cause a cross-default under the notes. See the more detailed discussion under the section entitled Description of Notes Change of Control.

In addition, one of the events that trigger a change of control is a sale of all or substantially all of our assets. The meaning of substantially all varies according to the facts and circumstances of the subject transaction and has no clearly established meaning under New York law, which is the law that governs the indenture. This ambiguity as to when a sale of substantially all of our assets has occurred may make it difficult for holders of the notes to determine whether we have properly identified, or failed to identify, a change of control. The definition of Change of Control does not significantly restrict the types of transactions we may enter into, including, acquisitions, refinancings, recapitalizations and leveraged transactions, any of which could significantly increase the amount of our indebtedness outstanding. Any such increase in our indebtedness could adversely affect our credit rating as well as our ability to meet our obligations to the noteholders.

**Risks Inherent in Our Businesses*****Since Weather Conditions May Adversely Affect the Demand for Home Heating Oil, Our Financial Condition is Vulnerable to Warm Winters.***

Weather conditions have a significant impact on the demand for home heating oil because our customers depend on this product 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 home heating oil historically have represented 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 especially fiscal 2002, temperatures were significantly warmer than normal for the areas in which we sell home heating oil, which adversely affected the amount of EBITDA that we generated during these periods. In fiscal 2002, temperatures in our areas of operation were an average of 18.4% warmer than in fiscal year 2001 and 18.0% warmer than normal. We have purchased weather insurance to help minimize the adverse effect of weather volatility on our cash flows, of which there can be no assurance.





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### *Our Operating Results Will Be Adversely Affected if the Heating Oil Segment Experiences Significant Customer Losses That Are Not Offset or Reduced by Customer Gains.*

The heating oil segment's net attrition rate of home heating oil customers for fiscal 2002, 2003 and 2004 was approximately 4.2%, 1.3% and 6.2%, respectively. This rate represents the net of its annual customer loss rate. For fiscal 2002, 2003 and 2004, gross customer losses were 15.6%, 15.9% and 19.4%, respectively. For fiscal 2002, 2003 and 2004, gross customer gains were 11.4%, 14.6% and 13.2%, respectively. The gain of a new customer does not fully compensate for the loss of an existing customer during the first year because of the expenses that must be incurred by us to acquire a new customer and the higher attrition rate associated with new customers. Customer losses are the result of various factors, including:

customer relocations;

supplier changes based primarily on price competition, particularly during periods of high energy costs and quality of service issues, including those related to our centralized call center and service dispatch;

natural gas conversions; and

credit problems.

The continuing unprecedented rise in the price of heating oil has intensified price competition which has adversely impacted the heating oil segment's margins and added to the heating oil segment's difficulties in reducing customer attrition. The heating oil segment believes its attrition rate has risen not only because of increased price competition related to the rise in oil prices but also because of operational problems. Prior to the 2004 winter heating season, the heating oil segment attempted to develop a competitive advantage in customer service and, as part of that effort, centralized its heating equipment service dispatch and engaged a centralized call center to fulfill its telephone requirements for a majority of its home heating oil customers. We experienced difficulties in advancing this initiative during fiscal 2004, which adversely impacted the customer base and our costs. In fiscal 2004, the customer experience was below the level associated with other premium service providers and below the level of service provided by the heating oil segment in prior years.

We believe that we have identified the problems associated with the heating oil segment's centralization efforts and are taking steps to address these issues. We expect that high net attrition rates may continue through fiscal 2005 and perhaps beyond. We note that even to the extent the rate of attrition can be halted, attrition from prior fiscal years will adversely impact net income in the future. We continue to explore approaches to reduce the rate of net customer attrition.

The heating oil segment has continued to lose accounts during fiscal 2005. For the six months ended March 31, 2005, the heating oil segment lost approximately 11,800 accounts (net), or 2.4% of its heating oil customer base, as compared to the six months ended March 31, 2004 (a period after the implementation of the initiative but prior to the unprecedented rise in wholesale prices), in which the heating oil segment lost approximately 11,500 accounts (net), or 2.2% of its heating oil customer base, and as compared to the six months ended March 31, 2003 (a period prior to the implementation of the initiative and the unprecedented rise in wholesale prices) in which the heating oil segment gained 500 accounts (net), or 0.1% of its heating oil customer base.

For the three months ended March 31, 2005, the heating oil segment lost approximately 9,800 accounts (net) or 2.0% of its home heating oil customer base, as compared to the three months ended March 31, 2004 in which the heating oil segment lost 8,500 accounts (net) or 1.7% of its

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home heating oil customer base. In January 2005, the heating oil segment lost 3,100 accounts (net) which represents an increase of 2,500 accounts (net) as compared to the net loss in January 2004 of 600 accounts (net). From February 1, 2005 through and including April 30, 2005, the heating oil segment has reduced its net customer loss as compared to the prior year's comparable period by approximately 2,800 accounts. For the three months ended April 30, 2005, the heating oil segment lost 8,700 accounts (net) or 1.8% of its heating oil customer base as compared to the three months ended April 30, 2004 in which the heating oil segment lost 11,500 accounts (net) or 2.3% of its customer base. We cannot predict whether this trend will continue.

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We believe that net customer attrition for the six months ended March 31, 2005 resulted from:

- (i) a combination of the premium service/premium price strategy of the heating oil segment during a period when customer price sensitivity increased with high energy prices;
- (ii) the lag effect of net customer attrition related to service and delivery problems from prior fiscal years;
- (iii) transitional issues relating to our customer care center; and
- (iv) tightened credit standards.

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

***Sudden and Sharp Oil Price Increases That Cannot Be Passed on to Customers May Adversely Affect Our Operating Results.***

The retail home heating oil industry is a margin-based business 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 home 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 home heating oil, we may not be able to pass on these increases to our customers through retail sales prices. As of September 30, 2004, the wholesale cost of home heating oil, as measured by the closing price of the New York Mercantile Exchange had increased by 38% to \$1.39 per gallon from \$1.01 per gallon as of June 30, 2004. This represents a 78% increase over the heating oil price per gallon of \$0.78 per gallon on September 30, 2003. Per gallon heating oil prices subsequently increased to a high of \$1.59 per gallon on October 22, 2004, before retreating to \$1.23 per gallon as of December 10, 2004. For the quarter ended March 31, 2005, the average wholesale price of home heating oil, as measured by the closing price on the New York Mercantile Exchange, had increased by 60% to \$1.44 per gallon from \$.90 per gallon for the same quarter of last year. Wholesale heating oil prices increased to \$1.675 per gallon as of June 23, 2005. When heating oil prices increased in the fourth quarter of fiscal 2004, the heating oil segment's retail sales prices did not increase as rapidly as the increase in heating oil prices, which resulted in lower per gallon margins. 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. In an effort to retain existing accounts and attract new customers, the heating oil segment will offer discounts, which will impact the net per gallon gross margin realized.

***A Significant Portion of Our Home Heating Oil is Sold to Price-Protected 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 or a fixed price of home heating oil over a 12-month period. The maximum price at which home heating oil is sold to these price-protected customers is generally renegotiated prior to the heating season of each year based on current market conditions. We currently enter into forward purchase contracts, swaps and option contracts for a substantial majority of the heating oil we sell to these price-protected customers in advance and at a fixed cost. Should events occur after a price-protected sales price is established that increase the cost of home heating oil above the amount anticipated, margins for the price-protected customers whose heating oil was not purchased in advance would be lower than expected, while those customers whose heating oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of heating oil below the amount anticipated, margins for the price-protected customers whose heating oil was purchased in

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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. For the 12 months ended March 31, 2005, approximately 48% of our home heating oil volume sales were under a price-protected plan. The amount of home heating oil volume that the heating oil segment

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hedges per price-protected customer is based upon the heating oil segment's estimated fuel consumption per customer, per month. In the event that the actual usage exceeds the amount of the hedged volume on a monthly basis, the heating oil segment could be required to obtain additional volume at unfavorable margins. Alternatively, if actual usage is less than the amount of the hedged volume on a monthly basis, the heating oil segment's margins could be negatively impacted.

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

The home heating oil industry is not a growth industry because new housing generally does not use oil heat and increased competition exists from alternative energy sources. A significant portion of our growth in the past decade has been directly tied to the success of our acquisition program. 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 in the home heating oil sector in the future or that we will be able to acquire businesses on economically acceptable terms. Factors that may adversely affect home heating oil operating and financial results 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;

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.

Under the terms of its revolving credit facility, the heating oil segment was restricted from making any acquisitions prior to June 17, 2005 and thereafter there are limitations on the size of individual acquisitions and an annual limitation on total acquisitions.

### ***Because of the Highly Competitive Nature of the Home Heating Oil Business, 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.***

If our home heating oil business is 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.

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

We can make no assurances that the heating oil segment will be able to compete successfully. If competitors attempt to increase market share by reducing prices, our operating results and financial condition could be materially and adversely affected. The home heating oil segment also competes for customers with suppliers of alternative energy products, principally natural gas. Competition from alternative energy sources has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity. We could face

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additional price competition from electricity and natural gas as a result of deregulation in those industries. Over the past five years, conversions by the heating oil segment's customers from heating oil to other sources have averaged approximately 1% per year of the homes it serves.

The continuing unprecedented rise in the price of heating oil has intensified price competition which has adversely impacted the heating oil segment's margins and added to the heating oil segment's difficulties in reducing customer attrition. The heating oil segment believes its attrition rate has risen not only because of increased price competition related to the rise in oil prices but also because of operational problems. Prior to the 2004 winter heating season, the heating oil segment attempted to develop a competitive advantage in customer service, and as part of that effort, centralized its heating equipment service dispatch and engaged a centralized call center to fulfill its telephone requirements for the majority of its home heating oil customers. We experienced difficulties in advancing this initiative during fiscal 2004, which adversely impacted the customer base and our costs. In fiscal 2004, the customer experience was below the level associated with other premium service providers and below the level of service provided by the heating oil segment in prior years.

We believe that we have identified the problems associated with the heating oil segments centralization efforts and are taking steps to address these issues. We expect that high net attrition rates may continue through fiscal 2005 and perhaps beyond. Even to the extent that the rate of attrition can be halted, customer attrition in prior fiscal years will adversely impact net income in the future. We continue to explore approaches to reduce the rate of net customer attrition.

### ***Energy Efficiency and New Technology May Reduce the Demand For Our Products and Adversely Affect Our Operating Results.***

Increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, have adversely affected the demand for our products by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices might reduce demand and adversely affect our operating results.

### ***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 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.

### ***Our Insurance Reserves May Not Be Adequate to Cover Actual Losses.***

Our heating oil segment has in the past and is currently self-insuring a portion of workers' compensation, auto and general liability claims. We establish reserves based upon expectations as to what our ultimate liability will be for these claims using developmental factors based upon historical claim experience. We continually evaluate the potential for changes in loss estimates with the support of qualified actuaries. As of



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March 31, 2005, the heating oil segment had approximately \$29.6 million of insurance reserves and had issued \$44.7 million in letters of credit for current and future claims. The ultimate settlement of these claims could differ materially from the assumptions used to calculate the reserves, which could have a material effect on our results of operations.

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***We Are the Subject of a Number of Class Action Lawsuits Alleging Violation of the Federal Securities Laws, Which If Decided Adversely Could Have a Material Adverse Effect on Our Financial Condition.***

On or about October 21, 2004, a purported class action lawsuit on behalf of a purported class of unitholders was filed against us and various subsidiaries and officers and directors in the United States District Court of the District of Connecticut entitled Carter v. Star Gas Partners, L.P., et al., No 3:04-cv-01766-IBA, et. al. Subsequently, 16 additional class action complaints, alleging the same or substantially similar claims, were filed in the same district court: (1) Feit v. Star Gas, et al., Civil Action No. 04-1832 (filed on 10/29/2004), (2) Lila Gold v. Star Gas, et al., Civil Action No. 04-1791 (filed on 10/22/2004), (3) Jagerman v. Star Gas, et al., Civil Action No. 04-1855 (filed on 11/3/2004), (4) McCole, et al v. Star Gas, et al., Civil Action No. 04-1859 (filed on 11/3/2004), (5) Prokop v. Star Gas, et al., Civil Action No. 04-1785 (filed on 10/22/2004), (6) Seigle v. Star Gas, et al., Civil Action No. 04-1803 (filed on 10/25/2004), (7) Strunk v. Star Gas, et al., Civil Action No. 04-1815 (filed on 10/27/2004), (8) Harriette S. & Charles L. Tabas Foundation v. Star Gas, et al., Civil Action No. 04-1857 (filed on 11/3/2004), (9) Weiss v. Star Gas, et al., Civil Action No. 04- 1807 (filed on 10/26/2004), (10) White v. Star Gas, et al., Civil Action No. 04-1837 (filed on 10/9/2004), (11) Wood v. Star Gas, et al., Civil Action No. 04-1856 (filed on 11/3/2004), (12) Yopp v. Star Gas, et al., Civil Action No. 04-1865 (filed on 11/3/2004), (13) Kiser v. Star Gas, et al., Civil Action No. 04-1884 (filed on 11/9/2004), (14) Lederman v. Star Gas, et al., Civil Action No. 04-1873 (filed on 11/5/2004), (15) Dinkes v. Star Gas, et al., Civil Action No. 04-1979 (filed 11/22/04) and (16) Gould v. Star Gas, et al, Civil Action No. 04-2133 (filed on 12/17/2004) (including the Carter Complaint, collectively referred to herein as the Class Action Complaints ).

The class action plaintiffs generally allege that we violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 10b-5 promulgated thereunder, by purportedly failing to disclose, among other things: (1) problems with the restructuring of our dispatch system and customer attrition related thereto; (2) that our heating oil division's business process improvement program was not generating the benefits allegedly claimed; (3) that we were struggling to maintain our profit margins in our heating oil division; (4) that our fiscal 2004 second quarter profit margins were not representative of our ability to pass on heating oil price increases; and (5) that we were facing an inability to pay our debts and that, as a result, our credit rating and ability to obtain future financing was in jeopardy. The class action plaintiffs seek an unspecified amount of compensatory damages including interest against the defendants jointly and severally and an award of reasonable costs and expenses. On February 23, 2005, the Court consolidated the Class Action Complaints and heard argument on motions for the appointment of lead plaintiff. On April 8, 2005, the Court appointed the lead plaintiff. Pursuant to the Court's order, the lead plaintiff filed a consolidated amended complaint on June 20, 2005 (the Consolidated Amended Complaint ). The Consolidated Amended Complaint named: (a) Star Gas Partners, L.P.; (b) Star Gas LLC; (c) Irik P. Sevin; (d) Audrey L. Sevin; (e) Hanseatic Americas, Inc.; (f) Paul Biddelman; (g) Ami Trauber; (h) A.G. Edwards & Sons Inc.; (i) UBS Investment Bank; and (j) RBC Dain Rauscher Inc. as defendants. The Consolidated Amended Complaint added claims arising out of two registration statements under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The defendants have until August 19, 2005 to file an answer or otherwise move to dismiss the Consolidated Amended Complaint. We will defend against this class action vigorously. However, we are unable to predict the outcome of this lawsuit at this time.

In the event that the action is decided adversely to us, it could have a material effect on our results of operations, financial condition and liquidity.

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

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. The heating oil segment has implemented environmental programs and policies designed to avoid potential liability and costs under applicable environmental laws. It is possible, however, that the heating oil segment will have increased costs due to stricter pollution control requirements or liabilities resulting from noncompliance with operating or other regulatory permits. New environmental regulations might adversely impact the heating oil segment's operations, including underground storage and



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transportation of home heating oil. In addition, there are environmental risks inherently associated with our home heating oil operations, such as the risks of accidental release or spill. It is possible that material costs and liabilities will be incurred, including those relating to claims for damages to property and persons. Before August 2006, the heating oil segment must implement certain changes to ensure compliance with amended Environmental Protection Agency regulations. We currently estimate that the capital required to effectuate these requirements will range from \$1.0 to \$1.5 million.

### ***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 of \$2.7 million. Subsequent to closing, we established an additional reserve of \$2.3 million to cover potential costs associated with remediating known environmental liabilities, bringing the total reserve to \$5.0 million. To date, remediation expenses against this reserve have totaled \$2.8 million. 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.

### ***The General Partner Has Conflicts of Interest That May Permit the General Partner to Favor Its Own Interests to the Detriment of Noteholders.***

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 holders of the notes offered hereby. The nature of these conflicts is ongoing and includes the following considerations:

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 and available to pay the notes.

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.

In some instances the general partner may borrow funds in order to permit the payment of distributions.

### ***The Risk of Terrorism and Political Unrest in the Middle East May Adversely Affect the Economy and the Price and Availability of Home Heating Oil.***

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Terrorist attacks, such as the attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and political unrest in the Middle East may adversely impact the price and availability of home heating oil, our results of operations, our ability to raise capital and our future growth. The impact that the foregoing may have on our industry in general, and on us in particular, is not known at this time. An act of terror could result in disruptions of crude oil supplies and markets, the sources of home heating oil, and our facilities could be direct or indirect targets. Terrorist activity may also hinder our ability to transport home heating oil if our means of transportation become damaged as a result of an attack. Instability in the financial markets as a result of terrorism could also affect our ability to raise capital. Terrorist activity could likely lead to increased volatility in prices for home heating oil. Insurance carriers are routinely excluding coverage for terrorist activities from their normal policies, but are required to offer such coverage as a result of new federal legislation. We have opted to purchase this coverage with respect to our property and casualty insurance programs. This additional coverage has resulted in additional insurance premiums.

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***Limitation On Use of Net Operating Loss Carryforwards.***

In November 2004, we experienced a technical termination for federal income tax purposes, as over 50% of our units traded hands during the 12 months ended November 2004. This termination may have triggered a change in ownership under the applicable federal tax regulations. The rules governing a change of ownership are complex and we are currently conducting an analysis of whether such a change has occurred and, if so, the impact of such a change on our ability to utilize our NOL carryforwards to offset federal income taxes payable by the heating oil segment. Any limitation in our ability to utilize the NOL carryforwards could reduce the amount of cash available to service the notes. See Summary Income Tax Matters.

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**FORWARD-LOOKING STATEMENTS**

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

the effect of weather conditions on our financial performance;

the price and supply of home heating oil;

our ability to obtain satisfactory gross profit margins;

the consumption patterns of our customers;

our ability to obtain new customers and retain existing customers;

the impact of the business process redesign project at the heating oil segment, and our ability to address issues related to such project;

our ability to successfully identify and close strategic acquisitions and make cost-saving changes in operations;

the effect of national and regional economic conditions;

the condition of the capital markets in the United States; and

the political and economic stability of the oil-producing regions of the world.

When considering forward-looking statements, you should also keep in mind the risk factors referred to in this prospectus. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. Unless otherwise required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus.

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**USE OF PROCEEDS**

The exchange offer is intended to satisfy our obligations under the registration rights agreement. We will not receive any cash proceeds from the issuance of the Series B notes offered by this prospectus. In consideration for issuing the Series B notes as contemplated in this prospectus, we will receive an equal number of Series A notes in like principal amount, the form and terms of which are the same in all material respects as the form and terms of the Series B notes, except as otherwise described herein under "The Exchange Offer" and "Terms of the Exchange Offer." The Series A notes surrendered in exchange for the Series B notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the Series B notes will not result in any increase in our indebtedness.

We used \$29.7 million of the net proceeds from the Series A notes offering to repay working capital borrowings under the home heating oil and propane lines of credit in existence at the time of the notes offering and the balance was used to increase cash.

**THE EXCHANGE OFFER**

For the purposes of this section, "we" means Star Gas Partners, L.P. and Star Gas Finance Company.

**Registration Rights**

At the closing of the offering of the Series A notes, we entered into a registration rights agreement with the initial purchaser pursuant to which we agreed, for the benefit of the holders of the Series A notes, at our cost, to do the following:

file an exchange offer registration statement with the SEC with respect to the exchange offer for the Series B notes, and

use our best efforts to cause the exchange offer registration statement to be declared effective under the Securities Act by January 11, 2005.

Upon the SEC's declaring the exchange offer registration statement effective, we agreed to offer the Series B notes in exchange for surrender of the Series A notes. We agreed to use our best efforts to cause the exchange offer registration statement to be effective continuously, to keep the exchange offer open for a period of not less than 20 business days and to use our best efforts to cause the exchange offer to be consummated no later than 60 days after the exchange offer registration statement is declared effective by the SEC.

For each Series A note surrendered to us pursuant to the exchange offer, the holder of such Series A note will receive a Series B note having a principal amount equal to that of the surrendered Series A note. Interest on each Series B note will accrue from the last interest payment date on which interest was paid on the surrendered Series A note or, if no interest has been paid on such Series A note, from February 15, 2004, as if the notes had been issued on February 15, 2004. The registration rights agreement also provides an agreement to include in the prospectus for the exchange offer certain information necessary to allow a broker-dealer who holds Series A notes that were acquired for its own account as a result of market-making activities or other ordinary course trading activities (other than Series A notes acquired directly from us or one of our



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affiliates) to exchange such Series A notes pursuant to the exchange offer and to satisfy the prospectus delivery requirements in connection with resales of Series B notes received by such broker-dealer in the exchange offer. We agreed to use our best efforts to maintain the effectiveness of the exchange offer registration statement for these purposes for a period of 180 days after the completion of the exchange offer, which period may be extended under certain circumstances.

The preceding agreement is needed because any broker-dealer who acquires Series A notes for its own account as a result of market-making activities or other trading activities is required to deliver a prospectus meeting the requirements of the Securities Act. This prospectus covers the offer and sale of the Series B notes

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pursuant to the exchange offer and the resale of Series B notes received in the exchange offer by any broker-dealer who held Series A notes acquired for its own account as a result of market-making activities or other trading activities other than Series A notes acquired directly from us or one of our affiliates.

Based on interpretations by the staff of the SEC set forth in no-action letters issued to third parties, we believe that the Series B notes issued pursuant to the exchange offer would in general be freely tradable after the exchange offer without further registration under the Securities Act. However, any purchaser of Series A notes who is an affiliate of ours or who intends to participate in the exchange offer for the purpose of distributing the related Series B notes:

will not be able to rely on the interpretation of the staff of the SEC;

will not be able to tender its Series A notes in the exchange offer; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the Series A notes unless such sale or transfer is made pursuant to an exemption from such requirements.

Each holder of the Series A notes (other than certain specified holders) who desires to exchange Series A notes for the Series B notes in the exchange offer will be required to make certain representations, including a representation:

that it is not an affiliate of either Star Gas Partners, L.P. or Star Gas Finance Company;

that it is not engaged in and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the Series B notes; and

that it is acquiring the Series B notes in the exchange offer in its ordinary course of business.

We further agreed to file with the SEC a shelf registration statement to register for public resale notes held by any holder who provides us with certain information for inclusion in the shelf registration statement if:

the exchange offer is not permitted by applicable law or SEC policy; or

the exchange offer is not for any reason completed by January 11, 2005; or

upon completion of the exchange offer, the initial purchaser shall so request in connection with any offering or sale of notes.

We have agreed to use our reasonable best efforts to keep the shelf registration statement continuously effective until expiration of the period referred to in Rule 144(k) under the Securities Act with respect to the notes or such shorter period that will terminate when all the notes covered by the shelf registration statement have been sold pursuant to the shelf registration statement. We refer to this period as the shelf effectiveness

period.

The registration rights agreement provides that, in the event that either the exchange offer is not completed or the shelf registration statement, if required, is not declared effective on or prior to January 11, 2005 (February 10, 2005 in the case of a shelf registration statement requested by the initial purchaser following the completion of the exchange offer), the interest rate on the notes will be increased by 1.00% per annum until the exchange offer is completed or the shelf registration statement, if required, is declared effective by the SEC or the notes become freely tradable under the Securities Act, at which time the increased interest shall cease to accrue. Since we have not yet completed the exchange offer, the interest rate on the Series A notes has increased by 1.00%, effective as of January 11, 2005.

If the shelf registration statement has been declared effective and thereafter either ceases to be effective or the prospectus contained therein ceases to be usable at any time during the shelf effectiveness period, and such failure to remain effective or usable exists for more than 30 days (whether or not consecutive) in any 12-month period (two suspensions not to exceed 30 days each in any 365-day period if we notify holders of notes to suspend disposition of notes due to either (1) a stop order suspending the effectiveness of such registration

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statement (or proceedings initiated therefor) or (2) the happening of any event making any statement in such registration statement or the related prospectus untrue in any material respect or requiring any change therein in order to make the statements therein not misleading), then the interest rate on the notes will be increased by 1.00% per annum commencing on the 31<sup>st</sup> day in such 12-month period and ending on such date that the shelf registration statement has again been declared effective or the prospectus again becomes usable, at which time the increased interest shall cease to accrue.

All accrued liquidated damages shall be paid by us to holders entitled thereto by wire transfer to the accounts specified by them or by mailing checks to their registered address if no such accounts have been specified.

Holders of the notes will be required to make certain representations to us (as described in the registration rights agreement) in order to participate in the exchange offer and will be required to deliver information to be used in connection with the shelf registration statement and to provide comments on the shelf registration statement within the time periods set forth in the registration rights agreement in order to have their notes included in the shelf registration statement.

If we effect the registered exchange offer, we will be entitled to close the registered exchange offer 20 business days after its commencement as long as we have accepted all notes validly tendered and not withdrawn in accordance with the terms of the exchange offer and no brokers or dealers continue to hold any notes.

This summary of the material provisions of the registration rights agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part.

Except as set forth above, after consummation of the exchange offer, holders of Series A notes which are the subject of the exchange offer have no registration or exchange rights under the registration rights agreement. See Consequences of Failure to Exchange, and Resale of the Series B Notes; Plan of Distribution.

### **Consequences of Failure to Exchange**

Any Series A notes that are not exchanged for Series B notes pursuant to the exchange offer and are not included in a resale prospectus (which, if required, will be filed as part of an amendment to the registration statement which includes this prospectus), will remain restricted securities and subject to restrictions on transfer. Accordingly, such Series A notes may only be resold:

- (1) to us, upon redemption thereof or otherwise,
- (2) so long as the Series A notes are eligible for resale pursuant to Rule 144A under the Securities Act, to a person whom the seller reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, purchasing for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or other transfer is being made in reliance on Rule 144A,

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- (3) in an offshore transaction in accordance with Regulation S under the Securities Act,
- (4) pursuant to an exemption from registration in accordance with Rule 144, if available, under the Securities Act,
- (5) in reliance on another exemption from the registration requirements of the Securities Act, or
- (6) pursuant to an effective registration statement under the Securities Act.

In all of the situations discussed above, the resale must be in accordance with any applicable securities laws of any state of the United States and subject to certain requirements of the registrar or co-registrar being met, including receipt by the registrar or co-registrar of a certification and, in the case of (3), (4) and (5) above, an opinion of counsel reasonably acceptable to us and the registrar.

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To the extent Series A notes are tendered and accepted in the exchange offer, the principal amount of outstanding Series A notes will decrease with a resulting decrease in the liquidity in the market therefor. Accordingly, the liquidity of the market of the Series A notes could be adversely affected. See Risk Factors Risks Related to the Exchange Offer.

### **Terms of the Exchange Offer**

Upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, we will accept any and all Series A notes validly tendered and not withdrawn prior to the Expiration Date. We will issue \$1,000 principal amount of Series B notes in exchange for each \$1,000 principal amount of Series A notes accepted in the exchange offer. Holders may tender some or all of their Series A notes pursuant to the exchange offer. However, Series A notes may be tendered only in integral multiples of \$1,000 principal amount.

The form and terms of the Series B notes are the same as the form and terms of the Series A notes, except that:

the Series B notes will have been registered under the Securities Act and will not bear legends restricting their transfer pursuant to the Securities Act, and

except as otherwise described above, holders of the Series B notes will not be entitled to some of the rights of holders of Series A notes under the registration rights agreement.

The Series B notes will evidence the same debt as the Series A notes which they replace, and will be issued under, and be entitled to the benefits of, the indenture which governs all of the notes.

Solely for reasons of administration and for no other purpose, we have fixed the close of business on July 18, 2005 as the record date for the exchange offer for purposes of determining the persons to whom this prospectus and the letter of transmittal will be mailed initially. Only a registered holder of Series A notes or such holder's legal representative or attorney-in-fact as reflected on the records of the trustee under the indenture may participate in the exchange offer. There will be no fixed record date for determining registered holders of the Series A notes entitled to participate in the exchange offer.

Holders of the Series A notes do not have any appraisal or dissenters' rights under Delaware law or the indenture in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act, and the rules and regulations of the SEC thereunder.

We shall be deemed to have accepted validly tendered Series A notes when, as and if we have given oral or written notice thereof to the exchange agent. The exchange agent will act as agent for the tendering holders of the Series A notes for the purpose of receiving the Series B notes. The Series B notes delivered pursuant to the exchange offer will be issued promptly following our acceptance of Series A notes for such exchange.

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If any Series A notes are not accepted for exchange because of an invalid tender, the occurrence of certain other events set forth herein or otherwise, certificates for any such unaccepted Series A notes will be returned, without expense, to the tendering holder thereof promptly after the Expiration Date.

Holders who tender Series A notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the accompanying letter of transmittal, transfer taxes with respect to the exchange of the Series A notes pursuant to the exchange offer. We will pay all charges and expenses, other than certain applicable taxes, in connection with the exchange offer. See Fees and Expenses.

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**Expiration Date; Extensions; Amendments**

The term **Expiration Date** with respect to the exchange offer means 12:00 midnight, New York City time, on August 18, 2005 unless we, in our sole discretion, extend the exchange offer, in which case **Expiration Date** shall mean the latest date and time to which the exchange offer is extended.

In order to extend the exchange offer, we will notify the exchange agent of any extension by oral or written notice and will make a public announcement thereof, each prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

We reserve the right, in our sole discretion, to:

delay accepting any Series A notes,

extend the exchange offer,

if any of the conditions set forth below under **Conditions to the Exchange Offer** have not been satisfied, terminate the exchange offer (whether or not the Series A notes have already been accepted for exchange), or

to waive any condition or otherwise amend the terms of the exchange offer in any manner.

We may effect any such delay, extension or termination by giving oral or written notice thereof to the exchange agent.

Except as specified in the second paragraph under this heading, any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by a public announcement thereof. If the exchange offer is amended in a manner determined by us to constitute a material change, we will promptly disclose such amendment by means of a prospectus supplement that will be distributed to the registered holders of the Series A notes. The exchange offer will then be extended for a period of 5 to 10 business days, as required by law, depending upon the significance of the amendment and the manner of disclosure to the registered holders, if the exchange offer would otherwise expire during such period.

Without limiting the manner in which we may choose to make a public announcement of any delay, extension, termination or amendment of the exchange offer, we shall not have an obligation to publish, advertise, or otherwise communicate any such public announcement, other than by making a timely release thereof to the Dow Jones News Service.

**Procedures for Tendering Series A Notes**



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*Tenders of Series A Notes.* The tender by a holder of Series A notes pursuant to any of the procedures set forth below will constitute the tendering holder's acceptance of the terms and conditions of the exchange offer. Our acceptance for exchange of Series A notes tendered pursuant to any of the procedures described below will constitute a binding agreement between such tendering holder and us in accordance with the terms and subject to the conditions of the exchange offer. Only holders are authorized to tender their Series A notes. The procedures by which Series A notes may be tendered by beneficial owners that are not holders will depend upon the manner in which the Series A notes are held.

The Depository Trust Company, or DTC, has authorized DTC participants that are beneficial owners of Series A notes through DTC to tender their Series A notes as if they were holders. To effect a tender, DTC participants should either (1) complete and sign the accompanying letter of transmittal or a facsimile thereof, have the signature thereon guaranteed if required by Instruction 1 of the letter of transmittal, and mail or deliver the signed letter of transmittal or such facsimile pursuant to the procedures for book-entry transfer set forth below under **Book-Entry Delivery Procedures**, or (2) transmit their acceptance to DTC through the DTC Automated Tender Offer Program ( **ATOP** ), for which the transaction will be eligible, and follow the procedures for book-entry transfer, set forth below under **Book-Entry Delivery Procedures**.

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*Tender of Series A Notes Held in Physical Form.* To effectively tender Series A notes held in physical form pursuant to the exchange offer:

a properly completed letter of transmittal applicable to such notes (or a facsimile thereof) duly executed by the holder thereof, and any other documents required by the letter of transmittal, must be received by the exchange agent at one of its addresses set forth below, and tendered Series A notes must be received by the exchange agent at such address (or delivery effected through the deposit of Series A notes into the exchange agent's account with DTC and making book-entry delivery as set forth below) on or prior to the Expiration Date, or

the tendering holder must comply with the guaranteed delivery procedures set forth below.

Letters of transmittal for Series A notes should be sent only to the exchange agent and should not be sent to us.

*Tender of Series A Notes Held Through a Custodian.* To effectively tender Series A notes that are held of record by a custodian bank, depository, broker, trust company or other nominee, the beneficial owner thereof must instruct such holder to tender the Series A notes on the beneficial owner's behalf. A letter of instructions from the record owner to the beneficial owner may be included in the materials provided along with this prospectus which may be used by the beneficial owner in this process to instruct the registered holder of such owner's Series A notes to effect the tender.

*Tender of Series A Notes Held Through DTC.* To effectively tender Series A notes that are held through DTC, DTC participants should either:

properly complete and duly execute the accompanying letter of transmittal (or a facsimile thereof), and any other documents required by the letter of transmittal, and mail or deliver the executed letter of transmittal or such facsimile pursuant to the procedures for book-entry transfer set forth below, or

transmit their acceptance through ATOP, for which the transaction will be eligible, and DTC will then edit and verify the acceptance and send an Agent's Message to the exchange agent for its acceptance.

The term "Agent's Message" means a message transmitted by DTC to, and received by, the exchange agent and forming a part of the Book-Entry Confirmation, which states that DTC has received an express acknowledgment from a participant in DTC tendering the Series A notes and that such participant has received the letter of transmittal and agrees to be bound by the terms of the letter of transmittal and we may enforce such agreement against such participant.

Delivery of Series A notes held through DTC must be made to the exchange agent pursuant to the book-entry delivery procedures set forth below or the tendering DTC participant must comply with the guaranteed delivery procedures set forth below.

The method of delivery of Series A notes and letters of transmittal, any required signature guarantees and all other required documents, including delivery through DTC and any acceptance or Agent's Message transmitted through ATOP, is at the election and risk of the person tendering Series A notes and delivering letters of transmittal. Except as otherwise provided in the letter of transmittal, delivery will be deemed made only when actually received by the exchange agent. If delivery is by mail, it is suggested that the holder use properly insured, registered mail with return receipt requested, and that the mailing be made sufficiently in advance of the Expiration Date to permit delivery to the exchange

agent prior to such date.

Except as provided below, unless the Series A notes being tendered are deposited with the exchange agent on or prior to the Expiration Date (accompanied by a properly completed and duly executed letter of transmittal or a properly transmitted Agent's Message), we may, at our option, reject such tender. Any exchange of Series B notes for Series A notes will be made only against deposit of the tendered Series A notes and delivery of all other required documents.

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*Book-Entry Delivery Procedures.* The exchange agent will establish accounts with respect to the Series A notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus, and any financial institution that is a participant in DTC may make book-entry delivery of the Series A notes by causing DTC to transfer such Series A notes into the exchange agent's account in accordance with DTC's procedures for such transfer. However, although delivery of Series A notes may be effected through book-entry at DTC, the letter of transmittal (or facsimile thereof), with any required signature guarantees or an Agent's Message in connection with a book-entry transfer, and any other required documents, must, in any case, be transmitted to and received by the exchange agent at one or more of its addresses set forth in this prospectus on or prior to the Expiration Date, or compliance must be made with the guaranteed delivery procedures described below. The confirmation of a book-entry transfer into the exchange agent's account at DTC as described above is referred to herein as a Book-Entry Confirmation.

**DELIVERY OF DOCUMENTS TO DTC DOES NOT CONSTITUTE DELIVERY TO THE EXCHANGE AGENT.**

*Signature Guarantees.* Signatures on all letters of transmittal must be guaranteed by a recognized member of the Medallion Signature Guarantee Program or by any other eligible guarantor institution, as such term is defined in Rule 17Ad-15 promulgated under the Exchange Act (each of the foregoing, an Eligible Institution), unless the Series A notes tendered thereby are tendered (1) by a registered holder of Series A notes (or by a participant in DTC whose name appears on a DTC security position listing as the owner of such Series A notes) who has not completed either the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal, or (2) for the account of an Eligible Institution. See Instruction 1 of the letter of transmittal. If the Series A notes are registered in the name of a person other than the signer of the letter of transmittal or if Series A notes not accepted for exchange or not tendered are to be returned to a person other than the registered holder, then the signatures on the letter of transmittal accompanying the tendered Series A notes must be guaranteed by an Eligible Institution as described above. See Instructions 1 and 5 of the accompanying letter of transmittal.

*Guaranteed Delivery.* If a holder desires to tender Series A notes pursuant to the exchange offer and time will not permit the letter of transmittal, certificates representing such Series A notes and all other required documents to reach the exchange agent, or the procedures for book-entry transfer cannot be completed, on or prior to the Expiration Date, such Series A notes may nevertheless be tendered if all the following conditions are satisfied:

- (1) the tender is made by or through an Eligible Institution;
- (2) a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided by us herewith, or an Agent's Message with respect to guaranteed delivery that is accepted by us, is received by the exchange agent on or prior to the Expiration Date, as provided below; and
- (3) the certificates for the tendered Series A notes, in proper form for transfer (or a Book-Entry Confirmation of the transfer of such Series A notes into the exchange agent's account at DTC as described above), together with the letter of transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees and any other documents required by the letter of transmittal or a properly transmitted Agent's Message, are received by the exchange agent within two business days after the date of execution of the notice of guaranteed delivery.

The notice of guaranteed delivery may be sent by hand delivery, telegram, facsimile transmission or mail to the exchange agent and must include a guarantee by an Eligible Institution in the form set forth in the notice of guaranteed delivery.

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Notwithstanding any other provision hereof, delivery of Series B notes by the exchange agent for Series A notes tendered and accepted for exchange pursuant to the exchange offer will, in all cases, be made only after timely receipt by the exchange agent of such Series A notes (or Book-Entry Confirmation of the transfer of such Series A notes into the exchange agent's account at DTC as described above), and the letter of transmittal (or

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facsimile thereof) with respect to such Series A notes, properly completed and duly executed, with any required signature guarantees and any other documents required by the letter of transmittal, or a properly transmitted Agent's Message.

*Determination of Validity.* All questions as to the validity, form, eligibility (including time of receipt), acceptance and withdrawal of tendered Series A notes will be determined by us in our sole discretion, which determination will be final and binding on all parties. We reserve the absolute right to reject any and all Series A notes not properly tendered or any Series A notes our acceptance of which, in the opinion of our counsel, would be unlawful.

We also reserve the right, subject to applicable law, to waive any defects, irregularities or conditions of tender as to particular Series A notes. The interpretation of the terms and conditions of our exchange offer (including the instructions in the letter of transmittal) by us will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Series A notes must be cured within such time as we shall determine.

Although we intend to notify holders of defects or irregularities with respect to tenders of Series A notes through the exchange agent, neither we, the exchange agent nor any other person is under any duty to give such notice, nor shall they incur any liability for failure to give such notification. Tendere of Series A notes will not be deemed to have been made until such defects or irregularities have been cured or waived.

Any Series A notes received by the exchange agent that are not validly tendered and as to which the defects or irregularities have not been cured or waived, or if Series A notes are submitted in a principal amount greater than the principal amount of Series A notes being tendered by such tendering holder, such unaccepted or non-exchanged Series A notes will either be:

- (1) returned by the exchange agent to the tendering holders, or
- (2) in the case of Series A notes tendered by book-entry transfer into the exchange agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described below, credited to an account maintained with such Book-Entry Transfer Facility.

By tendering, each registered holder will represent to us that, among other things:

the Series B notes to be acquired by the holder and any beneficial owner(s) of the Series A notes in connection with the exchange offer are being acquired by the holder and any beneficial owner(s) in the ordinary course of business of the holder and any beneficial owner(s),

the holder and each beneficial owner are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in a distribution of the Series B notes,

the holder and each beneficial owner acknowledge and agree that (x) any person participating in the exchange offer for the purpose of distributing the Series B notes must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction with respect to the Series B notes acquired by such person and cannot rely on the position of the Staff of the SEC set forth in no-action letters that are discussed herein under Resale of the Series B Notes; Plan of

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Distribution, and (y) any broker-dealer that receives Series B notes for its own account in exchange for Series A notes pursuant to the exchange offer must deliver a prospectus in connection with any resale of such Series B notes, but by so acknowledging, the holder shall not be deemed to admit that, by delivering a prospectus, it is an underwriter within the meaning of the Securities Act,

neither the holder nor any beneficial owner is an affiliate (as defined under Rule 405 of the Securities Act), of ours except as otherwise disclosed to us in writing, and

the holder and each beneficial owner understands, that a secondary resale transaction described in clause (3) above should be covered by an effective registration statement containing the selling securityholder information required by Item 507 of Regulation S-K of the SEC.

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Each broker-dealer that receives Series B notes for its own account in exchange for Series A notes, where such Series A notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Series B notes. See Resale of the Series B Notes; Plan of Distribution.

## **Withdrawal of Tenders**

Except as otherwise provided herein, tenders of Series A notes pursuant to the exchange offer may be withdrawn, unless accepted for exchange as provided in the exchange offer, at any time prior to the Expiration Date.

To be effective, a written or facsimile transmission notice of withdrawal must be received by the exchange agent at its address set forth herein prior to the Expiration Date. Any such notice of withdrawal must:

specify the name of the person having deposited the Series A notes to be withdrawn;

identify the Series A notes to be withdrawn, including the certificate number or numbers of the particular certificates evidencing the Series A notes (unless such Series A notes were tendered by book-entry transfer), and aggregate principal amount of such Series A notes; and

be signed by the holder in the same manner as the original signature on the letter of transmittal (including any required signature guarantees) or be accompanied by documents of transfer sufficient to have the trustee under the indenture register the transfer of the Series A notes into the name of the person withdrawing such Series A notes.

If Series A notes have been delivered pursuant to the procedures for book-entry transfer set forth in Procedures for Tendering Series A Notes Book-Entry Delivery Procedures, any notice of withdrawal must specify the name and number of the account at the appropriate book-entry transfer facility to be credited with such withdrawn Series A notes and must otherwise comply with such book-entry transfer facility's procedures.

If the Series A notes to be withdrawn have been delivered or otherwise identified to the exchange agent, a signed notice of withdrawal meeting the requirements discussed above is effective immediately upon written or facsimile notice of withdrawal even if physical release is not yet effected. A withdrawal of Series A notes can only be accomplished in accordance with these procedures.

All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by us in our sole discretion, which determination shall be final and binding on all parties. No withdrawal of Series A notes will be deemed to have been properly made until all defects or irregularities have been cured or expressly waived. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or revocation, nor shall we or they incur any liability for failure to give any such notification. Any Series A notes so withdrawn will be deemed not to have been validly tendered for purposes of the exchange offer and no Series B notes will be issued with respect thereto unless the Series A notes so withdrawn are retendered. Properly withdrawn Series A notes may be retendered by following one of the procedures described above under Procedures for Tendering Series A Notes at any time prior to the Expiration Date.



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Any Series A notes which have been tendered but which are not accepted for exchange due to the rejection of the tender due to uncured defects or the prior termination of the exchange offer, or which have been validly withdrawn, will be returned to the holder thereof unless otherwise provided in the letter of transmittal, promptly following the Expiration Date or, if so requested in the notice of withdrawal, promptly after receipt by us of notice of withdrawal without cost to such holder.

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**Conditions to the Exchange Offer**

The exchange offer shall not be subject to any conditions, other than that:

- (1) the SEC has issued an order or orders declaring the indenture governing the notes qualified under the Trust Indenture Act of 1939,
- (2) the exchange offer, or the making of any exchange by a holder, does not violate applicable law or any applicable interpretation of the staff of the SEC,
- (3) no action or proceeding shall have been instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer, which, in our reasonable judgment, might impair our ability to proceed with the exchange offer,
- (4) there shall not have been adopted or enacted any law, statute, rule or regulation which, in our reasonable judgment, would materially impair our ability to proceed with the exchange offer,
- (5) there shall not have been the issuance of a stop order by the SEC or any state securities authority suspending the effectiveness of the registration statement, or commencement of proceedings for that purpose, or
- (6) there shall not have occurred any material change in the financial markets in the United States or any outbreak of hostilities or escalation thereof or other calamity or crisis the effect of which on the financial markets of the United States, in our reasonable judgment, would materially impair our ability to proceed with the exchange offer.

If we determine in our reasonable discretion that any of the conditions to the exchange offer are not satisfied, we may:

- (1) refuse to accept any Series A notes and return all tendered Series A notes to the tendering holders,
- (2) extend the exchange offer and retain all Series A notes tendered prior to the Expiration Date applicable to the exchange offer, subject, however, to the rights of holders to withdraw such Series A notes (see [Withdrawal of Original Tenders](#) ), or
- (3) waive such unsatisfied conditions with respect to the exchange offer and accept all validly tendered Series A notes which have not been withdrawn.

If such waiver constitutes a material change to the exchange offer, we will promptly disclose such waiver by means of a prospectus supplement that will be distributed to the registered holders, and will extend the exchange offer for a period of 5 to 10 business days, depending upon the significance of the waiver and the manner of disclosure to the registered holders, if the exchange offer would otherwise expire during such 5 to 10 business day period.

**Exchange Agent**

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Union Bank of California, N.A., the trustee under the indenture governing the notes, has been appointed as exchange agent for the exchange offer. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery and other documents should be directed to the exchange agent addressed as follows:

By Mail (including overnight courier, registered or certified mail):

Union Bank of California, N.A.

Attention: Corporate Trust Department

551 Madison Avenue, 11th Floor

New York, NY 10022

By Facsimile (for Eligible Institutions only):

(646) 452-2000

Attention: Corporate Trust Department

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Confirm by Telephone:

(646) 452-2010

Attention: Corporate Trust Department

By Hand:

Union Bank of California, N.A.

Attention: Corporate Trust Department

551 Madison Avenue, 11th floor

New York, NY 10022

**DELIVERY TO OTHER THAN THE ABOVE ADDRESS OR FACSIMILE NUMBER WILL NOT CONSTITUTE A VALID DELIVERY**

**Fees and Expenses**

We will bear the expenses of soliciting tenders. The principal solicitation is being made by mail. However, additional solicitation may be made by telegraph, teletype, telephone or in person by our officers and regular employees, our general partner and our affiliates.

No dealer-manager has been retained in connection with the exchange offer and no payments will be made to brokers, dealers or others soliciting acceptance of the exchange offer. However, reasonable and customary fees will be paid to the exchange agent for its services and it will be reimbursed for its reasonable out-of-pocket expenses in connection therewith.

Our out-of-pocket expenses for the exchange offer will include fees and expenses of the exchange agent and the trustee under the indenture, accounting and legal fees and printing costs, among others.

We will pay all transfer taxes, if any, applicable to the exchange of the Series A notes pursuant to the exchange offer. If, however, Series B notes are to be delivered to, or are to be issued in the name of, any person other than the registered holder of the Series A notes tendered, or if a transfer tax is imposed for any reason other than the exchange of the Series A notes pursuant to the exchange offer, then the amount of any such transfer taxes (whether imposed on the registered holder or any other persons) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to such tendering holder.

**Accounting Treatment**

The Series B notes will be recorded at the carrying value of the Series A notes and no gain or loss for accounting purposes will be recognized. The expenses of the exchange offer will be charged to income as incurred.

**Resale of the Series B Notes; Plan of Distribution**

Each broker-dealer that receives Series B notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of Series B notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Series B notes received in exchange for Series A notes where such Series A notes were acquired as a result of market-making activities or other trading activities.

We will not receive any proceeds from any sale of Series B notes by broker-dealers. Series B notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in any of the following ways:

- (1) in the over-the-counter market,
- (2) in negotiated transactions,

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- (3) through the writing of options on the Series B notes or a combination of such methods of resale,
- (4) at market prices prevailing at the time of resale,
- (5) at prices related to such prevailing market prices, or
- (6) at negotiated prices.

Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such Series B notes.

Any broker-dealer that resells Series B notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such Series B notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any such resale of Series B notes and any commission on concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver a prospectus and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

We agreed to permit the use of this prospectus by such broker-dealers to satisfy this prospectus delivery requirement. To the extent necessary to ensure that the prospectus is available for sales of Series B notes by broker-dealers, we agreed to use our best efforts to keep the exchange offer registration statement continuously effective, supplemented, amended and current for a period of 180 days after the completion of the exchange offer, which period may be extended under certain circumstances.

**Recommendation**

WE MAKE NO RECOMMENDATION TO YOU AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING ALL OR ANY PORTION OF YOUR EXISTING SERIES A NOTES INTO THIS EXCHANGE OFFER. IN ADDITION, NO ONE HAS BEEN AUTHORIZED TO MAKE THIS RECOMMENDATION. YOU MUST MAKE YOUR OWN DECISION WHETHER TO TENDER INTO THIS EXCHANGE OFFER AND, IF SO, THE AGGREGATE AMOUNT OF SERIES A NOTES TO TENDER AFTER READING THIS PROSPECTUS AND THE LETTER OF TRANSMITTAL AND CONSULTING WITH YOUR ADVISORS, IF ANY, BASED ON YOUR FINANCIAL POSITION AND REQUIREMENTS.

**Table of Contents****CAPITALIZATION**

The following table sets forth our historical capitalization as of March 31, 2005 on an actual basis, which reflects the application of the net proceeds of the notes offering and gives effect to the refinancing transactions and the sale of the propane segment, the application of the net proceeds therefrom and the classification of excess proceeds to purchase notes as current:

	<b>As of March 31, 2005</b>
	<b>(in thousands)</b>
Cash and cash equivalents	\$ 104,976
<b>Debt</b>	
<b>Star Gas:</b>	
10.25% Senior Notes due 2013	\$ 235,603
Notes offered pursuant to July 15, 2004 offering	31,875
<b>Heating Oil Segment:</b>	
Revolving Credit Facility (a)	133,145
Acquisition Notes Payable	312
Subordinated Debentures	666
<b>Total debt</b>	<b>\$ 401,601</b>
Less: Revolving Credit Facility	133,145
Excess Proceeds	93,161
Current Portion of Acquisition Notes and Subordinated Debentures	822
<b>Total long-term debt</b>	<b>\$ 174,473</b>
<b>Total partner s capital</b>	<b>209,760</b>
<b>Total capitalization</b>	<b>\$ 384,233</b>

- (a) The heating oil segment s revolving credit facility currently includes a \$260 million revolving loan facility (subject to borrowing base requirements) of which up to \$75 million may be used to issue letters of credit. This facility contains various restrictive and affirmative covenants. The most restrictive of these covenants relate to the incurrence of additional indebtedness, and restrictions on dividends, certain investments, guarantees, loans, sales of assets and other transactions.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

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

	<b>Fiscal Year Ended September 30,</b>					<b>Six Months Ended</b>	
						<b>March 31,</b>	
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>	<b>2005</b>
Ratio of earnings to fixed charges	1.1x	*	*	*	*	3.5x	*

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 of operating rental expense that is representative of the interest factor. Earnings were inadequate to cover fixed charges by \$8.0 million, \$13.4 million, \$14.5 million and \$24.4 million for the fiscal years ended September 30, 2001 through September 30, 2004, respectively, and by \$100.3 million for the six months ended March 31, 2005.



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**DESCRIPTION OF OTHER INDEBTEDNESS**

*Petro Revolving Credit Facility*

Petro's revolving credit facility consists of a \$260 million working capital facility (subject to borrowing base requirements) of which \$75 million may be used for letters of credit. At March 31, 2005, there was \$133.1 million outstanding under the working capital facility and the heating oil segment had issued \$49.2 million in letters of credit primarily for current and future insurance reserves. The working capital facility will expire on December 17, 2009 and is guaranteed by us. The facility will bear an interest rate that is based on either the Eurodollar Rate or another base rate plus a set percentage.

The agreement governing the working capital facility contains certain covenants and default provisions. Under such agreement, Petro is restricted from making distributions (which do not apply to making interest payments on the notes) unless availability under Petro's credit agreement (essentially borrowing base availability less borrowings) is at least \$40 million and the consolidated fixed charge coverage ratio under the Indenture is at least 1.75 to 1.00. With respect only to distributions to pay interest on the notes, after giving pro forma effect thereto, availability must be at least \$25,000,000 or the fixed charge coverage ratio under Petro's credit agreement must be at least 1.25 to 1.00. In addition, the credit agreement requires Petro to maintain a fixed charge coverage ratio of at least 1.10 to 1.00 at any time availability is less than \$25 million. The facility may be used only to finance the working capital needs of the heating oil segment. As of March 31, 2005, availability under the revolving credit facility was \$57.6 million and the fixed charge coverage ratio was 0.48 to 1.00.

Under the revolving credit facility, Petro was restricted from making any acquisitions through June 17, 2005 and thereafter individual acquisitions may not exceed \$10 million and annual acquisitions may not exceed an aggregate of \$25 million. These restrictions severely limit Petro's ability to make acquisitions.

*Other Petro Debt*

Petro also had outstanding as of March 31, 2005 an aggregate of \$0.3 million of notes, primarily issued in connection with the purchase of fuel oil dealers, which notes are due variously in monthly, quarterly and annual installments with interest at various rates ranging from 5% to 15% maturing at various dates through 2007.

In addition, Petro has outstanding \$0.7 million of 9<sup>3</sup>/<sub>8</sub>% subordinated notes due 2006. In October 1998, the indenture under which the 9<sup>3</sup>/<sub>8</sub>% subordinated notes were issued was amended to eliminate substantially all of the covenant protection provided by the indenture.

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**DESCRIPTION OF NOTES**

You will find the definitions of capitalized terms used in this description under the subheading **Certain Definitions**. For purposes of this description, references to the **Company** refer only to Star Gas Partners, L.P. and not to its subsidiaries and references to the **Issuers** mean collectively Star Gas Partners, L.P. and Star Gas Finance Company. As used in this section, unless the context otherwise requires, **notes** means the Series A notes, the Series B notes offered hereby and any other notes issued under an Indenture dated as of February 6, 2003, as supplemented (the **Indenture**), between the Issuers and Union Bank of California, N.A., as trustee (the **Trustee**).

The Issuers issued the Series A notes under the Indenture in a private placement offering exempt from the registration requirements of the Securities Act. Such private placement offering closed on July 15, 2004. The Issuers will issue the Series B notes in exchange for the Series A notes under the same Indenture. The form and terms of the Series B notes will be the same as those of the Series A notes, except that the Series B notes (1) will be registered under the Securities Act and will not bear legends restricting their transfer and (2) will not, except as is described in this prospectus under the heading **The Exchange Offer Registration Rights**, entitle the holders thereof to the rights of holders of Series A notes under the registration rights agreement. The terms of the notes include those expressly set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**).

Although the Indenture is unlimited in aggregate principal amount, the issuance of Series A notes under the July 15, 2004 offering was, and the issuance of Series B notes in this exchange offer shall be, limited to \$30 million in the aggregate. We may issue an unlimited principal amount of additional notes (which we will refer to as the **additional notes**) under the Indenture, which additional notes shall have identical terms and conditions as the Series A notes or Series B notes, will be part of the same class as the Series A notes and Series B notes and will vote on all matters with the holders of such notes. However, we will only be permitted to issue such additional notes if, at the time of such issuance, we are in compliance with the covenants contained in the Indenture.

As of the date of this prospectus, \$30 million aggregate principal amount of the Series A notes are outstanding. There are currently \$235 million principal amount of the Series B notes outstanding under the Indenture. The Series B notes will be issued under an Indenture dated as of February 6, 2003, as supplemented by a First Supplemental Indenture dated as of January 22, 2004, pursuant to which we previously issued the Series A notes and the existing \$235 million of Series B 10 1/4% senior notes due 2013. Following the completion of this proposed offer to exchange, the Series B notes and our existing \$235 million of Series B 10 1/4% senior notes due 2013 will be a single series of notes.

This description of notes is intended to be a useful overview of the material provisions of the notes and the Indenture. Since this description is only a summary, you should refer to the Indenture for a complete description of the obligations of the Company and your rights.

**General**

The notes:

are general unsecured, senior obligations and rank senior in right of payment to all subordinated Indebtedness of the Issuers;

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are limited to an aggregate principal amount of \$30 million, subject to our ability to issue additional notes;

mature on February 15, 2013;

were (as to the Series A notes) and shall be (as to the Series B notes) issued in denominations of \$1,000 and integral multiples of \$1,000;

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were (as to the Series A notes) and shall be (as to the Series B notes) represented by one or more registered notes in global form, but in certain circumstances may be represented by notes in definitive form. See Book-Entry Settlement and Clearance ; and

rank equally in right of payment to any future senior Indebtedness of the Issuers, without giving effect to collateral arrangements.

## **Interest**

Interest on the notes will compound semi-annually and:

accrue at the rate of 10 $\frac{1}{4}$ % per annum;

accrue as if the notes had originally been issued February 15, 2004 or, if interest has already been paid, from the most recent interest payment date;

be payable in cash semi-annually in arrears on February 15 and August 15, commencing on August 15, 2004;

be payable to the holders of record on the February 1 and August 1 immediately preceding the related interest payment dates; and

be computed on the basis of a 360-day year comprised of twelve 30-day months.

## **Payments on the Notes; Paying Agent and Registrar**

We will pay principal of, premium, if any, and interest on the notes at the office or agency designated by the Company in the Borough of Manhattan, the City of New York, except that we may, at our option, pay interest on the notes by check mailed to holders of the notes at their registered addresses as they appear in the register books. We have initially designated the corporate trust office of the Trustee in New York, New York to act as our Paying Agent and Registrar. We may, however, change the Paying Agent or Registrar without prior notice to the holders of the notes, and the Company or any of its Restricted Subsidiaries may act as Paying Agent or Registrar.

We will pay principal of, premium, if any, and interest on, notes in global form registered in the name of or held by the Depository or its nominee in immediately available funds to the Depository or its nominee, as the case may be, as the registered holder of such global notes.

## **Transfer and Exchange**

A holder of notes may transfer or exchange notes at the office of the Registrar in accordance with the Indenture. The Registrar and the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents. No service charge will be imposed by the Company, the Trustee or the Registrar for any registration of transfer or exchange of notes, but the Company may require a holder to pay a sum

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sufficient to cover any transfer tax or other similar governmental charge required by law or permitted by the Indenture. The Company is not required to transfer or exchange any note selected for redemption. Also, the Company is not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

The registered holder of a note will be treated as the owner of it for all purposes.

The issuers intend that following consummation of the exchange offer, the existing Series B notes and the Series A notes will have the same CUSIP number. In order for the Series A notes to have the same CUSIP number as the existing Series B notes, the exchange offer must be consummated.

### **Optional Redemption**

Except as described below, the notes are not redeemable until February 15, 2008. On and after February 15, 2008, the Issuers may redeem all or, from time to time, a part of the notes upon not less than 30 nor more than 60

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days notice, at the following redemption prices (expressed as a percentage of principal amount) plus accrued and unpaid interest on the notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period beginning on February 15 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2008	105.125%
2009	103.417%
2010	101.708%
2011 and thereafter	100.000%

Prior to February 15, 2006, the Issuers may on any one or more occasions redeem up to 35% of the original principal amount of the notes with the Net Cash Proceeds of one or more Public Equity Offerings at a redemption price of 110.25% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that:

- (1) there is a Public Market at the time of such redemption;
- (2) at least 65% of the original principal amount of the notes remains outstanding after each such redemption; and
- (3) the redemption occurs within 60 days after the closing of such Public Equity Offering.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest, if any, will be paid to the Person in whose name the note is registered at the close of business on such record date, and no additional interest will be payable to holders whose notes will be subject to redemption by the Issuers.

In the case of any partial redemption, the Trustee will select the notes for redemption in compliance with the requirements of the principal national securities exchange, if any, on which the notes are listed or, if the notes are not listed, then on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion will deem to be fair and appropriate, although no note of \$1,000 in original principal amount or less will be redeemed in part. If any note is to be redeemed in part only, the notice of redemption relating to that note will state the portion of the principal amount thereof to be redeemed. A new note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original note.

The Issuers are not required to make mandatory redemption payments or sinking fund payments with respect to the notes.

**Ranking**

The Series A notes are, and the Series B notes shall be, general unsecured obligations of the Issuers that rank senior in right of payment to all existing and future Indebtedness that is expressly subordinated in right of payment to the notes. The Series A notes rank, and the Series B notes

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will rank, equally in right of payment with all existing and future liabilities of the Issuers that are not so subordinated. In the event of bankruptcy, liquidation, reorganization and winding up of the Company or Star Gas Finance Company, or upon a default in payment with respect to, or the acceleration of, any Indebtedness under any secured Indebtedness, the assets of the Company or Star Gas Finance Company that secure such secured Indebtedness will be available to pay obligations on the notes only after all Indebtedness under such secured Indebtedness has been repaid in full from such assets. You should be aware that there may not be sufficient assets remaining to pay amounts due on any or all the notes then outstanding.

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### **Change of Control**

If a Change of Control occurs, each registered holder of notes will have the right to require the Issuers to repurchase all or any part (equal to \$1,000 or an integral multiple thereof) of such holder's notes at a purchase price in cash equal to 101% of the principal amount of the notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following any Change of Control, the Issuers will mail a notice (the "Change of Control Offer") to each registered holder with a copy to the Trustee stating:

- (1) that a Change of Control has occurred and that such holder has the right to require the Company to purchase such holder's notes at a purchase price in cash equal to 101% of the principal amount of such notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on a record date to receive interest on the relevant interest payment date) (the "Change of Control Payment");
- (2) the repurchase date (which shall be no earlier than 30 business days from the date such notice is mailed) (the "Change of Control Payment Date"); and
- (3) the procedures determined by the Issuers, consistent with the Indenture, that a holder must follow in order to have its notes repurchased.

On the Change of Control Payment Date, the Issuers will, to the extent lawful:

- (1) accept for payment all notes or portions of notes (in integral multiples of \$1,000) properly tendered under the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes so tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Issuers.

The paying agent will promptly mail to each holder of notes so tendered the Change of Control Payment for such notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; provided that each such new note will be in a principal amount of \$1,000 or an integral multiple of \$1,000.

If the Change of Control Payment Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest, if any, will be paid to the Person in whose name a note is registered at the close of business on such record date, and no additional interest will be payable to holders who tender pursuant to the Change of Control Offer.



The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders to require that the Company repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

Prior to mailing a Change of Control Offer, and as a condition to such mailing (i) the requisite holders of each issue of Indebtedness issued under an indenture or other agreement that may be violated by such payment shall have consented to such Change of Control Offer being made and waived the event of default, if any, caused by the Change of Control or (ii) the Company will repay all outstanding Indebtedness issued under an indenture or other agreement that may be violated by a payment to the holders of notes under a Change of Control Offer or

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the Company must offer to repay all Indebtedness and make payment to the holders of such Indebtedness that accept such offer and obtain waivers of any event of default from the remaining holders of such Indebtedness. The Issuers covenant to effect such repayment or obtain such consent and waiver within 30 days following any Change of Control, it being a default of the Change of Control provision of the Indenture if the Company fails to comply with such covenant.

The Issuers will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuers and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

The Issuers will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuers will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations described in the Indenture by virtue of the conflict.

The Issuers' ability to repurchase notes pursuant to a Change of Control Offer may be limited by a number of factors. Future Indebtedness of the Company and its Subsidiaries may contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the holders of their right to require the Issuers to repurchase the notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase obligation on the Company. Finally, the Company's ability to pay cash to the holders upon a repurchase may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

Even if sufficient funds were otherwise available, the terms of future Indebtedness may prohibit the Company's prepayment of notes before their scheduled maturity. Consequently, if the Company is not able to prepay any such other Indebtedness containing similar restrictions or obtain requisite consents, as described above, the Company will be unable to fulfill its repurchase obligations if holders of notes exercise their repurchase rights following a Change of Control, resulting in a default under the Indenture.

The Change of Control provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Company by increasing the capital required to effectuate such transactions. The definition of "Change of Control" includes a disposition of all or substantially all of the property and assets of the Company and its Restricted Subsidiaries taken as a whole to any Person other than a Permitted Holder. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of notes may require the Company to make an offer to repurchase the notes as described above.

The definition of "Change of Control" does not significantly restrict the types of transactions we may enter into, including, acquisitions, refinancings, recapitalizations and leveraged transactions, any of which could significantly increase the amount of our indebtedness outstanding. Any such increase in our indebtedness could adversely affect our credit rating as well as our ability to meet our obligations to the noteholders.

## **Asset Sales**

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The Company and its Restricted Subsidiaries may complete an Asset Sale if the Company or its Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the fair market value, as determined in good faith by the Board of Directors, of the assets sold or otherwise disposed of,

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and at least 80% of the consideration received by the Company or the Restricted Subsidiary is in the form of cash. For purposes of determining the amount of cash received in an Asset Sale, the following will be deemed to be cash:

- (1) the amount of any liabilities on the Company's or any Restricted Subsidiary's balance sheet that are assumed by the transferee of the assets; and
- (2) the amount of any notes or other obligations received by the Company or the Restricted Subsidiary from the transferee that is converted within 180 days by the Company or the Restricted Subsidiary into cash, to the extent of the cash received.

If the Company or any of its Restricted Subsidiaries receives Net Proceeds exceeding \$10 million from one or more Asset Sales in any fiscal year, then within 360 days after the date the aggregate amount of Net Proceeds exceeds \$10 million, the Company must apply the amount of such Net Proceeds to the extent not already so applied either (1) to reduce Indebtedness of the Company or any of its Restricted Subsidiaries, with a permanent reduction of availability in the case of revolving Indebtedness, or (2) to make an investment in assets or capital expenditures useful to the Company's or any of its Subsidiaries' business as in effect on February 6, 2003 or any Related Business. Any Net Proceeds that are not applied or invested in either of these ways will be considered Excess Proceeds.

Pending the final application of any Net Proceeds, the Company or any Restricted Subsidiary may temporarily reduce borrowings under any Credit Facilities, or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

If the aggregate amount of Excess Proceeds exceeds \$10 million, we will make an offer to all noteholders to purchase for cash that number of notes that may be purchased out of the Excess Proceeds at a purchase price equal to 100% of the principal amount of the note plus accrued and unpaid interest to the date of purchase. We will follow the procedures set forth in the Indenture and we will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws.

To the extent that the aggregate amount of notes tendered in response to our purchase offer is less than the Excess Proceeds, the Company or any Restricted Subsidiary may use such excess amounts for general business purposes. If the aggregate principal amount of notes surrendered by the noteholders exceeds the amount of Excess Proceeds, the Trustee shall select the notes to be purchased in accordance with the procedures for selection and notice of redemption set forth under Optional Redemption above. Notwithstanding the foregoing, if we make this purchase offer at any time when we have securities outstanding ranking equally in right of payment with the notes and the terms of those securities provide that a similar offer must be made with respect to those other securities, then our offer to purchase the notes will be made concurrently with the other offers, and securities of each issue will be accepted on a pro rata basis in proportion to the aggregate principal amount of securities of each issue which their holders elect to have purchased. Upon completion of the offer to the noteholders, the amount of Excess Proceeds will be reset at zero.

## **Certain Covenants**

### *Limitation on Indebtedness*

The Company and its Restricted Subsidiaries may incur more debt only under specified circumstances. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, Guarantee or in any manner become directly or

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indirectly liable, contingently or otherwise, for the payment, in each case, an incurrence, of any Indebtedness, unless at the time of the incurrence and after giving pro forma effect to the receipt and application of the proceeds of the Indebtedness, the Consolidated Fixed Charge Coverage Ratio of the Company would be greater than 2.00 to 1.00.

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In addition to any Indebtedness that may be incurred as set forth above, the Company and its Restricted Subsidiaries may incur Permitted Indebtedness. The term Permitted Indebtedness is defined in the Indenture and includes:

- (1) Indebtedness evidenced by the notes (but not additional notes);
- (2) Indebtedness outstanding as of the Issue Date;
- (3) Indebtedness of the Company or a Restricted Subsidiary (i) Incurred for the purpose of making of capital expenditures by the Company or a Restricted Subsidiary or (ii) for the purpose of funding acquisitions of Related Businesses, in an aggregate principal amount of Indebtedness pursuant to this paragraph (3) not to exceed \$100 million at any one time outstanding.
- (4) Indebtedness of the Company owed to our general partner or an Affiliate of our general partner that is unsecured and that is subordinated in right of payment to the notes; provided that the aggregate principal amount of this Indebtedness outstanding at any time under this clause may not exceed \$10 million and this Indebtedness has a final maturity date later than the final maturity date of the notes;
- (5) Indebtedness (a) owed by the Company or any Restricted Subsidiary to any Restricted Subsidiary or (b) owed by any Restricted Subsidiary to the Company or to any other Restricted Subsidiary;
- (6) Permitted Refinancing Indebtedness (including, for the avoidance of doubt, the refinancing of Indebtedness Incurred under the Consolidated Fixed Charge Coverage Ratio set forth in the second sentence of this section entitled Limitation on Indebtedness );
- (7) the Incurrence by the Company or a Restricted Subsidiary of Indebtedness owing directly to its insurance carriers, without duplication, in connection with the Company's, its Subsidiaries' or its Affiliates' self-insurance programs or other similar forms of retained insurable risks for their respective businesses, consisting of reinsurance agreements and indemnification agreements, and Guarantees of the foregoing, secured by letters of credit;
- (8) Indebtedness of the Company and its Restricted Subsidiaries in respect of Capital Leases, meaning, generally, any lease of any property which would be required to be classified and accounted for as a capital lease on a balance sheet of the lessor; provided that the aggregate amount of this Indebtedness outstanding at any time may not exceed \$7.5 million;
- (9) Indebtedness of the Company and its Restricted Subsidiaries represented by letters of credit supporting (a) obligations under workers compensation laws, (b) obligations to suppliers of propane or energy commodity derivative providers in the ordinary course of business consistent with past practices, not to exceed \$10 million at any one time outstanding, and (c) the repayment of Indebtedness permitted to be Incurred under the Indenture;
- (10) surety bonds and appeal bonds required in the ordinary course of business or in connection with the enforcement of rights or claims of the Company or any of its Subsidiaries or in connection with judgments that do not result in a Default or Event of Default (which terms are defined in Events of Default );
- (11) any Guarantee by any Restricted Subsidiary in respect of Indebtedness of any other Restricted Subsidiary;
- (12) any Guarantee by the Company of Indebtedness in respect of (x) Indebtedness of its Restricted Subsidiaries, or (y) guarantees of trade credit of Restricted Subsidiaries; and

- (13) Indebtedness Incurred by any Restricted Subsidiary pursuant to any Credit Facilities Incurred solely for working capital purposes not to exceed, in the aggregate at any time outstanding, the Borrowing Base.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness or is entitled to be incurred in

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compliance with the Consolidated Fixed Charge Coverage Ratio in the first paragraph of this section, the Company may, in its sole discretion, classify (or later reclassify) in whole or in part such items of Indebtedness in any manner that complies with this covenant, and such item of Indebtedness or a portion thereof may be classified (or later reclassified) in whole or in part as having been incurred under more than one of the applicable clauses of Permitted Indebtedness or in compliance with the Consolidated Fixed Charge Coverage Ratio in the first paragraph of this section.

*Limitation on Restricted Payments*

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, make a Restricted Payment, that is, to:

- (1) declare or pay any dividend or any other distribution or payment on or with respect to Capital Stock of the Company or any of its Restricted Subsidiaries or any payment made to the direct or indirect holders, in their capacities as such, of Capital Stock of the Company or any of its Restricted Subsidiaries, other than (a) dividends or distributions payable solely in Capital Stock of the Company (including Common Stock or Senior Units, but excluding Redeemable Capital Stock), or in options, warrants or other rights to purchase Capital Stock of the Company (including Common Stock or Senior Units, but excluding Redeemable Capital Stock); (b) dividends or other distributions to the extent declared or paid to the Company or any Restricted Subsidiary of the Company; or (c) dividends or other distributions by any Restricted Subsidiary of the Company to all holders of Capital Stock of that Restricted Subsidiary on a pro rata basis;
- (2) purchase, redeem, defease or otherwise acquire or retire for value any Capital Stock of the Company or any of its Restricted Subsidiaries, other than any Capital Stock owned by a Restricted Subsidiary;
- (3) make any principal payment on, or purchase, defease, repurchase, redeem or otherwise acquire or retire for value, prior to any scheduled maturity, scheduled repayment, scheduled sinking fund payment or other Stated Maturity, any subordinated Indebtedness of the Company, other than any such Indebtedness owed to the Company or a Restricted Subsidiary; or
- (4) make any investment, other than a Permitted Investment, in any entity, unless, at the time of and after giving effect to the proposed Restricted Payment, no Default or Event of Default shall have occurred and be continuing, and the Restricted Payment, together with the aggregate of all other Restricted Payments made by the Company and its Restricted Subsidiaries during the fiscal quarter during which the Restricted Payment is made, will not exceed:
  - (a) if the Consolidated Fixed Charge Coverage Ratio of the Company is greater than 1.75 to 1.00, an amount equal to Available Cash for the immediately preceding fiscal quarter; or
  - (b) if the Consolidated Fixed Charge Coverage Ratio of the Company is equal to or less than 1.75 to 1.00, an amount equal to the sum of \$15 million, less the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries in accordance with this clause during the period ending on the last day of the fiscal quarter of the Company immediately preceding the date of the Restricted Payment and beginning on the Issue Date plus the aggregate net cash proceeds of capital contributions to the Company from any Person other than a Restricted Subsidiary of the Company, or issuance and sale of shares of Capital Stock, other than Redeemable Capital Stock, of the Company to any entity other than to a Restricted Subsidiary of the Company, in any case made during the period ending on the last day of the fiscal quarter of the Company immediately preceding the date of the Restricted Payment and beginning on the Issue Date.

The Restricted Payment may be made in assets other than cash, in which case the amount will be the fair market value, as determined in good faith by the Board of Directors on the date of the Restricted Payment of the assets proposed to be transferred.





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The above provisions will not prohibit:

- (1) the payment of any dividend or distribution within 60 days after the date of its declaration if, at the date of declaration, the payment would be permitted as summarized above;
- (2) the redemption, repurchase or other acquisition or retirement of any shares of any class of Capital Stock of the Company or any Restricted Subsidiary of the Company in exchange for, or out of the net cash proceeds of, a substantially concurrent capital contribution to the Company from any entity other than a Restricted Subsidiary of the Company; or issuance and sale of other Capital Stock, other than Redeemable Capital Stock, of the Company to any entity other than a Restricted Subsidiary of the Company; provided, however, that the amount of any net cash proceeds that are utilized for any redemption, repurchase or other acquisition or retirement will be excluded from the calculation of Available Cash;
- (3) the repurchase of any Common Stock or the payment of any dividend or distribution under any employment agreement, stock or unit option agreement, or restricted stock agreement not to exceed \$1 million in any calendar year and not to exceed \$5 million in the aggregate amount since February 6, 2003; or
- (4) any redemption, repurchase or other acquisition or retirement of subordinated Indebtedness of the Company in exchange for, or out of the net cash proceeds of, a substantially concurrent capital contribution to the Company from any entity other than a Restricted Subsidiary of the Company; or issuance and sale of Indebtedness of the Company issued to any entity other than a Restricted Subsidiary or the Company, so long as the Indebtedness is Permitted Refinancing Indebtedness; provided, however, that the amount of any net cash proceeds that are utilized for any redemption, repurchase or other acquisition or retirement will be excluded from the calculation of Available Cash.

In computing the amount of Restricted Payments previously made for purposes of the Restricted Payments test above, Restricted Payments made under the first and third points above will be included and Restricted Payments made under the second and fourth points above shall not be so included.

*Limitation on Liens*

The Company will not, and will not permit any of its Restricted Subsidiaries to, incur any liens or other encumbrance, unless the lien is a Permitted Lien or the notes are directly secured equally and ratably with the obligation or liability secured by such lien.

*Limitation on Affiliate Transactions*

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions, including the sale, transfer, disposition, purchase, exchange or lease of assets, property or services, other than as provided for in our partnership agreement, with, or for the benefit of any Affiliates of the Company unless:

- (1) the transaction or series of related transactions are between the Company and its Restricted Subsidiaries or between two Restricted Subsidiaries; or

- (2) the transaction or series of related transactions are on terms that are no less favorable to the Company or the Restricted Subsidiary, as the case may be, than those which would have been obtained in a comparable transaction at such time from an entity that is not an Affiliate of the Company or Restricted Subsidiary, and, with respect to transaction(s) involving aggregate payments or value equal to or greater than \$5 million, the Company shall have delivered an Officers Certificate to the Trustee certifying that the transaction(s) is on terms that are no less favorable to the Company or the Restricted Subsidiary than those which would have been obtained from an entity that is not an Affiliate of the Company or Restricted Subsidiary and has been approved by a majority of the Board of Directors, including a majority of the disinterested directors.

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However, the covenant limiting transactions with Affiliates will not restrict the Company, any Restricted Subsidiary or the general partner from entering into: any employment agreement, stock option agreement, restricted stock agreement, employee stock ownership plan related agreements, or similar agreement and arrangements, in the ordinary course of business; transactions not prohibited by the provisions described in

Certain Covenants Limitation on Restricted Payments; transactions in the ordinary course of business in connection with reinsuring the self-insurance programs or other similar forms of retained insurable risks of the business operated by the Company, its Subsidiaries and Affiliates; any Affiliate trading transactions done in the ordinary course of business; and any transaction that is a Flow-Through Acquisition.

### *Limitation on Distributions from Restricted Subsidiaries*

The Company will not, and will not permit any of its Restricted Subsidiaries to, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends, in cash or otherwise, or make any other distributions on or with respect to its Capital Stock or any other interest or participation in, or measured by, its profits;
- (2) pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
- (3) make loans or advances to, or any investment in, the Company or any other Restricted Subsidiary;
- (4) transfer any of its properties or assets to the Company or any other Restricted Subsidiary; or
- (5) Guarantee any Indebtedness of the Company or any other Restricted Subsidiary.

Collectively, these restrictions are called the Payment Restrictions. However, some encumbrances or restrictions are permissible, including those existing under or by reason of:

- (1) applicable law;
- (2) any agreement in effect as of February 6, 2003 or any agreement relating to any Indebtedness permitted to be incurred under the Indenture (including agreements or instruments evidencing Indebtedness incurred after February 6, 2003);
- (3) customary non-assignment provisions of any contract or any lease governing a leasehold interest of the Company or any Restricted Subsidiary;
- (4) purchase money obligations or Capital Leases the lien of which is limited to the property acquired pursuant to such obligations;
- (5) any agreement of an entity (or any of its Restricted Subsidiaries) acquired by the Company or any Restricted Subsidiary, in existence at the time of the acquisition but not created in contemplation of the acquisition, which encumbrance or restriction is not applicable to any third party other than the entity; or

- (6) provisions contained in instruments relating to Indebtedness which prohibit the transfer of all or substantially all of the assets of the obligor of the Indebtedness unless the transferee shall assume the obligations of the obligor under the agreement or instrument.

*Limitation on Sale and Leaseback Transactions*

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction with respect to their properties. The term Sale and Leaseback Transaction is defined in the Indenture and, generally, means any arrangement (other than between the Company and a Restricted Subsidiary or between Restricted Subsidiaries) whereby property has been or will be disposed of by a transferor to another entity with the intent of taking back a lease on the property pursuant to which the rental payments are calculated to amortize the purchase price of the property over its life.

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The Company and its Restricted Subsidiaries may, however, enter into a Sale and Leaseback Transaction; provided that the Company or the Restricted Subsidiary would be permitted under the Indenture to incur Indebtedness secured by a lien on the property in an amount equal to the Attributable Debt with respect to the Sale and Leaseback Transaction.

### *SEC Reports*

Whether or not required by the rules and regulations of the SEC, so long as any notes are outstanding, we will furnish to the noteholders all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if we were required to file those Forms, including a Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, we will furnish to such noteholders all reports that would be required to be filed with the SEC on Form 8-K if we were required to file the reports. Finally, whether or not required by the rules and regulations of the SEC, we will file a copy of all the information described in the preceding sentences with the SEC unless the SEC will not accept the filing. We will also make the information available to investors who request it in writing. Currently, we are required to and do file quarterly and annual reports on Forms 10-Q and 10-K. Furthermore, we will promptly furnish to the noteholders notices of (a) any payment default under any instrument evidencing Indebtedness for borrowed money, and (b) any acceleration of such Indebtedness prior to its express maturity.

### *Merger, Consolidation or Sale of Assets*

The Indenture provides that the Company may not consolidate or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions to, another entity unless:

- (1) the Company is the surviving entity or the entity formed by or surviving the transaction, if other than the Company, or the entity to which the sale was made is a corporation or partnership organized or existing under the laws of the United States, any state thereof or the District of Columbia;
- (2) the entity formed by or surviving the transaction, if other than the Company, or the entity to which the sale was made assumes all the obligations of the Company in accordance with a supplemental indenture in a form reasonably satisfactory to the Trustee, under the notes and the Indenture;
- (3) immediately after the transaction no Default or Event of Default exists; and
- (4) at the time of the transaction and after giving pro forma effect to it as if the transaction had occurred at the beginning of the applicable four-quarter period, the Company or such other entity or survivor is permitted to incur at least \$1.00 of additional Indebtedness in accordance with the Consolidated Fixed Charge Coverage Ratio as described in Certain Covenants Limitation on Indebtedness.

### *Limitation on Lines of Business*

The Company will not, and will not permit any Restricted Subsidiary to, engage in any business other than a Related Business.

*Restrictions on Activities of Star Gas Finance Company*

In addition to the restrictions set forth under *Certain Covenants Limitation on Indebtedness*, Star Gas Finance Company may not incur any Indebtedness unless the Company is a co-obligor or guarantor of the Indebtedness; or the net proceeds of the Indebtedness are either lent to the Company, used to acquire outstanding debt securities issued by the Company, or used, directly or indirectly, to refinance or discharge Indebtedness permitted under this paragraph. Star Gas Finance Company may not engage in any business not related, directly or indirectly, to obtaining money or arranging financing for the Company.

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### *Payments for Consent*

Neither the Company, Star Gas Finance Company, nor any of the Company's Restricted Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fees or otherwise, to any holder of any notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the notes unless such consideration is offered to be paid or is paid to all holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

### **Events of Default**

Each of the following is an Event of Default:

- (1) default in any payment of interest or additional interest (including as required by the Registration Rights Agreement) on any note when due, continued for 30 days;
- (2) default in the payment of principal of or premium, if any, on any note when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;
- (3) failure by the Company to comply with its obligations under Certain Covenants Merger, Consolidation or Sale of Assets;
- (4) failure by the Issuers to comply for 30 days after notice with any of their obligations under the covenants described under Change of Control or Asset Sales above or under the covenants described under Certain Covenants above (in each case, other than a failure to purchase notes which will constitute an Event of Default under clause (2) above and other than a failure to comply with Certain Covenants Merger, Consolidation or Sale of Assets which is covered by clause (3));
- (5) failure by the Issuers to comply for 60 days after notice with their other agreements contained in the Indenture;
- (6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Company or any of its Restricted Subsidiaries), other than Indebtedness owed to the Company or a Restricted Subsidiary, whether such Indebtedness or Guarantee existed on February 6, 2003 or was incurred or created thereafter, which default:
  - (a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of any applicable grace period provided ( payment default ) which payment default has not been waived; or
  - (b) results in the acceleration of such Indebtedness prior to its maturity (the cross acceleration provision );

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates \$5 million or more;



- (7) certain events of bankruptcy, insolvency or reorganization of the Company or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the bankruptcy provisions ); or
- (8) failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary, to pay final judgments aggregating in excess of \$5 million (net of any amounts that a reputable and creditworthy insurance company has acknowledged liability for in writing), which judgments are not paid, discharged or stayed for a period of 60 days (the judgment default provision ).

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However, a default under clauses (4) and (5) of this paragraph will not constitute an Event of Default until the Trustee or the holders of 25% in principal amount of the outstanding notes notify the Company of the default and the Company does not cure such default within the time specified in clauses (4) and (5) of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (7) above) occurs and is continuing, the Trustee by notice to the Company, or the holders of at least 25% in principal amount of the outstanding notes by notice to the Company and the Trustee, may, and the Trustee at the request of such holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. In the event of a declaration of acceleration of the notes because an Event of Default described in clause (6) under Events of Default has occurred and is continuing, the declaration of acceleration of the notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (6) shall be remedied or cured by the Company or a Restricted Subsidiary of the Company or waived by the holders of the relevant Indebtedness within 20 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest on the notes that became due solely because of the acceleration of the notes, have been cured or waived. If an Event of Default described in clause (7) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders. The holders of a majority in principal amount of the outstanding notes may waive all past defaults (except with respect to nonpayment of principal, premium or interest) and rescind any such acceleration with respect to the notes and its consequences if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the notes that have become due solely by such declaration of acceleration, have been cured or waived.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder may pursue any remedy with respect to the Indenture or the notes unless:

- (1) such holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in principal amount of the outstanding notes have requested the Trustee to pursue the remedy;
- (3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity;  
and
- (5) the holders of a majority in principal amount of the outstanding notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Indenture provides that in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use



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the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as a committee of trust officers of the Trustee in good faith determines that withholding notice is in the interests of the holders. In addition, the Company is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Company also is required to deliver to the Trustee, within 15 days after the occurrence thereof, written notice of any events which would constitute certain Defaults, their status and what action the Company is taking or proposes to take in respect thereof.

In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuers with the intention of avoiding payment of the premium that the Issuers would have had to pay if the Issuers then had elected to redeem the notes pursuant to the optional redemption provisions of the Indenture or was required to repurchase the notes, an equivalent premium shall also become and be immediately due and payable to the extent permitted by law upon the acceleration of the notes. If an Event of Default occurs prior to February 15, 2008 by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuers with the intention of avoiding the prohibition on redemption of the notes prior to February 15, 2008, the premium that would otherwise be payable on February 15, 2008 in respect of an optional redemption shall also become immediately due and payable to the extent permitted by law upon the acceleration of the notes.

## **Amendments and Waivers**

Subject to certain exceptions, the Indenture and the notes may be amended or supplemented with the consent of the holders of a majority in principal amount of the notes then outstanding (including without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes) and, subject to certain exceptions, any past default or compliance with any provisions may be waived with the consent of the holders of a majority in principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes). However, without the consent of each holder of an outstanding note affected, no amendment may, among other things:

- (1) reduce the principal amount of notes whose holders must consent to an amendment;
- (2) reduce the stated rate of or extend the stated time for payment of interest on any note;
- (3) reduce the principal of or extend the Stated Maturity of any note;
- (4) reduce the premium payable upon the redemption or repurchase of any note or change the time at which any note may be redeemed or repurchased as described above under Optional Redemption, Change of Control, Asset Sales or any similar provision, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;
- (5) make any note payable in money other than that stated in the note;

- (6) impair the right of any holder to receive payment of, premium, if any, principal of and interest on such holder's notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's notes; or
- (7) make any change in the amendment provisions which require each holder's consent or in the waiver provisions.

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Notwithstanding the foregoing, without the consent of any holder, the Issuers and the Trustee may amend the Indenture and the notes to:

- (1) cure any ambiguity, omission, defect or inconsistency;
- (2) provide for the assumption by a successor corporation, partnership, trust or limited liability company of the obligations of the Issuers under the Indenture;
- (3) provide for uncertificated notes in addition to or in place of certificated notes (provided that the uncertificated notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated notes are described in Section 163(f) (2) (B) of the Code);
- (4) add Guarantees with respect to the notes;
- (5) secure the notes;
- (6) add to the covenants of the Issuers for the benefit of the holders or surrender any right or power conferred upon the Issuers;
- (7) make any change that does not adversely affect the rights of any holder;
- (8) comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act; or
- (9) provide for the issuance of exchange securities which shall have terms substantially identical in all respects to the notes (except that the transfer restrictions contained in the notes shall be modified or eliminated as appropriate) and which shall be treated, together with any outstanding notes, as a single class of securities.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any holder of notes given in connection with a tender of such holder's notes will not be rendered invalid by such tender. After an amendment under the Indenture becomes effective, the Issuers are required to mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the amendment.

## **Defeasance**

By means of a legal defeasance, the Issuers at any time may terminate all their obligations under the Notes and the Indenture ( legal defeasance option ), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes.

By means of a covenant defeasance, the Issuers at any time may terminate their obligations under certain circumstances, including their obligations under certain of the covenants described under Certain covenants , the operation of certain cross-default provisions, including upon a

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payment default, cross acceleration provisions, the bankruptcy provisions with respect to Significant Subsidiaries, the judgment default provision described under Events of default above and certain other limitations ( covenant defeasance option ).

The Issuers may exercise their legal defeasance option notwithstanding their prior exercise of their covenant defeasance option. If the Issuers exercise their legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Issuers exercise their covenant defeasance option, payment of the Notes may not be accelerated as a result of certain Events of Default including those specified in clause (3), (4), (5), (6), (7), (with respect only to Significant Subsidiaries in certain circumstances) of such section or (8) under Events of default above or because of the failure of the Company to comply with clause (3) and (4) under Certain covenants Merger, consolidation or sale of assets above.

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In order to exercise either defeasance option, the Issuers must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel (subject to customary exceptions and exclusions) to the effect that holders of the Notes will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law.

## **No Personal Liability of Directors, Officers, Employees, Partners and Stockholders**

No director, officer, employee, incorporator, partner or stockholder of the Company or Star Gas Finance Company, as such, shall have any liability for any obligations of the Issuers under the notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

## **Concerning the Trustee**

Union Bank of California, N.A. is the Trustee under the Indenture and has been appointed by the Issuers as Registrar and Paying Agent with regard to the notes.

If the Trustee becomes a creditor of an Issuer, the Indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days.

The holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default shall occur and be continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of notes, unless such holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

## **Governing Law**

The Indenture provides that it and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

## **Certain Definitions**



Acquired Indebtedness means Indebtedness (i) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or (ii) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Restricted Subsidiary of the Company or such acquisition. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (i) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (ii) of the preceding sentence, on the date of consummation of such acquisition of assets.

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**Affiliate** of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, **control** when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **controlling** and **controlled** have meanings correlative to the foregoing; provided that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control.

**Asset Acquisition** means the following (in all cases, including assets acquired through a Flow-Through Acquisition):

- (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which the Person shall become a Restricted Subsidiary, or shall be merged with or into the Company or any Restricted Subsidiary;
- (2) the acquisition by the Company or any Restricted Subsidiary of the assets of any Person, other than a Restricted Subsidiary, which constitute all or substantially all of the assets of such Person; or
- (3) the acquisition by the Company or any Restricted Subsidiary of any division or line of business of any Person, other than a Restricted Subsidiary.

**Asset Sale** means either of the following, whether in a single transaction or a series of related transactions:

- (1) the sale, lease, conveyance or other disposition of any assets other than sales, leases or transfers of assets in the ordinary course of business (including but not limited to the sales of inventory in the ordinary course of business and the sale of receivables and accounts pursuant to a Credit Facility); or
- (2) the issuance or sale of Capital Stock of any direct Subsidiary.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any sale, lease or transfer of assets or Capital Stock by the Company or any of its Restricted Subsidiaries to the Company or a Restricted Subsidiary;
- (2) any sale or transfer of assets or Capital Stock by the Company or any of its Restricted Subsidiaries to any entity in exchange for other assets used in a related business and/or cash (provided that such cash portion is at least 80% of the difference between the value of the assets being transferred and the value of the assets being received) and having a fair market value, as determined in good faith by the Board of Directors, reasonably equivalent to the fair market value of the assets so transferred;
- (3) any sale, lease or transfer of assets in accordance with Permitted Investments;
- (4) the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company; provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company will be governed by the provisions described under **Change of Control** and/or the provisions described under **Certain Covenants** **Merger, Consolidation or Sale of Assets** and not

the Asset Sales Covenant;

- (5) the transfer or disposition of assets that are permitted Restricted Payments; and
- (6) any sale, lease or transfer of assets pursuant to a Sale and Leaseback Transaction otherwise permitted by the Indenture.

Attributable Debt means, with respect to any Sale and Leaseback Transactions not involving a Capital Lease, as of any date of determination, the total obligation, discounted to present value at the rate of interest implicit in the lease included in the transaction, of the lessee for rental payments during the remaining portion of the term of the lease, including extensions which are at the sole option of the lessor, of the lease included in the transaction. For purposes of this definition, the rental payments shall not include amounts required to be paid on

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account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items which do not constitute payments for property rights. In the case of any lease which is terminable by the lessee upon the payment of a penalty, the rental obligation shall also include the amount of the penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

Available Cash as to any quarter means:

- (1) the sum of:
  - (a) all cash receipts of the Company during such quarter from all sources (including, without limitation, distributions of cash received from Subsidiaries and cash proceeds from Interim Capital Transactions, but excluding cash proceeds from Termination Capital Transactions); and
  - (b) any reduction with respect to such quarter in a cash reserve previously established pursuant to clause (2)(b) below (either by reversal or utilization) from the level of such reserve at the end of the prior quarter;
  
- (2) less the sum of:
  - (a) all cash disbursements of the Company during such quarter, including, without limitation, disbursements for operating expenses, taxes, if any, debt service (including, without limitation, the payment of principal, premium and interest), redemption of Capital Stock of the Company, capital expenditures, contributions, if any, to any Subsidiaries and cash distributions to partners of the Company (but only to the extent that such cash distributions to partners exceed Available Cash for the immediately preceding quarter); and
  - (b) any cash reserves established with respect to such quarter, and any increase with respect to such quarter in a cash reserve previously established pursuant to this clause (2)(b) from the level of such reserve at the end of the prior quarter, in such amounts as the Board of Directors determines in its reasonable discretion to be necessary or appropriate (i) to provide for the proper conduct of the business of the Company (including, without limitation, reserves for future capital expenditures), (ii) to provide funds for distributions with respect to Capital Stock of the Company in respect of any one or more of the next four quarters or (iii) because the distribution of such amounts would be prohibited by applicable law or by any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Company is a party or by which it is bound or its assets are subject;
  
- (3) plus the lesser of:
  - (a) an amount as calculated in accordance with clauses (1) and (2) above for the Company or its Restricted Subsidiaries for the first 45 days of the quarter during which such Restricted Payment is made (rather than the quarter for which clauses (1) and (2) were calculated); and
  - (b) an amount of working capital Indebtedness that the Company or its Restricted Subsidiaries could have Incurred on or before the 45th day after the last day of the quarter used to calculate clauses (1) and (2) above;

provided, however, that Available Cash attributable to any Restricted Subsidiary pursuant to this sub-paragraph (3)(b) will be excluded to the extent dividends or distributions of Available Cash by the Restricted Subsidiary are not at the date of determination permitted by the terms of its

charter or any agreement, instrument, judgment, decree, order, statute, rule or other regulation.

Notwithstanding the foregoing, Available Cash shall not include any cash receipts or reductions in reserves or take into account any disbursements made or reserves established in each case after the date of liquidation of the Company. Taxes paid by the Company on behalf of, or amounts withheld with respect to, all or less than all of the partners shall not be considered cash disbursements of the Company that reduce Available

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Cash, but the payment or withholding thereof shall be deemed to be a distribution of Available Cash to the partners other than the limited partners holding Senior Units. Alternatively, in the discretion of the Board of Directors, such taxes (if pertaining to all partners) may be considered to be cash disbursements of the Company which reduce Available Cash, but the payment or withholding thereof shall not be deemed to be a distribution of Available Cash to such partners.

Board of Directors means, as to any Person, the board of directors of such Person or any duly authorized committee thereof; provided that so long as the Company is a limited partnership, as to the Company, Board of Directors means the board of directors of Star Gas LLC, its general partner, or any duly authorized committee thereof.

Borrowing Base means, as of any date of determination, an amount equal to the sum, without duplication, of (1) 85% of the net book value of all of the Company's and its Restricted Subsidiaries' accounts receivable at such date and (2) 60% of the net book value of the Company's and its Restricted Subsidiaries' inventories at such date. Net book value shall be determined in accordance with GAAP and shall be reflected on the most recent available consolidated balance sheet of the Company (it being understood that the accounts receivable and inventories of an acquired business may be included if such acquisition has been completed on or prior to the date of the determination).

Business Day means each day that is not a Saturday, Sunday or other day on which banking institutions in New York, New York are authorized or required by law to close.

Capital Stock of any Person means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

Change of Control means:

- (1) any transaction or series of related transactions pursuant to which any person or group or groups of related persons (as defined in the Exchange Act) other than the Permitted Holders, becoming beneficial owners, in the aggregate, directly or indirectly, of 50% or more of the Voting Stock of the general partner of the Company (or the successor by merger, consolidation or purchase of substantially all of the assets of the general partner) and the Permitted Holders beneficially owning at any time, in the aggregate, a lesser percentage of the Voting Stock of the general partner of the Company (or the successor by merger, consolidation or purchase of substantially all of the assets of the general partner) than such other person or group;
- (2) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole to any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than a Permitted Holder;
- (3) the adoption of a plan or proposal for the liquidation or dissolution of the Company or the general partner of the Company; or
- (4) Star Gas LLC or any affiliated entity shall fail to own beneficially 100% of the general partnership interest in the Company.

Code means the Internal Revenue Code of 1986, as amended.

Common Stock means with respect to any Person, any and all shares, units, interests or other participations in, and other equivalents (however designated and whether voting or nonvoting) of such Person's securities whether or not outstanding as of February 6, 2003, and includes, without limitation, all series and classes of such common stock, and, in the case of the Company, means the units representing limited partner interests of the Company whether or not outstanding as of February 6, 2003.

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Consolidated Cash Flow Available for Fixed Charges means, with respect to the Company and its Restricted Subsidiaries, for any period, the sum of, without duplication, the amounts for the period, taken as single accounting, of:

- (1) Consolidated Net Income;
- (2) Consolidated Non-Cash Charges;
- (3) Consolidated Interest Expense; and
- (4) Consolidated Income Tax Expense.

Consolidated Fixed Charge Coverage Ratio means, with respect to the Company and its Restricted Subsidiaries, the ratio of (x) the aggregate amount of Consolidated Cash Flow Available for Fixed Charges of the Person for the four full fiscal quarters immediately preceding the date of the transaction (the Transaction Date ) giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio (the Four Quarter Period ), to (y) the aggregate amount of Consolidated Fixed Charges of the Person for the Four Quarter Period. In addition to and without limitation of the foregoing, for purposes of this definition, Consolidated Cash Flow Available for Fixed Charges and Consolidated Fixed Charges shall be calculated after giving effect on a pro forma basis for the period of the calculation to, without duplication:

- (1) the Incurrence or repayment of any Indebtedness, excluding revolving credit borrowings and repayments of revolving credit borrowings (other than any revolving credit borrowings the proceeds of which are used for Asset Acquisitions or Growth Related Capital Expenditures of the Company or any of its Restricted Subsidiaries and in the case of any Incurrence, the application of the net proceeds thereof) during the period commencing on the first day of the Four Quarter Period to and including the Transaction Date (the Reference Period ), including, without limitation, the Incurrence of the Indebtedness giving rise to the need to make the calculation (and the application of the net proceeds thereof), as if the Incurrence (and application) or repayment occurred on the first day of the Reference Period; and
- (2) any Asset Sales or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make the calculation as a result of the Company or one of its Restricted Subsidiaries, including any Person who becomes a Restricted Subsidiary as a result of the Asset Acquisition, Incurring, assuming or otherwise being liable for Acquired Indebtedness) occurring during the Reference Period, as if the Asset Sale or Asset Acquisition occurred on the first day of the Reference Period; provided, however, that:
  - (a) Consolidated Fixed Charges will be reduced by amounts attributable to businesses or assets that are so disposed of or discontinued only to the extent that the obligations giving rise to such Consolidated Fixed Charges would no longer be obligations contributing to the Consolidated Fixed Charges subsequent to the date of determination of the Consolidated Fixed Charge Coverage Ratio;
  - (b) Consolidated Cash Flow Available for Fixed Charges generated by an acquired business or asset shall be determined by the actual gross profit, which is equal to revenues minus cost of goods sold, of the acquired business or asset during the immediately available preceding four full fiscal quarters occurring in the Reference Period, minus the pro forma expenses that would have been Incurred by the Company and its Restricted Subsidiaries in the operation of the acquired business or asset during the period computed on the basis of personnel expenses for employees retained or to be retained by the Company and its Restricted Subsidiaries in the operation of the acquired business or asset and non-personnel costs and expenses Incurred by or to be Incurred by the Company and its Restricted Subsidiaries based upon the operation of the Company's business, all as determined in good faith by the Board of Directors; and



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- (c) Consolidated Cash Flow Available for Fixed Charges shall not include the impact of any non-recurring cash charges Incurred in connection with a restructuring, reorganization or other similar transaction, as determined in good faith by the Board of Directors.

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Furthermore, in calculating Consolidated Fixed Charges for purposes of determining the Consolidated Fixed Charge Coverage Ratio :

- (1) interest on outstanding Indebtedness, other than Indebtedness referred to in paragraph (2) below, determined on a fluctuating basis as of the last day of the Four Quarter Period and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on that date;
- (2) only actual interest payments associated with Indebtedness Incurred in accordance with clause (4) of the definition of Permitted Indebtedness and all Permitted Refinancing Indebtedness in respect thereof, during the Four Quarter Period shall be included in the calculation; and
- (3) if interest on any Indebtedness actually Incurred on the date may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on the last day of the Four Quarter Period will be deemed to have been in effect during the period.

Consolidated Fixed Charges means, with respect to the Company and its Restricted Subsidiaries for any period, the sum of, without duplication:

- (1) the amounts for such period of Consolidated Interest Expense; and
- (2) the product of:
  - (a) the aggregate amount of dividends and other distributions paid or accrued during the period in respect of Preferred Stock and Redeemable Capital Stock of the Company and its Restricted Subsidiaries on a consolidated basis; and
  - (b) a fraction, the numerator of which is one and the denominator of which is one less the then applicable current combined federal, state and local statutory tax rate, expressed as a percentage.

Consolidated Income Tax Expense means, with respect to the Company and its Restricted Subsidiaries for any period, the provision for federal, state, local and foreign income taxes of the Company and its Restricted Subsidiaries for the period as determined on a consolidated basis in accordance with GAAP.

Consolidated Interest Expense means, with respect to the Company and its Restricted Subsidiaries, for any period, without duplication, the sum of:

- (1) the interest expense of the Company and its Restricted Subsidiaries for the period as determined on a consolidated basis in accordance with GAAP, net of interest income in an amount not to exceed \$3 million;
- (2) any amortization of debt discount;
- (3) the net cost under Interest Rate Agreements;

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- (4) the interest portion of any deferred payment obligation;
- (5) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers acceptance financing;
- (6) all accrued interest for all instruments evidencing Indebtedness; and
- (7) the interest component of Capital Leases paid or accrued or scheduled to be paid or accrued by the Company and its Restricted Subsidiaries during the period as determined on a consolidated basis in accordance with GAAP.

Consolidated Net Income means the net income (loss) of the Company and its Restricted Subsidiaries, as determined on a consolidated basis in accordance with GAAP and as adjusted to exclude:

- (1) net after-tax extraordinary gains or losses;
- (2) net after-tax gains or losses attributable to Asset Sales;

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- (3) the net income or loss of any Person which is not a Restricted Subsidiary and which is accounted for by the equity method of accounting; provided that Consolidated Net Income shall include the amount of dividends or distributions actually paid to the Company or any Restricted Subsidiary;
- (4) the net income or loss prior to the date of acquisition of any Person combined with the Company or any Restricted Subsidiary in a pooling of interest;
- (5) the net income of any Restricted Subsidiary to the extent that dividends or distributions of that net income are not at the date of determination permitted by the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or other regulation; and
- (6) the cumulative effect of any changes in accounting principles.

**Consolidated Non-Cash Charges** means, with respect to the Company and its Restricted Subsidiaries for any period, the aggregate of (1) depreciation, (2) amortization, (3) non-cash employee compensation expenses of the Company or its Restricted Subsidiaries for such period, and (4) any other non-cash charges, in each case which reduces the Consolidated Net Income of the Company and its Restricted Subsidiaries for the period, as determined on a consolidated basis in accordance with GAAP, and excluding any such non-cash charge or expense to the extent it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period, and also excluding the non-cash impact of Statement of Financial Accounting Standards No. 133.

**Credit Facilities** means, one or more debt facilities or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

**Default** means any event which is, or after notice or passage of time or both would be, an Event of Default.

**Flow-Through Acquisition** means an acquisition by the general partner from a Person that is not an Affiliate of the general partner or the Company, of property (real or personal), assets or equipment (whether through the direct purchase of assets or the Capital Stock of the Person owning such assets) in a Related Business, which is promptly sold, transferred or contributed by the general partner to the Company or one of its Restricted Subsidiaries.

**GAAP** means generally accepted accounting principles in the United States of America as in effect from time to time, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession. All ratios and computations based on GAAP contained in the Indenture will be computed in conformity with GAAP.

**Growth Related Capital Expenditures** means, with respect to any Person, all capital expenditures by such Person made to improve or enhance the existing capital assets or to increase the customer base of such Person or to acquire or construct new capital assets (but excluding capital expenditures made to maintain, up to the level thereof that existed at the time of such expenditure, the operating capacity of the capital assets of such Person as such assets existed at the time of such expenditure).



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**Guarantee** means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

- (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or
- (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term **Guarantee** will not include endorsements for collection or deposit in the ordinary course of business. The term **Guarantee** used as a verb has a corresponding meaning.

**Incur** means issue, create, assume, **Guarantee**, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary; and the terms **Incurred** and **Incurrence** have meanings correlative to the foregoing.

**Indebtedness** means, as applied to any Person, without duplication:

- (1) (a) any indebtedness for borrowed money and (b) all obligations evidenced by any (i) bond, note, debenture or other similar instrument or (ii) letter of credit, or reimbursement agreements in respect thereof, but only for any drawings that are not reimbursed within five Business Days after the date of such drawings, which in each case the Person has, directly or indirectly, created or Incurred;
- (2) any indebtedness for borrowed money and all obligations evidenced by any bond, note, debenture or other similar instrument secured by any lien in respect of property owned by the Person, whether or not the Person has assumed or become liable for the payment of the indebtedness; provided that the amount of the indebtedness, if the Person has not assumed the same or become liable therefor, shall in no event be deemed to be greater than the fair market value from time to time, as determined in good faith by the Person, of the property subject to the lien;
- (3) any indebtedness, whether or not for borrowed money (excluding trade payables and accrued expenses arising in the ordinary course of business) with respect to which the Person has become directly or indirectly liable and which represents the deferred purchase price, or a portion thereof, or has been Incurred to finance the purchase price, or a portion thereof, of any property or business acquired by, or service performed on behalf of, the Person, whether by purchase, consolidation, merger or otherwise;
- (4) the principal component of any obligations under Capital Leases to the extent the obligations would, in accordance with GAAP, appear on the balance sheet of the Person;
- (5) all Attributable Debt of the Person in respect of Sale and Leaseback Transactions not involving a Capital Lease;
- (6) any indebtedness of any other Person of the character referred to in the foregoing clauses (1) through (5) of this definition with respect to which the Person whose indebtedness is being determined has become liable by way of a **Guarantee**; and

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- (7) all Redeemable Capital Stock of the Person valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued dividends.

For purposes hereof, the maximum fixed repurchase price of any Redeemable Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of the Redeemable Capital Stock as if it were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture and if the price is based upon, or measured by, the fair market value of the Redeemable Capital

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Stock, the fair market value shall be determined in good faith by the board of directors of the issuer of the Redeemable Capital Stock. For purposes hereof, the term **Indebtedness** shall not include (x) accrual of interest, the accretion of accreted value and the payment of interest or any other similar Incurrence by the Company or its Restricted Subsidiaries related to Indebtedness otherwise permitted in the Indenture or (y) indebtedness under any hedging arrangement which provides for the right or obligation to purchase, sell or deliver any currency, commodity or security at a future date for a specified price entered into to protect such Person from fluctuations in prices or rates, including currencies, interest rates, commodity prices and securities prices, including, without limitation, indebtedness under any interest rate or commodity price swap agreement, interest rate cap agreement, interest rate collar agreement or any forward sales arrangements, calls, options, swaps, or other similar transactions or any combination thereof.

**Interest Rate Agreement** means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary.

**Interim Capital Transactions** means (1) borrowings, refinancings or refundings of Indebtedness and sales of debt securities (other than for working capital purposes and other than for items purchased on open account in the ordinary course of business) by the Company, (2) sales of Capital Stock of the Company by the Company and (3) sales or other voluntary or involuntary dispositions of any assets of the Company (other than (x) sales or other dispositions of inventory in the ordinary course of business, (y) sales or other dispositions of other current assets excluding receivables and accounts and (z) sales or other dispositions of assets as a part of normal retirements or replacements), in each case prior to the commencement of the dissolution and liquidation of the Company.

**Investment** means as applied to any Person:

- (1) any direct or indirect purchase or other acquisition by the Person of stock or other securities of any other Person; or
- (2) any direct or indirect loan, advance or capital contribution by the Person to any other Person and any other item which would be classified as an **investment** on a balance sheet of the Person prepared in accordance with GAAP, including without limitation any direct or indirect contribution by the Person of property or assets to a joint venture, partnership or other business entity in which the Person retains an interest, it being understood that a direct or indirect purchase or other acquisition by the Person of assets of any other Person, other than stock or other securities, shall not constitute an **Investment** for purposes of the Indenture.

The amount classified as Investments made during any period shall be the aggregate cost to the Company and its Restricted Subsidiaries of all the Investments made during the period, determined in accordance with GAAP, but without regard to unrealized increases or decreases in value, or write-ups, write-downs or write-offs, of the Investments and without regard to the existence of any undistributed earnings or accrued interest with respect thereto accrued after the respective dates on which the Investments were made, less any net return of capital realized during the period upon the sale, repayment or other liquidation of the Investments, determined in accordance with GAAP, but without regard to any amounts received during the period as earnings (in the form of dividends not constituting a return of capital, interest or otherwise) on the Investments or as loans from any Person in whom the Investments have been made.

**Issue Date** means the date on which the notes were originally issued.



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**Net Proceeds** means, with respect to any Asset Sale or sale of Capital Stock, the proceeds therefrom in the form of cash or cash equivalents including payments in respect of deferred payment obligations when received in the form of cash or cash equivalents, except to the extent that the deferred payment obligations are financed or sold with recourse to the Company or any of its Restricted Subsidiaries, net of:

- (1) brokerage commissions and other fees and expenses related to the Asset Sale, including, without limitation, fees and expenses of legal counsel and accountants and fees, expenses, discounts or commissions of underwriters, placement agents and investment bankers;
- (2) provisions for all taxes payable as a result of the Asset Sale;
- (3) amounts required to be paid to any Person, other than the Company or any Restricted Subsidiary, owning a beneficial interest in the assets subject to the Asset Sale;
- (4) appropriate amounts established by the Company or any Restricted Subsidiary, as the case may be, as a reserve required in accordance with GAAP against any liabilities associated with the Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after the Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with the Asset Sale; and
- (5) amounts applied to the repayment of Indebtedness in connection with the asset or assets sold in the Asset Sale, including any transaction costs and expenses associated therewith and any make-whole or other premium owed in connection with such repayment.

**Officer** means the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary of the Issuers or, so long as the Company is a limited partnership, of the Company's general partner.

**Officers Certificate** means a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Issuers or, so long as the Company is a limited partnership, of the Company's general partner.

**Opinion of Counsel** means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

**Permitted Holders** means Irik Sevin and Audrey Sevin:

- (1) any immediate family member or lineal descendant of either of them;
- (2) any trust established for the benefit of any of the foregoing; or
- (3) any Person controlled by any of them.

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Permitted Investments means any of the following:

- (1) Investments made or owned by the Company or any Restricted Subsidiary in:
  - (a) marketable obligations issued or unconditionally guaranteed by the United States, or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing one year or less from the date of acquisition thereof;
  - (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and having as at such date the highest rating obtainable from either Standard & Poor's Ratings Group ( S&P ) and its successors or Moody's Investors Service, Inc. ( Moody's ) and its successors;

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- (c) commercial paper maturing no more than 270 days from the date of creation thereof and having as at the date of acquisition thereof one of the two highest ratings obtainable from either S&P or Moody's;
  - (d) certificates of deposit maturing one year or less from the date of acquisition thereof issued by commercial banks incorporated under the laws of the United States or any state thereof or the District of Columbia or Canada; the commercial paper or other short term unsecured debt obligations of which are as at such date rated either A-2 or better (or comparably if the rating system is changed) by S&P or Prime-2 or better (or comparably if the rating system is changed) by Moody's; the long-term debt obligations of which are, as at such date, rated either A or better (or comparably if the rating system is changed) by either S&P or Moody's ( Permitted Banks );
  - (e) eurodollar time deposits having a maturity of less than 270 days from the date of acquisition thereof purchased directly from any Permitted Bank;
  - (f) bankers' acceptances eligible for rediscount under requirements of the Board of Governors of the Federal Reserve System and accepted by Permitted Banks;
  - (g) obligations of the type described in clauses (a) through (e) above purchased from a securities dealer designated as a primary dealer by the Federal Reserve Bank of New York or from a Permitted Bank as counterparty to a written repurchase agreement obligating such counterparty to repurchase such obligations not later than 14 days after the purchase thereof and which provides that the obligations which are the subject thereof are held for the benefit of the Company or a Restricted Subsidiary by a custodian which is a Permitted Bank and which is not a counterparty to the repurchase agreement in question; and
  - (h) securities issued by money market mutual funds which (i) comply with the criteria set forth in Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by S&P Aaa by Moody's and (iii) have portfolio assets in excess of \$500 million;
- (2) the acquisition by the Company or any Restricted Subsidiary of Capital Stock or other ownership interests, whether in a single transaction or in a series of related transactions, of a Person located in the United States and engaged in a Related Business such that, upon the completion of such transaction or series of transactions, the Person becomes a Restricted Subsidiary;
- (3) the making or ownership by the Company or any Restricted Subsidiary of Investments (in addition to any other Permitted Investments) in any Person incorporated or otherwise formed pursuant to the laws of the United States or any state thereof; provided that the aggregate amount of all such Investments made by the Company and its Restricted Subsidiaries following February 6, 2003 and outstanding pursuant to this third clause shall not at any date of determination exceed \$20 million;
- (4) the making or ownership by the Company or any Restricted Subsidiary of Investments:
- (a) arising out of loans and advances to employees Incurred in the ordinary course of business;
  - (b) arising out of extensions of trade credit or advances to third parties in the ordinary course of business; or
  - (c) acquired by reason of the exercise of customary creditors' rights upon default or pursuant to the bankruptcy, insolvency or reorganization of a debtor;
- (5)

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the creation or Incurrence of liability by the Company or any Restricted Subsidiary, with respect to any Guarantee constituting an obligation, warranty or indemnity, not guaranteeing Indebtedness of any Person, which is undertaken or made in the ordinary course of business;

- (6) the creation or Incurrence of liability by the Company or any Restricted Subsidiary with respect to any hedging agreements or arrangements;

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- (7) the making by any Restricted Subsidiary of Investments in the Company or another Restricted Subsidiary and the making by the Company of Investments in any Restricted Subsidiary; and
- (8) Investments in any Person pursuant to joint venture arrangements, in an aggregate amount not to exceed \$10 million outstanding at any one time; provided that such Person is engaged in a Related Business.

Permitted Liens means any of the following:

- (1) liens for taxes, assessments or other governmental charges, the payment of which is not yet due or the payment of which is being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and as to which reserves or other appropriate provision, if any, as shall be required by GAAP, shall have been made therefor and be adequate in the good faith judgment of the obligor;
- (2) liens of lessors, landlords and carriers, vendors, warehousemen, mechanics, materialmen, repairmen and other like liens incurred in the ordinary course of business for sums not yet due or the payment of which is being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and as to which reserves or other appropriate provisions, if any, as shall be required by GAAP, shall have been made therefor and be adequate in the good faith judgment of the obligor, in each case:
  - (a) not Incurred or made in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property; or
  - (b) Incurred in the ordinary course of business securing the unpaid purchase price of property or services constituting current accounts payable;
- (3) liens, other than any lien imposed by the Employee Retirement Income Security Act of 1974, as may be amended from time to time, Incurred or deposits made in the ordinary course of business:
  - (a) in connection with workers compensation, unemployment insurance and other types of social security; or
  - (b) to secure or to obtain letters of credit that secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, performance bonds, purchase, construction or sales contracts and other similar obligations, in each case not Incurred or made in connection with the borrowing of money;
- (4) other deposits made to secure liability to insurance carriers under insurance or self-insurance arrangements;
- (5) liens securing reimbursement obligations under letters of credit, provided in each case that such liens cover only the title documents and related goods and any proceeds thereof covered by the related letter of credit;
- (6) any attachment or judgment lien, unless the judgment it secures shall not, within 60 days after notice of the entry thereof, have been discharged or execution thereof stayed pending appeal or review, or shall not have been discharged within 60 days after expiration of any such stay;
- (7)

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leases or subleases granted to others, easements, rights-of-way, restrictions and other similar charges or encumbrances, which, in each case either have been granted, entered into or created in the ordinary course of the business of the Company or any Restricted Subsidiary or do not materially impair the value or intended use of the property covered thereby;

- (8) liens on property or assets of any Restricted Subsidiary securing Indebtedness of the Restricted Subsidiary owing to the Company or a Restricted Subsidiary;
- (9) liens on assets of the Company or any Restricted Subsidiary existing on February 6, 2003;

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- (10) liens on personal property leased under leases entered into by the Company or its Restricted Subsidiaries which are accounted for as operating leases in accordance with GAAP;
  
- (11) liens securing Indebtedness incurred in accordance with:
  - (a) clauses (4), (5) and (7) of the definition of Permitted Indebtedness; and
  
  - (b) Indebtedness otherwise permitted to be incurred under the Limitation on Indebtedness covenant to the extent incurred:
    - (i) to finance the making of expenditures for the improvement or repair (to the extent the improvements and repairs may be capitalized on the books of the Company and the Restricted Subsidiaries in accordance with GAAP) of, or additions including additions by way of acquisitions of businesses and related assets to, the assets and property of the Company and its Restricted Subsidiaries; or
  
    - (ii) by assumption in connection with additions including additions by way of acquisition or capital contributions of businesses and related assets to the property and assets of the Company and its Restricted Subsidiaries; provided that the principal amount of the Indebtedness does not exceed the lesser of the cost to the Company and its Restricted Subsidiaries of the additional property or assets and the fair market value of the additional property or assets at the time of the acquisition thereof, as determined in good faith by the Board of Directors;
  
- (12) liens existing on any property of any Person at the time it becomes a Subsidiary of the Company, or existing at the time of acquisition upon any property acquired by the Company or any Subsidiary through purchase, merger or consolidation or otherwise, whether or not assumed by the Company or the Subsidiary, or created to secure Indebtedness incurred to pay all or any part of the purchase price (a Purchase Money Lien ) of property including, without limitation, Capital Stock and other securities acquired by the Company or a Restricted Subsidiary; provided that:
  - (a) the lien shall be confined solely to the item or items of property and, if required by the terms of the instrument originally creating the lien, other property which is an improvement to or is acquired for use specifically in connection with the acquired property;
  
  - (b) in the case of a Purchase Money Lien, the principal amount of the Indebtedness secured by the Purchase Money Lien shall at no time exceed an amount equal to the lesser of:
    - (i) the cost to the Company and the Restricted Subsidiaries of the property; and
  
    - (ii) the fair market value of the property at the time of the acquisition thereof as determined in good faith by the Board of Directors;
  
  - (c) the Purchase Money Lien shall be created not later than 360 days after the acquisition of the property; and
  
  - (d) the lien, other than a Purchase Money Lien, shall not have been created or assumed in contemplation of the Person s becoming a Subsidiary of the Company or the acquisition of property by the Company or any Subsidiary;
  
- (13)

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easements, exceptions or reservations in any property of the Company or any Restricted Subsidiary granted or reserved for the purpose of pipelines, roads, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which are incidental to, and do not materially interfere with, the ordinary conduct of the business of the Company or any Restricted Subsidiary; and

- (14) any lien renewing, extending or replacing any lien permitted by clauses (9) through (12) above; provided that, the principal amount of the Indebtedness secured by any such lien shall not exceed the principal amount of the Indebtedness outstanding immediately prior to the renewal or extension of the



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lien, and no assets encumbered by the lien other than the assets encumbered immediately prior to the renewal or extension shall be encumbered thereby. The foregoing provisions of this clause (14) shall not be interpreted to limit the ability of the Company or any Restricted Subsidiary to Incur additional Indebtedness or grant liens in respect thereof as contemplated in clause (13) of Limitation on Indebtedness.

Permitted Refinancing Indebtedness means Indebtedness incurred by the Company or any Restricted Subsidiary to substantially concurrently (excluding any notice period on redemptions) repay, refund, renew, replace, extend or refinance, in whole or in part, any Permitted Indebtedness of the Company or any Restricted Subsidiary or any other Indebtedness incurred by the Company or any Restricted Subsidiary pursuant to the Limitation on Indebtedness covenant, to the extent:

- (1) the principal amount of the Permitted Refinancing Indebtedness does not exceed the principal or accreted amount plus the amount of accrued and unpaid interest of the Indebtedness so repaid, refunded, renewed, replaced, extended or refinanced (plus the amount of all expenses and premiums incurred in connection therewith);
- (2) with respect to any repayment, refunding, renewal, replacement, extension or refinancing of Indebtedness, the Permitted Refinancing Indebtedness ranks no more favorably in right of payment with respect to the notes than the Indebtedness so repaid, refunded, renewed, replaced, extended or refinanced; and
- (3) with respect to the repayment, refunding, renewal, replacement, extension or refinancing of our Indebtedness, the Permitted Refinancing Indebtedness has a Weighted Average Life to Stated Maturity and Stated Maturity equal to, or greater than, and has no fixed mandatory redemption or sinking fund requirement in an amount greater than or at a time prior to the amounts set forth in, the Indebtedness so repaid, refunded, renewed, replaced, extended or refinanced; provided, however, that Permitted Refinancing Indebtedness shall not include Indebtedness incurred by a Restricted Subsidiary to repay, refund, renew, replace, extend or refinance Indebtedness of the Company.

Person means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

Preferred Stock as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of distributions or dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

Public Equity Offering means a public offering or private placement of partnership interests (other than interests that are mandatorily redeemable) of:

- (1) any entity that directly or indirectly owns equity interests in the Company, to the extent the net proceeds are contributed to the Company;
- (2) any Subsidiary of the Company to the extent the net proceeds are distributed, paid, lent or otherwise transferred to the Company that results in the net proceeds to the Company of at least \$10 million; or
- (3) the Company.

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A private placement of partnership interests will not be deemed a Public Equity Offering unless net proceeds of at least \$10 million are received.

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A **Public Market** exists at any time with respect to the Common Stock of the Company if:

- (1) the Common Stock of the Company is then registered with the SEC pursuant to Section 12(b) or 12(g) of Exchange Act and traded either on a national securities exchange or in the National Association of Securities Dealers Automated Quotation System; and
- (2) at least 15% of the total issued and outstanding Common Stock of the Company has been and remains distributed prior to such time by means of an effective registration statement under the Securities Act.

**Redeemable Capital Stock** means any shares of any class or series of Capital Stock (excluding, but not limited to, the Senior Units and Common Stock issued by the Company), that, either by the terms thereof, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, is or upon the happening of an event or passage of time would be, required to be redeemed prior to the Stated Maturity of the principal of the notes or is redeemable at the option of the holder thereof at any time prior to the Stated Maturity of the principal of the notes, or is convertible into or exchangeable for debt securities at any time prior to the Stated Maturity of the principal of the notes.

**Registration Rights Agreement** means (i) in the case of the \$200 million of ~~10%~~ senior notes due 2013 offered pursuant to the February 6, 2003 notes offering, that certain registration rights agreement dated as of February 6, 2003 by and among the Company and the initial purchasers set forth therein; (ii) in the case of the \$35 million of 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013 offered pursuant to the January 22, 2004 notes offering, that certain registration rights agreement dated as of January 22, 2004 by and between the Company and the initial purchaser set forth therein; (iii) in case of the \$30 million of 10<sup>1</sup>/<sub>4</sub>% senior notes due 2013 offered pursuant to the July 15, 2004 notes offering, that certain registration rights agreement dated as of July 15, 2004 by and among the Company and the initial purchaser set forth therein; and (iv) in the case of the issuance of any other additional securities, that certain registration rights agreement dated as of and entered into in connection with the issuance of such additional securities.

**Related Business** means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company or any Restricted Subsidiary as carried out on February 6, 2003.

**Related Person** with respect to any Permitted Holder means:

- (1) any controlling stockholder or a majority (or more) owned Subsidiary of such Permitted Holder or, in the case of an individual, any spouse or immediate family member of such Permitted Holder, any trust created for the benefit of such individual or such individual's estate, executor, administrator, committee or beneficiaries; or
- (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Permitted Holder and/or such other Persons referred to in the immediately preceding clause (1).

**Restricted Subsidiary** means any Subsidiary of the Company other than an Unrestricted Subsidiary.

**SEC** means the United States Securities and Exchange Commission.

**Senior Units** means the units representing limited partner interests of the Company, having the rights and obligations specified with respect to Senior Subordinated Units of the Company.

**Significant Subsidiary** means any Restricted Subsidiary that would be a Significant Subsidiary of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

**Stated Maturity** means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

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**Subsidiary** of any Person means any corporation, association, partnership, joint venture, limited liability company or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership and joint venture interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Company.

**Termination Capital Transactions** means any sale, transfer or other disposition of property of the Company occurring upon or incident to the liquidation and winding up of the Company.

**Unrestricted Subsidiary** means any Person that is designated as such by the Board of Directors; provided that no portion of the Indebtedness of such Person:

- (1) is Guaranteed by the Company or any Restricted Subsidiary;
- (2) is recourse to or obligates the Company or any Restricted Subsidiary in any way; or
- (3) subjects any property or assets of the partnership or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof.

Notwithstanding the foregoing, the Company or a Restricted Subsidiary may Guarantee or agree to provide funds for the payment or maintenance of, or otherwise become liable with respect to Indebtedness of an Unrestricted Subsidiary, but only to the extent that the Company or a Restricted Subsidiary would be permitted to:

- (1) make an Investment in the Unrestricted Subsidiary pursuant to the third clause of the definition of Permitted Investments; and
- (2) incur the Indebtedness represented by the Guarantee or agreement pursuant to the first paragraph of **Certain Covenants Limitation on Indebtedness**. The Board of Directors may designate an Unrestricted Subsidiary to be a Restricted Subsidiary; provided that immediately after giving effect to the designation there exists no Default or Event of Default, and if the Unrestricted Subsidiary has, as of the date of the designation, outstanding Indebtedness other than Permitted Indebtedness, the Company could incur at least \$1.00 of Indebtedness other than Permitted Indebtedness.

Notwithstanding the foregoing, no Subsidiary may be designated an Unrestricted Subsidiary if the Subsidiary, directly or indirectly, holds Capital Stock of a Restricted Subsidiary.

**U.S. Government Obligations** means securities that are (a) direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged or (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act), as custodian with respect to any such U.S. Government Obligations or a specific payment of principal of or interest on any such U.S. Government Obligations held by such custodian for the account of the holder of such depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount

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payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligations or the specific payment of principal of or interest on the U.S. Government Obligations evidenced by such depositary receipt.

Voting Stock of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

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Weighted Average Life to Stated Maturity means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) The sum of the products obtained by multiplying:
  - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by
  - (b) the number of years, calculated to the nearest one-twelfth, that will elapse between the date and the making of the payment, by
- (2) The then outstanding principal amount of the Indebtedness;

provided, however, that with respect to any revolving Indebtedness, the foregoing calculation of Weighted Average Life to Stated Maturity shall be determined based upon the total available commitments and the required reductions of commitments in lieu of the outstanding principal amount and the required payments of principal, respectively.

## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the notes as of the date hereof. Except where noted, this summary deals only with notes held as capital assets by initial purchasers that purchase the notes at their original issue price, and it does not deal with special situations. For example, this summary does not address tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons liable for alternative minimum tax, investors in pass-through entities, or U.S. holders (as defined below) of notes whose functional currency is not the U.S. dollar. In addition, this summary does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws (including, but not limited to, if you are a U.S. expatriate, controlled foreign corporation, passive foreign investment company, or a corporation that accumulates earnings to avoid U.S. federal income tax).

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below.

If a partnership holds our notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our notes, you should consult your tax advisors.

**You should consult your own tax advisors concerning the particular U.S. federal income tax consequences to you of the ownership, exchange and disposition of the notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

**Consequences to U.S. Holders**

The following is a summary of certain U.S. federal income tax consequences that will apply to you if you are a U.S. holder of the notes. Certain consequences to non-U.S. holders of the notes, which are beneficial owners of the notes who are not U.S. holders, are described under **Consequences to Non-U.S. Holders** below.

A **U.S. holder** means a person that is for U.S. federal income tax purposes one of the following:

a citizen or resident of the U.S.;



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a corporation created or organized in or under the laws of the U.S. or any political subdivision thereof;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

## **Payments of Interest**

Stated interest on a note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your regular method of accounting for tax purposes.

## **Amortizable Bond Premium**

In general, if you purchased a note at a premium (that is, an amount in excess of the amount payable upon the maturity thereof), not including an amount equal to any accrued and unpaid interest which will be treated as a payment of interest for U.S. federal income tax purposes, you would be considered to have purchased the note with amortizable bond premium equal to the amount of such excess. You may elect to amortize such bond premium under a constant yield to maturity method over the remaining term of the note as an offset to the amount of interest included in your taxable income in respect of the note. Your tax basis in the note will be reduced by the amount of the allowable amortization. Any such election will apply to all debt instruments (other than instruments the interest on which is excludable from gross income) held by you at the beginning of the first taxable year for which the election applied or thereafter acquired, and is irrevocable without the consent of the Internal Revenue Service ( IRS ). If you do not make or have in effect an election to amortize bond premium, any premium on a note you hold will remain a part of your tax basis in the note and will decrease the gain or increase the loss otherwise recognized on the sale, exchange, retirement or other disposition of the note. You should consult your own tax advisors regarding whether to make the election to amortize bond premium.

## **Sale, Exchange or Other Taxable Disposition of Notes**

In general, your tax basis in a note will be your cost therefor, reduced by any principal payments you receive. Subject to the discussion under The Exchange Offer, upon the sale, exchange, retirement or other disposition of a note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (not including an amount equal to any accrued and unpaid interest which will be treated as a payment of interest for U.S. federal income tax purposes) and your adjusted tax basis of the note. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

## **Exchange Offer**

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In satisfaction of the registration rights of holders of Series A notes as provided for herein under the heading, "The Exchange Offer Registration Rights," we are offering the Series B notes in exchange for the Series A notes. Because the Series B notes will not differ materially in kind or extent from the notes, your exchange of Series A notes for Series B notes will not constitute a taxable disposition of the notes for U.S. federal income tax purposes. As a result, (1) you will not recognize taxable income, gain or loss on such exchange, (2) your holding period for the Series B notes will generally include the holding period for the Series A notes so exchanged, and (3) your adjusted tax basis in the Series B notes will generally be the same as your adjusted tax basis in the Series A notes so exchanged.

### **Liquidated Damages**

As described under "Registration Rights" we may be required to pay you liquidated damages in certain circumstances. Although the matter is not free from doubt, we intend to take the position that a U.S. holder of a note should be required to report any liquidated damages as ordinary income for U.S. federal income tax.

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purposes at the time it accrues or is received in accordance with your regular method of accounting. It is possible, however, that the IRS may take a different position, in which case the timing and amount of income may be different.

## **Information Reporting and Backup Withholding**

In general, information reporting requirements will apply to payments of principal and interest paid on the notes and to the proceeds of sales of notes paid to you (unless you are an exempt recipient such as a corporation). A backup withholding tax will apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status, or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

## **Consequences to Non-U.S. Holders**

### *U.S. Federal Withholding Tax*

The 30% U.S. federal withholding tax will not apply to any payment of principal or interest on a note owned by a non-U.S. holder, under the portfolio interest rule, provided that:

interest paid on the note is not effectively connected with your conduct of a trade or business in the United States;

you do not actually (or constructively) own 10% or more of the total combined voting power of all classes of the voting stock of Star Gas Finance Company or 10% or more of the capital or profits interest in Star Gas Partners, within the meaning of Section 871(h)(3) of the Code and the regulations thereunder;

you are not a controlled foreign corporation that is related to us through stock ownership;

you are not a bank whose receipt of interest on the notes is described in Section 881(c)(3)(A) of the Code; and

either (a) you provide your name and address on an IRS Form W-8BEN (or other applicable form), and certify, under penalties of perjury, that you are not a U.S. person or (b) you hold your notes through certain foreign intermediaries and satisfy the certification requirements of applicable U.S. Treasury regulations.

Special certification and other rules apply to certain non-U.S. holders that are entities rather than individuals.

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If you cannot satisfy the requirements of the portfolio interest rule described above, payments of interest made to you will be subject to the 30% U.S. federal withholding tax, unless you provide us with a properly executed (1) IRS Form W-8BEN (or other applicable form) claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty or (2) IRS Form W-8ECI (or other applicable form) stating that interest paid on a note is not subject to withholding tax because it is effectively connected with your conduct of a trade or business in the U.S. (as discussed below under U.S. Federal Income Tax ).

As described under Registration Rights, we may be required to pay you liquidated damages in certain circumstances. It is possible that such payments might be subject to U.S. federal withholding tax.

In general, the 30% U.S. federal withholding tax will not apply to any gain that you realize on the sale, exchange, retirement or other disposition of a note.

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### *U.S. Federal Income Tax*

If you are engaged in a trade or business in the United States and interest on the notes is effectively connected with the conduct of that trade or business, you will be subject to U.S. federal income tax on that interest on a net income basis (although exempt from the 30% withholding tax, provided you comply with certain certification and disclosure requirements discussed above in *U.S. Federal Withholding Tax* ) in the same manner as if you were a U.S. holder. In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30% (or lower applicable income tax treaty rate) of such amount, subject to adjustments.

In general, any gain realized on the sale, exchange, retirement or other disposition of a note (other than gain representing accrued but unpaid interest, which will be treated as such) will not be subject to federal income tax unless:

the gain is effectively connected with the conduct of a trade or business in the United States by you, or

you are an individual who is present in the United States for 183 days or more in the taxable year of that sale, exchange, retirement or other disposition, and certain other conditions are met.

### *U.S. Federal Estate Tax*

Your estate will not be subject to U.S. federal estate tax on the notes beneficially owned by you at the time of your death, provided that any payment to you on the notes would be eligible for exemption from the federal withholding tax under the portfolio interest rules described above under *U.S. Federal Withholding Tax* without regard to the statement requirement described in the last bullet under that heading.

### *Information Reporting and Backup Withholding*

Generally, we must report to the IRS and to you the amount of interest paid to you and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty.

In general, you will not be subject to backup withholding with respect to payments that we make to you provided that we do not have actual knowledge or reason to know that you are a U.S. person, as defined under the Code, and we have received from you the statement described above in the last bullet point under *U.S. Federal Withholding Tax*. In addition, information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of the sale of a note within the United States or conducted through U.S.-related financial intermediaries unless the payor receives the statement described above and does not have actual knowledge or reason to know that you are a U.S. person, as defined under the Code, or you otherwise establish an exemption.

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**CERTAIN ERISA CONSIDERATIONS**

The following is a summary of certain considerations associated with the purchase of the notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ( ERISA ), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, Similar Laws ), and entities whose underlying assets are considered to include plan assets of such plans, accounts and arrangements (each, a Plan ).

**General Fiduciary Matters**

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an ERISA Plan ) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of an ERISA Plan or the management or disposition of the assets of an ERISA Plan, or who renders investment advice for a fee or other compensation to an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

**Prohibited Transaction Issues**

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are parties in interest, within the meaning of ERISA, or disqualified persons, within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Whether or not the underlying assets of the issuers were deemed to include plan assets as described below, the acquisition and/or holding of notes by an ERISA Plan with respect to which we, the initial purchaser, or any of our or its affiliates is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor (the DOL ) has issued prohibited transaction class exemptions, or PTCEs, that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers, although there can be no assurance that all of the conditions of any such exemptions will be satisfied.

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Because of the foregoing, the notes should not be purchased or held by any person investing plan assets of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or violation of any applicable Similar Laws.

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### **Plan Asset Issues**

ERISA and the Code do not define plan assets. However, regulations (the Plan Assets Regulation) promulgated under ERISA by the DOL generally provide that when an ERISA Plan acquires an equity interest in an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the Investment Company Act of 1940, the ERISA Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by benefit plan investors is not significant (i.e., it is significant if 25% or more of any class of equity is held by benefit plan investors) or that the entity is an operating company, in each case as defined in the Plan Assets Regulation.

It is not anticipated that (i) the notes will constitute publicly-offered securities for purposes of the Plan Assets Regulation, (ii) the issuers will be an investment company registered under the Investment Company Act of 1940, (iii) the Issuers would be in a position to monitor whether investment in the notes by benefit plan investors will be significant for purposes of the Plan Assets Regulation or (iv) Star Gas Finance Company will qualify as an operating company within the meaning of the Plan Assets Regulation. It is anticipated that Star Gas Partners, L.P. will qualify as an operating company within the meaning of the Plan Assets Regulation, although no assurance can be given in this regard.

The Plan Assets Regulation defines an equity interest as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little authority on the subject, we believe that the notes will be debt rather than equity interests. However, there can be no assurance that the DOL or others would characterize the notes as indebtedness on the date of issuance or at any given time thereafter.

### **Plan Asset Consequences**

If our assets were deemed to be plan assets under ERISA, this would result, among other things, in (i) the application of the prudence and other fiduciary responsibility standards of ERISA to investments made by us and (ii) the possibility that certain transactions in which we might seek to engage could constitute prohibited transactions under ERISA and the Code. (Whether or not our assets are deemed to be plan assets under ERISA, see discussion under Prohibited Transaction Issues above.)

### **Representation**

Accordingly, by its acceptance of a note, each purchaser and subsequent transferee of a note (or any interest therein) will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to purchase and hold the notes (or any interest therein) constitutes assets of any Plan or (ii) the purchase and holding of the notes (or any interest therein) by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the notes.





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**BOOK-ENTRY SETTLEMENT AND CLEARANCE**

**Global Note**

Certificates representing the Series B notes will be issued in fully registered form, without coupons. Except as described below, the registered notes will be deposited with, or on behalf of, DTC, and registered in the name of Cede & Co., as nominee of DTC, in the form of a global note. Holders of the registered notes will own book-entry interests in the global note evidenced by records maintained by DTC.

Ownership of beneficial interests in the global note will be limited to persons who have accounts with DTC ( DTC participants ) or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

upon deposit of the global note with DTC's custodian, DTC will credit portions of the principal amount of the global note to the accounts of the DTC participants designated by the initial purchasers; and

ownership of beneficial interests in the global note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the global note).

Beneficial interests in the global note may not be exchanged for notes in physical, certificated form except in the limited circumstances described below.

**Book-Entry Procedures for the Global Note**

All interests in the global note will be subject to the operations and procedures of DTC. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of DTC are controlled by DTC and may be changed at any time. Neither we nor the initial purchaser are responsible for those operations or procedures.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York;

a banking organization within the meaning of the New York State Banking Law;

a member of the Federal Reserve System;

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a clearing corporation within the meaning of the Uniform Commercial Code; and

a clearing agency registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC's participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations and other organizations. Indirect access to DTC's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC's nominee is the registered owner of the global note, that nominee will be considered the sole owner or holder of the notes represented by the global note for all purposes under the indenture. Except as provided below, owners of beneficial interests in the global note:

will not be entitled to have notes represented by the global note registered in their names;

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will not receive or be entitled to receive physical, certificated notes; and

will not be considered the owners or holders of the notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the indenture.

As a result, each investor who owns a beneficial interest in the global note must rely on the procedures of DTC to exercise any rights of a holder of notes under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal, premium (if any) and interest with respect to the notes represented by the global note will be made by the Trustee to DTC's nominee as the registered holder of the global note. Neither we nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in the global note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in the global note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds.

## **Certificated Notes**

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related notes only if:

DTC notifies us at any time that it is unwilling or unable to continue as depository for the global note and a successor depository is not appointed within 90 days;

DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days;

we, at our option, notify the Trustee that we elect to cause the issuance of certificated notes; or

certain other events provided in the indenture should occur.

## **VALIDITY OF THE NOTES**

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The validity of the Series B notes will be passed upon for us by Phillips Nizer LLP, New York, New York.

### **EXPERTS**

The consolidated financial statements and schedule of Star Gas Partners, L.P., as of September 30, 2003 and 2004 and for each of the years in the three-year period ended September 30, 2004, have been incorporated by reference herein to our Current Report on Form 8-K filed on June 22, 2005 in this prospectus and registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the September 30, 2004 consolidated financial statements contains an explanatory paragraph that states that the Partnership's heating oil segment will not have sufficient borrowing capacity after December 17, 2004, which raises substantial doubt about the Partnership's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The audit report refers to the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

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The balance sheets of Star Gas LLC as of September 30, 2003 and 2004 have been incorporated by reference herein to our Current Report on Form 8-K filed on May 18, 2005 in this prospectus and registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The audit report contains an explanatory paragraph that states that the Partnership's heating oil segment will not have sufficient borrowing capacity after December 17, 2004, which raises substantial doubt about the Partnership's ability to continue as a going concern, which consequently raises substantial doubt about Star Gas LLC's ability to continue as a going concern. The balance sheets do not include any adjustments that might result from the outcome of this uncertainty.

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**WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Exchange Act. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. We also furnish to our unitholders, annual reports, which include financial statements audited by our independent certified public accountants and other reports which the law requires us to send to our unitholders. The public may read and copy any reports, proxy statements or other information that we file at the SEC's public reference room at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at [www.sec.gov](http://www.sec.gov). Our common units and senior subordinated units are listed on the New York Stock Exchange under the symbols SGU and SGH, respectively. You can inspect and copy reports, proxy statements and other information about us at the New York Stock Exchange's office at 20 Broad Street, New York, New York 10005.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the termination of this offering, other than information furnished under Item 9 of any Current Report on Form 8-K or Form 8-K/A that is listed below or filed in the future and which is not deemed filed under the Exchange Act and is not incorporated in this prospectus:

The following documents that we filed with the SEC are incorporated by reference in this prospectus:

Star Gas Partners' and Star Gas Finance Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

Star Gas Partners' and Star Gas Finance Company's Quarterly Reports on Form 10-Q for the fiscal quarter ended December 31, 2004 and March 31, 2005.

Star Gas Partners' Current Reports on Form 8-K, dated December 14, 2004, December 23, 2004, February 9, 2005, March 7, 2005, May 9, 2005, May 18, 2005 and June 22, 2005, respectively.

In addition, all other reports and documents we file under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and before the termination of this offering shall be deemed incorporated by reference in this prospectus from the date of filing of those reports and documents. If information in incorporated documents conflicts with information in this prospectus you should rely on the most recent information. If information in an incorporated document conflicts with information in another incorporated document, you should rely on the most recent incorporated document.

We will provide you without charge a copy of any document incorporated by reference in this prospectus, any exhibit specifically incorporated by reference in those documents, the notes, the indenture governing the notes and the registration rights agreement relating to the notes. You may request copies of these documents by contacting us at: Star Gas LLC, 2187 Atlantic Street, Stamford, Connecticut 06902 (telephone number: (203) 328-7313), Attention: Richard F. Ambury, Chief Financial Officer.





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