STAR GAS PARTNERS LP
Form DEFA14A
March 01, 2006
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

STAR GAS PARTNERS, L.P.

(Name of Registrant as Specified in its Charter)

Not applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box)

x No filing fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

6) Amount Previously Paid:

7) Form, Schedule or Registration Statement No.:

8) Filing Party:

9) Date Filed:

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March 1, 2006

Dear Star Gas Unitholder:

We are approximately two weeks away from a critical Star Gas (the Partnership or Star) unitholder vote at the special meeting of unitholders scheduled for March 17, 2006.

The vote regarding Star s proposed recapitalization transaction with Kestrel Energy Partners (Kestrel) is extremely important to the future of your investment and if you have not already done so, we urge you to vote today.

We are also writing to advise you of certain developments related to the Kestrel recapitalization. As previously announced, the Partnership recently received an unsolicited competing recapitalization proposal by a third party investor group. The competing proposal is similar in structure to the Kestrel transaction, and, based on careful consideration of a number of factors, including certain analyses performed by our financial advisor, your Board believes that it is in many respects substantially equivalent from a financial point of view to the Kestrel transaction.

After carefully reviewing and considering the financial terms, timing considerations, market risks and potential benefits and detriments of this unsolicited proposal, and after consulting with both our financial and legal advisors, Star s Board concluded that the competing proposal was NOT a Superior Proposal to the Kestrel transaction. Accordingly, **the Partnership s Board continues to recommend that you vote in favor of the Kestrel recapitalization**. In considering this competing proposal, you can rest assured that your Board is acutely aware of its fiduciary obligations and has acted at all times in the best interests of the Partnership and its unitholders and will continue to do so.

Additional information concerning this unsolicited proposal and the Board s reasons for continuing to support the Kestrel transaction are set forth in the accompanying proxy supplement.

FAILURE TO VOTE WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE KESTREL TRANSACTION!

We urge you to act today to protect the value of your Star investment. Your vote is important, no matter how many or how few units you own.

Enclosed is a duplicate proxy card for the special meeting. The proxy card that accompanied the original proxy statement will remain valid. If you already returned a validly executed proxy card, your votes will be recorded unless you submit a subsequent proxy or you otherwise revoke your prior proxy. If you have not voted or wish to change your vote, please mark, date and execute the enclosed proxy card and mail it promptly in the enclosed envelope. Once again, thank you for your continued support, and we will continue to keep you apprised of all future material developments.

Regards,

Joseph P. Cavanaugh

Chief Executive Officer

PS Should you have any questions or concerns about the vote, feel free to call Georgeson Shareholder, the firm assisting us in this solicitation, toll-free at **800/960-7546** and speak with a representative who should be able to address your inquiry.

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Supplement to Proxy Statement

of

Star Gas Partners, L.P.

This is a supplement to our proxy statement dated January 24, 2006 that describes Star Gas Partners, L.P. s proposed strategic recapitalization and related matters.

This supplement includes financial and other information that updates information in our proxy statement. You should carefully consider the information in this supplement together with the information in our proxy statement.

This supplement does not change the proposals previously submitted for approval. If you have already properly completed and returned a proxy card, your proxy will continue to be valid, and you do not have to complete and return the enclosed duplicate proxy card unless you wish to do so.

For more information on voting, please call our proxy solicitor, Georgeson Shareholder, at 800-960-7546.

Representation of your units at the meeting is very important. Your vote is important, no matter how many or how few units you hold. If you fail to vote by proxy or in person, it will have the same effect as a vote against the recapitalization. Please vote by completing and mailing the enclosed proxy card if you have not already done so.

The Board of Directors of

Star Gas LLC, the general partner of

Star Gas Partners, L.P.

The date of this supplement is March 1, 2006 and it is first being mailed to unitholders on or about March 2, 2006.

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INTRODUCTION

Except as described in this document, the information we provided in the original proxy statement previously mailed to you continues to apply and this supplement should be read in conjunction with the original proxy statement. To the extent information in this document differs from, updates or conflicts with information contained in the original proxy statement, the information in this document is more current. If you need another copy of the original proxy statement, please call our proxy solicitor, Georgeson Shareholder at 800-960-7546. The original proxy statement may also be found on the internet at www.star-gas.com.

SOROS PROPOSAL

The Board of Directors of Star Gas, LLC (Star Gas), the general partner of Star Gas Partners, L.P. (Star Gas Partners or the Partnership) has approved a strategic recapitalization of Star Gas Partners pursuant to the terms and conditions of a unit purchase agreement dated as of December 5, 2005 (the unit purchase agreement), by and among Star Gas Partners, Star Gas, Kestrel Energy Partners, LLC (Kestrel), Kestrel Heat, LLC (Kestrel Heat) and KM2, LLC (M2). The Board has scheduled a special meeting of unitholders for March 17, 2006 to consider and vote upon the Kestrel recapitalization proposal. Proxy materials for the special meeting were mailed to unitholders on January 24, 2006.

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

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

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

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

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

The Board of Directors of Star Gas met on February 23, 2006 to review the Soros Group proposal. At this meeting, the Board received a presentation from Jefferies comparing the financial terms and other aspects of the Soros Group proposal and the Kestrel transaction. A summary of Jefferies analysis is set forth below under the heading Presentation of Jefferies & Company.

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

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

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

The Board also considered the impact on the Partnership s business and employees in light of the additional uncertainty about the Soros Group proposal, the time required to consummate a transaction with the Soros Group, and the related additional uncertainty associated with the due diligence review required to be undertaken by the Soros Group, and concluded that these factors could pose additional risks to the Partnership under the Soros Group proposal. The Board also was concerned about potential conflicts of interest and potential antitrust issues under the Clayton Act presented by the Soros Group proposal which contemplates having Robert Almeida, who is affiliated with a competitor of the Partnership, become one of the directors of the board of the new general partner of the Partnership. The Board was also aware of the fact that if the Soros Group proposal was determined to be a superior proposal under the Kestrel unit purchase agreement and subsequently such unit purchase agreement was terminated for any reason (including the failure to obtain approval of unitholders at the special meeting), other than a breach by Kestrel, the Partnership would owe Kestrel the termination fee and expense reimbursement.

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

The Partnership continues to believe that the agreement with Kestrel has a high likelihood of closing, subject to unitholder approval, following the special meeting of Star s unitholders which is scheduled for March 17, 2006. The Board of Directors of Star Gas continues to recommend that the Partnership s unitholders vote for approval and adoption of the Kestrel transaction.

During the course of the meeting, Joseph Cavanaugh, the Partnership s chief executive officer, advised the Board that he would be reluctant to continue in such role if the Soros Group proposal were consummated.

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

Presentation of Jefferies & Company

At the February 23, 2006 meeting of the Board of Directors of Star Gas, Jefferies made a presentation to the Board comparing the financial terms and other aspects of the Soros Group proposal and the Kestrel transaction. The following is a summary of the material financial and comparative analyses performed by Jefferies and presented at that meeting. In order to fully understand Jefferies financial analyses, the tables must be read together with the text summarizing the data appearing in the tables. The tables alone do not constitute a complete description of the analyses. Considering the data described below without considering the full narrative description of the analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Jefferies analyses.

Historical Trading Analysis. Jefferies reviewed the trading history of the common units for the six month period ending February 22, 2006 on a stand-alone basis and also in relation to the senior subordinated units. During the period following the public announcement of the Kestrel transaction on December 2, 2005 and prior to the public announcement of the Soros Group proposal on February 16, 2006, Jefferies noted the closing price of the common units ranged between $1.68 per unit and $2.77 per unit. In addition, during the period following the public announcement of the Soros Group proposal through February 22, 2006, Jefferies noted the closing price of the common units ranged between $2.77 per unit and $2.97 per unit. Based upon approximately 32.1 million common units outstanding as of February 22, 2006, Jefferies noted the $2.77 per unit closing price as of that date represented incremental value of $0.28 per unit as compared to the closing price per unit on February 16 of $2.49 per unit, or an aggregate of approximately $9.0 million in incremental market value for the common units.

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Pro Forma Ownership Analysis. Jefferies performed a pro forma ownership analysis to estimate the potential dilution to holders of the existing common units under the Kestrel transaction and the Soros Group proposal assuming both full participation and no participation in the rights offering by such holders. The results of this analysis were as follows:

		Kestrel Transaction		Soros Group Proposal	
	Current Ownership*	Full Participation in Rights Offering**	No Participation in Rights Offering**	Full Participation in Rights Offering**	No Participation in Rights Offering**
Existing Common Units	88.8%	66.8%	43.3%	61.4%	43.3%
Senior and Junior Subordinated Units	10.3%	5.0%	5.0%	5.0%	5.0%
Senior Notes	0.0%	18.1%	18.1%	18.1%	18.1%
Kestrel / Soros	0.0%	10.1%	33.6%	15.5%	33.6%
General Partner	0.9%				
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

* Represents ownership of all outstanding units (including common units and general partner units).

** Represents pro forma ownership of outstanding common units.

Pro Forma Accretion / Dilution Analysis. Jefferies performed a pro forma accretion / dilution analysis to estimate the potential impact to holders of common units of the Kestrel and Soros Group proposals. After deducting the incremental pre-tax fees and expenses estimated by Star Gas Partners management to be incurred in connection with the Soros Group proposal from the additional $15 million that Star Gas Partners would receive under that proposal, there was estimated to be (and assumed for purposes of this analysis) $5.5 million of net incremental cash available to Star Gas Partners. Star Gas Partners management identified four potential scenarios to reflect possible uses of that net incremental cash under the Soros Group proposal. The four scenarios developed by Star Gas Partners management for use of the incremental net cash were as follows:

Scenario A: The incremental net cash remains on the balance sheet of Star Gas Partners earning interest at 3%.
Scenario B: The incremental net cash is used to purchase Senior Notes in lieu of incurring additional indebtedness for that purpose under Star Gas Partners working capital facility, which would accrue interest at 7%.
Scenario C: The incremental net cash is used to repurchase common units at the February 22, 2006 closing price of $2.77 per unit.

Scenario D: The incremental net cash is used to fund acquisitions at 4.5x EBITDA.

For each of these scenarios, Jefferies analyzed the hypothetical pro forma distributable cash flow, or DCF, per common unit under the Soros Group proposal and estimated the potential accretion as compared to the hypothetical DCF per common unit under the Kestrel transaction. The results of this analysis were as follows:

		Scenario A
	Kestrel Transaction	Soros Group Proposal

	Hypothetical DCF per Unit[1]	Hypothetical DCF per Unit[1]	Accretion ($)	Accretion (%)
2006	$ 0.19	$ 0.19	$ 0.002	1.2%
2007	0.23	0.23	0.002	1.1%
2008	0.28	0.28	0.003	0.9%
2009	0.33	0.33	0.003	0.8%
2010	0.35	0.36	0.003	0.8%

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	Kestrel Transaction	Scenario B Soros Group Proposal		
	Hypothetical DCF per Unit[1]	Hypothetical DCF per Unit[1]	Accretion ($)	Accretion (%)
2006	$ 0.19	$ 0.19	$ 0.005	2.7%
2007	0.23	0.23	0.006	2.5%
2008	0.28	0.29	0.006	2.2%
2009	0.33	0.33	0.006	1.8%
2010	0.35	0.36	0.006	1.8%

	Kestrel Transaction	Scenario C Soros Group Proposal		
	Hypothetical DCF per Unit[1]	Hypothetical DCF per Unit[1]	Accretion ($)	Accretion (%)
2006	$ 0.19	$ 0.19	$ 0.005	2.7%
2007	0.23	0.23	0.006	2.7%
2008	0.28	0.29	0.008	2.7%
2009	0.33	0.33	0.008	2.5%
2010	0.35	0.36	0.009	2.7%

	Kestrel Transaction	Scenario D Soros Group Proposal		
	Hypothetical DCF per Unit[1]	Hypothetical DCF per Unit[1]	Accretion ($)	Accretion (%)
2006	$ 0.19	$ 0.21	$ 0.016	8.3%
2007	0.23	0.24	0.016	6.9%
2008	0.28	0.30	0.016	5.8%
2009	0.33	0.34	0.015	4.6%
2010	0.35	0.37	0.015	4.3%

1. Under the proposed amended and restated agreement of the limited partnership, common unit distributions will be suspended through September 30, 2008.

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Hypothetical Common Unitholder Equity Value Ownership Analysis. Using DCF forecasts provided by senior management for fiscal years 2006 to 2010 and a hypothetical implied yield for the common units during such period of 10.8%, Jefferies also compared the hypothetical aggregate market value of the existing common units under the Kestrel transaction and for the Soros Group proposal (using the four scenarios described above) to the hypothetical market capitalization for all outstanding common units. The results of this analysis were as follows:

	2006	2007	2008	2009	2010
KESTREL TRANSACTION					
Hypothetical Common Units Market Capitalization[1]	$ 130.2	$ 156.2	$ 192.3	$ 224.6	$ 243.3
Hypothetical Existing Common Units Market Capitalization[2]	**87.0**	**104.4**	**128.5**	**150.0**	**162.6**
SOROS GROUP PROPOSAL					
Scenario A					
Hypothetical Common Units Market Capitalization[1]	$ 131.8	$ 157.9	$ 194.1	$ 226.3	$ 245.2
Hypothetical Existing Common Units Market Capitalization[3]	**80.9**	**96.9**	**119.1**	**138.9**	**150.5**
Scenario B					
Hypothetical Common Units Market Capitalization[1]	$ 133.8	$ 160.0	$ 196.5	$ 228.6	$ 247.7
Hypothetical Existing Common Units Market Capitalization[3]	**82.1**	**98.2**	**120.6**	**140.3**	**152.0**
Scenario C					
Hypothetical Common Units Market Capitalization[1]	$ 130.2	$ 156.2	$ 192.3	$ 224.1	$ 243.2
Hypothetical Existing Common Units Market Capitalization[4]	**78.6**	**94.2**	**116.0**	**135.2**	**146.7**
Scenario D					
Hypothetical Common Units Market Capitalization[1]	$ 141.0	$ 167.0	$ 203.4	$ 234.8	$ 253.8
Hypothetical Existing Common Units Market Capitalization[3]	**86.6**	**102.5**	**124.8**	**144.1**	**155.8**

1. Hypothetical common units market capitalization is based on a hypothetical implied yield of 10.8%.

2. Assuming existing common unitholders fully subscribe to the rights offering under the Kestrel transaction, their aggregate pro forma ownership would be 66.8% of the outstanding common units.

3. Assuming existing common unitholders fully subscribe to the rights offering under the Soros proposal, their aggregate pro forma ownership would be 61.4% of the outstanding common units.

4. Assuming existing common unitholders fully subscribe to the rights offering under the Soros proposal and the incremental net cash is used to repurchase common units from existing common unitholders at the February 22, 2006 closing price of $2.77, the existing common unitholders aggregate pro forma ownership would be 60.3% of the outstanding common units.

Implied Valuation of the Rights Offering to Existing Common Unit Holders. Jefferies estimated the implied value of the rights offering to the existing holders of common units for the Kestrel transaction and the Soros Group proposal by comparing:

for the Kestrel transaction, the market price of the common units on February 15, 2006 of $2.49 per unit, against the exercise price for the rights offering under the Kestrel transaction of $2.00 per unit, or an implied value of $0.49 per unit, and for the Soros Group proposal, the market price of the common units on February 22, 2006 of $2.77 per unit, against the exercise price for the rights offering under the Soros Group proposal of $2.60 per unit, or an implied value of $0.17 per unit.

Jefferies analysis was one of many factors considered by Star Gas board of directors in its evaluation of the Soros Group proposal. Pursuant to an engagement letter between Star Gas and Jefferies dated May 12, 2005, Star Gas has agreed to pay Jefferies a customary fee for its services in connection with the Kestrel transaction, a

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portion of which was paid upon delivery of Jefferies written opinion to the Board in connection with the Kestrel transaction, and a significant portion of which is payable contingent upon consummation of the Kestrel transaction. Pursuant to that engagement letter, Star Gas has also agreed to pay Jefferies a fee in the event that Star Gas Partners consummates a recapitalization or other similar transaction with a third party (which would include the Soros Group), which fee would be approximately $2.0 million greater than the fee Jefferies would receive in connection with the Kestrel transaction. Jefferies will also be reimbursed for reasonable expenses incurred, including the fees and disbursements of its counsel. Star Gas has agreed to indemnify Jefferies against liabilities arising out of or in connection with the services rendered or to be rendered by it under its engagement.

VOTING PROCEDURES

FOR UNITHOLDERS WHO HAVE NOT ALREADY VOTED

Enclosed for your convenience is a duplicate proxy card (and a return envelope) for your use. You may use any of the proxy cards which were previously sent to you with the original proxy statement, or subsequent mailings, or you may use the duplicate proxy card enclosed with this supplement.

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote all executed proxy cards in accordance with the recommendations of the Board of Directors of Star Gas, which is to vote FOR all three proposals to effect the Kestrel recapitalization. With respect to any other matter that properly comes before the special meeting the proxy holders will vote as recommended by the Board of Directors of Star Gas, or, if no recommendation is given, in their own discretion. See The Recapitalization Reasons for the Recapitalization that the Board Considered; Recommendations of the Board in the proxy statement.

FOR UNITHOLDERS WHO HAVE ALREADY VOTED

We have enclosed a duplicate proxy card (and a return envelope) for your use, in case you wish to change your vote. If you have already submitted your proxy and you do not wish to change your vote, you do not need to return this duplicate proxy card. If we receive the enclosed proxy card, duly executed and dated, prior to the date of the special meeting, any proxy previously granted by you will be, without further action on your part, revoked, and the enclosed proxy card will be voted as indicated.

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote all executed proxy cards in accordance with the recommendations of the Board of Directors of Star Gas, which is to vote FOR all three proposals to effect the Kestrel recapitalization. With respect to any other matter that properly comes before the special meeting, the proxy holders will vote as recommended by the Board of Directors of Star Gas, or, if no recommendation is given, in their own discretion. See The Recapitalization Reasons for the Recapitalization that the Board Considered; Recommendations of the Board in the proxy statement.

FOR UNITHOLDERS WHO WISH TO REVOKE THEIR PREVIOUSLY SUBMITTED PROXY

You may revoke your proxy at any time before it is voted. A proxy may be voted in any of the following ways:

(1) by submitting a written revocation to the Secretary of Star Gas Partners, L.P., 2187 Atlantic Street, Stamford, CT 06902 (which must be received by the Secretary of Star Gas prior to the special meeting);

(2) by submitting a later-dated proxy by mail or telephone or through the internet (which must be received by the Secretary of Star Gas prior to the special meeting); or

(3) by voting in person at the special meeting.

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However, simply attending the special meeting (without voting) will not revoke a proxy.

If you do not hold your units in your own name, you may revoke a previously given proxy by following the revocation instructions provided by the bank, broker or other person who is the registered owner of your units.

INCORPORATION OF INFORMATION FROM FORM 10-Q

Attached to this supplement as Appendix A is a copy of Star Gas Partners Quarterly Report on Form 10-Q for the three months ended December 31, 2005. This document is incorporated into this supplement in its entirety by this reference.

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Appendix A

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2005

OR

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

For the transition period from to

Commission File Number: 001-14129

Commission File Number: 333-103873

STAR GAS PARTNERS, L.P.

STAR GAS FINANCE COMPANY

(Exact name of registrants as specified in its charters)

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

(203) 328-7310

(Registrants telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

At February 2, 2006, the registrants had units and shares of each issuer s classes of common stock outstanding as follows:

Star Gas Partners, L.P.	Common Units	32,165,528
Star Gas Partners, L.P.	Senior Subordinated Units	3,391,982
Star Gas Partners, L.P.	Junior Subordinated Units	345,364

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

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	Sept. 30, 2005	Dec. 31, 2005
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 99,148	$ 9,217
Receivables, net of allowance of $8,433 and $9,665, respectively	89,703	182,252
Inventories	52,461	66,122
Prepaid expenses and other current assets	70,120	62,806
Current assets held for sale		1,629
Total current assets	311,432	322,026
Property and equipment, net	50,022	47,152
Long-term portion of accounts receivables	3,788	2,643
Goodwill	166,522	166,522
Intangibles, net	82,345	73,233
Deferred charges and other assets, net	15,152	14,832
Assets held for sale		7,770
Total assets	$ 629,261	$ 634,178
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable	$ 19,780	$ 22,275
Working capital facility borrowings	6,562	33,251
Current maturities of long-term debt	796	754
Accrued expenses	56,580	67,334
Unearned service contract revenue	36,602	40,739
Customer credit balances	65,287	47,837
Current liabilities associated with assets held for sale		6,126
Total current liabilities	185,607	218,316
Long-term debt	267,417	267,339
Other long-term liabilities	31,129	31,756
Partners capital (deficit)		
Common unitholders	144,312	155,437
Subordinated unitholders	(8,930)	(7,638)
General partner	(3,936)	(3,823)
Accumulated other comprehensive income (loss)	13,662	(27,209)
Total partners capital	145,108	116,767
Total liabilities and partners capital	$ 629,261	$ 634,178

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2004	2005
	(in thousands, except per unit data)	
Sales:		
Product	$ 297,119	$ 358,869
Installations and service	53,575	55,512
Total sales	350,694	414,381
Cost and expenses:		
Cost of product	222,903	261,972
Cost of installations and service	58,375	57,695
Delivery and branch expenses	65,480	59,426
Depreciation and amortization expenses	9,122	8,485
General and administrative expenses	15,842	6,366
Operating income (loss)	(21,028)	20,437
Interest expense	(10,875)	(7,540)
Interest income	383	858
Amortization of debt issuance costs	(715)	(631)
Loss on redemption of debt	(42,082)	
Income (loss) from continuing operations before income taxes	(74,317)	13,124
Income tax expense	331	250
Income (loss) from continuing operations	(74,648)	12,874
Loss from discontinued operations, net of income taxes	(4,552)	
Gain on sale of discontinued operations, net of income taxes	153,644	
Income before cumulative effect of changes in accounting principles	74,444	12,874
Cumulative effect of changes in accounting principles change in inventory pricing method		(344)
Net income	$ 74,444	$ 12,530
General Partner s interest in net income	$ 672	$ 113
Limited Partners interest in net income	$ 73,772	$ 12,417
Basic and Diluted Income (Loss) per Limited Partner Unit:		
Continuing operations	$ (2.07)	$ 0.36
Discontinued operations	(0.13)	
Gain on sale of discontinued operations	4.26	

Income before cumulative effect of changes in accounting principles	2.06	0.36
Cumulative effect of changes in accounting principles		(0.01)
Net income	$ 2.06	$ 0.35
Weighted average number of Limited Partner units outstanding:		
Basic	35,756	35,903
Diluted	35,756	35,903

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31, 2004	Three Months Ended December 31, 2005
	(in thousands)	
Net income	$ 74,444	$ 12,530
Other comprehensive income (loss):		
Unrealized loss on derivative instruments	(23,429)	(40,871)
Other comprehensive loss from discontinued operations	(1,637)	
Other comprehensive loss	(25,066)	(40,871)
Comprehensive income (loss)	$ 49,378	$ (28,341)

Reconciliation of Accumulated Other Comprehensive Income (Loss)

	Pension Plan Obligations	Derivative Instruments	Total
		(in thousands)	
Balance as of September 30, 2004	$ (16,055)	$ 28,929	$ 12,874
Reclassification to earnings		(15,845)	(15,845)
Unrealized loss on derivative instruments		(7,584)	(7,584)
Other comprehensive loss from discontinued operations		(1,637)	(1,637)
Other comprehensive loss		(25,066)	(25,066)
Balance as of December 31, 2004	$ (16,055)	$ 3,863	$ (12,192)
Balance as of September 30, 2005	$ (19,758)	$ 33,420	$ 13,662
Reclassification to earnings		(21,555)	(21,555)
Unrealized loss on derivative instruments		(19,316)	(19,316)
Other comprehensive loss		(40,871)	(40,871)
Balance as of December 31, 2005	$ (19,758)	$ (7,451)	$ (27,209)

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

	Common	Sr. Sub.	Jr. Sub	General Partner	Common	Senior Sub.	Junior Sub.	General Partner	Accum. Other Comprehensive Income (Loss)	Partners Capital
					(in thousands)					
Balance as of September 30, 2005	32,166	3,392	345	326	$ 144,312	$ (6,403)	$ (2,527)	$ (3,936)	$ 13,662	$