



May 9, 2006

## **STAR GAS PARTNERS, L.P. REPORTS FISCAL 2006 SECOND QUARTER RESULTS**

STAMFORD, CT (May 9, 2006) -- Star Gas Partners, L.P. (the "Partnership" or "Star") (NYSE: SGU), a home energy distributor and services provider specializing in heating oil, today announced financial results for its fiscal 2006 second quarter, and the six-month period ended March 31, 2006. On December 17, 2004, the Partnership sold its propane segment and the historical results of the propane segment are accounted for as discontinued operations in the Partnership's financial statements.

For the fiscal 2006 second quarter, Star reported a 2.9 percent decrease in total revenues to \$539.1 million, compared to total revenues of \$555.3 million in the year ago period, as a reduction in volume of home heating oil more than offset the impact of higher selling prices. The home heating oil volume decline was due to 16.2 percent warmer temperatures, net customer attrition and other factors such as delivery scheduling and conservation. Selling prices were higher due to the increase in the wholesale cost of home heating oil and the Partnership seeking higher per gallon margins. Average wholesale home heating oil product costs increased 36.5 percent to \$1.83 per gallon for the fiscal 2006 second quarter, compared to \$1.34 for the prior year period. Home heating oil volume for the fiscal 2006 second quarter declined 25.5 percent, year-over-year, from 245.0 million gallons to 182.5 million gallons.

For the fiscal 2006 second quarter, Star lost approximately 9,700 accounts (net), or 2.2 percent of its home heating oil customer base, as compared to the fiscal 2005 second quarter in which Star lost 9,900 accounts (net), or 2.1 percent of its home heating oil customer base. For the twelve months ended March 31, 2006, Star's net customer attrition rate was 8.5 percent, which compares to 7.1 percent, 6.4 percent and 1.5 percent for fiscal 2005, fiscal 2004 and fiscal 2003, respectively. Star's volume for the fiscal 2006 second quarter was positively impacted by four to five million gallons due to delivery scheduling as certain deliveries normally scheduled for fiscal third quarter were made in March 2006. The Partnership expects that home heating oil volume sold for the remainder of fiscal 2006 will be less than in the comparable period in fiscal 2005 due to warmer weather, net customer attrition, conservation and other factors.

Home heating oil per gallon margins for the fiscal 2006 second quarter rose by 9.3 cents per gallon, versus the corresponding fiscal 2005 period due largely to an increase in the margins realized on sales to price protected customers when compared to the low margins experienced during the fiscal 2005 second quarter and the Partnership's decision in the fourth quarter of fiscal 2005 and continuing into fiscal 2006 to maintain reasonable profit margins on both variable and price protected customers in spite of competitors' aggressive pricing tactics. Star is not expecting that the 9.3 cent per gallon increase in per gallon margins will continue for the remainder of fiscal 2006. The Partnership anticipates that margins realized for the balance of fiscal 2006 will be similar to the levels achieved for the last half of fiscal 2005. Since March 31, 2006, home heating oil prices have escalated and continue to be volatile.

The service results improved by \$1.6 million from a loss of \$5.9 million (2.4 cents per gallon) for the fiscal 2005 second quarter, to a \$4.3 million loss (2.4 cents per gallon) on the lower volume for the fiscal 2006 second quarter.

Total operating expenses (delivery, branch, general and administrative) decreased by \$19.6 million, or 23.5 percent, to \$63.9 million for the fiscal 2006 second quarter, as compared to \$83.6 million for the prior year's quarter. This decrease was due to a reduction in marketing expenses of \$1.7 million, staff reductions of \$0.5 million, a decrease in certain variable operating expenses directly associated with the 25.5 percent decline in home heating oil volume estimated to be \$7.1 million, lower compensation expense as a \$3.1 million expense was recorded during the fiscal 2005 second quarter resulting from a separation agreement with the former CEO of the Partnership, and the receipt during the fiscal 2006 second quarter of \$4.4 million in weather insurance proceeds. In addition, during the fiscal 2005 second quarter, the Partnership incurred legal and professional expenses of \$2.8 million for first year compliance with Sarbanes-Oxley and for defending several purported class action suits that were not repeated during the fiscal 2006 second quarter.

In the fiscal 2006 second quarter, operating income increased by \$69.1 million to \$51.7 million, as compared to an operating loss of \$17.3 million for the fiscal 2005 second quarter. This increase was principally due to the \$67.0 million non-cash goodwill impairment charge recorded during the three months ended March 31, 2005.

Star's income (loss) from continuing operations during the fiscal 2006 second quarter increased \$70.2 million to \$43.6 million, as compared to a loss from continuing operations of \$26.6 million during the fiscal 2005 second quarter. This increase was due to the \$69.1 million increase in operating income and lower net interest expense of \$0.9 million, and lower taxes of \$0.2 million.

For the three months ended March 31, 2006, net income increased by \$67.7 million, to \$43.6 million, as compared to a net loss of \$24.1 million for the three months ended March 31, 2005. The increase in net income was \$2.5 million less than the change in income (loss) from continuing operations as net income for the 2005 second fiscal quarter included a \$2.5 million adjustment to the gains on the sale of discontinued operations.

For the three months ended March 31, 2006, EBITDA (Income (loss) from Continuing Operations Before Interest, Taxes, Depreciation and Amortization) increased \$68.0 million to \$59.7 million, as compared to an EBITDA loss of \$8.3 million for the three months ended March 31, 2005, primarily due to a \$67.0 million non-cash goodwill impairment charge recorded during the three months ended March 31, 2005. Exclusive of the \$67.0 million non-cash impairment charge, EBITDA increased \$1.0 million as the impact of 16.2 percent warmer temperatures and 8.5 percent net customer attrition was reduced by the impact of 9.3 cents per gallon higher home heating oil margins and a reduction in total operating expenses of \$19.6 million and lower depreciation and amortization of \$1.1 million. EBITDA should not be considered 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), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The Partnership is not required to make the Minimum Quarterly Distribution until October 1, 2008.

Star Gas Partners Chief Executive Officer Joseph Cavanaugh, stated, "With the strategic recapitalization now behind us, we are today a substantially better capitalized and less-leveraged organization. Accordingly, we plan to once again commence reviewing potential acquisition candidates and will be prudent about adhering to strict criteria when evaluating them. We also continue to focus on enhancing our overall operating efficiency."

Mr. Cavanaugh, continued, "Pursuant to our localization initiative and enhancing the Partnership's focus on our operations, in the Petro districts we are moving forward with answering all customer calls locally in five districts and routing a portion of calls in other districts to being handled locally. Currently, approximately 30% of customer calls are answered locally and we plan to continue raising this percentage going forward."

For the six-month period ended March 31, 2006, Star achieved a 5.2 percent increase in revenues to \$953.5 million, compared to \$906.0 million in the corresponding prior-year period as increases in selling prices more than offset a decline in product sales due to lower volume.

During the first half of fiscal 2006, home heating oil volume declined 73.5 million gallons, or 19.0 percent, from 387.3 million gallons to 313.8 million gallons, compared to the prior-year period. The home heating oil volume decline was due to 10.2 percent warmer temperatures, net customer attrition of 8.5 percent for the twelve months ended March 31, 2006 and other factors such as delivery scheduling and conservation. Star's volume for the first half of fiscal 2006 was positively impacted by 4 to 5 million gallons due to delivery scheduling. For the six months ended March 31, 2006, Star lost 16,900 accounts (net), or 3.7 percent of its home heating oil customer base, as compared to the six months ended March 31, 2005 in which Star lost 11,900 accounts (net), or 2.5 percent of its home heating oil customer base. The principal change in performance was a reduction of 6,000 new customer gains, partially offset by 1,000 fewer customer losses. The reduction in new customer gains can be attributed to: (i) higher minimum profitability standards for new customers in fiscal 2005; (ii) a reduction in mass market advertising spending, which attracted transient customers in fiscal 2004; (iii) increased customer price sensitivity due to high energy prices; and (iv) increased new customer credit quality standards.

Home heating oil per gallon margins for the first half of fiscal 2006 increased by 13.9 cents versus the corresponding period in fiscal 2005, due largely to the increase in margins realized on sales to price protected accounts and an increase in the margin realized on variable priced customers.

Total operating expenses (delivery, branch, general and administrative) decreased by \$35.2 million, or 21.3 percent, to \$129.7 million for the first half of fiscal 2006. This decrease was due to lower bridge and financing expenses of \$10.9 million, a \$5.5 million reduction in marketing expenses, lower legal and compliance costs of \$4.4 million, the receipt of weather insurance proceeds of \$4.4 million (which lowered operating expenses), staff reductions of \$1.8 million, a decrease in certain variable operating expenses directly associated with the 19.0 percent decline in home heating oil volume estimated to be \$9.4 million, and \$3.1 million in lower compensation expense related to a separation agreement recorded in the first half of fiscal 2005 with the former CEO. These improvements were reduced by higher director's and officer's liability insurance expense of \$1.2 million, \$1.3 million of legal and professional expense relating to the Kestrel/recapitalization transaction, and a \$2.1 million increase in compensation expense relating to unit appreciation rights. (In the fiscal 2005 first quarter, the decline in the unit price for senior subordinated units resulted in reversing previously recorded expenses of \$2.1 million.)

For the six months ended March 31, 2006, operating income increased by \$110.6 million to \$72.2 million, as compared to an operating loss of \$38.4 million for the six months ended March 31, 2005. This change was due to an increase in product gross profit margins of \$2.5 million, improvements in service and installation profitability of \$4.2 million, a \$35.2 million decline in operating expenses, \$1.7 million lower depreciation and amortization expense and the non-recurrence during the six months ended March 31, 2006 of a \$67.0 million goodwill impairment charge recorded in the six months ended March 31, 2005.

Net income for the 2006 six-month period increased by \$5.7 million to \$56.1 million, versus \$50.3 for the 2005 six-month period, due to the \$110.6 million increase in operating income, the non-recurrence of a \$42.1 million loss on redemption of debt recorded in the first half of fiscal 2005, lower net interest expense of \$4.7 million, and a \$4.6 million reduction in the loss from discontinued operations, more than offset by a \$156.2 million gain on the sales of discontinued operations.

EBITDA for the six months ended March 31, 2006 increased \$150.9 million to \$88.6 million. This change was due to an increase in home heating oil gross profit of \$2.5 million, an improvement in net service profitability of \$4.2 million, and a \$35.2 million reduction in total operating expenses. The six-month comparison was also favorably impacted by the non-recurrence during the six months ended March 31, 2006 of a \$42.1 million loss on redemption of debt and a \$67.0 million goodwill impairment charge recorded in the six months ended March 31, 2005. EBITDA is a non-GAAP financial measure (see below reconciliation) that should not be considered 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). Management believes this information is of interest to investors as a supplemental measure of the Partnership's operating performance and provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The Partnership is not required to make the Minimum Quarterly Distribution until October 1, 2008.

REMINDER: Star Gas management will host a conference call and webcast today at 1:00 p.m. (ET). Conference call dial-in is 888/939-6307 or 415/908-6228 (international callers). A webcast is also available at [www.star-gas.com](http://www.star-gas.com) and at [www.vcall.com](http://www.vcall.com)

Star Gas Partners, L.P., is the nation's largest retail distributor of home heating oil. Additional information is available by obtaining the Partnership's SEC filings and by visiting Star's website at [www.star-gas.com](http://www.star-gas.com).

### **Forward Looking Information**

This news release includes "forward-looking statements" which represent the Partnership's expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on our financial performance; anticipated proceeds from weather insurance; the price and supply of home heating oil; the consumption patterns of our customers; our ability to obtain satisfactory gross profit margins; our ability to obtain new customers and retain existing customers; our ability to effect strategic acquisitions or redeploy underperforming assets; the impact of litigation; the ongoing impact of the business process redesign project at the heating oil segment and our ability to address issues related to that project; natural gas conversions; future union relations and the outcome of current and future union negotiations; the impact of current and future environmental, health and safety regulations; customer creditworthiness; and marketing plans. All statements other than statements of historical facts included in this news release are forward-looking statements. Although the Partnership believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Partnership's expectations ("Cautionary Statements") are disclosed in this news release and in the Partnership's Annual Report on Form 10-K/A for the year ended September 30, 2005 and its Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2006, including without limitation and in conjunction with the forward-looking statements included in this news release. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. Unless otherwise required by law, the Partnership undertakes 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 news release.

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

(in thousands)	Sept. 30, 2005	March 31, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 99,148	\$ 9,198
Receivables, net of allowances of \$5,622 and \$8,859, respectively	89,703	211,988
Inventories	52,461	43,776
Prepaid expenses and other current assets	70,120	47,058
Current assets held for sale	-	2,023
Total current assets	311,432	314,043
Property and equipment, net	50,022	44,605
Long-term portion of accounts receivables	3,788	3,999
Goodwill	166,522	166,522
Intangibles, net	82,345	68,323
Deferred charges and other assets, net	15,152	14,036
Long-term assets held for sale	-	5,630
Total Assets	\$ 629,261	\$ 617,158
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 19,780	\$ 17,421
Working capital facility borrowings	6,562	-
Current maturities of long-term debt	796	94
Accrued expenses	56,580	63,626
Unearned service contract revenue	36,602	36,500
Customer credit balances	65,287	26,067
Current liabilities associated with assets held for sale	-	3,754
Total current liabilities	185,607	147,462
Long-term debt	267,417	267,215
Other long-term liabilities	31,129	31,645
<b>Partners' capital (deficit)</b>		
Common unitholders	144,312	194,109
Subordinated unitholders	(8,930)	(3,145)
General partner	(3,936)	(3,431)
Accumulated other comprehensive income (loss)	13,662	(16,697)
Total Partners' capital	145,108	170,836
Total Liabilities and Partners' Capital	\$ 629,261	\$ 617,158

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

(in thousands, except per unit data)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2005	2006	2005	2006
<b>Sales:</b>				
Product	\$ 510,869	\$ 495,797	\$ 807,988	\$ 854,666
Installations and service	44,448	43,324	98,023	98,835
Total sales	555,317	539,121	906,011	953,501
<b>Cost and expenses:</b>				
Cost of product	362,741	367,870	585,644	629,841
Cost of installations and service	50,335	47,661	108,710	105,356
Delivery and branch expenses	70,643	57,917	136,123	116,915
Depreciation and amortization expenses	9,021	7,924	18,143	16,410
General and administrative expenses	12,918	6,001	28,760	12,794
Goodwill impairment loss	67,000	-	67,000	-
Operating income (loss)	(17,341)	51,748	(38,369)	72,185
Interest expense	(9,071)	(7,958)	(19,946)	(15,498)
Interest income	1,052	849	1,435	1,707
Amortization of debt issuance costs	(590)	(642)	(1,305)	(1,273)
Loss on redemption of debt	-	-	(42,082)	-
Income (loss) from continuing operations before income taxes	(25,950)	43,997	(100,267)	57,121
Income tax expense	669	440	1,000	690
Income (loss) from continuing operations,	(26,619)	43,557	(101,267)	56,431
Income (loss) from discontinued operations, net of taxes	-	-	(4,552)	-
Gains on sale of discontinued operations, net of taxes	2,520	-	156,164	-
Income (loss) before cumulative effect of changes	(24,099)	43,557	50,345	56,431
in accounting principles				
Cumulative effect of changes in accounting principles-				
change in inventory pricing method	-	-	-	(344)
Net income (loss)	\$ (24,099)	\$ 43,557	\$ 50,345	\$ 56,087
General Partner's interest in net income (loss)	\$ (218)	\$ 392	\$ 454	\$ 505
Limited Partners' interest in net income (loss)	\$ (23,881)	\$ 43,165	\$ 49,891	\$ 55,582
<b>Basic and Diluted Income (Loss) per Limited Partner Unit:</b>				
Continuing operations	\$ (0.74)	\$ 1.20	\$ (2.81)	\$ 1.55
Discontinued operations	-	-	(0.13)	-
Gain on sale of discontinued operations	0.07	-	4.33	-
Income (loss) before cumulative effect of changes	(0.67)	1.20	1.39	1.55
in accounting principles				
Cumulative effect of changes in accounting principles-				
change in inventory pricing method	-	-	-	(0.01)
Net income (loss)	\$ (0.67)	\$ 1.20	\$ 1.39	\$ 1.54
Weighted average number of Limited Partner units outstanding	35,783	35,903	35,770	35,903

(supplemental information follows)

**SUPPLEMENTAL INFORMATION**

**Earnings (loss) before interest, taxes, depreciation and amortization from continuing operations (EBITDA)**

The Partnership uses EBITDA as a measure of liquidity and it is being included because the Partnership believes that it provides investors and industry analysts with additional information to evaluate the Partnership's ability to pay quarterly distributions. EBITDA is not a recognized term under generally accepted accounting principles ("GAAP") and should not be considered as an alternative to net income/(loss) or net cash provided by operating activities determined in accordance with GAAP. Because EBITDA as determined by the Partnership excludes some, but not all of the items that affect net income/(loss), it may not be comparable to EBITDA or similarly titled measures used by other companies. The following tables set forth (i) the calculation of EBITDA and (ii) a reconciliation of EBITDA, as so calculated, to cash provided by operating activities.

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

	Three Months Ended March 31,	
	2005	2006
(in thousands)		
Income (loss) from continuing operations	\$(26,619)	\$43,557
Plus:		
Income tax expense	669	440
Amortization of debt issuance costs	590	642
Interest expense, net	8,019	7,109
Depreciation and amortization expense	9,021	7,924
EBITDA	\$(8,320) <sup>(a)</sup>	\$59,672
Add/(subtract)		
Income tax expense	(669)	(440)
Interest expense, net	(8,019)	(7,109)
Unit compensation expense	(10)	-
Provision for losses on accounts receivable	2,686	2,482
Unrealized loss on derivative instruments	(769)	(940)
(Gain) loss on sales of fixed assets, net	131	(878)
Goodwill impairment loss	67,000	-
Change in operating assets and liabilities	(77,948)	(20,589)
Net cash used in operating activities	\$(25,918)	(\$32,198)

<sup>(a)</sup> Includes non-cash goodwill impairment charge of \$67.0 million.

	Three Months Ended March 31,	
	2005	2006
Home heating oil gallons sold (millions)	245.0	182.5

(additional supplemental information follows)

**SUPPLEMENTAL INFORMATION**

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

	<u>Six Months Ended</u> <u>March 31,</u>	
	<u>2005</u>	<u>2006</u>
(in thousands)		
Income (loss) from continuing operations	\$(101,267)	\$56,431
Plus:		
Income tax expense	1,000	690
Amortization of debt issuance costs	1,305	1,273
Interest expense, net	18,511	13,791
Depreciation and amortization expense	18,143	16,410
EBITDA	<u>\$(62,308)<sup>(a)</sup></u>	<u>\$88,595</u>
Add/(subtract)		
Income tax expense	(1,000)	(690)
Interest expense, net	(18,511)	(13,791)
Unit compensation expense	(2,104)	-
Provision for losses on accounts receivable	4,407	4,459
Unrealized loss on derivative instruments	3,172	149
Loss on redemption of debt	42,082	-
(Gain) loss on sales of fixed assets, net	58	(451)
Goodwill impairment loss	67,000	-
Change in operating assets and liabilities	<u>(210,609)</u>	<u>(158,521)</u>
Net cash used in operating activities	<u>(\$177,813)</u>	<u>(\$80,250)</u>

(a) Includes \$42.1 million related to early debt redemption and non-cash goodwill impairment charge of \$67.0 million.

	<u>Six Months Ended</u> <u>March 31,</u>	
	<u>2005</u>	<u>2006</u>
Home heating oil gallons sold (millions)	387.3	313.8

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